# FY2006 First Half Consolidated Financial Results
## For the Six Months Ended September 30, 2006

English Translation from the Original Japanese-Language Document

November 2, 2006

| | |
|---|---|
| Company Name | : **Mazda Motor Corporation**(Headquartered in Hiroshima, Japan / Tokyo Stock Exchange / Code No. 7261) |
| URL | : http://www.mazda.co.jp |
| Representative Person | : Hisakazu Imaki, Representative Director, President and CEO |
| Contact Person | : Tetsuya Fujimoto, General Manager, Accounting Department, Financial Services Division, Phone (082) 282-1111 |
| BOD Meeting | : Meeting of the board of directors for consolidated account settlement held on November 2, 2006 |
| Parent Company, etc. | : Mazda has no parent company. Ford Motor Company owns 33.9% voting interest of Mazda. |
| US GAAP Adoption | : The United States generally accepted accounting principles not adopted |

## 1. Consolidated Financial Highlights (April 1, 2006 through September 30, 2006)
### (1) Consolidated Financial Results

(In Japanese yen rounded to millions, except amounts per share)

| | Net Sales | | Operating Income | | Ordinary Income | |
|---|---|---|---|---|---|---|
| | million yen | % | million yen | % | million yen | % |
| **FY2006 1st. Half** | **1,521,448** | **12.5** | **69,757** | **43.0** | **56,592** | **30.5** |
| FY2005 1st. Half | 1,351,914 | 2.4 | 48,780 | 12.1 | 43,361 | 17.4 |
| FY2005 | 2,919,823 | | 123,435 | | 101,470 | |

| | Net Income | | Net Income Per Share | Net Income Per Share, Diluted |
|---|---|---|---|---|
| | million yen | % | yen | yen |
| **FY2006 1st. Half** | **27,213** | **(12.5)** | **19.43** | **19.25** |
| FY2005 1st. Half | 31,088 | 66.0 | 25.10 | 22.04 |
| FY2005 | 66,711 | | 51.53 | 47.25 |

Notes: 1) Equity in net income of unconsolidated subsidiaries and affiliates accounted for by the equity method: **FY2006 1st. Half** **3,812** million yen; FY2005 1st. Half 6,716 million yen; FY2005 8,976 million yen

2) Average number of shares outstanding (on a consolidated basis): **FY2006 1st. Half** **1,400,681,293** shares; FY2005 1st. Half 1,238,534,961 shares; FY2005 1,294,533,853 shares

3) Accounting change: No

4) Changes in net sales, operating income, ordinary income, and net income from the prior periods are shown in percentage.

### (2) Consolidated Financial Position

| | Total Assets | Shareholders' Equity | Equity Ratio | Equity Per Share |
|---|---|---|---|---|
| | million yen | million yen | % | Yen |
| **FY2006 1st. Half** | **1,771,625** | **424,920** | **23.4** | **296.22** |
| FY2005 1st. Half | 1,722,318 | 331,570 | 19.3 | 251.15 |
| FY2005 | 1,788,659 | 398,024 | 22.3 | 284.28 |

Notes: 1) Number of shares outstanding at period end (on a consolidated basis): **FY2006 1st. half** **1,400,937,965** shares; FY2005 1st. half 1,320,190,809 shares; FY2005 1,400,094,037 shares

2) Presentation of the minority interests in consolidated subsidiaries: Commencing in the six months ended September 30, 2006, the minority interests are presented as a separate component of the shareholders' equity; however, the minority interests are excluded from the calculation of the equity ratio and the equity per share. See Adoption of New Accounting Standards in the notes to the consolidated financial statements.

### (3) Consolidated Cash Flows

| | Cash Flows from Operating Activities | Cash Flows from Investing Activities | Cash Flows from Financing Activities | Ending Cash & Cash Equivalents |
|---|---|---|---|---|
| | million yen | million yen | million yen | million yen |
| **FY2006 1st. Half** | **29,898** | **(38,135)** | **(38,520)** | **162,465** |
| FY2005 1st. Half | 55,047 | (42,587) | (42,384) | 186,711 |
| FY2005 | 114,598 | (80,987) | (43,452) | 208,658 |

### (4) Scope of Consolidation and Equity Method

| | |
|---|---|
| Consolidated subsidiaries | 59 companies |
| Unconsolidated subsidiaries accounted for by the equity method | 0 companies |
| Affiliates accounted for by the equity method | 14 companies |

### (5) Changes in Scope of Consolidation and Equity Method

| | | | | | |
|---|---|---|---|---|---|
| Consolidation | (Addition) | 1 company | Equity method | (Addition) | 0 companies |
| | (Exclusion) | 0 companies | | (Exclusion) | 0 companies |

## 2. FY2006 Consolidated Financial Forecast (April 1, 2006 through March 31, 2007)

| | Net Sales | Operating Income | Ordinary Income | Net Income |
|---|---|---|---|---|
| | million yen | million yen | million yen | million yen |
| Full Year | 3,150,000 | 148,000 | 140,000 | 82,000 |

Reference: Net income per share for the full year 58.53 yen

The financial projection is the judgment of our management based on the information presently available. By nature, such financial projection is subject to uncertainty and a risk. Therefore, we advise against making an investment decision by solely relying on this projection. Variables that could affect the actual financial results include, but are not limited to, economic environments related to our business areas and fluctuations in yen-to-dollar and other exchange rates. For further information on the above financial projection, please refer to pages from 7 to 9 of Supplementary Information.

Supplementary Information

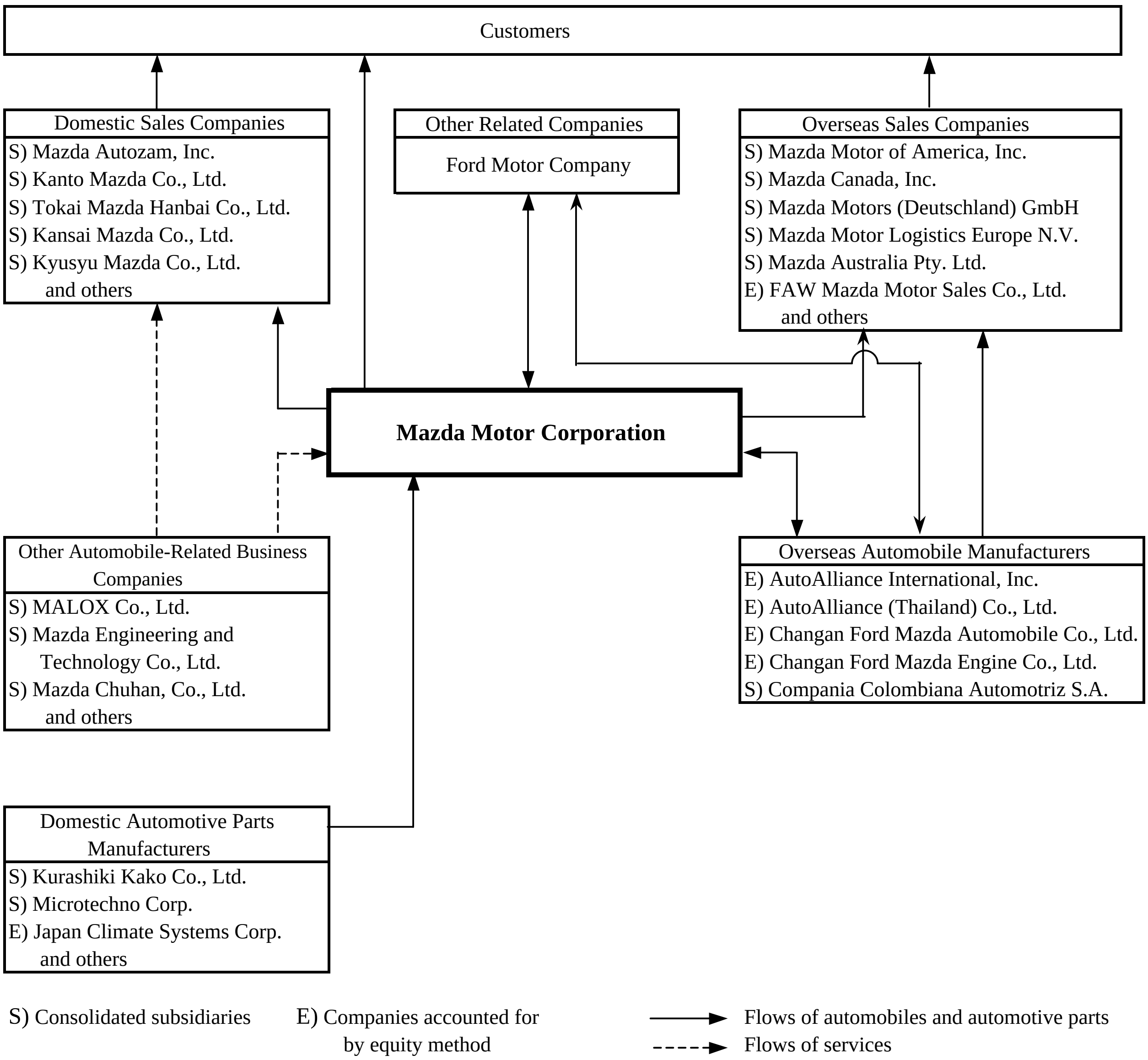
# 1. Mazda Group of Companies

Mazda group of companies consists of Mazda Motor Corporation, 59 consolidated subsidiaries and 14 equity method-applied companies and is mainly engaged in the manufacturing and sales of automobiles and automotive parts as well as in other automobile-related businesses.

In Japan, Mazda Motor Corporation manufactures automobiles. Mazda Motor Corporation, Kurashiki Kako Co., Ltd. and other companies manufacture automotive parts. In overseas, AutoAlliance International, Inc. and other companies manufacture automobiles and automotive parts. The automobiles and automotive parts manufactured by our group of companies are sold to customers by our sales companies. In Japan, Mazda Autozam, Inc., Kanto Mazda Co., Ltd. and other companies sell our automobiles and automotive parts to customers. To certain corporate customers, Mazda Motor Corporation directly sells our automobiles. In overseas, Mazda Motor of America, Inc., Mazda Motor (Deutschland) GmbH and other companies sell our automobiles and automotive parts to customers

In addition, Mazda Motor Corporation, having an equity relationship with Ford Motor Company, has expanded its relationship with Ford to a strategic cooperative relationship on a global scale.

The following diagram approximately illustrates the roles of Mazda Motor Corporation and its main related companies in conducting the group's business:




Note: None of the consolidated subsidiaries is listed at a stock exchange in Japan.

