



NOTES TO CONSOLIDATED FINANCIAL RESULTS

YEAR ENDED MARCH 31, 2017

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Notes to Consolidated Financial Statements

Mazda Motor Corporation and Consolidated Subsidiaries

1 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Mazda Motor Corporation (the "Company") and its consolidated subsidiaries (together, the "Group") 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 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, 2017, which was ¥112 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 its 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 75 subsidiaries (58 in the year ended March 31, 2016). In addition, 20 affiliates (13 in the year ended March 31, 2016) are accounted for by the equity method.

The consolidated balance sheet date is March 31. Among the consolidated subsidiaries, 23 companies have balance sheet dates (in its statutory financial statements) different from the consolidated balance sheet date, most of which are December 31.

In preparing the consolidated financial statements, for 9 of the 23 companies, special purpose financial statements that are prepared for consolidation are used to supplement the companies' statutory financial statements. For the other 14 companies, in preparing the consolidated finan-

cial statements, financial statements of these companies with different balance sheet dates are used.

However, adjustments necessary in consolidation are made for material transactions that have occurred between the balance sheet date of these subsidiaries and the consolidated balance sheet date.

Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate at the year-end date; 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 net assets accounts, which are translated at historical rates. Income statements of consolidated foreign subsidiaries are translated into Japanese yen at average rates during the subsidiaries' accounting periods, with the translation differences prorated and included in the net assets as foreign currency translation adjustment and non-controlling interests in consolidated subsidiaries.

Cash and cash equivalents

The Group considers all highly liquid investments with maturities of 3 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 unconsolidated 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 Group does not have trading securities or held-to-maturity debt securities. Equity securities issued by unconsolidated subsidiaries and affiliated companies which, based on the applicable materiality provisions of Japanese GAAP, are not 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 net assets. 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.

Notes to Consolidated Financial Statements

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 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 assets)

Property, plant and equipment are stated principally at cost. Depreciation is computed mainly using the straight-line method over the estimated economic useful lives of the assets with a residual value at the end of useful lives to be a memorandum value.

Intangible assets (except for leased assets)

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

For the Company and its consolidated domestic subsidiaries (together the "Domestic Companies"), useful lives are estimated principally 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 assets

Finance leases in which ownership is not transferred to the lessee

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 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, the amount is estimated based on the financial standing of the debtor.

Reserve for warranty expenses

Reserve for warranty expenses provides for after-sales expenses to product. Primarily, according to the product warranty provisions, the amount estimated based on actual costs incurred in the past, taking future prospects into consideration, is recognized.

Reserve for loss on business of subsidiaries and affiliates

Reserve for loss on business of subsidiaries and affiliates provides for losses on subsidiaries and 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 year is recognized.

Employees' severance and retirement benefits

The Group provides 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.

In calculating the retirement benefit obligations, the method of attributing expected benefit to the accounting period is based on mainly a benefit formula basis.

The recognition of actuarial differences is deferred on the 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 year immediately following the year in which such gains or losses arise.

The recognition of past service costs 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).

Notes to Consolidated Financial Statements

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 net operating loss 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.

The Company and its wholly owned domestic subsidiaries elect to file a consolidated corporate tax return as a consolidation group.

Research and development costs

Research and development costs are charged to income when incurred. For the years ended March 31, 2017 and 2016, research and development costs were ¥126,915 million (\$1,133,170 thousand) and ¥116,610 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.

Amortization of Goodwill

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.

Amounts per share of common stock

The computations of net income per share of common stock are based on the average number of shares outstanding during each year. Diluted net income per share of common stock is computed based on the average number of shares outstanding during each 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 year ended March 31, 2016, only information on net income per share of common stock is provided without information on diluted net income per share of common stock to reflect the diluting effect, because there were no dilutive potential common stocks for the year ended March 31, 2016.

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

3 ADOPTION OF NEW ACCOUNTING STANDARDS AND ACCOUNTING CHANGES

(Changes in accounting policies)

(Application of Practical Solution on Accounting for Changes in Depreciation Method related to the 2016 Tax Law Changes)

In accordance with the amendment in the Corporate Tax Code of Japan, a part of domestic consolidated subsidiaries have adopted the "Practical Solution on Accounting for Changes in Depreciation Method related to the 2016 Tax Law Changes" (ASBJ Practical Issue Task Force (PITF) No. 32, issued on June 17, 2016) in the year ended March 31, 2017, and have changed the depreciation method for structures and attachment to buildings acquired on or after April 1, 2016, from the declining-balance method to the straight-line method.

The effect of this change on the consolidated statement of income for the year ended March 31, 2017 was immaterial.

(Additional information)

(Application of the Implementation Guidance on Recoverability of Deferred Tax Assets)
Effective from the year ended March 31, 2017, the Company and its domestic consolidated subsidiaries have applied the "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, issued on March 28, 2016).

