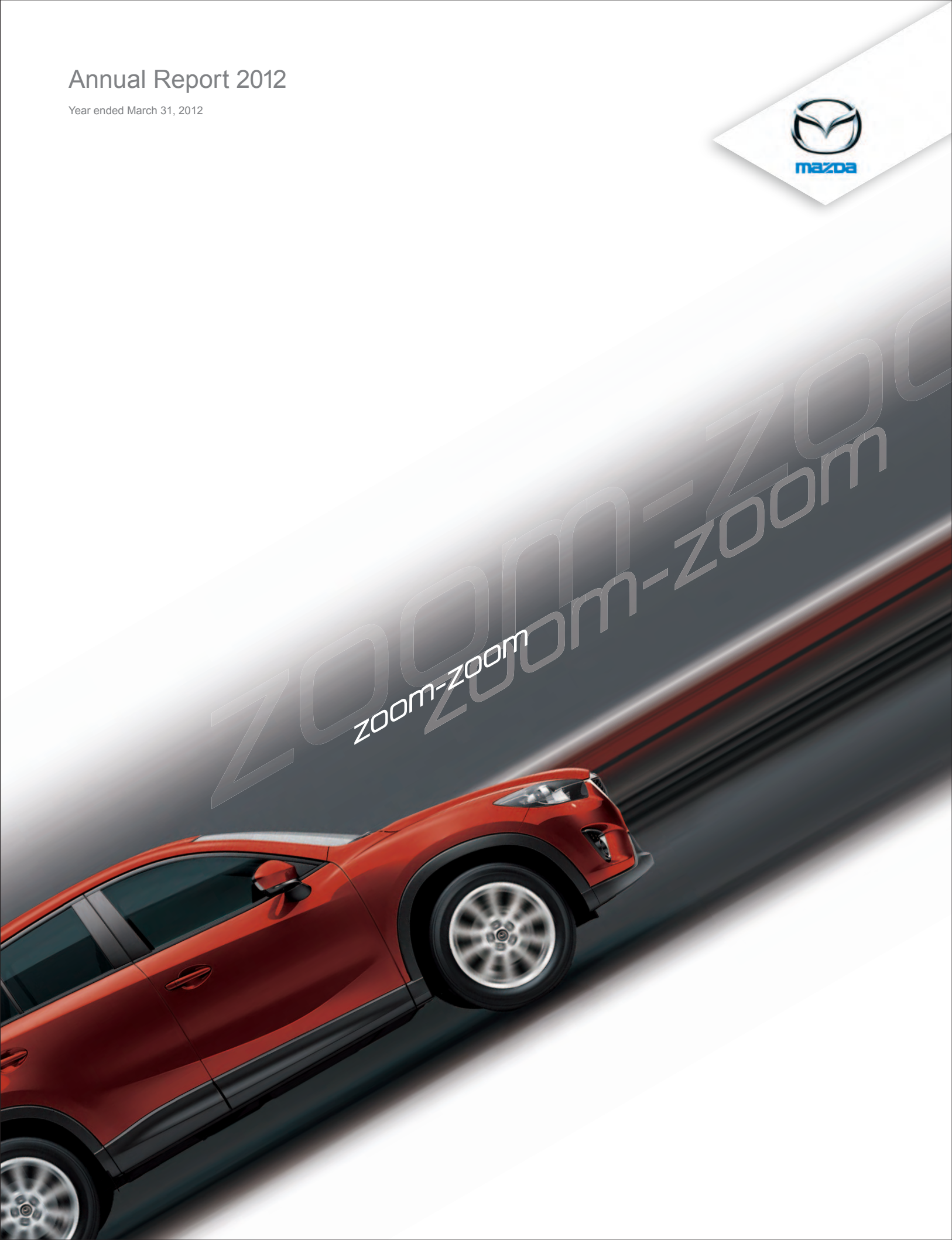
Annual Report 2012

Year ended March 31, 2012



CORPORATE VISION

VISION

To create new value, excite and delight our customers through the best automotive products and services.

MISSION

With passion, pride and speed, we actively communicate with our customers to deliver insightful automotive products and services that exceed their expectations.

VALUE

We value integrity, customer focus, creativity, and efficient and nimble actions and respect highly motivated people and team spirit. We positively support environmental matters, safety and society. Guided by these values, we provide superior rewards to all people associated with Mazda.

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Forward-Looking Statements

Statements made in this Annual Report with respect to Mazda's plans, strategies, and future performance are forward-looking statements based on management's assumptions and beliefs in the light of information currently available, and involve risks and uncertainties. Potential risks and uncertainties include, but are not limited to, sudden changes in general economic conditions in Mazda's markets and operating environment; exchange rates, particularly the yen against the U.S. dollar and the euro; the ability of Mazda and its subsidiaries to develop and introduce products that incorporate new technology in a timely manner and to manufacture them in a cost effective way; and fluctuations in stock markets. Accordingly, actual results could differ materially from those contained in any forward-looking statements.

MAZDA'S KEYWORDS

ZOOM-ZOOM

Since launching the first Mazda6 in 2002, Mazda has used the term Zoom-Zoom (emotional sensation of movement experienced as a child) as a global message to clearly express the Mazda brand DNA.

SUSTAINABLE ZOOM-ZOOM

Mazda announced its long-term vision for technological development in March 2007. Mazda plans to improve the average fuel economy of all Mazda vehicles sold worldwide 30% by 2015, compared with the 2008 levels.

BUILDING BLOCK STRATEGY

Mazda is pursuing a Building Block Strategy, which involves first prioritizing improvements in the "base technologies" for a car's basic performance, followed by the introduction in stages of electric devices like regenerative braking systems and hybrid systems. Rather than to rely significantly on a limited number of environmentally friendly vehicles, Mazda's approach is to effectively reduce overall CO_2 emissions by providing all customers with driving pleasure and outstanding environmental and safety performance.

SKYACTIV TECHNOLOGY

Mazda's proprietary, next-generation technology, being developed in line with its Building Block Strategy, is in a class of its own. SKYACTIV is our general term for revolutionary, next-generation technologies that present new dimensions in driving pleasure and outstanding environmental and safety performance.

KODO (SOUL OF MOTION) DESIGN THEME

KODO refers to the strength and beauty shown by living things at the instant between motionlessness and action, and is what Mazda seeks in its new design theme. The new Mazda CX-5 is the first model to fully incorporate this concept.

Consolidated Financial Highlights

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31

HIGHLIGHTS

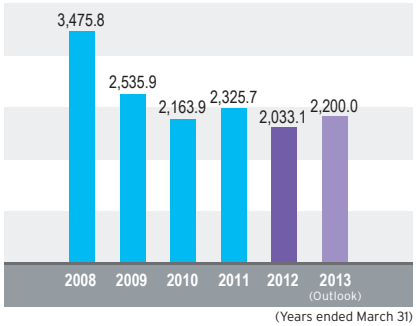
- Net sales declined 13%, to ¥2,033.1 billion, with a ¥62.6 billion decrease in operating income, to a ¥38.7 billion operating loss, reflecting the yen's appreciation combined with lower production and sales volumes.
- A net loss of ¥107.7 billion was recorded as a result of impairment losses, loss on disaster from the Great East Japan Earthquake, restructuring expenses, and a write-off of deferred tax assets.
- After hitting bottom in the third quarter, a profit was achieved at all levels due to higher unit sales and the effects of cost improvements.
- Despite strong sales in North America and the ASEAN region, economic uncertainty in Europe, the impact from the Great East Japan Earthquake, and declines in exports from the flooding in Thailand resulted in a 2% decline in global sales volume, to 1,247,000 units.
- The Group took steps to secure the funds needed for growth and strengthen its financial position through a public offering of shares and a subordinated loan.

	Millions of yen					Thousands of U.S. dollars*1
For the year	2008	2009	2010	2011*7	**2012**	**2012**
Net sales	¥3,475,789	¥2,535,902	¥2,163,949	¥2,325,689	**¥2,033,058**	**$24,793,390**
Operating income (loss)	162,147	(28,381)	9,458	23,835	**(38,718)**	**(472,171)**
Income (loss) before income taxes	143,117	(51,339)	(7,265)	16,081	**(55,262)**	**(673,927)**
Net income (loss)	91,835	(71,489)	(6,478)	(60,042)	**(107,733)**	**(1,313,817)**
Capital expenditures	75,518	81,838	29,837	44,722	**78,040**	**951,707**
Depreciation and amortization	74,217	84,043	76,428	71,576	**68,791**	**838,915**
Research and development costs	114,400	95,967	85,206	90,961	**91,716**	**1,118,488**
Free cash flow*2	10,209	(129,244)	67,394	1,627	**(79,415)**	**(968,475)**
At the year-end						
Total assets	¥1,985,566	¥1,800,981	¥1,947,769	¥1,771,767	**¥1,915,943**	**$23,365,159**
Equity	554,154	414,731	509,815	430,539	**474,429**	**5,785,720**
Financial debt	504,979	753,355	722,128	693,000	**778,085**	**9,488,841**
Net financial debt	281,085	532,631	375,825	370,151	**300,778**	**3,668,024**
Cash and cash equivalents	223,894	220,724	346,303	322,849	**477,307**	**5,820,817**
Amounts per share of common stock	Yen					U.S. dollars*1
Net income (loss)*3	¥ 65.21	¥ (52.13)	¥ (4.26)	¥ (33.92)	**¥ (57.80)**	**$(0.70)**
Cash dividends applicable to the year*4	6.00	3.00	3.00	—	**—**	**—**
Equity*5	391.82	314.98	286.92	242.24	**156.85**	**1.91**
Management indexes	%					
Return on assets (ROA)	4.7	(3.8)	(0.3)	(3.2)	**(5.8)**	
Return on equity (ROE)*6	17.9	(14.8)	(1.4)	(12.8)	**(24.0)**	
Equity ratio*6	27.8	22.9	26.1	24.2	**26.3*8**	
Net debt-to-equity ratio*6	50.9	128.9	74.0	86.3	**52.7*8**	( ) indicates minus

Notes: *1. The translation of the Japanese yen amounts into U.S. dollars is presented solely for the convenience of readers, using the prevailing exchange rate on March 31, 2012, of ¥82 to US$1.
*2. Free cash flow represents the sum of net cash flows from operating activities and from investing activities.
*3. The computations of net income (loss) per share of common stock are based on the weighted-average number of shares outstanding during each fiscal year.
*4. Cash dividends per share represent actual amounts applicable to the respective year.
*5. The amounts of equity used in the calculation of equity per share exclude minority interests and stock acquisition rights.
*6. The amounts of equity exclude minority interests and stock acquisition rights.
*7. Results information for the fiscal year March 2011 includes 15-month results for certain overseas subsidiaries that changed their fiscal year-end.
*8. Ratio after taking into account the capital nature of the subordinated loan. This subordinated loan is recognized by Rating and Investment Information, Inc., as having a 50% capital equivalence. Not including the equity capital attributes of the subordinated loan, the shareholders' equity ratio was 24.5% and the ratio of net interest bearing debt to shareholders' equity was 64.2%.

Net Sales

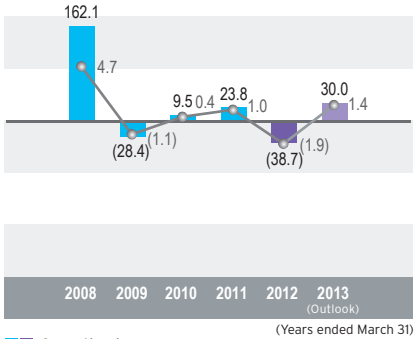
Billions of yen



(Years ended March 31)

Operating Income/ Operating Income Margin

Billions of yen/%

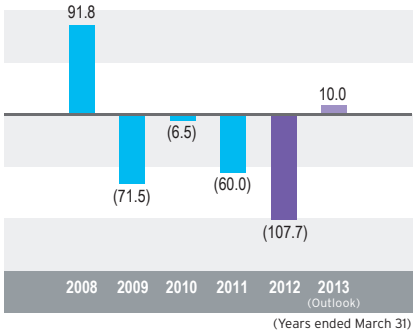


(Years ended March 31)

Operating income
Operating income margin

Net Income

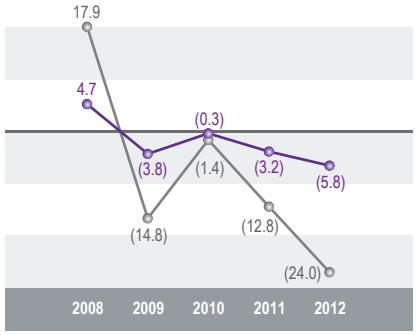
Billions of yen



(Years ended March 31)

ROE/ROA

%

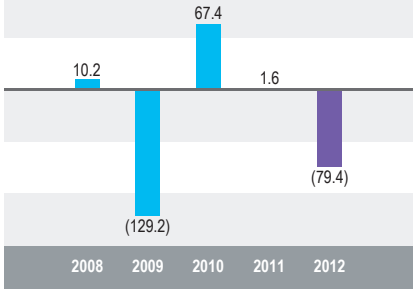


(Years ended March 31)

ROE
ROA

Free Cash Flow

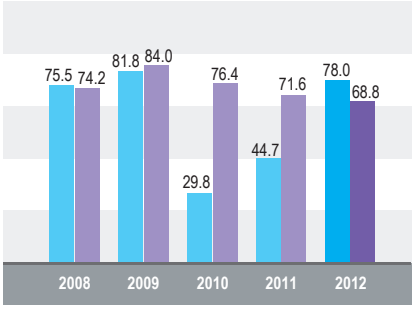
Billions of yen



(Years ended March 31)

Capital Expenditures/ Depreciation and Amortization

Billions of yen

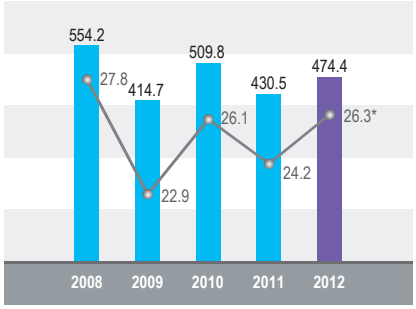


(Years ended March 31)

Capital expenditures
Depreciation and amortization

Equity/Equity Ratio

Billions of yen/%



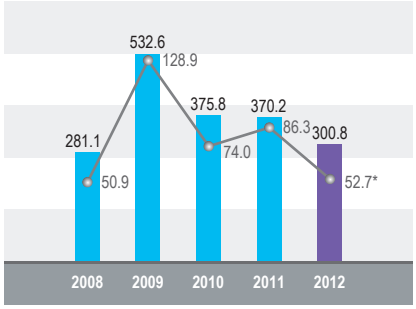
(As of March 31)

Equity
Equity ratio

* Ratios after the recognition of equity capital attributes of the subordinated loan.

Net Financial Debt/ Net Debt-to-equity Ratio

Billions of yen/%



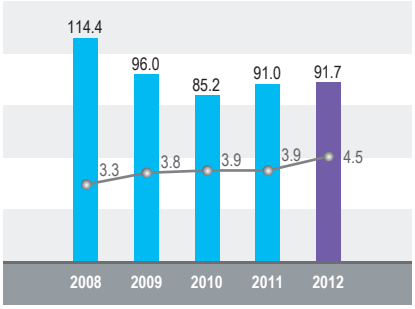
(As of March 31)

Net financial debt
Net debt-to-equity ratio

* Ratios after the recognition of equity capital attributes of the subordinated loan.

Research and Development Costs/ Share of Net Sales

Billions of yen/%

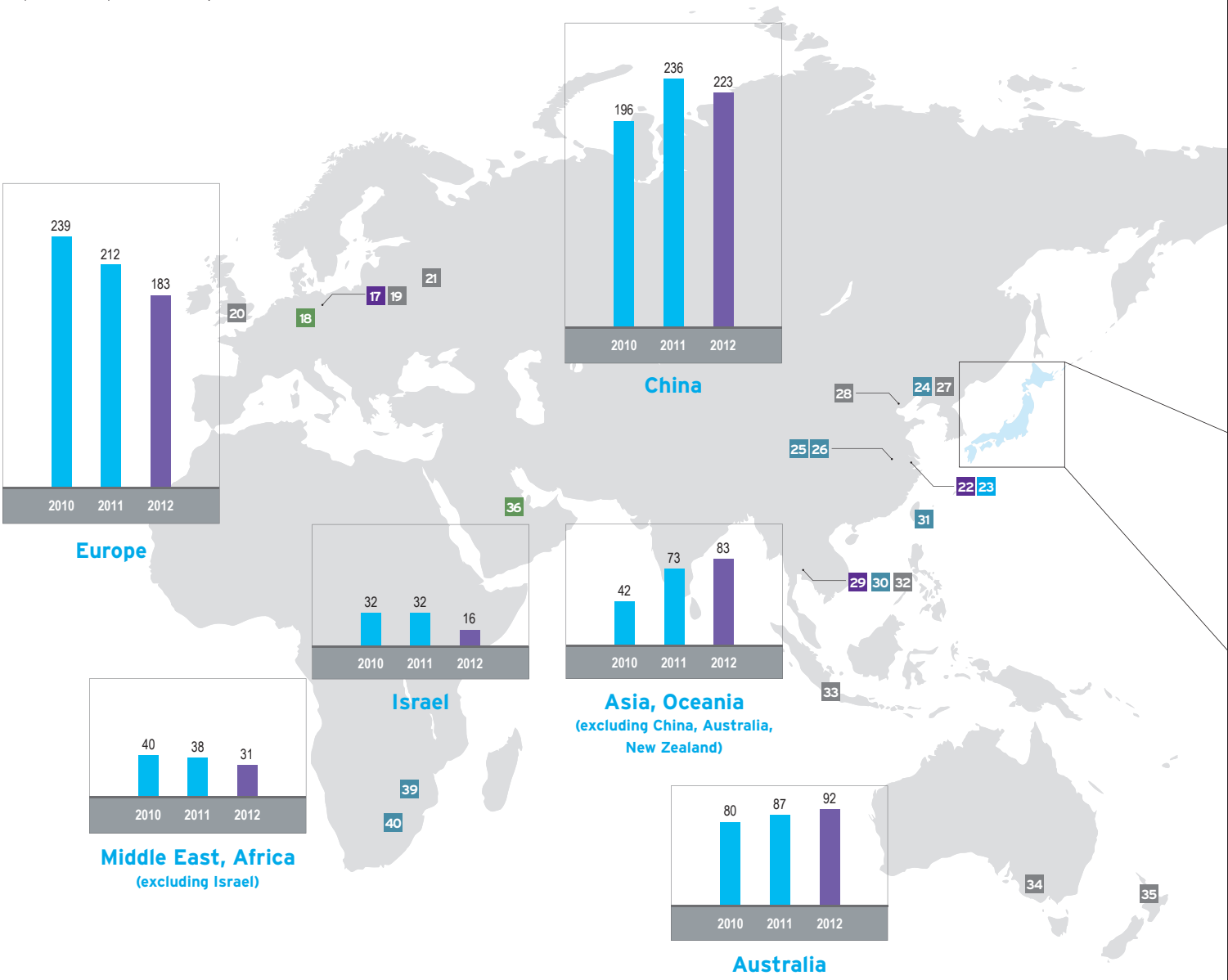


(Years ended March 31)

Research and development costs
Share of net sales

Global Network

Years ended March 31
Graphs on the map are unit sales by market (Thousands of units)



Major Facilities

Japan

(Number of dealerships: 1,080)

Headquarters	1 Headquarters
R&D	2 Headquarters R&D Divisions
	3 Mazda R&D Center (Yokohama)
	4 Miyoshi Proving Ground
	5 Mine Proving Ground
	6 Hokkaido Kenbuchi Proving Ground
	7 Hokkaido Nakasatsunai Proving Ground
Production facilities	8 Hiroshima Plant
	9 Hofu Plant
	10 Miyoshi Plant
	11 Press Kogyo Onomichi Plant*