## 2. Management Policy

### (1) Our Corporate Vision, Mission and Values

Mazda's Corporate Vision is comprised of a "Vision" (corporate objectives) along with a statement of "Mission" (roles and responsibilities) and "Value" (the values Mazda seeks to produce). These principles are helping express the ways in which Mazda and Mazda's employees understand their roles and responsibilities as they press towards the achievement of these aims. Through the realization of this Corporate Vision, we aim to consistently augment corporate value, which we view as leading to meeting expectation of our stakeholders including shareholders, customers, suppliers, employees and the community and also leading to realizing sustainable development for the society and Mazda.

| | | |
|---|---|---|
| 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, efficient and nimble actions and respect highly motivated people and team sprit. We positively support environmental matters, safety and society. Guided by these values, we provide superior rewards to all people associated with Mazda. |

### (2) Our Policy on Distribution of Earnings

Our policy on distribution of earnings is to declare dividends by carefully considering each fiscal year's financial results and business environment. Our intent is to provide our stockholders with dividends on a stable basis. Our policy on earnings retained in the company is to utilize the financial resources to enhance our business competitiveness, e.g., capital investments in facilities and equipment and investments in research and development.

### (3) Our Policy on Reduction of Stock-investment Unit

Mazda considers high liquidity of stock is important to create an environment in which more investors can participate in the market, in order to constitute an appropriate Mazda stock price in the stock market. The reduction of stock-investment unit needs to be considered in a cautious manner, while watching share price performance and the market trends in the future very carefully.

### (4) Mid-term Corporate Management Strategy

Based on the Corporate Vision and the "Mazda Momentum" mid-term plan announced in November 2004, Mazda Group is working to establish a solid foundation for fully-fledged future growth, while maintaining the current momentum. This fiscal year is the final year for the mid-term plan, and the plan is supported by 4 pillars: Reinforcing Research & Development, Strengthening Key Markets, Enhancing Global Efficiencies and Synergies, and People Development.

In order to reinforce research and development, we will increase our investment in several key areas, including those associated with the environment, safety, and information technology. In doing so, we expect to make the traditionally strong technological capability of our company, even stronger.

To reinforce the key markets, we currently plan to introduce 16 new products during the Mazda Momentum period, and this plan is on track. In addition, we are fortifying the global sales network and are focused on improving customer satisfaction.

Concerning the enhancement of our global efficiencies and synergies, we are focusing on R&D, manufacturing, purchasing, and logistics activities in order to be more competitive in quality and costs on a global basis. Mazda Group launched "ABC Phase2" during last fiscal year, a cost reduction plan which focuses on reinforcing our global procurement capability, supply chain management and establishing a global commodity cycle plan.

To support these initiatives, people development is indispensable. It continues to be our key focus for future success of the company. We plan to reinforce management capabilities, promote global people development, and prepare an environment which respects individual creativity.

As shown above, by driving specific actions of "Mazda Momentum", we were able to achieve financial targets of operating profit of over 100 billion yen and net debt to equity ratio of below 100% at the end of fiscal year 2005, which is one year earlier than the commitment. On the other hand, we have re-examined the 1,250,000 units of wholesale volume target based on the industry trend and focus on strengthening brand under the fierce sales environment. We are committed to complete our action to build foundation toward fully-fledged growth in this fiscal year that is the final year of "Mazda Momentum".

## (5) Our Challenges

The future economic outlook for the domestic Japanese market appears to steadily improve and expand in the short-term. However, for the global markets, raw material price increases, including crude oil, and rapid exchange fluctuations are some of the uncertain factors with risks that continue to remain.

In the automotive industry, manufacturers are expected to apply various environmental regulatory requirements and to invest in the development of next-generation technology, and also to continuously introduce new products. This will make the marketplace even more competitive. However, by steadily implementing Mazda Momentum, we believe we will be able to achieve profitable and sustainable growth.

## (6) Information about Parent Company and Other Companies Having a Significant Voting Interest

Mazda has no parent company. However, Ford Motor Company has a significant portion of Mazda's voting interest as follows:

| | |
|---|---|
| Name of the Company Having a Significant Voting Interest: | Ford Motor Company |
| Percentage of Voting Interest: | 33.9% |
| Names of Stock Exchanges Ford Motor Company is listed: | The New York Stock Exchange,<br>The Pacific Exchange, and<br>Stock Exchange in Belgium, France,<br>Switzerland and England. |

Note 1: Ford's 33.9% voting interest is indirect.

Note 2: Ford Automotive International Holding, S.L. and FLP Canada, 100% subsidiaries of Ford Motor Company, directly invest in Mazda.

**Our Relationship with Ford Motor Company and Our Position in the Ford Group**

In July 1979, Mazda Motor Corporation reached the following agreement with Ford Motor Company: a) Mazda to acquire Ford Kogyo Co., Ltd., a subsidiary of Ford Motor Company and b) Mazda to issue Ford new shares amounting to 25% of Mazda's total issued shares after the acquisition. In December 1993, Ford and Mazda strengthened their relationship and agreed to build a global strategic alliance. In April 1996, agreement was reached to further strengthen this strategic relationship. In May of the same year, Mazda issued new shares to Ford by third-party allotment. As a result, the holding ratio of Ford to Mazda increased to 33.4%.

The strengthening of the Mazda-Ford relationship has enabled both companies to coordinate their strategies in all areas, including product development, manufacturing and the distribution of vehicles. The competitiveness of both companies has been enhanced by improving efficiency and achieving greater economies of scale through effective utilization of resources and the development of each company as a supply source for the other.

At the same time, the alliance between Ford and Mazda aims to improve the independent partner profit through pursuing synergy in variety of areas. Mazda continues to maintain its distinct identity and independence in management.

Auto Alliance International, Inc. and Auto Alliance Thailand Co., Ltd. are jointly operated by Mazda and Ford.

## 3. Financial Results, Position and Projection

### (1) First Half Financial Results and Position

During the first half, the economy in Japan continued to have the impact of the raw material price hikes. At the same time, it maintained economic momentum with manufacturing investment backed up by the recovery in private consumption and the good performance of private companies. In the U.S., the economy started to slow down its growth mainly in private consumption as symbolized by the slowdown in housing market and manufacturing investment. In Europe, the economy moderately expanded due to increasing trend in both mining and manufacturing industry production and consumption. Due to interest rate increase in Europe, Euro continued to strengthen and hit a record high rate versus Japanese yen. Furthermore, looking into the economy in Asia, although the economy in China has continued to grow driven by the aggressive investment, the weaker economy in South East Asia started to cast some shadows on the economic outlook including political uncertainties.

Automotive sales in Japan during the first half of fiscal year 2006 totaled to 2.7 million units, a year-on-year reduction of 3.4% largely reflecting a reduction in passenger cars while micro and commercial vehicle sales grown. In Overseas, industry volumes in the United States were 8.77 million units, down 4.7% from the prior year, while Europe was 9.34 million units, up 0.6%. In China, industry sales were 3.5 million units, up 22.2 % from the previous First Half.

Under these economic conditions, Mazda continued its product-led growth strategy.

Unique new crossover SUV “CX-7” was launched in North America in May 2006 and has proven the sales success. In August 2006 the new “Roadster Power Retractable Hard Top” which is equipped with the electric roof system was launched. In addition, the micro “Spiano” and the compact car “Verisa” were refreshed. And our global strategic car “Axela” had product enhancements in June 2006.

In support of our product-led growth, Mazda will add production capacity of MZR engine that is applied to global vehicle lines to 766,000 units, up 61,000 units from the current capacity starting from October 2006. To meet the increasing global demand of “Axela”, “Premacy” and other product lines, Mazda will increase the production capacity of automatic transmission produced in Nakanoseki Area of Hofu Plant (Yamaguchi Prefecture) from current 650,000 units to 764,000 units per year starting from October 2006. In the first half of fiscal year 2006 Hofu Plant achieved cumulative 25,000,000 units of automatic transmission production in Nakanoseki Area of Hofu Plant and cumulative 7,000,000 units of vehicle production in Nishinoura Area that continues to operate at full capacity.

As for sales activities, Mazda continued to strengthen distribution network both in Japan and overseas. In Japan, Mazda is promoting to increase new outlets mainly in vacant areas in metropolitan region and continuously renew the existing outlets. In the U.S. Mazda is strengthening dealer exclusivity and dealer sales capability. Our dealer exclusivity at the end of the 2006 First Half is 44%, which is a good progress. Also, in the U.S. Mazda has reduced sales incentive and restrained fleet sales. On the other hand, in Europe, a new distribution company started operation in April 2006 in the fast-growing Russian market, and Mazda also established a new distributor in Ireland in July 2006. In October 2006 Mazda established distributors in Czech and Slovakia. Mazda also established a new company “PT Mazda Motor Indonesia” in Indonesia to strengthen our distribution network in Association of South East Asian Nations (ASEAN) and it started its operation from July 2006. In China, “Mazda6” (Atenza) Five-door Hatchback and Wagon were introduced in addition to the Sedan model.

In Research and Development arena, Mine Proving Ground (Yamagauchi Prefecture) was opened in May 2006 and started its operation as permanent proving ground following Miyoshi Proving Ground. For the better future of motorized society and energy, Mazda has developed the world first hydrogen rotary engine vehicle, RX-8 Hydrogen RE. In April 2006, Mazda started leasing the vehicle to Hiroshima Prefecture and Hiroshima City. In October 2006, Mazda delivered one RX-8 Hydrogen RE to Yamaguchi Prefecture government. Mazda has now leased five RX-8 Hydrogen RE vehicles in total, including those supplied to two energy companies.

Based on Mazda’s environmental mid-term plan “Mazda Green Plan 2010” that put together our efforts to develop alternative fuel vehicles such as hydrogen rotary engine, actions to protect environment including improvement of emission gas, fuel economy and recycle, and specific environmental actions that cover overall range of the company activities and targets, Mazda will promote our activities to meet all the targets by Fiscal Year 2010.

Our retail volume and share in key markets are as follows. Retail volume in Japan was 131,000 units, down 7.1% from the first half of the last year, due to sluggish auto industry demand in the market. The market share including micro was 4.8%, down 0.2 points. In the US, retail volume was 142,000 units, up 3.0%, and market share was 1.6%, up 0.1 points, reflecting introduction of the new CX-7 and strong sales of the Mazda5 (Premacy) and MX-5 (Roadster). In Europe, retail volume was 151,000 units, up 9.7%, driven by strong sales of the Mazda5, the Mazda6 (Atenza) and the new Mazda3 (Axela). Market share was at 1.6%, up 0.1 points. In China, retail volume was 62,000 units, down 8.0% year-on-year and market share was 1.8%, down 0.5 points due to the increased sales competition.