Notes to Consolidated Financial Statements

4 FINANCIAL INSTRUMENTS**Qualitative information on financial instruments****Policies for using financial instruments**

The Group finances 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 receivable 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 59 years and 4 months from March 31, 2017. 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 17, "Derivative Financial Instruments and Hedging Transactions".

Policies and processes for managing the risk**Management of credit risks** (i.e., risks associated with the default of counterparties)

The Group manages 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 and derivative transactions are executed only with banks with high credit ratings. As such, the credit risks of these short-term investments and derivative transactions are considered to be minimal. The credit risks of counterparty financial institutions are reviewed on a quarterly basis.

The amount of maximum risk as of March 31, 2017 is represented by the balance sheet amount of financial assets exposed to credit risks.

Management of market risks (i.e., risks associated with 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 6 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 17, "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 Group are managed mainly through the preparation and update of the cash schedule by the Treasury Department. In addition, the Company aims to ensure a certain level of liquidity at hand in order to respond to sudden changes in external environment.

Notes to Consolidated Financial Statements

Fair values of financial instruments

As of March 31, 2017 and 2016, 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 for which fair value is deemed highly difficult to measure are excluded from the following table. Short-term investments are also excluded, since the fair value is approximately the same as the carrying value.

As of March 31, 2017	Millions of yen			Thousands of U.S. dollars		
	Carrying values	Fair values	Difference	Carrying values	Fair values	Difference
Assets:						
1) Trade notes and accounts receivable	¥215,788			\$1,926,679		
Allowance for doubtful receivables ^{(*)1}	(160)			(1,429)		
Trade notes and accounts receivable, net	215,628	¥215,628	¥ —	1,925,250	\$1,925,250	\$ —
2) Investment securities						
Available-for-sale securities	13,723	13,723	—	122,527	122,527	—
3) Long-term loans receivable ^{(*)2}	3,859			34,455		
Allowance for doubtful receivables ^{(*)3}	(2,428)			(21,678)		
Long-term loans receivable, net	1,431	1,431	—	12,777	12,777	—
Total	¥230,782	¥230,782	¥ —	\$2,060,554	\$2,060,554	\$ —
Liabilities:						
1) Trade notes and accounts payable	¥388,880	¥388,880	¥ —	\$3,472,143	\$3,472,143	\$ —
2) Other accounts payable	30,659	30,659	—	273,741	273,741	—
3) Short-term debt	124,454	124,454	—	1,111,196	1,111,196	—
4) Long-term debt	366,980	368,438	1,458	3,276,607	3,289,625	13,018
Total	¥910,973	¥912,431	¥1,458	\$8,133,687	\$8,146,705	\$13,018
Derivative instruments: ^{(*)4}						
1) Hedge accounting not applied	¥ 124	¥ 124	¥ —	\$ 1,107	\$ 1,107	\$ —
2) Hedge accounting applied	1,757	1,757	—	15,688	15,688	—
Total	¥ 1,881	¥ 1,881	¥ —	\$ 16,795	\$ 16,795	\$ —

As of March 31, 2016	Millions of yen		
	Carrying values	Fair values	Difference
Assets:			
1) Trade notes and accounts receivable	¥ 198,894		
Allowance for doubtful receivables ^{(*)1}	(127)		
Trade notes and accounts receivable, net	198,767	¥ 198,767	¥ —
2) Investment securities			
Available-for-sale securities	12,447	12,447	—
3) Long-term loans receivable ^{(*)2}	4,836		
Allowance for doubtful receivables ^{(*)3}	(2,455)		
Long-term loans receivable, net	2,381	2,381	—
Total	¥ 213,595	¥ 213,595	¥ —
Liabilities:			
1) Trade notes and accounts payable	¥ 374,637	¥ 374,637	¥ —
2) Other accounts payable	35,360	35,360	—
3) Short-term debt	117,143	117,143	—
4) Long-term debt	499,989	505,117	5,128
Total	¥1,027,129	¥1,032,257	¥5,128
Derivative instruments: ^{(*)4}			
1) Hedge accounting not applied	¥ (35)	¥ (35)	¥ —
2) Hedge accounting applied	(625)	(625)	—
Total	¥ (660)	¥ (660)	¥ —

(*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 sheets.

(*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
	2017	2016	2017
Available-for-sale securities:			
Non-listed equity securities	¥ 2,598	¥ 2,464	\$ 23,196
Investment securities of affiliated companies	131,117	121,152	1,170,688
Total	¥133,715	¥123,616	\$1,193,884

Notes to Consolidated Financial Statements

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

Trade notes and accounts receivable with short maturities are stated at carrying value as it approximates fair value. The fair values of other 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 debt

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 Group 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) Finance 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 17, "Derivative Financial Instruments and Hedging Transactions".

Scheduled amounts of receivables were as follows:

	Millions of yen				Thousands of U.S. dollars			
	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
As of March 31, 2017								
Trade notes and accounts receivable	¥215,788	¥ —	¥ —	¥ —	\$1,926,679	\$ —	\$ —	\$ —
Long-term loans receivable	260	3,208	241	150	2,321	28,643	2,152	1,339
Total	¥216,048	¥3,208	¥241	¥150	\$1,929,000	\$28,643	\$2,152	\$1,339
As of March 31, 2016								
Trade notes and accounts receivable	¥198,894	¥ —	¥ —	¥ —				
Long-term loans receivable	527	3,305	707	297				
Total	¥199,421	¥3,305	¥707	¥297				

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".

