

Annual Report
2000

We're connected!



Globalization, the technology-driven process that is bringing increases in trade and capital flows across national boundaries, is today advancing at an accelerating pace. As part of this process, the auto industry is being swept by a regrouping maelstrom as member companies seek to reduce costs and raise efficiencies by maximizing utilization of innovations in advanced safety and environmental technologies, and of Technology.

Mitsubishi Motors Corporation is also undergoing a substantial transformation as the recent formation of two major alliances marks 2000 as the year in which the Company moves decisively away from a traditional Japan-centric to a more global-oriented management model.

In its passenger car operations, the Company has entered an equity partnership with DaimlerChrysler that places them third in combined worldwide sales. Under the alliance, the two companies will maximize profits through collaboration in development, production and sales in North America, Europe and Asia.

In its commercial vehicle business, the Company has entered an equity partnership with AB Volvo and will be collaborating with the Swedish company in the fields of development, production and sales as one of the world's leading groups in this sector.

The way nations and corporations approach environmental issues in the 21st century will have a major influence on the future of mankind. Returning fuel consumption of just 3 liters for every 100 km driven, the "Z-car" to be developed jointly by MMC and DaimlerChrysler will help offset global warming and reduce exhaust emissions.

MMC is actively discharging its obligations and responsibilities as a global corporate citizen by working to reduce environmental loads and conserve natural resources; both through its products and corporate activities. Spearheading MMC's potent arsenal of environmental technology, the Company's own GDI (gasoline direct injection) engine is the most effective immediately-applicable environmental technology available today. This revolutionary power unit achieves unsurpassed fuel efficiency on its own, and realizes further eco-friendly synergies when mated with CVT and other peripheral components in the GDI Sigma powertrain series.

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The report is printed on recycled and recyclable paper.

Highlights

Consolidated summary

Mitsubishi Motors Corporation and its consolidated subsidiaries.

	2000	1999	2000
	(in millions of yen)		(in thousands of U.S. dollars)
Years ended March 31			
Net sales	¥ 3,334,974	¥ 3,512,606	\$ 31,417,560
Operating income(loss)	22,473	32,147	211,710
Income (loss) before tax	(12,651)	11,783	(119,180)
Net income (loss)	(23,331)	5,668	(219,793)
Per share of common stock			
Net income (loss):	(in yen)	(in yen)	(in U.S. dollars)
Basic	¥ (24.87)	¥ 6.15	\$ (0.23)
Fully diluted	—	5.93	—
Cash dividends	—	—	—
<hr/>			
At March 31			
Total assets	¥ 2,784,119	¥ 3,060,385	\$ 26,228,158
Stockholders' equity	347,363	353,613	3,272,379

Note 1 : U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥106.15=U.S. \$1, the exchange rate prevailing on March 31, 2000.

Note 2 : Certain amounts previously reported have been reclassified to conform to the current year. The principal reclassifications are detailed in 1 (o) of Notes to the Consolidated Statements.

Note 3 : Fully diluted net income per share for the year ended March 2000 is not available due to the loss for the period.

Non-consolidated summary

Mitsubishi Motors Corporation

	2000	1999	2000
	(in millions of yen)		(in thousands of U.S. dollars)
Years ended March 31			
Net sales	¥ 2,106,522	¥ 2,333,971	\$ 19,844,767
Operating income (loss)	13,435	21,750	126,566
Income (loss) before tax	269	22,198	2,534
Net income (loss)	515	22,138	4,851
Per share of common stock			
Net income (loss):	(in yen)	(in yen)	(in U.S. dollars)
Basic	¥ 0.55	¥ 24.02	\$ 0.01
Fully diluted	—	22.03	—
Cash dividends	—	—	—
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At March 31			
Total assets	¥ 1,599,373	¥ 1,637,233	\$ 15,067,103
Stockholders' equity	503,453	467,171	4,742,845

Note 1 : U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥106.15=U.S. \$1, the exchange rate prevailing on March 31, 2000.

We're connected !

I am pleased to report that the determined and focused efforts of everyone at MMC and group companies, as well as the unwavering support of our shareholders and customers, enabled us to meet the majority of the restructuring and reform targets in the RM2001 management plan initiated in 1998.

The Company of which you are part owner is now leaner, more responsive, more efficient, more competitive and less burdened by debt - this the result of the restructuring and other reforms. We are ready to reach further, faster, and more competitively in both passenger car and commercial vehicle segments - aided in this by equity and operating alliances formed recently with two powerful allies: DaimlerChrysler and AB Volvo. In other words, we are now in a position to seek the growth that will add value to the Company, create added value for our shareholders and employees, and deliver enhanced value to our customers.

If there is one fact of life I have been keenly aware of over the last two years, it is that the auto business is a moving target! We must constantly seek to transform and evolve into a stronger, more competitive enterprise. We simply cannot afford to stand still or fail to seek greater efficiencies.

The paradox I face as I write this letter to you today is that of MMC having achieved so much this past year, only for those achievements to fail to be fully reflected in the bottom line. Although thwarted in our task of generating the acceptable level of net profit and restoration of dividend that were targets for fiscal 1999, I can confidently say that we have turned the corner and now are well on the road to recovery that we embarked upon three years ago. The reforms are kicking in; "making it work, making it

pay." Now we can start to harvest the rewards as we complete our metamorphosis into a stronger, healthier and so much more competitive player.

The juice is there. The partners are there. The information and communications infrastructure so vital today is there and being upgraded all the time. Yes, I can report to you with confidence that "we're connected!"

In fiscal 1999, the continuing lethargy in the Japanese economy saw firm minicar sales countered by depressed sales in other passenger car categories, while truck and bus sales plunged to historical lows. Exports were lower, owing both to increased local production at overseas facilities and to the stronger Yen.

MMC increased its sales volume in North America, Europe and Asia, while concerted cost reduction and other

group-wide efforts exceeded expectations in improving the financial standing of MMC companies. A drop in export shipments to markets in the Middle East and to Central and South America and the strengthening Yen cast a shadow on these bright spots.

In its consolidated operations, MMC reported sales income of ¥3,335 billion, 5.1% down over fiscal 1998, owing primarily to a small drop in sales volume and to the stronger Yen. The Company reported an operating profit of ¥22.5 billion, an ordinary loss of ¥3.8 billion, and a net loss for the year of ¥23.3 billion; all down over the previous year. Cash flows from operating activities were up, while cash flows from acquisition or disposal of tangible assets and other investing activities decreased. Cash flows relating to financial service activities were down. Total cash flows decreased by ¥33.7 billion.



Introduced in 1998, RM2001 accomplished many of the goals it set out to achieve. Everything we are doing today is making MMC more efficient, more competitive. But the furious pace of change in our industry and in the global economy requires another shift of gear to keep the momentum building.

To begin with, a continuing reassessment of our passenger car and global production organization is needed. And, to get slimmer, faster, more responsive and more competitive, further changes are required in both the way we run the Company and in our management base.

To stay apace of the dizzy regrouping witnessed in the industry landscape in recent years, we decided the time had come to seek the added firepower and synergies that come from well-chosen equity alliances: with DaimlerChrysler for passenger cars, and with AB Volvo for commercial vehicles. These partnerships are born out of a mutual recognition of the advantages they offer to both sides; of their Win-Win potential. They are good for MMC, good for DaimlerChrysler and good for AB Volvo. They are vital if we are to achieve our originally stated goal of transforming MMC into a vibrant and profitable mainstream player.

Charting the way forward to fiscal 2003, the new Heart-Beat 21 mid-term management plan inherits the restructuring and efficiency-seeking thrust of RM2001. It also reflects the much enhanced competitiveness stemming from the reforms completed to date and from our new partnerships. Providing a roadmap for growth and for creating and adding value, Heart-Beat 21 will ensure MMC gets up to speed at the earliest possible time.

Driven by the Internet and other Information Technology, the globalization of business in progress today requires that we adopt a new style of management. The rapidly shrinking windows of opportunity require quicker, more rational decision making and

implementation. To encourage sharing of the ideas that will create new value, the corporate structure must be based on integrated functional departments; impeding partitions must be boldly knocked down.

MMC is building up a winning management base through a strategy of "Selection and Concentration". Selection - pointing us away from unprofitable operations; Concentration - the injection of human resources, funds and other management resources into our most profitable operations. Moving away from its traditional Japan - centric sales and profits perspective, MMC is introducing value-creating Cash Flow Management principles to increase corporate value by raising capital efficiency and to bring about a transformation in the shared awareness and vitality of Company personnel.

MMC has recently made radical changes to the structure of the board of directors, which now comprises ten directors compared with 36 last year, and external directors now have a greater say. We have also introduced a system of executive officers. Effectively separating the management of capital from the daily running of the Company, these changes will enable us to better look after our shareholders' interests and at the same time focus more on improving operating efficiencies.

The Company has introduced two new executive positions: Chief Executive Officer, and Chief Financial Officer. These changes will speed up the decision-making process and bring issues of accountability into clearer focus. They will encourage the speedy and vigorous implementation of the measures dictated by Heart-Beat 21 and realize an organization that delivers results faster.

MMC has introduced a new set of management indices in order to monitor and evaluate corporate performance. These tools will enable management to: maximize corporate value; and achieve financial targets. As a first step, Cash Flow Return on

Investment indices were introduced in April 2000.

MMC implemented major changes to the corporate structure in fiscal 1999. An internal-company system was introduced with the setting up of the Truck & Bus Company as a step towards spinning it off as a separate company by the end of July, 2001. This will unlock value, enable this unit which boasts a very sound operational base to realize its full potential, and allow resources to be focused more effectively on passenger car and minicar operations - a market sector where competition is intense.

In fiscal 1999, we created a new Office of Marketing Strategy to promote the Selection and Concentration strategy and to reflect more accurately market trends and customer values in our products and services. The new Office is also responsible for the creation and building up a strategic corporate brand through a comprehensive remit that integrates all activities from product development to marketing and publicity.

Heart-Beat 21 calls for a major revamping of minicar operations to bring costs in line with, or below, those of other manufacturers. Restructuring of passenger car operations will continue with further streamlining of the production organization, reductions in material and other costs, trimming of the product lineup and further integration of the platforms used.

The Company is adopting a more globally oriented approach to its passenger car operations outside of Japan. Measures include: the introduction of models that are optimally tailored to individual markets; the building up of a global complementation system; and the granting of Office status to operations in North America and Europe as we loosen the reins and give local subsidiaries greater autonomy.

The new alliances with DaimlerChrysler and AB Volvo make sound sense in today's marketplace and promise rich rewards through synergies that will see

substantial savings in development costs, in procurement costs, as well as increased sales as a result of better market access and reach and share-winning competitiveness.

We are continuing to streamline and rationalize our manufacturing operations in Japan. Under RM2001 in the last two years, we have reduced break-even volumes for car, trucks and buses. As we continue to seek out those hidden factories of free capacity, we have sold off under-performing plant, are integrating assembly lines, have transferred functions to more efficient plants, and are trimming lineups and platforms. We have integrated truck and bus sales companies to raise operating efficiencies and bring total payroll to a more suitable level.

New plant coming on line in fiscal 1999 included the New Yagi continuously variable transmission factory in Kyoto. Production at an engine joint venture in Shenyang China began in March 2000.

When all is said and done, our job is to sell automobiles. The MMC Total Automobile Service creed directs us to build up and maintain customer satisfaction and brand loyalty by providing excellence in product and service. To achieve this and to concentrate on what we do best, we are focusing resources on three core model series: SUW, Pajero, Mini car.

Powered by very clean DI diesel and GDI gasoline engines, the new Global Standard Pajero series launched in September 1999 gives eloquent expression to the MMC vehicle development philosophy, defined today by Smart design, people-friendly, and Ecology conscious, environment-friendly.

In May, we introduced the all-new Lancer Cedia new-generation compact sedan to replace 4-door Lancer and Mirage models. And last December, we started supplying local authorities with the GDI+ASG Pistachio, which marries a 1100cc GDI engine and Automatic Stop & Go (ASG) technology.

MMC developed and produces the most effective

and readily applicable means of reducing fuel consumption and carbon dioxide emissions available today - the GDI engine. Over 800,000 GDI-powered cars reduce emission loads in Japan and Europe. The GDI Sigma powertrain brings further benefits in fuel economy and emissions through optimal matching of the GDI engine and peripheral components: as seen in the GDI+CVT powertrain that drives the new Lancer Cedia, and the GDI+ASG that cuts fuel consumption in the Pistachio.

In the pipeline, we are working with DaimlerChrysler on the development of a new 3-liter/100 km "Z-Car", due for launch in Japan in 2002 and other markets soon after. We have dubbed a new "developed in, developed for and built in, the U.S.A." model due to go into production in 2003 "Project America". And in the commercial vehicle segment, we are currently working with AB Volvo on the development of a new medium truck.

Highlights in our advance technology achievements include the Mitsubishi EV, which covered 2,000 km in 24 hours in December last year to set a new world record for an electric vehicle. We are working with Mitsubishi Heavy Industries on the development of fuel-cell electric vehicles. In March this year, we announced the MEEV-II proposal for a next-generation urban micro-car.

Mindful of the explosive growth of the Internet and other IT, the Company is fast-tracking development of user-friendly B2B and B2C portals and networks that are expected to bring significant reductions in procurement costs.

As we build a corporate culture that values the contributions of each individual, thrives on learning, thirsts for the better idea, and has the flexibility and speed to put the better idea into action, we are con-

tinuing to upgrade and refine our benchmark human resources management in order to retain, recruit and develop the people who create the ideas, who add value to the Company.

Outside of Japan, we are rationalizing our North American operations to realize break-even volumes of 200,000 units at MMSA and 160,000 at MMMA. Fueled by a combination of a hot product-line and an enthusiastic dealer network, in 1999 Mitsubishi Motors was the fastest growing Japanese automotive brand in America. This momentum continued with a 42 percent rise in sales volume for the first half of 2000 and the most profitable first half in its history.

In Europe, operations have been impacted by the strong Yen and we are working to improve profitability by expanding sales of the Carisma and Space Star models built in the Netherlands and of the Pajero Pinin, which went into production in Italy last year. Our alliances with DaimlerChrysler and AB Volvo can only help us to boost sales in this region.

Elsewhere, there are now definite signs of economic recovery in the countries of Asia and the ASEAN block. The restructuring of operations completed in this region over the last two years leaves us well positioned to reap a rich new harvest. MMC was the first auto manufacturer to make Thailand a pickup truck production and supply hub for global markets. In Taiwan, Korea and Malaysia, we are strengthening ties with our local partners and introducing measures specifically tailored to individual markets.

MMC is introducing Cash Flow Management principles as it seeks to raise capital efficiency, to bring about a transformation in the awareness and a further revitalization of all personnel, and to increase the enterprise value of the Company.



Implementation of the measures I have outlined above is expected to realize an ordinary profit of some ¥20 billion in fiscal 2000. While the one-time disposal of postretirement benefit liabilities is expected to result in a net loss of ¥70 billion in our consolidated results, this step will significantly benefit the company's income position annually thereafter.

For fiscal 2003, Heart-Beat 21's final year, we forecast that the benefits of our alliances with DaimlerChrysler and Volvo and the aggressive introduction of new products that exploit those benefits, will contribute to a consolidated ordinary profit of ¥100 billion and net profit of ¥50 billion on consolidated sales of ¥4 trillion. Meeting these targets will show we are on track to the kind of financial health that will ensure sustainable success in the 21st century.

It is with a deep sense of contribution that, through this letter, I must reveal to our shareholders and all others who have put their trust and confidence in MMC that the Company has been guilty, over the years, of hiding from the authorities in Japan customer claims that might lead to general recalls. I do wish to say, however, that with customer safety and satisfaction foremost in mind the Company has always been quick to respond to and rectify individual problems reported to us.

To ensure this regrettable situation never occurs again, on 22 August the Company set up a Quality Issues Action Committee, which will be checked by external experts, and will assiduously devote all its resources to raising the general level of quality in all its products.

The other pressing challenges facing MMC today are to put the Company on a firm and profitable foot-

ing, to restore dividend payments and to grow the business. Heart-Beat 21 gives us the roadmap, while the progress made to date and our new global alliances give us the means to reach those goals. Our Global Partner Alliances will bring significant value-adding synergies in utilization of mutual production and sales network resources, as well as from complementation in car lineups and component supply worldwide.

Naturally, I was encouraged when Daimler Chrysler Chairman Jurgen Schrempp remarked, "The global and strategic alliance with MMC is well-balanced both in terms of regions and products and will enable us both to grow and develop into truly global companies. To succeed in this, to exploit our mutual strengths and grow bigger and become more competitive, requires the kind of cooperation that can only come from an all-encompassing partnership."

Echoing those sentiments, I would like to bring this letter to a close by saying that to reward our shareholders and customers for their support and confidence, and our employees for their loyalty and dedication, we are focused on delivering great products, great services and great results. We're connected and we will go the extra mile.



A handwritten signature in blue ink that reads "K. Kawasoe". The signature is written in a cursive, flowing style.

The board



from left to right

Takashi Sonobe

Senior Vice President and Senior Executive Officer, Team Leader, International Alliance Promotion Team. Born in 1940. Formerly CEO at Mitsubishi Motor Sales of America, Inc. , and Mitsubishi Motor Manufacturing of America, Inc. Member of the board since 1999.

Yuzo Murata

CEO of Mitsubishi Fuso Truck & Bus Company. Born in 1937. Has spent his whole career with MMC in the truck business. Formerly held the post of Executive Vice President, Office of Truck & Bus. Member of the board since 1993.

Katsuhiko Kawasoe

President, and CEO. Born in 1936. Served in Accounting, Personnel Planning & Labor Relations, and Labor Union departments before being appointed Executive Vice President of Mitsubishi Motor Manufacturing of America, Inc., and then Nagoya Works General Manager and Corporate General Manager of the Office of Passenger Car Production. Appointed President of the company in December 1997. Member of the board since 1995.

Fumikazu Yokogawa

Executive Vice President, and CFO. Born in 1937. Has served in Purchasing, Personnel Planning & Labor Relations departments and more recently has been in charge of the Administrative Organization. Appointed CFO in June 2000. Member of the board since 1995.

Yuhiko Kiyota

Senior Vice President and Senior Executive Officer, Office of Marketing Strategy. Born in 1941. Appointed Corporate General Manager of Car Research & Development Center in 1998. Member of the board since 1995.

The MMC Board comprises ten members. In addition to the five MMC directors introduced above, these are: Steven A. Torok, Vice President, (DaimlerChrysler); Ulrich Walker, Vice President, (DaimlerChrysler); Manfred Bishoff, from Board Member, DaimlerChrysler; Takashi Nishioka, President of Mitsubishi Heavy Industries; and Mikio Sasaki, President of Mitsubishi Corporation.

Heart-Beat 21 mid-term management plan

The successful implementation of RM2001 and the recent forging of powerful global alliances means that MMC is now fully connected and can meaningfully start to seek growth. To take it through to fiscal 2003, MMC has initiated the new Heart-Beat 21 management plan that provides a roadmap for the company as it seeks to rapidly transform into a profitable and meaningful player in the early 21st century.

Execution of the RM2001 "Toward Profitability" mid-term management plan, announced in November 1998, has realized substantial reductions in break-even volume, and enabled most fiscal 1999 targets to be met and, in some cases, actually exceeded. Since the introduction of RM2001, the automotive industry has undergone major regrouping and other substantive changes. Environmental issues, globalization of management, technological innovation and the rapid advance of the Information Age have been accompanied by global changes in the paradigms governing development, procurement and production.

Inheriting the restructuring and efficiency-elevating thrust of RM2001 and allowing for the synergies expected from global alliances, Heart-Beat 21 now adds strategies designed for growth. The new plan also provides a blueprint for the company to build up its corporate brand and to become more market-oriented in its management and operations

Aims & targets

MMC's foremost target under Heart-Beat 21 is to increase corporate value. This to be achieved by giving top priority to customers and shareholders and through the implementation of cashflow-based management principles. The company



will adopt new measures for evaluating managerial performance to assist in the achievement of corporate reform targets. Heart-Beat 21 also encourages more rational business assessment and decision making by promoting a common awareness among all MMC group employees.

Heart-Beat 21 addresses four main areas that provide the key to attaining the realistic growth-oriented volume and financial targets set out in the new plan. These are managerial reform, growth strategies for passenger car operations, growth strategies for the commercial vehicle operations, and corporate financial health.

Heart-Beat 21's targets for fiscal 2000 include a minimum sales volume of 2,000,000 units, with consolidated ordinary profit of ¥20 billion and net loss of ¥70 billion on sales of ¥3,500 billion. A one-time charge of ¥140 billion to cover postretirement benefit and other liabilities is expected to result in a net loss of ¥70 billion.