Consolidated wholesales in the first half of this fiscal year totaled 560,000 units, an increase of 3,000 units or 0.6% from the same period a year ago, supported by the strong global sales of the new Mazda3, introduction of the new CX-7 in North America and the Mazda5 with a diesel-powered model selling especially strongly.

Turning to financial results, on a consolidated basis, sales revenue was ¥1,521.4 billion, an increase of ¥169.5 billion or 12.5% year-over-year. Operating income was up ¥21 billion or 43.0% to ¥69.8 billion due to volume and mix improvements and the impact of the yen's depreciation, offsetting the impact of raw material price hike. Ordinary income was ¥56.6 billion, up ¥13.2 billion or 30.5%. Net income was ¥27.2 billion, down ¥3.9 billion or 12.5%. However, without the one-time impacts of the extraordinary profit and loss (the gain on the transfer to the government of the substitutional portion of employee pension fund liabilities and the loss on impairment of fixed assets) in the first half of the prior year, net income effectively increased by 18% year-over-year.

In July 2006, a car-carrying vessel owned by Mitsui O.S.K. Lines, *Cougar Ace*, ran into trouble, resulting in her listing and becoming stricken off the Alaskan coast. The ship arrived at the Port of Portland, Oregon, United States in September. About 4,700 Mazda vehicles aboard, which were being exported to North America, will not be sold as new vehicles. But as the damages are still under evaluation, the amounts of the damage and insurance coverage have not been determined.

Consolidated cash flow (operating and investing activities) was negative ¥8.2 billion. While net cash provided by operating activities was ¥29.9 billion, net cash used in investing activities amounted to ¥38.1 billion, primarily due to investments in production facilities and equipment. Also, net cash used in financing activities amounted to ¥38.5 billion, mainly due to the repayment of loans and the payment of dividends. Net debt (gross debt less cash and cash equivalents) was ¥263.3 billion, ¥16.5 billion higher than at March 31, 2006. Gross debt was ¥425.8 billion, down ¥29.6 billion from the prior year-end. As a result, the net debt to equity ratio became 63%.

With implementation of key measures set in our mid-term plan, Mazda Momentum, we could see certain effects for product-led growth in the first half of this fiscal year. We will continue working to complete the foundation building for future full-scale growth in the next fiscal year, the final year of the Mazda Momentum.

No interim dividends will be declared for this first half. We offer sincere apologies to our shareholders, and we ask for their understanding in this matter.

## (2) Financial Projection

Our projection for fiscal year 2006 (the year ending March 31, 2007) is as follows:

**Consolidated**

| | | |
|---|---|---|
| Wholesales | 1,180 thousand units | (up 2.7% compared to the prior year) |
| Sales revenue | 3,150 billion yen | (up 7.9% compared to the prior year) |
| Operating income | 148 billion yen | (up 19.9% compared to the prior year) |
| Ordinary income | 140 billion yen | (up 38.0% compared to the prior year) |
| Net income | 82 billion yen | (up 22.9% compared to the prior year) |

**Unconsolidated**

| | | |
|---|---|---|
| Wholesales | 1,159 thousand units | (up 9.0% compared to the prior year) |
| Sales revenue | 2,300 billion yen | (up 13.2% compared to the prior year) |
| Operating income | 85 billion yen | (up 26.9% compared to the prior year) |
| Ordinary income | 90 billion yen | (up 49.6% compared to the prior year) |
| Net income | 58 billion yen | (up 428.0% compared to the prior year) |

**Cautionary Statement with Respect to Forward-Looking Statements**

Information included in this material with respect to Mazda Group's current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of Mazda Group. We caution you that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements. Therefore, you should not place undue reliance on them. Also, you should not rely on any obligation of us to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. We disclaim any such obligation. Risks and uncertainties that might affect Mazda Group include, but are not limited to:

1) The global economic environment related to Mazda Group's business
Mazda Group sells products in Japan and around the world, including in North America, Europe and Asia. An economic downturn or declining demand in these markets could adversely affect Mazda's business results and financial position.

2) Exchange rates, particularly between the yen and the U.S. dollar and euro.
Mazda Group exports products from Japan to the rest of the world and consequently its business results and financial position are exposed to the effects of fluctuations in exchange rates. An appreciation of the yen, particularly against the U.S. dollar and euro, could lower Mazda Group's profitability and ability to compete on price.

Mazda uses forward-exchange contracts and other instruments in some of its transactions to minimize the impact of exchange rate risk. However, a weakening of the yen could result in a loss of contingent gains.

3) The success of Mazda Group’s joint ventures and alliances

Mazda Group is involved in joint activities with other companies under technology alliances, joint ventures and in other forms with respect to the development, production and sales of products. These joint activities are designed to optimize resources, facilitate their prioritization and generate synergies. However, a disagreement over management, financial or other matters between the parties involved could mean that the joint activities fail to deliver the results expected. This could adversely affect Mazda Group’s business results and financial position.

4) Environmental and other public regulations

Mazda Group’s operations in each country where it does business are subject to various government regulations such as those pertaining to environmental problems, automobile safety, fuel consumption and exhaust emissions. Observance of new regulations could result in substantial additional costs, which could adversely affect Mazda Group’s business results and financial position.

5) Market competitiveness

Mazda Group competes with a large number of companies in the global automobile market. Maintaining and enhancing the Group’s ability to compete in this environment is crucial to ensuring growth. Consequently, Mazda Group is implementing a range of initiatives to boost its competitiveness in product development, manufacturing, sales and other areas. However, Mazda Group’s business results and financial position could be affected in the event that it fails to launch appealing products at opportune times, due to a failure to accurately ascertain market trends or as a result of issues related to technological capabilities and manufacturing. The same holds true if Mazda Group fails to take effective steps to respond to customer values or changes thereof through its dealership network or sales methods.

6) Reliance on certain raw materials and suppliers

Mazda Group relies on numerous suppliers outside the Group for the procurement of materials and components. However, due to tight supply-demand balances, constraints at suppliers, or changes to and breaches of supply contracts, Mazda Group may face difficulties in procuring the necessary level of materials and components for volume production, leading to a rapid increase in the price of materials procured. Any failure to cover the cost of these increases through internal efforts to boost productivity, pass on price rises to customers or other measures, may lead to a deterioration in output or higher costs, which could adversely affect Mazda Group’s business results and financial position.

7) Risks associated with international business activities

In addition to Japan, Mazda Group sells its products and carries out business activities in markets around the world, including the United States and Europe, as well as developing and emerging markets overseas. In these markets, the Group is subject to the following potential risks, which could affect Mazda Group’s business results and financial position if manifested.

• Adverse political and economic developments
• Impediments arising from changes in laws and regulations
• Potential adverse impact from tax regulations
• Difficulties in attracting and securing personnel
• Undeveloped infrastructure
• Strikes and other labor disputes
• Terrorist incidents, war, disease and other factors leading to social disorder

8) Protection of intellectual property

In order to maintain competitiveness, Mazda Group is working to accumulate and protect technologies and expertise that help it to develop unique products, and also working to prevent itself from infringing third-party's intellectual property rights. But, nonetheless, in the event of a disputed infringement of third-party intellectual property rights by Mazda Group, the Group may be subject to substantial damages claims or be forced to halt the production and the sale of products. This could also adversely affect Mazda Group's business results and financial position.

The Group's intellectual property is not subject to complete protection in certain regions. In the event that third parties use Mazda Group's intellectual property on an unauthorized basis to produce similar products, the Group may have to pay substantial expenses for litigation, or experience a decline in sales due to an inability to offer unique products. This could adversely affect Mazda Group's business results and financial position.

9) Defective products

While striving to improve the quality of its products to meet the requirements of the market, Mazda Group also does its utmost to ensure the safety of its products. However, the Group cannot guarantee that large-scale product recalls or other issues will not occur due to product defects arising from unforeseen circumstances. Such events may lead to significant costs or a loss of trust in the Group, which could adversely affect Mazda Group's business results and financial position.

10) Risks associated with natural disasters and accidents

In addition to measures to protect its manufacturing sites and other important facilities against fire and earthquakes, Mazda Group has concluded natural disaster insurance contracts and taken other steps to minimize the financial risk of such events. However, the ability of the Group to supply products may be severely disrupted in the event of a major earthquake, typhoon or other natural disaster, fire and other accidents, which could adversely affect Mazda Group's business results and financial position.

## 4. Consolidated Financial Statements

### (1) Consolidated Statement of Income

**Six months ended September 30, 2006**

**With comparative figures for the six months ended September 30, 2005 and for the fiscal year ended March 31, 2006**

(In millions of yen)

| | | **FY2006 1st. Half (Apr. 2006 - Sep. 2006)** | FY2005 1st. Half (Apr. 2005 - Sep. 2005) | Increase/ (Decrease) | FY2005 (Apr. 2005 - Mar. 2006) |
|---|---|---|---|---|---|
| Net sales | 1 | **1,521,448** | 1,351,914 | 169,534 | 2,919,823 |
| Costs of sales | 2 | **1,095,731** | 978,700 | 117,031 | 2,110,934 |
| Gross profit on sales | 3 | **425,717** | 373,214 | 52,503 | 808,889 |
| Selling, general and administrative expenses | 4 | **355,960** | 324,434 | 31,526 | 685,454 |
| **Operating income** | 5 | **69,757** | 48,780 | 20,977 | 123,435 |
| Non-operating income | | | | | |
| Interest and dividend income | 6 | **1,400** | 1,280 | 120 | 2,359 |
| Equity in net income of unconsolidated subsidiaries and affiliates | 7 | **3,812** | 6,716 | (2,904) | 8,976 |
| Other | 8 | **2,888** | 3,446 | (558) | 6,584 |
| Total | 9 | **8,100** | 11,442 | (3,342) | 17,919 |
| Non-operating expenses | | | | | |
| Interest expense | 10 | **7,576** | 5,597 | 1,979 | 11,662 |
| Foreign exchange loss | 11 | **8,695** | 7,394 | 1,301 | 19,088 |
| Other | 12 | **4,994** | 3,870 | 1,124 | 9,134 |
| Total | 13 | **21,265** | 16,861 | 4,404 | 39,884 |
| **Ordinary income** | 14 | **56,592** | 43,361 | 13,231 | 101,470 |
| Extraordinary profits | | | | | |
| Profit on sale of tangible fixed assets | 15 | **1,074** | 182 | 892 | 309 |
| Profit on sale of investment securities | 16 | **11** | 927 | (916) | 1,409 |
| Compensation received for the exercise of eminent domain | 17 | **-** | - | - | 472 |
| Insurance claim income | 18 | **-** | 896 | (896) | 996 |
| Gain on the transfer to the government of the substitutional portion of employee pension fund liabilities | 19 | **-** | 57,127 | (57,127) | 59,611 |
| Other | 20 | **-** | 233 | (233) | 237 |
| Total | 21 | **1,085** | 59,365 | (58,280) | 63,034 |
| Extraordinary losses | | | | | |
| Loss on retirement and sale of tangible fixed assets | 22 | **2,620** | 2,794 | (174) | 6,742 |
| Loss on impairment of fixed assets | 23 | **2,164** | 34,650 | (32,486) | 36,650 |
| Loss on sale of investment securities | 24 | **32** | 4 | 28 | 2 |
| Other | 25 | **482** | 2,128 | (1,646) | 3,642 |
| Total | 26 | **5,298** | 39,576 | (34,278) | 47,036 |
| **Income before income taxes** | 27 | **52,379** | 63,150 | (10,771) | 117,468 |
| Income taxes | | | | | |
| Current | 28 | **17,051** | 12,791 | 4,260 | 26,439 |
| Prior year | 29 | **-** | - | - | 10,201 |
| Deferred | 30 | **7,053** | 18,405 | (11,352) | 12,454 |
| Minority interests of consolidated subsidiaries | 31 | **1,062** | 866 | 196 | 1,663 |
| **Net income** | 32 | **27,213** | 31,088 | (3,875) | 66,711 |

