Annual Report 2009

Year ended March 31, 2009

CHALLENGE AND OPPORTUNITY

mazda

Contents

2 **Consolidated Financial Highlights**

3 **At a Glance**

4 **Global Operations**

6 **Messages from Management**

6 To Our Shareholders

8 A Conversation with the President
New President Takashi Yamanouchi discusses the issues facing Mazda and the Company's strategy going forward.

14 A Conversation with the CFO
Chief Financial Officer Kiyoshi Ozaki reviews results for the March 2009 fiscal year and explains measures being taken to strengthen the financial base.

18 **Review of Operations**

Japan
North America
Europe
China
Other Markets
Major Product Lineup

24 **Mazda's Environmental and Safety Technology**

"Sustainable Zoom-Zoom"
Advancing Base Technologies
Toward Environmental Technologies for the Future
New Environmental Technologies Incorporated in the New Mazda3
Advanced Technologies for the Next Generation
Safety Initiatives

32 **Corporate Information**

CSR of Mazda
Corporate Governance and Internal Controls
Risk Management
Compliance
Board of Directors, Auditors and Executive Officers

37 **Financial Section**

72 **Corporate Data**

73 **Stock Information**

Forward-Looking Statements

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

New Mazda3 MPS (Japanese name: Mazdaspeed Axela), European model

Challenge and Opportunity

Established in 1920, Mazda Motor Corporation is an automobile manufacturer headquartered in Hiroshima Prefecture in western Japan. Since its establishment, Mazda has worked to provide products and services that customers will enjoy, including vehicles that utilize the rotary engine. Despite the current difficult operating environment, Mazda's product strength has allowed us to increase or maintain our market share in major markets.

The automobile industry overall is currently facing major challenges, but this situation also represents significant opportunities for Mazda to shine over the next 5 to 10 years. We will continue raising Mazda's global presence by accelerating restructuring based on Monotsukuri Innovation, while at the same time providing Zoom-Zoom cars that are also environmentally friendly.

Consolidated Financial Highlights

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31

	Millions of yen					Thousands of U.S. dollars*1
	2005	2006	2007	2008	2009	2009
For the year:						
Net sales	¥2,695,564	¥2,919,823	¥3,247,485	¥3,475,789	¥2,535,902	$25,876,551
Operating income (loss)	82,947	123,435	158,532	162,147	(28,381)	(289,602)
Income (loss) before income taxes	73,847	117,468	118,450	143,117	(51,339)	(523,867)
Net income (loss)	45,772	66,711	73,744	91,835	(71,489)	(729,480)
Capital expenditures	67,881	72,070	79,641	75,518	81,838	835,082
Depreciation and amortization	40,036	45,805	47,045	66,460	75,221	767,561
Research and development costs	90,841	95,730	107,553	114,400	95,967	979,255
At the year-end:						
Total assets	1,767,846	1,788,659	1,907,752	1,985,566	1,800,981	18,377,357
Equity*2	275,841	407,208	479,882	554,154	414,731	4,231,949
			Yen			U.S. dollars*1
Amounts per share of common stock:						
Net income (loss)*3	¥ 37.63	¥ 51.53	¥ 52.59	¥ 65.21	¥(52.13)	$(0.53)
Cash dividends applicable to the year*4	3.00	5.00	6.00	6.00	3.00	0.03
Equity*5	220.22	284.28	336.45	391.82	314.98	3.21
			%			
Financial data:						
Return on assets (ROA)	2.6	3.8	4.0	4.7	(3.8)	
Return on equity (ROE)*6	18.7	20.0	16.9	17.9	(14.8)	
Equity ratio*6	15.1	22.3	24.8	27.8	22.9	

( ) indicates minus

Notes:
1. The translation of the Japanese yen amounts into U.S. dollars is presented solely for the convenience of readers, using the prevailing exchange rate at March 31, 2009, of ¥98 to US$1.
2. To conform with figures for the March 2007 fiscal year and subsequent fiscal years, for the March 2006 fiscal year and previous fiscal years, minority interests have been included in equity.
3. The computations of net income (loss) per share of common stock are based on the average number of shares outstanding during each fiscal year.
4. Cash dividends per share represent actual amounts applicable to the respective years.
5. The amounts of equity used in the calculation of equity per share, return on equity and equity ratio exclude minority interests (and, from the March 2007 fiscal year, stock acquisition rights).
6. The amounts of equity exclude minority interests (and, from the March 2007 fiscal year, stock acquisition rights).

Net sales

Operating income (loss)/ Operating income ratio

Equity/Equity ratio

At a Glance

Years ended March 31

Net sales

	Billions of yen					% change
	2005	2006	2007	2008	**2009**	2009 vs 2008
Japan	¥ 845.6	¥ 887.7	¥ 887.3	¥ 880.1	**¥ 620.3**	(29.5)%
North America	761.7	844.0	1,017.9	1,015.3	**697.6**	(31.3)%
Europe	634.2	668.9	789.1	888.6	**653.4**	(26.5)%
Other areas	454.1	519.2	553.2	691.8	**564.6**	(18.4)%
Total	2,695.6	2,919.8	3,247.5	3,475.8	**2,535.9**	(27.0)%

( ) indicates minus

Sales volume by major markets

	Thousands of units					% change
	2005	2006	2007	2008	**2009**	2009 vs 2008
Japan	284	285	261	256	**219**	(14.5)%
North America	335	344	380	406	**347**	(14.4)%
Europe	273	282	304	327	**322**	(1.5)%
China	96	130	129	101	**135**	33.2 %
Other markets	216	235	228	273	**238**	(12.8)%
Total	1,204	1,276	1,302	1,363	**1,261**	(7.5)%

( ) indicates minus

* Until the March 2006 fiscal year, sales for Puerto Rico and Turkey were included in the results of Other markets. However, from the March 2007 fiscal year, Puerto Rico sales are included in North America and Turkey sales are included in Europe.

Production

	Thousands of units					% change
	2005	2006	2007	2008	**2009**	2009 vs 2008
Domestic	813	904	967	1,047	**899**	(14.1)%
Overseas	308	307	336	279	**235**	(15.7)%
Total	1,121	1,211	1,303	1,326	**1,134**	(14.4)%

( ) indicates minus

* For overseas production, results from January 2007 correspond to Mazda vehicles on a line-off basis (excluding CKD). Previous results correspond to parts exported for the overseas production of Mazda vehicles.

Contribution to net sales

(March 2009 fiscal year)

Global sales volume

(March 2009 fiscal year)

Global Operations

Years ended March 31

Sales volume: 322,000 units
Market share: 1.7% (+0.2 point)

Europe

Sales volume: 26,000 units
Market share: 15.4% (–1.1 point)

Israel

Sales volume: 135,000 units
Market share: 1.4% (+0.3 point)

China

Sales volume: 30,000 units

Asia, Oceania
(excluding China, Australia, New Zealand)

Sales volume: 54,000 units

Middle East, Africa
(excluding Israel)

Sales volume: 77,000 units
Market share: 8.0% (+0.5 point)

Australia

Japan (number of dealerships: 1,100)

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

North America (number of dealerships: 859)

Functions	Name
Regional headquarters	11 Mazda North American Operations
Production facilities	12 AutoAlliance International
Distributors	13 Mazda Motor of America
	14 Mazda Canada
	15 Mazda Motor de Mexico

Europe (number of dealerships: 2,343)

Functions	Name
Regional headquarters/R&D	16 Mazda Motor Europe/European R&D Centre
Logistics/Sales	17 Mazda Motor Logistics Europe
Distributors	18 Mazda Motors (Deutschland)
	19 Mazda Motors UK
	20 Mazda Automobiles France
	21 Mazda (Suisse)
	22 Mazda Austria
	23 Mazda Automoviles Espana
	24 Mazda Motor de Portugal
	25 Mazda Motor Italia
	26 Mazda Motor Russia
	27 Mazda Motor Denmark
	28 Mazda Motor Norge
	29 Mazda Motor Sweden
	30 Mazda Motor Ireland
	31 Mazda Czech Republic
	32 Mazda Motor Slovakia Republic
	33 Mazda Motor Belux
	34 Mazda Motor Hungary
	35 Mazda Motor Croatia
	36 Mazda Motor Slovenija
	37 Mazda Motor Poland
	38 Mazda Motor Logistics Europe Merkezi Belcika Turkiye Istanbul Subesi
	39 Mazda Motor Nederland

China (number of dealerships: 212)

Functions	Name
Regional headquarters	40 Mazda Motor Corporation Beijing Rep. Office
	41 Mazda Motor (China)
	42 Mazda Motor (China) Beijing Branch
R&D	43 China Engineering Support Center
Production facilities	44 Changan Ford Mazda Automobile
	45 Changan Ford Mazda Automobile (Nanjing Company)
	46 Changan Ford Mazda Engine
Distributors	47 FAW Mazda Motor Sales
	48 Changan Mazda

Asia, Oceania (number of dealerships: 351)

Functions	Name
Regional headquarters	49 Mazda South East Asia
Production facilities	50 AutoAlliance (Thailand)
Distributors	51 Mazda Sales (Thailand)
	52 PT. Mazda Motor Indonesia
	53 Mazda Australia
	54 Mazda Motors of New Zealand

Central and South America, Middle East, Africa (number of dealerships: 750)

Functions	Name
Production facilities	55 Willowvale Mazda Motor Industries
Production facilities/ Distributors	56 Compania Colombiana Automotriz
Sales and service for dealers	57 Mazda Representative Office (Middle East)

Consignment production facilities

Country	Name
Japan	58 Press Kogyo Co., Ltd. Onomichi Plant
U.S.	59 Ford Motor Kansas City Assembly Plant
China	60 FAW Car
Taiwan	61 Ford Lio Ho Motor
Philippines	62 Ford Motor Company Philippines
Ecuador	63 MARESA
South Africa	64 Ford Motor Company of Southern Africa

* Name and number of dealerships are as of December 31, 2008

Messages from Management

To Our Shareholders

Representative Director, President and CEO Takashi Yamanouchi

We will address the variety of issues we are facing with the entire Group working together as One Mazda toward achieving a bright future for Mazda.