For fiscal 2003, the final year of the Heart-Beat 21 plan, the benefits of alliances with DaimlerChrysler and AB Volvo and the aggressive introduction of new products that exploit those benefits, are expected to contribute toward sales volume of 2,150,000 units, with consolidated ordinary profit of ¥100 billion and net profit of ¥50 billion on sales of ¥4,000 billion.

Managerial reforms

MMC has introduced major reforms in its management structure that are designed to separate capital and executive management, to speed up the decision-making process, and to promote accountability. The board of directors has been reduced in size from 36 to 10, with external directors given more say. The Company has introduced an executive officer system, to speed up implementation of management decisions and to clarify authority and accountability in individual operations.

MMC is currently pushing forward a number of measures designed to make it more market-oriented and to restructure the operations of the company itself and of group companies. The latest round of changes incorporate elements

dubbed "Reform and Fighting Spirit" and "Giving Greater Priority to Operational Autonomy" - the qualities considered essential at the current time for the company to achieve these aims. The changes will result in a clearer delineation of individual authority and responsibilities, will speed up the decision-making process and will also help consolidate the financial foundation and boost the competitiveness of individual operations.

To realize the benefits of expanded economies of scale, MMC has entered strategic alliances with DaimlerChrysler (DC) and AB Volvo. Through the equity and operational ties with these two companies, MMC will transform into a corporation that fully meets the international accounting and other management standards due to be introduced into Japan in the near future.

Growth strategies; cars

The reforms completed under RM2001 together with the newly formed alliances see the company well positioned to start seeking value-adding growth. Heart-Beat 21 plots a course driven by product strategies, by a further round of restructuring in the production organization in Japan, by ongoing cost reductions and by other strategic measures implemented on a regional basis.

MMC will introduce attractive products that offer consumers the full advantages of its revolutionary GDI engine, CVT and other facets of compact car technology and that accurately reflect market needs. MMC will also introduce strategies to strengthen corporate and product brands.

The main thrust in the product drive will be the 2002 introduction in Japan of a strategic world small car that clears the voluntary fuel consumption standards due to be introduced in Europe in 2008. To be developed using MMC compact car technology and working in collaboration with DaimlerChrysler, this new model will later be phased into other world markets. The company will continue to introduce attractive compact models tailored to specific needs and tastes in other markets.

In Japan, MMC will strengthen its compact model line-

up, revamp its minicar operations under the direction of a new Supervisory Office, and further boost the competitiveness of the Pajero series. Overseas, MMC will beef up product strength in North America with a Project America strategy car - developed in, developed for and built in the United States - and other market-tailored models that will boost sales. The company will also seek to reap rich synergistic benefits through collaboration with DaimlerChrysler in production, marketing and other operations.

MMC will continue to devote substantial resources to the development of low fuel-consumption engine, to fuel cell electric vehicle and to other environmental technology.

Over the last two years, much has been achieved under RM2001 in streamlining and rationalizing the company's passenger car production organization in Japan. Under Heart-Beat 21, restructuring will continue until 2002 in order to bring down break-even volumes further, while the introduction of innovative production methods will reduce costs. In addition, minicar operations are to undergo a major revamping in order to reduce costs to the same level as, or under, those of other manufacturers.

Under Heart-Beat 21, on-going programs and new measures will reduce fixed and variable costs to realize the best quality and lowest costs in the industry. Minicar operation costs will be brought in line with those of other auto makers. Joint purchasing with DaimlerChrysler will reduce procurement costs. Production costs will be reduced by: adopting new and innovative methods; more extensive use of modularization and common parts; reducing the number of basic parts; sharing and more effectively utilizing IT resources; introduction of supply chain management; streamlining of the organization; and paring down interest-bearing liabilities.

Heart-Beat 21 sets out strategies for improving operational efficiencies and improving customer satisfaction in markets around the world. It provides measures designed to increase productivity and management efficiencies, to improve levels of after-sales service, used-car and other value-added operations. MMC will share platforms, components

and parts with DaimlerChrysler; and where available will utilize DaimlerChrysler procurement and sales networks, financial services resources and realize other value-adding synergies.

In Japan, MMC will focus resources on its more profitable dealerships and will adapt to and accommodate requirements of the Internet and other facets our rapidly advancing information society. In its minicar operations, MMC will aim to win a 20% share by: becoming more competitive; introducing new-concept models; reducing organizational costs; and promoting regional strategies that reflect market characteristics.

In North America, MMC will work to achieve a stable annual sales base of 300,000 units, increasing this to 400,000 by 2005. Scheduled measures include: integration of manufacturing and sales operations management, effective July 2000; implementation of Project America and introduction of a new SUV for local production; and maximizing synergies in its alliance with DaimlerChrysler.

In Europe, MMC will: work towards joint management of, and production at, NedCar with DaimlerChrysler, the new Z-Car included; restructure the NedCar production organization; and adopt measures to buffer the effects of the weak Euro.

In Asia & ASEAN, MMC will: collaborate with DaimlerChrysler using MMC production facilities; strengthen product lineup by introducing the Z-car, the new Lancer and a light commercial vehicle developed exclusively for the region; set up local companies to reduce procurement and complementation costs; promote operations in China; strengthen R&D functions in Thailand, Taiwan and Malaysia; and restructure its operations in Australia.

[Growth strategies; commercial vehicles](#)

Under the Heart-Beat 21 timetable, MMC will spin off its truck and bus operations and grow a new independent commercial vehicle company by collaborating with AB Volvo and by introducing superior products that meet global safety and environmental requirements.

MMC will reduce costs in non-consolidated operations by ¥150 b in 4 years by: restructuring its secondary production organization and utilizing outsourcing more; reducing material costs; strengthening management at domestic sales companies; establishing an independent bus enterprise; beefing up organizational strength in core overseas markets; and moving into used-vehicle, maintenance leasing and other high value-added operations.

To maintain its market-leader status and retain customer loyalty in Japan, MMC will stay ahead of the competition in development of environmental and other technologies and in its investment in information technology.

MMC will also be seeking to cash in on its collaboration with AB Volvo by: developing and supplying a next-generation medium truck cab and engine; conducting joint research into crashworthiness, engine emissions and other future technologies; expanding sales of made-in-Europe Canter trucks; generating sales collaboration benefits in South America and New Zealand; and global sourcing.

Financial health

MMC is working to improve its corporate financial health to meet the global accounting and managerial standards that are to be introduced in Japan in the near future. Preparations to meet accounting standards will be completed during fiscal 2000.

Looking to the future, in fiscal 2000 MMC will take a one-time charge of ¥140 billion to dispose of postretirement benefit and other liabilities. This step will benefit the company's income position significantly in future years. In fiscal 2001, MMC expects to generate sufficient profits to restore dividend payments. By fiscal 2003, the final year of Heart-Beat 21, MMC will reduce interest-bearing liabilities to under ¥1,000 billion and boost consolidated ROE to 8%.

Corporate organization & personnel

Heart-Beat 21 continues the organizational reforms initiated under RM2001. The plan calls for a further reduction of 1,000 in total payroll, which was reduced to the 12,000 level under RM2001. Indirect personnel payroll is to be reduced

by a further 1,000 to 8,900 by April 2004. In Japan, some head office personnel are to be reallocated on a priority basis to key car sales companies and other core units. These measures will bring payroll to a size more appropriate for the business.

In fiscal 2000, the company will introduce performance-based remuneration in the form of incentive warrants for officers and senior management at MMC and its major affiliates. Human resources development programs will be upgraded to match the requirements of globalization; consolidated group management capabilities will be boosted by giving subsidiaries greater autonomy. Total group staffing will be reviewed in order to tailor the organization to accommodate fast-moving developments in Information Technology, while far-reaching reforms will be initiated in both internal and external corporate communications.



On the analyst's couch: 2000

Intent on providing shareholders with an accurate and pertinent picture of the company's current situation and the direction it is heading in, MMC president Katsuhiko Kawasoe once again this year bares his soul to a group of leading analysts at three major security companies based in Tokyo.



K: Katsuhiko Kawasoe, the President, MMC

H: Noriaki Hirakata, Analyst at Morgan Stanley Dean Witter Japan Limited.

U: Stephen C. Usher, Senior Analyst at Jardine Fleming Securities (Asia) Limited.

S: Howard Smith, Analyst at ING Barings Securities (Japan) Limited.

H: How would you rate your own performance over the last year?

K: In our business, the bottom line is that you have to produce the results, deliver the goods. In as much as we failed to achieve our income targets, I suppose a "C" grade would be appropriate. Some might point to the impact of the stronger Yen as a major factor, but that's not my style. In running a business, certain things are required of the president, including: keeping the organization on its toes; and, establishing the kind of corporate culture, working environment and mindset that encourage new ideas and viewpoints. One of our major achievements over this last year has been the introduction of the executive officer system - still a comparative rarity in Japan. I believe you have to separate capital management from the daily running of the company, and the new system now enables us to do so. Mind you, and I'm including myself when I say this, perhaps we should have tried to bring down the average age of our senior management team!

H: As president, what do you attach most importance to in your plans for fiscal 2000, now that everyone at MMC appears to be moving in the right direction?

K: My topmost priority is to ensure that our alliances with DaimlerChrysler and AB Volvo run smoothly and successfully. The alliances per se are not the objective: but they do enable us to get to the start line. If we fail to make the most of the opportunities these alliances present, we will be facing a very dim future. The key to success in these alliances lies in new model projects. In our alliance with DaimlerChrysler, the major areas of collaboration will be the "Z-Car" project; the Asian market, for DC; and the European market for ourselves.

In our collaboration with AB Volvo, we first have to spin off our truck and bus operations into a separate company and prove that it is capable of standing on its own feet as an independent entity.

If MMC is to become more market oriented, we have to convince the whole organization of the necessity of executing our passenger car strategy along more market-oriented lines; something I have been advocating from the beginning of my presidency. There are two facets to this: (1) Proving our engineering thesis and goal that we can build high quality products at low cost; (2) The necessity to develop new marketing techniques for the products that result from that thesis, and getting away from product selling methods that are simply extensions of how we have done things in the past.

It is no good flopping around complaining that we were unable to foresee the advent of e-commerce and other such developments. In running the business, we must have the ability and confidence to predict such developments and be able to say that they came within our range of forecasts.

Telling the customer that a new model is a good product is simply not enough. We have to manage the company so that it can accommodate and turn to our advantage developments not previously encountered. This is a priority task for our management team and this is the drum I have been beating over the last three years. I believe that the message has really started to get through over the last year.

U: Would you tell us something about the timing of the alliances and the synergies you expect?

K: There was nothing intentional about the timing. Looking at the state of the auto industry in general, it was pretty obvious two years ago that the situation would get a lot tougher in a number of ways. I was none too optimistic about any significant growth in the Japanese truck market. With four truck manufacturers and a market that is only big enough for two, we are going to have to make sure we are one of the two that survives.

MMC went through a stage where its commercial vehicle and passenger car operations were mutually supportive; propping each other up as required. Today, how-



Noriaki Hirakata

ever, individual operations must pay their own way, be self-supporting in all respects. The alliance with AB Volvo, whom we happened to be collaborating with in our NedCar operation in the Netherlands, came first because the AB Volvo management thought very much along the same lines as ourselves.

When we started to think about a passenger car alliance, there was a wide choice in terms of potential synergies but we concluded that teaming up with DaimlerChrysler would bring the greatest benefits. The 3-liter car is one area that holds great promise in terms of exploiting synergies stemming from our alliance with DaimlerChrysler. For instance, there is little call for the 3-liter car in the United States, the introduction in Europe of the voluntary fuel consumption standards slated for 2008, points to considerable potential demand in Europe.

We made inquiries, both direct and indirect, to gauge interest on the part of other auto makers. The result was that the company that showed the most interest, that shared our views and that also promised the greatest synergies was Daimler. Again from the point of view of synergies, Chrysler obviously has many years experience in

the United States and we so concluded that synergies would be fastest to materialize there. We were faced with an end-of-March deadline in connection with NedCar and so were required to reach a conclusion before then. Under the terms of our agreement with Volvo Car, we shall be continuing to operate NedCar as we have been doing up to 2004.

H: Would you tell us a little about the Z Car?

K: We're thinking about the type of car that is set to form the largest volume segment in the near future. In terms of engine size, it will be somewhere between 1-liter and 1.5-liters. If you ask me to describe the segment more precisely, I would say it gives clearer definition to what is currently referred to as the 3-liter (3-liter/100 km) class in Europe. The image we have at the moment is of a car that anticipates the European 3-liter car of around the year 2007, 2008. Being compact in size, we are looking to develop it to a totally novel concept, to incorporate some totally new features. The 3-liter car is basically still a prototype and has not yet gone into mass production.

The Z Car is for mass production. The relatively low sticker prices in this category mean that we have to make the Z-Car a de facto standard. This means we will be looking to ensure it is executable to the same concept in as many regions as possible. We're looking to produce a car to a new concept, one that will become a new de facto standard.

S: Would you give an assessment of the degree to which the RM2001 targets have been met, and then describe the targets in the new Heart-Beat 21 management plan?

K: On an item-by-item basis, we have actually exceeded most RM2001 targets. We have exceeded target in lowering break-even volumes, and are right on target with cost reductions. In terms of shutting down or rationalizing assembly lines, we have done what we said we would. We are also on track in trimming our asset portfolio and are actually ahead of schedule in some areas. We are also

right on schedule in terms of cutting payroll and production capacity, and of reducing debt. From a target perspective, then, I can say we have achieved a high degree of success in executing the programs dictated by RM2001.

This, however, makes it all the more vexing and regrettable that we should have failed to meet our financial targets: posting an acceptable level of profit and restoring dividend payment. You can be assured, however, that we will be going the full nine yards do so with Heart-Beat 21, our new mid-term management plan. We are also making progress in trimming the product lineup and are being very decisive about this.

S: Lowering operating costs is obviously an important target for you. Are you considering any further integration of platforms?

K: Our first step has been to integrate our minicar, RV and sedan platforms, so that today around 70 percent of models share floor pans. When suppliers are included in the equation, this integration of platforms has not produced the economic benefits we expected; basically because overall production volumes are small. But, this is an vital area for us to focus on. I am hoping the integration of our minicar platforms trigger greater efforts in that direction. A shared platform also provides the opportunity to make more use of common parts, and we will also be able to use it in the Z-Car.

Now, we have yet to officially announce this and so I do not want to make too much of it but we are currently producing 500,000 units a year from one single platform and the forecast is that this might well increase to 700,000. MMC has never developed anything that has been produced in such numbers so I'm looking to make the most of the opportunities this presents.

U: Would you please tell us something about your collaborative ties in Asia?

K: We currently enjoy a number of tie ups in S.E. Asia. With all of them, we have adopted the stance of extend-



Katsuhiko Kawasoe

ing assistance by doing all we can to raise the technological capabilities of our partners. In our alliance with the national enterprise Proton in Malaysia, we are helping the country to achieve its aim of raising its capabilities to the level of an advanced country by the year 2002.

U: The Asian economy is showing signs of recovery but what about the auto markets in the region?

K: The situation differs from country to country. In Indonesia, the market is growing again at a fantastic rate: somewhere between 400% and 800% and so we are naturally very hopeful about prospects there. The market in Thailand has recovered somewhat but may peak soon. It's pretty much business as usual in Taiwan, while there has been no substantial recovery yet in the Philippines. I will not deny the possibility of working together with DaimlerChrysler in Korea and China; there are many areas where we can support each other in those markets. But China requires special care, and we are waiting to see what happens, waiting for the right moment.

H: Would you tell us something about Project America?

K: My view is that our projects in the United States over the years have been somewhat lacking in terms of the total



Stephen Usher

commitment required to make them a success. Our joint assembly operation with Chrysler and the sales channel that we established ourselves were neither outright successes. This is why two years ago we took the decision to make a concerted investment in the United States, on the premise that products for the US market would be designed by Americans and designed in and built in America. We are still shipping a fair number of built-up RVs from Japan but eventually we shall phase out exports and switch fully to a local market-oriented operation. This represents a 180-degree change of direction in our approach to projects in North America; and that is what Project America is all about. Coming about while we were in the process of implementing this change of direction, the alliance with DaimlerChrysler will realize important synergies, enabling mutual complementation and sharing of resources.

- H:** What specific areas of collaboration are you discussing with DaimlerChrysler at the moment?
- K:** MMC and DaimlerChrysler are currently looking at collaboration in three main areas: the Z-Car, the Asian market and the North American market. If something else

should come of this collaboration, that's fine. The board members at DaimlerChrysler are open-minded and ready to consider any constructive proposition.

The last four or five years have seen major changes in the environment the Japanese manufacturing industry operates in, and a wide range of responses to those changes has been available. It is, however, my personal opinion that today the only viable paths to survival are: the one chosen by Nissan or that which we have embarked upon. We have to operate today in a world that many presidents and top management from the old school of the Japanese manufacturing industry find difficult to come to grips with. It requires a 180-degree change in their way of thinking. Making the appropriate response requires a full understanding of the changes that have occurred, something the old school of management will find difficult (laughter). But, the bottom line is that that's the age we now live in.

- H:** You have recently created the position of chief financial officer. Was this a measure designed to keep the alliances running smoothly?
- K:** Industry observers talk about the convoluted nature of our commercial vehicle and passenger car alliances. I have never thought that ensuring their success will be a simple matter. In fact, the real test is still to come. One way of making our commercial vehicle and passenger car operations self-supporting was to first spin off the commercial vehicle division as an independent company. But then we are confronted with the major problem of deciding on their relative importance for capital investment purposes, and how best to allocate capital fairly. I see this, and have thought so right from the beginning, as being a task of vital importance; one that is my responsibility to achieve.

Decisions on the allocation of capital between commercial vehicle and passenger car operations should be made by a corporate department that is capable of look-

ing at the two units objectively. In our current organization, however, that department happens to be attached to the passenger car division. So, we decided to create the post of CFO: an objective position, attached directly to neither CV nor passenger car units and therefore acceptable to both. It is through the post of CFO, still a rarity in Japan, that we are able to ensure a fair allocation of capital.

S: What direction will you be taking with DaimlerChrysler in terms of the GDI engine?

K: When I first approached Chrysler, before it merged with Daimler, about using the GDI engine, Mr. Easton thought it would be 2005 or 2006 before gasoline sulfur content came down nationwide in the United States. That date comes forward each time I meet him! The situation is obviously changing but will still take time because the reduction of gasoline sulfur levels is not the kind of issue that the American consumer is willing to embrace readily.

However, as I understand it, European-market automobiles made in the United States are mostly gas guzzlers. In other words, the American auto makers are exporting gas guzzlers to a region where they will not be tolerated and so somehow they are going to have to reduce their fleet fuel consumption. In this sense, I am confident the 3-liter/100 km car represents a very effective strategy both for Daimler with its luxury cars and for Chrysler with its exports to Europe.

U: What are you doing about strengthening your marketing capabilities?

K: The most important thing we have to do is raise our performance baseline in the domestic market. We have recently established a new Office of Passenger Car Marketing Strategy that will help us to forecast future trends more accurately. Unlike the days when the RV segment took off, however, there are no really telling differences between different manufacturers' lineups; everyone is competing with very similar products. This being

the case, sales and marketing power become the deciding factors.

Until recently, we were happy to sell minicars as we have always sold them but we are currently reassessing this. The restructuring of our sales force is also a priority matter. Our passenger car sales companies still have substantial accumulated profits but are having to dig deep into those profits to stay afloat today. Breaking even is not good enough; they have to make a profit. The Internet and e-commerce are revolutionizing the way cars are sold. Customer tastes and needs continue to diversify, and we have to be more systematic in identifying and responding to them.



Howard Smith

Environmental stewardship & technology

An automaker's corporate activities are all closely linked to environmental issues. Looking carefully to the future, Mitsubishi Motors is committed to minimizing any negative impact its development, production, sales and other corporate activities have on the environment.

Over the years, our R&D activities have produced many readily applicable technologies that deliver superior vehicular performance while reducing loads on the environment. Most recently, the GDI engine family, GDI Sigma powertrain and Direct Injection diesel engines are all playing a major role in realizing major reductions in greenhouse gas emissions.

The Company is also pouring extensive resources into the development of hybrid, electric, fuel cell and other clean energy vehicles that promise advanced environmental performance for the near future.

MMC has long embraced the concept of environmental stewardship in its production activities. On-going programs and voluntary initiatives reduce energy usage and factory

waste to lessen loads on both local and global environments. All MMC plants in Japan are certified as compliant with the ISO14001 environmental management systems standard and the Company is in the process of seeking certification at our facilities overseas.