Notes to Consolidated Financial Statements

5 SECURITIES

The Group had no trading or held-to-maturity debt securities at March 31, 2017 and 2016.

Available-for-sale securities with market values as of March 31, 2017 and 2016 were as follows:

As of March 31, 2017	Millions of yen			Thousands of U.S. dollars		
	Acquisition costs	Carrying values	Difference	Acquisition costs	Carrying values	Difference
Stocks	¥5,983	¥11,146	¥5,163	\$53,420	\$ 99,518	\$46,098
Other	2,203	2,577	374	19,670	23,009	3,339
Total	¥8,186	¥13,723	¥5,537	\$73,090	\$122,527	\$49,437

As of March 31, 2016	Millions of yen		
	Acquisition costs	Carrying values	Difference
Stocks	¥5,138	¥10,141	¥5,003
Other	2,019	2,306	287
Total	¥7,157	¥12,447	¥5,290

6 INVENTORIES

Inventories as of March 31, 2017 and 2016 were as follows:

As of March 31	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Finished products	¥276,802	¥272,097	\$2,471,447
Work in process	87,623	100,245	782,348
Raw materials and supplies	12,526	11,173	111,839
Total	¥376,951	¥383,515	\$3,365,634

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 net assets 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 were 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, were made to the official notice prices.

The amounts of decrease in the aggregate fair value of the revalued land as of March 31, 2017 and 2016 from that at the time of revaluation, as stipulated in Article 10 of the Land Revaluation Law, were ¥95,875 million (\$856,027 thousand) and ¥97,283 million, respectively.

8 IMPAIRMENT LOSS

Details of impairment losses for the years ended March 31, 2017 and 2016 were as follows:

<For the year ended March 31, 2017>

Purpose of use	Location	Type of assets	Millions of yen	Thousands of U.S. dollars
Idle assets (Sales facilities)	Fukushima Prefecture, Japan, etc.	Buildings and structures, Land, etc.	¥ 542	\$ 4,839
Idle assets (Production facilities)	Hiroshima Prefecture, Japan, etc.	Machinery, equipment and vehicles, Tools, furniture and fixtures, etc.	517	4,616
Assets for selling	Fukui Prefecture, Japan, etc.	Buildings and structures, Land	61	545
Total			¥1,120	\$10,000

<For the year ended March 31, 2016>

Purpose of use	Location	Type of assets	Millions of yen
Idle assets (Sales facilities)	Ishikawa Prefecture, Japan, etc.	Buildings and structures, Land, etc.	¥ 364
Idle assets (Production facilities)	Hiroshima Prefecture, Japan, etc.	Machinery, equipment and vehicles, Software, etc.	772
Assets for selling	Gifu Prefecture, Japan, etc.	Buildings and structures, Land	29
Total			¥1,165

For the purpose of reviewing for impairment, the Group has principally grouped its long-lived assets into asset groups by company; however, idle assets, assets for rent, and assets for selling are individually reviewed for impairment.

The recoverable amounts of these assets were measured at their net realizable value.

Notes to Consolidated Financial Statements

9 SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt as of March 31, 2017 and 2016 consisted of loans, principally from banks with interest rates averaging 1.42% and 1.38% for the respective years.

Long-term debt as of March 31, 2017 and 2016 consisted of the following:

As of March 31	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Domestic unsecured bonds due in 2019 at rate of 0.32% per annum	¥ 20,000	¥ 20,350	\$ 178,571
Loans principally from banks, maturing through 2076:			
Secured loans	19,509	40,930	174,188
Unsecured loans	321,736	433,529	2,872,643
Lease obligations, maturing through 2024	5,735	5,180	51,205
Subtotal	366,980	499,989	3,276,607
Amount due within one year	(92,122)	(143,044)	(822,518)
Total	¥ 274,858	¥ 356,945	\$2,454,089

The annual interest rates applicable to long-term loans and lease obligations outstanding averaged 1.46% and 1.23%, respectively, for obligations due within one year and 1.60% and 1.22%, respectively, for obligations due after one year at March 31, 2017.

The annual interest rates applicable to long-term loans and lease obligations outstanding averaged 1.07% and 1.33%, respectively, for obligations due within one year and 2.23% and 1.35%, respectively, for obligations due after one year at March 31, 2016.