I assumed the office of Mazda's Representative Director, President and CEO on November 19, 2008. Utilizing the experience I have gained throughout my career, I will devote all of my energies to addressing a variety of management issues and working for the continuous development of both Mazda and the automotive industry.

Mazda's operating environment during the March 2009 fiscal year was one of unprecedented difficulty, with the global financial crisis spreading to the real economy, leading to a sharp slowdown in both Japan's economy and overseas economies from the second half of 2008. Further adversities were seen in the global decline in automobile demand and the yen's rapid appreciation.

Mazda is dealing with this situation over the short term by implementing emergency measures in all areas—production, sales and development—to accelerate Cost Innovation initiatives and build a streamlined and lean management structure. Over the medium to long term, we will emphasize increasing brand value and business efficiency by accelerating structural reforms, focusing on Monotsukuri Innovation. As a result of the rapid weakening of the global sales environment, consolidated net sales for the March 2009 fiscal year totaled ¥2,535.9 billion with a ¥28.4 billion consolidated operating loss and a consolidated net loss of ¥71.5 billion. Despite these adverse results, Mazda's product strength allowed us to increase or maintain our market share in major markets. I believe this reflects the high opinion of customers for Mazda's Zoom-Zoom automotive craftsmanship and demonstrates the success of our product-led growth strategy.

The current difficult operating environment is expected to continue for some time. In addition, competition among automakers is increasing in areas like environmental technology. In the face of these challenges, Mazda is accelerating its efforts in medium- and long-term product and technological strategies based on the "Sustainable Zoom-Zoom" concept; Monotsukuri Innovation; building the brand and restructuring costs; while at the same time endeavoring to use popular products as a foothold to increase our share in major markets. In terms of the environment, we will improve base technologies that are the foundation of vehicle development. These technologies include innovative powertrains and significantly lighter vehicle weight in our next-generation products, and the progressive introduction of electric devices including hybrid engines.

The automotive industry is currently facing difficult, challenging tests, but this can also be viewed as a major opportunity for Mazda to continue to shine for the next five or ten years. We will address the variety of issues we are facing with the entire Group working together as One Mazda toward achieving a bright future for Mazda.

I ask for the continued support and guidance of all shareholders and investors going forward.

July 2009

Representative Director, President and CEO

Career

Takashi Yamanouchi

November 2008	Representative Director; President and CEO
June 2007	Representative Director; Executive Vice President
April 2007	Director; Executive Vice President
June 2002	Director; Senior Managing Executive Officer
December 1999	Senior Managing Director
June 1997	Managing Director
June 1996	Director
January 1996	General Manager, Corporate Planning Div.
April 1967	Joined Toyo Kogyo Co., Ltd. (presently Mazda Motor Corporation)

A Conversation with the President

We are tackling a variety of issues as One Mazda, under the three key themes of "being selective and focused," "doubling our efficiencies" and "being swift in our work."

Q1

The operating environment for the automobile industry has been changing drastically since last year's Lehman shock. How should we view Mazda's operating environment?

With the spread of the global financial crisis that originated in the United States extending to the real economy, both Japan's economy and overseas economies have experienced a rapid deterioration since the second half of 2008. The operating environment for Mazda has been difficult to an unprecedented degree, with developments including both a weakening in global automotive demand and the yen's sharp appreciation from the second half of the March 2009 fiscal year. Against this adverse backdrop, Mazda's global sales were down 8% from the previous year, at 1,261,000 units.

If the economic environment seen in the second half of the March 2009 fiscal year does not change for some time, we can only expect a more challenging year in the March 2010 fiscal year. Inventory adjustments were mostly completed during the March 2009 fiscal year, and there were no non-production days at the Hofu or Hiroshima plants in June or July, but our production forecast for the year is 764,000 units, a reduction on the previous year. After seven consecutive years of continuous growth, we will probably not be able to operate under the assumption of increased volumes for some time.

Q2

Reflecting on this environment, Mazda recorded its first operating loss in eight years. How do you view the March 2009 fiscal year results?

In terms of earnings, both revenue and profit declined for the first time in eight years.

In the first half, despite an adverse operating environment due to irregular demand caused by the previous year's subprime loan problem, coupled with a jump in raw material prices and a strengthening yen, Mazda pursued product-led growth and posted strong results overall. In addition to the positive news of the Mazda2 (Japanese name: Mazda Demio) being named the "2008 World Car of the Year," results were boosted by the full-year contribution from the Mazda6 (Japanese name: Mazda Atenza) and the introduction of the new Mazda Biante in Japan.

Nevertheless, since the shock from the Lehman Brothers bankruptcy on September 15, 2008, the operating environment has changed drastically, with a worldwide financial crisis and drop in demand due to the financial contraction and subsequent economic recession. This resulted in a rapid deterioration in the sales environment from industrialized countries in North America, Europe, as well as Japan, to resource-rich countries, newly developed countries and emerging countries, and was further exacerbated by the yen's rapid appreciation against other currencies. Automakers have responded to this unprecedented operating environment by reducing production, costs and investment, but

earnings and cash flow deteriorated at an even greater speed than these efforts were able to address.

At Mazda, we implemented production cuts at our two domestic plants by eliminating night shifts and by idling plants on Fridays; directors voluntarily returned a portion of their compensation; and numerous other measures were implemented to share the pain Company-wide. We also carried out emergency measures to reduce costs and expenses and curtail investment, but net sales fell 27% from the previous year, to ¥2,535.9 billion, and with a ¥28.4 billion operating loss and a ¥71.5 billion net loss, we recorded large declines in sales and profit, and recorded our first loss in eight years.

Nevertheless, although full-year results suffered, these emergency measures succeeded in generating a large, positive free cash flow of more than ¥60 billion in the fourth quarter.

In terms of sales, we were able to increase or maintain our shares in major markets. The new generation of products introduced from the March 2002 fiscal year has proven successful in all major markets. In Australia, in particular, we achieved a record high 8% market share for the year. This reflects the success of our brand strategy and the global recognition of our new generation of products.

Q3

You became president and CEO in November 2008, which was a very difficult time. Going forward, how do you intend to lead Mazda, and what is your vision for the Company?

At the end of last year, we launched Company-wide projects to review our strategies and management initiatives in the fields of products, production, sales, costs and technology development looking beyond the March 2010 fiscal year. We intend to develop a specific plan to encompass the entire Company from March 2010 onward based on the three key themes of "being selective and focused," "doubling our efficiencies" and "being swift in our work."

Mazda's history has by no means been smooth sailing, and we have overcome many difficulties through the concentrated strength of all of the Group's employees. The difficulties we are facing right now may be greater than any we have faced in the past, but I am confident that we will overcome them. I expect the adverse operating environment to continue for some time, but with determination and confidence in a bright future, we are bringing together the Mazda Group's global strengths and working as One Mazda to address these various issues with determined resolve.

Our environmental measures include improving fuel economy by 30%, primarily through improvements in existing internal combustion engines, and providing environmentally friendly cars at prices that are affordable for 90% of car buyers.

Q4

The automobile industry is facing extreme difficulties all around the world. Given this situation, what do you see as Mazda's strengths and the issues facing the Company?

First, Mazda's strength is its ability to develop products that are embraced by consumers. We incorporate the "customer's perspective" from the initial development stages, with the aim of providing distinctive design, dynamic performance, responsive handling, driving performance and eco-friendly and safe technologies—all for a price that represents good value. Our "Zoom-Zoom" brand promotion and the new generation of products introduced from the March 2002 fiscal year have been successful in all major markets. Another major strength is the flexible production system* that can handle changes in models and volumes, which we created under the Monotsukuri Innovation program that we launched last year. This year we are planning for capital investment totaling ¥30.0 billion, which is significantly less than the past year's ¥81.8 billion (including roughly ¥30.0 billion in tooling expenses at overseas subsidiaries). This reflects both the fact that the product lineup is in place and the success of the flexible production process. One specific example is the fact that engines and transmissions can now be manufactured with one-fourth the capital investment that was required 10 years ago. This has also made it possible to significantly reduce lead times for new vehicle development and made capital spending more efficient. In addition, with the market introduction of the new generation of products, we were able to improve customer service (CS) at distributors and dealers, strengthen the sales structure and demonstrate our ability to build the brand in a variety of ways.