## (2) Consolidated Balance Sheet

**September 30, 2006**
**With comparative figures for March 31, 2006 and for September 30, 2005**

(In millions of yen)

| | | FY2006 1st. Half (September 30, 2006) | FY2005 (March 31, 2006) | Increase/ (Decrease) | FY2005 1st. Half (September 30, 2005) |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current Assets:** | | | | | |
| Cash and time deposits | 1 | **162,526** | 208,765 | (46,239) | 186,801 |
| Trade notes and accounts receivable | 2 | **154,529** | 164,220 | (9,691) | 153,737 |
| Inventories | 3 | **287,329** | 256,652 | 30,677 | 254,740 |
| Deferred taxes | 4 | **91,064** | 94,685 | (3,621) | 83,813 |
| Other | 5 | **55,320** | 58,062 | (2,742) | 57,881 |
| Allowance for doubtful receivables | 6 | **(3,413)** | (6,739) | 3,326 | (7,660) |
| Total current assets | 7 | **747,355** | 775,645 | (28,290) | 729,312 |
| **Fixed Assets:** | | | | | |
| Tangible fixed assets: | | | | | |
| Buildings and structures | 8 | **146,365** | 146,967 | (602) | 145,696 |
| Machinery and vehicles | 9 | **183,904** | 183,280 | 624 | 174,364 |
| Tools, furniture and fixtures | 10 | **24,794** | 28,004 | (3,210) | 27,910 |
| Land | 11 | **443,176** | 445,562 | (2,386) | 445,468 |
| Construction in progress | 12 | **38,138** | 26,622 | 11,516 | 30,924 |
| Other | 13 | **59** | 66 | (7) | 237 |
| Total tangible fixed assets | 14 | **836,436** | 830,501 | 5,935 | 824,599 |
| Intangible fixed assets: | 15 | **25,795** | 24,792 | 1,003 | 23,483 |
| Investments and other fixed assets: | | | | | |
| Investment securities | 16 | **92,437** | 87,641 | 4,796 | 70,072 |
| Long-term loans receivable | 17 | **6,173** | 6,265 | (92) | 8,029 |
| Deferred taxes | 18 | **51,149** | 51,296 | (147) | 54,696 |
| Other | 19 | **20,076** | 20,311 | (235) | 23,472 |
| Allowance for doubtful receivables | 20 | **(7,167)** | (7,163) | (4) | (10,441) |
| Investment valuation allowance | 21 | **(629)** | (629) | - | (905) |
| Total investments and other fixed assets | 22 | **162,039** | 157,721 | 4,318 | 144,923 |
| Total fixed assets | 23 | **1,024,270** | 1,013,014 | 11,256 | 993,005 |
| **Deferred assets** | 24 | - | - | - | 1 |
| **Total Assets** | 25 | **1,771,625** | 1,788,659 | (17,034) | 1,722,318 |

(In millions of yen)

| | | FY2006 1st. Half (September 30, 2006) | FY2005 (March 31, 2006) | Increase/ (Decrease) | FY2005 1st. Half (September 30, 2005) |
|---|---|---|---|---|---|
| **LIABILITIES** | | | | | |
| **Current Liabilities:** | | | | | |
| Trade notes and accounts payable | 1 | **286,014** | 307,217 | (21,203) | 284,877 |
| Short-term loans payable | 2 | **87,749** | 82,134 | 5,615 | 99,786 |
| Long-term loans payable due within one year | 3 | **40,820** | 62,373 | (21,553) | 72,501 |
| Bonds due within one year | 4 | **20,200** | 200 | 20,000 | 300 |
| Bonds with stock acquisition rights due within one year | 5 | **2,870** | - | 2,870 | - |
| Other accounts payable | 6 | **114,934** | 104,668 | 10,266 | 110,658 |
| Accrued expenses | 7 | **196,126** | 187,096 | 9,030 | 170,514 |
| Reserve for warranty expenses | 8 | **33,468** | 29,088 | 4,380 | 26,099 |
| Other | 9 | **62,129** | 64,087 | (1,958) | 66,491 |
| Total current liabilities | 10 | **844,310** | 836,863 | 7,447 | 831,226 |
| **Fixed Liabilities:** | | | | | |
| Bonds | 11 | **45,000** | 65,200 | (20,200) | 65,200 |
| Bonds with stock acquisition rights | 12 | **-** | 3,437 | (3,437) | 27,190 |
| Long-term loans payable | 13 | **229,158** | 242,065 | (12,907) | 215,116 |
| Deferred tax liability related to land revaluation | 14 | **93,711** | 93,713 | (2) | 93,840 |
| Employees' and executive officers' severance and retirement benefits | 15 | **119,398** | 125,004 | (5,606) | 135,501 |
| Directors' and corporate auditors' retirement benefits | 16 | **1,355** | 1,590 | (235) | 1,500 |
| Other | 17 | **13,773** | 13,579 | 194 | 11,981 |
| Total fixed liabilities | 18 | **502,395** | 544,588 | (42,193) | 550,328 |
| **Total Liabilities** | 19 | **1,346,705** | 1,381,451 | (34,746) | 1,381,554 |
| **Minority Interests in Consolidated Subsidiaries** | 20 | - | 9,184 | - | 9,194 |
| **SHAREHOLDERS' EQUITY** | | | | | |
| Common stock | 21 | - | 148,360 | - | 136,483 |
| Capital surplus | 22 | - | 132,385 | - | 120,624 |
| Retained earnings/(deficit) | 23 | - | 24,005 | - | (11,806) |
| Land revaluation | 24 | - | 135,372 | - | 135,560 |
| Net unrealized gain on available-for-sale securities | 25 | - | 1,285 | - | 840 |
| Foreign currency translation adjustments | 26 | - | (41,072) | - | (47,110) |
| Treasury stock | 27 | - | (2,311) | - | (3,021) |
| **Total Shareholders' Equity** | 28 | - | 398,024 | - | 331,570 |
| **Total Liabilities, Minority Interests and Shareholders' Equity** | 29 | - | 1,788,659 | - | 1,722,318 |
| **SHAREHOLDERS' EQUITY** | | | | | |
| **Paid-In Capital and Retained Earnings:** | | | | | |
| Common stock | 30 | **148,643** | - | - | - |
| Capital surplus | 31 | **132,576** | - | - | - |
| Retained earnings | 32 | **44,220** | - | - | - |
| Treasury stock | 33 | **(3,493)** | - | - | - |
| Total paid-in capital and retained earnings | 34 | **321,946** | - | - | - |
| **Valuation and Translation Adjustments:** | | | | | |
| Net unrealized gain on available-for-sale securities | 35 | **1,214** | - | - | - |
| Net loss on derivative instruments | 36 | **(3,035)** | - | - | - |
| Land revaluation | 37 | **135,369** | - | - | - |
| Foreign currency translation adjustments | 38 | **(40,503)** | - | - | - |
| Total valuation and translation adjustments | 39 | **93,045** | - | - | - |
| **Stock Acquisition Rights** | 40 | **10** | - | - | - |
| **Minority Interests in Consolidated Subsidiaries** | 41 | **9,919** | - | - | - |
| **Total Shareholders' Equity** | 42 | **424,920** | - | - | - |
| **Total Liabilities and Shareholders' Equity** | 43 | **1,771,625** | - | - | - |

Note: Commencing in the six months ended September 30, 2006, minority interests in consolidated subsidiaries are presented as a separate component of the shareholders' equity in the consolidated balance sheet. See Adoption of New Accounting Standards in the notes to the consolidated financial statements.

## (3) Consolidated Statement of Capital Surplus and Retained Earnings And Consolidated Statement of Shareholders' Equity

### Consolidated Statement of Capital Surplus and Retained Earnings

(In millions of yen)

| | | FY2005 1st. Half (Apr. 2005 - Sep. 2005) | FY2005 (Apr. 2005 - Mar. 2006) |
|---|---|---|---|
| **CAPITAL SURPLUS** | | | |
| Balance at the beginning of the period | 1 | 104,435 | 104,435 |
| Increases due to: | | | |
| Exercise of stock acquisition rights | 2 | 16,189 | 28,065 |
| Decreases due to: | | | |
| Treasury stock transactions | 3 | - | 115 |
| Balance at the end of the period | 4 | 120,624 | 132,385 |
| **RETAINED EARNINGS** | | | |
| Balance at the beginning of the period | 5 | (34,581) | (34,581) |
| Increases due to: | | | |
| Net income | 6 | 31,088 | 66,711 |
| Decreases due to: | | | |
| Dividends | 7 | 3,648 | 3,648 |
| Land revaluation | 8 | 4,665 | 4,477 |
| Balance at the end of the period | 9 | (11,806) | 24,005 |

## Consolidated Statement of Shareholders' Equity

### Six months ended September 30, 2006

(In millions of yen)

| | | Paid-In Capital and Retained Earnings | | | | |
|---|---|---|---|---|---|---|
| | | Common stock | Capital surplus | Retained earnings | Treasury stock | Total Paid-In Capital and Retained Earnings |
| **Balance at March 31, 2006** | 1 | 148,360 | 132,385 | 24,005 | (2,311) | 302,439 |
| Changes during the period: | | | | | | |
| Exercise of stock acquisition rights | 2 | **283** | **284** | | | **567** |
| Cash dividends paid | 3 | | | **(7,001)** | | **(7,001)** |
| Net income | 4 | | | **27,213** | | **27,213** |
| Acquisition of treasury stock | 5 | | | | **(1,629)** | **(1,629)** |
| Re-issuance of treasury stock | 6 | | **(93)** | | **447** | **354** |
| Land revaluation | 7 | | | **3** | | **3** |
| Net changes in accounts other than paid-in capital and retained earnings | 8 | | | | | **-** |
| Net changes during the period | 9 | **283** | **191** | **20,215** | **(1,182)** | **19,507** |
| **Balance at September 30, 2006** | 10 | **148,643** | **132,576** | **44,220** | **(3,493)** | **321,946** |