MMC is making every effort to develop motor vehicles that feature superior recyclability, and is also working closely with its sales companies in promoting the appropriate disposal of end-of-life vehicles.

The company has adopted the Mitsubishi Environmental Guidelines to elevate the environmental acceptability of its corporate activities throughout the full life cycle of its products: starting with R&D, through production and actual use, up to their final disposal.



Environmental management

The Mitsubishi Environmental Plan, drawn up in March 1993, laid down the philosophy governing the company's approach to environmental issues. This was replaced in August 1999 by the MMC Environmental Guidelines, which also address the latest issues in laying down basic environmental stewardship policy for MMC group member companies.

These guidelines affirm that conservation of the global environment is the most important issue facing humankind today, and commit MMC to work toward environmental protection in all areas of its business and at every stage in the lifecycle of its products. The behavioral standards set forth in the guidelines prioritize action to combat global warming and pollution, and to promote recycling. The Company recently established the Environmental Council, chaired by company president Katsuhiko Kawasoe and comprising four committees, to direct and oversee conservation efforts.

The Product Committee directs efforts at the R&D stage toward improving fuel economy and reducing emissions. The Production Committee oversees efforts directed toward preserving the local environment at production facilities. The Recycling Committee is responsible for promoting designing in of better recyclability in new models, the appropriate disposal of end-of-life vehicles (ELV's) and other post-production issues. The Truck & Bus Committee oversees environmental aspects of the Company's commercial vehicle operations

The Environmental Affairs Department has special responsibility for environmental matters. Established to further increase the scope and quality of the company's environmental activities, the department sets the direction of environmental policy for the MMC group of companies, as well as serving as the secretariat for the Environmental Council and its committees.

Environmental accounting

MMC believes that the keeping of accurate records of expenditure on, and assessing the relative effectiveness of, measures taken are vital to its efforts to maintain on-going and

effective environmental activities. Toward this end, the Company has introduced environmental accounting to boost the cost-effectiveness of its environmental stewardship.

Total environmental costs in fiscal 1999

April 1, 1999–March 31, 2000

Category of expenditure	Unit: ¥m
1. Direct expenditures on reducing environmental impact (direct environmental costs)	4,118
(1) Pollution prevention	2,299
(2) Global environmental protection	109
(3) Disposal and recycling of industrial waste and ordinary business waste	1,710
2. Indirect environmental costs arising from use and disposal of products produced and sold, etc	83
3. Indirect expenditures on reducing environmental impact (administrative environmental costs)	1,068
4. Expenditure on R&D to reduce environmental impact (environmental R&D costs)	32,342
5. Expenditures on community and social activities related to reducing environmental impact (environment-related community action costs)	335
6. Other environment-related costs	55
Total	38,001

Environmental conservation benefits			
Category	Environmental load index		
	Item	FY1999	Change over FY1998
1. In-plant benefits	Energy use in production process (CO ₂ emissions)	167,000 t-C	- 2.3%
	In-plant waste disposal	8,000 t	- 27.3%
2. Up- and downstream benefits	Used bumpers recovered	61,600	+ 19.4%
3. Other benefits	Average fuel consumption by vehicle weight category (gasoline fuelled cars)		
	(1) Category 1 (up to 875kg)	18.9 km/l	+ 2.7%
	(2) Category 2 (1000 - 1500 kg)	14.3 km/l	+ 0.7%
	(3) Category 3 (over 1750 kg)	10.3 km/l	- 3.7%



R&D

To assure that the automobile continues to play its role as a convenient and comfortable means of transport in the 21st century, MMC continues to devote considerable resources to the research and development of products that achieve a harmonious balance with the environment.

To tackle the problems of global warming, atmospheric pollution and disposal of ELV's, MMC recognizes the need to improve fuel economy and reduce engine CO₂ emissions; to reduce noxious emissions; and to promote the reduction of environmental loading substances and recycling.

MMC's approach to environment technology R&D may be summarized as follows. A single eco-friendly vehicle can make only a very limited contribution to environmental protection. Encouraging the widespread use of such vehicles in as short a timeframe as possible, however, will produce substantial and tangible improvements in environmental conservation. For this to happen, it is crucial that relatively low-cost technology be developed and commercially applied on a widespread scale at the earliest possible time.

Environmental strategies

Global warming: reducing CO₂ emissions

On a global scale, the major thrust in MMC's efforts to protect the environment is directed at reducing CO₂ emissions to mitigate global warming.

GDI engines and GDI Sigma powertrains

MMC became the first company anywhere to mass produce the GDI engine, which delivers major improvements in fuel economy. This high-efficiency engine utilizes proprietary stratified air-fuel combustion technology - basically the generation of a vertical vortex in the cylinder to achieve ultra-lean combustion. Costing little more than a conventional engine, this environmental technology is applicable now and worldwide.

First applied in Mitsubishi Galant and Legnum models in August 1996, GDI engines now power over 800,000 Mitsubishi models in Japan and in Europe. The use of the GDI engine to power more and more models in the

Mitsubishi lineup has seen a steady improvement in fleet fuel economy since 1997.

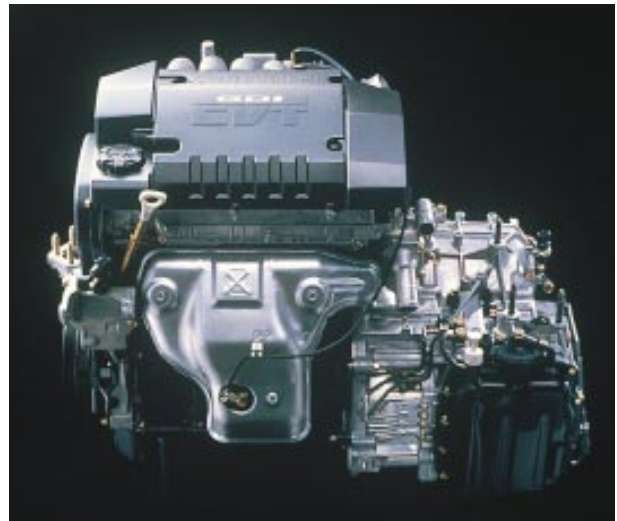
The GDI Sigma Series powertrain, announced in March 1999, is a new environmental technology developed to maximize the superior fuel efficiency inherent to the GDI engine.

Wide-latitude control of mixture formation and of torque are key elements in GDI technology. The GDI engine incorporates new combustion technology that enables very precise control of mixture formation; the GDI Sigma series powertrain enables a high degree of torque control. Maximizing its superior response, starting and torque characteristics, the GDI Sigma powertrain improves fuel economy by mating the GDI engine to, and harmonizing it with, new driveline technology, auxiliary motor and other peripheral components. The following four GDI Sigma powertrain technologies were announced in March 1999:

GDI+CVT: Integrated control of GDI engine and continuously variable transmission (CVT). Featured in the new Lancer Cedia launched in May 2000.

GDI+ASG: Idling stop-start system. Applied to the Pistachio limited-edition model launched in December 1999.

GDI+Turbo: High response and low fuel consumption.



GDI+CVT powertrain

Powers the Pajero iO 5-door Turbo model launched in July 2000.

GDI+HEV: Hybrid power system

GDI+CVT

Integrated powertrain management of the high-precision control of engine torque, the wide low-consumption operating band inherent to the GDI engine, and the CVT's automatic and continuous matching of gear ratio to engine torque requirements and driving conditions realizes a substantial reduction in energy losses. The result is a 10% improvement in fuel economy in the Japanese 10-15 urban driving pattern and superior response and silky-smooth shifting over a GDI engine and conventional automatic transmission powertrain. MMC will be phasing this eco- and driver-friendly powertrain into more of its models, both for domestic and export markets.

GDI+ASG

In December 1999, MMC began sales of a new limited series Pistachio model powered by the GDI+ASG (Automatic Stop & Go) component system to local authorities and public corporations that are at the forefront in efforts to conserve the environment. The Pistachio became the first gasoline-fuelled liter-car to return 30 km/l in the Japanese 10-15 mode urban driving pattern.

The GDI engine requires less fuel to start than conventional engines and always starts at the first turn of the key. In addition, the use of high-precision start time control results in a major reduction in the time taken from delivery of fuel to generation of the torque required to move off. GDI+ASG thereby realizes a dramatic improvement in fuel consumption, as well as effortless driveability.

GDI+Turbo

The GDI engine allows more low-end torque to be generated while using high compression ratios. When mated with Mitsubishi's advanced turbocharger, this quality prevents a deterioration in fuel consumption and, because supercharging increases the amount of air introduced into the cylinder, makes leanburn operation possible at higher engine loads -



Pistachio -with GDI+ASG powertrain

thereby widening the low-consumption band. MMC launched the Pajero iO 5-door Turbo model driven by the GDI+Turbo powertrain in July.

GDI+HEV

Comprising a gasoline generator engine and electric motor, the hybrid system is an outstanding low-consumption technology that exploits the most efficient operating bands of two different sources of motive power.

The GDI engine starts significantly faster than conventional engines. This enables a dramatic reduction in the time electric motor torque is required to crank the engine as well as excellent acceleration from rest using a less powerful motor and smaller batteries. Further, because the GDI engine generates minimal torque on starting and torque step is minimal, any jerkiness accompanying intermittent engine operation is minimized.

In addition, because the GDI engine realizes outstanding fuel efficiency in low-load operation, it returns superior fuel economy when operating to generate electrical power. GDI+HEV utilizes these qualities of the GDI engine to maximum advantage, and combined with Mitsubishi's integrated management GDI+CVT powertrain realizes a superior hybrid power system. The company is planning to launch a GDI+HEV model in the near future.

Fuel efficiency enhancing technologies

MMC has long been a leader in the development of technology that squeezes more miles per gallon of fuel, helping to conserve finite global resources and reduce emissions.

Direct-injection diesel engines

Achieving higher thermal efficiencies, superior fuel economy and lower CO₂ emissions than other types of internal combustion engine, direct-injection diesels have a major role to play in alleviating global warming.

The superior fuel economy returned by the direct-injection diesel engine significantly boosts the competitiveness of commercial vehicles. MMC has used direct-injection diesels, which feed fuel directly into the cylinders, for the past 26 years and has significantly improved fuel economy while achieving compliance with emissions regulations.

MMC uses a new direct-injection diesel to power the latest Pajero passenger model launched in September 1999. Combustion efficiency is improved through the use of a 4-valve cylinder head, a new combustion chamber design and an optimized high-pressure fuel injection system. The result is more power together with a 27% improvement in fuel consumption, thereby making an important contribution to reduction of CO₂ emissions.

MVV gasoline engine

Completely re-developed for use in minicars, where economy is a major factor in the purchasing decision, MMC's lean-burn MVV (Mitsubishi Vertical Vortex) engine is the standard power unit in all Mitsubishi minicars produced after October 1998. Employing the mixture formation and combustion control technology fostered in the development of the GDI engine, the low-cost new-generation MVV engine returns improved fuel economy without the need for additional devices.

INOMAT smart mechanical automatic transmission

MMC first fitted the Intelligent & Innovative Mechanical Automatic Transmission, which uses fuzzy logic control technology, to 1996 model-year Fuso heavy trucks. This smart automatic transmission not only reduces driver fatigue and stress, it also extracts the full performance of

Mitsubishi's clean and powerful direct-injection diesel engines to realize superior fuel economy. INOMAT is today available on Super Great heavy truck models with up to 16-speed transmissions and, since 1999, on Fighter medium trucks.

Weight reduction

MMC is an industry leader in the development of rational structural designs that are light in weight. Advanced computer analysis enables the use of aluminum and plastic to replace steel.

With trucks in particular, reducing vehicle weight increases payload capacity, and makes the vehicle more competitive. The 1998 "Rakusho" heavy dump truck was the first in Japan to have the dump mechanism mounted directly on the chassis, eliminating the need for a sub-frame. The lower vehicle weight and floor resulting from this innovation realized an increase in payload capacity of 800kg.

Reducing engine, cab and chassis weight in heavy trucks launched in 1999 has made it possible to keep vehicle weights at the same level as, or under, those of 1997 models despite the weight increases accompanying changes required for compliance with Japanese Long-term Emission regulations and mid-term brake regulations.

Despite sporting a larger body, the new Pajero launched in 1999 weighs in 100 kg lighter than its predecessor as a result of innovative changes to the body structure.

Aerodynamic drag

Aerodynamic drag is a significant factor in fuel economy at higher road speeds. MMC actively incorporates results of wind tunnel testing and computer analysis in the design of new models.

Air pollution mitigation

Higher traffic and population densities make the mitigation of urban air pollution an urgent task. MMC is at the forefront in this field too.

Gasoline exhaust emissions

MMC conducts on-going R&D directed at improving control of the combustion process and catalytic converters in order to meet increasingly stringent emission levels around the

world, without sacrificing the superior fuel efficiency inherent to the GDI engine. The new Pajero series launched in September 1999 and all new gasoline models launched since then comply with Japanese 2000 Emission Regulations.

Diesel exhaust emissions

The diesel engine offers generally better fuel efficiency and produces lower CO and HC emissions than its gasoline counterpart. MMC is applying considerable resources to the development and improvement of technologies that clean up diesel emissions and improve fuel efficiency in its commercial vehicles. Included are common rail fuel injection and exhaust gas re-circulation systems.

Regulations governing diesel engine emissions in Japan have become significantly tougher since their introduction in 1974. The Japanese Long-term Emissions Regulations, which came into force in 1998 and 1999, set very stringent ceilings that are just a quarter of pre-regulated levels.

MMC has developed a new family of diesel engines that meet the latest regulations, while delivering higher outputs and returning better fuel economy. These engines power the Fighter medium and Canter small trucks which went on sale in April and May 1999 respectively as well as the Super Great heavy truck launched this year. Compliant diesel passenger cars include the Delica Space Gear and the new Pajero, released in June and September 1999 respectively.

MMC is working to improve combustion chamber design and fuel injection systems, and on the development of NOx catalysts and diesel particulate filters in order to achieve further reductions in emission levels.

Air-conditioner refrigerant

MMC ceased use of the ozone-layer destroying air conditioner refrigerant CFC-12 in new models in 1994, switching instead to HFC-134a. In 1997, the company began reducing the amount of HFC-134a refrigerant used per vehicle.

Environmental loading substances

The MMC Action Plan establishes voluntary targets for reducing the amounts of lead used in Mitsubishi vehicles. Starting with the FTO launched in 1994 and extending to other passenger cars since, the company has been substitut-

ing aluminum for lead in radiator components. The new regulation series of minicars introduced in October 1998 also use lead-free fuel tanks. In 1999, the Company started use of lead-free wiring harnesses, hoses and ceramic printed circuits in glazing.

The company is also switching to the use of aluminum radiators and heater cores as it works to reduce the use of lead in trucks. The use of mercury and cadmium has been almost totally eliminated in new models launched in and after 1998.

Recycling

The MMC Voluntary Action Plan lays down a minimum recyclability target of 90% by weight for new models introduced in or after 2000; this target is being met by means of the following measures.

Easy-to-disassemble structures

From an economic perspective, the efficient recycling of motor vehicles requires that they be easy to disassemble. Through exhaustive testing and evaluation, MMC conducts on-going studies into body structures that are easy to disassemble. The results are used in drawing up design guidelines and reflected in the development of new models.

Greater use of readily-recyclable materials

MMC is switching to the use of thermo-plastics in the dashboard, headliner and parts and components traditionally made of rubber, a material that does not lend itself to recycling.

More extensive use of recycled materials

The Company is also active in the recovery and material recycling of used polypropylene bumpers and uses air cleaner cases made from waste paper and engine covers made from PET bottles.

Clean-energy vehicles

Hybrid electric vehicles

The Mitsubishi HEV hybrid car is driven by an electric motor, power for which is supplied by a high-efficiency engine generator. Three of these vehicles have been part of the CARB testing program since 1995. The company is currently developing a high-efficiency HEV that uses the GDI engine,

a CVT, motor and high-performance compact batteries.

Electric vehicles

For use in HEV's and EV's, MMC is actively engaged in the development of high-performance storage batteries that hold great promise as a prime-moving environmental technology for the not-so-distant future,

In December 1999, a Mitsubishi FTO-EV prototype rewrote the 24-hour distance record using advanced manganese lithium-ion batteries developed with Japan Storage Battery Co., Ltd. and Mitsubishi Chemical Corporation. Featuring much faster charging and a significant increase in cruising range per charge, the new battery helped the FTO-EV to become the first EV to cover over 2,000 km in 24 hours.

In March 2000, the company announced the MEEV-II (Mitsubishi Eco Electric Vehicle - II) next-generation micro-vehicle prototype, a proposal for easing energy related problems and congestion in major towns and cities in the near future. An electric micro-commuter for two, MEEV-II carries its ultra-compact body on an aluminum frame and uses high-performance, low-cost manganese lithium-ion batteries that are light in weight and have a high capacity.

Fuel cell electric vehicles

Powered by electricity derived from the hydrogen-oxygen re-



MEEV-II (Mitsubishi Eco Electric Vehicle-II)

action, fuel cell electric vehicles are characterized by very high energy efficiency levels and much cleaner emissions than conventional vehicles. As such, they are seen as a promising clean-energy vehicle for the future.

Harnessing the immense resources of the Mitsubishi group, MMC is currently working with other member companies on the development of a FCEV, with a target production date of 2005. The company is working with Mitsubishi Heavy Industries on the development of the fuel cell system and reformer, and with Mitsubishi Electric on the vehicle control system.

The MFCV (Mitsubishi Fuel Cell Vehicle) adopts the methanol-fuelled system in which the on-board reformer uses easy-to-handle methanol to generate hydrogen for the fuel cell. Comprising a small reformer that operates at low temperatures thanks to MMC's proprietary catalyst technology and high-efficiency fuel cell, the compact system fits under the floor of a small car, leaving roomy accommodation for occupants and a spacious luggage compartment.

The MFCV is expected to achieve a total energy efficiency double that of a conventional gasoline vehicle. This highly eco-friendly vehicle also enables a 40% reduction in CO₂ emissions, as well as virtually eliminating NO_x, CO and HC emissions.

CNG vehicles

Vehicles powered by CNG (compressed natural gas) emit 30% less CO₂ than their gasoline counterparts. To take ad-



MFCV



Mitsubishi Fuel Cell System

vantage of this clean energy source, gas companies and other organizations are planning to boost their CNG vehicle fleets and use could spread rapidly in the years ahead.

MMC launched CNG-fuelled Canter light truck and Aerostar large public transport bus models on the general market in 1997 and 1998 respectively. There are also over 300 CNG light commercial vehicles and minicars on the roads developed by MMC in cooperation with Osaka Gas Company.

LPG trucks

Trucks powered by LPG (liquefied petroleum gas) emit less NOx than diesel and no black smoke. MMC's LPG Canter small truck achieves a single-tank range of around 70% that of a diesel counterpart, while the use of EGR and electronic mixture control with an oxygen sensor has enhanced the purification rate of the catalytic converter.

Production activities

Automotive production activities and the environment are closely linked, both on a local and on a global scale. As part of its on-going efforts to reduce environmental loads, MMC has introduced ISO14001-compliant environmental management practices at all its production facilities in Japan. It is also promoting company-wide awareness of the issues involved as it works to protect and conserve the environment.

The Production Committee of the Environmental Council is actively tackling environmental issues and promoting conservation at company production facilities. The Committee's efforts include: introducing low-load production processes; reducing and conserving energy use to prevent global warming; reducing in-plant waste and encouraging the more effective use natural resources.

Reduction of in-plant waste

The reduction of the amount of in-plant waste requiring landfill disposal is a priority target. The Company is doing this by developing and installing production processes that minimize waste generation, and through the practice of more extensive recycling and reuse of resources.

MMC is working to reduce, by the end of fiscal 2000, in-plant waste by 80% or more over the fiscal 1990 level. In fis-

cal 1999, the greater use of waste casting sand for cement aggregate helped to reduce landfill waste by 88% over the fiscal 1990 level. The Company is working to eliminate all landfill waste.

Energy use

Under the Action Plan, MMC has been working to reduce energy use per unit sales by 10% compared with the fiscal 1990 level by fiscal 2000. This target was actually achieved in fiscal 1999 through the efforts of the Energy Conservation Team.

Ozone layer

MMC ceased use of ozone-depleting CFC, used in foaming urethane products, and 1-1-1 trichloroethane, used in cleaning heat-treated parts, in 1995.

Air pollution

MMC is working to minimize NOx emissions by installing low NOx boilers and using kerosene, city gas and other clean energy sources. The Company is reducing the amounts of fuel used, since this not only saves energy but also reduces NOx emissions. The Company is actively installing high-performance dust collectors to reduce dust emitted from waste incinerators. And by modifying the cleaning process, the Company was able to eliminate the use of trichloroethylene and other organic halogen cleansing agents in fiscal 1998.