As is customary in Japan, general agreements with banks include provisions that collateral 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, 2017 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2018	¥ 92,122	\$ 822,518
2019	76,473	682,795
2020	49,347	440,598
2021	35,864	320,214
2022	10,204	91,107
Thereafter	102,970	919,375
Total	¥366,980	\$3,276,607

The assets pledged as collateral for short-term debt of ¥49,280 million (\$440,000 thousand) and ¥34,099 million, and long-term debt of ¥19,509 million (\$174,188 thousand) and ¥41,280 million at March 31, 2017 and 2016, respectively, were as follows:

As of March 31	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Property, plant and equipment, at net book value	¥423,436	¥420,323	\$3,780,679
Inventories	63,931	68,911	570,812
Other	59,094	47,891	527,625
Total	¥546,461	¥537,125	\$4,879,116

10 EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The Group has contributory defined contribution and defined benefit plans, and non-contributory defined benefit plans.

For the accounting policies for retirement benefits, refer to Note 2, "Employees' severance and retirement benefits".

Reconciliations of beginning and ending balances of the retirement benefit obligations and the plan assets for the years ended March 31, 2017 and 2016 were as follows:

For the years ended March 31	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Movements in retirement benefit obligations:			
Balance at beginning of year	¥337,417	¥314,252	\$3,012,652
Service cost	11,868	11,126	105,964
Interest cost	2,751	3,864	24,563
Actuarial differences	(3,754)	25,497	(33,518)
Benefits paid	(15,156)	(15,148)	(135,321)
Past service costs	(110)	14	(982)
Other	738	(2,188)	6,588
Balance at end of year	¥333,754	¥337,417	\$2,979,946

Notes to Consolidated Financial Statements

For the years ended March 31	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Movements in plan assets:			
Balance at beginning of year	¥254,388	¥254,906	\$2,271,321
Expected return on plan assets	4,666	4,751	41,661
Actuarial differences	2,005	(5,110)	17,902
Contributions paid by the employer	15,609	13,335	139,366
Benefits paid	(12,390)	(11,951)	(110,625)
Other	217	(1,543)	1,937
Balance at end of year	¥264,495	¥254,388	\$2,361,562

The reconciliation of the retirement benefit obligations and plan assets to the liability and asset for retirement benefits recognized in the consolidated balance sheets as of March 31, 2017 and 2016 were as follows:

As of March 31	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded retirement benefit obligations	¥ 313,950	¥ 317,775	\$ 2,803,125
Plan assets	(264,495)	(254,388)	(2,361,562)
Subtotal	49,455	63,387	441,563
Unfunded retirement benefit obligations	19,804	19,642	176,821
Total net liability (asset) for retirement benefits recognized in consolidated balance sheets	69,259	83,029	618,384
Liability for retirement benefits	72,888	85,916	650,786
Asset for retirement benefits	(3,629)	(2,887)	(32,402)
Total net liability (asset) for retirement benefits recognized in consolidated balance sheets	¥ 69,259	¥ 83,029	\$ 618,384

The profits and losses related to retirement benefits for the years ended March 31, 2017 and 2016 were as follows:

For the years ended March 31	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥11,868	¥11,126	\$105,964
Interest cost	2,751	3,864	24,563
Expected return on plan assets	(4,666)	(4,751)	(41,661)
Actuarial differences amortization	4,484	3,199	40,036
Past service costs amortization	(2,001)	(3,047)	(17,866)
Other	1,976	(91)	17,643
Severance and retirement benefit expenses	¥14,412	¥10,300	\$128,679

Note: For the years ended March 31, 2017 and 2016, accrued pension costs related to defined contribution plans were charged to income as ¥3,433 million (\$30,652 thousand) and ¥3,661 million, respectively. This cost is not included in the above.

The breakdown of items of adjustments for retirement benefit (before tax) recognized in other comprehensive income for the years ended March 31, 2017 and 2016 were as follows:

For the years ended March 31	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Past service costs	¥(1,891)	¥ (3,061)	\$(16,884)
Actuarial differences	10,366	(26,941)	92,554
Other	(3)	(3)	(27)
Total	¥ 8,472	¥(30,005)	\$ 75,643

The breakdown of items of accumulated adjustments for retirement benefits (before tax) recognized in accumulated other comprehensive income as of March 31, 2017 and 2016 were as follows:

As of March 31	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Past service costs that are yet to be recognized	¥ 6,144	¥ 8,035	\$ 54,857
Actuarial differences that are yet to be recognized	(32,064)	(42,430)	(286,286)
Other	2	5	18
Total	¥(25,918)	¥(34,390)	\$(231,411)

The breakdown of plan assets by major category as of March 31, 2017 and 2016 were as follows:

As of March 31	2017	2016
Bonds	40%	43%
Equity securities	28%	25%
General accounts of the life insurance companies	17%	17%
Other	15%	15%
Total	100%	100%

The major items of actuarial assumptions for the years ended March 31, 2017 and 2016 were as follows:

For the years ended March 31	2017	2016
Discount rate	Primarily 0.8%	Primarily 0.7%
Long-term expected rate of return	Primarily 1.5%	Primarily 1.5%

Notes to Consolidated Financial Statements

11 CONTINGENT LIABILITIES

Contingent liabilities for guarantees of loans and similar agreements as of March 31, 2017 and 2016 were as follows:

As of March 31	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Guarantees of loans and similar agreements	¥10,014	¥8,825	\$89,411

Other Contingent liabilities (loss related to the airbag inflators)

In the U.S., several class action lawsuits related to the airbag inflators are filed, in which the Company and its consolidated subsidiary are named as defendants among others. The Company and its subsidiary are taking the procedure for the settlement with plaintiffs. The settlement amount will become final only after the process of the court approval.