North America

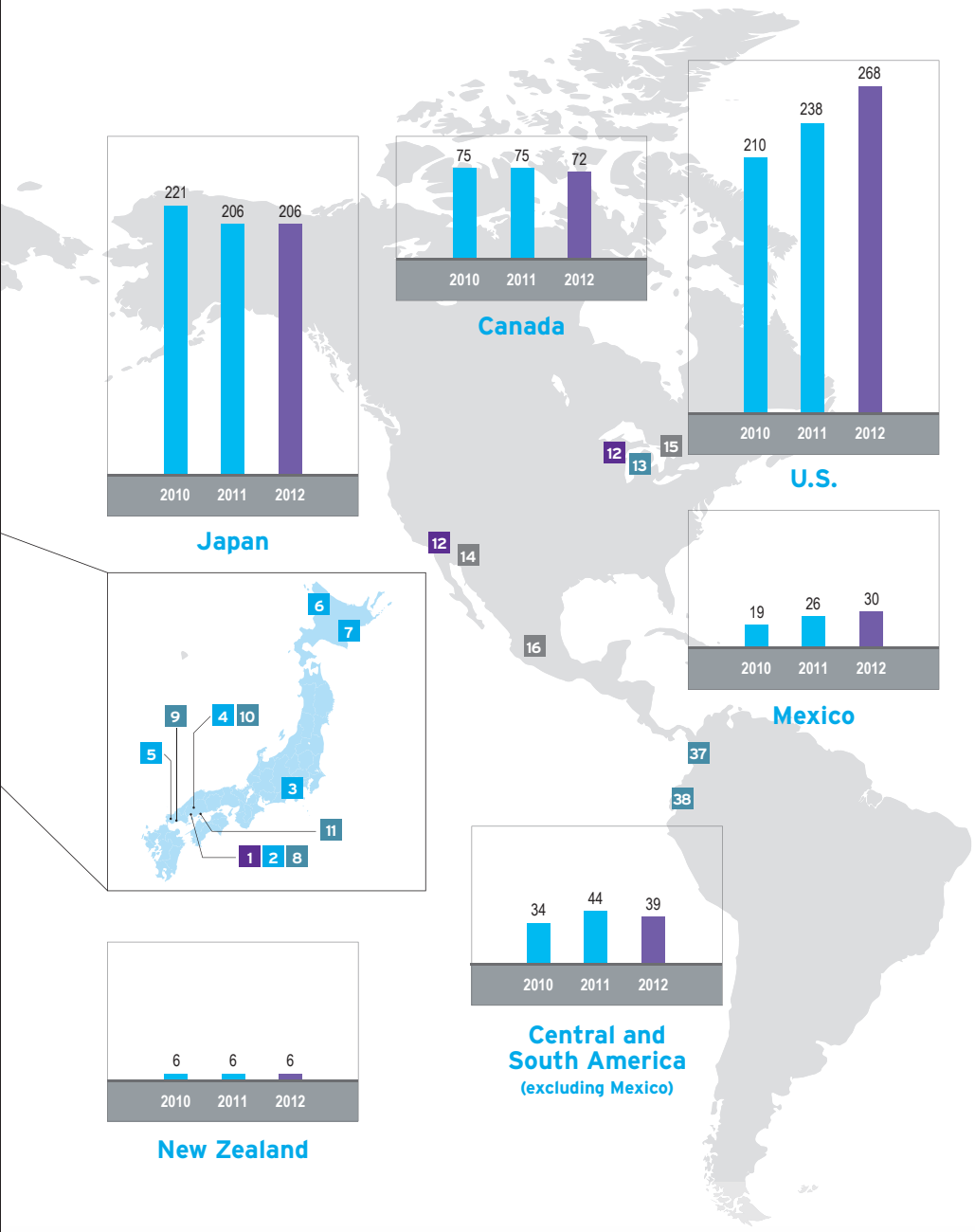
(Number of dealerships: 832)

Regional headquarters /R&D	12 Mazda North American Operations
Production facilities	13 AutoAlliance International
Distributors	14 Mazda Motor of America
	15 Mazda Canada
	16 Mazda Motor de Mexico

Europe

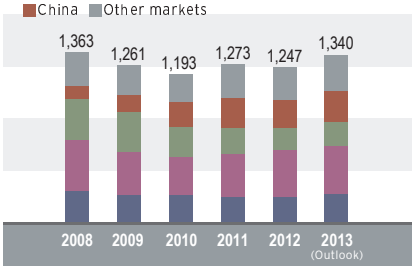
(Number of dealerships: 2,192)

Regional headquarters /R&D	17 Mazda Motor Europe / European R&D Centre
Logistics/Sales	18 Mazda Motor Logistics Europe
Distributors	19 Mazda Motors (Deutschland)
	20 Mazda Motors UK
	21 Mazda Motor Russia
	19 others in major markets



Sales Trend by Major Markets

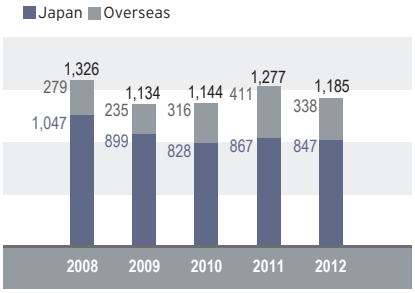
Thousands of units



(Years ended March 31)

Trend in Production Volume

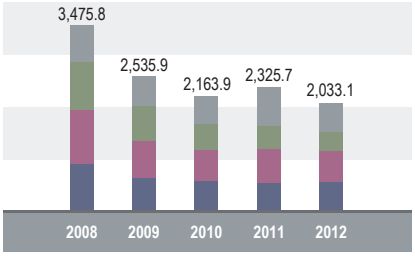
Thousands of units



(Years ended March 31)

Consolidated Net Sales by Region

Billions of yen



(Years ended March 31)

China

(Number of dealerships: 365)

Regional headquarters	22 Mazda Motor (China) (MCO)
R&D	23 MCO China Engineering Support Center
Production facilities	24 FAW Car*
	25 Changan Ford Mazda Automobile (Nanjing Company)
	26 Changan Ford Mazda Engine
Distributors	27 FAW Mazda Motor Sales
	28 Changan Ford Mazda Automobile Sales

Asia, Oceania

(Number of dealerships: 479)

Regional headquarters	29 Mazda South East Asia
Production facilities	30 AutoAlliance (Thailand)
	31 Ford Lio Ho Motor*
Distributors	32 Mazda Sales (Thailand)
	33 PT. Mazda Motor Indonesia
	34 Mazda Australia
	35 Mazda Motors of New Zealand

Central and South America, Middle East, Africa

(Number of dealerships: 646)

Sales and service for dealers	36 Mazda Representative Office (Middle East)
Production facilities/ Distributors	37 Compania Colombiana Automotriz
Production facilities	38 Manufacturas, Armadurias y Repuestos Equatorianos*
	39 Willowvale Mazda Motor Industries
	40 Ford Motor Company of Southern Africa*

(As of December 31, 2011)

* Consignment production facilities

To Shareholders and Investors

I would like to express my gratitude to shareholders and other investors, and all of the Mazda Group's stakeholders, including customers, suppliers, and local communities for your continued support and understanding.

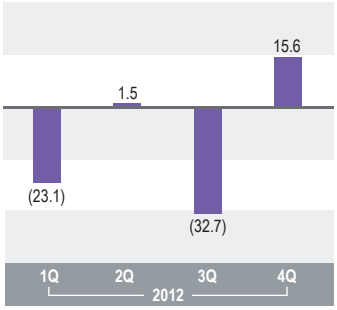
In February 2012, we announced a Structural Reform Plan to strengthen our Framework for Medium- and Long-Term Initiatives.

Takashi Yamanouchi
Representative Director, Chairman of the Board, President and CEO

Review of the Fiscal Year March 2012

Although we recorded a loss, due primarily to an adverse external environment exacerbated by the yen's appreciation to a record-breaking high level, results bottomed out in the third quarter and we achieved profitability at all levels in the fourth quarter

Operating Income (Loss)
Billions of yen



(Year ended March 31)

During the fiscal year March 2012, we experienced a succession of once-in-a-generation events, with operations halted as a result of the unprecedented damage from the Great East Japan Earthquake, summer electrical power shortages, the European financial crisis, a record-breaking strong yen, and flooding in Thailand.

In terms of financial results, the combination of the yen's appreciation against major currencies and declines in production and sales volumes led to a ¥292.6 billion (13%) decline in net sales, to ¥2,033.1 billion. Operating income declined ¥62.6 billion, to a ¥38.7 billion loss, from changes in volumes and the model mix, and the strong yen. In addition, with asset impairment expenses, loss on disaster from the earthquake, restructuring expenses, and a write-off of deferred tax assets, the net loss widened ¥47.7 billion, to ¥107.7 billion. In terms of quarterly profits, after bottoming out in the third quarter, we achieved profitability at all levels in the fourth quarter.

Despite this adverse operating environment, we implemented a variety of measures that yielded significant results in the year.

On the product side, the new Mazda Demio (overseas name: Mazda2) and Mazda Axela (overseas name: Mazda3) with SKYACTIV technology were well received for their overall craftsmanship and SKYACTIV features. SKYACTIV technology is highly valued and has already won 29 awards and continues to do so. For example, the new Demio won the Car of the Year Japan Special Award and the 2011 Nikkei Superior Products and Services Awards for Excellence. SKYACTIV engine was named the 2012 Automotive Researchers' and Journalists' Conference of Japan (RJC) Technology of the Year. The new Mazda CX-5 crossover SUV was named a Top Safety Pick for 2012, the highest possible safety rating, by the U.S. Insurance Institute for Highway Safety (IIHS). The new Mazda CX-5 has been highly evaluated in the media. For example, the CX-5 was named the Crossover of the Year by Autobytel, and was rated No. 1 for drive by *Auto Bild*, a leading German automotive magazine. We have also had a lot of success in raising brand value, including a Mazda car being recognized for having the Highest Residual Value for the third consecutive year in the United States.

In terms of sales, global sales volume was lower than in the previous year because of the cooling of the European market and the earthquake in Japan, but we gained record market shares in the United States, Mexico, Australia, Thailand, Indonesia, and Malaysia.

Our plans to increase overseas production capacity are also proceeding on track. We have begun construction of a new plant in Mexico and commenced local assembly in the ASEAN market. Our Medium- and Long-Term Initiatives based on Monotsukuri Innovation and Tsunagari Innovation are also showing steady progress.

During the fiscal year March 2012, in implementing the Structural Reform Plan, we simultaneously carried out a capital increase by means of a public offering and a subordinated loan from our main financial institutions so that we may realize a future of steady growth and profitability even in an environment with a strong yen. By performing these, we were able to strengthen our financial base to secure the funds for growth, including the future strategic investment in the establishment of global production systems and next-generation environmental and safety technologies and to cope with changes in the business environment. We aim to achieve medium- and long-term growth through the implementation of Structural Reform Plan to strengthen the "Framework for Medium- and Long-Term Initiatives," and through the establishment of a solid financial foundation.

Forecast for the Fiscal Year March 2013

We will swiftly and steadily implement the Structural Reform Plan to achieve profitability at all levels

The adverse operating environment appears set to continue in the fiscal year March 2013, but we are responding with swift and steady action. Specifically, based on the Structural Reform Plan to strengthen the Framework for Medium- and Long-Term Initiatives, we are accelerating initiatives in various areas and leveraging SKYACTIV technology for a complete "business transformation" throughout the entire value chain, from development and procurement to manufacturing, sales, and service.

With the protracted problems of the yen's appreciation and the European sovereign debt crisis, the outlook for economic trends in emerging markets and the overall operating environment remains unclear. Nevertheless, we are aiming for profitability at all levels through the steady implementation of the Structural Reform Plan.

For the fiscal year March 2013, we are forecasting a 7% increase in global sales volume, to 134 million units. By market, this breaks down as a 9% increase to 225,000 units in Japan, a 5% increase to 390,000 units in North America, a 1% increase to 185,000 units in Europe, a 15% increase to 255,000 units in China, and an 8% increase to 285,000 units in other markets. Our exchange rate assumptions are ¥80/US$ and ¥105/euro. In terms of full-year consolidated earnings, we are forecasting an 8% increase in net sales to ¥2,200 billion, with operating income of ¥30 billion and net income of ¥10 billion.

Structural Reform Plan

We will continue to move forward by pursuing four principal measures

Next, I would like to explain the Structural Reform Plan, focusing on the plan's four principal measures.

The first is "Business Innovation through SKYACTIV TECHNOLOGY." The new CX-5 is our first product fully equipped with SKYACTIV technology, and is further enhancing Mazda's brand value. Leveraging this favorable reception, we are aiming to achieve sales without discounting and to strengthen our service structure. Our plan for the fiscal year March 2013 is to have 30% of our cars equipped with SKYACTIV technology, and we aim to raise this to at least 80% over the four years to the fiscal year March 2016 by introducing eight models that are fully equipped with SKYACTIV technology. In the fiscal year March 2013, we will introduce a new Mazda Atenza (overseas name: Mazda6) equipped with the "i-ELOOP" regenerative braking system that improves fuel economy in real-world driving conditions. We also plan to launch a SKYACTIV-equipped hybrid vehicle in the fiscal year March 2014.

The second measure is to "Accelerate further cost improvement through Monotsukuri Innovation." Our group of next-generation products, beginning with the new CX-5, is expected to achieve initial cost targets, but in light of subsequent changes in the operating environment, we are aiming for additional cost reductions by raising our target for improvement in the area of vehicle costs from 20% to 30%. In addition, we will look beyond vehicle costs alone and endeavor to reduce fixed costs. We have already begun work to make investment in development and production more efficient, improve administrative operations efficiency, reduce staffing levels while developing staff capabilities, strategically shift domestic indirect employees to overseas and front line, and make operations in Europe and North America more efficient.

The third measure is to "Reinforce business in emerging countries and establish global production footprints." Reviewing our production structure and bringing the percentage of overseas production to 50% of total production are important components of the Structural Reform Plan. We have identified China, Russia, ASEAN, and Central and South America as the main markets for these activities. We already have a production structure in place in China, and are expanding our sales network and product lineup, and strengthening customer satisfaction, with a view to annual sales of 400,000 units. In Russia, we have concluded an agreement with Sollers to establish a joint-venture manufacturing company, and we plan to begin production from the fall of 2012. We intend to expand our sales network throughout the ASEAN region, along with increasing our truck production capacity in Thailand. In Central and South America, plans for production in Mexico are proceeding on track. In addition to strong sales in Mexico and Chile, we are considering entering the remaining three-million-unit-market, Brazil.

One of our assumptions in increasing overseas production is that this will simultaneously reduce costs and promote additional sales. At the same time, we plan to maintain domestic production at the 850,000 unit level, but this assumes that we will step up our efforts to create a cost structure that can generate profit in all of the more than 100 countries to which we export from Japan, even at current exchange rate levels, as we were able to achieve with the new CX-5.

The fourth measure is to "Promote Global Alliances." We have alliances in place with companies in Japan, the United States, Europe, and China, and going forward we will continue to pursue business and technological alliances to further strengthen the Mazda brand. Since the announcement of the Structural Reform Plan, we have already concluded agreements for alliances with two companies, Sollers and Fiat. We are also proactively tendering technologies and products including SKYACTIV powertrains.

By steadily pursuing these measures under the Structural Reform Plan, we aim to achieve operating income of ¥150 billion with an operating income margin of at least 6%, and global sales volume of 1.7 million units over the four years starting from fiscal year March 2013.

Capital Increase by Means of a Public Offering

Mazda has been pursuing a variety of measures to strengthen its management and operations, but at the end of the third quarter our financial position temporarily deteriorated as a result of sudden changes in the business environment. This timing also marked a major turning point for future growth, with the global launch of the new CX-5, fully equipped with SKYACTIV technology.

While implementing the Structural Reform Plan, we were able to secure capital for the future and strengthen our equity capital to respond to environmental changes, through a capital increase by means of a public offering of shares and the procurement of a subordi-

nated loan from our main financial institutions. This led to a significant dilution of Mazda's shares and imposed a burden on existing shareholders, but we intend to quickly meet the expectations of shareholders and raise shareholder value through the swift and steady implementation of the measures contained in the Structural Reform Plan.

Public Offering and Subordinated Loan

Overview

Amount procured	Capital increase via public offering: ¥144.2 billion Subordinated loan: ¥70.0 billion
Issue price	¥124/share
Amount paid	¥118.88/share
No. of shares issued	1,219 million shares
No. of shares issued after capital increase	2,999 million shares

Financial indicators after capital increase

	As of the end of December 2011		As of March 31, 2012	
Equity ratio	19%	→	24%	26%*
Net debt-to-equity ratio	155%	→	64%	53%*
Book value per share	¥183	→	¥157	

* After the recognition of equity capital attributes of the subordinated loan

Returns to Shareholders

Mazda's policy is to determine the amount of dividend payments each fiscal year, taking into account financial results and the operating environment. With the recording of a net loss and a retained loss, we have decided to forgo the payment of a year-end dividend for the fiscal year March 2012. In addition, we are expecting to record a retained loss again in the fiscal year March 2013, and therefore payment of dividends is to be suspended for the fiscal year March 2013. Going forward, we aim to restore the dividend by the fiscal year March 2016 through the swift and steady implementation of the Structural Reform Plan. We regret the necessity of this decision and ask for shareholders' understanding.

In Conclusion

Building a "Mazda that earns the absolute satisfaction and trust of customers" through highly competitive products

Going forward, I intend to consolidate the Group's strength so that we can work as "One Mazda" to achieve a resilient management structure that will not be significantly impacted by exchange rate movements, and to raise shareholder value. Beginning with refining our base technologies, Mazda is taking a unique approach toward creating next-generation automobiles, as demonstrated to date in our proprietary Building Block Strategy. The development and introduction of i-stop was the first step in this process. The i-ELOOP regenerative braking technology being introduced in the fiscal year March 2013 is the second step, and as a third step, we intend to introduce engine drive technologies in the near future.

From 2012, we have begun the full-scale introduction of next-generation products fully equipped with SKYACTIV technology, and the market will begin to experience the value and quality of these products. The first product, the new CX-5, is off to a spectacular start and has exceeded our expectations. We will continue to deliver competitive products and quality that promises safety and peace of mind, focusing on the customers who support us around the world, as we develop a strong brand as a "Mazda that earns the absolute satisfaction and trust of customers." I would like to thank our shareholders and investors, and all other stakeholders, for your continued support and cooperation.

Takashi Yamanouchi

Representative Director, Chairman of the Board, President and CEO

Mazda is using product strength that is second to none, excellent design, and unmatched driving performance and fuel economy to build a global earnings base.

Kiyoshi Ozaki
Representative Director, Executive Vice President and CFO

Q What were the main factors behind the changes in Mazda's earnings for the fiscal year March 2012 compared with the previous year, and what are your forecasts for the fiscal year March 2013?

A This was a very difficult year, and we recorded an operating loss of ¥38.7 billion and a net loss of ¥107.7 billion. Despite some offset from comprehensive efforts in conjuction with suppliers to reduce costs, a ¥36.3 billion negative impact from changes in the mix of models sold and a ¥37.6 billion deterioration from foreign exchange factors led to a ¥62.6 billion decline in operating income.

Although the impact from the yen's appreciation was unavoidable, the weakening in the product mix is a problem. The main reasons for this reduction in earnings, in addition to the damage from the Great East Japan Earthquake and flooding in Thailand, were the recession in Europe, triggered by the sovereign debt crisis, and a delayed response to intensified competition for sales in China. With regard to China, I believe this delayed response is a reflection of Mazda's distinctive strategy of maintaining the brand by not getting caught up in competition through offering incentives. Nevertheless, we were able to maintain profitability at all levels in the fourth quarter, and earnings are showing a rapid improvement. In terms of net income, however, it is important to note that we recorded a write-off of deferred tax assets and brought forward expenses related to structual reform for the future.

We will achieve sales growth in all major markets in the fiscal year March 2013, on a full-year contribution from the new Mazda CX-5 crossover SUV, fully equipped with SKYACTIV technology, and the launch of the new Mazda6 (Japanese name: Mazda Atenza). In addition, we will continue to work with suppliers to reduce costs, and I am confident that we will achieve profitability at all levels.

Q You said that signs of improvement were seen at all profit levels in the fourth quarter. What were the factors behind this?

A This was because of a large increase from the third quarter in wholesales. Compared with the third quarter, fourth-quarter wholesales rose roughly 84,000 units. Of this, the new CX-5 made a large contribution, with a net increase of approximately 30,000 units. The new CX-5 is receiving high praise on a global level, and we see this superior brand strength leading to increased sales going forward. In addition, we were able to realize the benefits of cost improvements made through joint efforts with suppliers. As a result, although we recorded an operating loss of more than ¥30 billion in the third quarter, the fourth quarter showed a roughly ¥48 billion improvement, to a ¥15.6 billion profit.

Consolidated Wholesales

	Year ended March 31, 2011	Year ended March 31, 2012				
	Full-year	1Q	2Q	3Q	4Q	Full-year
Japan	206	43	66	46	71	226
North America	367	59	93	92	118	362
Europe	208	27	47	37	60	171
China	20	3	5	1	1	10
Others	299*	54	73	55	65	247
Total	1,100	186	284	231	315	1,016

* Includes 16,000 units resulting from the effect of a 15-month fiscal period stemming from a change in the fiscal year-end of an overseas subsidiary.

Q SKYACTIV-equipped models have received high praise globally. What will be the key points for utilizing this reputation to increase sales volume?

A There are two main points. The first is to boost production capacity. Our initial production plan for the new CX-5 was for 160,000 units annually, but current orders are running at close to double that level, so unfortunately production capacity is holding back sales. Bringing this situation back into an appropriate balance is an urgent issue. We will therefore increase annual production capacity to the 200,000 unit level from this summer and to the 240,000 unit level in March 2013.

The other point is to enhance the quality of sales. In general, we have put in place a structure by which the launch of a model fully equipped with SKYACTIV technology significantly enhances the model's competitiveness, leading to further sales growth. We have also learned from talking with customers at dealerships that many of the customers visiting our showrooms had not previously considered purchasing a Mazda vehicle. These are mainly customers who have previously purchased premium brand automobiles and customers who show a strong interest in fuel efficiency. They hear positive things about the new CX-5's fuel economy and drive, for example, and then decide to visit a showroom. We must further raise the quality of our sales and service to fully capture these opportunities, and are working with sales companies to accelerate these activities at showrooms.

In this way, we intend to further increase sales volumes by simultaneously enhancing the "hardware" element of production and the "software" element of sales and service.

Q What is your outlook for the respective operating environments in developed countries and emerging countries for the fiscal year March 2013?

A With regard to developed countries, Europe is the region of most concern. Given the financial crisis there, we expect economic stagnation to continue, especially in southern Europe. However we believe the impact on Mazda's earnings will be negligible. In addition to economic stagnation, we recognize that last year was an off year in terms of model replacements, and the fact that we were not able to launch new products was a large part of the reason for the decline in sales volume.