Chemical management

All MMC production facilities are currently participating in a Pollutant Release and Transfer Register (PRTR) pilot scheme run by the Japanese Federation of Economic Organizations, providing a means keep accurate track of the use, release and transfer of toxic chemicals. In another prong to the Company's chemical management, it also employs a pre-inspection system to assess whether new chemical substances and materials are safe to introduce.

After-sales initiatives

MMC sales companies are making an increasingly important contribution to environmental conservation by: recovering and recycling scrap bumpers, recovering and destroying CFC-12 refrigerant; taking part in the industrial waste disposal manifest system; and by disposing of airbag inflators.

New models

Lancer Cedia



The newest addition to the MMC passenger model lineup, the Lancer Cedia new-generation compact sedan replaces Lancer and Mirage 4-door models.

New Generation packaging melds the benefits of compact dimensions with Mitsubishi's Big Cabin to provide a very spacious interior. Powered by 1.5-liter or 1.8-liter GDI engines mated to the advanced INVECS-III CVT, Lancer Cedia returns ultra-low fuel consumption while delivering slick response and silky-smooth performance. Mitsubishi's RISE advanced safety body and SRS airbags for driver and front passenger realize high levels of safety. On the 1.8-liter Touring model, the INVECS-III Sport Mode 6-speed CVT incorporates six fixed pulley diameters and a manual shift gate to enable the driver to operate the transmission as a manual and select his gear of choice.

Pajero Pinin



Produced for MMC at Pininfarina in Italy, the Pajero Pinin is the European cousin of the Pajero iO 3-door compact sport utility vehicle.

Distinguishing features include Mitsubishi's eco-friendly GDI engine, which has received high acclaim in environmentally-aware Europe, Super Select 4WD four-wheel drive and automatic transmission, with Pininfarina design taste eloquently evident in both interior and exterior trim. The happy marriage between Pajero's outstanding all-round road performance and Pininfarina design and production technology excellence results in a unique and highly attractive vehicle that meets the needs of the European market. The 5 door version will debut at the Paris Motor Show this autumn.

Pajero (Montero)

The fully redesigned Pajero was launched in September 1999. Developed to MMC's latest Smart Design and Ecology Conscious themes, Pajero is powered by eco-friendly engines and uses a lightweight but very strong monocoque construction. A brand-new Direct Injection diesel engine returns 27% better fuel consumption than its predecessor and meets Japanese 2005 diesel vehicle fuel consumption standards. The 3.5-liter V6 GDI eco-friendly power unit returns frugal fuel consumption while delivering high power outputs. Mitsubishi's latest Super Select 4WD-II 4-wheel drivetrain and INVECS-II Sport Mode automatic transmission complete its evolution into a Global Standard Pajero for the new age. Since its debut in 1982, the Pajero has been sold in over 170 countries worldwide.



Minica



The Minica series was fully redesigned in Oct 1998 to reflect changes in regulations governing this category in Japan. Now longer and wider, Minica

offers outstanding fuel economy and space utility, making it just right for commuting or shopping. The extended dimensions, MMC's RISE advanced safety body design, SRS airbags, higher eye-point and power-assisted anti-lock braking realize enhanced levels of passive and active safety in this sub-compact. Tuned to generate ample low-end torque for strain-free driving, the MVV leanburn engine incorporates air-fuel mixture forming and combustion-control technology honed in the GDI eco-engine to realize a 10 percent reduction in CO₂ emissions over the previous series. Minica also incorporates many features that contribute to conserve natural resources and to improve recyclability.

Dion



Developed to MMC's trademark Smart Design and Ecology Conscious themes, Dion is the second model series in the company's new SUW (Smart Utility Wagon) family. Dion

provides class-topping space and roominess within compact and user-friendly body dimensions. The middle row of individual seats, a class first, and a third row of seats that can be folded down and stowed under the floor enable a variety of seating arrangements and ensure that this "do-anything" wagon for 7 is as much fun to ride as it is to drive. A 2-liter GDI power unit makes Dion eco-friendly and enhances driveability; while an ISOFIX child-seat retaining bar is just one feature in a comprehensive safety specification. To top all this great value, Dion is also really easy on the pocket.

Super Great heavy truck

The Super Great heavy truck, with a maximum G.V.W. of 25 tons, is the flagship of the Mitsubishi Fuso lineup. Super Great models are powered



by a new generation of clean and high-performance engines that use MIQCS (Mitsubishi Innovative Quiescent Combustion System) advanced combustion control technology to return outstanding fuel economy and deliver awesome power. Active and passive safety levels are enhanced by: Mitsubishi wedge air brakes that bring compliance with Japanese Mid-term Safety Brake Regulations; SRS airbag for driver; and the MDAS II alertness monitoring and warning system. In addition to visual and voice warnings, MDAS II now uses an aromatic spray - an industry-first - to warn the driver when his attention wanders. INOMAT (Intelligent & Innovative Mechanical Automatic Transmission) and air suspension on all wheels reduce strain and fatigue as well as reducing vibration for better cargo protection.

Eclipse Spyder

Announced at the Detroit Motor Show in January and market launched in March this year, the 2001 Eclipse Spyder adds the bonus of a fully lined, power-operated convertible top to all the performance, styling and fun-to-drive benefits for which the completely new 2000 Eclipse Sport Coupe is known. Designed from the ground up as a convertible, the rigidity of the Eclipse Spyder has been dramatically improved for the 2001 model. Like its Coupe cousin, the Spyder can be ordered with Sportronic "manumatic" automatic transmission mated to a 3.0-liter V6 engine. Designed at Mitsubishi Motors R&D of America and produced at Mitsubishi Motors Manufacturing of America, both the Eclipse Spyder and the Eclipse coupe have won high acclaim since their debut.



Operational review

In addition to the achievements made under RM2001, fiscal 1999 was a year of alliance making for MMC. The Company forged potent equity and operational alliances with DaimlerChrysler in the passenger car sector and with AB Volvo in the commercial vehicle sector, with high expectations that the resulting synergies will enable the Company to consolidate and to grow its business. As the 20th century comes to a close amid a dizzy regrouping in the industry, MMC has chosen the optimum partner in each sector for its continuing success and prosperity into the new millennium: signing with AB Volvo in December 1999, and with DaimlerChrysler in July 2000.

Equity and operational alliances

AB Volvo

Under an agreement signed in December 1999, MMC and AB Volvo are to each acquire a maximum equity stake of



MMC and AB Volvo announce commercial vehicle alliance

5% in the other. AB Volvo subscribed to a new issue of 48,516 shares, and acquired the equivalent of a 5% stake in MMC. By 2002, MMC will make purchases of AB Volvo stock on the stock markets until it acquires the equivalent of a 5% stake in the Swedish company. In April 2000, MMC formed its commercial vehicle division into an internal-company. This is to be spun off by July 2001 into a separate company in which AB Volvo will acquire a 19.9% stake.

Collaboration between MMC and AB Volvo has begun with the joint development of a cab for a medium truck. Benefits stemming from this project include sharing of product and technology development costs, as well as enabling the use of common parts and components. Other benefits the alliance is expected to bring include expanded sales in Europe, and collaboration in the truck business in South America and other regions.

DaimlerChrysler

Under the terms of an alliance agreement signed in July 2000, DaimlerChrysler will make a capital investment of ¥225 billion to acquire a 34% equity stake in MMC. In October 2001, MMC and DaimlerChrysler will assume joint ownership of MMC's European production unit Netherlands Car B.V., where they will produce a small car to be developed jointly by the two companies. Sharing the same platform, this model developed for the

European market will be sold under both MMC and DaimlerChrysler badges and some models will be powered by MMC's GDI engine. Under the alliance agreement, MMC and DaimlerChrysler are to study collaboration in all areas of their passenger car operations, including development, production, sales and auto financing.

The MMC - DaimlerChrysler alliance will generate major synergies that will benefit both partners. Access to DaimlerChrysler management resources and greater economies of scale will help MMC to expand its business in Europe and North America. The partnership will enable the companies to use the NedCar facility to start production in 2004 of the new small car they are to jointly develop. The GDI engine will also realize substantial cost savings in complying with European emission regulations. MMC plans to employ DaimlerChrysler's financing and leasing subsidiary debis to boost its sales capabilities.

MMC's board of ten directors now includes three members from DaimlerChrysler, and this will see a transformation in the Company management to a style that is more along American and European lines.

Other alliances

In addition to the equity partnerships described above, MMC has entered a number of technology licensing alliances. In January 1999, the Company signed an agreement with Peugeot-Citroen covering the supply of technology relating to the GDI engine. In April 1999, Hyundai Motor of Korea launched the Equus luxury model powered by a 4.5-liter GDI engine.

Under an agreement with Pininfarina, the first Pajero Pinin light SUV rolled off the assembly line at the renowned carrozeria's factory in Italy on July 6 1999. The Pajero Pinin went on sale in Europe in the autumn last year.



MMC and DaimlerChrysler announce passenger car alliance

Overview of operations in Japan

Total MMC vehicle production volume was 1,002,000 units, a decrease of 8.3% over fiscal 1998 and due mainly to the shift to locally-based production in overseas markets. Passenger car production volume (minicars included) was 904,000 units, 8.0% down; truck and bus production volume was 98,000 units, 11.2% down over the previous year.

MMC export shipments in fiscal 1999 totaled 432,000 units, a drop of 25 % on the previous year. Passenger car shipments were 24 % down at 400,000 units, and truck and bus shipments were down 26 % at 32,000 units.

Passenger cars

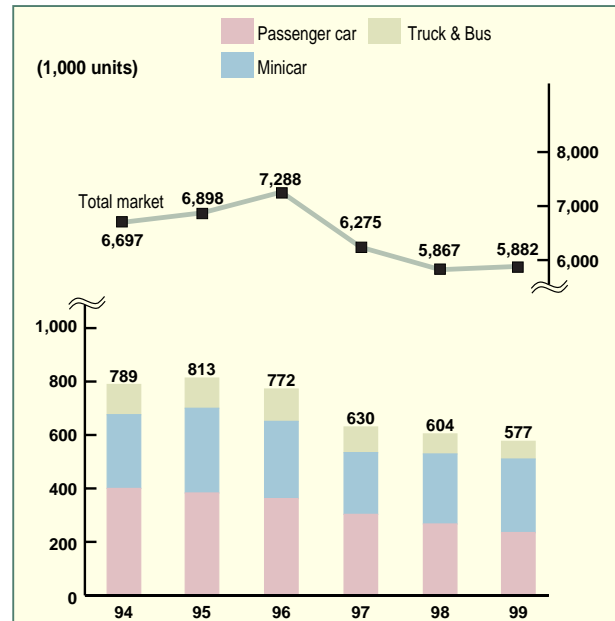
Total industry car sales (minicars included) in Japan were 4,185,000 units in fiscal 1999, virtually unchanged from the previous year. Regular passenger car (cars other than minicars) sales were 2,910,000 units, 6% down. Minicar sales were 1,275,000 units, an increase of 22 % over the previous year.

MMC passenger car sales (minicars included) in fiscal 1999 totaled 526,000 units, a decline of 2% on the 535,000 figure for 1998. MMC did introduce a fully-redesigned

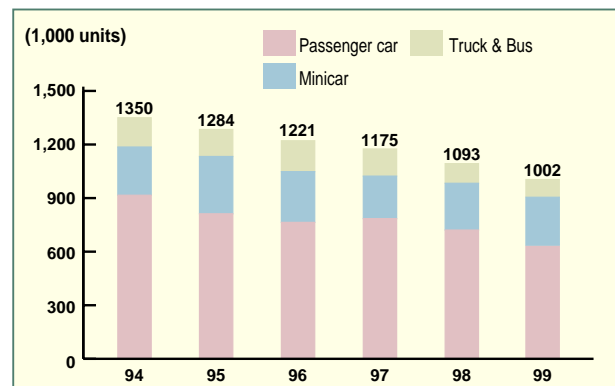


Proudia luxury sedan

MMC sales in Japan



MMC production in Japan



Pajero series and the brand-new Dion series in 1999. However, being launched in the second half of the year and the depressed state of the market meant these new models failed to prevent a slight decline in MMC market share.

New models

MMC introduced four new models in fiscal 1999. Reflecting the company's recent policy of concentrating on core revenue

earners, these were: a fully-redesigned Pajero (Montero) series; the brand-new Dion - following the Dingo, the second in the SUW concept series; Proudia and Dignity luxury models; and the Townbox minicar which sports three rows of seats. Some of these new models are introduced on pages 26 and 27.

Undergoing the first full redesign in eight years and with an eye on the North American, European and other major world markets, the new Pajero is bigger and more luxurious. The new series is offered with a new 3-liter Direct Injection diesel engine in addition to the proven 3.5-liter GDI power unit. A fleet of the new Pajeros competed convincingly in the 2000 Paris-Dakar rally.

Targeting the family user, the new Dion delivers outstanding value-for-money with a very friendly price tag, providing superior utility and convenience as it seats 7 in three rows of seats. Launched in January, this new-concept wagon is selling above target levels.

GDI technology

After 20 years of development, the revolutionary MMC GDI engine made its debut powering the Galant and Legnum models in July 1997. Today the GDI is the core engine family for MMC gasoline cars. Widely acclaimed for its superior fuel efficiency and eco-friendly qualities, production of this dream engine is expected to top 900,000 units by the end of 2000. Today, GDI engines power 70 percent of the MMC lineup in Japan and several models in ecology-conscious Europe.

In March 1999, MMC announced the GDI Sigma powertrain series that mates the GDI engine to CVT and a number of other driveline components to further exploit the low-consumption and eco-friendly benefits of GDI technology. At the 1999 Tokyo Motor Show, MMC exhibited three SUW concept models featuring different GDI Sigma powertrain combinations: GDI+HEV in the SUW advance; GDI+ASG in the SUW compact; and GDI+Turbo in the SUW active. These technologies are now being phased into production



Fuso Super Great heavy truck

models.

In October 1999, the Company launched the new Pistachio model with GDI+ASG powertrain, which uses Automatic Stop & Go idling technology to further improve GDI fuel consumption around town by cutting the engine off at traffic lights and other times the car is stationary. To



Fuso Aero touring bus

restart the engine, all the driver has is to depress the clutch pedal. The GDI's very fast engine restart - a fraction of the time required in a conventional engine - eliminates worries about increased emissions or holding up other vehicles.

Other GDI Sigma powertrain combinations available today include the GDI+CVT that drives the Lancer Cedia launched in May 2000, and the GDI+Turbo that powers the Pajero iO 5-door Turbo launched in July this year.

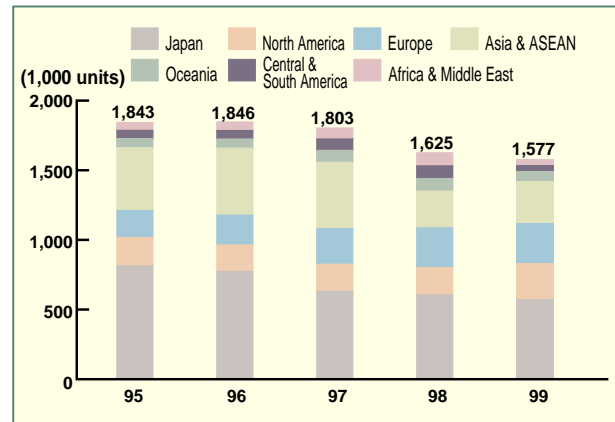
The Company will continue to play its role in reducing environmental loads as it releases new eco-models that use GDI Sigma powertrains to achieve significant improvements in fuel economy.

International operations

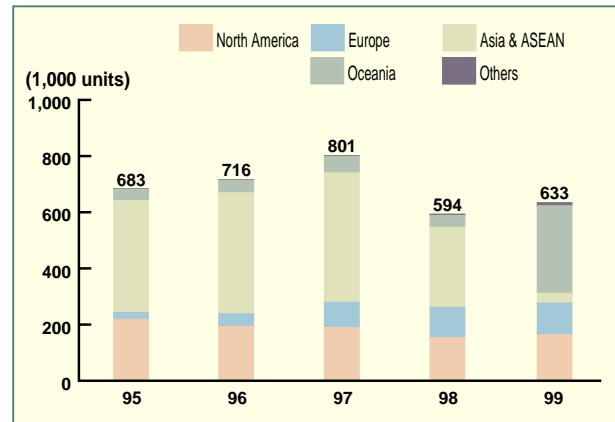
Total industry export shipments from Japan in fiscal 1999 (commercial vehicles included) were 4,409,000 units, 3% down over the previous year.

MMC vehicle export shipments, commercial vehicles included, totaled 432,000 units. Shipments to North America grew strongly by 45%, due to the general strength of the American economy and to the popularity of the Montero Sports (Challenger in Japan) and the locally-produced Galant and Eclipse models. In Asia & the ASEAN block, sales rebounded in those countries whose economies are on the path

Global sales



Production outside Japan



Lancer Evolution VI at 1999 Tokyo Motor Show



Pajero series at 1999 Tokyo Motor Show



Galant sedan

to recovery: growing by 40% in Malaysia, and by 270% in Indonesia. MMC shipments to Europe totaled 115,000 units, 31% down over the previous year. This was due to increased costs related to the weakness of the Euro, and to increased production volume at local facilities.

Production at MMC facilities in countries outside Japan



Montero Sports (US market model)

totaled 734,000 units, a strong 20% recovery over the previous year.

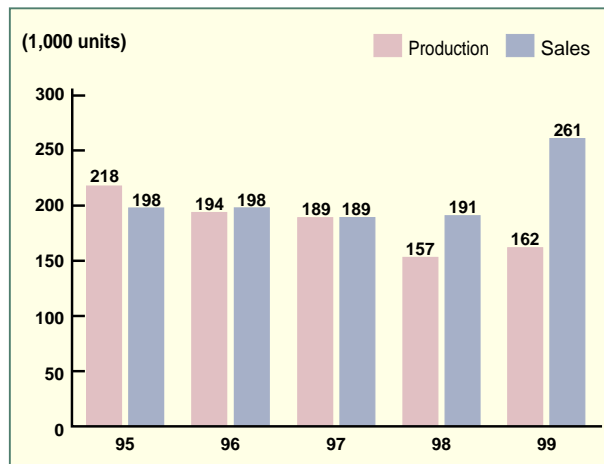
Highlights include a production volume of 162,000 units in North America, 3% up on the previous year with production of the new fast-selling Eclipse model up by 55%. In Asia, production grew strongly over 1998 levels, thanks to the market recovery in parts of the region.

North America

MMC enjoyed an excellent year in terms of production and sales in North America in fiscal 1999. Mitsubishi Motors was the fastest growing Japanese automotive brand in America, and recorded its best sales year. This momentum has continued with a 42% rise in sales volume for the first half of 2000 and the most profitable first half in its history.

Driving this performance were three primary factors. First, the increased competitiveness of the Mitsubishi lineup; this stemming from the continuing popularity of the Galant sedan introduced in 1998, and reinforced by the new Eclipse Coupe and Montero Sport models introduced in 1999. The second factor was the increased recognition accorded to Mitsubishi brand quality, as evidenced by the Company's jump to ninth place in NADA rankings, up from 22nd out of 33 in 1997. The third contributing factor was a strengthening

Production & sales in North America





Montero (US market model)

in the cooperative relationship between the Company and its dealers, with the introduction of a new computerized sales support system and greater use of IT bringing significant increases in the efficiency of sales activities.

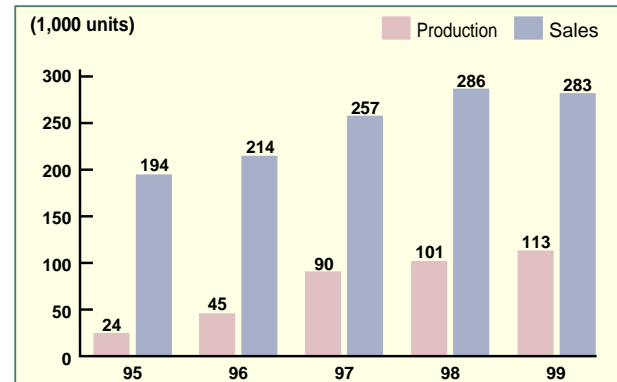
Production at MMMA increased 3% to 162,500 units in fiscal 1999. This was due to strong sales of the Galant and Eclipse, and to the Sebring and Avenger models it assembles for DaimlerChrysler.

Europe

Industry sales in Europe totaled 15 million units in 1999. Mitsubishi Motor Sales of Europe increased its sales by two percent to 283,000 units. Highlights include record sales in Italy, up 55% at 25,000 units, and in Spain, up 26% at 19,000 units. The Company also posted increased sales in Germany, up 4% at 67,000 units, and in the Netherlands, up 10% at 21,000 units.