12 NET ASSETS

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 unconsolidated financial statements of the Company in accordance with the Law.

Cash dividends charged to retained earnings during the year are year-end cash dividends for the previous year and interim cash dividends for the current year. At the annual shareholders' meeting held on June 28, 2017, the cash dividends shareholders approved amounting to ¥11,956 million (\$106,750 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2017. This type of appropriations is recognized in the period in which they are approved by the shareholders.

Stock acquisition rights as stock options are included in net assets as stock acquisition rights.

13 STOCK OPTIONS

The stock options outstanding as of March 31, 2017 were as follows.

Stock Options	Persons Granted	Number of Options Granted	Date of Grant	Exercise Period
2016 Stock Acquisition Rights	8 Directors (*1) 18 Executive Officers	Common stock 68,200 shares (*2)	August 22, 2016	From August 23, 2016 to August 22, 2046

(*1) Except for outside directors

(*2) Converted into number of shares

The stock options activities for the year ended March 31, 2017 were as follows.

For the year ended March 31, 2017	2016 Stock Acquisition Rights (Shares)
Non-vested:	
March 31, 2016 - Outstanding	—
Granted	68,200
Forfeited	—
Vested	68,200
March 31, 2017 - Outstanding	—
Vested:	
March 31, 2016 - Outstanding	—
Vested	68,200
Exercised	—
Expired	—
March 31, 2017 - Outstanding	68,200
Price of Stock Options:	
Exercise price	¥ 1 (\$0.01)
Weighted average stock price at exercise	¥ — (\$ —)
Fair value price at grant date	¥1,327 (\$11.85)

The assumptions used to measure the fair value of 2016 Stock Acquisition Rights

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	49.446%
Estimated remaining outstanding period:	8 years
Estimated dividend:	¥30.00 per share
Risk-free interest rate:	(0.149%)

Notes to Consolidated Financial Statements

14 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major items and amounts included in "Selling, general and administrative expenses" in the consolidated statements of income for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
For the years ended March 31			
Sales promotion expenses	¥ 42,334	¥ 25,652	\$ 377,982
Advertising expenses	109,171	122,890	974,741
Freightage and packing expenses	44,662	50,335	398,768
Product quality-related expenses	12,044	19,873	107,536
Reserve for warranty expenses	70,821	42,358	632,330
Salaries and wages	113,497	113,625	1,013,366
Retirement benefit expenses	6,083	6,748	54,313
Research and development costs	126,915	116,610	1,133,170

15 OTHER INCOME / (EXPENSES)

The components of "Other, net" in Other income/(expenses) in the consolidated statements of income for the years ended March 31, 2017 and 2016 were comprised as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
For the years ended March 31			
Rental income	¥ 1,821	¥ 2,162	\$ 16,259
Loss on sale of receivables	(1,501)	(1,814)	(13,402)
Foreign exchange gain/(loss)	(7,763)	(16,026)	(69,313)
Loss on sales and retirement of property, plant and equipment, net	(4,916)	(5,869)	(43,893)
Impairment loss	(1,120)	(1,165)	(10,000)
Gain on sale of investment securities	44	211	393
State subsidy	—	160	—
Reserve for warranty expense(*)	—	(40,708)	—
Gain on reversal of reserve for loss on business of subsidiaries and affiliates	394	—	3,518
Loss on business of subsidiaries and affiliates	—	(1,971)	—
Reserve for loss on business of subsidiaries and affiliates	—	(6,909)	—
Business structure improvement expenses	(5,515)	—	(49,241)
Other	(3,755)	(1,336)	(33,525)
Total	¥(22,311)	¥(73,265)	\$ (199,204)

(*) In the year ended March 31, 2016, with regard to the specific airbag inflator installed in a part of Mazda vehicles, which were manufactured and sold by the Group, the Company posted the reserve for product warranties in other expenses, since they were likely to be its liability and the amount of the loss could be reasonably estimated. Furthermore there were no relevant matters in the year ended March 31, 2017.

16 INCOME TAXES

The effective tax rate reflected in the consolidated statements of income for the years ended March 31, 2017 and 2016 differs from the statutory tax rate for the following reasons.