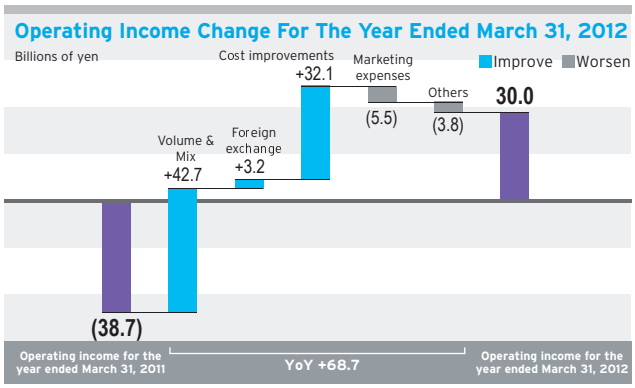
On the other hand, in North America, where we have introduced SKYACTIV-equipped models, sales momentum has picked up and sales volume grew. We recently launched the new CX-5 in Europe as well, and orders in Germany, Austria, and the Netherlands were more than double the amount we anticipated. This shows that, as in North America, there is a very good opportunity for a turnaround to an offensive position. The economy remains sluggish, however, but for an automaker of Mazda's size, I believe that we will be able to turn around the situation by introducing attractive products.

Demand has been recovering in the North American market, where sales are driven by the new Mazda3 (Japanese name: Mazda Axela) fully equipped with SKYACTIV technology, and we see solid sales continuing going forward.

In terms of emerging countries, we see strong demand continuing in the ASEAN region, which is a priority region for Mazda. Growth in China's demand is slowing as well, but we expect the market to continue to grow. We launched the new Mazda3 in China in 2011, so this will make a full-year contribution in the fiscal year March 2013. Going forward, we plan to make a comeback with the launch of a new CX-5.

Q What do you consider to be the key point for achieving ¥30 billion in operating income?

A New product launches will be key. The new CX-5 is the first car to incorporate throughout the entire vehicle, the Monotsukuri Innovation that we have been implementing for several years, and we have achieved a high degree of cost competitiveness through the common use of platforms and parts through integrated planning. By adding the appeal of the KODO design concept, we were able to curtail incentives and improve the profit per vehicle by roughly ¥150,000 compared with the CX-7 in the next-higher segment. This improvement is expected to make a significant contribution toward achieving ¥30 billion in operating income.



Next, we will launch a new Mazda6 as a second round to follow the new CX-5. If we are able to achieve our sales plans for these new models with outstanding product strength and cost competitiveness, Mazda's profit margin will improve as a result, and I believe we will be fully able to achieve our target of ¥30 billion in operating income.

Q The strong yen continues to be a concern. How do you plan to address this going forward?

A One of the issues we are dealing with is the mismatch between markets for sales and production centers. To address this, our Structural Reform Plan aims to bring the percentage of overseas production to 50%, and to achieve this, we plan to build a plant in Mexico, move to local production in Russia, raise our production capacity in China, and increase production in the ASEAN region. Nevertheless, reaching this target will require some time. Therefore, over the near term we intend to bolster our resistance to exchange rate fluctuations and minimize their impact on earnings by further improving our cost structure, and through optimal procurement on a global level and increased foreign currency-denominated fund procurement.

Q Mazda recently announced an agreement with Italy's Fiat to jointly develop and produce a two-seat sports car. What is Mazda's fundamental policy regarding alliances with other companies?

A We do not intend to conclude a comprehensive tie-up with any particular company. Nevertheless, we do consider it very important to determine whether we can build win-win relationships based on certain products or geographic regions. For example, Mazda has an excellent product with the MX-5 (Japanese name: Mazda Roadster), which holds a Guinness record for sales. Going forward, however, it would be difficult to independently develop a new model in this segment because the market is contracting, but we believe efficient development and production will be possible through Co-operation Program with Fiat.

Q What measures are you implementing to strengthen Mazda's financial base?

A In March 2012, we procured funds through a public offering and a subordinated loan. These funds will be used to achieve further rapid progress in establishing a global production structure and in expanding SKYACTIV products. I also consider the subordinated loan to be important for the message it sends internally and externally, showing that even though Mazda is facing a variety of issues, the measures we are taking are supported by our main financial institutions. This procurement led to a significant increase in our equity ratio, to 24% from 19% at the end of the December 2011, and taking into account the equity capital nature of the subordinated loan brings the ratio to 26%.

This also brought the net debt-to-equity ratio to 64%, from 155% at the previous fiscal year-end, and including the subordinated loan further lowers the ratio to 53%, well below the 100% level and significantly improving our financial position. I still do not consider this sufficient, however. Our basic policy is to increase equity capital by generating solid cash flow and building up profit. I would like to see the equity ratio brought to the 30% range as quickly as possible.

The SKYACTIV technology that we have been focusing on is finally beginning to show its effectiveness. Orders for the new CX-5 are more than double the original plan, and this has made us even more convinced of the strength of SKYACTIV technology. As a second round, we will launch a new Mazda6 during the second half of the fiscal year March 2013. I am confident that the new Mazda6 will follow the path of the new CX-5 and be very well received around the world.

Mazda is building a global earnings base using product strength that is second to none, excellent design, and unrivaled driving performance and fuel economy. Even if there continues to be a pronounced effect from the strong yen, I am determined to carry this out. We have decided on what needs to be done and we will steadily carry out these measures and strive to meet the expectations of our shareholders and other stakeholders. I ask for your continued support.

Building for the Future

Mazda's Structural Reform Plan

Mazda has been facing a difficult operating environment, including the yen's continued unprecedented appreciation and an economic recession caused by the European financial crisis. Despite this adversity, however, we have reinforced our Framework for Medium- and Long-Term Initiatives, formulated in 2010, to proactively respond to changes in the operating environment and ensure future growth. Using SKYACTIV technology, we are innovating our business. This Special Feature provides an overview of the initiatives contained in the Structural Reform Plan and the progress being made.

What is Mazda's Vision for Growth?

In the Framework for Medium- and Long-Term Initiatives, formulated in 2010, Mazda forecast operating income of ¥170 billion, with an operating income margin of at least 5%, and global sales volume of 1.7 million units for the fiscal year March 2016.

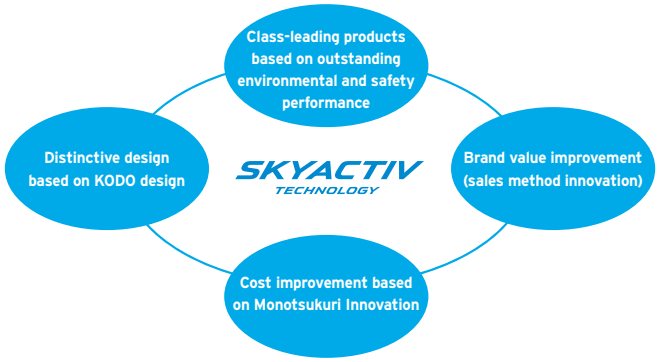
Since that time, however, our operating environment has undergone a number of drastic changes, including the yen's unprecedented appreciation with no end in sight, weakness in major economies triggered by the European financial crisis, and changes in global automotive demand. We therefore revised our Medium- and Long-Term Outlook along with the announcement of third-quarter results. With a view toward achieving our revised March 2016 forecasts of ¥150 billion in operating income, with an operating income margin of at least 6%, and global sales volume of 1.7 million units, we embarked on business innovation, leveraging SKYACTIV technology as a game changer, to strengthen our Framework for Medium- and Long-Term Initiatives.

The Structural Reform Plan is organized around the following four initiatives, which are explained in detail below.

Four Initiatives

1. **Business innovation through SKYACTIV TECHNOLOGY**
2. **Accelerate further cost improvement through Monotsukuri Innovation**
3. **Reinforce business in emerging countries and establish global production footprints**
4. **Promote global alliances**

Business Innovation Driven by SKYACTIV



Medium- and Long-Term Outlook (Fiscal year March 2016)

We have revised our Medium- and Long-Term Outlook to strengthen the Framework for Medium- and Long-Term Initiatives while simultaneously responding to changes in the external environment.

	Previous		New
Operating income	¥170.0 billion	→	**¥150.0 billion**
Operating income margin	At least 5%	→	**At least 6%**
Global sales volume	1.7 million	→	**1.7 million**
Foreign exchange rate	¥90/$ ¥125/Euro	→	**¥77/$** **¥100/Euro**

1 Business Innovation through SKYACTIV TECHNOLOGY

Using SKYACTIV, we will advance product strength, the brand, and design, while building a cost structure that can respond to a strong yen environment. This will also drive our business innovation.

Further Enhance Brand Value

SKYACTIV technology delivers both a Zoom-Zoom drive and superior environmental features and has been well-received in major markets since its launch, having already received 29 awards around the world (as of June 2012).

Japan	16 awards, including • Japan Automotive Hall of Fame's Car Technology of the Year • RJC Technology of the Year
North America	7 awards, including • Ward's 10 Best Engines for 2012
Europe	6 awards, including • Fleet World Honours 2011 – the Innovation Award
Total	29 awards (as of June 2012)

Utilize High Brand Value for Sales without Discounting

Our new Sales Method Innovation marketing strategy begins with SKYACTIV-equipped products. The response to SKYACTIV technology has been overwhelming, from dealerships and the media as well as from customers. Utilizing this high brand value, we are improving earnings for dealers as well as for Mazda by selling cars without discounting.

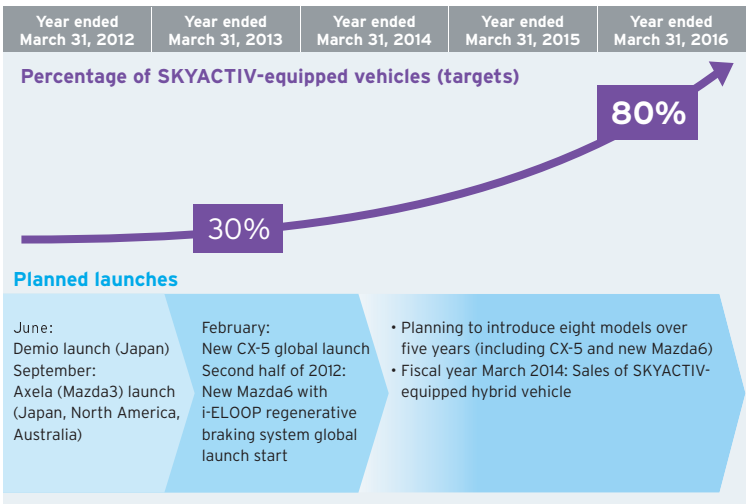
5 Main Points of Sales Method Innovation

Test drive experience	• Global promotion of manufacturer-sponsored test-drive events in major markets • First-hand SKYACTIV experience for customers around the world
Advertising and sales promotion	• Use of digital and social media to convey information and promote growth
Inside-out strategy	• Making distributors and dealers "influencers" by instilling confidence through test drives and seminars
Pricing strategy	• Selling without discounting to reduce difference between displayed price and purchase price • Maintain high residual value
Grade, features strategy	• Simple grade structure • Strategic inclusion of differentiated features for each brand

SKYACTIV Sales Strategy

With the global launch of the new Mazda CX-5 from February 2012 as an opening round, we plan to globally release eight new models fully equipped with SKYACTIV technology over the next five years. On the heels of strong sales of the new CX-5 following its launch, we will release a new Mazda6 (Japanese name: Mazda Atenza) during the second half of 2012. We also plan to introduce a SKYACTIVE-equipped hybrid in the fiscal year March 2014.

We estimate that the number of SKYACTIV-equipped vehicles as a percentage of total sales volume will be 30% for the fiscal year March 2013, and we plan to increase this to 80% by the fiscal year March 2016, the final year under our Medium- and Long-Term Outlook.



2 Accelerate Further Cost Improvement through Monotsukuri Innovation

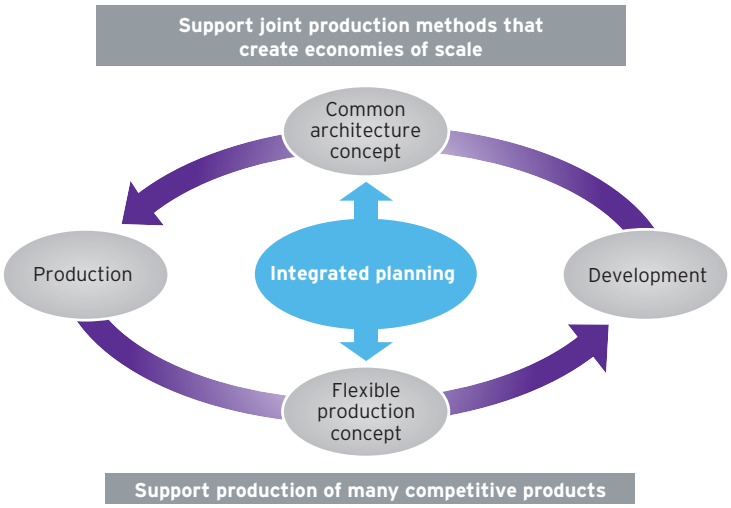
The new CX-5 is the first of our next-generation products, for which we have raised our target for vehicle cost improvement through Monotsukuri Innovation to 30% from 20%. We also expect major improvements in a number of other areas.

Cost Improvement through Monotsukuri Innovation

Mazda has been engaged in Monotsukuri Innovation for several years, using integrated planning spanning existing model lines and segments to efficiently develop and produce numerous products through common development methods and manufacturing processes. By making product development and investment in manufacturing equipment more efficient, our next generation of products beginning with the new CX-5, and SKYACTIV technology, are leading to major improvements in development and production costs, as well as in drive and fuel efficiency.

We will accelerate these efforts to reduce costs going forward, and have raised our target for vehicle cost improvements in our next-generation products to 30% from 20%. We have set targets that we expect to achieve in other areas as well.

Structure of Monotsukuri Innovation



		Performance	Improve Cost/Efficiency
R&D Efficiency			30% or more
Investment in Production Facilities	SKYACTIV-G/D		70% or more
	Vehicle		20% or more
Cost Improvement	Vehicle (excluding additional equipment)	100kg or more weight reduction (equivalent to 5% fuel economy improvement)	20% or more → 30% (target)
	SKYACTIV-D	20% better fuel economy / Euro6 compliance	Better than current engine
	SKYACTIV-G	15% better fuel economy and torque. Possible to comply with Euro6.	Better than current direct-injection engine
	SKYACTIV-DRIVE	4–7% better fuel economy. Direct feeling improvement.	Same as current transmission

CX-5's Cost Competitiveness

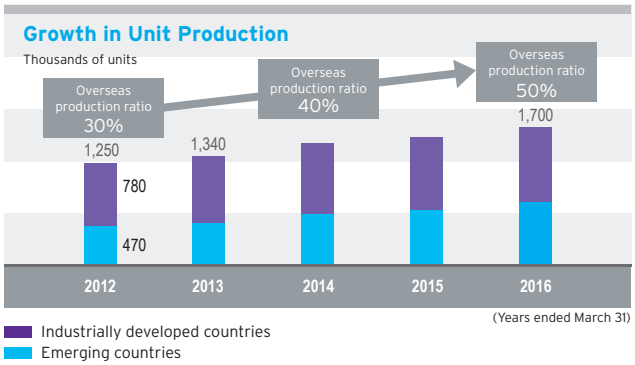
The new CX-5 is Mazda's first product to be developed from scratch using Monotsukuri Innovation. With cost competitiveness that can generate a profit at exchange rate levels of ¥77/US$ and ¥100/euro, the new CX-5 achieves profit improvements of roughly ¥150,000 compared with the one segment higher Mazda CX-7.

3 Reinforce Business in Emerging Countries and Establish Global Production Footprints

We are strengthening our business and building a global production footprints through measures to capture the robust economic growth of emerging countries.

Initiatives to Reinforce Emerging Market Business

Mazda has introduced various measures to increase sales volumes in emerging markets, where demand continues to show solid growth. In addition to expanding sales networks, we are accelerating establishment of local production footprints to expand our product lineup. Building a local production structure will not only enhance our sales capacity in emerging markets, it will also lead to the establishment of an overseas production structure, which has become a pressing issue for Mazda. We are focusing on China, Russia, the ASEAN region, and Central and South America in particular.



Area		Initiatives
China		■ Increase number of showrooms to 600 by the end of 2015 ■ Increase number of locally produced models to ten from current six ■ Begin local production of SKYACTIV-equipped vehicles ■ Launch new CX-5 as Chinese market's first car fully equipped with SKYACTIV technology
Russia		■ Conclude agreement to establish a joint venture manufacturing company in Russia with Sollers ■ Produce new CX-5, new Mazda6, and Sollers brand vehicles for Russian market
ASEAN		■ Increase production capacity at AutoAlliance (Thailand) ■ Increase number of locally produced models to six from current three ■ Increase number of showrooms to 330 by the end of 2015 ■ Begin discussions with Bermaz regarding the establishment of a joint venture production and sales company in Malaysia
Central and South America		■ Build vehicle assembly and engine assembly plants in Mexico (scheduled to commence operations in 4th quarter of fiscal year March 2014) ■ Plan to produce Mazda2 and Mazda3 for export to North America, and Central and South America ■ Conduct training in Japan for new plant employees ■ Consider entering Brazil

Progress Toward Building a Global Production Structure

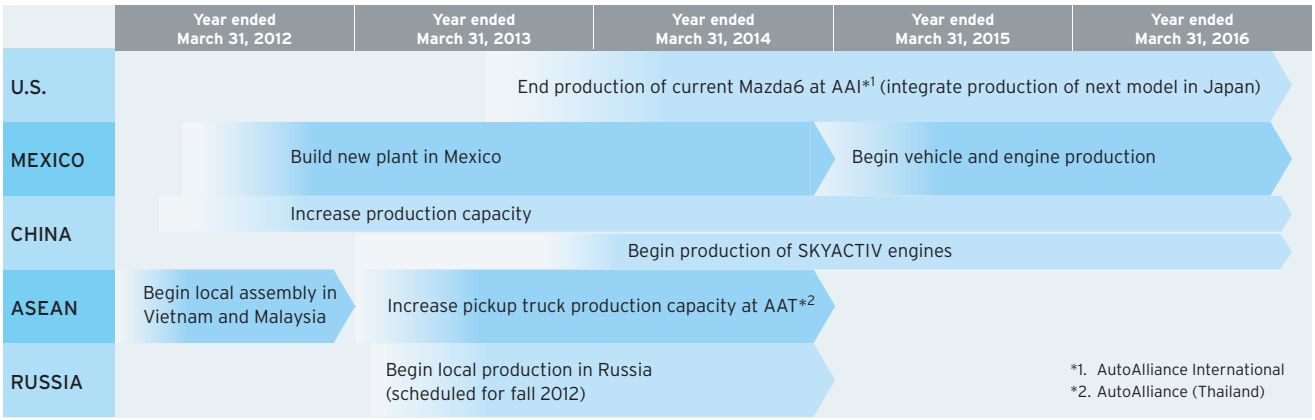
[Building a global production structure]

- Increase portion of overseas production to 50% in fiscal year March 2016 from 30% in fiscal year March 2012
- Already increased production capacity in China in 2011
- End production of current Mazda6 being manufactured by AAI in the United States, integrate production of next model in Japan
- Plan to begin local production in Russia and Mexico
- Plan to increase capacity in ASEAN and other emerging markets
- Begin discussions for establishment of joint venture production and sales company in Malaysia

[Procurement strategy to achieve cost structure that is unaffected by exchange rate movements]

- Increase domestic plants' portion of overseas procurement and transactions settled in foreign currencies to at least 30% in fiscal year March 2014 from 20% in fiscal year March 2012

Overseas Production Strategy



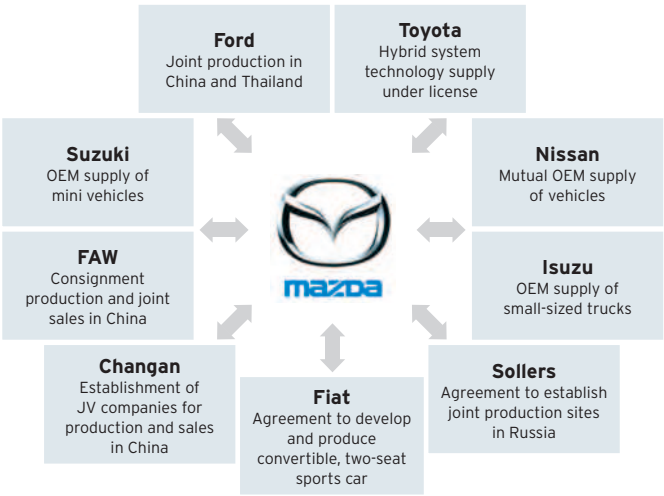
4 Promote Global Alliances

Mazda is currently pursuing numerous alliances in specific businesses, including the licensing of hybrid system technology from Toyota and an agreement to establish a joint production facility with Sollers. We will continue to emphasize business and technological alliances going forward, to further strengthen the Mazda brand.

Initiatives

Mazda is proactively pursuing an alliance strategy to build appropriate, complimentary relationships in individual products, technologies, and regions. We are also considering tendering our products and technologies, including SKYACTIV powertrains, to other companies.

As part of this process, we concluded an agreement in May 2012 with Fiat Group Automobiles to jointly develop and produce a two-seat convertible for Alfa Romeo based on the next Mazda MX-5 (Japanese name: Mazda Roadster) rear-wheel-drive architecture. We plan to produce both companies' models at Mazda's main Hiroshima Plant. We have also agreed to continue further discussions on the possibility of working together in other projects in Europe.