On the other hand, I see our major issues as:

1. Strengthening environmental initiatives
   (cf. Q5 and P.24, "Mazda's Environmental and Safety Technology")
2. The effect of exchange rate movements resulting from our high percentage of exports
   (cf. P.16, "A Conversation with the CFO")

* A production system that makes it possible to enhance cost competitiveness simply by producing the most appropriate number of units for each of many models, even if the number of units per model is small.

Monotsukuri Innovation diagram

Q5

Prices of hybrid vehicles have already fallen to nearly the same level as those of gasoline vehicles and hybrids are rapidly gaining popularity. Automakers are also moving forward with preparations to introduce plug-in hybrids and electric vehicles. What is Mazda's environmental strategy in this regard?

In terms of reducing CO_2 emissions, the key to addressing environmental issues, we announced a plan in June 2008 to raise the average fuel economy of all Mazda vehicles sold globally by 30% by 2015. Accordingly, we plan to begin introducing new products from 2011 that achieve this 30% improvement in fuel economy, primarily through improvements in existing internal combustion engines.

We believe that it is possible to provide customers with "cars that always excite, look inviting to drive, are fun to drive and make you want to drive them again," by balancing high levels of driving performance with eco-friendliness and safety features.

2015 is only six years in the future, but we plan to raise the average fuel economy of all Mazda vehicles sold globally by 30%. We plan to achieve this target by introducing new series of gasoline and diesel engines as well as newly developed automatic transmissions, making lighter platforms, reducing tire rolling resistance and improving aerodynamics.

We intend to exhibit this new generation of gasoline and diesel engines, which we plan to introduce successively from 2011, at the Tokyo Motor Show to be held in October 2009. With the new engine lineup, we are planning to significantly improve the fuel economy of our next-generation gasoline engines to be on a par with current diesel engines, and next-generation diesel engines that cost less than current diesel engines. Under this technology strategy, Mazda will offer environmentally friendly cars at prices that are affordable for 90% of car buyers. In addition to these advances in base technologies, we are also accelerating and emphasizing the development of electric devices*, including their use in hybrid systems, with the aim of achieving environmental functionality that exceeds customer expectations.

* Motors, batteries, electronic control technology, etc.

Raising the fuel economy of Mazda vehicles by 30% by 2015

We are aiming for a rapid transformation in the March 2010 fiscal year to a streamlined and lean management structure through cash flow-oriented management. In addition to reviewing product strategy going forward, we will minimize fixed and variable costs in all areas.

Q6

There have been major changes in the roles played by automobiles in the 100 years since the birth of the Model T. What kind of cars does Mazda aim to build?

Mazda has global sales of slightly more than 1.2 million units, giving the brand a 2% to 3% share of the global automobile industry. I would like Mazda to have a market presence, even though we are a small manufacturer, providing Zoom-Zoom and environmentally friendly cars to customers who love cars and enjoy driving. Unlike larger automakers, our basic stance is to devote all of our efforts to one model in each segment. Even if the customers we target represent only one-tenth of the global market, I hope to remain the manufacturer that gains the absolute satisfaction and support of those customers. I would like to pursue both an exciting ownership experience and environmental and other social contributions at our current size.

Q7

In November 2008, Ford reduced its ownership of Mazda's total outstanding shares by 20 percentage points. How do you view Mazda's relationship with Ford going forward?

Ford reduced its shareholding to 13.8% from 33.4% on November 19, 2008, for reasons related to Ford's equity situation. Although the capital relationship changed, Ford remains Mazda's largest shareholder, and there is no change to our strategic partnership in areas including joint businesses and technological tie-ups. Ford also supports our overall management, with a Ford veteran continuing to serve as executive vice president. Both companies will continue to pursue and build a mutually beneficial relationship going forward.

Q8

What are your earnings forecasts for next year and initiatives for the future?

I believe the March 2010 fiscal year will be another difficult year. Our full-year forecast is for sales of ¥2,030 billion, with a consolidated operating loss and net loss of ¥50 billion, respectively. We continue to make maximum efforts to lower per-vehicle costs and to reduce fixed costs. However, with declining demand the product mix is deteriorating, and this combined with the yen's appreciation against major currencies is seen as having a greater negative effect than our cost improvements.

Nevertheless, with the acceleration of Cost Innovation initiatives and the global release of the new Mazda3 (Japanese name: Mazda Axela), our sales momentum has been picking up, and we are forecasting a turnaround to an operating profit in the second half. Although there will have been losses for two consecutive fiscal years on an accounting basis, the losses stemming from the economic crisis will effectively be turned around in one year—the second half of the March 2009 and the first half of the March 2010 fiscal years. We are also working to achieve positive cash flow in the full year.

In addition, it goes without saying that we cannot change the external environment, so we must carry out our own management reforms to continue to operate and develop as a company in this environment.

First, the business plan for the year to March 2010 assumes protracted weak demand and stresses cash flow-oriented management to survive in this difficult environment. This will enable us to quickly make our management structure streamlined and lean. Then, going forward, along with reviewing our product strategy, we will build a production structure that can flexibly address demand and minimize our fixed and variable costs with the aim of "doubling our efficiencies" in all areas.

Q9

Please update us on the progress being made under the current "Mazda Advancement Plan" and your thoughts regarding the next mid-term plan.

Given the recent drastic changes in the operating environment, we are following the basic strategy of the Mazda Advancement Plan but are also currently formulating a new mid-term plan.

In line with the basic strategy of the Mazda Advancement Plan, over the medium to long term we will emphasize increasing brand value and business efficiency by accelerating structural reforms, focusing on Monotsukuri Innovation.

At the same time, last year we started projects with a view beyond the March 2010 fiscal year. The automobile industry is currently facing an unprecedentedly difficult environment. In addition to implementing emergency measures to address this crisis situation, we have also begun reviewing management policies with a view toward the future.

Specifically, we are currently formulating the next mid-term plan based on three areas of emphasis:

1. Reviewing the product lineup based on an assumption of protracted weak demand.
2. Ensuring a production structure that can flexibly address changes in demand.
3. Reviewing sales networks and policies in major markets.

Q10

Finally, what are your thoughts with regard to raising shareholder value?

Paying a continuous, stable dividend is one of Mazda's most important management policies.

Nevertheless, given the results for the March 2009 fiscal year and the drastic deterioration currently being seen in our operating environment, we have regrettably felt it necessary to not pay a year-end dividend, and we ask for the understanding of shareholders in this regard. In addition, we intend to pay an annual dividend in the March 2010 fiscal year of ¥3 per share, the same amount as for the March 2009 fiscal year. We will make every effort to meet shareholder expectations going forward.

A Conversation with the CFO

In the absence of expectations for a rapid recovery in demand, we are raising investment efficiency while also eliminating wasteful practices, and building a structure that can generate profit even with low capacity utilization.

Kiyoshi Ozaki
Representative Director
Senior Managing Executive Officer and CFO

Results for the March 2009 fiscal year

(Thousands of units)	First half	Second half
Global sales volume	701	560
Global production	705	474
Consolidated wholesales	648	468

Q. Please recap and explain the main points of the March 2009 fiscal year results.

The March 2009 fiscal year was a very difficult one for Mazda, with net sales of ¥2,535.9 billion, a ¥28.4 billion operating loss and a ¥71.5 billion net loss.

The main reasons for the deterioration in operating income included the number and mix of vehicles sold, with declines in sales volumes in all markets except China having a negative effect of ¥86.5 billion. The yen's appreciation also had a negative impact totaling ¥102.0 billion, which broke down as ¥40.8 billion against the U.S. dollar, ¥17.2 billion against the euro and ¥44.0 billion against other currencies. Product enhancement costs grew by ¥19.0 billion as well, related to the Mazda6 and the new Mazda3. There was also a ¥44.0 billion negative effect from higher cost of raw materials because of price increases for steel and high prices for other materials.

At the same time, there was a ¥44.0 billion reduction in costs from accelerated Cost Innovation initiatives. There was also a ¥6.5 billion improvement in marketing expenses from reduced spending on advertising and sales promotions. Greater efficiency in development spending resulted in an additional ¥10.5 billion improvement in costs.

To understand the year's results, it is necessary to look at the first half and second half separately. The first half saw the emergence of the subprime loan problem in the United States, but at the time this was seen as a domestic U.S. problem. In addition, the jump in the price of crude oil resulted in a shift in demand for automobiles, from the

Operating income (loss) change

Free cash flow

Liquidity

Equity

* The amounts exclude minority interests (and, from the March 2007 fiscal year, stock acquisition rights).

higher-end (larger car) segments to the lower-end (smaller car) segments. This was a beneficial development for Mazda, and sales in the United States remained solid. Sales remained strong in other markets as well and global sales volume rose 6% year-on-year. Operating income declined 17% year-on-year from the yen's appreciation against major currencies and high material prices, nevertheless a ¥60.0 billion operating profit was maintained.