(In millions of yen)

| | | Valuation and Translation Adjustments | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Net unrealized gain (loss) on available-for-sale securities | Net loss on derivative instruments | Land revaluation | Foreign currency translation adjustments | Total Valuation and translation adjustments | Stock acquistion rights | Minority Interests in Consolidated Subsidiaries | Total Shareholders' Equity |
| **Balance at March 31, 2006** | 11 | 1,285 | - | 135,372 | (41,072) | 95,585 | - | 9,184 | 407,208 |
| Changes during the period | | | | | | | | | |
| Exercise of stock acquisition rights | 12 | | | | | - | | | **567** |
| Cash dividends paid | 13 | | | | | - | | | **(7,001)** |
| Net income | 14 | | | | | - | | | **27,213** |
| Acquisition of treasury stock | 15 | | | | | - | | | **(1,629)** |
| Re-issuance of treasury stock | 16 | | | | | - | | | **354** |
| Land revaluation | 17 | | | | | - | | | **3** |
| Net changes in accounts other than paid-in capital and retained earnings | 18 | **(71)** | **(3,035)** | **(3)** | **569** | **(2,540)** | **10** | **735** | **(1,795)** |
| Net changes during the period | 19 | **(71)** | **(3,035)** | **(3)** | **569** | **(2,540)** | **10** | **735** | **17,712** |
| **Balance at September 30, 2006** | 20 | **1,214** | **(3,035)** | **135,369** | **(40,503)** | **93,045** | **10** | **9,919** | **424,920** |

## (4) Consolidated Statement of Cash Flows

**Six months ended September 30, 2006**

**With comparative figures for the six months ended September 30, 2005 and for the fiscal year ended March 31, 2006**

(In millions of yen)

| | | **FY2006 1st. Half (Apr. 2006 - Sep. 2006)** | FY2005 1st. Half (Apr. 2005 - Sep. 2005) | FY2005 (Apr. 2005 - Mar. 2006) |
|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | |
| Income before income taxes | 1 | **52,379** | 63,150 | 117,468 |
| Adjustments to reconcile income before income taxes to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 2 | **22,331** | 21,715 | 45,805 |
| Loss on impairment of fixed assets | 3 | **2,164** | 34,650 | 36,650 |
| Allowance for doubtful receivables | 4 | **(204)** | (800) | (206) |
| Investment valuation allowance | 5 | **-** | (104) | (115) |
| Reserve for warranty expenses | 6 | **4,331** | 1,808 | 4,734 |
| Employees' and executive officers' severance and retirement benefits | 7 | **(5,606)** | (60,590) | (71,087) |
| Interest and dividend income | 8 | **(1,400)** | (1,280) | (2,359) |
| Interest expense | 9 | **7,522** | 5,597 | 11,662 |
| Equity in net income of unconsolidated subsidiaries and affiliates | 10 | **(3,812)** | (6,716) | (8,976) |
| Loss on sale of fixed assets | 11 | **1,546** | 2,612 | 5,961 |
| Loss/(gain) on sale of investment securities | 12 | **21** | (923) | (1,407) |
| Insurance claim income | 13 | **-** | (896) | (996) |
| Changes in trade notes and accounts receivable | 14 | **14,107** | (12,028) | (17,577) |
| Changes in inventories | 15 | **(26,218)** | 4,844 | 10,332 |
| Changes in trade notes and accounts payable | 16 | **(25,923)** | (4,920) | 10,974 |
| Changes in other current liabilities | 17 | **22,339** | (1,886) | (15,989) |
| Other | 18 | **99** | 11,352 | (243) |
| Subtotal | 19 | **63,676** | 55,585 | 124,631 |
| Interest and dividends received | 20 | **3,590** | 1,705 | 2,838 |
| Interest paid | 21 | **(7,921)** | (5,586) | (11,292) |
| Insurance proceeds received | 22 | **-** | 15,454 | 15,554 |
| Income taxes paid | 23 | **(29,447)** | (12,111) | (17,133) |
| **Net cash provided by operating activities** | 24 | **29,898** | 55,047 | 114,598 |
| **Cash flows from investing activities:** | | | | |
| Purchase of investment securities | 25 | **(5,375)** | (3) | (8,875) |
| Sale of investment securities | 26 | **21** | 1,213 | 2,823 |
| Purchase of investments affecting scope of consolidation | 27 | **-** | 31 | 31 |
| Acquisition of tangible fixed assets | 28 | **(31,012)** | (46,604) | (75,548) |
| Proceeds from sale of tangible fixed assets | 29 | **2,975** | 1,828 | 3,949 |
| Changes in short-term loans receivable | 30 | **(859)** | 100 | 228 |
| Long-term loans made | 31 | **(34)** | (53) | (110) |
| Collections of long-term loans receivable | 32 | **153** | 45 | 162 |
| Other | 33 | **(4,004)** | 856 | (3,647) |
| **Net cash used in investing activities** | 34 | **(38,135)** | (42,587) | (80,987) |
| **Cash flows from financing activities:** | | | | |
| Changes in short-term loans payable | 35 | **5,388** | (1,828) | (8,845) |
| Proceeds from long-term loans payable | 36 | **11,985** | 34,631 | 67,102 |
| Repayment of long-term loans payable | 37 | **(46,429)** | (62,009) | (89,102) |
| Proceeds from issuance of bonds | 38 | **-** | 25,000 | 25,000 |
| Redemption of bonds | 39 | **(200)** | (30,300) | (30,400) |
| Cash dividends paid | 40 | **(7,000)** | (3,648) | (3,648) |
| Other | 41 | **(2,264)** | (4,230) | (3,559) |
| **Net cash used in financing activities** | 42 | **(38,520)** | (42,384) | (43,452) |
| **Effect of exchange rate fluctuations on cash and cash equivalents** | 43 | **564** | 1,996 | 3,860 |
| **Net decrease in cash and cash equivalents** | 44 | **(46,193)** | (27,928) | (5,981) |
| **Cash and cash equivalents at beginning of the period** | 45 | **208,658** | 214,639 | 214,639 |
| **Cash and cash equivalents at end of the period** | 46 | **162,465** | 186,711 | 208,658 |

## Notes to Consolidated Financial Statements

**1. Consolidation Scope and Application of Equity Method**

| | | |
|---|---|---|
| 1) Consolidated Subsidiaries | 59 | |
| Overseas | 22 | Mazda Motor of America, Inc., Mazda Motors (Deutchland) GmbH and other |
| Domestic | 37 | 19 dealers and 18 other |
| 2) Equity Method-Applied Companies | 14 | |
| Overseas | 5 | Auto Alliance International, Inc., Auto Alliance (Thailand) Co., Ltd. and other |
| Domestic | 9 | 1 dealer, 3 automotive parts sales companies and 5 other |

**2. Changes in Consolidation Scope and Application of Equity Method**

| | | |
|---|---|---|
| 1) Consolidated Subsidiaries | | |
| Newly added: | 1 | |
| Overseas | 1 | Mazda South East Asia, Limited (established) |

**3. Accounting Periods of Consolidated Subsidiaries**

The first-half consolidated balance sheet date is September 30. Among the consolidated subsidiaries, 9 companies, Compania Colombiana Automotriz S.A., Mazda Motors of New Zealand Limited, Mazda Sales (Thailand) Co., Ltd., Mazda Motor (Shanghai) Business Management & Consulting Co., Ltd., P.T. Mazda Motor Indonesia, Mazda South East Asia, Limited, Mazda Motor de Mexico, S. de R.L de C.V., Mazda Servicios de Mexico, S. de R.L de C.V., and Mazda Motor Rus, OOO have a first-half balance sheet date different from the first-half consolidated balance sheet date, all of which are June 30.

In preparing the first half consolidated financial statements, for 6 of the 9 companies, Compania Colombiana Automotriz S.A., Mazda Motors of New Zealand Limited, Mazda Sales (Thailand) Co., Ltd., Mazda Motor (Shanghai) Business Management & Consulting Co., Ltd., P.T. Mazda Motor Indonesia and Mazda South East Asia, Limited, the financial statements of each of these companies with the June 30 first-half balance sheet date are used; however, adjustments necessary in consolidation were made for material transactions that occurred between the first-half balance sheet dates of these subsidiaries and the first-half consolidated balance sheet date. On the other hand, for the other 3 companies, Mazda Motor de Mexico, S. de R.L de C.V., Mazda Servicios de Mexico, S. de R.L de C.V., and Mazda Motor Rus, OOO, special purpose financial statements prepared for consolidation as of the first-half consolidated balance sheet date are used to supplement the companies' statutory financial statements.

**4. Accounting Policies**

1) Valuation Standards and Methods of Significant Assets

a) Securities

Available-for-sale securities

| | |
|---|---|
| With available fair value: | Recorded at fair value estimated based on quoted market prices on the balance sheet date, with unrealized gains and losses excluded from income and reported in a separate component of shareholders' equity net of tax. The bases of cost are on a historical cost basis mainly based on a moving average method. |
| Without available fair value: | Recorded at cost on a historical cost basis mainly on a moving average method |
| b) Derivative instruments: | Mainly fair value method |
| c) Inventories | Mainly a historical cost basis based on an average method |

2) Depreciation and Amortization Methods of Significant Fixed Assets

a) Tangible Fixed Assets

Mainly straight-line method. Useful lives and residual values are estimated by a method equivalent to the provisions of the Japanese income tax law.

b) Intangible Fixed Assets

Straight-line method with periods of useful life estimated by a method equivalent to the provisions of the Japanese income tax law. Software for internal use is amortized on a straight-line basis over the period of internal use, i.e., 5 years.