MMC will continue to operate its European manufacturing facility, NedCar, with Volvo Car until 2004 under its agreement with the Swedish manufacturer. Thereafter, the Company plans to operate NedCar with DaimlerChrysler;

Production & sales in Europe



this to include the production, starting in 2004, of the Z-car global strategy model the two companies are to develop together.

Asia and Oceania

The economies in Asia and the ASEAN block are making a rapid recovery from the damage inflicted by the currency crises in 1997 and 1998, and on the whole demand is growing again.

In Australia, industry sales totaled 787,000 units in 1999, a slight 2% decrease on the record of 807,000 units in 1998 but still the second-best year ever. MMAL sold 70,000 cars, a 17% decrease over 1998, and due mainly to the stronger Japanese yen.

Total market sales in Thailand grew by 47% to 211,000 units in fiscal 1999. Sales of MMC brand vehicles on the Thai domestic market increased by 18% over the previous year to 17,000 units. Export shipments of Strada pickup and SUV models from Thailand, the Company's global production hub for this type of vehicle, were 67,000 units, 5% up on the previous year.

Total sales in the Philippine market decreased 28% to 71,000 units in fiscal 1999. Driven by the Pajero, Mirage and Adventure models, MMC brand car sales totaled 15,000 units, for a 21% share of the market. The decline in consumer interest due to concern about the depressed state of the

economy continues but signs of a gradual recovery have become apparent this year.

The Indonesian economy staged a major recovery in 1999 and car sales grew by 55% over 1998 to 79,000 units. Sales volume for 1999 was 17,000 units, an increase of 270% over the previous year and a rate of increase well in excess for the market as a whole. The Kuda hybrid model, designed for the Asian market and introduced in March 1999, has performed exceptionally well with orders outpacing production.

The relaxation of credit restrictions by the Malaysian government in September 1998 saw an increase in consumer confidence and sparked a 51% growth in auto sales to 251,000 units in fiscal 1999. Sales at Proton, with which MMC has technical assistance ties, grew 47% over 1999 to 157,000 units.

In China, MMC has three joint-venture manufacturing facilities: a passenger car assembly plant, and two engine and transmission plants. The Hunan Changfeng Motor Co., Ltd. assembles Pajero models. The newly completed Harbin Dongan Automotive Engine Manufacturing Ltd. and the Shenyang Aero Space Mitsubishi Motors Engine Manufacturing Co. Ltd manufacture engines and transmissions.

Total industry sales in Taiwan were 400,000 units in 1999, 13% down over the previous year. This was due to



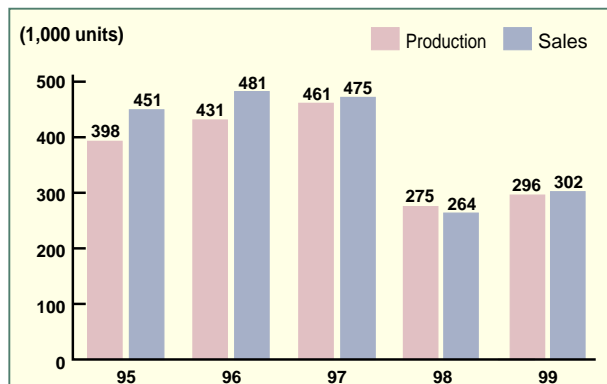
Space Wagon (European market model)

continued sluggish demand and the major earthquake in September last year. Sales of MMC brand cars were 89,000 units, 9% down on 1998, but still topping the sales league for the third year in a row.

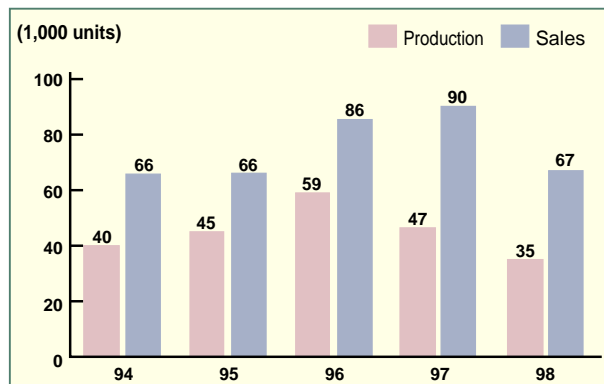
Commercial vehicle operations

Total industry truck sales in Japan totaled 205,000 units in fiscal 1999, 9% down on the previous year. Of this figure, regular trucks (with a vehicle weight of 8-ton or over in the

Production & sales in Asia



Production & sales in Oceania





L200 (Export market model)

Japanese classification) accounted for 74,000 units, 9% down on fiscal 1998 and representing the lowest level since official records were first introduced in Japan in 1960.

MMC sales declined due to the adverse effects of the prolonged slump in truck demand. This decline, however, was smaller than that suffered by other manufacturers thanks to the Company's well-established position as market-leader in the Japanese truck sector and to the general profitability of its operations.

Sales of Mitsubishi Fuso trucks totaled 63,000 units, 17% down over the previous year, giving the Company a 31% share of the market. Of this total, regular trucks accounted for 31,000 units. This represented a 3% decrease over the previous year but enabled the Company to increase market share to 28% from 27%.

MMC produced 98,000 trucks and buses in fiscal 1999, 11% less than the previous year as the company continued to reduce production capacity and volume to match the shrinkage in total industry demand.

New emission regulations targeting small and medium trucks came into force in Japan in September 1999. MMC

started sales of compliant small and medium trucks in April last year.

The RM2001 management plan called for a major restructuring and integration of the MMC commercial vehicle production organization. The transformation into a more streamlined and efficient organization has begun with the transfer of the manufacturing and the R&D functions of the Maruko Plant transmission facility to the company's main Tokyo Plant and to the Truck & Bus Research & Development Center at the Kitsuregawa Proving Ground respectively.

MMC has developed a new generation of low-consumption high-output engines for its commercial vehicles. Incorporating VG turbocharging and a new type of engine retarder, the new engines comply with the Long-term Emissions Regulations. Medium and heavy trucks powered by the new engines were launched in April 1999 and February 2000 respectively.

Integration of sales companies in Japan

MMC began a major integration and streamlining of its sales organization to bring it more in line with the size of the market in Japan. Between the end of March 1999 and 2000, the number of passenger car outlets was reduced from 251 to 243, and payroll from 9,380 to 8,960. The number of com-



Kuda (Indonesian market model)

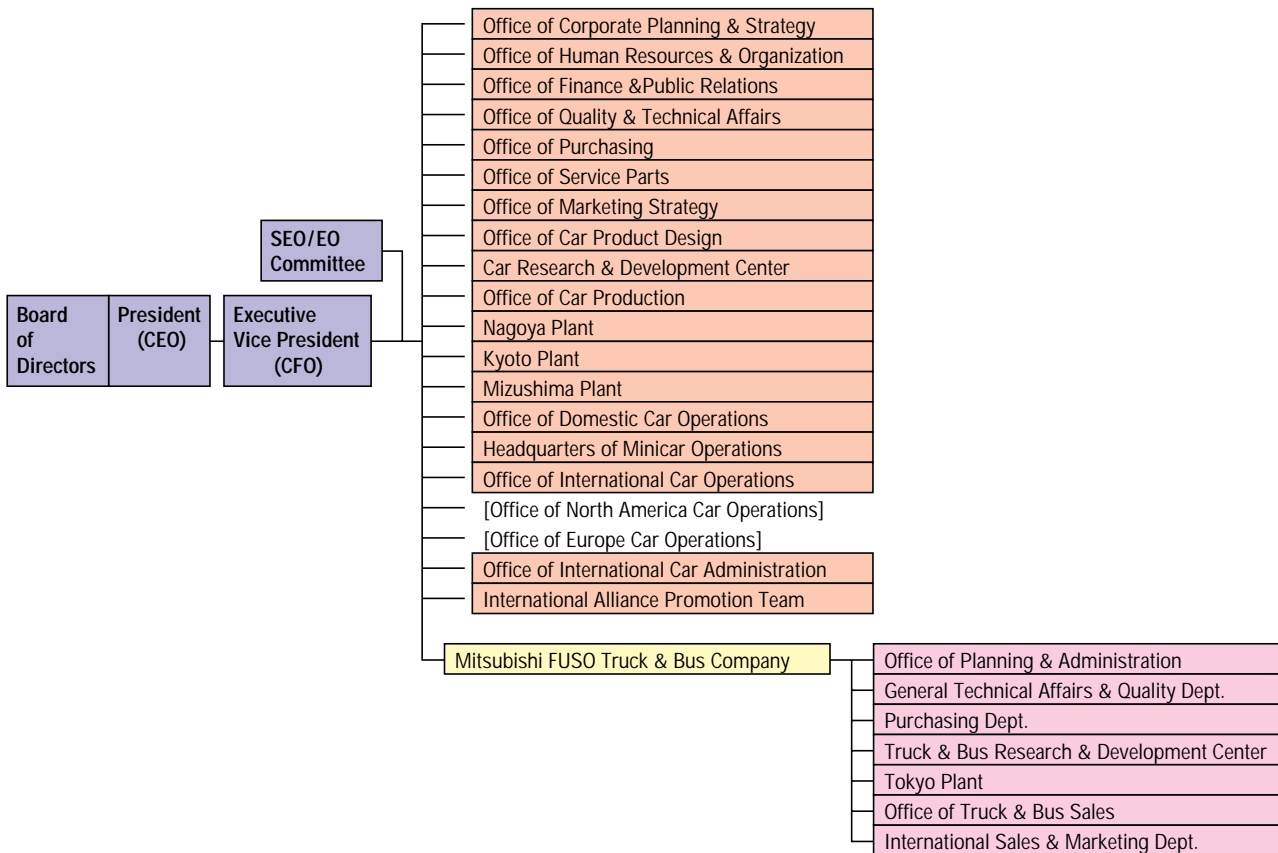
mercial vehicle outlets was reduced from 45 to 38, and payroll from 10,800 to 9,700.

e-commerce

With the rapid growth in e-business in the United States, MMC is fast-tracking investment in Information and Communications Technology throughout its operations.

MMC currently runs an Internet Showroom web site that enables people to log on and request on-line price estimates, as well as have catalogues, information on sales companies mailed to them. The Company is also introducing business process reengineering to raise efficiencies in all areas of its operations, and to create new types of business models by connecting with other sectors of industry.

Organization chart



Financial review

Mid and long-term management strategy

The automotive industry is undergoing substantive change today: Environmental issues, globalization of management and advances in information technology being accompanied by global changes in the paradigms governing development, procurement and production. To enable it to take maximum advantage of these changes, MMC has recently formed two significant global and strategic alliances: With DaimlerChrysler relating to passenger cars, and with AB Volvo relating to commercial vehicles. Enabling partners to utilize and exploit each other's strengths, these arrangements open the way to Win-Win relationships that will assure survival in the 21st century.

In fiscal 1998, MMC embarked on a restructuring of its operations charted by the RM 2001 (Renewal Mitsubishi) mid-term management plan in order to make the Company more profitable. Bolstered by the abovementioned alliances and incorporating the restructuring and future growth strategy laid out in RM2001, in April 2000 the Company drew up a new "Heart-Beat 21" mid-term management plan to take it through to fiscal 2003.

Through a process of managerial reform and rapid transformation into a profitable and meaningful player in the 21st century, Heart-Beat 21 provides the blueprint for MMC to establish and consolidate management foundations that will enable its passenger car and commercial vehicle operations to prosper as separate and self-supporting entities. At the same time, and taking the opportunities presented by the alliances with DaimlerChrysler and AB Volvo, Heart-Beat 21 maps out policy that will enable the Company to switch to a truly international management style, and to offer, in a timely manner, a compact strategy passenger car that has global currency as well as other highly competitive products effectively tailored to their target markets.

MMC is firmly committed to increasing corporate value and will do so by giving absolute priority to its customers and to its shareholders interests, and through the practice of cashflow-based management. To achieve this objective, the Company is moving to make business judgments in a more rational manner. Towards this end, the Company is working to materialize the targets and substance of its reform plans by adopting and implementing new corporate performance evaluation tools, and by promoting a common awareness among one and all employees.

Management structure

MMC has implemented some major changes to its management structure recently. These include the introduction of an internal-Company system with the setting up to the Truck & Bus Company on 1 April this year, with a view to spinning it off as a separate Company by the end of 2001; and the formation of alliances with Daimler Chrysler and AB Volvo. In order to speed up the management process further and to make the alliances effective and meaningful, the Company implemented a radical reorganization of the Board of Directors on 27 June this year.

In a step designed to revitalize directors and the board, the number of directors on the board has been reduced to 10, while

giving greater weight to external directors. The Company also introduced a system of executive officers.

The board of directors will retain responsibility for formulation of management strategy, for key management decisions, and for supervision of execution of operations. Executive officers will be responsible for the execution of business. This will help clarify responsibilities and authority in individual areas of operation.

MMC has established two new executive positions: Chief Executive Officer (CEO), and Chief Financial Officer (CFO), the director with ultimate responsibility for the financial affairs of the Company.

These reforms to the management structure will speed up the decision-making process and bring greater clarity to issues of accountability. They will bring about an organization that encourages the active implementation of the measures called for in Heart-Beat 21, and one that is able to deliver results faster.

Issues to be addressed

MMC has recently entered two major alliances, with DaimlerChrysler for passenger cars and with AB Volvo for trucks. The challenge now is to get these global alliances up to speed as rapidly as possible and to maximize the synergies they are expected to bring.

With DaimlerChrysler the challenge will be to see how to orchestrate, and make successful, the many areas of collaboration that project teams at the two companies are studying. Included are the Z-Car world strategy passenger model to be jointly developed by the partners, as well as other development, production and sales activities in which they will collaborate around the world.

In its alliance with AB Volvo, the challenge for MMC is to spin off its commercial vehicle operations at an early date, and to start benefiting from the various synergies that will stem from the joint development of a medium truck, as well as from collaboration in worldwide production and sales activities.

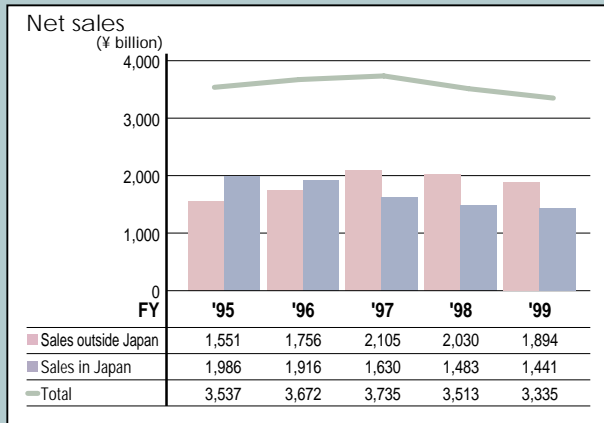
In this rapidly changing business environment, MMC is purposefully applying its resources to swiftly establish a corporate brand-oriented management, to internal reforms, and to the globalization of its management.

Today, the Internet is bringing substantial changes to traditional business models. MMC is working to introduce global design and procurement activities using the latest Information Technology; to develop new ways of marketing in Japan using information equipment, and to introduce supply chain management and other ways of boosting management efficiencies.

Net sales

Mitsubishi Motors Corporation's consolidated sales in fiscal 1999 were ¥3,335 billion, a decrease of 5.1% on the previous year. Japanese domestic market sales were ¥1,441 billion, a decrease of 2.8% on the previous year. The decrease was primarily due to a major decline in total vehicle demand, and in truck sales in particular.

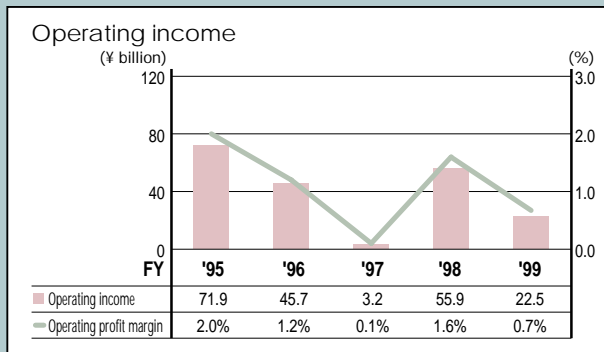
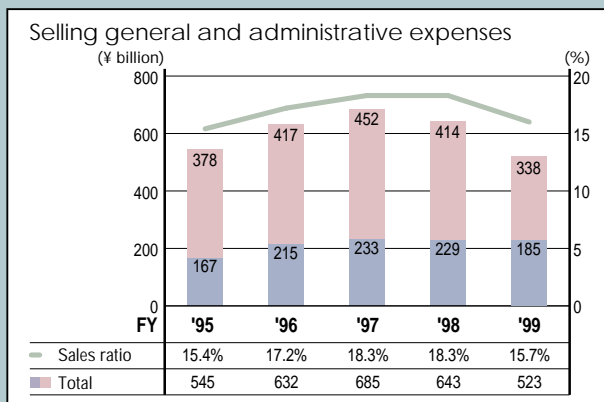
Sales outside Japan totaled ¥1,893.9 billion, a decrease of



6.7% on the previous year. A major drop in export shipments to Asian markets resulted in sales income of ¥115.2 billion, 23.7% down on the previous year.

Cost of sales

Cost of sales in fiscal 1999 was ¥2,790 billion, a decrease of 0.9% on the previous year. Selling, general and administrative expenses were ¥523.5 billion, a decrease of 18.5%. As a result, the Company reported operating income of ¥22.5 billion, a major decrease on the profit of ¥55.9 billion of the previous year.

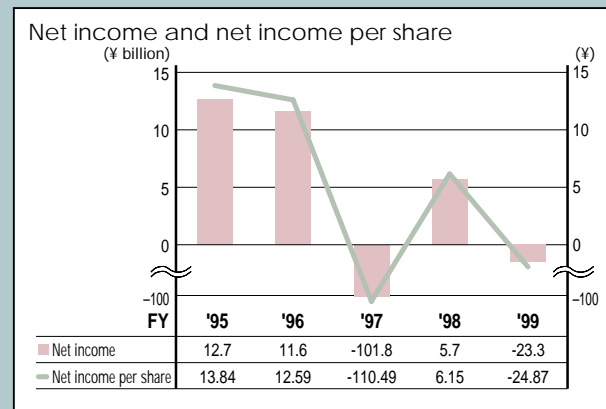


Non-operating profit and loss

Non-operating income in fiscal 1999 was ¥42.8 billion, a 68.2% increase over the previous year. Non-operating expenses decreased by 19.3% to ¥61.9 billion, however, resulting in an ordinary loss of ¥3.8 billion.

Extraordinary items

Extraordinary loss included ¥4.1 billion in restructuring costs by subsidiaries both domestic and abroad. As a result, net loss for the year was ¥23.3 billion, down over the previous fiscal year. The interest and depreciation costs relating to leased vehicles at MMC's finance subsidiary in the United States that were classified as General Administration costs and interest paid are now included in cost of sales. This has reduced operating profit by ¥21.9 billion compared with the previous fiscal year.



Segment performance (business)

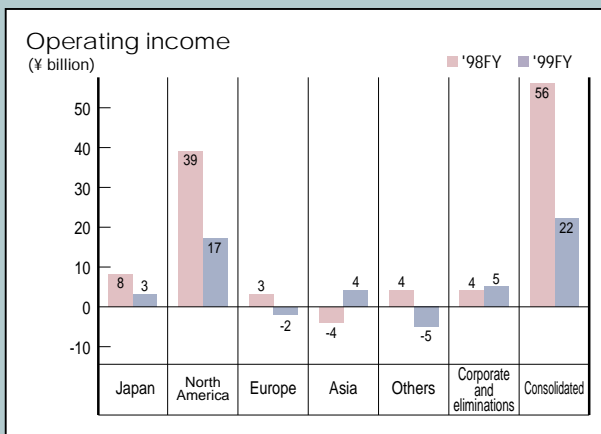
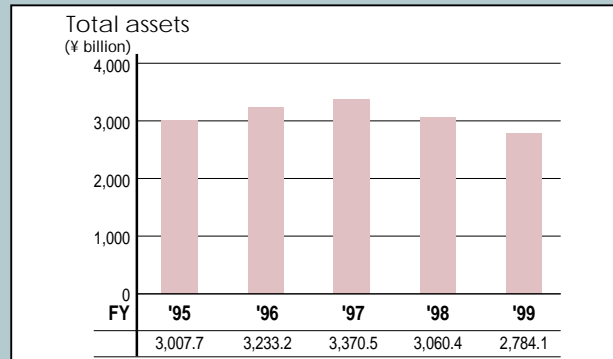
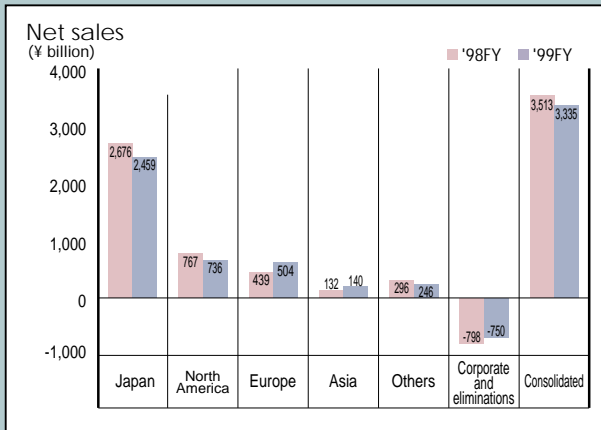
Sales from the passenger car business for the current fiscal year were ¥3,262.4 billion, with operating income of ¥23.4 billion. Revenues from the financial services business were ¥84.9 billion, with operating income of ¥0.5 billion.