For the years ended March 31	2017	2016
Statutory tax rate	30.7 %	32.8 %
Valuation allowance	3.1 %	(9.9) %
Equity in net income of affiliated companies	(7.4) %	(4.3) %
Decrease in deferred tax assets at end of year due to the change in tax rate	— %	2.6 %
Other	(2.5) %	(3.4) %
Effective tax rate	23.9 %	17.8 %

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, 2017 and 2016 were as follows:

As of March 31	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Allowance for doubtful receivables	¥ 1,034	¥ 965	\$ 9,232
Liability for retirement benefits	23,462	27,064	209,482
Impairment loss	2,223	3,319	19,848
Accrued bonuses and other reserves	65,653	52,805	586,188
Inventory valuation	6,293	6,964	56,188
Valuation loss on investment securities, etc.	898	904	8,018
Net operating loss carryforwards	45,012	47,937	401,893
Other	46,175	54,410	412,276
Total	190,750	194,368	1,703,125
Less valuation allowance	(55,241)	(55,159)	(493,223)
Total deferred tax assets	135,509	139,209	1,209,902
Deferred tax liabilities:			
Asset retirement cost corresponding to asset retirement obligations, and others	(19,490)	(19,192)	(174,018)
Net deferred tax assets	¥116,019	¥120,017	\$1,035,884

Notes to Consolidated Financial Statements

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

As of March 31	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current assets—Deferred tax assets	¥109,398	¥105,653	\$ 976,768
Investments and other assets—Deferred tax assets	15,491	22,256	138,313
Current liabilities—Other current liabilities	(20)	(149)	(179)
Non-current liabilities—Other non-current liabilities	(8,850)	(7,743)	(79,018)
Net deferred tax assets	¥116,019	¥120,017	\$1,035,884

17 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

The Group uses 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 Group uses interest rate swap contracts. The Group does not engage in speculative transactions as a matter of policy, limiting the transaction amount to actual demand.

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 Group uses 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 Group are approved by the Company's President or 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 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 Group and items hedged:

Hedging instruments	Hedged items
Forward foreign exchange contracts	Foreign currency-denominated transactions planned in the future
Interest rate swap contracts	Long-term loans payable

The following tables summarize fair value information as of March 31, 2017 and 2016 of derivative transactions for which hedge accounting has not been applied:

As of March 31, 2017	Millions of yen			Thousands of U.S. dollars		
	Contract amount	Estimated fair value	Valuation gain (loss)	Contract amount	Estimated fair value	Valuation gain (loss)
Forward foreign exchange contracts:						
Sell:						
U.S. dollar	¥13,076	¥ 280	¥ 280	\$116,750	\$ 2,500	\$ 2,500
Euro	1,730	(50)	(50)	15,446	(446)	(446)
Canadian dollar	7,686	(254)	(254)	68,625	(2,268)	(2,268)
Australian dollar	11,548	90	90	103,107	804	804
Sterling pound	1,557	21	21	13,902	187	187
Buy:						
Thai baht	6,441	37	37	57,509	330	330
Total	¥42,038	¥ 124	¥ 124	\$375,339	\$ 1,107	\$ 1,107

As of March 31, 2016	Millions of yen		
	Contract amount	Estimated fair value	Valuation gain (loss)
Forward foreign exchange contracts:			
Sell:			
U.S. dollar	¥18,579	¥ 615	¥ 615
Euro	1,275	4	4
Canadian dollar	7,409	(105)	(105)
Australian dollar	15,901	(381)	(381)
Sterling pound	1,722	112	112
Buy:			
Thai baht	6,944	(280)	(280)
Total	¥51,830	¥ (35)	¥ (35)

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

Notes to Consolidated Financial Statements

The following tables summarize fair value information as of March 31, 2017 and 2016 of derivative transactions for which hedge accounting has been applied:

The hedged items are mainly accounts receivable and accounts payable, and hedge accounting is based on the principal treatment method.

As of March 31, 2017	Millions of yen			Thousands of U.S. dollars		
	Contract amount	Thereof due after 1 year	Estimated fair value	Contract amount	Thereof due after 1 year	Estimated fair value
Forward foreign exchange contracts:						
Sell:						
U.S. dollar	¥ 9,013	¥ —	¥ 134	\$ 80,473	\$ —	\$ 1,196
Euro	41,936	—	616	374,429	—	5,500
Canadian dollar	9,469	—	287	84,545	—	2,562
Australian dollar	26,332	—	511	235,107	—	4,563
Sterling pound	6,787	—	90	60,598	—	804
Buy:						
Thai baht	16,990	—	119	151,696	—	1,063
Total	¥110,527	¥ —	¥1,757	\$986,848	\$ —	\$15,688

As of March 31, 2016	Millions of yen		
	Contract amount	Thereof due after 1 year	Estimated fair value
Forward foreign exchange contracts:			
Sell:			
U.S. dollar	¥ 9,058	¥ —	¥ 87
Euro	55,852	—	(75)
Canadian dollar	9,212	—	(277)
Australian dollar	20,958	—	(398)
Sterling pound	9,036	—	190
Buy:			
Thai baht	15,730	—	(152)
Total	¥119,846	¥ —	¥(625)

The hedged items are long-term loans payable, and hedge accounting is based on the special treatment method of interest rate swaps.