Providing all customers with driving pleasure and outstanding environmental and safety performance

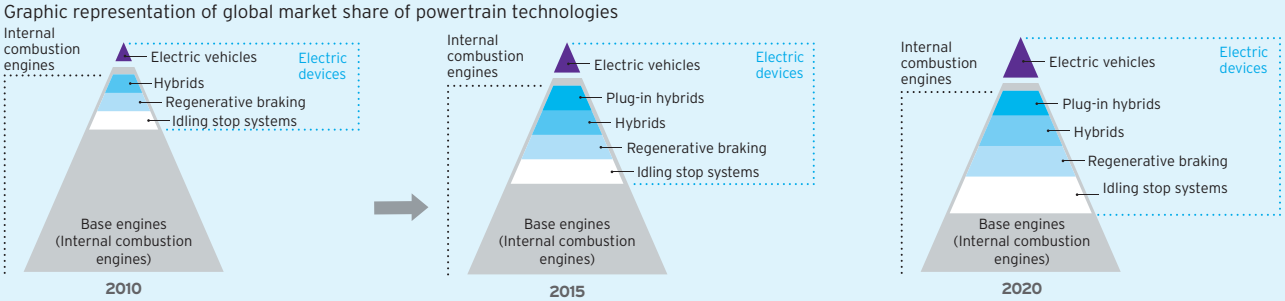
SKYACTIV TECHNOLOGY

Improving the Fuel Economy of Mazda Vehicles 30% by 2015

Even in 2020, Mazda expects that the world's key energy sources will continue to be mainly petroleum-based, and that the majority of vehicles will still be powered by internal combustion engines. With this outlook, Mazda is working on the development of its Building Block Strategy in order to meet its goal of raising the average fuel economy of Mazda vehicles sold worldwide by 30% by 2015 compared with 2008 levels.

Anticipated Expansion in Adoption of Environmental Technologies (Through 2020)

Graphic representation of global market share of powertrain technologies



- **Introduction of hybrid technology and idling stop technology**
- **Expand use of electric device technologies and increased introduction of electric vehicles**
- **Stricter fuel efficiency standards globally**
- **Need for big boost in energy efficiency**
- **Expanded adoption of electric device technologies**

Building Block Strategy

Rather than rely significantly on a limited number of environmentally friendly vehicles, Mazda has taken an approach of effectively reducing overall CO_2 emissions by providing all customers with driving pleasure and outstanding environmental and safety performance. Through rapid advances in base technologies for basic functions, including in engines, transmissions, bodies, and chassis, we are successively introducing electric devices like regenerative braking technology and hybrid systems. We refer to this as our Building Block Strategy.

Technical Superiority of SKYACTIV

Improvement in fuel consumption due to engine	
New-generation gasoline engine	SKYACTIV-G
New-generation diesel engine	SKYACTIV-D
Improvement in fuel consumption due to transmission	
New-generation automatic transmission	SKYACTIV-DRIVE
Improvement in fuel consumption due to reduced weight	
More than 100kg lighter than previous models	
Reduction in aerodynamic drag and other rolling resistance	
Improvement in fuel consumption due to electrical devices	
Idling stop system	i-stop
Regenerative braking system	i-ELOOP

Improvement in fuel consumption
about 30% (~2015)

Mazda's Building Block Strategy

Providing all customers with driving pleasure and outstanding environmental and safety performance

Weight reduction (100kg or more for the whole vehicle)

Successively Implementing Electric Device Technologies

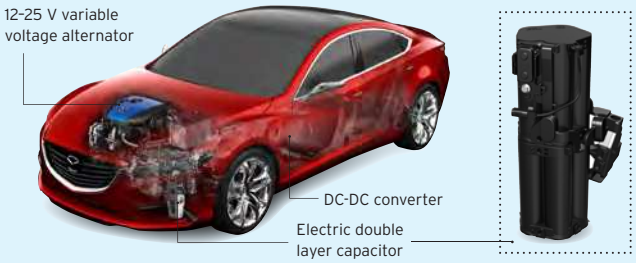
STEP-1 Battery Management Technology (Idling Stop System "i-stop")

The i-stop system automatically shuts the engine off when the vehicle makes a temporary stop, to reduce unnecessary fuel consumption. This alone can improve fuel efficiency by 7% to 10% (as measured in Japanese models). Mazda installed i-stop in the Mazda3 (Japanese name: Mazda Axela) in 2009 and has been steadily rolling out this feature in other models.

STEP-2 Regenerative Braking Technology (Regenerative Braking System "i-ELOOP*1")

For the second step in our Building Block Strategy, we have developed the "i-ELOOP" regenerative braking system for cars that do not have electric motors. This is the first use anywhere in the world*2 of a capacitor*3 to store electricity in a regenerative braking system, and can be expected to increase fuel efficiency in actual driving conditions. Capacitors can store large volumes of electricity with quick charging and discharging, and can be used repeatedly without losing capacity. Mazda has been rolling out this technology in cars without electric motors from 2012.

Regenerative Braking System "i-ELOOP"



*1. Intelligent Energy Loop
*2. As of November 2011, based on Mazda's research
*3. A storage cell that is able to store and release electricity as electricity, unlike in lead and lithium-ion batteries where the energy undergoes a chemical reaction

STEP-3 Motor Drive Technology (Hybrid Systems)

This type of system improves overall energy efficiency using an electric motor to assist gasoline engines at times when energy efficiency is low, such as when a vehicle is running at low engine speeds or during low-load operation. The combination of this hybrid system with the systems mentioned in steps 1 and 2 can produce a substantial boost in overall efficiency.

Mazda has obtained a license for hybrid systems from Toyota Motor, with the aim of beginning to sell hybrid vehicles in Japan in the fiscal year March 2014.

Development of Products Using SKYACTIV Technology

The new Mazda Demio (overseas name: Mazda2), released in Japan in 2011, was our first product equipped with SKYACTIV-G, followed by the new Mazda3 (Japanese name: Mazda Axela), equipped with SKYACTIV-G and SKYACTIV-DRIVE.

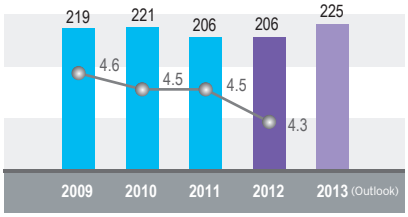
The new Mazda CX-5, fully equipped with SKYACTIV technology in the body and chassis in addition to the engine and transmission, was released in 2012 and is receiving high praise around the world.

We will gradually launch the new Mazda6 (Japanese name: Mazda Atenza), globally starting in the second half of 2012, as our second vehicle fully equipped with SKYACTIV technology.

Japan

Sales Volume

Thousands of units / %



(Years ended March 31)

Sales volume
Market share

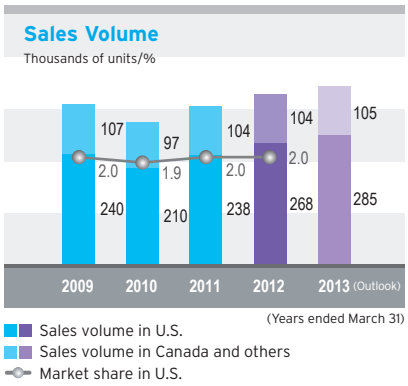
Total demand in the Japanese market grew 3%, to 4.75 million units. Despite the effect of the Great East Japan Earthquake in the first half of the year, and limited production from the flooding in Thailand, and global economic stagnation in the second half, demand rose on the effects of tax reductions and subsidies that ran through the end of the fiscal year. Although sales were weak during the first half as a result of the Great East Japan Earthquake, Mazda introduced new, SKYACTIV-equipped models of the Mazda Demio and Mazda Axela, and our sales volume was roughly flat with the previous year at 206,000 units. As a result, our market share declined 0.2 percentage point, to 4.3%.

Sales of the SKYACTIV-equipped Demio, launched in July 2011, reached roughly 56,000 units by the fiscal year-end (for a monthly average of approximately 6,200 units), surpassing our sales plan of 6,000 units per month. Sales of the SKYACTIV-equipped Axela were strong as well, totaling roughly 12,000 units from October 2011 to the end of the fiscal year (approximately 2,000 units per month). Orders for the new CX-5, released in February 2012, reached approximately 16,000 units in the two months following the release, surpassing our full-year sales plan of 12,000 units. In addition, diesel engine vehicles accounted for roughly 80% of orders, far exceeding our initial target of 50%.

Our plan for sales volume in the fiscal year March 2013 is for a 9% increase to 225,000 units. In addition to strong sales of the new CX-5, we see this coming from the release of the new Mazda Atenza within 2012 and stepped up sales promotion activities.

In terms of sales, we will strengthen our cooperation with sales companies and put even greater effort into sales activities from a customer perspective. We intend to increase sales of strong products equipped with SKYACTIV technology by further raising the quality of dealer service and enhancing brand value.

North America



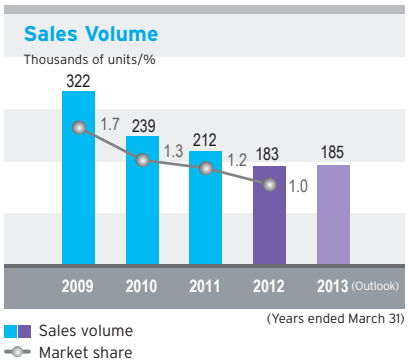
Total demand grew 9%, to 13.20 million units in the United States, and rose 3%, to 1.61 million units, in Canada. Mazda's North American sales volume increased 9%, to 372,000 units. We recorded large growth in the United States, with a 12% increase to 268,000 units, on a full-year contribution from the Mazda2 and the launches of the new, SKYACTIV-equipped Mazda3 and CX-5 in the second half. Our market share was roughly flat from the previous year at 2.0%. In Canada, our sales volume declined 4%, to 72,000 units, and our market share decreased 0.4 percentage point, to 4.4%, as a result of intensive competition through incentives. Since entering the market, our sales volume and market share in Mexico have shown steady increases, and for the year, our sales volume rose 14%, to 30,000 units, and our market share grew 0.2 percentage point, to 3.3%.

Orders for the new CX-5, released in North America in February 2012, have been trending ahead of plan. Strong customer interest is also demonstrated by the fact that showroom traffic and Internet searches are surpassing our expectations.

For the fiscal year March 2013, we are planning for a 6% increase in sales volume in the United States, to 285,000 units, with market share remaining flat at 2.0%, on full-year contributions from the new, SKYACTIV-equipped Mazda3 and CX-5. Our plan for Canada is for a 7% increase in sales volume, to 77,000 units, driven by the new, SKYACTIV-equipped Mazda3 and CX-5.

We intend to utilize the product strength of SKYACTIV-equipped cars to sell without discounting, while at the same time improving residual value. Our policy going forward of further enhancing brand value by curtailing incentives and reducing fleet sales is unchanged.

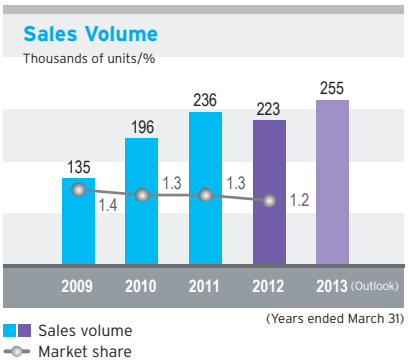
Europe



Despite lower demand in southern Europe, strong economies in areas including Russia and Germany led to a 1% increase in total European demand, to 18.50 million units. Mazda's sales volume declined 14%, to 183,000 units, and our market share contracted 0.2 percentage point, to 1.0%, as supplies were restricted by the Great East Japan Earthquake. There was also an impact from the fact that our models sold in Europe have been on the market for some time, which combined with the yen's appreciation weakened our competitiveness. In Germany, however, sales in February and March 2012 were higher year-on-year as a result of stepped up sales promotions since the beginning of 2012 and the launch of the new CX-5. The new CX-5, which we launched in Europe during the fourth quarter, is off to a solid start, with roughly 7,000 units sold in major countries like Russia and Germany within the fiscal year.

We see sales volume bottoming out in the fiscal year March 2013, primarily from the new CX-5, Europe's first SKYACTIV-equipped model, and new model launches going forward, and our plan is for a 1% increase, to 185,000 units. We began our campaign for the new CX-5 with test drives for local staff and journalists one year prior to the launch, as a way of deepening their understanding of SKYACTIV technology. This enabled us to fully present the appeal of SKYACTIV technology to customers, and orders are outpacing our plan by a wide margin. We intend to commence full-scale sales in southern Europe going forward, with the aim of further increasing sales.

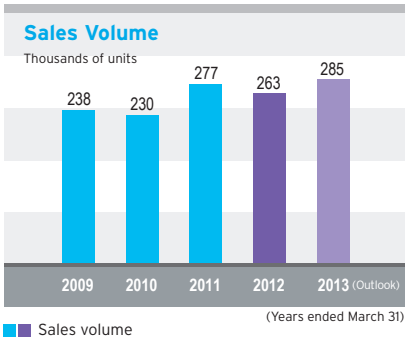
China



Total demand in China was 18.50 million units, reflecting accelerated purchasing ahead of tax breaks that ended in December 2010, restrictions on the total number of automobiles in Beijing, and weaker consumer sentiment as a result of monetary tightening. Mazda's sales volume declined 6%, to 223,000 units. With the major slowdown in the growth of overall demand, we faced intense competition from new model launches and large price reductions by other automakers. Although we reinforced our sales promotion activities from the fourth quarter, we were not able to bring about a recovery, and sales volume declined year-on-year. Our number of showrooms increased by 59, to 371, at the end of the previous fiscal year. Going forward, we intend to aggressively open showrooms in inland and coastal regions where our sales network is spread thin.

Our sales volume plan for the fiscal year March 2013 is for 15% growth, to 255,000 units. We are forecasting growth in total demand, and with sales growth from the new CX-5, sales activities to promote locally produced models, and the further expansion of our sales network, we intend to regain the sales volume lost in the previous year and turn around to a trend of growth. We expect to increase the number of showrooms to 420 by the end of December 2012. We also plan to open large suburban service centers to address the increase in the number of Mazda customers in China.

Other Markets



Affected by the flooding in Thailand, our sales volume in other markets declined 5%, to 263,000 units. We will work to squarely capture sales opportunities in the fiscal year March 2013, focusing on the ASEAN region where demand is expected to grow, and are planning for an 8% increase in sales volume, to 285,000 units. Our results and forecasts for major other markets follow below.

Australia

Total demand contracted 1%, to 1.02 million units. Mazda's sales volume grew 6%, to a record 92,000 units, on strong sales of major models. We are planning for 5% growth, to 97,000 units, on a net increase in sales volume for the new CX-5.

ASEAN

Mazda's sales volume in the ASEAN market rose 20%, to 66,000 units, despite the supply shortage resulting from the earthquake in Japan and flooding in Thailand. We posted record sales volumes in major countries, with a 21% increase, to 46,000 units, in Thailand, a 39% increase, to 9,000 units, in Indonesia, and a 15% increase, to 6,000 units, in Malaysia. This reflected favorable sales of existing models, such as the Mazda2, the successful launch of the new BT-50 produced by AutoAlliance (Thailand), and the expansion of our product lineup in Indonesia with the addition of the MX-5 and Mazda8. We are planning for a 38% increase in ASEAN sales volume in the fiscal year March 2013, to 91,000 units, on a full-year contribution from the new BT-50, new model launches including the CX-5, and the expansion of our sales network.

Major Product Lineup

Mazda2
(Japanese name: Demio)

SKYACTIV TECHNOLOGY

Global sales volume **223,000**

Sales markets

Mazda3
(Japanese name: Axela)

SKYACTIV TECHNOLOGY

Global sales volume **401,000**

Sales markets

Mazda6
(Japanese name: Atenza)

Global sales volume **227,000**

Sales markets

Mazda5
(Japanese name: Premacy)

i-stop

Global sales volume **73,000**

Sales markets

Biante

i-stop

Global sales volume **10,000**

Sales markets

Mazda8
(Japanese name: MPV)

Global sales volume **12,000**

Sales markets

MX-5
(Japanese name: Roadster)

Global sales volume **17,000**

Sales markets

CX-5

SKYACTIV TECHNOLOGY

Global sales volume **20,000**

Sales markets

CX-7

Global sales volume **90,000**

Sales markets

CX-9

Global sales volume **44,000**

Sales markets

BT-50

Global sales volume **51,000**

Sales markets

Sales markets: Japan, North America, Europe, China, Other markets

*1. Global sales volume is for the fiscal year March 2012, sales markets are as of March 31, 2012.
*2. Vehicle specifications differ by market.

For more information about corporate governance and CSR, please refer to "Mazda Sustainability Report 2012."
http://www.mazda.com/csr/download/

Corporate Governance

Mazda views the enhancement of corporate governance as one of its most important management issues, and along with statutory bodies including the General Meeting of Shareholders, Board of Directors, and Board of Corporate Auditors, the Company has introduced an executive officer system to separate execution and management functions.

This is intended to expedite decision-making by increasing the effectiveness of the Board of Directors as a supervisory body, by enhancing the deliberations of the Board of Directors, and by delegating authority to executive officers.

As of June 30, 2012, Mazda's Board of Directors is composed of 10 members, two of whom are outside corporate directors with a high degree of independence.

Inauguration of an Outside Corporate Director System

At the shareholders' meeting held on June 24, 2011, Mazda appointed two outside corporate directors, inaugurating the Outside Corporate Director System with the objective of further increasing management soundness and transparency. The outside corporate directors are expected to help strengthen the auditing functions of the Board of Directors and further boost the transparency of management by offering advice on Mazda's management activities based on their knowledge, experience, and insights, and by taking part in the decision-making process.

Management Auditing

Mazda's Board of Corporate Auditors has five members, including three outside corporate auditors who have no business relationship or other interests with Mazda, and audits the directors in the performance of their duties as per an annual audit plan formulated by the Board of Corporate Auditors. Aside from statutory attendance at the Board of Directors meetings, the corporate auditors also attend management meetings, etc. KPMG AZSA LLC is retained under contract as Mazda's independent auditor.

Cooperation among Parties Responsible for Auditing

■ A "Three-Way Audit Meeting" of the full-time corporate auditors, the auditing company, and the Global Auditing Department is held four times every year, primarily to discuss the status of progress with regard to auditing under the Japanese Sarbanes-Oxley Act (J-SOX)*1 and issues related to the auditing of business operations and accounting.

■ Regular meetings of the full-time corporate auditors and the Global Auditing Department are held monthly to exchange opinions in further detail regarding issues identified in audits.

*1 The Japanese version of the Sarbanes-Oxley Act (original Sarbanes-Oxley Act is a U.S. federal law)

Internal Controls

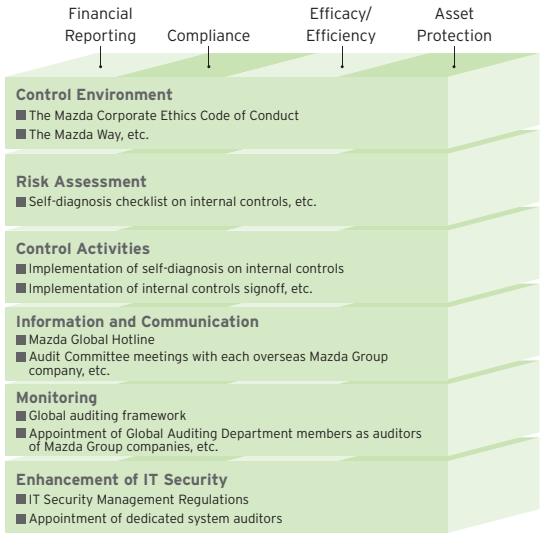
Mazda initiated a system of self-diagnosis of internal controls in 1998, and this is currently carried out at all consolidated Mazda Group companies in Japan and around the world.

Departments primarily responsible for internal controls cooperate with other related departments to provide training and support, working to promote internal controls to ensure that operations proceed smoothly in all departments and consolidated Mazda Group companies.

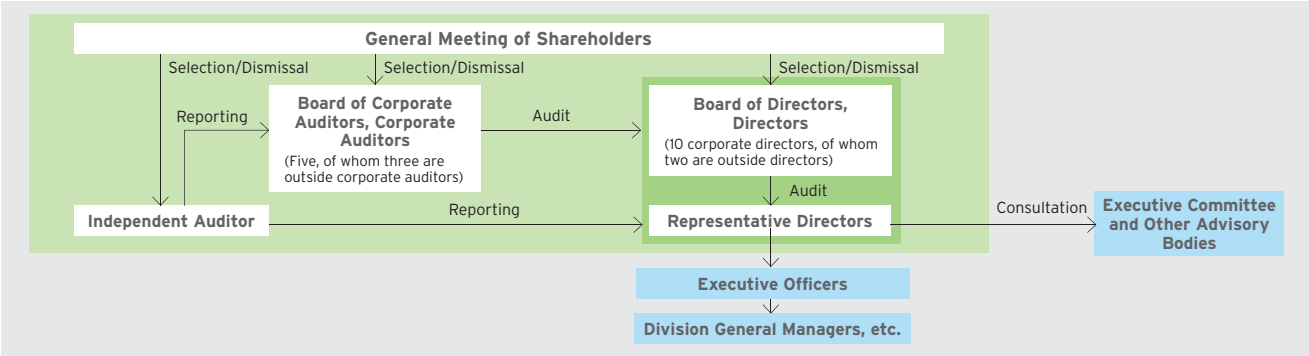
Mazda also has in place its own framework of internal controls conforming to the COSO Report*2, a global framework for internal controls, and the implementation standards of J-SOX. This framework helps to ensure the validity of financial reports, the promotion of compliance, the improvement of operational efficiency, and the maintenance of corporate assets.