Segment performance (geographical)

Sales in Japan were ¥2,459.4 billion, a decrease of ¥216.5 billion over the previous fiscal year. Operating profit was ¥2.8 billion, a decrease of ¥5.1 billion fiscal 1998. Impacting factors include the significant appreciation of the yen against the US dollar and the Euro.

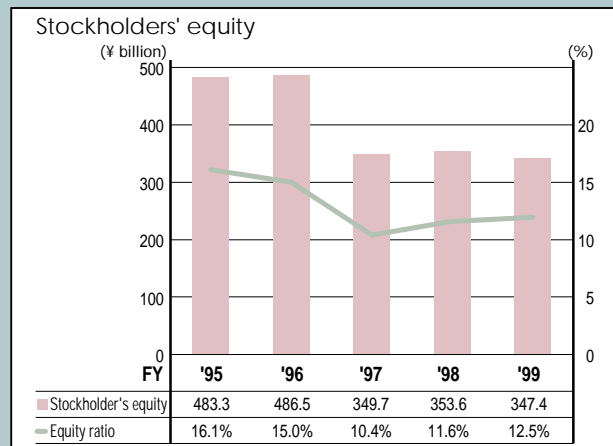
Sales in the United States were ¥736.1 billion, a decrease of ¥31.3 billion over the previous year. Operating profit stood at ¥17.5 billion, a decrease of ¥21.9 billion over fiscal 1998. This decrease was the result of a change in classification of expenses amounting to ¥21.9 billion at the Company's financing services subsidiary, this change having no effect on ordinary or net profit.

Sales in Europe were ¥504.1 billion, an increase of ¥64.7 billion over the previous year. Operating loss was ¥1.8 billion, a decline of ¥5.1 billion over fiscal 1998.



Stockholders' equity

Retained earnings at the end of March 2000 were ¥76.8 billion. The decrease was due mainly to the net loss of ¥23.3 billion for the year. As a result, shareholders' equity stood at ¥347.4 billion.



Sales in Asia were ¥139.7 billion, an increase of ¥7.8 billion over the previous year. Operating profit was ¥3.8 billion, an increase of ¥7.5 billion over fiscal 1998.

Sales in other regions were ¥245.6 billion, a decrease of ¥50.3 billion over the previous year. Operating loss was ¥4.9 billion, an increased loss of ¥9.4 billion over fiscal 1998.

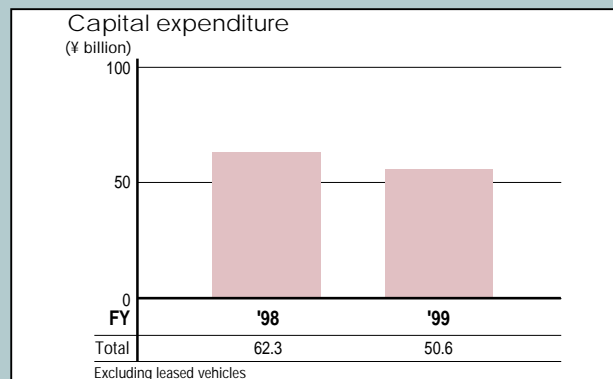
Total assets

Total corporate assets at the end of March 2000 were ¥2,784.1 billion, a 9.0% reduction over the previous year. This was the result of multi-faceted efforts to trim the Company's asset portfolio.

Inventories stood at ¥341.4 billion, a major 10.3% reduction of ¥39.3 billion on the year before. This decrease was the result of determined reductions in finished product inventories.

Short- and long-term loans totaled ¥118.4 billion, a 25.4% reduction of ¥40.3 billion on the year before.

Property, plant and equipment at the end of March 2000 totaled ¥1,219.3 billion, a decrease of 7.1% over the year before. This was chiefly due to foreign exchange rates and some cutbacks in capital expenditure.

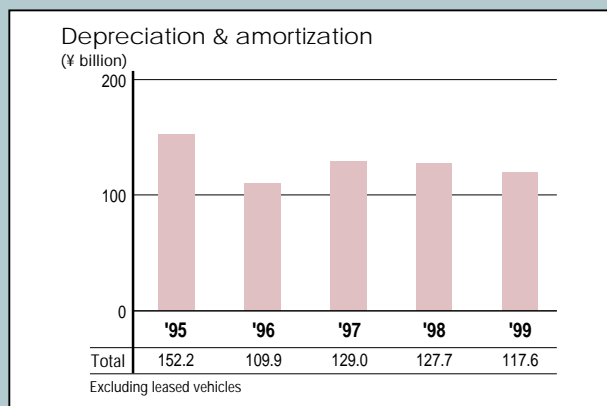


Capital expenditure

The Company reported capital expenditure (leased vehicle assets excluded) of ¥50.6 billion, a 18.8% decrease over the previous year.

Depreciation expenses

Depreciation expenses (leased vehicle assets excluded) were ¥117.6 billion, a 7.9% decrease on the previous year. Depreciation expenses decreased in Japan, but increased elsewhere.



Interest-bearing liabilities

At the end of March 2000, interest-bearing liabilities (short- and long-term loans payable, commercial paper and bonds), including those at the Company's financing subsidiaries in North America, stood at ¥1,473.3 billion, a 17% reduction over the previous year. This reduction was realized by trimming inventories, selling off fixed assets, and liquidating trade receivables.

Cash flows

Cash flows from operating activities increased by ¥214 billion, while cash flows from acquisition or disposal of tangible assets and other investing activities decreased by ¥81.7 billion. After subtracting the issue of new shares for AB Volvo and the repayment of loans and other such disbursements, cash flows relating to financial service activities decreased by ¥162.4 billion. The year-end balance of cash and cash equivalents after foreign currency translation adjustments was ¥87.3 billion, a ¥36 billion decrease over the previous fiscal year.

Consolidated companies

The number of consolidated subsidiaries included in the consolidated statements at the end of March 2000 was 189, an increase of 24 over the previous year. The total decreased by 8 and increased by 32. The total number of companies accounted for by the equity method was 32, with 2 additions and 18 deletions.

Exchange rates

The foreign currency exchange rates applied in calculating the revenues, expenses, assets and liabilities of the Company's principal foreign subsidiaries in fiscal 1999 are as follows:

- Revenues and expenses: USD 1 = ¥113.66 (¥131.87 in fiscal 1998)
- Assets and liabilities: USD 1 = ¥115.70 (¥115.70 in fiscal 1998)

Equity participation

After reaching agreement with AB Volvo on an equity tie-up in October last year, MMC issued 48,516,000 new shares to AB Volvo, this being equivalent to a 5% holding after issue of the new shares.

MMC reached agreement on a business alliance, which includes equity participation, with DaimlerChrysler AG in March this year.

Dividend payment

MMC regrets to announce that it intends once again to cancel payment of the year-end dividend in order to increase its retained earnings for future purposes. The Company apologizes sincerely to its shareholders and asks for their continuing understanding and patience.

Consolidated forecast for fiscal 2000

Looking ahead to fiscal 2000, the first year of the new mid-term management plan Heart-Beat 21, the Company finds it difficult to make accurate predictions due to many indeterminate factors. These include prospects for the American economy, for economic recovery in Europe and Asia, and the degree of economic recovery in Japan.

While fluctuations in the major currencies, price reductions required due to intensifying market competition, the degree to which domestic consumption in Japan will recover and other factors make accurate forecasting difficult, the Company offers the following forecast for its consolidated operations in fiscal 2000.

It should be noted that the major reason for the consolidated net loss forecast for fiscal 2000 is the one-time charge of ¥140 billion that the Company plans to take to cover pension fund liabilities consequent upon changes in accounting standards for postretirement benefits.

Consolidated forecast		Change from previous year
Sales	¥3,550 billion	6.4%
Operating income	¥20 billion	
Net income	- ¥70 billion	

Cautionary statement:

The fiscal 2000 forecasts are based on management assumptions and predictions made in the light of the information currently available. Undue reliance should not be placed on these forecasts. A number of factors, including, but not limited to, changes in the business environment surrounding MMC operations, market trends and currency fluctuations could cause actual results to differ materially from those discussed in the forecasts.

Mitsubishi Motors Corporation and Consolidated Subsidiaries
Consolidated Balance Sheets

	March 31,		
	2000	1999	2000
	(In millions of yen)		(In thousands of U.S. dollars) (Note 3)
Assets			
Current assets:			
Cash and cash equivalents	¥ 89,590	¥ 123,294	\$ 843,994
Trade notes and accounts receivable (Notes 4 and 8)	516,638	597,545	4,867,056
Marketable securities (Note 7 and 8)	52,488	51,897	494,470
Inventories (Note 5)	341,443	380,696	3,216,609
Short-term loans (Note 4)	27,713	33,068	261,074
Deferred tax assets (Note 12)	19,637	12,403	184,993
Prepaid expenses and other current assets	141,788	116,609	1,335,732
Allowance for doubtful receivables	(11,517)	(11,468)	(108,497)
Total current assets	1,177,781	1,304,046	11,095,440
Property, plant and equipment, net (Note 6 and 8):	1,219,286	1,312,303	11,486,444
Intangible assets	26,560	28,113	250,212
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliates	44,632	39,525	420,462
Investments in securities (Note 7)	29,835	40,242	281,064
Long-term loans (Note 4)	90,668	125,626	854,150
Long-term prepaid expenses and other (Note 12)	146,719	158,895	1,382,186
Allowance for doubtful receivables	(15,165)	(12,434)	(142,864)
Investments and other assets, net	296,691	351,856	2,795,016
Translation adjustments	63,798	64,065	601,017
Total assets	¥ 2,784,119	¥ 3,060,385	\$ 26,228,158

	March 31,		
	2000	1999	2000
	(In millions of yen)		(In thousands of U.S. dollars) (Note 3)
Liabilities and stockholders' equity			
Current liabilities:			
Trade notes and accounts payable	¥ 592,782	¥ 612,424	\$ 5,584,381
Short-term borrowings (Note 8)	648,821	927,274	6,112,303
Current portion of long-term debt (Note 8)	223,580	233,498	2,106,265
Accrued income taxes	3,728	3,470	35,120
Other current liabilities (Note 12)	211,836	192,081	1,795,629
Total current liabilities	1,680,749	1,968,749	15,833,716
Long-term debt (Note 8)	600,879	611,179	5,660,659
Deferred tax liabilities (Note 12)	24,651	522	232,228
Accrued severance indemnities	89,814	87,382	846,105
Other	22,046	20,988	207,687
Total liabilities	2,418,142	2,688,822	22,780,424
Minority interests	18,613	17,950	175,346
Stockholders' equity			
Common stock:			
Authorized: 2,814,160,000 shares			
Issued and outstanding:			
970,307,624 shares in 2000			
921,791,624 shares in 1999	150,730	136,224	1,419,972
Capital surplus	119,846	105,339	1,129,025
Retained earnings	76,786	112,049	723,373
Total stockholders' equity	347,363	353,613	3,272,379
Contingent liabilities (Note 10)			
Total liabilities and stockholders' equity	¥ 2,784,119	¥ 3,060,385	\$ 26,228,158

See accompanying notes to consolidated financial statements.

Mitsubishi Motors Corporation and Consolidated Subsidiaries
Consolidated Statements of Operations

	Year ended March 31,		
	2000	1999	2000
	(In millions of yen)		(In thousands of U.S. dollars) (Note 3)
Net sales	¥ 3,334,974	¥ 3,512,606	\$ 31,417,560
Cost of sales	2,789,769	2,897,616	26,281,385
Reversal of deferred profit on installment sales	802	2,016	7,555
Gross profit	546,006	617,006	5,143,721
Selling, general and administrative expenses	523,533	584,858	4,932,011
Operating income	22,473	32,147	211,710
Interest and dividend income	17,138	17,448	161,451
Interest expense	44,996	55,847	423,891
Other, net (Note 11)	(7,266)	18,035	(68,450)
Income (loss) before income taxes	(12,651)	11,783	(119,180)
Income taxes:			
Current	9,165	5,749	86,340
Deferred	7,144	1,986	67,301
	16,310	7,735	153,650
Minority interests	5,629	1,621	53,029
Net income (loss)	¥ (23,331)	¥ 5,668	\$ (219,793)
	(In yen)		(In U.S. dollars) (Note 3)
Per share of common stock:			
Net income (loss):			
Basic	¥ (24.87)	¥ 6.15	\$ (0.23)
Fully diluted	-	5.93	-
Cash dividends	-	-	-

See accompanying notes to consolidated financial statements.

Mitsubishi Motors Corporation and Consolidated Subsidiaries
Consolidated Statements of Stockholders' Equity

	Common stock	Common stock	Capital surplus	Retained earnings	Total
	(Number of shares)		(In millions of yen)		
Balance at April 1, 1998	921,791,624	¥ 136,224	¥ 105,339	¥ 108,183	¥ 349,747
Change due to inclusion of subsidiaries and affiliates in consolidation or equity method of accounting	-	-	-	(1,803)	(1,803)
Net income	-	-	-	5,668	5,668
Balance at March 31, 1999	921,791,624	136,224	105,339	112,049	353,613
Prior period adjustment for adoption of interperiod income tax allocation	-	-	-	(10,147)	(10,147)
Prior period adjustment for Thai subsidiary	-	-	-	(754)	(754)
Change due to inclusion of subsidiaries and affiliates in consolidation or equity method of accounting	-	-	-	(1,029)	(1,029)
Issuance of common stock	48,516,000	14,506	14,506	-	29,012
Net loss	-	-	-	(23,331)	(23,331)
Balance at March 31, 2000	<u>970,307,624</u>	<u>¥ 150,730</u>	<u>¥ 119,846</u>	<u>¥ 76,786</u>	<u>¥ 347,363</u>

	Common stock	Common stock	Capital surplus	Retained earnings	Total
	(Number of shares)		(In thousands of U.S. dollars)		
Balance at March 31, 1999	921,791,624	\$1,283,316	\$ 992,360	\$1,055,572	\$ 3,331,258
Prior period adjustment for adoption of interperiod income tax allocation	-	-	-	(95,591)	(95,591)
Prior period adjustment for Thai subsidiary	-	-	-	(7,103)	(7,103)
Change due to inclusion of subsidiaries and affiliates in consolidation or equity method of accounting	-	-	-	(9,694)	(9,694)
Issuance of common stock	48,516,000	136,656	136,656	-	273,311
Net loss	-	-	-	(219,793)	(219,793)
Balance at March 31, 2000	<u>970,307,624</u>	<u>\$1,419,972</u>	<u>\$1,129,025</u>	<u>\$ 723,373</u>	<u>\$ 3,272,379</u>

See accompanying notes to consolidated financial statements.

Mitsubishi Motors Corporation and Consolidated Subsidiaries
Consolidated Statements of Cash Flows

	Year ended March 31,		
	2000	1999	2000
	(In millions of yen)		(In thousands of U.S. dollars) (Note 3)
Operating activities			
Net income (loss)	¥ (23,331)	¥ 5,668	\$ (219,793)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	152,510	158,989	1,436,740
Allowance for doubtful receivables, net of reversal	3,254	(4,784)	30,655
Accrued severance indemnities, net of reversal	2,432	(4,958)	22,911
Gain on sales of marketable securities	(13,572)	(641)	(127,857)
Gain on sales and disposal of property, plant and equipment, net	(4,268)	(23,441)	(40,207)
Equity in earnings of affiliates	(9,132)	(569)	(86,029)
Deferred income taxes	7,144	-	67,301
Minority interest	(5,629)	(1,621)	(53,029)
Changes in operating assets and liabilities:			
Trade notes and accounts receivable	79,487	45,671	748,818
Inventories	29,294	141,242	275,968
Other assets	(19,645)	(40,696)	(185,068)
Trade notes and accounts payable	(2,096)	(32,619)	(19,746)
Other liabilities	14,158	(6,358)	133,377
Other	4,536	2,058	42,732
Net cash provided by operating activities	215,140	237,941	2,026,755
Investing activities			
Decrease in short-term investments	12,620	4,954	118,888
Increase in property, plant and equipment	(217,830)	(256,859)	(2,052,096)
Proceeds from sales of property, plant and equipment	126,858	74,959	1,195,082
Increase in investments in securities	(455)	(4,836)	(4,286)
Loans made	(372,350)	(346,601)	(3,507,772)
Collection of loans receivable	367,668	485,425	3,463,665
Other	(3,454)	(12)	(32,539)
Net cash used in investing activities	(86,943)	(42,971)	(819,058)
Financing activities			
Decrease in short-term borrowings	(244,154)	(127,501)	(2,300,085)
Proceeds from issuance of long-term debt	400,674	190,773	3,774,602
Repayment or redemption of long-term debt	(347,714)	(222,818)	(3,275,685)
Issuance of common stock	28,867	-	271,945
Other	(65)	(53)	(612)
Net cash used in financing activities	(162,392)	(159,599)	(1,529,835)
Effect of exchange rate changes on cash and cash equivalents	(5,868)	(10,541)	(55,280)
Net change in cash and cash equivalents	(40,063)	24,829	(377,419)
Cash and cash equivalents at beginning of year	123,294	97,744	1,161,507
Adjustment to beginning balance for inclusion of subsidiaries in consolidation	6,359	720	59,906
Cash and cash equivalents at end of year	¥ 89,590	¥ 123,294	\$ 843,994

See accompanying notes to consolidated financial statements.

Mitsubishi Motors Corporation and Consolidated Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2000

1. Significant accounting policies

(a) Basis of presentation

Mitsubishi Motors Corporation ("MMC") and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries, in conformity with those of the countries of their domicile.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan and have been compiled from the consolidated financial statements filed with the Ministry of Finance as required by the Securities and Exchange Law of Japan.

Effective the year ended March 31, 2000, MMC was required to prepare a consolidated statement of cash flows as part of its consolidated financial statements for the first time under the Securities and Exchange Law of Japan. Accordingly, MMC prepared its 2000 consolidated statement of cash flows in accordance with "Accounting Standards for Consolidated Statements of Cash Flows" and restated the previously reported consolidated statement of cash flows for 1999.

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

(b) Principles of consolidation

Until the year ended March 31, 1999, the consolidated financial statements included the accounts of MMC and its significant subsidiaries, and investments in certain unconsolidated subsidiaries and significant affiliates (owned 20% to 50%) were accounted for by the equity method.

In accordance with the revised accounting standards for consolidation, the accompanying consolidated financial statements for the year ended March 31, 2000 include the accounts of MMC and its significant companies controlled directly or indirectly by MMC and companies over which MMC exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All significant intercompany transactions and accounts have been eliminated in consolidation.

Effective April 1, 1999, the differences arising from the cost of the companies' investments in subsidiaries and affiliates over the equity in their net assets at fair value (at cost until March 31, 1999) are charged or credited to income in the year of acquisition. The effect of this change was to increase total assets by ¥3,977 million (\$37,466 thousand) and minority interest by ¥2,241 million (\$21,112 thousand), net of tax. The difference at the time of acquisition between the cost and underlying net equity of investments in consolidated subsidiaries and other companies accounted for by the equity method is amortized over a period of less than 10 years, in considering the benefit of the difference.

Unrealized gross profit on inventories sold by MMC or its subsidiaries to affiliates had been eliminated in full in the previous period. However such amounts have been eliminated according to the percentage of shareholding in the current year. The change resulted in a decrease of loss before income taxes by ¥3,995million (\$37,635 thousand) for the year ended March 31, 2000.

(c) Cash and cash equivalents

All highly liquid investments with original maturities of three months or less when purchased are considered cash equivalents.