As of March 31, 2017	Millions of yen			Thousands of U.S. dollars		
	Contract amount	Thereof due after 1 year	Estimated fair value	Contract amount	Thereof due after 1 year	Estimated fair value
Interest rate swaps:						
Receive floating, pay fixed	¥4,900	¥ —	(*)	\$43,750	\$ —	(*)

As of March 31, 2016	Millions of yen		
	Contract amount	Thereof due after 1 year	Estimated fair value
Interest rate swaps:			
Receive floating, pay fixed	¥11,000	¥5,300	(*)

* 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".

18 LEASES

The amount of future minimum lease payments under non-cancellable operating leases as of March 31, 2017 and 2016 were as follows:

As of March 31	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current portion	¥ 4,403	¥ 4,321	\$ 39,313
Non-current portion	33,705	38,320	300,938
Total	¥38,108	¥42,641	\$340,251

19 SEGMENT INFORMATION**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 Japan are managed by the Company. Businesses in North America are managed by Mazda Motor of America, Inc. and the Company. And businesses in Europe are managed by Mazda Motor Europe GmbH and the Company. 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 as one management unit. 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 4 reportable segments.

Notes to Consolidated Financial Statements

Net sales, income or loss, and assets by reportable segments

Net sales, income or loss, and assets by reportable segments for the years ended March 31, 2017 and 2016 were as follows:

For the year ended March 31, 2017	Millions of yen						
	Reportable segments					Adjustment ^(*)	Consolidated ^(**)
	Japan	North America	Europe	Other areas	Total		
Net sales:							
Outside customers	¥1,018,151	¥1,073,094	¥589,646	¥533,472	¥3,214,363	¥ —	¥3,214,363
Inter-segment	1,659,807	245,557	15,125	55,686	1,976,175	(1,976,175)	—
Total	2,677,958	1,318,651	604,771	589,158	5,190,538	(1,976,175)	3,214,363
Segment income	65,882	26,700	5,410	20,191	118,183	7,504	125,687
Segment assets	1,998,609	418,963	202,688	275,815	2,896,075	(371,523)	2,524,552
Other items:							
Depreciation and amortization	56,906	18,587	4,120	2,803	82,416	—	82,416
Investments in affiliated companies on the equity method	29,050	—	2,451	99,504	131,005	—	131,005
Increase in property, plant and equipment and intangible assets	75,510	10,587	2,075	6,227	94,399	—	94,399
	Thousands of U.S. dollars						
	Reportable segments						
For the year ended March 31, 2017	Japan	North America	Europe	Other areas	Total	Adjustment ^(*)	Consolidated ^(**)
Net sales:							
Outside customers	\$ 9,090,634	\$ 9,581,197	\$5,264,696	\$4,763,143	\$28,699,670	\$ —	\$28,699,670
Inter-segment	14,819,705	2,192,473	135,045	497,196	17,644,419	(17,644,419)	—
Total	23,910,339	11,773,670	5,399,741	5,260,339	46,344,089	(17,644,419)	28,699,670
Segment income	588,232	238,393	48,304	180,277	1,055,206	66,999	1,122,205
Segment assets	17,844,723	3,740,741	1,809,714	2,462,634	25,857,812	(3,317,169)	22,540,643
Other items:							
Depreciation and amortization	508,089	165,955	36,786	25,027	735,857	—	735,857
Investments in affiliated companies on the equity method	259,375	—	21,884	888,429	1,169,688	—	1,169,688
Increase in property, plant and equipment and intangible assets	674,196	94,527	18,527	55,598	842,848	—	842,848

Notes to Consolidated Financial Statements

For the year ended March 31, 2016	Reportable segments					Adjustment ^(*)	Consolidated ^(**)
	Japan	North America	Europe	Other areas	Total		
Net sales:							
Outside customers	¥1,016,260	¥1,157,524	¥674,998	¥557,821	¥3,406,603	¥ —	¥3,406,603
Inter-segment	1,799,423	282,883	14,978	37,176	2,134,460	(2,134,460)	—
Total	2,815,683	1,440,407	689,976	594,997	5,541,063	(2,134,460)	3,406,603
Segment income	162,528	29,818	8,724	21,589	222,659	4,116	226,775
Segment assets	2,044,532	412,383	214,586	262,182	2,933,683	(385,282)	2,548,401
Other items:							
Depreciation and amortization	54,862	16,997	4,068	3,045	78,972	—	78,972
Investments in affiliated companies on the equity method	21,535	—	—	96,631	118,166	—	118,166
Increase in property, plant and equipment and intangible assets	66,343	14,181	2,639	6,051	89,214	—	89,214

(*1) Notes on adjustment:

(1) The adjustment on segment income is eliminations of inter-segment transactions.

(2) The adjustment on segment assets is mainly eliminations of inter-segment receivables and payables.

(*2) The Segment income is reconciled with the operating income in the consolidated statements of income for the years ended March 31, 2017 and 2016.
The Segment assets are reconciled with the total assets in the consolidated balance sheets as of March 31, 2017 and 2016.