*2 Report outlining a comprehensive framework for internal controls, released by the U.S. organization, Committee of Sponsoring Organizations of the Treadway Commission (COSO)

Internal Controls



Corporate Governance Framework



Board of Directors, Auditors, and Executive Officers (As of June 27, 2012)

Directors

Takashi Yamanouchi
Representative Director and Chairman of the Board

Kiyoshi Ozaki
Representative Director

Seita Kanai
Representative Director

Yuji Harada
Director

Akira Marumoto
Director

Masamichi Kogai
Director

Hirotaka Kanazawa
Director

Yuji Nakamine
Director

Ichiro Sakai
Director

Taizo Muta
Director

Corporate Auditors

Junichi Yamamoto (Full time)
Kazuyuki Mitate (Full time)
Isao Akaoka
Masahide Hirasawa
Takao Hotta

Executive Officers

President and CEO*

Takashi Yamanouchi

Executive Vice President and CFO*

Kiyoshi Ozaki
Assistant to President; Oversight of Corporate Planning Domain; In charge of Financial Services and Global Auditing

Executive Vice President*

Seita Kanai
Assistant to President; Oversight of Technical Domain and Quality; In charge of promoting Monotsukuri Innovation and R&D Liaison Office

Senior Managing Executive Officers*

Yuji Harada
In charge of CSR, Environment and Corporate Communications; Assistant to the CFO; Assistant in charge of Fleet Sales

Akira Marumoto
In charge of Corporate Planning, Profit Control, Product Strategy, Corporate Brand Enhancement and Cost Innovation

Masamichi Kogai
Oversight of Production and Purchasing; In charge of Business Logistics and IT Solution; Assistant to the Officer in charge of promoting Monotsukuri Innovation

Hirotaka Kanazawa
In charge of R&D; Assistant to the Officer in charge of promoting Monotsukuri Innovation; President, Mazda Engineering & Technology Co., Ltd.

Yuji Nakamine
Oversight of Global Marketing, Sales and Customer Service; In charge of Customer Tsunagari Innovation and Overseas Sales; President, Mazda South East Asia Ltd.

Managing Executive Officers

James J. O'Sullivan
President and CEO, Mazda Motor of America, Inc. (Mazda North American Operations)

Keishi Egawa
In charge of New Emerging Market Operation; General Manager, Latin American Operation Preparation Office

Nobuhide Inamoto
In charge of Domestic Business and Fleet Sales

Koji Kurosawa
In charge of Secretariat, Human Resources, Corporate Services, Compliance, Risk Management and Mazda Hospital

Jeffrey H. Guyton
President and CEO, Mazda Motor Europe GmbH

Noriaki Yamada
In charge of China Business; Chairman and CEO, Mazda Motor (China) Co., Ltd.

Kazuki Imai
In charge of Purchasing

Executive Officers

Toshinori Kusuhashi
President, AutoAlliance (Thailand) Co. Ltd.

Minoru Mitsuda
Assistant to the Officer in charge of Corporate Planning; In charge of Corporate Liaison, Oversight of Tokyo Office (Resident in Tokyo)

Masafumi Nakano
General Manager, Hiroshima Plant

Kiyotaka Shobuda
In charge of Production; General Manager, Production Engineering Div.; Assistant to the Officer in charge of Cost Innovation

Kiyoshi Fujiwara
In charge of Product Planning, Program Management and Design; Assistant to the Officer in charge of Cost Innovation

Masahiro Moro
Assistant to the Officer with Oversight of Global Sales Domain and in charge of promoting Customer Tsunagari Innovation; In charge of Global Marketing

Akira Koga
Executive Vice President, Mazda Motor of America, Inc. (Mazda North American Operations)

Takashi Furutama
General Manager, Corporate Planning Div. and Profit Control Div.; Assistant to the Officer in charge of Cost Innovation

Philip J. Waring
COO, Sales & Marketing, Mazda Motor Europe GmbH

Nariaki Uchida
General Manager, Hofu Plant

Mitsuo Hitomi
General Manager, Powertrain Development Div.; Assistant to the Officer in charge of Cost Innovation

Takahisa Sori
General Manager, Vehicle Development Div.; Assistant to the Officer in charge of Cost Innovation

Masatoshi Maruyama
General Manager, Quality Div.

Takeshi Fujiga
General Manager, Human Resources Div.

Kazuhisa Fujikawa
General Manager, Purchasing Div.; Assistant to the Officer in charge of Cost Innovation

Kazuyuki Fukuhara
General Manager, Domestic Business Div.

* denotes the executive officers who also hold the post of director.

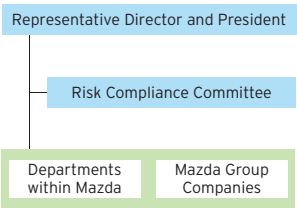
Risk Management

In ordinary circumstances, Mazda follows the Basic Policy on Risk Management, Risk Management Regulations, and other related internal regulations, and individual business risks are managed by the department in charge of that business area while companywide risks are appropriately handled by departments that carry out business on a companywide basis.

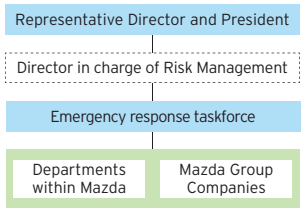
During emergencies, such as situations that bring forth serious managerial consequences or natural disasters, Mazda takes appropriate measures in reference with its internal regulations, including the establishment of an emergency response taskforce when necessary.

Moreover, risk management is further enhanced through the establishment of key agendas in the Risk Compliance Committee and confirmation/evaluation of the risk management status in each department.

Risk Management Structure in Normal Times



Emergency Risk Management Structure



In the event of incidents that fall outside the scope of existing risk management organizations and require a coordinated interdepartmental response, the director in charge of risk management will consult with the president, establish an emergency response taskforce, and appoint a general manager of this taskforce.

Information Security

Personal information and other important information are appropriately managed and protected based on the established information management policies and internal regulations, so as to ensure information security. To raise employees' awareness about information security, Mazda requires its employees to undergo training on the management of confidential information, protection of personal information, and IT security.

For companies in the Mazda Group, Mazda provides guidelines and educational tools regarding information security, realizing a group-wide effort to ensure information security.

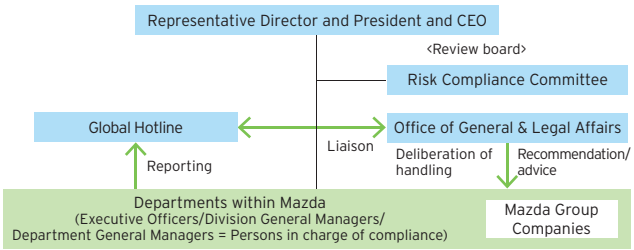
The IT security policy based on the BS 7799 (ISO 17799)* framework has been established as IT security management rules, which determine which security control mechanisms should be incorporated into the IT system. The implementation of such mechanisms is confirmed on a regular or random basis. For particularly important information, security measures include managing access according individual IDs and keeping access logs.

* Standards on information security management established by the British Standards Institution (BSI).

Compliance

At Mazda the concept of compliance applies not only to laws and regulations, but also includes adherence to other rules such as internal guidelines and societal norms and expectations. Business operations are conducted in accordance with the Mazda Corporate Ethics Code of Conduct to ensure fair and honest practice. This also applies overseas; Mazda not only complies with international regulations and the laws of each country and region, but also respects local history, culture, and customs.

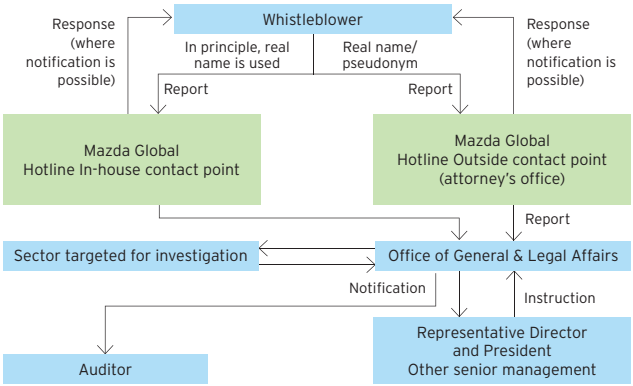
Compliance Promotion System



Mazda Global Hotline

In 1999, Mazda established the Ethics Advisory Office to handle employee inquiries about compliance and conduct investigations on ethical matters. In September 2007, the scope of the office was expanded to include domestic and overseas Mazda Group companies, and it was renamed the Mazda Global Hotline as a contact point for receiving information. To ensure that all employees are aware of this hotline, Mazda has distributed the compliance card with the contact information to all employees at Mazda Motor Corporation, and ensures awareness of this hotline at every opportunity through compliance education. Mazda has also introduced the hotline to Mazda Group companies in Japan and overseas via the Company Intranet.

Mazda Global Hotline



Financial Section

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Note: Financial information for the fiscal year ended March 31 2011, includes the 15-month fiscal period of an overseas subsidiary that changed its fiscal year-end. This had the effect of increasing net sales by ¥27,747 million, operating income by ¥1,323 million, pre-tax income by ¥1,414 million, net income by ¥1,046 million, and consolidated shipments by 16,000 units.

Eleven-Year Summary of Consolidated Financial Statements

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31

	Millions of yen				
	2012	2011	2010	2009	2008
For the year*2:					
Net sales	**¥2,033,058**	¥2,325,689	¥2,163,949	¥2,535,902	¥3,475,789
Domestic	**560,216**	541,490	574,982	620,336	880,132
Overseas	**1,472,842**	1,784,199	1,588,967	1,915,566	2,595,657
North America	**575,633**	631,327	574,640	697,600	1,015,315
Europe	**347,346**	427,398	477,337	653,382	888,555
Other areas	**549,863**	725,474	536,990	564,584	691,787
Cost of sales	**1,662,592**	1,863,678	1,710,699	2,021,851	2,485,905
Selling, general and administrative expenses	**409,184**	438,176	443,792	542,432	827,737
Operating income/(loss)	**(38,718)**	23,835	9,458	(28,381)	162,147
Income/(loss) before income taxes	**(55,262)**	16,081	(7,265)	(51,339)	143,117
Net income/(loss)	**(107,733)**	(60,042)	(6,478)	(71,489)	91,835
Capital expenditures*3	**78,040**	44,722	29,837	81,838	75,518
Depreciation and amortization*4	**68,791**	71,576	76,428	84,043	74,217
Research and development costs	**91,716**	90,961	85,206	95,967	114,400
Free cash flow*5	**(79,415)**	1,627	67,394	(129,244)	10,209
At the year-end:					
Total assets	**¥1,915,943**	¥1,771,767	¥1,947,769	¥1,800,981	¥1,985,566
Equity*6	**474,429**	430,539	509,815	414,731	554,154
Financial debt	**778,085**	693,000	722,128	753,355	504,979
Net financial debt	**300,778**	370,151	375,825	532,631	281,085
Average number of shares outstanding (in thousands)	**1,863,949**	1,770,198	1,519,652	1,371,456	1,408,368
Number of employees	**37,617**	38,117	38,987	39,852	39,364
	Yen				
Amounts per share of common stock:					
Net income/(loss)*7	**¥ (57.80)**	¥ (33.92)	¥ (4.26)	¥ (52.13)	¥ 65.21
Cash dividends applicable to the year*8	**—**	—	3.00	3.00	6.00
Equity*9	**156.85**	242.24	286.92	314.98	391.82
	%				
Operating income ratio	**(1.9)%**	1.0 %	0.4 %	(1.1)%	4.7%
Return on equity (ROE)*10	**(24.0)**	(12.8)	(1.4)	(14.8)	17.9
Equity ratio*10	**24.5***11	24.2	26.1	22.9	27.8

Notes: 1. The translation of the Japanese yen amounts into U.S. dollars is presented solely for the convenience of readers, using the prevailing exchange rate on March 31, 2012, of ¥82 to US$1.
2. Results information for the March 2004 and 2011 fiscal years include 15-month results for certain overseas subsidiaries that changed their fiscal year-end.
3. Capital expenditures are calculated on an accrual basis.
4. Amortization expenses are not included for the March 2007 fiscal year and preceding fiscal years.
5. Free cash flow represents the sum of net cash flows from operating activities and from investing activities.
6. Prior-year amounts have been reclassified to conform to figures for the March 2007 fiscal year and subsequent fiscal years presentation to include minority interests.
7. The computations of net income/(loss) per share of common stock are based on the average number of shares outstanding during each fiscal year.
8. Cash dividends per share represent actual amounts applicable to the respective years.
9. The amounts of equity used in the calculation of equity per share exclude minority interests (and, from the March 2007 fiscal year, stock acquisition rights).
10. The amounts of equity exclude minority interests (and, from the March 2007 fiscal year, stock acquisition rights).
11. Percentage after consideration of the equity credit attributes of the subordinated loan is 26.3%.

	Millions of yen						Thousands of U.S. dollars*1
	2007	2006	2005	2004	2003	2002	2012
	¥3,247,485	¥2,919,823	¥2,695,564	¥2,916,130	¥2,364,512	¥2,094,914	**$24,793,390**
	887,327	887,662	845,620	846,231	818,271	811,050	**6,831,902**
	2,360,158	2,032,161	1,849,944	2,069,899	1,546,241	1,283,864	**17,961,488**
	1,017,874	843,988	761,684	936,718	845,241	776,889	**7,019,915**
	789,135	668,941	634,233	659,813	368,045	228,120	**4,235,927**
	553,149	519,232	454,027	473,368	332,955	278,855	**6,705,646**
	2,322,644	2,110,934	1,972,574	2,165,160	1,725,058	1,551,410	**20,275,512**
	766,309	685,454	640,043	680,796	588,798	514,951	**4,990,049**
	158,532	123,435	82,947	70,174	50,656	28,553	**(472,171)**
	118,450	117,468	73,847	54,072	28,134	15,508	**(673,927)**
	73,744	66,711	45,772	33,901	24,134	8,830	**(1,313,817)**
	79,641	72,070	67,881	45,644	44,080	56,641	**951,707**
	47,045	45,805	40,036	37,900	36,989	44,890	**838,915**
	107,553	95,730	90,841	87,807	87,800	94,964	**1,118,488**
	20,995	33,611	35,900	49,128	47,054	30,623	**(968,475)**
	¥1,907,752	¥1,788,659	¥1,767,846	¥1,795,573	¥1,754,017	¥1,734,895	**$23,365,159**
	479,882	407,208	275,841	230,937	200,546	180,892	**5,785,720**
	474,684	455,409	528,145	630,360	678,205	686,318	**9,488,841**
	232,179	246,751	313,506	358,129	403,483	456,874	**3,668,024**
	1,402,315	1,294,533	1,216,245	1,217,692	1,219,050	1,221,750	
	38,004	36,626	35,680	35,627	36,184	37,824	
	Yen						U.S. dollars*1
	¥ 52.59	¥ 51.53	¥ 37.63	¥ 27.84	¥ 19.80	¥ 7.23	**$(0.70)**
	6.00	5.00	3.00	2.00	2.00	2.00	**—**
	336.45	284.28	220.22	182.91	159.22	141.52	**1.91**
	%						
	4.9%	4.2%	3.1%	2.4%	2.1%	1.4%	
	16.9	20.0	18.7	16.3	13.2	5.3	
	24.8	22.3	15.1	12.4	11.1	10.0	

Review of Operations

(Operating Environment)

In the fiscal year March 2012, the Mazda Group's operating environment presented challenging conditions. Overseas, the U.S. economy followed a trend of gradual recovery, but a number of factors contributed to instability, including the financial crises in European countries, the floods in Thailand, and the slowdown of economic growth in China. Overall, the recovery in overseas markets was weak. In Japan, economic conditions remained difficult. Reconstruction demand following the Great East Japan Earthquake supported a certain degree of improvement in business conditions, but adverse factors included the continued strength of the yen and a downturn in exports due to uncertainty about overseas economies. In this environment, the Mazda Group successively introduced models with SKYACTIV technology in key markets. The Group is also implementing its "Structural Reform Plan" using SKYACTIV as the linchpin. Accordingly, the Group took steps to secure the funds needed for growth and strengthen its financial position through a capital increase by public offering and a subordinated loan.

(Global Sales Volume)

By market, Mazda's domestic sales were basically unchanged year on year, at 206,000 units. Strong sales of the Mazda2 and the introduction of the new Mazda CX-5 offset the effect of the Great East Japan Earthquake. Overseas, North American sales increased 9%, to 372,000 units, due mainly to the introduction of the new CX-5 as well as to strong sales of the Mazda2 and the Mazda3. Sales in Russia increased, but overall European sales were down 14%, to 183,000 units, due in part to concerns about the unstable credit situation in Europe. In China, sales of the mainstay Mazda3 models were strong, but sales decreased 6%, to 223,000 units, as a result of intensified competition and lower demand for compact cars. In other markets, strong sales were recorded in Australia and ASEAN countries, but exports declined as a result of the floods in Thailand, and overall sales were down 5%, to 263,000 units.

As a result, the global sales volume was 1,247,000 units, down 2% from the previous year. Consolidated wholesales for the year declined 8%, to 1.016 million units.

(Net Sales)

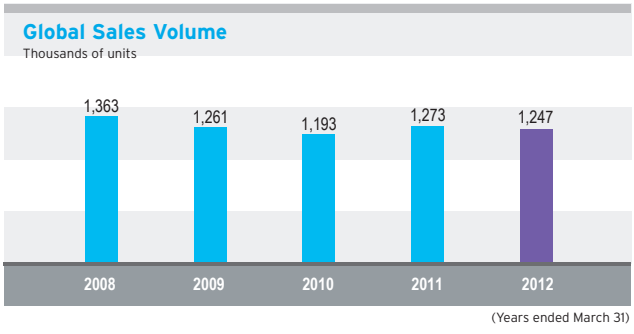
Net sales amounted to ¥2,033.1 billion, a decline of ¥292.6 billion (13%), due principally to the continued strength of the yen against other major currencies and to decreased production and sales volumes. Consolidated net sales broke down as ¥1,472.9 billion overseas, a ¥311.4 billion (17%) decrease, and ¥560.2 billion in Japan, an ¥18.7 billion (3%) increase.

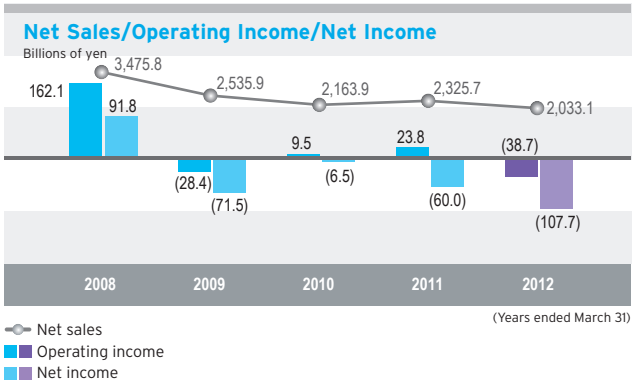
By product, vehicles sales were down ¥196.5 billion (12%), to ¥1,510.8 billion, due to the strength of the yen against other major currencies and to sluggish wholesales. Sales of knockdown parts for overseas production declined ¥48.8 billion (34%), to ¥93.1 billion. Sales of parts were down ¥17.1 billion (8%), to ¥200.1 billion, and other sales decreased ¥30.3 billion (12%), to ¥229.0 billion.

(Operating Income)

Operating results worsened by ¥62.6 billion, resulting in an operating loss of ¥38.7 billion, due to lower sales volume, a worsening of the product mix, and the strong yen. Sales volume and the product mix worsened by ¥36.3 billion, and the influence of the strong yen worsened by ¥37.6 billion.

Selling, general and administrative expenses were reduced by ¥29.0 billion (7%), to ¥409.2 billion. This achievement resulted from the successful implementation of cost improvement activities in all areas.





(Net Income)

Net other expenses were ¥16.5 billion. This included loss on impairment of fixed assets, loss on disaster from the Great East Japan Earthquake, and business restructuring costs. Consequently, loss before income taxes was ¥55.3 billion, representing a year-on-year decline of ¥71.3 billion in net results.

A write-off of deferred tax assets was implemented, and net loss was ¥107.7 billion, compared with ¥60.0 billion in the previous year. The net loss per share of common stock was ¥57.80, compared with the previous year's ¥33.92 net loss per share.

Financial Position

Total assets as of March 31, 2012, stood at ¥1,915.9 billion. This represented a ¥144.2 billion increase from the end of the previous fiscal year, reflecting increases in cash and time deposits as well as certificates of deposit due to the capital increase. Cash and cash equivalents increased ¥154.5 billion, to ¥477.3 billion. Inventories were up ¥19.2 billion, to ¥216.2 billion, while net property, plant and equipment decreased ¥2.0 billion, to ¥784.2 billion.

Total short- and long-term interest-bearing debt increased ¥85.1 billion, to ¥778.1 billion. This total included the syndicated loan of ¥70.0 billion. Net interest-bearing debt—interest-bearing debt minus the ¥477.3 billion of cash and cash equivalents—decreased ¥69.4 billion, to ¥300.8 billion, and the net debt-to-equity ratio stood at 64.2%. (52.7% after recognition of the equity credit attributes of the subordinated loan). Total liabilities at the fiscal year-end stood at ¥1,441.5 billion, which was ¥100.3 billion more than at the end of the previous fiscal year, due principally to an increase in interest-bearing debt.

Equity increased ¥43.9 billion, to ¥474.4 billion as of the fiscal year-end. Although the net loss reduced retained earnings, the increase in equity was attributable to gains in common stock and capital surplus due to the issuance of new shares. Equity used for the calculation of the equity ratio—equity less minority interests and stock acquisition rights—increased ¥40.0 billion, to ¥468.9 billion, for a 0.3 percentage point increase in the equity ratio, to 24.5% (26.3% after recognition of the equity credit attributes of the subordinated loan).