3) Standards for Recognition of Reserves

a) Reserve for warranty expenses

Reserve for warranty expenses provides for after-sales expenses of products (vehicles). The amount is estimated per product warranty provisions and actual costs incurred in the past, taking future prospects into consideration.

b) Employees' and executive officers' severance and retirement benefits

Employees' and executive officers' severance and retirement benefits provide for the costs of severance and retirement benefits to employees and executive officers. For employees' severance and retirement benefits, the amount estimated to have been incurred as of the end of the current first half is recognized based on the estimated amount of liabilities for severance and retirement benefits and the estimated fair value of the pension plan assets at the end of the current fiscal year. The recognition of prior service cost is deferred on a straight-line basis over a period equal to or less than the average remaining service period of employees at the time such cost is incurred (mainly 12 years). The recognition of actuarial differences is also deferred on a straight-line basis over a period equal to or less than the average remaining service period of employees at the time such gains or losses are realized (mainly 13 years). The amortization of net gains or losses starts from the fiscal year immediately following the year in which such gains or losses are realized. For executive officers' retirement benefits, the liability is provided for the amount that would be required by the internal corporate policy if all the eligible executive officers retired at the balance sheet date.

c) Directors' and corporate auditors' retirement benefits

Directors' and corporate auditors' retirement benefits provide for the payment of retirement benefits to directors and corporate auditors. The equivalent of the amount that would be required by the internal corporate policy if all the directors and corporate auditors retired at the end of this half-year period is recognized.

d) 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 at an ordinary risk, the amount is estimated based on the past default ratio. For receivables at a high risk and receivables from debtors under bankruptcy proceedings, the amount is estimated based on the financial standing of the debtor.

e) 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.

4) Accounting policies of foreign consolidated subsidiaries

Among the foreign consolidated subsidiaries, Compania Colombiana Automotriz S.A. prepares its financial statements based on the accounting principles generally accepted in Colombia to reflect adjustments for the country's inflationary economy and changing prices.

5) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate on the half-year end; gains and losses in foreign currency translation are included in the income of the current period. Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the rates on the half-year ends of the subsidiaries' accounting periods except for shareholders' equity accounts, which are translated at the historical rates. Income statements of consolidated overseas subsidiaries are translated at average rates of the subsidiaries' half-year periods, with the translation differences prorated and included in the shareholders' equity as foreign currency translation adjustments and minority interests.

6) Accounting for Leases

Lease transactions other than those finance leases with an unconditional title transfer clause are accounted for by the method equivalent to rental transactions.

7) Accounting for Hedging Activities

Full-deferral hedge accounting is mainly applied. Also, for certain interest swap contracts that are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

8) Accounting for Consumption Taxes

Tax-excluding method

**5. Cash and Cash Equivalents in the Consolidated Statement of Cash Flows**

Cash and cash equivalents consist of cash on hand, bank deposits that can be readily withdrawn, and short-term, highly liquid investments with maturities of three months or less at the time of acquisition that present insignificant risk of changes in value.

## Adoption of New Accounting Standards

**1. Presentation of Shareholders' Equity in the Consolidated Balance Sheet**

Commencing in the six months ended September 30, 2006, Mazda Motor Corporation ("the Company") and its consolidated domestic subsidiaries (together the "Domestic Companies") adopted the Accounting Standards Board of Japan ("ASBJ") Statement No. 5, *Accounting Standards for Presentation of Net Assets in the Balance Sheet*, and the ASBJ Guidance No. 8, *Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheet*, both issued by the ASBJ on December 9, 2005[1].

The adoption of the new standards has no impacts in income. If the shareholders' equity of the consolidated balance sheet at September 30, 2006 had been presented under the standards effective until the prior period, the total shareholders' equity would have been 418,026 million yen.

As the accounting standards for the preparation of interim (first-half) consolidated financial statements were revised, commencing in the six months ended September 30, 2006, the interim (first-half) consolidated financial statements were prepared in accordance with the revised standards.

**2. Accounting for Share-based Payment**

Commencing in the six months ended September 30, 2006, the Domestic Companies adopted the ASBJ Statement No. 8, *Accounting Standard for Share-based Payment*, issued by the ASBJ on December 27, 2005 and the ASBJ Guidance No. 11, *Guidance on Accounting Standard for Share-based Payment*, last revised by the ASBJ on May 31, 2006.

The effects of adopting the new standard for the six months ended September 30, 2006 were to decrease operating income, ordinary income and income before income taxes by 9 million yen. The effects of adopting the new standards on the segment information are discussed in the applicable section of the notes to the consolidated financial statements.

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[1] **Presentation of the minority interests in consolidated subsidiaries**: Until the year ended March 31, 2006, the minority interests in consolidated subsidiaries were presented in the "mezzanine" section of the consolidated balance sheet between the liabilities and the shareholders' equity. Commencing in the six months ended September 30, 2006, the minority interests are presented in the balance sheet as a separate component of the shareholders' equity. In the calculation of the equity ratio and the equity per share, however, the minority interests are excluded from the shareholders' equity.

# Footnotes

(In millions of yen)

| | FY2006 1st. Half (September 30, 2006) | FY2005 1st. Half (September 30, 2005) | FY2005 (March 31, 2006) |
|---|---|---|---|
| **(Consolidated Balance Sheet)** | | | |
| 1. Accumulated depreciation on tangible fixed assets | **1,042,799** | 1,050,647 | 1,040,875 |
| 2. Assets offered as collateral and collateralized loans | | | |
| Assets offered as collateral | **466,342** | 475,217 | 476,513 |
| Collateralized loans | **101,486** | 130,112 | 107,884 |
| 3. Contingent liabilities for guarantee and similar agreements | **32,375** | 38,384 | 35,712 |
| 4. Notes and other receivables discounted | | | |
| Discounted notes receivable | **45** | 297 | 63 |
| Factoring of receivables with recourse | **19,164** | 18,937 | 23,391 |

5. Accounting for notes payable and receivable matured on the balance sheet date

Maturing notes payable and receivable are removed from the corresponding asset and liability accounts on the day the notes are actually settled.
For the six months ended September 30, 2006, those notes that matured on September 30, 2006 were included in the corresponding notes accounts in the balance sheet since financial institutions were off on the day.

| | FY2006 1st. Half | FY2005 1st. Half | FY2005 |
|---|---|---|---|
| Notes receivable | **645** | - | - |
| Notes payable | **183** | - | - |

**(Consolidated Statement of Income)**

Loss on impairment of fixed assets

**FY2006 1st. Half (September 30, 2006)**

1) Asset groups for which an impairment loss was recognized

| Usage | Location | Type | (In millions of yen) |
|---|---|---|---|
| -Idle assets: (sales facilities) | Kasukabe-city, Saitama-prefecture | Buildings and structures | **6** |
| | | Land | **5** |
| | | Sub-total | **11** |
| -Idle assets: (production equip.) | Aki-gun, Hiroshima-prefecture and other locations | Machinery and vehicles | **71** |
| | | Tools, furniture and fixtures | **97** |
| | | Sub-total | **168** |
| -Assets held for use (sales facilities) | Kurashiki-city, Okayama-prefecture and other locations | Land | **969** |
| -Assets held for use in production (production equip.) | The United States | Tools, furniture and fixtures | **1,016** |
| | | Total | **2,164** |

2) Grouping of assets

As a general rule, assets were grouped by company. However, idle assets and assets for rent were individually grouped by item.

3) Recognition of an Impairment Loss

For the idle assets without a plan to use in operation in the future, the carrying amount was reduced to the amount recoverable. The reduction in the carrying amount was recognized as an impairment loss. The impairment loss of 97 million yen on tools, furniture and fixtures under the production equipment category included long-lived tooling for the production of parts to be sold individually.
Also, the sales facilities under the assets held for use are the assets expected to be sold. An impairment loss was recognized on each of the asset for the difference between the net realizable value and the carrying amount.

4) Estimation of an Amount Recoverable

The recoverable amount of an idle asset group was estimated based on the net amount that the asset could be sold (net selling amount).
For land, the net selling amount was estimated based on a third-party appraisal. For other idle assets, the net selling amount is nominal.

5) Impairment Loss Recognized by an American Consolidated Subsidiary

Loss on impairment of assets held for use in production was recognized by the consolidated subsidiary in the United States in accordance with the United States generally accepted accounting principles.

FY2005 1st. Half (September 30, 2005)

1) Asset groups for which an impairment loss was recognized

| Usage | Location | Type | (In millions of yen) |
|---|---|---|---|
| -Idle assets: (distribution centers, etc.) | Higashi Nada-ku, Kobe-city and other locations | Buildings and structures | 2,623 |
| | | Machinery and vehicles | 664 |
| | | Tools, furniture and fixtures | 4 |
| | | Land | 3,819 |
| | | Other | 96 |
| | | Sub-total | 7,206 |
| -Idle assets: (production equipment, etc.) | Aki-gun, Hiroshima-prefecture and other locations | Machinery and vehicles | 2,539 |
| | | Tools, furniture and fixtures | 10,929 |
| | | Sub-total | 13,468 |
| -Assets held for use in production (production equip.) | The United States | Tools, furniture and fixtures | 13,976 |
| | | Total | 34,650 |

2) Grouping of assets

Assets were grouped into assets held for use, idle assets, and assets held for rent. Furthermore, idle assets and assets held for rent were individually grouped by each item.

3) Recognition of an Impairment Loss

For the idle assets without a plan to use in operation in the future, the carrying amount was reduced to the amount recoverable. The reduction in the carrying amount was recognized as an impairment loss. The impairment loss of 10,929 million yen on tools, furniture and fixtures under the production equipment category included long-lived tooling for the production of parts to be sold individually.

4) Estimation of an Amount Recoverable

The recoverable amount of an idle asset group was estimated based on the net amount that the asset could be sold (net selling amount). For land, the net selling amount was estimated based on a third-party appraisal. For other idle assets, the net selling amount is nominal.

5) Impairment Loss Recognized by an American Consolidated Subsidiary

Loss on impairment of assets held for use in production was recognized by the consolidated subsidiary in the United States in accordance with the United States generally accepted accounting principles.

FY2005 (March 31, 2006)

1) Asset groups for which an impairment loss was recognized

| Usage | Location | Type | (In millions of yen) |
|---|---|---|---|
| -Idle assets: (distribution centers, etc.) | Higashi Nada-ku, Kobe-city and other locations | Buildings and structures | 2,687 |
| | | Machinery and vehicles | 665 |
| | | Tools, furniture and fixtures | 7 |
| | | Land | 4,089 |
| | | Other | 96 |
| | | Sub-total | 7,544 |
| -Idle assets: (production equipment, etc.) | Aki-gun, Hiroshima-prefecture and other locations | Machinery and vehicles | 3,321 |
| | | Tools, furniture and fixtures | 11,026 |
| | | Sub-total | 14,347 |
| -Assets held for use in production (production equip.) | The United States | Tools, furniture and fixtures | 14,759 |
| | | Total | 36,650 |

2) Grouping of assets

As a general rule, assets were grouped by company. However, idle assets and assets for rent were individually grouped by item.