Following the failures of some financial institutions in the United States in September, however, the situation changed completely. Amid signs of a global recession, the yen appreciated significantly against almost all major currencies. At the same time, there was a large, sudden 20%–30% decline in demand for automobiles, including in the United States. As a result of this rapid deterioration in the external environment, an operating loss of ¥89.1 billion was recorded in the second half, wiping out the first half's profit. As emergency measures to address this deteriorating environment, we reduced global inventories to appropriate levels and carried out cost reductions through reviews of all expense items, including fixed costs like labor, advertising and sales promotions. As a result, we were able to reduce inventories and costs by wider margins than originally planned, and I am convinced that the success of this rapid response, and the fact that we were able to quickly escape this temporary emergency situation, shows that the emergency measures were correct decisions. With the drop in demand for automobiles, sales volume declined from the previous year, but we were able to increase or maintain our market share in all major markets. I view this as a reflection of the positive reception by customers of Mazda's product strategy.

Q. What is the Company's current financial position?

In terms of cash flow, free cash flow for the third quarter (three-month basis) was negative by more than ¥170.0 billion, but primarily as a result of emergency inventory adjustments, we were able to achieve a positive free cash flow of ¥67.5 billion in the fourth quarter.

In addition, we increased management stability by borrowing from government-affiliated financial institutions, with liquidity in the form of cash on hand exceeding ¥220.0 billion. On the other hand, there was an increase in interest-bearing debt, and we are fully aware that reducing this debt will be an issue going forward. My intention is to first secure ample funds on hand, and then take steps to generate positive cash flow and reduce interest-bearing debt.

Q. How will you be strengthening the Company's financial position going forward?

I consider it important to build up profits to further strengthen our financial position. Mazda had only ¥158.8 billion of equity capital as of March 2001, and over the seven years to March 2008 that grew by roughly ¥400 billion. The majority of this came from profits. Now, however, equity capital has been significantly impaired, so going forward, we will work to shore up equity capital by building up profits. Then, because we cannot hope for a rapid recovery in demand, we must thoroughly eliminate unnecessary costs—including variable costs, fixed costs and distribution costs—and also build a structure that can still generate profit at low plant capacity utilization rates.

A Conversation with the CFO

Q. What direction is being taken in terms of capital investment and R&D expenditure?

Our capital investment plan for the March 2010 fiscal year totals ¥30.0 billion, which is ¥51.8 billion less than in the previous year. The March 2009 fiscal year had a lump-sum booking of approximately ¥30 billion in tooling expenses at overseas subsidiaries, so excluding this portion the reduction is roughly ¥20 billion. This reflects a reduction in investment related to new products now that the new lineup is in place, and the success of the flexible production system. Depreciation expenses are expected to grow ¥2.8 billion, to ¥78.0 billion, because of the increase in capital investment in recent years. R&D costs are expected to decline ¥4.0 billion, to ¥92.0 billion.

We are fully investing in new product development and environmental safety technologies, but are holding back on investment in production facilities. We are further strengthening our efforts in environment-related areas in particular, but at the same time we are aiming to significantly raise development efficiency through Monotsukuri Innovation. Monotsukuri Innovation aims to raise business efficiency through integrated planning for models to be introduced in the future—spanning market segments, models and model classes—the use of common architectures for various platforms and parts, and the building of a flexible production system that can handle volume changes and new model introductions quickly and with a minimum of investment.

By increasing investment efficiency and reducing investment in production facilities, we will hold the level of investment below depreciation, and this will lead to improved cash flow.

Capital investment/R&D costs

Q. Mazda has a high sensitivity to exchange rate movements because of its reliance on exports. Are there concerns regarding a major impact on earnings from exchange rate movements?

It is certainly true that exports account for a large portion of Mazda's business, and we are highly exposed to exchange rate fluctuations. The yen has been appreciating for a long time, in the past having moved from a rate of ¥360/USD to below ¥80/USD at one time, with a rate of ¥100/USD last year, but Mazda has always been able to overcome this by increasing its cost competitiveness. It is not an overstatement to describe Mazda's history as a battle against a strong yen. We have been able to overcome this yen appreciation thanks to the continuous efforts of the suppliers who support us, and who each time have improved and increased productivity beyond our expectations. Mazda's employees are also raising productivity and competitiveness. We also benefit in terms of costs for parts and materials procured overseas when the yen appreciates. Over the short term, the pressure from a strong yen on profits can be seen as hurting our cost competitiveness, but from a medium- to long-term perspective I believe we can always overcome the situation of a strong yen. I believe we can offer quality cars that are made in Japan while maintaining cost competitiveness.

Q. Some are saying that the market is bottoming out and there are expectations of a recovery. Are you making any preparations for this right now?

Mazda's greatest assets are its customers and the dealers that connect Mazda to its customers. We aim to pursue sales without damaging the brand image we have built to date and to raise customer satisfaction. Product strength is of course important, but we are also implementing measures to maintain and enhance the sales strength of dealers, including maintaining price competitiveness and dealer margins.

Then, by making cars that continue to attract even more customers to a Zoom-Zoom experience, dramatically increasing business efficiency through improved efficiency in development and manufacturing, and building up profits through Cost Innovation, we will create a new, streamlined and lean management structure.

Q. What is your outlook for the market and earnings for the March 2010 fiscal year?

In terms of trends in major markets, there is the bright note of demand remaining solid in China, but I see more time being needed before demand recovers in the United States and Europe. In the United States, the chaos at dealerships from the bankruptcies of GM and Chrysler will continue for some time, but there is pent-up demand, and I believe demand will start to rebound in the second half. In Europe, Germany is showing strength as a result of scrappage incentives*, but other markets remain very difficult. I believe demand will definitely recover, but at this time it is difficult to say when that will be.

In terms of March 2010 fiscal year earnings, we are projecting ¥2,030 billion in net sales with operating loss and net loss of ¥50 billion, respectively. We are reducing vehicle costs and fixed costs to the extent possible, but we see these improvements being more than offset by lower volumes and a deteriorated model mix from the decline in demand, and the yen's appreciation against major currencies.

Nevertheless, major inventory reductions implemented last year to bring inventories to appropriate levels have ended, and plant capacity utilization has returned to a level that mirrors sales. We will also build on the emergency measures carried out to date by further pursuing reductions in variable and fixed expenses. In addition, sales are gaining momentum with the global introduction of the new Mazda3, and we expect to be able to achieve a turnaround to an operating profit for the second half. We are also aiming for positive cash flow on a full-year basis from increased investment efficiency and improved plant capacity utilization.

We see the extremely difficult business environment continuing into the March 2010 fiscal year, but we are building a streamlined and lean financial base and management structure that can generate a profit even in adverse circumstances.

I ask for the continued understanding and support of shareholders and investors going forward.

* Programs to provide subsidies for the purchase of new vehicles to replace old vehicles.

Our March 2010 fiscal year forecasts

(Billions of yen)

Net sales	2,030
Operating income (loss)	(50)
Net income (loss)	(50)

JAPAN

Although sales for the year received a boost from the introduction of new models—the Mazda Biante and Mazda Atenza—the rapid drop in overall demand during the second half resulted in a 15% decline in sales, to 219,000 units, giving Mazda a domestic market share of 4.6%.

Mazda Demio

Sales volume

(Years ended March 31)

Automobile demand

(Years ended March 31)

Source: Japan Automobile Manufacturers Association

March 2009 Fiscal Year Results

Reflecting the impact of the global economic recession, total domestic automobile demand declined 12% from the previous year, to 4.70 million units.

Mazda's sales declined 15%, to 219,000 units. First-half sales were roughly flat year-on-year, but as a result of the sharp decline in overall demand, second-half sales were down 28% year-on-year. Our 4.6% market share was 0.2 percentage point lower than the previous year, but regardless we were able to maintain our share of the registered passenger vehicle segments in which we participate by continuing to pursue our product-led growth strategy and enhancing our sales capabilities.

In terms of products, sales of the Mazda Atenza, introduced in January 2008, grew 11%, with a 4.3 percentage-point improvement in segment share, to 11.1%. The new Mazda Biante, released in July 2008, also gained a 6.2% share of the tall minivan segment.

In terms of sales, the nine sales subsidiaries for car parts across Japan were merged in July as Mazda Parts Co., Ltd., to strengthen our domestic sales structure. By building a new structure for supplying parts to the entire Mazda Group, we are able to respond to customers more quickly and accurately.

In addition, Mazda ranked No. 2* for the second consecutive year in terms of overall satisfaction in the J.D. Power Asia Pacific, 2008 Japan Dealer Attitude Study℠. We aim to continue to build on this strong relationship of mutual trust with sales companies going forward.

March 2010 Fiscal Year Forecast and Business Strategy

Although we cannot expect an early recovery in the domestic sales environment, demand is expected to receive a boost from the government's economic stimulus measures including the "eco-car" tax incentive program and subsidies for new car purchases. We are therefore planning for a 9% sales decline, to 200,000 units, based on the assumption that market share will be 4.5%, about the same level as in the previous year.

The new Mazda Axela, released in June 2009 and equipped with Mazda's proprietary "i-stop" idling stop system, embodies the Sustainable Zoom-Zoom concept as an "eco-sports" car with both sporty handling and top-level fuel efficiency in its class. Models of the Mazda Biante equipped with i-stop were also introduced in June 2009, as the i-stop rollout continues.

Mazda has many models that qualify for the eco-car tax incentive program in addition to the Mazda Axela, including the Mazda Demio, Mazda Biante, Mazda Premacy and the Mazda MPV. The eligible percentage of Mazda's registered passenger vehicles is set to surpass 70% during the March 2010 fiscal year, putting us at the top end of the industry.