Cash Flows

(Cash Flow from Operating Activities)

Net cash used in operating activities was ¥9.1 billion. Loss before income taxes was ¥55.3 billion, while working capital declined, due primarily to an increase in inventories.

(Cash Flow from Investing Activities)

Net cash used in investing activities was ¥70.3 billion. This mainly reflected ¥61.7 billion in capital expenditures.

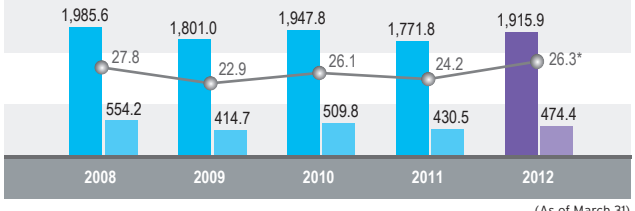
(Cash Flow from Financing Activities)

Net cash provided by financing activities amounted to ¥236.5 billion. This primarily reflected the issuance of new shares and an increase in long-term loans.

Free cash flow—the sum of operating cash flow and investing cash flow—was negative in the amount of ¥79.4 billion.

Total Assets/Equity/Equity Ratio

Billions of yen



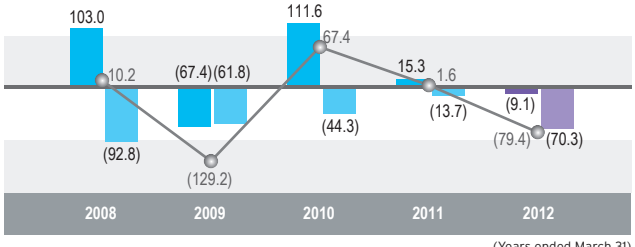
(As of March 31)

Total assets
Equity
Equity ratio

* Ratios after the recognition of equity capital attributes of the subordinated loan.

Cash Flows

Billions of yen



(Years ended March 31)

Cash flow from operating activities
Cash flow from investing activities
Free cash flow

Consolidated Balance Sheets

Mazda Motor Corporation and Consolidated Subsidiaries
March 31, 2012 and 2011

ASSETS	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars (Note 1) 2012
Current assets:			
Cash and cash equivalents	¥ 477,307	¥ 322,849	$ 5,820,817
Trade notes and accounts receivable (Note 4)	166,008	154,498	2,024,488
Inventories (Note 6 and 9)	216,190	197,011	2,636,463
Deferred taxes (Note 14)	45,997	58,307	560,939
Other current assets	85,652	89,490	1,044,537
Allowance for doubtful receivables	(1,457)	(1,726)	(17,768)
Total current assets	989,697	820,429	12,069,476
Property, plant and equipment:			
Land (Note 7)	426,700	430,367	5,203,659
Buildings and structures	439,751	430,790	5,362,817
Machinery and equipment	795,872	782,219	9,705,756
Tools, furniture, fixtures and other	181,883	181,347	2,218,085
Leased property	27,407	38,328	334,232
Construction in progress	31,319	32,115	381,939
	1,902,932	1,895,166	23,206,488
Accumulated depreciation	(1,118,696)	(1,108,945)	(13,642,634)
Net property, plant and equipment (Note 8 and 9)	784,236	786,221	9,563,854
Intangible assets	20,736	20,104	252,878
Investments and other assets:			
Investment securities:			
Affiliated companies	85,050	81,177	1,037,195
Other (Note 4)	8,308	8,965	101,317
Long-term loans receivable (Note 4)	5,411	5,255	65,988
Deferred taxes (Note 14)	6,035	32,558	73,598
Other investments and other assets	20,781	21,886	253,427
Allowance for doubtful receivables	(3,787)	(3,809)	(46,183)
Investment valuation allowance	(524)	(1,019)	(6,391)
Total investments and other assets	121,274	145,013	1,478,951
Total assets	¥ 1,915,943	¥ 1,771,767	$ 23,365,159

See accompanying notes.

LIABILITIES AND EQUITY	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars (Note 1) 2012
Current liabilities:			
Short-term debt (Note 4 and 9)	¥ 65,842	¥ 79,447	$ 802,951
Long-term debt due within one year (Note 4 and 9)	94,241	125,804	1,149,280
Trade notes and accounts payable (Note 4)	244,405	208,111	2,980,549
Accrued income taxes	8,684	9,026	105,902
Accrued expenses (Note 4)	142,386	146,621	1,736,415
Reserve for warranty expenses	33,178	42,556	404,610
Other current liabilities (Note 14)	34,063	30,752	415,403
Total current liabilities	622,799	642,317	7,595,110
Long-term liabilities:			
Long-term debt due after one year (Note 4 and 9)	618,002	487,749	7,536,610
Deferred tax liability related to land revaluation (Note 7)	79,774	93,431	972,854
Employees' severance and retirement benefits (Note 10)	76,150	78,284	928,659
Reserve for loss from business of affiliates	7,671	9,998	93,549
Reserve for environmental measures	1,494	1,474	18,220
Other long-term liabilities (Note 14)	35,624	27,975	434,437
Total long-term liabilities	818,715	698,911	9,984,329
Equity:			
Capital and retained earnings:			
Common stock (Note 12)	258,957	186,500	3,158,012
Authorized: 3,000,000,000 shares			
Issued: 2,999,377,399 shares in 2012 and 1,780,377,399 shares in 2011			
Capital surplus (Note 12)	242,649	170,192	2,959,134
Retained earnings	(88,715)	15,082	(1,081,890)
Treasury stock (10,201,538 shares in 2012 and 10,194,637 shares in 2011)	(2,190)	(2,189)	(26,707)
Total capital and retained earnings	410,701	369,585	5,008,549
Accumulated other comprehensive income:			
Net unrealized gain/(loss) on available-for-sale securities	(160)	(167)	(1,951)
Deferred gains/(losses) on hedges	(3,529)	(2,841)	(43,037)
Land revaluation (Note 7)	143,108	135,794	1,745,220
Foreign currency translation adjustments	(76,833)	(71,233)	(936,988)
Pension adjustments recognized by foreign consolidated subsidiaries	(4,433)	(2,326)	(54,061)
Total accumulated other comprehensive income	58,153	59,227	709,183
Stock acquisition rights	259	460	3,159
Equity attributable to shareholders of Mazda Motor Corporation	469,113	429,272	5,720,891
Minority interests in consolidated subsidiaries	5,316	1,267	64,829
Total equity	474,429	430,539	5,785,720
Total liabilities and equity	¥1,915,943	¥1,771,767	$23,365,159

Consolidated Statements of Operations and Comprehensive Income

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Net sales	¥2,033,058	¥2,325,689	$24,793,390
Cost and expenses:			
Cost of sales	1,662,592	1,863,678	20,275,512
Selling, general and administrative expenses	409,184	438,176	4,990,049
	2,071,776	2,301,854	25,265,561
Operating income/(loss)	(38,718)	23,835	(472,171)
Other income/(expenses):			
Interest and dividend income	2,528	2,071	30,829
Interest expense	(11,451)	(11,840)	(139,646)
Equity in net income of affiliated companies	9,552	14,216	116,488
Other, net (Note 13)	(17,173)	(12,201)	(209,427)
	(16,544)	(7,754)	(201,756)
Income/(loss) before income taxes	(55,262)	16,081	(673,927)
Income taxes (Note 14):			
Current	15,755	16,664	192,134
Prior year	(2,158)	—	(26,317)
Deferred	38,759	59,181	472,671
	52,356	75,845	638,488
Loss before minority interests	(107,618)	(59,764)	(1,312,415)
Minority interests in consolidated subsidiaries	115	278	1,402
Net loss	¥ (107,733)	¥ (60,042)	$ (1,313,817)
Minority interests in consolidated subsidiaries	115	278	1,402
Loss before minority interests	(107,618)	(59,764)	(1,312,415)
Other comprehensive income:			
Net unrealized gain/(loss) on available-for-sale securities	8	(300)	98
Net loss on derivative instruments	(719)	(1,398)	(8,768)
Land revaluation	11,250	—	137,195
Foreign currency translation adjustments	(1,494)	(4,378)	(18,220)
Pension adjustments recognized by foreign consolidated subsidiaries	(2,106)	(2,247)	(25,683)
Share of other comprehensive income of affiliates accounted for using equity method	(3,832)	(5,225)	(46,732)
Total other comprehensive income	3,107	(13,548)	37,890
Comprehensive income	¥ (104,511)	¥ (73,312)	$ (1,274,525)
Comprehensive income attributable to:			
Owners of Mazda Motor Corporation	(104,871)	(73,580)	(1,278,915)
Minority interests	360	268	4,390

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net loss (Note 2):			
Basic	¥(57.80)	¥(33.92)	$(0.70)
Cash dividends applicable to the year	—	—	—

See accompanying notes.

Consolidated Statements of Equity

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen								
	Equity attributable to shareholders of Mazda Motor Corporation								
	Capital and retained earnings					Accumulated other comprehen-sive income	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total				
April 1, 2010	¥186,500	¥170,192	¥ 80,268	¥(2,182)	¥ 434,778	¥73,131	¥ 445	¥1,461	¥ 509,815
Effect of changes in accounting policies applied to foreign equity-method affiliates on the beginning balance of retained earnings	—	—	(309)	—	(309)	—	—	—	(309)
Cash dividends paid	—	—	(5,311)	—	(5,311)	—	—	—	(5,311)
Net loss	—	—	(60,042)	—	(60,042)	—	—	—	(60,042)
Increase/(decrease)									
Treasury stock	—	—	—	(7)	(7)	—	—	—	(7)
Land revaluation	—	—	366	—	366	(366)	—	—	—
Change of consolidation scope	—	—	110	—	110	—	—	—	110
Net unrealized loss on available-for-sale securities	—	—	—	—	—	(298)	—	—	(298)
Net loss on derivative instruments	—	—	—	—	—	(1,343)	—	—	(1,343)
Foreign currency translation adjustments	—	—	—	—	—	(9,650)	—	—	(9,650)
Pension adjustments recognized by foreign subsidiaries	—	—	—	—	—	(2,247)	—	—	(2,247)
Stock acquisition rights from granting of share-based payment	—	—	—	—	—	—	15	—	15
Minority interests in consolidated subsidiaries	—	—	—	—	—	—	—	(194)	(194)
April 1, 2011	¥186,500	¥170,192	¥ 15,082	¥(2,189)	¥ 369,585	¥59,227	¥ 460	¥1,267	¥ 430,539
Issuance of new common stock	**72,457**	**72,457**	**—**	**—**	**144,914**	**—**	**—**	**—**	**144,914**
Net loss	**—**	**—**	**(107,733)**	**—**	**(107,733)**	**—**	**—**	**—**	**(107,733)**
Increase/(decrease)									
Treasury stock	**—**	**—**	**—**	**(1)**	**(1)**	**—**	**—**	**—**	**(1)**
Land revaluation	**—**	**—**	**3,936**	**—**	**3,936**	**7,314**	**—**	**—**	**11,250**
Net unrealized gain on available-for-sale securities	**—**	**—**	**—**	**—**	**—**	**7**	**—**	**—**	**7**
Net loss on derivative instruments	**—**	**—**	**—**	**—**	**—**	**(688)**	**—**	**—**	**(688)**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**—**	**(5,600)**	**—**	**—**	**(5,600)**
Pension adjustments recognized by foreign subsidiaries	**—**	**—**	**—**	**—**	**—**	**(2,107)**	**—**	**—**	**(2,107)**
Stock acquisition rights from granting of share-based payment	**—**	**—**	**—**	**—**	**—**	**—**	**(201)**	**—**	**(201)**
Minority interests in consolidated subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**4,049**	**4,049**
March 31, 2012	**¥258,957**	**¥242,649**	**¥ (88,715)**	**¥(2,190)**	**¥ 410,701**	**¥58,153**	**¥ 259**	**¥5,316**	**¥ 474,429**

	Thousands of U.S. dollars (Note 1)								
	Equity attributable to shareholders of Mazda Motor Corporation								
	Capital and retained earnings					Accumulated other comprehen-sive income	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total				
April 1, 2011	$2,274,390	$2,075,512	$ 183,927	$(26,695)	$ 4,507,134	$722,281	$5,610	$15,451	$ 5,250,476
Issuance of new common stock	**883,622**	**883,622**	**—**	**—**	**1,767,244**	**—**	**—**	**—**	**1,767,244**
Net loss	**—**	**—**	**(1,313,817)**	**—**	**(1,313,817)**	**—**	**—**	**—**	**(1,313,817)**
Increase/(decrease)									
Treasury stock	**—**	**—**	**—**	**(12)**	**(12)**	**—**	**—**	**—**	**(12)**
Land revaluation	**—**	**—**	**48,000**	**—**	**48,000**	**89,195**	**—**	**—**	**137,195**
Net unrealized gain on available-for-sale securities	**—**	**—**	**—**	**—**	**—**	**85**	**—**	**—**	**85**
Net loss on derivative instruments	**—**	**—**	**—**	**—**	**—**	**(8,390)**	**—**	**—**	**(8,390)**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**—**	**(68,293)**	**—**	**—**	**(68,293)**
Pension adjustments recognized by foreign subsidiaries	**—**	**—**	**—**	**—**	**—**	**(25,695)**	**—**	**—**	**(25,695)**
Stock acquisition rights from granting of share-based payment	**—**	**—**	**—**	**—**	**—**	**—**	**(2,451)**	**—**	**(2,451)**
Minority interests in consolidated subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**49,378**	**49,378**
March 31, 2012	**$3,158,012**	**$2,959,134**	**$(1,081,890)**	**$(26,707)**	**$ 5,008,549**	**$709,183**	**$3,159**	**$64,829**	**$ 5,785,720**

See accompanying notes.

Consolidated Statements of Cash Flows

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Cash flows from operating activities:			
Income/(loss) before income taxes	¥ (55,262)	¥ 16,081	$ (673,927)
Adjustments to reconcile income/(loss) before income taxes to net cash provided by/(used in) operating activities:			
Depreciation and amortization	68,791	71,576	838,915
Loss on impairment of fixed assets	7,171	3,416	87,451
Adoption of accounting standards for asset retirement obligations	—	2,684	—
Allowance for doubtful receivables	(245)	(469)	(2,988)
Investment valuation allowance	(495)	(262)	(6,037)
Reserve for warranty expenses	(9,378)	5,627	(114,366)
Employees' severance and retirement benefits	(2,134)	(6,074)	(26,024)
Reserve for loss from business of affiliates	(2,327)	4,136	(28,378)
Reserve for environmental measures	19	10	232
Interest and dividend income	(2,528)	(2,071)	(30,829)
Interest expense	11,451	11,840	139,646
Equity in net loss/(income) of affiliated companies	(9,552)	(14,216)	(116,488)
Loss on sale/disposition of property, plant and equipment, net	3,270	1,908	39,878
Gain on sale of investment securities, net	36	(11)	439
Gain on sale of investments in affiliates	—	(702)	—
Decrease/(increase) in trade notes and accounts receivable	(15,709)	20,679	(191,573)
Decrease/(increase) in inventories	(28,185)	4,763	(343,720)
Increase/(decrease) in trade notes and accounts payable	37,551	(61,124)	457,939
Increase/(decrease) in other current liabilities	2,142	(10,262)	26,122
Other	7,581	(8,947)	92,452
Subtotal	12,197	38,582	148,744
Interest and dividends received	3,112	5,351	37,951
Interest paid	(11,267)	(11,986)	(137,402)
Income taxes paid	(13,140)	(16,603)	(160,244)
Net cash provided by/(used in) operating activities	(9,098)	15,344	(110,951)
Cash flows from investing activities:			
Payments into time deposits	(1,000)	(10,001)	(12,195)
Proceeds from withdrawal of time deposits	—	10,013	—
Proceeds from sales and redemption of securities	—	20,000	—
Purchase of investment securities	(12)	(1,229)	(146)
Proceeds from sales and redemption of investment securities	600	191	7,317
Acquisition of property, plant and equipment	(61,724)	(32,249)	(752,732)
Proceeds from sale of property, plant and equipment	1,412	2,758	17,220
Acquisition of intangible assets	(8,160)	(4,946)	(99,512)
Decrease/(increase) in short-term loans receivable	(1,321)	4	(16,110)
Long-term loans receivable made	(319)	(330)	(3,890)
Collections of long-term loans receivable	219	406	2,671
Sale of investments in subsidiaries affecting scope of consolidation	—	1,691	—
Other	(12)	(25)	(147)
Net cash provided by/(used in) investing activities	(70,317)	(13,717)	(857,524)
Cash flows from financing activities:			
Increase/(decrease) in short-term debt	(9,983)	1,605	(121,744)
Proceeds from long-term debt	227,550	114,169	2,775,000
Repayment of long-term debt	(129,450)	(123,826)	(1,578,659)
Proceeds from issuance of common stock	144,656	—	1,764,098
Cash dividends paid	—	(5,311)	—
Proceeds from stock issuance to minority shareholders	3,691	—	45,012
Cash dividends paid to the minority shareholders of consolidated subsidiaries	(1)	(458)	(12)
Treasury stock transactions	(1)	(7)	(12)
Other	—	(532)	—
Net cash provided by/(used in) financing activities	236,462	(14,360)	2,883,683
Effect of exchange rate fluctuations on cash and cash equivalents	(2,589)	(10,721)	(31,574)
Net increase/(decrease) in cash and cash equivalents	154,458	(23,454)	1,883,634
Cash and cash equivalents at beginning of the year	322,849	346,303	3,937,183
Cash and cash equivalents at end of the year	¥ 477,307	¥322,849	$ 5,820,817

See accompanying notes.

1 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Mazda Motor Corporation (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards ("IFRS").

For the convenience of readers outside Japan, the accompanying consolidated financial statements have been reformatted and translated into English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law of Japan. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2012, which was ¥82 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2 SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The accompanying consolidated financial statements include the Company and significant companies, over which the Company has power of control through majority voting rights or existence of certain conditions evidencing control by the Company. Investments in affiliates, over which the Company has the ability to exercise significant influence over operating and financial policies of the investees, are accounted for by the equity method.

The consolidated financial statements include the Company and 56 subsidiaries (51 in the year ended March 31, 2011). In addition, 13 affiliates (14 in the year ended March 31, 2011) are accounted for by the equity method.

The consolidated year-end balance sheet date is March 31. Among the consolidated subsidiaries, three companies (two at March 31, 2011) have a year-end balance sheet date of December 31, which is different from the consolidated balance sheet date. Adjustments necessary in consolidation are made for material transactions that have occurred between the balance sheet date of these subsidiaries and the consolidated year-end balance sheet date.

Results of consolidated statements for the year ended March 31, 2011 include 15 months' operations of four consolidated subsidiaries that have changed their balance sheets date from December 31 to March 31.

The difference between acquisition cost and net assets acquired is shown as consolidation goodwill and amortized on a straight-line basis over a period (primarily 5 years) during which each investment is expected to generate benefits.

Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate at the fiscal year-end; gains and losses in foreign currency translation are included in the income of the current period.

Balance sheets of consolidated foreign subsidiaries are translated into Japanese yen at the rates on the subsidiaries' balance sheet dates except for equity accounts, which are translated at historical rates. Income statements of consolidated foreign subsidiaries are translated at average rates during the subsidiaries' accounting periods, with the translation differences prorated and included in the equity as foreign currency translation adjustments and minority interests in consolidated subsidiaries.

Cash and cash equivalents

The Company and its consolidated subsidiaries consider all highly liquid investments with maturities of three months or less at the time of acquisition to be cash equivalents.

Securities

Securities are classified as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

The Company and its consolidated subsidiaries do not have trading securities or held-to-maturity debt securities. Equity securities issued by subsidiaries and affiliated companies which, based on the applicable materiality provisions of Japanese GAAP, are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of accumulated other comprehensive income within equity. Realized gains and losses on the sale of such securities are computed using moving-average cost. Available-for-sale securities without available fair market values are stated mainly at moving average cost.

If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as a loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method and available-for-sale securities is not readily available, such securities should be written down to net asset value with a corresponding charge to income in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

Inventories

Inventories are stated at the lower of cost (determined principally by the average method), or net realizable value.

Property, plant and equipment (except for leased property)

Property, plant and equipment are stated mainly at cost. Depreciation is computed principally using the straight-line method over the estimated useful lives, net of the estimated residual values of the assets.

For the Company and its consolidated domestic subsidiaries (together the "Domestic Companies"), useful lives and residual values are estimated by a method equivalent to the provisions of the Corporate Tax Code of Japan.

Intangible assets (except for leased property)

Intangible assets are amortized principally on the straight-line method over the estimated useful lives of the assets.

For the Domestic Companies, useful lives are estimated by a method equivalent to the provisions of the Corporate Tax Code of Japan. Software for internal use is amortized on a straight-line basis over the period of internal use, i.e., 5 years.

Leased property

Finance leases are capitalized in the balance sheet. Depreciation or amortization expense is recognized on a straight-line basis over the lease period.

For leases with a guaranteed minimum residual value, the contracted residual value is considered to be the residual value for financial accounting purposes. For other leases, the residual value is zero.

Allowance for doubtful receivables

Allowance for doubtful receivables provides for the losses from bad debt. The amount estimated to be uncollectible is recognized. For receivables of ordinary risk, the amount is estimated based on the past default ratio.

For receivables of high risk and receivables from debtors under bankruptcy proceedings, the amount is estimated based on the financial standing of the debtor.

Investment valuation allowance

Investment valuation allowance provides for losses from investments. The amount is estimated in light of the financial standings of the investee companies.