3) Recognition of an Impairment Loss

For the idle assets without a plan to use in operation in the future, the carrying amount was reduced to the amount recoverable. The reduction in the carrying amount was recognized as an impairment loss. The impairment loss of 11,026 million yen on tools, furniture and fixtures under the production equipment category included long-lived tooling for the production of parts to be sold individually.

4) Estimation of an Amount Recoverable

The recoverable amount of an idle asset was estimated based on the net amount that the asset could be sold (net selling amount).
For land, the net selling amount was estimated based on a third-party appraisal. For other idle assets, the net selling amount is nominal.

5) Impairment Loss Recognized by an American Consolidated Subsidiary

Loss on impairment of assets held for use in production was recognized by the consolidated subsidiary in the United States in accordance with the United States generally accepted accounting principles.

## (Consolidated Statement of Shareholders' Equity)

### 1. Stock issued

(In thousands of shares)

| Type of stock | Number of shares issued at March 31, 2006 | Increases | Decreases | **Number of shares issued at September 30, 2006** |
|---|---|---|---|---|
| Common stock | 1,407,342 | **1,853** | - | **1,409,195** |

The number of shares issued increased during the period due to:

Exercise of stock acquisition rights 1,853 thousand shares

### 2. Treasury stock

(In thousands of shares)

| Type of stock | Number of treasury shares at March 31, 2006 | Increases | Decreases | **Number of treasury shares at September 30, 2006** |
|---|---|---|---|---|
| Common stock | 7,248 | **2,149** | **1,140** | **8,257** |

The number of treasury shares increased during the period due to:

Acquisition of treasury stock to meet the needs related to stock options 2,103 thousand shares
Purchase of less-than-one-unit shares from shareholders 46 thousand shares

The number of treasury shares decreased during the period due to:

Re-issuance of treasury stock to meet the needs related to stock options 1,137 thousand shares
Requests for additional purchase of less-than-one-unit shares by shareholders 3 thousand shares

### 3. Stock acquisition rights

| Company name | Detail | Type of stock | Thousands of shares | | | | **Balance at Sep. 30, 2006 (Million yen)** |
|---|---|---|---|---|---|---|---|
| | | | Number of shares at Mar. 31, 2006 | Increase | Decrease | Number of shares at Sep. 30, 2006 | |
| Mazda Motor Corporation | Stock acquisition rights granted as stock options | Common stock | - | - | - | - | **10** |

Stock acquisition rights granted as stock options was not vested.

### 4. Dividends

**Dividend payment**

| Resolution | Type of stock | Resource of dividends | Total amount of dividends (Million yen) | Dividends per share (Yen) | Reference date | Effective date |
|---|---|---|---|---|---|---|
| Ordinary General Meeting of Shareholders held on June 27, 2006 | Common stock | Retained earnings | 7,001 | 5 | Mar. 31, 2006 | Jun. 28, 2006 |

## (Consolidated Statement of Cash Flows)

(In millions of yen)

| | **FY2006 1st. Half (September 30, 2006)** | FY2005 1st. Half (September 30, 2005) | FY2005 (March 31, 2006) |
|---|---|---|---|
| Reconciliation of cash and time deposits in the consolidated balance sheet to cash and cash equivalents in the consolidated statement of cash flows | | | |
| Cash and time deposits | **162,526** | 186,801 | 208,765 |
| Time deposits with original maturities that exceed 3 months | **(61)** | (90) | (107) |
| Cash and cash equivalents | **162,465** | 186,711 | 208,658 |
| Significant non-cash transactions: | | | |
| Exercise of stock acquisitions rights | | | |
| Increases in common stock | **283** | 16,188 | 28,065 |
| Increases in capital surplus | **284** | 16,189 | 28,065 |
| Decreases in bonds with stock acquisition rights | **567** | 32,377 | 56,130 |

## Fair Value Information of Securities

### FY2006 First Half (As of September 30, 2006)

1. Available-for-sale securities that have a market value

(In millions of yen)

| | Acquisition cost | Balance sheet amount | Unrealized gain/loss |
|---|---|---|---|
| 1) Equity securities | **565** | **2,548** | **1,983** |
| 2) Debt securities | | | |
| Corporate bonds | - | - | - |
| Other | - | - | - |
| 3) Other | **291** | **291** | - |
| Total | **856** | **2,839** | **1,983** |

2. Securities that are not valued at fair value

(In millions of yen)

| | Balance sheet amount |
|---|---|
| Available-for-sale securities | |
| Unlisted stocks | **18,112** |
| Certificate of deposit | **57,000** |

Certificate of deposit of 57,000 million yen is included in the "Cash and time deposits" in the Consolidated Balance Sheet.

### FY2005 First Half (As of September 30, 2005)

1. Available-for-sale securities that have a market value

(In millions of yen)

| | Acquisition cost | Balance sheet amount | Unrealized gain/loss |
|---|---|---|---|
| 1) Equity securities | 582 | 2,211 | 1,629 |
| 2) Debt securities | | | |
| Corporate bonds | - | - | - |
| Other | - | - | - |
| 3) Other | 216 | 216 | - |
| Total | 798 | 2,427 | 1,629 |

2. Securities that are not valued at fair value

(In millions of yen)

| | Balance sheet amount |
|---|---|
| Available-for-sale securities | |
| Unlisted stocks | 14,076 |
| Certificate of deposit | 70,500 |

Certificate of deposit of 70,500 million yen is included in the "Cash and time deposits" in the Consolidated Balance Sheet.

### FY2005 (As of March 31, 2006)

1. Available-for-sale securities that have a market value

(In millions of yen)

| | Acquisition cost | Balance sheet amount | Unrealized gain/loss |
|---|---|---|---|
| 1) Equity securities | 563 | 2,684 | 2,121 |
| 2) Debt securities | | | |
| Corporate bonds | - | - | - |
| Other | - | - | - |
| 3) Other | 277 | 277 | - |
| Total | 840 | 2,961 | 2,121 |

2. Securities that are not valued at fair value

(In millions of yen)

| | Balance sheet amount |
|---|---|
| Available-for-sale securities | |
| Unlisted stocks | 19,801 |
| Certificate of deposit | 96,000 |

Certificate of deposit of 96,000 million yen is included in the "Cash and time deposits" in the Consolidated Balance Sheet.

## Segment Information

### 1. Information by Industry Segment

The company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of passenger and commercial vehicles. Net sales and operating income (loss) related to this industry have exceeded 90% of the respective consolidated amounts. Accordingly, information by industry segment is not shown.

### 2. Information by Geographic Area

(In millions of yen)

| **FY2006 1st. Half (Period ended Sep. 30, 2006)** | Japan | North America | Europe | Other areas | Total | Elimination or corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| Net sales: | | | | | | | |
| Outside Customers | **606,980** | **455,521** | **348,212** | **110,735** | **1,521,448** | **-** | **1,521,448** |
| Inter-areas | **620,317** | **3,632** | **10,818** | **797** | **635,564** | **(635,564)** | **-** |
| Total | **1,227,297** | **459,153** | **359,030** | **111,532** | **2,157,012** | **(635,564)** | **1,521,448** |
| Operating expenses | **1,167,327** | **453,505** | **352,159** | **107,638** | **2,080,629** | **(628,938)** | **1,451,691** |
| Operating income | **59,970** | **5,648** | **6,871** | **3,894** | **76,383** | **(6,626)** | **69,757** |

(In millions of yen)

| FY2005 1st. Half (Period ended Sep. 30, 2005) | Japan | North America | Europe | Other areas | Total | Elimination or corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| Net sales: | | | | | | | |
| Outside Customers | 588,351 | 358,756 | 292,920 | 111,887 | 1,351,914 | - | 1,351,914 |
| Inter-areas | 465,741 | 3,589 | 7,969 | - | 477,299 | (477,299) | - |
| Total | 1,054,092 | 362,345 | 300,889 | 111,887 | 1,829,213 | (477,299) | 1,351,914 |
| Operating expenses | 1,019,766 | 353,734 | 298,542 | 106,776 | 1,778,818 | (475,684) | 1,303,134 |
| Operating income | 34,326 | 8,611 | 2,347 | 5,111 | 50,395 | (1,615) | 48,780 |

(In millions of yen)

| FY2005 (Year ended March 31, 2006) | Japan | North America | Europe | Other areas | Total | Elimination or corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| Net sales: | | | | | | | |
| Outside Customers | 1,213,283 | 823,447 | 655,370 | 227,723 | 2,919,823 | - | 2,919,823 |
| Inter-areas | 1,056,948 | 7,397 | 18,275 | 1,106 | 1,083,726 | (1,083,726) | - |
| Total | 2,270,231 | 830,844 | 673,645 | 228,829 | 4,003,549 | (1,083,726) | 2,919,823 |
| Operating expenses | 2,169,998 | 816,941 | 664,074 | 220,237 | 3,871,250 | (1,074,862) | 2,796,388 |
| Operating income | 100,233 | 13,903 | 9,571 | 8,592 | 132,299 | (8,864) | 123,435 |

Notes:

1) Method of segmentation and principal countries or regions belonging to each segment
   a) Method: Segmentation by geographic adjacency
   b) Principal countries or regions belonging to each segment
      North America: U.S.A. and Canada
      Europe: Germany, Belgium, and U.K.
      Other areas: Australia and Colombia

2) As discussed in the accounting for share-based payment section of the adoption of new accounting standards, commencing in the six months ended September 30, 2006, the Domestic Companies adopted the ASBJ Statement No. 8, *Accounting Standard for Share-based Payment* , issued by the ASBJ on December 27, 2005 and the ASBJ Guidance No. 11, *Guidance on Accounting for Share-based Payment* , last revised by the ASBJ on May 31, 2006.

   The effects of adopting the new standard for the six months ended September 30, 2006 were to increase the operating expenses and to decrease the operating income in the Japan segment by 9 million yen.

## 3. Overseas Sales

| **FY2006 1st. Half (Period ended Sep. 30, 2006)** | North America | Europe | Other areas | Total |
|---|---|---|---|---|
| | (In millions of yen) | | | |
| Overseas sales | **468,894** | **354,340** | **256,301** | **1,079,535** |
| Consolidated sales | **-** | **-** | **-** | **1,521,448** |
| Percentage of overseas sales to consolidated sales | **%** **30.8** | **%** **23.3** | **%** **16.9** | **%** **71.0** |

| FY2005 1st. Half (Period ended Sep. 30, 2005) | North America | Europe | Other areas | Total |
|---|---|---|---|---|
| | (In millions of yen) | | | |
| Overseas sales | 367,470 | 298,719 | 253,713 | 919,902 |
| Consolidated sales | - | - | - | 1,351,914 |
| Percentage of overseas sales to consolidated sales | % 27.2 | % 22.1 | % 18.7 | % 68.0 |

| FY2005 (Year ended March 31, 2006) | North America | Europe | Other areas | Total |
|---|---|---|---|---|
| | (In millions of yen) | | | |
| Overseas sales | 843,988 | 668,941 | 519,232 | 2,032,161 |
| Consolidated sales | - | - | - | 2,919,823 |
| Percentage of overseas sales to consolidated sales | % 28.9 | % 22.9 | % 17.8 | % 69.6 |

Notes:

1) Overseas sales include exports by the Company and its domestic consolidated subsidiaries as well as sales (other than exports to Japan) by overseas consolidated subsidiaries.