In terms of sales, we are closely watching trends in demand going forward as we locate showrooms in optimal locations to maximize sales opportunities.

* Source: J.D. Power Asia Pacific, 2008 Japan Dealer Attitude Study℠. The result of 504 responses from 405 principals of dealerships nationwide (evaluations received for all dealerships from principals of multiple sales organizations).

NORTH AMERICA

North American sales declined 14%, to 347,000 units, but with solid sales of the Mazda3 and Mazda5 we increased or maintained market share in each country.

Mazda3

Sales volume

(Years ended March 31)

* Includes sales for Puerto Rico in Canada and others from the March 2007 fiscal year

Automobile demand

(Years ended March 31)

March 2009 Fiscal Year Results

With lower sales in the United States and Canada, Mazda's North American sales declined 14%, to 347,000 units, as the financial crisis triggered a sharp contraction in overall demand.

Overall demand in the United States fell 25%, to 11.9 million units, while Mazda's sales declined 19%, to 240,000 units. Although sales of most models sold in the United States fell by double digits, sales of the Mazda5 rose 39% and the Mazda3 also posted encouraging sales despite being at the end of the model run, leading to a 0.1 percentage-point increase in our share of the U.S. market, to 2.0%.

In Canada, overall demand was down 7%, to 1.56 million units, and Mazda's sales declined 8%, to 81,000 units. Sales of the Mazda3 grew at the end of the model run, making it one of Canada's best-selling passenger vehicles. Our share of the Canadian market was 5.2%, about the same level as in the previous year. We posted record sales in Mexico, with a 24% increase, to 22,000 units, on the contribution of the Mazda CX-7—Mazda's best-selling model after the Mazda3.

On the product front, a new Mazda6 tailored for the North American market was launched in August 2008. In addition, the new Mazda3 was released in Canada and Mexico in February 2009, and the market response—including the media and dealers—has been very positive.

In terms of sales, more than 60% of Mazda cars sold in the United States are sold through exclusive dealerships, and retail revolution showrooms that embody the Zoom-Zoom brand message are performing well.

At one point, inventories in the United States stood at 73,000 units because of weak sales due to the major contraction in demand from the second half, but production adjustments reduced inventories to an appropriate level of 56,000 units as of the fiscal year-end.

March 2010 Fiscal Year Forecast and Business Strategy

We expect North American demand to remain weak through the first half, but are looking for a gradual recovery in the second half. We are therefore projecting a 16% decline in sales for the March 2010 fiscal year, to 290,000 units. Our plan is for the new Mazda3, which had its full-scale release in April, to support sales and to be another sales pillar with the Mazda6. Our outlook of a 14% decline in sales, to 208,000 units, reflects difficult circumstances, but we expect to increase our market share by 0.1 percentage point, to 2.1%. We also expect to maintain our share of the Canadian market at the previous year's level, and are projecting a 17% decline in sales, to 67,000 units. Our expectation for Mexico is for a 48% decline in sales, to 12,000 units, and a 0.5 percentage-point decline in market share, to 1.7%.

With regard to the impact from the bankruptcies of GM and Chrysler, we are strengthening our risk management and looking for opportunities for sales growth, and will continue to emphasize the reinforcement of our sales network. The effect of scrappage incentives is not completely clear, and we have not included this in our demand forecast. We will closely watch developments going forward, and make preparations so that we can quickly respond in terms of both sales and production.

Other ongoing efforts include even closer inventory management as well as further improving the residual value of our cars by limiting incentives and large, low-profit fleet sales.

EUROPE

With solid sales of the Mazda6 in addition to the Mazda2, despite sales in Europe for the year declining 2%, to 322,000 units, Mazda's market share rose 0.2 percentage point, to 1.7%.

Mazda3 MPS

Sales volume

(Years ended March 31)

* Includes sales for Turkey from the March 2007 fiscal year

Automobile demand

(Years ended March 31)

March 2009 Fiscal Year Results

The financial crisis has had the effect of suppressing total demand in the European market by 12%. The impact from the financial crisis was particularly dramatic in Russia, which experienced a 42% decline. Germany, on the other hand, showed marginal growth from the effect of scrappage incentives introduced in January 2009.

Against this backdrop of large declines in demand, Mazda was nevertheless able to hold the decline in its sales to 2%, at 322,000 units, with a 0.2 percentage-point improvement in market share, to 1.7%. In addition to a boost in total European sales from Russia, the Mazda2 had solid sales, and there was a full-year contribution from the Mazda6. Sales of the Mazda2 rose 70%, for a 1.1 percentage-point rise in segment share, to the very high level of 2.4%—the result of a shift to smaller vehicles stemming from higher fuel prices, CO_2 emission-based automobile taxes and scrappage incentives. Scrappage incentives were introduced in Germany, France and Italy, and Mazda benefitted in each of these markets.

Sales in Germany and the United Kingdom were down 13% and 12%, respectively. In Germany, our market share slipped 0.2 percentage point, to 1.7%, while in the United Kingdom we recorded a 0.3 percentage-point rise, to 2.2%. In Russia, on the other hand, Mazda's sales grew 21%, and our market share rose 0.6 percentage point, to 2.5%. The sudden cooling off of these markets led to a significant deterioration in the inventory situation, especially in Russia, but with production adjustments and fourth-quarter sales promotions, inventories were reduced to an appropriate level.

Sales initiatives included the establishment of new, directly operated national sales companies in Poland, Turkey and the Netherlands. Costs are being reduced through restructurings of the sales networks around these directly operated national sales companies.

March 2010 Fiscal Year Forecast and Business Strategy

We do not expect markets to recover during the March 2010 fiscal year, and are forecasting a 22% decline in European sales, to 250,000 units. We intend to closely track developments to ensure that economic stimulus measures implemented in various markets lead to sales.

On the product front, in addition to the introduction of the new Mazda3, we are also introducing existing models equipped with new types of engines.

In terms of sales, we are implementing various measures to strengthen our dealer network, including reviews of dealer operation standards and ongoing programs to strengthen the network. We are also entering new markets, with the establishment of a national sales company in Azerbaijan. These measures to raise brand value will continue.

CHINA

Operations in China benefitted from growth in demand and strong sales of the Mazda6, which contributed to Mazda's sales raising 33%, to 135,000 units, for a 1.4% market share.

Mazda6

Sales volume

(Years ended March 31)

Automobile demand

(Years ended March 31)

March 2009 Fiscal Year Results

Overall demand in the Chinese market rose 2%, to 9.45 million units, with 2% growth in the passenger vehicle market, to 5.71 million units. Although market growth slowed, Mazda continued to show solid advances with a 33% increase in sales, to 135,000 units. In addition to 23% sales growth for the Mazda6, the commencement of full-fledged operations of the Changan Mazda sales network was a major factor behind this growth. Mazda also benefitted from a boost in demand from the Chinese government's reduction of taxes on automobile purchases, with our share of the market increasing 0.3 percentage point, to 1.4%.

In terms of sales, the establishment of a two-channel sales structure with FAW Mazda Motor Sales Co., Ltd. and the Changan Mazda sales network is progressing. The number of Mazda showrooms as of the fiscal year-end stood at 221, an increase of 46 from the previous fiscal year-end. We will continue to expand the sales network while at the same time work to increase efficiency per showroom.

Along with the expansion of the sales network, Mazda (China) Training Centers were opened in March 2009 in Beijing, Shanghai and Shenzhen, to train showroom management, sales staff and service staff.

March 2010 Fiscal Year Forecast and Business Strategy

With the Chinese economy bottoming out and government measures to stimulate demand, overall demand in the Chinese market is forecast to grow by more than 16%, surpassing 11 million units. Against this backdrop, Mazda is anticipating 26% sales growth, to 170,000 units. The new Mazda6 will be introduced and sold alongside the current Mazda6, because the current Mazda6 continues to be very popular, and still maintains monthly sales in excess of 6,000 units, despite having been on the market for roughly six years. In addition, although we sell both the previous and the new models, we will be able to differentiate in terms of target users, engine displacement and body size, and price.

With the Mazda2 and Mazda3, we are reinforcing our model lineup by introducing new grades that give a strong sense of value. We are also addressing products and beefing up sales promotion activities in response to the government's measures to stimulate demand. The sales structure will be the key to growth in China, and one way of strengthening this is to use the training centers to emphasize distributor and showroom personnel development with the aim of further raising customer satisfaction. Through these measures, Mazda continues to achieve growth that outpaces the market and enhances our brand presence.

On the sales side, we continue to expand and maintain both the FAW Mazda Motor Sales and Changan Mazda sales networks. We will maintain an appropriate number of showrooms to keep pace with growth in sales, while also working to raise the sales capabilities of each dealer and strengthen the networks' financial bases.

OTHER MARKETS

Sales in other markets were down 13%, to 238,000 units, but led by the Mazda2 and Mazda3 , we recorded record unit sales in several countries.

Mazda2

Sales volume (Other markets)

Sales volume (Australia)

March 2009 Fiscal Year Results

Sales in other markets totaled 238,000 units, reflecting a 13% decline.