Reserve for warranty expenses

In order to match the recognition of after-sales expenses to product (vehicle) sales revenues, an amount estimated based on product warranty provisions and actual costs incurred in the past, taking future prospects into consideration, is recognized.

Employees' severance and retirement benefits

The Domestic Companies provide various types of post-employment benefit plans, including lump-sum plans, defined benefit pension plans, and defined contribution pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service, and certain other factors. Also, consolidated foreign subsidiaries provide defined benefit and/or contribution plans.

The liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

Employees' severance and retirement benefits are provided based on the estimated amounts of projected benefit obligation and the fair value of the plan assets. Prior service costs are recognized in expenses in equal amounts mainly over 12 years, which is within the average of the estimated remaining service periods of employees, and actuarial gains and losses are recognized in expenses using the straight-line basis mainly over 13 years, which is within the average of the estimated remaining service periods, commencing with the following period.

(Additional Information)

Effective from October 2011, some consolidated domestic subsidiaries changed their post-employment benefit plans and such changes were accounted for in accordance with the Accounting Standards Board of Japan ("ASBJ") Guidance No.1 "Guidance on Accounting Standard for Transfer between Retirement Benefit Plans" and the Practical Issue Task Force ("PITF") No.2 "Practical Solution on Accounting for Transfer between Retirement Benefit Plans". As a result, transition losses of ¥1,044 million ($12,732 thousand) were posted in "Other, net" item in Other income/(expenses) in the consolidated statements of operations for the year ended March 31, 2012.

Reserve for loss from business of affiliates

Reserve for loss from business of affiliates provides for losses from affiliates' businesses. The amount of loss estimated to be incurred by the Company is recognized.

Reserve for environmental measures

Reserve for environmental measures provides for expenditure aimed at environmental measures. The amount of future expenditure estimated as of the end of the current fiscal year is recognized.

Income taxes

Income taxes are comprised of corporation, enterprise, and inhabitants taxes. Deferred tax assets and liabilities are recognized to reflect the estimated tax effects attributable to temporary differences and carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates that will be in effect when the temporary differences are expected to reverse. The measurement of deferred tax assets is reduced by a valuation allowance, if necessary, by the amount of any tax benefits that are not expected to be realized.

Research and development costs

Research and development costs are charged to income when incurred. For the years ended March 31, 2012 and 2011, research and development costs were ¥91,716 million ($1,118,488 thousand) and ¥90,961 million, respectively.

Derivatives and hedge accounting

Derivative financial instruments are mainly stated at fair value, and changes in the fair value are recognized as gains or losses unless derivative financial instruments are used for hedging purposes and meet criteria for hedge accounting.

If derivative financial instruments are used as hedges and meet certain hedging criteria, recognition of gains or losses resulting from changes in the fair value of derivative financial instruments is deferred until the related losses or gains on the hedged items are recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Amounts per share of common stock

The computations of net income or loss per share of common stock are based on the average number of shares outstanding during each fiscal year. Diluted net income per share of common stock is computed based on the average number of shares outstanding during each fiscal year after giving effect to the diluting potential of common stock to be issued upon the exercise of stock acquisition rights and stock options.

For the years ended March 31, 2012 and 2011, only information on net loss per share of common stock is provided without information on diluted net loss per share of common stock to reflect the diluting effect in accordance with the applicable provisions of Japanese GAAP.

Cash dividends per share represent amounts applicable for the respective years on an accrual basis.

Reclassifications

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to this year's presentation.

3 ADOPTION OF NEW ACCOUNTING STANDARDS AND ACCOUNTING CHANGES

None.

Additional Information

(Adoption of Accounting Standards for Accounting Changes and Error Corrections)

The Company and its consolidated domestic subsidiaries adopted "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No.24 issued on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24, issued on December 4, 2009) for accounting changes and corrections of prior period errors which are made from the fiscal year beginning on April 1, 2011.

4 FINANCIAL INSTRUMENTS

Qualitative information on financial instruments

Policies for using financial instruments

The Company and its consolidated subsidiaries finance cash mainly through bank loans and the issuance of bonds, in light of planned capital investment. Temporary surplus funds are managed through investments in low-risk assets. Short-term operating funds are financed mainly through bank loans and commercial paper. Our policies on derivative instruments are to use them to hedge risks, as discussed below, and not to conduct speculative transactions.

Details of financial instruments and the exposures to risk

Trade notes and accounts receivable, while mostly due within one year, are subject to customers' credit risks. Accounts receivable denominated in foreign currencies are subject to the risk of fluctuations in foreign currency exchange rates; such risk is hedged, in principle, by netting the foreign-currency-denominated accounts receivable against accounts payable, and applying foreign exchange forward contracts on the resulting net position.

Short-term investments consist mainly of certificates of deposit and other highly-liquid short-term investments. Investment securities consist mainly of stocks of our business partner companies and are subject to the risk of market price fluctuations and other factors. Long-term loans are provided mainly to our business partner companies.

Trade notes and accounts payable, as well as other accounts payable, are due within one year. Of these payables, those denominated in foreign currencies are subject to the risk of fluctuations in foreign exchange rates. However, the balance of such payables denominated in major currencies is constantly less than that of the accounts receivable denominated in the same foreign currency. For minor currencies where this does not apply, such payables are hedged, as necessary, through foreign exchange forward contracts, considering the transaction amounts and the degree of risk of foreign exchange rate fluctuation.

Loans payable, bonds payable, and finance lease obligations are mainly intended for financing cash required for capital investment. The longest time to maturity of these liabilities is 60 years and 4 months. Of these liabilities, those of the variable-interest-rate type are subject to the risk of interest rate fluctuations; part of them is hedged through derivative transactions (interest rate swaps).

Derivative instruments consist of foreign exchange forward contracts and interest rate swaps. For details on derivative instruments, refer to "Derivatives and hedge accounting" under Note 2, "Significant Accounting Policies," and Note 15, "Derivative Financial Instruments and Hedging Transactions".

Policies and processes for managing the risk

Management of credit risks (i.e., risks associated to the default of counterparties)

The Company and its consolidated subsidiaries manage credit risks, in compliance with internal control rules and procedures.

The due dates and the balances of trade notes, accounts receivable, and loans receivable from major counterparties are monitored and managed, in order to detect early and mitigate the risk of doubtful receivables.

Short-term investments are limited mainly to time deposits and certificates of deposit of banks approved by the Chief Finance Officer. As such, the credit risks of these short-term investments are considered to be minimal.

Derivative transactions are executed only with banks with high credit ratings, in order to mitigate counterparty risk.

For both short-term investments and derivatives, the credit risks of counterparty financial institutions are reviewed on a quarterly basis.

Management of market risks (i.e., risks associated to fluctuations in foreign exchange rates and interest rates)
The Company and some of its consolidated subsidiaries hedge the risk of foreign exchange rate fluctuation on foreign-currency-denominated receivables and payables, using foreign exchange forward contracts, on a monthly and individual currency basis. Foreign exchange forward contracts are executed as necessary, up to six months ahead at longest, on foreign-currency-denominated receivables and payables that are expected to arise with certainty as a result of forecasted export and import transactions.

The Company and some of its consolidated subsidiaries use interest rate swaps in order to reduce the risk of interest rate fluctuation on loans payable.

For details on management of derivative transactions, refer to Note 15, “Derivative Financial Instruments and Hedging Transactions”.

As regards short-term investments and investment securities, their fair values as well as the financial standing of their issuing entities are monitored on a regular basis. Ownership of available-for-sale securities are reviewed on a continuous basis.

Management of liquidity risks related to financing (i.e., risks of non-performance of payments on their due dates)
The liquidity risks of the Company and its consolidated subsidiaries are managed mainly through the preparation and update of the cash schedule by the Treasury Department.

Fair values of financial instruments

As of March 31, 2012, the carrying values on the consolidated balance sheet, the fair values, and the differences between these amounts, respectively, of financial instruments were as follows. Financial instruments which fair value is deemed highly difficult to measure are excluded from the following table.

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2012	Carrying values	Fair values	Difference	Carrying values	Fair values	Difference
Assets:						
1) Trade notes and accounts receivable	¥ 166,008	¥ —	¥ —	$ 2,024,488	$ —	$ —
Allowance for doubtful receivables (*1)	(254)	—	—	(3,098)	—	—
Trade notes and accounts receivable, net	165,754	165,750	(4)	2,021,390	2,021,341	(49)
2) Investment securities						
Available-for-sale securities	5,466	5,466	—	66,659	66,659	—
3) Long-term loans receivable (*2)	5,481	—	—	66,841	—	—
Allowance for doubtful receivables (*3)	(2,367)	—	—	(28,866)	—	—
Long-term loans receivable, net	3,114	3,114	—	37,975	37,975	—
Total	¥ 174,334	¥ 174,330	¥ (4)	$ 2,126,024	$ 2,125,975	$ (49)
Liabilities:						
1) Trade notes and accounts payable	¥ 244,405	¥ 244,405	¥ —	$ 2,980,549	$ 2,980,549	$ —
2) Other accounts payable	23,040	23,040	—	280,976	280,976	—
3) Short-term loans payable	65,842	65,842	—	802,951	802,951	—
4) Long-term debt	712,243	707,239	(5,004)	8,685,890	8,624,866	(61,024)
Total	¥1,045,530	¥1,040,526	¥(5,004)	$12,750,366	$12,689,342	$(61,024)
Derivative instruments: (*4)						
1) Hedge accounting not applied	¥ (2,510)	¥ (2,510)	¥ —	$ (30,610)	$ (30,610)	$ —
2) Hedge accounting applied	(5,717)	(5,717)	—	(69,720)	(69,720)	—
Total	¥ (8,227)	¥ (8,227)	¥ —	$ (100,330)	$ (100,330)	$ —

As of March 31, 2011	Millions of yen		
	Carrying values	Fair values	Difference
Assets:			
1) Trade notes and accounts receivable	¥154,498	¥ —	¥ —
Allowance for doubtful receivables (*1)	(756)	—	—
Trade notes and accounts receivable, net	153,742	153,724	(18)
2) Investment securities			
Available-for-sale securities	5,714	5,714	—
3) Long-term loans receivable (*2)	5,405	—	—
Allowance for doubtful receivables (*3)	(2,343)	—	—
Long-term loans receivable, net	3,062	3,062	—
Total	¥162,518	¥162,500	¥ (18)
Liabilities:			
1) Trade notes and accounts payable	¥208,111	¥208,111	¥ —
2) Other accounts payable	22,738	22,738	—
3) Short-term loans payable	79,447	79,447	—
4) Long-term debt	613,553	627,075	13,522
Total	¥923,849	¥937,371	¥13,522
Derivative instruments: (*4)			
1) Hedge accounting not applied	¥ (362)	¥ (362)	¥ —
2) Hedge accounting applied	(4,746)	(4,746)	—
Total	¥ (5,108)	¥ (5,108)	¥ —

(*1) Allowance for doubtful receivables, which is recognized on the basis of each individual accounts receivable, is deducted.
(*2) Long-term loans receivable include those due within one year, which are included in “other current assets” on the consolidated balance sheet.
(*3) Allowance for doubtful receivables, which is recognized on the basis of each individual long-term loans receivable, is deducted.
(*4) Receivables and payables resulting from derivative transactions are offset against each other and presented on a net basis; when a net liability results, the net amount is shown in ().

The financial instruments in the following table are excluded from “Assets 2) Investment securities” in the above tables because measuring the fair value of these instruments is deemed highly difficult: market prices of these instruments are not available and future cash flows from these instruments are not contracted.

As of March 31	Millions of yen		Thousands of U.S. dollars
	Carrying values		Carrying values
	2012	2011	**2012**
Available-for-sale securities:			
Non-listed equity securities	**¥ 2,842**	¥ 3,251	**$ 34,658**
Investment in securities of affiliated companies	**85,050**	81,177	**1,037,195**
Total	**¥87,892**	¥84,428	**$1,071,853**

Basis of measuring fair value of financial instruments

The fair values of some financial instruments are based on market prices. When market prices are unavailable, the fair values are based on reasonably estimated values. The estimated values may vary depending on the assumptions and variables used in the estimation.

Assets

1) Trade notes and accounts receivable

The fair values of these receivables are calculated by grouping the receivables according to their time to maturity, and then by discounting the amount of those receivables by group to present values. The discount rates used in computing the present values reflect the time to maturity as well as credit risk.

2) Investment securities

As for listed stocks included in investment securities, their quoted prices on the stock exchange are used as their fair values.

For notes on securities by classification, refer to “Securities” under Note 2, “Significant Accounting Policies", and Note 5, “Securities”.

3) Long-term loans receivable
Long-term loans receivable consist of variable interest loans. As such, the interest rates on these loans reflect the market rates of interest within short periods of time. Also, the credit standings of borrowers of these loans have not changed significantly since the execution of these loans. Accordingly, the carrying values are used as the fair values of these loans receivable.

For loans receivable at a high risk, the fair value is calculated mainly based on amounts estimated to be collectible through collateral and guarantees.

Liabilities
1) Trade notes and accounts payable, 2) Other accounts payable, and 3) Short-term loans payable
These payables are settled within short periods of time. Hence, their carrying values approximate their fair values. Accordingly, carrying values are used as the fair values of these payables.

4) Long-term debt
a) Bonds payable
The fair value of bonds issued by the Company and its consolidated subsidiaries is based on the market price where such a price is available. Otherwise, the sum of the present value of principal and interest payments is used as the fair value of bonds payable. The discount rates used in computing the present value reflect the time to maturity of the bonds as well as credit risk.
b) Long-term loans payable and c) Lease obligations
The fair value of these liabilities is calculated by the sum of the principal and interest payments discounted to present value, using the imputed interest rate that would be required to newly execute a similar borrowing or lease transaction.

For some long-term loans payable with variable interest rates, interest rate swaps are used as a hedge against interest rate fluctuations. When such interest rate swaps meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the long-term loans payable. In such cases, the resulting net interest on the long-term loans payable is used in calculating the present value.

Derivative instruments
Refer to Note 15, “Derivative Financial Instruments and Hedging Transactions”.

Scheduled amounts of receivables were as follows:

	Millions of yen				Thousands of U.S. dollars			
As of March 31, 2012	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Trade notes and accounts receivable	¥165,662	¥ 346	¥ —	¥ —	$2,020,268	$ 4,220	$ —	$ —
Long-term loans receivable	70	4,338	605	468	854	52,902	7,378	5,707
Total	¥165,732	¥4,684	¥605	¥468	$2,021,122	$57,122	$7,378	$5,707

	Millions of yen			
As of March 31, 2011	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Trade notes and accounts receivable	¥153,521	¥ 977	¥ —	¥ —
Long-term loans receivable	150	4,336	569	350
Total	¥153,671	¥5,313	¥569	¥350

For the schedule of repayment of long-term debt after the consolidated balance sheet date, refer to Note 9, “Short-Term Debt and Long-Term Debt.”

5 SECURITIES

The Company and its consolidated subsidiaries had no trading or held-to-maturity debt securities at March 31, 2012 and 2011.

Available-for-sale securities with market values as of March 31, 2012 and 2011 were as follows:

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2012	Acquisition costs	Carrying values	Difference	Acquisition costs	Fair values	Difference
Stocks	¥ 4,520	¥ 4,328	¥(192)	$ 55,122	$ 52,780	$(2,342)
Other	251,003	251,012	9	3,061,012	3,061,122	110
Total	¥255,523	¥255,340	¥(183)	$3,116,134	$3,113,902	$(2,232)

	Millions of yen		
As of March 31, 2011	Acquisition costs	Carrying values	Difference
Stocks	¥ 4,523	¥ 4,269	¥(254)
Other	154,075	154,075	—
Total	¥158,598	¥158,344	¥(254)

6 INVENTORIES

Inventories as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2012	2011	2012
Finished products	¥156,720	¥141,959	$1,911,219
Work in process	48,232	42,842	588,195
Raw materials and supplies	11,238	12,210	137,049
Total	¥216,190	¥197,011	$2,636,463

7 LAND REVALUATION

As of March 31, 2001, in accordance with the Law to Partially Revise the Land Revaluation Law (Law No.19, enacted on March 31, 2001), land owned by the Company for business use was revalued. The unrealized gains on the revaluation are included in equity as “Land revaluation”, net of deferred taxes. The deferred taxes on the unrealized gains are included in liabilities as “Deferred tax liability related to land revaluation”.

The fair value of land was determined based on official notice prices that are assessed and published by the Commissioner of the National Tax Administration, as stipulated in Article 2-4 of the Ordinance Implementing the Law Concerning Land Revaluation (Article 119 of 1998 Cabinet Order, promulgated on March 31, 1998). Reasonable adjustments, including those for the timing of assessment, are made to the official notice prices.

The amounts of decrease in the aggregate fair value of the revalued land as of March 31, 2012 and 2011 from that at the time of revaluation, as stipulated in Article 10 of the Land Revaluation Law, were ¥93,531 million ($1,140,622 thousand) and ¥95,099 million, respectively.

8 IMPAIRMENT OF LONG-LIVED ASSETS

For the purpose of reviewing for impairment, assets are generally grouped by company; however, idle assets, assets for rent and assets for selling are individually reviewed for impairment.

For the years ended March 31, 2012 and 2011, the Domestic Companies recognized an impairment loss of ¥763 million ($9,305 thousand) and ¥2,387 million, respectively, on idle assets.

In addition, for the year ended March 31, 2011, a consolidated foreign subsidiary in the United States reduced the carrying value of its leased property held for use in production, resulting in an impairment loss of ¥1,029 million.

Furthermore, for the year ended March 31, 2012, the Company and a consolidated foreign subsidiary in the United States reduced the value of its land and buildings for selling by ¥6,408 million ($78,146 thousand).

As a result, the total impairment loss that was recognized in the consolidated statement of operations for the years ended March 31, 2012 and 2011 amounted to ¥7,171 million ($87,451 thousand) and ¥3,416 million, respectively.

9 SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt as of March 31, 2012 and 2011 consisted of loans, principally from banks with interest averaging 0.94% and 1.42% for the respective years.

Long-term debt as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2012	2011	2012
Domestic unsecured bonds due serially 2012 through 2016 at rate of 0.56% to 1.87% per annum	¥ 95,750(*)	¥ 115,850	$ 1,167,683
Loans principally from banks, maturing through 2072:			
Secured loans	103,495	63,146	1,262,134
Unsecured loans	500,987	410,278	6,109,597
Lease obligations, maturing through 2019	12,011	24,279	146,476
Sub total	712,243	613,553	8,685,890
Amount due within one year	(94,241)	(125,804)	(1,149,280)
Total	¥618,002	¥ 487,749	$ 7,536,610

(*) As of March 31, 2012, certain of these unsecured bonds amounting to ¥750 million ($9,146 thousand) are bank-guaranteed under the condition that assets are pledged to the bank as collateral by the issuer of the bonds.

The annual interest rates applicable to long-term loans and lease obligations outstanding averaged 1.52% and 3.22%, respectively, for obligations due within one year and 1.86% and 2.31%, respectively, for obligations due after one year at March 31, 2012.

The annual interest rates applicable to long-term loans and lease obligations outstanding averaged 1.42% and 3.23%, respectively, for obligations due within one year and 1.55% and 3.30%, respectively, for obligations due after one year at March 31, 2011.

As is customary in Japan, general agreements with banks include provisions that security and guarantees will be provided if requested by banks. Banks have the right to offset cash deposited with them against any debt or obligation that becomes due and, in the case of default or certain other specified events, against all debts payable to banks.

The annual maturities of long-term debt at March 31, 2012 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2013	¥ 94,241	$1,149,280
2014	103,691	1,264,524
2015	107,644	1,312,732
2016	83,740	1,021,220
2017	124,121	1,513,671
Thereafter	198,806	2,424,463
Total	¥712,243	$8,685,890

The assets pledged as collateral for short-term debt of ¥37,103 million ($452,476 thousand) and ¥35,809 million, and long-term debt of ¥104,245 million ($1,271,280 thousand) and ¥63,996 million at March 31, 2012 and 2011, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2012	2011	2012
Property, plant and equipment, at net book value	¥409,461	¥411,384	$4,993,427
Inventories	37,264	—	454,439
Other	28,926	3	352,756
Total	¥475,651	¥411,387	$5,800,622

10 EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The liabilities for severance and retirement benefits as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2012	2011	2012
Projected benefit obligation	¥ 287,761	¥ 277,155	$ 3,509,280
Unrecognized prior service costs	11,935	14,954	145,549
Unrecognized actuarial differences	(43,324)	(42,864)	(528,341)
Less fair value of pension assets	(182,870)	(176,076)	(2,230,122)
Prepaid pension cost	2,648	5,115	32,293
Liability for severance and retirement benefits	¥ 76,150	¥ 78,284	$ 928,659

Severance and retirement benefit expenses for the years ended March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2012	2011	2012
Service costs—benefits earned during the year	¥10,475	¥10,773	$127,744
Interest cost on projected benefit obligation	6,147	6,381	74,963
Expected return on plan assets	(3,372)	(3,379)	(41,122)
Amortization of prior service costs	(1,664)	(2,244)	(20,293)
Amortization of actuarial differences	8,057	8,287	98,256
Severance and retirement benefit expenses	¥19,643	¥19,818	$239,548

For the years ended March 31, 2012 and 2011, the discount rates were primarily 1.8% and 2.1%, respectively.

For both the years ended March 31, 2012 and 2011, the rates of expected return on plan assets were primarily 1.5%.

For both the years ended March 31, 2012 and 2011, the estimated amount of all retirement benefits to be paid at the future retirement dates is allocated equally to each service year using the estimated number of total service years.

For the years ended March 31, 2012 and 2011, accrued pension costs related to defined contribution plans were charged to income as ¥2,315 million ($28,232 thousand) and ¥2,249 million, respectively.