(d) Inventories

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

(e) Marketable securities and investment in securities

Marketable equity securities and investments in securities listed on stock exchanges or quoted at OTC market are stated at the lower of cost or market, cost being determined by the moving average method. Other marketable securities and investments in securities are stated at cost determined by the moving average method.

(f) Depreciation

Depreciation of property, plant and equipment at MMC and its domestic subsidiaries is principally calculated by the declining-balance method over the estimated useful lives of the respective assets. For buildings, however, the straight-line method is also followed.

Depreciation of property, plant and equipment at the foreign subsidiaries is principally calculated by the straight-line method over the estimated useful lives of the respective assets.

(g) Accrued severance indemnities and pension plans

Employees who terminate their services with MMC and its domestic consolidated subsidiaries are generally entitled to lump-sum severance benefits determined by reference to their basic rate of pay and length of service at the date of termination. The indemnity for cases of voluntary termination is lower than that for involuntary termination or retirement. MMC and its domestic consolidated subsidiaries have provided for such liability at 40% for other employees of the amount that would be required to be paid if all eligible employees voluntarily terminated their services at the balance sheet date.

In addition to the lump-sum severance indemnity plans, MMC and certain of its domestic consolidated subsidiaries have pension plans which, under certain conditions, cover a portion of the existing lump-sum severance benefits to employees who retire at the mandatory retirement age.

Pension cost is funded as accrued.

Directors and corporate auditors of MMC and its domestic consolidated subsidiaries are customarily entitled to lump-sum payments under their respective unfunded severance benefit plan subject to the shareholders' approval. Provision for the indemnity for severance benefits for those officers has been made at an estimated amount.

(h) Installment sales

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 installment receivables which become due.

(i) Income taxes

In accordance with a new accounting standard for income taxes, deferred tax assets and liabilities were recognized in the consolidated financial statements for the year ended March 31, 2000 with respect to the differences between financial reporting and the tax bases of the assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

Until the year ended March 31, 1999, deferred income taxes had been recognized by MMC only for timing differences between financial and tax reporting with respect to the elimination of unrealized intercompany profits and other adjustments for consolidation purposes, although tax-effect accounting had been adopted by the foreign consolidated subsidiaries. The effect of this change in method of accounting was to increase the deferred tax assets in current assets by ¥14,552 million (\$136,806 thousand) and in other assets by ¥1,182 million (\$11,135 thousand), investment in unconsolidated subsidiaries and affiliates by ¥233 million (\$2,195 thousand), deferred tax liabilities by ¥ 24,519 million (\$230,984 thousand), and to decrease net loss by ¥ 2,637 million (\$24,842 thousand) and retained earnings by ¥7,509 million (\$70,740 thousand) for the year ended March 31, 2000.

(j) Translation of foreign currency accounts

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

- (1) Asset and liability items are translated at the rate of exchange in effect on the closing date of each subsidiary;
- (2) Components of stockholders' equity are translated at the historical rates at acquisition or occurrence; and
- (3) Revenue, expense and cashflow items are translated at the average rate for the fiscal year of each subsidiary.

Translation differences are presented as translation adjustments in the accompanying consolidated balance sheets.

(k) Amounts per share

The computation of basic net income (loss) per share is based on the weighted average number of shares outstanding during each year. Fully diluted net income per share is computed based on the weighted average number of shares of com-

mon stock outstanding each year after giving effect to the dilutive potential of common shares to be issued upon the exercise of warrants and the conversion of convertible bonds. Fully diluted net loss per share for the year ended March 31, 2000 is not presented as a loss was recorded. Cash dividends per share represent cash dividends declared and paid in each respective year.

(l) Appropriation of retained earnings

Cash dividends, bonuses to directors and statutory auditors and other appropriations of retained earnings are recorded in the financial year in which the appropriations are approved at a general meeting of the stockholders.

(m) Leases

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

Noncancelable lease transactions at foreign subsidiaries are capitalized except for operating lease.

(n) Research and development costs

Research and development costs are charged to income when incurred.

A new accounting standard for research and development costs become effective the fiscal year ended March 31, 2000. However, the adoption of this new standard had no effect on the consolidated statement of operations for the year ended March 31, 2000.

(o) Reclassifications

Certain amounts previously reported for the year ended March 31, 1999 have been reclassified to conform to the current year. The significant items are as follows:

- a. Deferred tax assets of ¥12,403 million in current assets and deferred tax liabilities of ¥522 million were classified separately.
- b. Accrued expenses of ¥96,127 million were reclassified to other current liabilities.
- c. Change in time deposit with a maturity over three month of ¥1,149 million, which had been classified as cash flow provided operating activities, were reclassified as cash flow used in investing activities.

2. Changes in accounting policies

- a. Effective April 1, 1998, certain domestic subsidiaries changed their method of computing depreciation on buildings from the declining-balance method to the straight-line method in order to achieve a more appropriate allocation of cost reflecting their long-term stable usage. This effect of this change was to decrease ordinary loss by ¥1,769 million (\$14,674 thousand) and to increase income before income taxes by the same amount for the year ended March 31, 1999.
- b. Most of MMC's domestic subsidiaries calculated the accrual for employees' bonuses based on the actual amount paid in the prior period. For the year ended March 31, 1999, however, due to a recent revision to the Corporation Tax Law of Japan as well as to the implementation of the current compensation scheme which is more dependent on performance, these subsidiaries began calculating accrued bonuses based on their best estimate of the amounts to be paid. Given the current business circumstances, this change was made to achieve a more accurate accrual of employees' bonuses. The effect of this change was to decrease ordinary loss by ¥2,400 million (\$19,909 thousand) and to increase income before income taxes by the same amount for the year ended March 31, 1999.
- c. Until the year ended March 31, 1999, marketable securities held by the domestic consolidated subsidiaries had been stated at cost. Effective April 1, 1999, they have been stated at the lower of cost or market method in order to conform to MMC. The effect of this change in method of accounting is minor.
- d. Until the year ended March 31, 1999, severance payment to directors and corporate auditors of the domestic consolidated subsidiaries had been charged to income when paid. Effective April 1, 1999, it has been accrued at an estimated amount that would be required to be paid if those eligible officers terminated as of March 31, 2000 in order to conform to MMC. The cumulative effect of this change amounted to ¥3,767 million (\$35,458 thousand) at April 1, 1999

and was recorded as an extraordinary loss for the year ended March 31, 2000. The effect of this change in method of accounting was to increase operating loss by ¥741 million (\$6,981 thousand) and loss before income taxes by ¥4,508 million (\$42,468 thousand).

- e. Until the year ended March 31, 1999, certain expenses related to the consolidated finance subsidiaries had been charged to depreciation expense and others in selling, general and administrative expenses as well as interest expense. Effective April 1, 1999, depreciation expense of ¥39,839 million (\$375,309 thousand), rental expense of ¥11,225 million (\$105,747 thousand) and interest expense of 17,088 (\$160,980 thousand) in consolidated finance subsidiaries have been charged to cost of sales in order to achieve a more accurate presentation of operating results due to the separate segmentation of the financial services in the segment information in Note 13. In this connection, depreciation expense and others in selling, general and administrative expenses of ¥57,752 million and interest expenses of ¥23,796 million reported for the year ended March 31, 1999 were reclassified to cost of sales.

3. U.S. dollar amounts

The U.S. dollar amounts in the accompanying consolidated financial statements are included, solely for convenience, at ¥106.15 = U.S.\$1.00, the exchange rate prevailing on March 31, 2000. The translation should not be construed as a representation that the yen amounts represent or have been, or could be, converted into U.S. dollars at that or any other rate.

4. Accounts and loans receivable sold to others

The outstanding balances of notes and accounts receivable sold to others without recourse which have been deducted from the respective accounts amounted to ¥47,793 million (\$450,240 thousand) and ¥32,583million as of March 31, 2000 and 1999, respectively. Such amounts as deducted from short-term and long-term loans receivable were ¥226,400million (\$2,132,831 thousand) and ¥202,816million as of March 31, 2000 and 1999, respectively.

5. Inventories

Inventories at March 31, 2000 and 1999 consisted of the following:

	March 31,		
	2000	1999	2000
	(In millions of yen)		(In thousands of U.S. dollars)
Finished products	¥ 225,239	¥ 254,648	\$ 2,121,894
Raw materials	27,046	25,261	254,790
Work in process	89,157	100,786	839,915
	<u>¥ 341,443</u>	<u>¥ 380,696</u>	<u>\$ 3,216,609</u>

6. Property, plant and equipment

Property, plant and equipment at March 31, 2000 and 1999 consisted of the following:

	March 31,		
	2000	1999	2000
	(In millions of yen)		(In thousands of U.S. dollars)
Land	412,405	406,133	3,885,115
Buildings and structures	507,035	507,749	4,776,590
Machinery and equipment	1,658,419	1,684,322	15,623,354
Construction in progress	31,294	50,262	294,809
	<u>2,609,154</u>	<u>2,648,468</u>	<u>24,579,878</u>
Accumulated depreciation	<u>(1,389,868)</u>	<u>(1,336,164)</u>	<u>(13,093,434)</u>
Property, plant and equipment, net	1,219,286	1,312,303	11,486,444

7. Fair value of marketable securities and investments in securities

The estimated fair value of marketable securities and investment in securities were as follows:

	March 31, 2000					
	Carrying amount	Estimated fair value	Net Unrealized gain	Carrying amount	Estimated fair value	Net Unrealized gain
	(In millions of yen)			(In thousands of U.S. dollars)		
Marketable securities						
Equity securities	¥ 50,378	¥ 129,063	¥ 78,684	\$ 474,593	\$ 1,215,855	\$ 741,253
Others	2,109	2,109	-	19,868	19,868	-
Total marketable securities	¥ 52,488	¥ 131,172	¥ 78,684	\$ 494,470	\$ 1,235,723	\$ 741,253
Investments in securities						
Equity securities	¥ 18,548	¥ 35,162	¥ 16,614	\$ 174,734	\$ 331,248	\$ 156,514
Other	11,287	11,287	-	106,331	106,331	-
Total investment in securities	¥ 29,835	¥ 46,450	¥ 16,614	\$ 281,065	\$ 437,588	\$ 156,514

8. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 2000 and 1999 consisted of the following:

	March 31,		
	2000	1999	2000
	(In millions of yen)		(In thousands of U.S. dollars)
Loans, principally from banks	¥ 624,184	¥ 853,183	\$ 5,880,207
Commercial paper	24,637	74,090	232,096
	¥ 648,821	¥ 927,274	\$ 6,112,303

Long-term debt at March 31, 2000 and 1999 consisted of the following:

	March 31,		
	2000	1999	2000
	(In millions of yen)		(In thousands of U.S. dollars)
Loans, principally from banks and insurance companies due through 2022 at rates averaged 3.8%			
Secured	¥ 156,798	¥ 68,100	\$ 1,477,136
Unsecured	201,605	279,544	1,899,246
2.15% bonds due 2001	20,000	20,000	188,413
1.9% bonds due 2001	30,000	30,000	282,619
4.4% bonds due 2001	100	100	942
2.25% bonds due 2002	20,000	20,000	188,413
2.4% bonds due 2003	30,000	30,000	282,619
2.7% bonds due 2004	20,000	20,000	188,413
3.1% bonds due 2007	10,000	10,000	94,206
3.3% bonds due 2009	30,000	30,000	282,619
4.3% bonds with warrants due 1999	-	50,000	-
0.4% convertible bonds due 2003	81,275	89,760	765,662
Euro medium term notes due through 2003 at rates ranging from 3.1 % to 8.1%	224,681	197,174	2,116,637
	824,460	844,678	7,766,934
Less current portion	(223,580)	(233,498)	(2,106,265)
	¥ 600,879	¥ 611,179	\$ 5,660,659

The 0.4% unsecured convertible bonds due 2003 are convertible through March 28, 2003 into shares of common stock of MMC at ¥ 887 (\$ 8.36) per share. At March 31, 2000, if all the outstanding convertible bonds had been converted at the current conversion price, 91,629 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 are summarized as follows:

Year ending March 31,	(In millions of yen)	(In thousands of U.S. dollars)
2001	¥ 223,580	\$2,106,265
2002	147,322	1,387,866
2003	231,996	2,185,549
2004	79,864	752,369
2005	49,052	462,101
Thereafter	92,643	872,756
Total	<u>¥ 824,460</u>	<u>\$7,766,934</u>

Assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2000 and 1999 were as follows:

	March 31,		
	2000	1999	2000
	(In millions of yen)		(In thousands of U.S. dollars)
Notes receivable	¥ 49,318	¥ 71,388	\$ 464,607
Marketable securities	20,698	21,750	194,988
Property, plant and equipment, net	139,934	134,793	1,318,267
Others	4,202	760	39,585
	<u>¥ 214,154</u>	<u>¥ 228,692</u>	<u>\$ 2,017,466</u>

9. Pension assets

The aggregate assets of the pension funds of MMC and its domestic consolidated subsidiaries as of the most recent valuation date (March 31, 2000 or September 30, 1999) amounted to ¥ 45,320million (\$426,943 thousand).

10. Contingent liabilities

Notes discounted and notes endorsed in the ordinary course of business at March 31, 2000 amounted to ¥995million (\$9,374thousand) and ¥45million (\$424thousand), respectively.

Loans guaranteed and agreements similar to guarantees given in the ordinary course of business at March 31, 2000 amounted to ¥ 36,622million (\$ 345,002thousand) and ¥ 3,666million (\$34,536thousand), respectively.

a. Other income and expenses

Other income and expenses at March 31, 2000 and 1999 consisted of the following:

	Year ended March 31,		
	2000	1999	2000
	(In millions of yen)		(In thousands of U.S. dollars)
Gains on sales of marketable securities	¥ 13,572	¥ 602	\$ 127,857
Gains on sales and disposal of property, plant and equipment	4,268	23,441	40,207
Equity in profit in affiliates	9,132	569	86,029
Foreign exchange gain (loss)	(19,512)	2,115	(183,815)
Severance payment for early retirement	(9,094)	-	(85,671)
Settlement for litigation	-	(4,459)	-
Prior adjustment of severance payment	(3,767)	-	(35,488)
Others	(1,865)	(4,233)	(17,569)
	¥ (7,266)	¥ 18,035	\$ (68,450)

11. Income taxes

MMC and its domestic consolidated subsidiaries are subject to corporation, inhabitants' and enterprise taxes based on taxable income, which, in the aggregate, resulted in statutory tax rates of approximately 41.8% and 46.4% for the years ended March 31, 2000 and 1999, respectively. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation. The effective tax rates reflected in the accompanying consolidated statements of operations for the year ended March 31, 1999 differs from the statutory rates primarily because of the effect of timing differences in the recognition of certain income and expenses for tax and financial reporting purposes and the effects of permanently nondeductible expenses and tax credits.

The effective tax rate reflected in the consolidated statement of operations for the year ended March 31, 2000 differs from the statutory tax rate for the following reasons:

	(%)
Effective income tax rate for MMC	41.8
Loss at subsidiaries	(92.5)
Increase of valuation allowance	(83.9)
Equity in affiliates	30.2
Amortization of consolidation adjustment	(19.5)
Other	(5.0)
Actual ratio of income taxes against income before income taxes	(128.9)

Significant components of deferred tax assets and liabilities as of March 31, 2000 were as follows:

	March 31, 2000	
	(In millions of yen)	(In thousands of U.S. dollars)
Deferred tax assets		
Net operating loss carry forward	¥ 113,247	\$1,066,858
Accrued severance indemnities	8,858	83,448
Foreign income tax credit	8,631	81,309
Other temporary differences	28,766	270,994
Less valuation allowance on assets	(102,617)	(966,717)
Total deferred tax assets	<u>56,886</u>	<u>535,902</u>
Deferred tax liabilities		
Deferred taxable gain on sale of property	(21,053)	(198,332)
Revaluation on land	(19,575)	(184,409)
Depreciation	(17,939)	(168,997)
Other temporary differences	(1,878)	(17,692)
Total deferred tax liabilities	<u>(60,448)</u>	<u>(569,458)</u>
Net deferred tax liabilities	<u>¥ (3,561)</u>	<u>\$ (33,547)</u>

Deferred tax assets and liabilities at March 31, 2000 and 1999 are included in the consolidated balance sheets as follows:

	Year ended March 31,		
	2000	1999	2000
	(In millions of yen)		(In thousands of U.S. dollars)
Deferred income taxes	¥ 19,637	¥ 12,403	\$ 184,993
Long-term prepaid expenses and other	1,483	3	13,971
Other current liabilities	(30)	(59)	(283)
Deferred tax liabilities	(24,651)	(522)	(232,228)
Net deferred tax assets (liabilities)	<u>¥ (3,561)</u>	<u>¥ 11,825</u>	<u>\$ (33,547)</u>

12. Segment information
a. Business segments

The business segment information for MMC and its subsidiaries for the year ended March 31 is summarized as follows:

	Year ended March 31, 2000	
	(In millions of yen)	(In thousands of U.S. dollars)
Sales		
Automobile	¥3,262,403	\$30,733,895
Financial services	84,944	800,226
Total	3,347,348	31,534,131
Intersegment	(12,373)	(116,561)
Consolidated	<u>¥3,334,974</u>	<u>\$31,417,560</u>
Operating income		
Automobile	¥ 23,359	\$ 220,057
Financial services	476	4,484
Total	23,835	224,541
Intersegment	(1,362)	(12,831)
Consolidated	<u>¥ 22,473</u>	<u>\$ 211,710</u>
Total assets		
Automobile	¥2,442,870	\$23,013,377
Financial services	330,627	3,114,715
Total	2,773,497	26,128,092
Corporate and eliminations	10,621	100,057
Consolidated	<u>¥2,784,119</u>	<u>\$26,228,158</u>
Depreciation		
Automobile	¥ 106,665	\$ 1,004,852
Financial services	39,839	375,309
Consolidated	<u>¥ 146,504</u>	<u>\$ 1,380,160</u>
Capital expenditure		
Automobile	¥ 84,989	\$ 800,650
Financial services	134,597	1,267,989
Consolidated	<u>¥ 219,587</u>	<u>\$ 2,068,648</u>

b. Geographical segments

The geographical segment information for MMC and its subsidiaries for the year ended March 31, 2000 and 1999 is summarized as follows:

	Year ended March 31,		
	2000	1999	2000
	(In millions of yen)		(In thousands of U.S. dollars)
Sales			
Japan	¥2,459,363	¥2,675,860	\$23,168,752
North America	736,136	767,462	6,934,866
Europe	504,068	439,321	4,748,639
Asia	139,704	131,923	1,316,100
Others	245,577	295,900	2,313,490
Total	4,084,850	4,310,469	38,481,865
Interarea	(749,875)	(797,862)	(7,064,296)
Consolidated	¥3,334,974	¥3,512,606	\$31,417,560
Operating income			
Japan	¥ 2,760	¥ 7,829	\$ 26,001
North America	17,510	15,632	164,955
Europe	(1,763)	3,371	(16,609)
Asia	3,796	(3,685)	35,761
Others	(4,941)	4,446	(46,547)
Total	17,361	27,594	163,552
Interarea	5,111	4,553	48,149
Consolidated	¥ 22,473	¥ 32,147	\$ 211,710
Total assets			
Japan	¥2,166,061	¥2,213,368	\$20,405,662
North America	512,818	629,528	4,831,069
Europe	156,887	209,167	1,477,975
Asia	104,225	116,532	981,865
Others	106,352	137,534	1,001,903
Total	3,046,344	3,306,132	28,698,483
Interarea	(262,225)	(245,746)	(2,470,325)
Consolidated	¥2,784,119	¥3,060,385	\$26,228,158

As a result of the change in the method of accounting for certain expenses related to the consolidated finance subsidiaries as explained in Note 2, operating expenses for "North America" increased by ¥17,088 million (\$160,980 thousand) and ¥23,796 million and operating income decreased by the same amount for the years ended March 31, 2000 and 1999, respectively. "Japan" was only affected by changes other than the above in the method of accounting as explained in Notes 2.

Overseas sales, which include export sales of MMC and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the foreign consolidated subsidiaries for the years ended March 31, 2000 and 1999, are summarized as follows:

	Year ended March 31,		
	2000	1999	2000
	(In millions of yen)		(In thousands of U.S. dollars)
Japan	¥1,441,043	¥1,482,533	\$13,575,535
North America	765,327	796,758	7,209,863
Europe	518,306	516,524	4,882,770
Asia	238,975	230,295	2,251,295
Others	371,322	486,494	3,498,088
Total	¥3,334,974	¥3,512,606	\$31,417,560

13. Derivative financial instruments

MMC and its subsidiaries utilize derivative financial instruments for the purpose of hedging its exposure to adverse fluctuations in foreign currency exchange rates and interest rates such as forward exchange contract, currency swap, and interest rate swap in the normal course of business, but does not enter into such transactions for speculation or trading purposes.