By region, Australia posted a 3% decline, to 77,000 units, while its market share rose 0.5 percentage point, to a record high 8%. Helped by the shift in demand to smaller cars, the Mazda2 and Mazda3 showed strong sales. Although at the end of the model run, the Mazda3 achieved record sales as a result of effective sales promotions at dealers. The Mazda2 and Mazda6 were also market favorites, with the Mazda2 being awarded Australia's Best Small Car and the Mazda6 Best Mid-Size Car Over $28,000.

In New Zealand, sales were down 1.4%, to 7,000 units, but regardless Mazda achieved a record high market share of 7.7% as the brand was bolstered by the Mazda2 being named New Zealand Car of the Year.

Although sales were down 24%, to 26,000 units, Mazda maintained the largest share of the market in Israel for the 13th consecutive year, at 15.4%.

Record sales were recorded in Chile, Ecuador and the UAE.

In Thailand, however, the weak market and tighter credit conditions made sales increasingly difficult, and consequently Mazda's sales were significantly lower, with a 27% decline, to 10,000 units.

March 2010 Fiscal Year Forecast and Business Strategy

We are forecasting a 20% decline in other market sales, to 190,000 units, in the March 2010 fiscal year. In Australia, we are planning for a 9% decline, to 70,000 units, but with the aim of a 0.3 percentage-point increase in market share, to a record 8.3%. With the introduction of the Mazda2 manufactured at AutoAlliance (Thailand), we are forecasting 34% growth in Thailand, to 14,000 units. We expect a 5% decline, to 25,000 units, in Israel, but are nevertheless aiming for a 14th consecutive year of top market share.

In terms of products, we are looking for results from expanded sales and the introduction of the new Mazda3. Our plan is for sales of 30,000 units in Australia, while in Israel we plan to sell 12,000 units by identifying replacement demand, primarily among individual customers.

On the sales front, we are strengthening our sales network in ASEAN markets. We are also supporting sales networks through tie-ups with local sales finance companies.

Major Product Lineup

MAZDA2

(Japanese name: Mazda Demio)

Global sales volume

192,000

Sales market

MAZDA3

(Japanese name: Mazda Axela)

Global sales volume

410,000

Sales market

MAZDA6

(Japanese name: Mazda Atenza)

Global sales volume

244,000

Sales market

*2

MAZDA BIANTE

Global sales volume

14,000

Sales market

MAZDA5

(Japanese name: Mazda Premacy)

Global sales volume

96,000

Sales market

MAZDA8

(Japanese name: Mazda MPV)

Global sales volume

9,000

Sales market

MAZDA CX-7

Global sales volume

53,000

Sales market

MAZDA CX-9

Global sales volume

40,000

Sales market

MAZDA MX-5

(Japanese name: Mazda Roadster)

Global sales volume

26,000

Sales market

MAZDA RX-8

Global sales volume

9,000

Sales market

MAZDA BT-50

Global sales volume

58,000

Sales market

Sales market: Japan North America Europe China Other

*1. Global sales volume is for the March 2009 fiscal year, sales market is as of March 31, 2009.

*2. Model tailored to the North American market.

Mazda's Environmental and Safety Technology

"Sustainable Zoom-Zoom" Long-Term Vision for Technology Development

Mazda is working to achieve a sustainable future under "Sustainable Zoom-Zoom" plan, which was formulated in March 2007 as a long-term vision for technology development to enhance brand value.

■ Basic Policy: Provide all customers who purchase Mazda cars with the joy of driving and excellent environmental and safety performance.

The Sustainable Zoom-Zoom long-term vision commits us to make "cars that always excite, look inviting to drive, are fun to drive and make you want to drive them again," and to help achieve "an exciting, sustainable future for cars, people and the Earth."

Based on this vision, we are pursuing the goal of an advanced Zoom-Zoom world in which the joy of driving and environmental and safety performance are melded into a harmonious whole. We will continue to nurture the Mazda Zoom-Zoom tree as it grows bigger and bigger.

■ Environmental and Safety Challenges

As global car ownership continues to expand, automakers must redouble their efforts to achieve cleaner exhaust emissions; to cut CO_2 emissions through improvements in fuel economy; to reduce our dependence on fossil fuels, which are in danger of depletion; and to develop safety technologies for the prevention of traffic accidents.

Environmental issues for cars in particular reflect a variety of factors including region, vehicle characteristics and types of fuel, so Mazda considers it necessary to develop multiple solutions to tackle environmental issues.

In March 2007, Mazda announced the Sustainable Zoom-Zoom long-term vision for technology development to address the environmental issues specific to automobiles. It clarifies our commitment to create attractive designs that please customers and deliver an enjoyable driving experience, while improving the environmental performance and advancing the safety technologies of our cars.

■ Improving the Fuel Economy of Mazda Cars by 30% by 2015

Mazda believes that its painstaking measures to improve the efficiency of internal combustion will be passed on to all customers through excellent environmental performance.

In the seven years from 2001 to 2008, the average fuel economy of Mazda vehicles sold in Japan improved by approximately 30%. In June 2008, we announced our plan to follow this advance by raising the average fuel economy of the Mazda vehicle fleet sold worldwide by 30% by 2015 compared with March 2008 fiscal year levels. Based on this plan, powertrains for both gasoline and diesel engines will be completely redesigned, and new platforms successively introduced from 2011.

In addition, we are accelerating development work on electric device technologies*, including hybrid technology, in order to further improve efficiency.

* Motors, batteries, electronic control technology, etc.

What Mazda is doing to meet the challenges

Multisolutions are needed to address vehicle-related issues.

Major Initiatives in Mazda's Plan for Technology Development

Powertrain

	Technology initiatives	Targets
Gasoline engines	**Newly developed direct-injection gasoline engine** • Introduce redesigned gasoline engines from 2011 onward for substantial improvements in power and fuel economy	Increase power by 15% to 25% Improve fuel economy by 12% to 15%
	Flex-fuel engine • Introduce flex-fuel engines compatible with E85 in North America in the March 2010 fiscal year	E85 (fuel containing 85% bioethanol) compatibility
	Smart idling stop system • Introduced Mazda's proprietary "i-stop" smart idling stop system to the new Mazda3 and Mazda Biante	Improve fuel economy by 8% to 10% (in Japan)
Diesel engines	**Newly developed clean diesel engines** • Roll out new diesel engines globally from 2011 onward	Achieve cleaner exhaust emissions (exhaust emission regulations: Europe, Euro6; US, Tier 2 Bin 5) Improve fuel economy by 20%
Transmissions	**Newly developed automatic transmissions** • Introduce new automatic transmissions in 2011 that have equivalent driving feel and fuel economy equivalent to manual transmissions	Achieve driving feel equivalent to manual transmissions Improve fuel economy by 4% to 7% (in Japan)
Rotary engines	**Newly developed rotary engine** • Introduce new gasoline rotary engines with significantly improved power and fuel economy in early 2010s	Dramatic improvements in power and fuel consumption
	Hydrogen rotary engine Mazda RX-8 Hydrogen RE • Participated in Norway's HyNor Project. Following introduction of validation vehicles in October 2008, start leasing the Mazda RX-8 Hydrogen RE in Norway in summer 2009 Mazda Premacy Hydrogen RE Hybrid • Launched leasing program in March 2009. Extended power and range of the Mazda RX-8 Hydrogen RE by adding newly developed hybrid system	Increase power by 40% (Premacy) Driving range of 200 km (Premacy)
	Plan to introduce New Hydrogen RE with power equivalent to that of 3.0-liter gasoline piston engine vehicle and improved driving range (400 km)	Power equivalent to 3.0 liter gasoline piston engine Driving distance of 400 km (New Hydrogen RE)
Hybrid vehicles	**Gasoline hybrid car** • Introduced Tribute Hybrid in North America in 2007 • Accelerate development of electric device technologies following the "i-stop." Looking ahead, gradually develop technologies such as regenerative braking and hybrids	Improve fuel economy by 100%

Design and Platform

	Technology initiative	Target
Design and platform	**Newly developed platform** • From 2011 onward, roll out vehicles using a new platforms in stages with aim of weight reduction of 100 kg or more	Reduce weight by 100 kg or more

Vehicle Technology

	Technology initiatives	Targets
Safety	**Human machine interface (HMI)/Dynamic safety** • Introduce safety technologies embodying the Zoom-Zoom spirit, such as HMI functions that support driver perception and judgment, and dynamic safety features that allow for the easy operation of hazard-avoidance functions	Develop HMI to support correct awareness and judgment when driving Develop easy-to-operate hazard-avoidable dynamic functions
	Preventing congestion and accidents with ITS • Take part in intelligent transport system (ITS) road trials in the Hiroshima area in cooperation with government and civic organizations working on safety initiatives	Test driving in the Hiroshima area Develop a driving-support system compatible with transport infrastructure
Material technologies and manufacturing technologies	**Biomaterials technology (bioplastics, biofabrics)** • Developed carbon-neutral bioplastics and biofabrics derived from plants in cooperation with industry, government and academia and used them in the Mazda Premacy Hydrogen RE Hybrid, in March 2009 • Develop bioplastics technology from nonfood cellulose biomass sources by 2013, and plan to put it to use in Mazda vehicles	
	Aqua-tech paint (water-based painting technology) • Further enhanced the Three Layer Wet Paint System to further reduce VOC emissions by 57% through innovative water-based paint technologies, and introduced the system in 2009 as another step toward realizing the world's cleanest paint shops	Reduce VOC emission by 57%
	Bumper recycling technology • Since 2005, recycled damaged bumpers collected by dealers, etc., into material for new car bumpers (Mazda2, Mazda8, RX-8, etc.) • In March 2009, developed automated technology covering all stages of recycling old bumpers, from pulverizing through manufacture of recycled materials	

Advancing Base Technologies

Based on Mazda's plan to raise the average fuel economy of its vehicle fleet sold globally by 30% by 2015 compared with 2008 levels, steady advances are being made in the base technologies that are fundamental to making vehicles, including the complete redesign of powertrains for both gasoline and diesel engines, and the introduction of new platforms.