Associated information

Information by geographic areas

The sales information by geographic areas for the years ended March 31, 2017 and 2016 were as follows:

For the years ended March 31	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Japan	¥ 587,025	¥ 660,935	\$ 5,241,295
North America	1,074,932	1,158,428	9,597,607
Europe	649,468	688,984	5,798,821
Other areas	902,938	898,256	8,061,947
Total	¥3,214,363	¥3,406,603	\$28,699,670

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

20 RELATED PARTY TRANSACTIONS

There were no transactions with related parties to be disclosed during the years ended March 31, 2017 and 2016.

For the year ended March 31, 2017, an important affiliate was Changan Mazda Automobile Co., Ltd., and the summary of its financial statements used in the calculation of the equity in net income of affiliated companies were as follows.

For the year ended March 31, 2017	Millions of yen	Thousands of U.S. dollars
Total current assets	¥183,439	\$1,637,848
Total non-current assets	49,235	439,598
Total current liabilities	160,699	1,434,812
Total net assets	71,975	642,634
Net sales	358,687	3,202,563
Net income before income taxes	43,224	385,929
Net income	¥ 32,662	\$ 291,625

Notes to Consolidated Financial Statements

21 SIGNIFICANT SUBSEQUENT EVENTS**(The business and capital alliance, and the issuance of new shares by way of third-party allotment)**

The Company resolved, at the meeting of the Board of Directors held on August 4, 2017, a memorandum of understanding (the "MOU") concerning the business and capital alliance (the "Alliance") for the purpose of further strengthening their continued collaborative relationship with Toyota Motor Corporation ("Toyota"), and the issuance of new shares by way of third-party allotment (the "third-party allotment") to Toyota. Toyota and the Company entered into the MOU concerning the Alliance on the same date.

1. Purpose and contents of the Alliance

The Company, to achieve continued, stable growth, announced its Structural Reform Plan in February 2012 followed by its new medium-term business plan, Structural Reform Stage 2, in April 2015. For further growth, the Company is pursuing quality *monotsukuri*, quality sales and the qualitative growth of our business, including its financial structure, in an effort to further enhance brand value.

At the same time, although the automotive industry aims for continued growth, it has entered a period of major change, where factors such as diversifying market needs, tightened environmental and safety regulations, increased sophistication of advanced technologies, market entrants from other industries and diversification of the mobility business are interacting in complex manners. In such a changing business environment, Toyota and the Company believe it is necessary not only to endeavor to further strengthen their accumulated *monotsukuri* capabilities, technical strength and business bases, but also to establish a cooperative relationship to develop a system that will enable their continued growth.

Since Toyota and the Company announced the execution of an agreement to build a mutually beneficial long-term partnership (the "2015 Agreement") on May 13, 2015, in order for the partnership to result in more appealing cars, they have been discussing, with a basic spirit of collaboration for establishing a long-term, equal and amicable partnership, areas in which they can mutually exert synergy effects.

With the execution of the MOU on the Alliance, Toyota and the Company confirm and declare the outcome of the sincere and meticulous discussions they have continued over the two years since the execution of the 2015 Agreement, and they believe that the MOU will be a milestone on the road to strengthening and accelerating their further continued and constructive partnership.

The joint projects that Toyota and the Company have specifically agreed to promote are as follows.

- (i) Establishment of a joint venture to produce finished cars in the U.S.
- (ii) Joint development of technologies for electric vehicles
- (iii) Collaboration in the next-generation areas, including connected technologies and advanced safety technologies
- (iv) Further complement to each other's products

Through these joint projects, Toyota and the Company will work to leverage the resources of both companies to complement and enhance each other's products and technologies, and make use of lessons learned through the joint projects to enhance true competitiveness that will help them realize continued growth.

Toyota and the Company will also aim to develop and strength their long-term partnership and pursue collaboration in an equal, independent and continued manner. To that end, Toyota and the Company have agreed that Toyota will subscribe for and acquire shares to be newly issued by the Company through the third-party allotment, and at the same time the Company will subscribe for and acquire shares of treasury stock disposed of by Toyota through a third-party allotment, which Toyota shares that are equivalent in value to the Company's shares.

2. Overview of the third-party allotment

The overview of the third-party allotment (issue of new shares) by the Company is as follows.

(i) Class of shares	Common stock
(ii) Method of offering or allotment	By way of third-party allotment
(iii) Party to which shares will be allotted	Toyota Motor Corporation
(iv) Number of new shares	31,928,500 shares
(v) Total issue price	¥50,000,031,000 (\$466 million)
(vi) Issue price	¥1,566 per share (\$14 per share)
(vii) The amount of stated capital to be increased	¥25,000,015,500 (\$223 million)
(viii) Payment date	October 2, 2017
(ix) Use of proceeds to be raised	To be appropriated to a part of the capital investment for a joint venture finished cars production in the U.S.

Independent Auditor's Report



Independent Auditor's Report

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 sheet as at March 31, 2017, and the consolidated statement of income, statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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, 2017, and their financial performance and cash flows for the year 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, 2017 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

August 9, 2017
Hiroshima, Japan