MMC and its subsidiaries are exposed to credit loss in the event of nonperformance by the counterparties to the derivative financial instruments, but any such loss would not be material because the Company enters into 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 the Company's risk exposure in connection with derivative financial instruments.

Summarized below are the notional amounts and the estimated fair value of the derivative transactions outstanding at March 31, 2000:

	Notional amount	Fair value	Unrealized gain(loss)	Notional amount	Fair value	Unrealized gain(loss)
	(In millions of yen)			(In thousands of U.S. dollars)		
Forward foreign exchange contracts:						
Sell:						
US\$	¥ 15,207	¥ 15,210	¥ (2)	\$ 143,260	\$ 143,288	\$ (19)
£ stg	486	546	(59)	4,578	5,144	(556)
Options:						
Call options, sold						
US\$	4,139			38,992		
<Premium>	<83>	40	42	<782>	377	396
Put options, purchased:						
US\$	4,139			38,992		
<Premium>	<83>	187	104	<782>	1,762	980
Total			¥ 84			\$ 791

14. Leases

As lessee

MMC and its subsidiaries lease certain property, plant and equipment. For the years ended March 31, 2000 and 1999, finance lease transactions, except for agreements which stipulate transfer of the title of the assets to the lessee were as follows:

	March 31,		
	2000	1999	2000
	(In millions of yen)		(In thousands of U.S. dollars)
Finance lease obligations:			
Due within 1 year	¥ 24,560	¥ 25,631	\$ 231,371
Due after 1 year	49,191	46,443	463,410
Total	¥ 73,751	¥ 72,074	\$ 694,781

At March 31, 2000, the equivalent of the acquisition cost of finance lease transactions, except for agreements which stipulate transfer of the title of the assets to the lessee, amounted to ¥ 105,636million (\$ 995,158thousand) for tools and equipment and ¥ 27,626million (\$260,254thousand) for others. The total equivalent of the related net book value, which is less than the related accumulated depreciation of ¥79,587million (\$749,760thousand), was ¥ 53,675million (\$505,652thousand).

For the years ended March 31, 2000, lease payments for finance lease transactions, except for agreements which stipulate transfer of the title of the assets to the lessee, amounted to ¥30,799million (\$ 290,146thousand). The equivalent of the related depreciation and interest expense for the year ended March 31, 2000 amounted to ¥27,930million (\$263,118thousand) and ¥ 3,093million (\$29,138thousand), respectively.

Operating lease transactions entered into as lessee by MMC and its consolidated subsidiaries for the years ended March 31, 2000 and 1999 were as follows:

	March 31,		2000 (In thousands of U.S. dollars)
	2000 (In millions of yen)	1999 (In millions of yen)	
Future minimum lease expanses on operating leases:			
Due within 1 year	¥ 17,859	¥ 17,313	\$ 168,243
Due after 1 year	72,208	82,542	680,245
Total	<u>¥ 90,067</u>	<u>¥ 99,855</u>	<u>\$ 848,488</u>

As lessor

Operating lease transactions entered into as lessor by MMC and its consolidated subsidiaries for the years ended March 31, 2000 and 1999 were as follows:

	March 31,		2000 (In thousands of U.S. dollars)
	2000 (In millions of yen)	1999 (In millions of yen)	
Future minimum lease revenues from operating leases:			
Due within 1 year	¥ 47,974	¥ 47,276	\$ 451,945
Due after 1 year	61,178	56,531	576,335
Total	<u>¥109,152</u>	<u>¥103,808</u>	<u>\$ 1,028,281</u>

15. Supplemental disclosure of cash flow information

Cash paid for interest was ¥28,485 million, and cash paid for income taxes was ¥9,123 million for the year ended March 31, 2000.

Report of the independent public accountants

Century Ota Showa & Co.

Certified Public Accountants
Hibiya Kokusai Bldg.
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Chiyoda-ku, Tokyo 100-0011
C.P.O. Box 1196, Tokyo 100-8641

Phone: 03 3503-1100
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Report of Independent Certified Public Accountants

The Board of Directors
Mitsubishi Motors Corporation

We have examined the consolidated balance sheets of Mitsubishi Motors Corporation and consolidated subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, expressed in yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Mitsubishi Motors Corporation and consolidated subsidiaries at March 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period except for the changes, with which we concur, in the methods of accounting for certain marketable securities, accrued severance benefits for directors and certain operating expenses of finance subsidiaries as described in Note 2 to the consolidated financial statements.

As described in Note 1 to the consolidated financial statements, Mitsubishi Motors Corporation has adopted new accounting standards for consolidation, research and development costs and tax-effect accounting in the preparation of its consolidated financial statements for the year ended March 31, 2000.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2000 are presented solely for convenience. Our examination also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Century Ota Showa & Co.

June 27, 2000

The accompanying consolidated financial statements have been prepared from the accounts maintained by Mitsubishi Motors Corporation in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Corporate information

(As at March 31, 2000. Board members were newly elected on June 27, 2000)

Date of establishment

April 22, 1970

Paid in capital

¥ 150,730,455,000

Common stock

Issued and outstanding: 970,307,624 shares

Number of shareholders

38,611

Number of employees

25,846 ; (MMC)

Securities traded

All stock exchanges in Japan: Tokyo, Osaka, Nagoya, Kyoto, Fukuoka and Sapporo

Transfer agent and register

The Mitsubishi Trust & Banking Corporation
Nagatacho 2-11-1, Sanno Park Tower, Chiyoda-ku,
Tokyo 100-8212, Japan

Accounting auditor

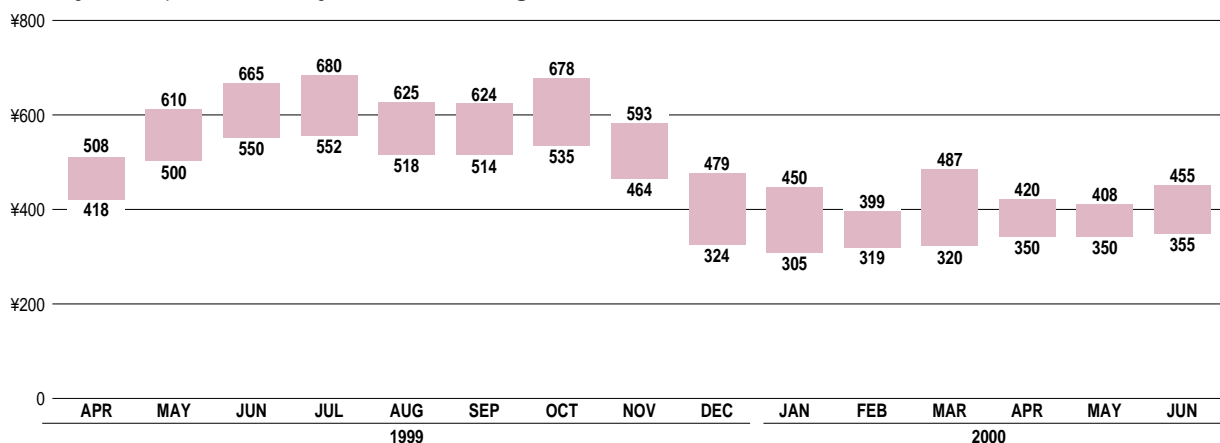
Century Ota Showa & Co.

Major shareholders

% of total

Mitsubishi Heavy Industries, Ltd.	22.66	Tamachi Building Corporation Ltd.	0.93
Mitsubishi Corporation	7.97	Nippon Life Insurance Company	0.82
Aktiebolaget Volvo	5.00	The Taiyo Mutual Life Insurance Company	0.77
The Bank of Tokyo Mitsubishi, Ltd.	4.43	State Street Bank & Trust Company	0.75
The Sumitomo Trust & Banking Co., Ltd. Trust Account	3.36	The Norinchukin Bank	0.72
The Mitsubishi Trust & Banking Corporation	3.00	Mitsubishi Estate Company, Limited	0.72
The Chase Manhattan Bank, NA London	2.31	Mitsubishi Electric Corporation	0.72
Meiji Life Insurance Company	2.06	Asahi Glass Co., Ltd.	0.72
Mitsubishi Jiko Employees Shareholding Association	2.01	Nippon Yusen Kabushiki Kaisha	0.72
The Tokio Marine & Fire Insurance Co., Ltd.	1.76	Deutsche Trust and Banking Corporation	0.72
The Mitsubishi Trust & Banking Corp., Trust Account	1.66	The Tokai Bank, Ltd.	0.71
Boston Safe Deposit BSDT Treaty Clients Omnibus	1.53	Shinsei Bank, Ltd.	0.67
Mitsubishi Jiko Torihikisaki Shareholding Association	1.17	(previously, The Long-Term Credit Bank of Japan, Ltd.)	
The Chase Manhattan Bank, NA London SL Omnibus Account	1.15	Mitsubishi Chemical Corporation	0.63
Mitsubishi Materials Corporation	0.93	Kirin Brewery Co, Ltd.	0.52
		Mitsubishi Heavy Industries America, Inc.	0.49

Monthly stock prices on Tokyo Stock Exchange



Board of directors and senior officers

Members of the board

Katsuhiko Kawasoe

President, CEO

Fumikazu Yokogawa

Executive Vice President, CFO

Takashi Sonobe

Senior Vice President

Senior Executive Officer

International Alliance Promotion Team

Yuhiko Kiyota

Senior Vice President

Senior Executive Officer

Office of Marketing Strategy

Yuzo Murata

CEO Mitsubishi Fuso Truck & Bus Co.

Steven A. Torok

International Alliance Promotion Team

Ulrich Walker

Office of Marketing Strategy

Manfred Bishoff

Member of the board, DaimlerChrysler

Takashi Nishioka

President, Mitsubishi Heavy Industries

Mikio Sasaki

President, Mitsubishi Corporation

Statutory auditors

Takahiko Tsuyuno

Yasutoshi Shizukawa

Tsuneo Wakai

Hiroshi Nanjo

Senior executive officers

Takashi Usami

Yoshisuke Kondo

Naomitsu Umino

Hirotohi Suzuki

Katsuhito Kato

Akio Hanawa

Kazumi Maeda

Motoaki Inukai

Kensaku Miyake

Junji Midorikawa

Alexandar Paufler

Atsushi Ueba

Offices and works

Head office

5-33-8, Shiba, Minato-ku, Tokyo 108-8410, Japan
Telephone: +81-3-3456-1111 Telefax: +81-3-5232-7731

Engineering centers

Passenger car

Car Research & Development Center

1, Nakashinkiri, Hashime-cho, Okazaki, Aichi 444-8501, Japan
Telephone: +81-564-31-3100

Tokachi Proving Ground

22-1, Osarushi, Otofuke-cho, Kato-gun, Hokkaido 080-0271, Japan
Telephone: +81-155-32-7111

Truck & bus

Truck & Bus Research & Development Center

10, Okura-cho, Nakahara-ku, Kawasaki, Kanagawa 211-8522, Japan
Telephone: +81-44-587-2000

Kitsuregawa Proving Ground

4300, Washijuku, Kitsuregawa-cho, Shioya-gun, Tochigi 329-1411, Japan
Telephone: +81-286-86-4711

Works

Passenger car

Nagoya Plant-Oye (Assembly)

2, Oye-cho, Minato-ku, Nagoya, Aichi 455-8501, Japan
Telephone: +81-52-611-9100

Nagoya Plant-Okazaki (Assembly)

1, 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

Kyoto Plant-Kyoto (Engines & Transmissions)

1, Uzumasa Tatsumi-cho, Ukyo-ku, Kyoto 616-8501, Japan
Telephone: +81-75-864-8000

Kyoto Plant-Shiga (Engines & Transmissions)

2-1, Kosunacho, Kosei-cho, Koga-gun, Shiga 520-3212, Japan
Telephone: +81-748-75-3131

Kyoto Plant-Yagi (CVT)

10-1, Yamada, Murohashi, Yagi-cho, Funai gun, Kyoto 629-0102, Japan
Telephone: +81-771-43-2200

Truck

Tokyo Plant-Kawasaki (Assembly)

10, Okura-cho, Nakahara-ku, Kawasaki, Kanagawa 211-8522, Japan
Telephone: +81-44-587-2000

Tokyo Plant-Maruko (Transmissions)

21-1, Shimomaruko 4-chome, Ohta-ku, Tokyo 146-0092, Japan
Telephone: +81-3-3757-7300

Tokyo Plant-Nakatsu (Transmissions, Cogwheel-related parts)

4001, Nakatsu Aza Sakuradai, Aikawa-cho, Aiko-gun, Kanagawa 243-0303, Japan
Telephone: +81-462-86-8111

The MMC group of companies

	Ownership (%)	Paid-in capital (millions)	Sales (billions)	Employees
Japan				
Mitsubishi Automotive Tecno-Metal Co.,Ltd.	100.00	¥ 1,940	¥ 22.37	767
Mitsubishi Automotive Bus Manufacturing Co.,Ltd.	100.00	¥ 900	¥ 28.66	817
Mitsubishi Motors Training Center Co.,Ltd.	100.00	¥ 750	¥ 1.37	137
PABCO Co.,Ltd.	100.00	¥ 600	¥ 22.71	597
Pajero Manufacturing Co.,Ltd.	66.59	¥ 610	¥ 34.85	1,284
Mitsubishi Automotive Tecno-Service Co.,Ltd.	100.00	¥ 400	¥ 14.54	547
Mitsubishi Automotive Engineering Co.,Ltd.	100.00	¥ 450	¥ 35.43	2,124
Mitsubishi Automotive Logistics Co.,Ltd.	75.00	¥ 300	¥ 43.46	303
Hokkaido Mitsubishi Motor Sales Co.	100.00	¥ 1,750	¥ 19,832	438
Tokyo Mitsubishi Motor Sales Co.	100.00	¥ 2,800	¥ 15,568	372
Nishi-Tokyo Mitsubishi Motor Sales Co.	100.00	¥ 1,700	¥ 13,576	351
Tokyo-Kita Mitsubishi Motor Sales Co.	100.00	¥ 1,800	¥ 9,985	235
Hokkaido Mitsubishi Fuso Sales Co.	100.00	¥ 1,410	¥ 30,428	570
Tokyo Mitsubishi Fuso Sales Co.	100.00	¥ 3,000	¥ 56,487	945
Osaka Mitsubishi Fuso Sales Co.	100.00	¥ 1,010	¥ 34,400	597
Hiroshima Mitsubishi Fuso Sales Co.	100.00	¥ 1,350	¥ 20,874	308
Kyushu Mitsubishi Fuso Sales Co.	100.00	¥ 1,620	¥ 26,105	475
Overseas				
• U.S.A				
Mitsubishi Motor Manufacturing of America, Inc.	97.12	USD 6.94	USD 2.481	3,142
Mitsubishi Motor Sales of America, Inc.	97.20	USD 72.75	USD 5.590	1,047
Mitsubishi Motors America, Inc.	100.00	USD 5.7	USD 0.051	133
Mitsubishi Motor Sales of Caribbean, Inc.	100.00	USD 13.5	USD 0.514	105
• The Netherlands				
Mitsubishi Motors Europe B.V.	100.00	NLG 117	NLG 0.002	1,079
Mitsubishi Motor Sales Europe B.V.	82.00	NLG 3.5	NLG 8.364	273
Netherlands Car B.V.	35.00	NLG 551	NLG 6.865	6,268
• Portugal				
Mitsubishi Trucks Europe, S.A.	99.00	PTE 1,500	PTE 0.356	362
• Thailand				
MMC Sittipol Co., Ltd.	99.00	BAHT 20	BAHT 36.7	3,318
• The Philippines				
Mitsubishi Motors Philippines Corp.	51.00	PHP 1,640	PHP 10.934	1,805
• Indonesia				
P.T. Mitsubishi Krama Yudha Motors and Manufacturing	32.30	IDR 11,451	IDR 572.3	529
• Australia				
Mitsubishi Motors Australia, Ltd.	60.00	AUD 107	AUD 2.24	4,137

Financial summary

Consolidated summary

Mitsubishi Motors Corporation and its Consolidated Subsidiaries.

	1991	1992	1993	1994
	(in millions of yen)			
Years ended March 31				
Net Sales	¥ 2,797,770	¥ 3,087,136	¥ 3,180,430	¥ 2,946,932
Operating income	89,725	86,802	77,091	40,758
Income (loss) before tax	52,720	57,530	55,415	18,992
Net income (loss)	25,852	29,514	25,832	5,584
Per share of common stock (in yen):				
Net income (loss):	(in yen)			
Basic	¥ 30.28	¥ 34.56	¥ 30.25	¥ 6.54
Fully diluted	—	—	—	—
Cash dividends	6.50	7.00	7.00	7.00
At March 31				
	(in millions of yen)			
Total assets	¥ 2,039,608	¥ 2,284,928	¥ 2,388,753	¥ 2,414,829
Stockholders' equity	357,672	382,260	401,475	408,483

Note 1 : U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥106.15=U.S. \$1, the exchange rate prevailing on March 31, 2000.

Note 2 : Certain amounts previously reported have been reclassified to conform to the current year. The principal reclassification are detailed in 1 (o) of Notes the Consolidated Statements.

Note 3 : Fully diluted net income per share for the year ended March 1998 and March 2000 is not available due to the loss for the period.

Non-consolidated summary

Mitsubishi Motors Corporation

	1991	1992	1993	1994
	(in millions of yen)			
Years ended March 31				
Net Sales	¥ 2,313,636	¥ 2,554,055	¥ 2,615,959	¥ 2,455,928
Operating income (loss)	65,822	56,186	57,493	40,085
Income (loss) before tax	44,008	43,223	39,432	26,652
Net income (loss)	25,208	27,023	20,232	15,952
Per share of common stock (in yen):				
Net income (loss):	(in yen)			
Basic	¥ 29.52	¥ 31.65	¥ 23.69	¥ 18.68
Fully diluted	—	—	—	—
Cash dividends	6.50	7.00	7.00	7.00
At March 31				
	(in millions of yen)			
Total assets	¥ 1,554,119	¥ 1,667,680	¥ 1,731,985	¥ 1,636,646
Stockholders' equity	344,135	365,041	379,140	388,959

Note 1 : U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥106.15=U.S. \$1, the exchange rate prevailing on March 31, 2000.

1995	1996	1997	1998	1999	2000	2000
(in millions of yen)						(in thousands of U.S. dollars)
¥ 3,414,133	¥ 3,537,018	¥ 3,672,085	¥ 3,735,228	¥ 3,512,606	¥ 3,334,974	\$ 31,417,560
95,912	71,911	45,660	(1,301)	32,147	22,473	211,710
50,086	24,208	13,968	(91,113)	11,783	(12,651)	(119,180)
12,615	12,736	11,599	(101,846)	5,668	(23,331)	(219,793)
(in yen)						(in U.S. dollars)
¥ 13.70	¥ 13.84	¥ 12.59	¥ (110.49)	¥ 6.15	¥ (24.87)	\$ (0.23)
–	13.72	11.34	–	5.93	–	–
7.00	7.00	7.00	3.50	–	–	–
(in millions of yen)						(in thousands of U.S. dollars)
¥ 2,826,446	¥ 3,007,736	¥ 3,233,239	¥ 3,370,526	¥ 3,060,385	¥ 2,784,119	\$ 26,228,158
479,174	483,268	486,457	349,747	353,613	347,363	3,272,379
1995	1996	1997	1998	1999	2000	2000
(in millions of yen)						(in thousands of U.S. dollars)
¥ 2,652,517	¥ 2,522,559	¥ 2,585,940	¥ 2,500,614	¥ 2,333,971	¥ 2,106,522	\$ 19,844,767
67,745	62,359	57,148	(15,512)	21,750	13,435	126,566
42,526	20,468	20,367	(25,556)	22,198	269	2,534
18,826	20,468	15,067	(25,656)	22,138	515	4,851
(in yen)						(in U.S. dollars)
¥ 20.45	¥ 22.24	¥ 16.36	¥ (27.83)	¥ 24.02	¥ 0.55	\$ 0.01
–	22.04	14.68	–	22.03	–	0.01
7.00	7.00	7.00	3.50	–	–	–
(in millions of yen)						(in thousands of U.S. dollars)
¥ 1,669,599	¥ 1,637,038	¥ 1,705,910	¥ 1,724,254	¥ 1,637,233	¥ 1,599,373	\$ 15,067,103
453,864	467,734	477,308	445,032	467,171	503,453	4,742,845



Named "Best Disclosure Company in Auto Sector 1999" by The Security Analysts Association of Japan (SAAJ)



Named "Best IR Company 1999" by Japan Investor Relations Association (JIRA)



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