11 CONTINGENT LIABILITIES

Contingent liabilities as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2012	2011	2012
Factoring of receivables with recourse	¥ —	¥ 170	$ —
Guarantees of loans and similar agreements	19,175	17,795	233,841

12 EQUITY

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Corporate Law ("the Law"), in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve, must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit or could be capitalized by a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law. Cash dividends charged to retained earnings during the fiscal year were year-end cash dividends for the preceding fiscal year and interim cash dividends for the current fiscal year.

The appropriations are not accrued in the consolidated financial statements for the corresponding period, but are recorded in the subsequent accounting period after shareholders' approval has been obtained. For the year ended March 31, 2012, no year-end dividends were appropriated.

In conjunction with a public stock offering with the stock payment date of March 12, 2012 and a new share allocation to third parties with the stock payment date of March 27, 2012, the total number of shares outstanding increased by 1,219,000,000 shares, and common stock and capital surplus increased by ¥72,457 million ($883,622 thousand).

Also, by approval of the shareholders' meeting held on June 27, 2012, the number of shares authorized to be issued have increased by 3,000,000,000 shares to 6,000,000,000 shares.

13 OTHER INCOME/(EXPENSES)

The components of "Other, net" in Other income/(expenses) in the consolidated statements of operations for the years ended March 31, 2012 and 2011 were comprised as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2012	2011	2012
Gain on sale of investment securities, net	¥ —	¥ 15	$ —
Gain on sale of investment in affiliates, net	—	702	—
Reversal of investment valuation allowance	495	285	6,037
Loss on retirement and sale of property, plant and equipment, net	(3,270)	(1,908)	(39,878)
Rental income	1,885	2,023	22,988
Loss on sale of receivables	(983)	(1,234)	(11,988)
Loss on impairment of long-lived assets	(7,171)	(3,416)	(87,451)
Foreign exchange gain	2,929	9,230	35,720
Compensation received for the exercise of eminent domain	257	2	3,134
Gain on reversal of subscription rights to shares	201	8	2,451
Reserve for loss from business of affiliates	—	(8,533)	—
Reserve for environment measures	(19)	(11)	(232)
Adoption of accounting standards for asset retirement obligations	—	(2,684)	—
Loss on disaster(*1)	(3,731)	(5,211)	(45,500)
Loss on abolishment of retirement benefit plan(*2)	(1,044)	—	(12,732)
Business restructuring costs(*3)	(4,079)	—	(49,744)
Other	(2,643)	(1,469)	(32,232)
Total	¥(17,173)	¥(12,201)	$(209,427)

(*1) The effect of the Great East Japan Earthquake.
(*2) Refer to "Employees' severance and retirement benefits" under Note 2, "Significant Accounting Policies".
(*3) Retirement benefits in some foreign consolidated subsidiaries and compensation payments to some dealers to implement structural reforms.

14 INCOME TAXES

For the year ended March 31, 2012, since loss before income taxes was reported, the information on the reconciliation from statutory tax rate to effective tax rate is not provided in accordance with the applicable provisions of Japanese GAAP.

The effective tax rate reflected in the consolidated statement of operations for the year ended March 31, 2011 differs from the statutory tax rate for the following reasons.

For the year ended March 31	2011
Statutory tax rate	40.4%
Equity in net income of affiliated companies	(31.8)
Valuation allowance	453.8
Dividend received from foreign subsidiaries eliminated in consolidation	9.1
Other	0.1
Effective tax rate	471.6%

Deferred tax assets and liabilities reflect the estimated tax effects of loss carryforwards and accumulated temporary differences between assets and liabilities for financial accounting purposes and those for tax purposes. The significant components of deferred tax assets and liabilities as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2012	2011	2012
Deferred tax assets:			
Allowance for doubtful receivables	¥ 1,619	¥ 1,981	$ 19,744
Employees' severance and retirement benefits	25,390	30,723	309,634
Loss on impairment of long-lived assets	8,740	9,866	106,585
Accrued bonuses and other reserves	19,855	27,797	242,134
Inventory valuation	7,075	7,111	86,280
Valuation loss on investment securities, etc.	1,589	1,182	19,378
Net operating loss carryforwards	128,920	92,015	1,572,195
Other	40,894	55,409	498,708
Total gross deferred tax assets	234,082	226,084	2,854,658
Less valuation allowance	(178,423)	(123,598)	(2,175,890)
Total deferred tax assets	55,659	102,486	678,768
Deferred tax liabilities:			
Reserves under Special Taxation Measures Law	(315)	(5,906)	(3,841)
Other	(7,267)	(6,607)	(88,622)
Total deferred tax liabilities	(7,582)	(12,513)	(92,463)
Net deferred tax assets	¥ 48,077	¥ 89,973	$ 586,305

The net deferred tax assets are included in the following accounts in the consolidated balance sheet:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2012	2011	2012
Current assets—Deferred taxes	¥45,997	¥58,307	$560,939
Investments and other assets—Deferred taxes	6,035	32,558	73,597
Current liabilities—Other current liabilities	(69)	(54)	(841)
Long-term liabilities—Other long-term liabilities	(3,886)	(838)	(47,390)
Net deferred tax assets	¥48,077	¥89,973	$586,305

(Additional Information)
On December 2, 2011, amendments to the Japanese tax regulations were enacted into law. As a result of these amendments, the statutory income tax rate for the Company will be reduced to 37.76% for years beginning on or after April 1, 2012 and 35.38% for years beginning on or after April 1, 2015. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2012 to March 31, 2015 and on or after April 1, 2015 are 37.76% and 35.38%, respectively, as of March 31, 2012. Due to these changes in statutory income tax rates, net deferred tax assets decreased by ¥2,242 million ($27,341 thousand) as of March 31, 2012 and deferred income tax expense recognized for the year ended March 31, 2012 increased by the same amount. Furthermore, deferred tax liability related to land revaluation decreased by ¥11,087 million ($135,207 thousand) as of March 31, 2012 and land revaluation in accumulated other comprehensive income increased by the same amount.

15 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

The Company and its consolidated subsidiaries use forward foreign exchange contracts as derivative financial instruments only for the purpose of mitigating future risks of fluctuations in foreign currency exchange rates. Also, only for the purpose of mitigating future risks of fluctuations in interest rates with respect to borrowings, the Company and its consolidated subsidiaries use interest rate swap contracts.

Forward foreign exchange contracts are subject to risks of foreign exchange rate changes. Also, interest rate swap contracts are subject to risks of interest rate changes.

Use of derivatives to manage these risks could result in the risk of a counterparty defaulting on a derivative contract. However, the Company believes that the risk of a counterparty defaulting is minimum since the Company and its consolidated subsidiaries use only highly credible financial institutions as counterparties.

Derivative transactions are conducted in compliance with internal control rules and procedures that prescribe transaction authority. The policies for derivative transactions of the Company and its consolidated subsidiaries are approved by the Company's President or Chief Financial Officer. Transactions are approved in advance by either the Company's Financial Services Division General Manager or Treasury Department General Manager. Based on these approvals, the Treasury Department conducts and books the transactions as well as confirms the balance between the counterparty of the derivatives contract. The operation of the transaction is segregated from its clerical administration, in order to maintain internal check within the Treasury Department, and is audited periodically by the Global Auditing Department. Derivative transactions are reported, upon execution, to the Company's Chief Financial Officer, Financial Services Division General Manager, and Treasury Department General Manager. The consolidated subsidiaries also follow internal control rules and procedures pursuant to those of the Company, obtain approval of the Company, and conduct and manage the transactions according to the approval.

The following summarizes hedging derivative financial instruments used by the Company and its consolidated subsidiaries and items hedged:

Hedging instruments:	Hedged items:
Forward foreign exchange contracts	Foreign currency-denominated transactions planned in the future
Interest rate swap contracts	Interest on borrowings

The following tables summarize fair value information as of March 31, 2012 and 2011 of derivative transactions for which hedge accounting has not been applied:

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2012	Contract amount	Estimated fair value	Unrealized gain/(loss)	Contract amount	Estimated fair value	Unrealized gain/(loss)
Forward foreign exchange contracts:						
Sell:						
U.S. dollar	¥26,100	¥(1,597)	¥(1,597)	$ 318,293	$(19,475)	$(19,475)
Euro	6,043	64	64	73,695	780	780
Canadian dollar	7,728	(346)	(346)	94,244	(4,220)	(4,220)
Australian dollar	20,364	(820)	(820)	248,341	(10,000)	(10,000)
Sterling pound	3,739	(328)	(328)	45,598	(4,000)	(4,000)
Swiss franc	—	12	12	—	146	146
Russian ruble	8,910	(32)	(32)	108,659	(390)	(390)
Buy:						
U.S. dollar	4,512	(53)	(53)	55,024	(646)	(646)
Australian dollar	2,332	(40)	(40)	28,439	(488)	(488)
Thai baht	9,806	791	791	119,585	9,646	9,646
Japanese yen	4,454	(161)	(161)	54,317	(1,963)	(1,963)
Total	¥93,988	¥(2,510)	¥(2,510)	$1,146,195	$(30,610)	$(30,610)

	Millions of yen		
As of March 31, 2011	Contract amount	Estimated fair value	Unrealized gain/(loss)
Forward foreign exchange contracts:			
Sell:			
U.S. dollar	¥20,925	¥ 142	¥ 142
Euro	6,801	(246)	(246)
Canadian dollar	8,394	(311)	(311)
Australian dollar	—	(46)	(46)
Sterling pound	1,991	(17)	(17)
Swiss franc	443	(10)	(10)
Buy:			
U.S. dollar	8,855	(67)	(67)
Australian dollar	2,668	114	114
Thai baht	4,588	82	82
Japanese yen	3,760	(3)	(3)
Total	¥58,425	¥(362)	¥(362)

For forward foreign exchange contracts, fair values at year-end are estimated based on prevailing forward exchange rates at that date.

The following tables summarize fair value information as of March 31, 2012 and 2011 of derivative transactions for which hedge accounting has been applied:

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2012	Contract amount	Thereof due after 1 year	Estimated fair value	Contract amount	Thereof due after 1 year	Estimated fair value
Interest rate swaps:						
On long-term loans payable:						
Where certain hedging criteria are met (*1)	¥ 40,900	¥37,200	¥ —	$ 498,780	$453,659	$ —
Forward foreign exchange contracts:						
Sell:						
U.S. dollar	94,710	—	(3,747)	1,155,000	—	(45,696)
Euro	32,202	—	(144)	392,707	—	(1,756)
Canadian dollar	31,449	—	(750)	383,524	—	(9,146)
Australian dollar	57,013	—	(1,144)	695,280	—	(13,951)
Sterling pound	3,860	—	(70)	47,073	—	(854)
Swiss franc	184	—	2	2,244	—	24
Buy:						
U.S. dollar	5,788	—	(83)	70,585	—	(1,012)
Thai baht	4,528	—	219	55,220	—	2,671
Total	¥270,634	¥37,200	¥(5,717)	$3,300,413	$453,659	$(69,720)

	Millions of yen		
As of March 31, 2011	Contract amount	Thereof due after 1 year	Estimated fair value
Interest rate swaps:			
On long-term loans payable:			
Where certain hedging criteria are met (*1)	¥ 41,400	¥38,900	¥ —
Forward foreign exchange contracts:			
Sell:			
U.S. dollar	46,424	—	53
Euro	44,107	—	(1,580)
Canadian dollar	16,812	—	(627)
Australian dollar	45,763	—	(2,760)
Sterling pound	12,807	—	(151)
Swiss franc	1,688	—	(33)
Buy:			
U.S. dollar	3,114	—	(49)
Thai baht	20,138	—	401
Total	¥232,253	¥38,900	¥(4,746)

(*1) The fair value of these interest rate swaps are, in effect, included in and presented with that of the hedged item long-term loans payable. For details, refer to Note 4, “Financial Instruments.”

16 LEASES

The amount of future minimum lease payments under non-cancellable operating leases as of March 31, 2012 and 2011 were as follows:

As of March 31	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars 2012
Current portion	¥ 4,920	¥ 3,618	$ 60,000
Non-current portion	13,873	12,551	169,183
Total	¥18,793	¥16,169	$229,183

17 SEGMENT INFORMATION

Overview of Reportable Segments

The reportable segments of the Company consist of business components for which separate financial statements are available. The reportable segments are the subject of periodical review by board of directors' meetings for the purpose of making decisions on the distribution of corporate resources and evaluating business performance.

The Company is primarily engaged in the manufacture and sale of passenger and commercial vehicles. Businesses in the Japan, North America and Europe regions are managed by the Company, Mazda Motor of America, Inc. and Mazda Motor Europe GmbH, respectively. Areas other than Japan, North America, and Europe are defined as Other areas. Business deployment in countries in Other areas are managed in an integrated manner by the Company. Accordingly, the Company consists of regional segments based on a system of managing production and sale. As such, Japan, North America, Europe, and Other areas are designated as four reportable segments.

Net sales, income or loss, and assets by reportable segments for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen						
	Reportable segments						
For the year ended March 31, 2012	Japan	North America	Europe	Other areas	Total	Adjustment (*1)	Consolidated (*2)
Net sales:							
Outside customers	¥ 824,383	¥568,340	¥347,299	¥293,036	¥2,033,058	¥ —	¥2,033,058
Inter-segment	920,594	3,305	13,142	1,190	938,231	(938,231)	—
Total	1,744,977	571,645	360,441	294,226	2,971,289	(938,231)	2,033,058
Segment income/(loss)	(18,417)	(40,277)	5,627	10,072	(42,995)	4,277	(38,718)
Segment assets	¥1,750,262	¥162,676	¥161,487	¥126,532	¥2,200,957	¥(285,014)	¥1,915,943

	Thousands of U.S. dollars						
	Reportable segments						
For the year ended March 31, 2012	Japan	North America	Europe	Other areas	Total	Adjustment (*1)	Consolidated (*2)
Net sales:							
Outside customers	$10,053,451	$6,930,976	$4,235,354	$3,573,609	$24,793,390	$ —	$24,793,390
Inter-segment	11,226,756	40,305	160,268	14,512	11,441,841	(11,441,841)	—
Total	21,280,207	6,971,281	4,395,622	3,588,121	36,235,231	(11,441,841)	24,793,390
Segment income/(loss)	(224,598)	(491,183)	68,622	122,829	(524,330)	52,159	(472,171)
Segment assets	$21,344,659	$1,983,854	$1,969,354	$1,543,073	$26,840,940	$ (3,475,781)	$23,365,159

For the year ended March 31, 2011	Millions of yen						
	Reportable segments					Adjustment (*1)	Consolidated (*2)
	Japan	North America	Europe	Other areas	Total		
Net sales:							
Outside customers	¥ 965,203	¥623,990	¥427,721	¥308,775	¥2,325,689	¥ —	¥2,325,689
Inter-segment	1,034,278	7,054	10,471	1,620	1,053,423	(1,053,423)	—
Total	1,999,481	631,044	438,192	310,395	3,379,112	(1,053,423)	2,325,689
Segment income/(loss)	32,555	(31,731)	7,901	12,820	21,545	2,290	23,835
Segment assets	¥1,566,139	¥142,415	¥162,003	¥108,448	¥1,979,005	¥ (207,238)	¥1,771,767

(*1) Notes on adjustment:
(1) The adjustment on segment income/(loss) are eliminations of inter-segment transactions.
(2) The adjustment on segment assets are mainly eliminations of inter-segment receivables and payables.
(*2) Segment income/(loss) is reconciled with the operating income/(loss) in the consolidated statement of operations for the years ended March 31, 2012 and 2011. Segment assets are reconciled with the total assets in the consolidated balance sheets for the years ended March 31, 2012 and 2011.

Information by geographic areas

The sales information by geographic areas as of March 31, 2012 and 2011 were as follows:

For the years ended March 31	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Japan	¥ 560,216	¥ 541,490	$ 6,831,902
North America	575,633	631,327	7,019,915
Europe	347,346	427,398	4,235,927
Other areas	549,863	725,474	6,705,646
Total	¥2,033,058	¥2,325,689	$24,793,390

Sales is categorized into the countries or regions based on the customers' locations.

18 RELATED PARTY TRANSACTIONS

There were no transactions with related parties to be disclosed under Japanese GAAP during the years ended March 31, 2012 and 2011.

19 NOTES TO MATERIAL SUBSEQUENT EVENT

On May 15, 2012, the Company had concluded a contract with Itochu Corporation (hereinafter "Itochu") regarding sales of its 70% shares in Toyo Advanced Technologies Co., Ltd. (hereinafter "Toyo Advanced Technologies"), its consolidated subsidiary, to Itochu by ¥21,000 million ($256,098 thousand), of which the transaction date was July 20, 2012. Toyo Advanced Technologies mainly manufactures and sells machine tools and automotive components. The Company aims to expand the overseas business of machine tools and enhance the corporate value of Toyo Advanced Technologies through utilization of Itochu's sales network in overseas markets. ¥9,575 million ($116,768 thousand) was recognized in gain on sales of shares.

Further, the Company had reached a basic agreement to sell some of its fixed assets (land) on June 29, 2012, by ¥13,939 million ($169,988 thousand) to Sumitomo Mitsui Finance & Leasing Co., Ltd. (hereinafter "Sumitomo Mitsui") to effectively utilize management resources. The fixed assets (land) are located in Ozu district (for gymnasium and others) and Fuchizaki district (for plant) in head office area, Nakanoseki district in Hofu-plant area (for temporary storage site) and Sue Distribution Center (for temporary storage site). The Company intends to continue using the fixed assets under some lease agreements with Sumitomo Mitsui. By selling these assets, income of ¥4,469 million ($54,500 thousand) would be recognized due to write-off of deferred tax liability related to land revaluation in the year ending on March 31, 2013.

August 6, 2012

To the best of our knowledge, after due inquiry, the financial statements and other financial information included in the company's annual report for the year ended March 31, 2012 are presented fairly, in all material respects, in conformity with the generally accepted accounting principles in Japan.

President and
Chief Executive Officer

Takashi Yamanouchi

Executive Vice President and
Chief Financial Officer

Kiyoshi Ozaki

To the Board of Directors of Mazda Motor Corporation:

We have audited the accompanying consolidated financial statements of Mazda Motor Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2012 and 2011, and the consolidated statements of operations and comprehensive income, consolidated statements of equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mazda Motor Corporation and its consolidated subsidiaries as at March 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 27, 2012, except as to note 19, which is as of August 6, 2012
Hiroshima, Japan

Corporate Data

(As of March 31, 2012)

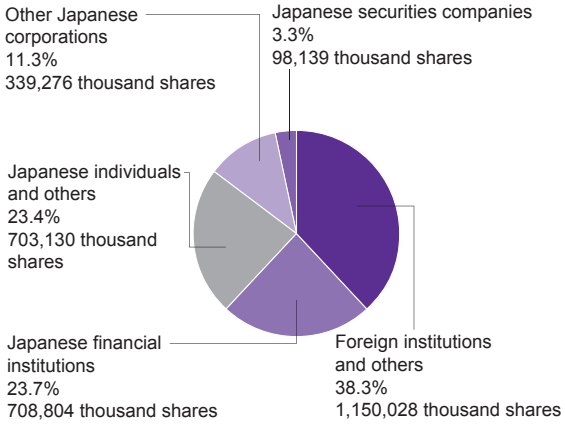
Name:	Mazda Motor Corporation
Founded:	January 1920
Capital:	¥259.0 billion
Number of employees:	37,617 (consolidated)
Head office:	3-1 Shinchi, Fuchu-cho, Aki-gun, Hirosima 730-8670, Japan Phone: +81 (82) 282-1111
Main business lines:	Manufacture and sales of passenger cars and commercial vehicles
Research and development sites:	Head Office, Mazda R&D Center (Yokohama), Mazda North American Operations (USA), Mazda Motor Europe (Germany), China Engineering Support Center (China)
Production sites:	Japan: Hiroshima Plant (Head Office, Ujina), Hofu Plant (Nishinoura, Nakanoseki), Miyoshi Plant Overseas: United States, China, Taiwan, Thailand, Zimbabwe, South Africa, Ecuador, Colombia
Sales companies:	Japan: 261, Overseas: 135 (As of December 31, 2011)
Principal products:	Four-wheeled vehicles, gasoline reciprocating engines, diesel engines, rotary engines, automatic and manual transmissions for vehicles

Stock Information

(As of March 31, 2012)

Authorized:	3,000,000,000 shares* * By approval of the shareholders' meeting held on June 27, 2012, the number of shares authorized to be issued have increased by 3,000,000,000 shares to 6,000,000,000 shares.
Issued:	2,999,377,399 shares
Number of shareholders:	116,475
Listing:	Tokyo Stock Exchange, First Section
Code:	7261
Fiscal year-end:	March 31
Transfer agent:	The Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233, Japan

BREAKDOWN OF SHAREHOLDERS



MAJOR SHAREHOLDERS

Shareholder	No. of shares owned (Thousands)	Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust)	117,799	3.9
Japan Trustee Services Bank, Ltd. (Trust)	113,576	3.8
Mitsui Sumitomo Banking Corp.	64,287	2.1
Ford Motor Company Account for Mazda Securities	62,313	2.1
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	61,120	2.0
ITOCHU Corporation	53,411	1.8
Sumitomo Corporation	53,409	1.8
Mitsui Sumitomo Insurance Co., Ltd.	40,683	1.4
JP Morgan Chase Bank 385167	37,616	1.3
State Street Bank and Trust Company 505225	34,527	1.2

FOR REQUESTS AND INQUIRIES

For inquiries concerning this Annual Report, please contact:

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Mazda Motor Corporation

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