Major Advances in Base Technologies

With the goal of reducing CO_2 emissions, Mazda aims to create cars that offer both an enjoyable driving experience and superior environmental performance through advances in the base technologies that are fundamental to making vehicles. For example, in our next-generation gasoline engine vehicles we are aiming for fuel economy equivalent to that of current models that are one class smaller. We also aim to substantially raise the fuel economy of our next-generation diesel engine vehicles to match that of today's subcompact or compact cars. The introduction of a newly developed automatic transmission system and our efforts to reduce the overall vehicle weight by 100 kg or more reflects our focus on base technologies. These improvements will gradually begin appearing in new products introduced from 2011 onward.

(Next-Generation Technologies to be Introduced from 2011)

Next-Generation Powertrains

Newly Developed Direct-Injection Gasoline Engines

By thoroughly reviewing basic elements from combustion concepts to reducing resistance, significant improvements are being made in combustion efficiency through developments like variable valve technology. Power performance is 15% to 25% better, while fuel efficiency is up 12% to 15%.

Newly Developed Clean Diesel Engines

We plan to achieve a substantial increase in fuel efficiency by completely rethinking the basic structure of the engine from combustion concepts to reduced resistance, through precise fuel injection control using piezoelectric injectors, and with a two-stage turbo. We are also working to make our cars lighter through the use of materials like aluminum for chassis, and through these steps we expect to raise fuel economy by 20% and achieve clean performance that meets global emissions standards.

Newly Developed Automatic Transmissions

Our newly developed automatic transmission system delivers superior transmission efficiency through a reduction in mechanical resistance achieved by thoroughly reassessing and fine-tuning its structure. It delivers a 4% to 7% boost in fuel efficiency compared with current transmissions, for driving responsiveness and fuel economy on a par with manual transmissions.

Newly developed direct-injection gasoline engine

Next-Generation Platforms: Weight Reduction of more than 100 kg

Weight reduction is an important technology for both enhancing driving performance and fuel economy, and is one of the most important areas of focus in vehicle technology. We are currently working toward major weight reductions in excess of 100 kg from the three perspectives of "pursuing ideal structures," "developing new manufacturing technologies" and "replacing materials."

Pursuing Ideal Structures

Taking basic structures that are appropriate in terms of strength and rigidity, then using tools like CAE (Computer-Aided Engineering) to enhance them, we are working to thoroughly optimize structures while also enhancing safety.

Developing New Manufacturing Technologies

We are working on development and use of processing and adhesion technologies.

Replacing Materials

There is a tendency to reduce weight—but add costs—with the use of expensive, lightweight materials, but as a first step we are focusing on overall system technologies that do not increase costs. We are also looking at new replacement materials as a next step toward further weight reductions from 2016.

Integrated development for weight reduction

Toward Environmental Technologies for the Future

In addition to advances in base technologies including the development of next-generation engines, Mazda will increasingly incorporate electric device technologies in its cars. We will work to make practical use of these devices to provide an even more diverse range of customers with environmentally friendly cars.

The most realistic approach to providing an even more diverse range of customers with environmentally friendly cars is to move forward in base technologies including the development of next-generation engines, while incorporating electric device technologies step-by-step.

Step 1 Idling Stop System

Idling stop systems have been shown to improve fuel economy by 8% to 10% (according to statistics gathered in Japan). The new Mazda3 and Mazda Biante models are equipped with idling stop systems. This system will also be used in next-generation engines.

Step 2 Regenerative Braking*1

This technology converts kinetic energy into electricity as the vehicle decelerates, which generates electricity that can be used later as needed. The effects of the system differ depending on what the regenerated electricity is used for, but the improvement in fuel economy is expected to range from a few percent to 10% or more.

Step 3 Hybrid Systems

This type of system uses an electric motor to assist the gasoline engine at times when energy efficiency is poor, such as when there are low rpms or low-load operation. A hybrid system can be combined with an idling stop mechanism, regenerative braking technology and other features to produce a substantial boost in overall efficiency.

Through these initiatives, Mazda is providing the broadest possible range of customers with cars that offer value both in terms of joy of driving and superior environmental and safety features. Mazda intends to reduce total CO_2 emissions by moving toward hybrid vehicles in stages, beginning with the use of the idling stop system.

Gradual application of electric device technologies

We aim to further boost environmental performance by gradually adding electric device technologies to base engines with excellent environmental performance.

* 1. Systems that convert energy created during deceleration to electricity that is then reused.
*2. Hybrid cars with batteries that can be recharged from a residential power source.

Environmental Technology Q&A

Q1. Does Mazda plan to enter the hybrid or electric vehicle markets?

A1. We are currently accelerating our already active research activities. Mazda has continuously carried out research and development into all kinds of possibilities for cars. In terms of hybrid vehicles, we introduced the Tribute Hybrid as a joint effort with Ford in 2007 and sold more than 430 units through last year, mostly in California. In Japan in March 2009, we began leasing the Mazda Premacy Hydrogen RE Hybrid, which can run on either hydrogen or gasoline. Looking ahead, **we believe this will also prove useful in our research into various electric device technologies that can be used in hybrid and electric vehicles. We will continue to conduct research in order to be able to provide these technologies to even more customers at reasonable prices.**

Q2. Why is Mazda giving priority to efforts in base technologies when other manufacturers are emphasizing the development and introduction of hybrid and electric vehicles?

A2. Almost all cars sold today, including hybrids, are equipped with internal combustion engines (that use gasoline or diesel as fuel), and we believe that **dramatically improving the fuel economy of internal combustion engines will make a major contribution to reducing total CO_2 emissions.** In addition, if we look ahead to how the shape of cars will change in the future, reducing the body weight not only improves the car's basic functions like driving, turning and stopping, but also raises energy efficiency and extends the car's cruising range. At Mazda, we therefore believe that **advances in base technologies, like innovations in powertrains and vehicle weight reduction, will be the key to providing both the joy of driving and environmental and safety features in the future.**

Q3. Would you please explain Mazda's competitive advantages in equipping hydrogen vehicles with rotary engines?

A3. Mazda has been conducting research and development into hydrogen vehicles since 1991, and over that time we have made a variety of hydrogen prototypes. Compared with gasoline, hydrogen is more flammable and has greater volume, **which makes the rotary engine the optimal system for hydrogen combustion.** As you know, Mazda is the world's only automaker that mass-produces rotary engine vehicles, so this also gives us the advantage of being able to make use of this capability to reduce costs, but the use of the rotary engine is the result of pursuing the optimal engine configuration for hydrogen combustion.

New Environmental Technologies Incorporated in the New Mazda3

The Mazda3 is one of Mazda's mainstay models, with more than two million units sold globally since its debut in 2003. This year, a full redesign was carried out and the new Mazda3 was released in major markets with the addition of new environmental technologies including the "i-stop" proprietary idling stop system.

■ "i-stop" Uses Proprietary Technology for a Significant Reduction in Engine Restart Time

The i-stop idling stop system onboard the new Mazda3 (Japanese and European specifications) achieves a roughly 10% improvement in fuel economy (10–15 mode in Japan) by shutting off the engine when waiting for a traffic light to change or other short periods, without requiring any additional operations or action by the driver. Using direct injection technology, the system achieves an engine restart time of 0.35 seconds (with automatic transmission, Mazda in-house assessment), among the fastest in its class. The engine restarts as soon as the brake is released for quick acceleration even when making a cross-lane left (or right) hand turn. This makes it possible to save fuel with relative ease. In addition, a graphic icon at the top of the multifunctional display of a sprout budding and growing into a tree (symbolizing CO_2 reduction) when i-stop is engaged allows the driver to experience the system's effect. An eco-drive indicator can also be displayed to assist the driver in driving in an environmentally friendly manner. The i-stop system is used in Japan in the Mazda Biante minivan, and going forward it will be expanded to other models in line with customer demand and proven effectiveness.

New Mazda3
("i-stop" model)

■ Use of New MZR-CD 2.2 Clean Diesel Engine (European specifications)

The new clean diesel engine, used in the new Mazda3, has a displacement 10% greater than the previous diesel engine, and achieves top-class torque of 400 Newton meters. Improved fuel injectors and a lower compression ratio contribute to its enhanced fuel efficiency. Additionally, the engine's diesel particulate filter (DPF) features a Mazda-developed world-first catalyst activation mechanism. The new catalytic combustion treatment process enables the DPF to burn off particulate matter approximately 60% faster than current systems. This technical advancement makes the MZR-CD 2.2 clean enough to qualify for the Euro5 emissions standards. (This is based on a Mazda in-house assessment.) Furthermore, the addition of a balance shaft and a more rigid engine block has resulted in a significant reduction in engine vibration, and helps achieve extremely quiet operation. This engine is used in the European model of the Mazda6 (Japanese name: Mazda Atenza), and going forward we plan to successively introduce it into other models, primarily in the European market.