2) Method of segmentation and principal countries or regions belonging to each segment
   a) Method: Segmentation by geographic adjacency
   b) Principal countries or regions belonging to each segment
      North America: U.S.A. and Canada
      Europe: Germany and U.K.
      Other areas: Australia, Thailand and China

**The following disclosures have been omitted as allowed for companies disclosing financial information through the EDINET:**

- Lease transactions
- Derivatives
- Share-based payment

**Other**

In June of 2006, the Company received reassessment of income taxes from the Hiroshima Regional Taxation Bureau with respect to the transactions between the Company and its overseas subsidiary. In turn, in August 2006, the Company filed a petition and formally requested for bilateral consultations between the two countries as transfer pricing matter to obtain relief from double taxation under the applicable tax treaties.

In the year ended March 31, 2006, the Company recognized expected tax payment for the reassessment as prior year income taxes in the consolidated statement of income. Therefore, the reassessment has no impacts in the consolidated statement of income for the year ending March 31, 2007.

# 5. Production and Sales Information

## 1. Production Volume

| Type | | **FY 2006 1st. Half (Apr. 2006 to Sep. 2006)** | FY 2005 1st. Half (Apr. 2005 to Sep. 2005) | Increase/ (Decrease) | FY 2005 (Apr. 2005 to Mar. 2006) |
|---|---|---|---|---|---|
| | | units | units | units | units |
| | Passenger cars | **439,941** | 400,190 | 39,751 | 838,760 |
| | Trucks | **31,235** | 34,340 | (3,105) | 65,460 |
| Vehicles Total | | **471,176** | 434,530 | 36,646 | 904,220 |

Note: Production volume figures do not include those Mazda-brand vehicles produced by the following joint venture assembly plants with Ford (that are accounted for by the equity method):

| | **FY 2006 1st. Half** | FY 2005 1st. Half | Increase/ (Decrease) | FY 2005 |
|---|---|---|---|---|
| AutoAlliance International, Inc. | **40,817** units | 42,762 units | (1,945) units | 74,260 units |
| AutoAlliance (Thailand) Co., Ltd. | **21,961** | 17,560 | 4,401 | 35,003 |

## 2. Sales Volume and Revenue

| Type | **FY 2006 1st. Half (Apr. 2006 to Sep. 2006)** | | FY 2005 1st. Half (Apr. 2005 to Sep. 2005) | | Increase/ (Decrease) | | FY 2005 (Apr. 2005 to Mar. 2006) | |
|---|---|---|---|---|---|---|---|---|
| | Volume | Revenue | Volume | Revenue | Volume | Revenue | Volume | Revenue |
| | units | million yen | units | million yen | units | million yen | units | million yen |
| Vehicles | **560,071** | **1,102,675** | 556,838 | 977,815 | 3,233 | 124,860 | 1,148,653 | 2,121,485 |
| Knockdown Parts (Overseas) | - | **54,900** | - | 54,488 | - | 412 | - | 123,812 |
| Parts | - | **122,930** | - | 103,199 | - | 19,731 | - | 227,671 |
| Other | - | **240,943** | - | 216,412 | - | 24,531 | - | 446,855 |
| Total | - | **1,521,448** | - | 1,351,914 | - | 169,534 | - | 2,919,823 |

(Sales Volume by Market)

| Type | | **FY 2006 1st. Half (Apr. 2006 to Sep. 2006)** | FY 2005 1st. Half (Apr. 2005 to Sep. 2005) | Increase/ (Decrease) | FY 2005 (Apr. 2005 to Mar. 2006) |
|---|---|---|---|---|---|
| | | units | units | units | units |
| Japan | | **133,537** | 145,669 | (12,132) | 290,012 |
| | North America | **183,983** | 167,644 | 16,339 | 350,780 |
| | Europe | **136,021** | 133,389 | 2,632 | 291,529 |
| | Other | **106,530** | 110,136 | (3,606) | 216,332 |
| Overseas Total | | **426,534** | 411,169 | 15,365 | 858,641 |
| Total | | **560,071** | 556,838 | 3,233 | 1,148,653 |

# FY2006 First Half Financial Summary (Consolidated)

November 2, 2006

Mazda Motor Corporation

| (in 100 millions of yen)<br>(in thousands of units)<br>(upper left: return on sales) | | FY2005 1st. HF<br>(Apr.05-Sep.05) | % | FY2006 1st. HF<br>(Apr.06-Sep.06) | % | FY2005<br>(Apr.05-Mar.06) | % | FY2006<br>(Apr.06-Mar.07)<br>Projection | % | FY2006<br>(Apr.06-Mar.07)<br>Prior Projection | % |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Domestic | 1 | 4,320 | 5.0 | 4,419 | 2.3 | 8,877 | 5.0 | 9,000 | 1.4 | 9,200 | 3.6 |
| Overseas | 2 | 9,199 | 1.2 | 10,795 | 17.4 | 20,321 | 9.8 | 22,500 | 10.7 | 21,800 | 7.3 |
| Net sales | 3 | 13,519 | 2.4 | 15,214 | 12.5 | 29,198 | 8.3 | 31,500 | 7.9 | 31,000 | 6.2 |
| Operating income | 4 | 3.6%<br>488 | 12.1 | 4.6%<br>698 | 43.0 | 4.2%<br>1,234 | 48.8 | 4.7%<br>1,480 | 19.9 | 4.4%<br>1,350 | 9.4 |
| Ordinary income | 5 | 3.2%<br>434 | 17.4 | 3.7%<br>566 | 30.5 | 3.5%<br>1,015 | 38.9 | 4.4%<br>1,400 | 38.0 | 4.2%<br>1,300 | 28.1 |
| Income before income taxes | 6 | 4.7%<br>632 | 88.2 | 3.4%<br>524 | (17.1) | 4.0%<br>1,175 | 59.1 | 4.1%<br>1,300 | 10.7 | 3.9%<br>1,200 | 2.2 |
| Net income | 7 | 2.3%<br>311 | 66.0 | 1.8%<br>272 | (12.5) | 2.3%<br>667 | 45.7 | 2.6%<br>820 | 22.9 | 2.4%<br>750 | 12.4 |
| Operating income by geographic area | | | | | | | | | | | |
| Japan | 8 | 343 | | 600 | | 1,002 | | | | | |
| North America | 9 | 86 | | 56 | | 139 | | | | | |
| Europe | 10 | 24 | | 69 | | 96 | | | | | |
| Other | 11 | 51 | | 39 | | 86 | | | | | |
| Operating profit change | | | | | | | | | | | |
| Volume & mix | 12 | | | 149 | | | | 340 | | 340 | |
| Exchange rate | 13 | | | 227 | | | | 158 | | (155) | |
| Product enrichment | 14 | | | (93) | | | | (187) | | (187) | |
| Cost reduction | 15 | | | 53 | | | | 112 | | 245 | |
| Marketing expense | 16 | | | (5) | | | | - | | - | |
| Other | 17 | | | (121) | | | | (177) | | (127) | |
| Total | 18 | | | 210 | | | | 246 | | 116 | |
| Average rate for the period | 19 | 110 Yen/US$<br>136 Yen/EUR | | 115 Yen/US$<br>146 Yen/EUR | | 113 Yen/US$<br>138 Yen/EUR | | 113 Yen/US$<br>143 Yen/EUR | | 110 Yen/US$<br>135 Yen/EUR | |
| Transaction rate | 20 | 106 Yen/US$<br>137 Yen/EUR | | 114 Yen/US$<br>141 Yen/EUR | | 110 Yen/US$<br>137 Yen/EUR | | 114 Yen/US$<br>142 Yen/EUR | | 110 Yen/US$<br>136 Yen/EUR | |
| Capital investment | 21 | 390 | | 324 | | 721 | | 820 | | 820 | |
| Depreciation and amortization | 22 | 217 | | 223 | | 458 | | 470 | | 470 | |
| R & D cost | 23 | 491 | | 505 | | 957 | | 1,070 | | 1,070 | |
| Total assets | 24 | 17,223 | | 17,716 | | 17,887 | | | | | |
| Shareholders' Equity | 25 | 3,316 | | 4,249 | | 3,980 | | | | | |
| Financial debt | 26 | 4,801 | | 4,258 | | 4,554 | | | | | |
| Net financial debt | 27 | 2,934 | | 2,633 | | 2,468 | | | | | |
| Cash flow | 28 | 125 | | (82) | | 336 | | | | | |
| Performance of operation | 29 | | | Record-high sales, operating income, and ordinary income | | | | Sales and profits to increase in 6 consecutive years.<br>Profits at all levels to become highest ever. | | | |
| Domestic | 30 | 146 | 3.4 | 134 | (8.3) | 290 | (1.3) | 270 | (6.9) | 297 | 2.4 |
| North America | 31 | 168 | 6.8 | 184 | 9.7 | 351 | 4.5 | 392 | 11.8 | 389 | 10.9 |
| Europe | 32 | 133 | (6.8) | 136 | 2.0 | 292 | 3.0 | 300 | 2.9 | 300 | 2.9 |
| Other | 33 | 110 | 23.8 | 106 | (3.3) | 216 | 13.0 | 218 | 0.8 | 224 | 3.5 |
| Overseas | 34 | 411 | 5.7 | 426 | 3.7 | 859 | 6.0 | 910 | 6.0 | 913 | 6.3 |
| Wholesales | 35 | 557 | 5.1 | 560 | 0.6 | 1,149 | 4.0 | 1,180 | 2.7 | 1,210 | 5.3 |
| Number of Employees (full time employees) | 36 | 36,649 | | 38,144 | | 36,626 | | | | | |

Note: Commencing in the six months ended September 30, 2006, ASBJ Statement No. 5, *Accounting Standards for Presentation of Net Assets in the Balance Sheet*, was adopted. As a result, commencing in the six months ended September 30, 2006, the minority interests in consolidated subsidiaries are included in the shareholders' equity as a separate component. The amounts of the shareholders' equity for the prior periods are not re-stated.