New MZR-CD 2.2 clean diesel engine

■ World's First Single-Nanocatalyst Significantly Reduces Use of Precious Metals

Mazda achieved the world's first market application of single-nanocatalyst* technology in automobile catalytic converters. This highly durable new catalyst significantly reduces the amount of precious metals used and effectively purifies vehicle exhaust gases. It was first introduced in the new Mazda3. Single-nanocatalyst underfloor catalytic converters reduce the use of precious metals by approximately 70% compared with previous converters (0.15g/L vs. 0.55g/L). Going forward, Mazda will progressively introduce the single-nanocatalyst to all its global markets, which will contribute to a reduction in the consumption of rare metals and cleaner vehicle exhaust emissions.

* The single-nanocatalyst involves using single-nanotechnology to control material structures on an even smaller scale than nanotechnology.

Precious metal dispersion achieved by new catalyst technology

Advanced Technologies for the Next Generation

Mazda is aggressively developing proprietary technologies like hydrogen rotary engine (RE) vehicles toward for the realization of a sustainable society. Hydrogen has received attention as a next-generation energy that produces zero CO_2 emissions and does not deplete fossil fuel resources. Mazda has long been working to develop a hydrogen RE vehicle that uses hydrogen as fuel.

Commencement of Leasing of the Mazda Premacy Hydrogen RE Hybrid, the World's First Hydrogen RE Hybrid Vehicle

In March 2009, Mazda became the world's first company to begin leasing a hydrogen hybrid vehicle that uses a hybrid system, the Mazda Premacy Hydrogen RE Hybrid. With significantly enhanced performance, the Mazda Premacy Hydrogen RE Hybrid features a series-type hybrid system*1, which combines Mazda's hydrogen rotary engine with an electric motor. Hydrogen produces almost no CO_2 emissions, and is widely considered the most promising next-generation energy. This hybrid system boosts the hydrogen fuel range of the Mazda Premacy Hydrogen RE Hybrid to 200 kilometers, twice the range of the Mazda RX-8 Hydrogen RE, and increases the maximum output by approximately 40%, to 110 kilowatts. As Mazda's latest eco-car, it features many other forward-looking environmental technologies, including Mazda's proprietary dual-fuel system, which enables the car to run both on gasoline and hydrogen, and interior parts made from Mazda's plant-derived biotech materials.

Mazda Premacy Hydrogen RE Hybrid, which commenced leasing in March 2009

Participating in Norway's National HyNor*2 Project

Mazda has been participating in Norway's national HyNor Project, which aims to build a mobile society with hydrogen as its fuel, since 2007. Public road testing of the Mazda RX-8 Hydrogen RE with a hydrogen rotary engine began in 2008, and at the opening ceremony for a hydrogen station in Oslo in May 2009, the Mazda RX-8 Hydrogen RE was exhibited as the first hydrogen vehicle to conform with Norway's specifications. Mazda will progressively produce vehicles according to these specifications, and plans to commence leasing in Norway from the summer.

Hydrogen RE vehicles are the culmination of 18 years of Mazda's research and development into hydrogen fuels. These Hydrogen RE vehicles use a dual-fuel system that can run on either hydrogen or gasoline and offer significant convenience because there is no need to worry about running out of hydrogen fuel in areas where hydrogen stations and other infrastructure are incomplete.

* 1. A hybrid system in which the engine drives a generator, and the electricity produced is used to power the vehicle.

*2. Norway's national project to create a hydrogen energy infrastructure.

Mazda RX-8 Hydrogen RE was exhibited in Oslo in May 2009

TOPICS

Development of the Aqua-tech Paint System Using Revolutionary Water-based Painting Technology

Mazda has successfully introduced the newly developed Aqua-tech Paint System for vehicle body painting at its Ujina Plant No.1 in Japan from June 2009. The innovative new technology achieves the world's highest standards* for limiting emissions of volatile organic compounds (VOCs) contained in paint as well as carbon dioxide (CO_2) gas generated from the energy consumed during the vehicle painting process.

The Aqua-tech Paint System maintains the same world-class low CO_2 emissions volume as the Three Layer Wet Paint System—Mazda's paint system currently installed at all of its production facilities in Japan. The extremely low VOC emissions volume makes Aqua-tech the least polluting water-based paint system in the world. The new system also delivers improved paint quality.

Drying water-based paint consumes much more energy because the water must be evaporated through a drying process. The Aqua-tech technology includes the introduction of an improved paint shop air-conditioning system and a new, highly efficient evaporation system that removes the water contained in the paint. In addition, Mazda has managed to consolidate the coating processes by developing highly functional top coat paints that exhibit additional properties usually provided by the primer paint. As a result of these technical breakthroughs, Mazda's Aqua-tech achieves extremely low VOC emissions without increasing CO_2 volume.

* As of June 2009

Safety Initiatives

Improving safety performance is a cornerstone of Mazda's automotive manufacturing as it strives to develop and improve its technologies and equipment. We are also conducting various public education efforts to raise awareness about safe driving to help build a safe driving society.

Basic Concept on Safety

There is no denying the numerous benefits modern society derives from the automobile. Yet the concomitant problems, such as environmental and safety issues, are just as real. In Japan in 2008, a total of 5,155 people lost their lives in traffic accidents, and a further 945,504 people suffered injuries.

In January 2009, the Japanese government published a policy document with a new target for road safety: to reduce traffic fatalities by 50% from 2008 levels within 10 years. This national target underscores the need for resolute steps toward the achievement of a truly accident-free automotive society. Mazda frames its basic concept on safety in its Safety Policy. This policy calls on the Company to develop and commercialize safe cars, educate people about safety issues and participate vigorously in efforts to build traffic environments in which accidents do not happen. These issues are approached from three perspectives: vehicles, people, and roads and infrastructure.

Safety initiatives

Safety Policy

We recognize that safety is essential to creating a fulfilling life for all through the automobile. In recognition of this goal:

1. **We conduct research on the ways our customers use vehicles and the traffic environments in which they use them.**
2. **We develop safety technologies and implement them appropriately in products for the maximum benefit of the customer.**
3. **We contribute to the creation of a safe society through communication about safety (products, technology and education).**

Passive Safety Technologies

Passive safety technologies are used to mitigate injury to people in an accident. In this regard, Mazda does much more than simply comply with the laws of each country and region. We also conduct tests for every conceivable impact possible on the road, making steady progress in developing passive technologies for the protection of passengers and drivers. Seatbelts, airbags, active headrests that reduce neck strain from rear impacts, and the Mazda Advanced Impact-energy Distribution and Absorption System that dissipates impact energy throughout the vehicle are all passive safety systems being steadily improved by Mazda.

TOPICS

Mazda6 Wins the Highest Rating in European Safety Performance Evaluation

The Mazda6 (European model) released in January 2008 earned a five-star safety rating in 2009 from Euro NCAP*, the famously strict European general safety review organization for newly released vehicles. Euro NCAP was adjusted in 2009 to make its comprehensive safety-performance evaluation even more severe than before, focusing on four aspects of safety: protection for adult passengers, protection for child passengers, protection for pedestrians and safety support. The Mazda6 was the first vehicle to receive the five-star rating under the new evaluation system. This milestone was not Mazda's first recognition from Euro NCAP. The European models of the Mazda5 and Mazda2 received five-star ratings in the "protection for adult passengers" category, in 2005 and 2007, respectively. These awards confirm Mazda's solid leadership with the world's highest levels of impact safety.

* Euro NCAP: European New Car Assessment Programme. An independent body that has been in place since 1997, comprising traffic-related authorities from European countries.

Active Safety Technologies

Active safety technologies are designed to help prevent traffic accidents from occurring.

Mazda's active safety technologies include the Mazda Pre-Crash Safety System* and the Rear Vehicle Monitoring system, which

provide blind spot information and effectively warn the driver. These and other active technologies are steadily being applied in a wide range of Mazda vehicles.

Research and development in safety is continuing at Mazda from every conceivable angle. Our R&D efforts include advanced anti-skid technologies, field-of-view support, peripheral monitoring systems, technologies that guide the driver's line of sight in emergencies, features that monitor driving conditions and alert the driver of danger, and an information network linking people, cars and roads together to prevent accidents.

* This system detects potential front-end collisions and supports the vehicle to avert danger and minimize damage if a collision occurs.

AFS Directs Headlights in the Direction of the Car's Motion

Mazda's Adaptive Front Lighting System (AFS) automatically adjusts the angle of the vehicle's headlights according to the steering angle and vehicle speed. When negotiating curves or approaching intersections at night, the beam of the headlights illuminates the area the car will actually follow, thereby enhancing driver safety.

How AFS works

Vehicle not equipped with AFS | Vehicle equipped with AFS

ESS Provides Warning to Following Vehicles

If the driver suddenly brakes when traveling at high speeds (50km/h or over), the Emergency Signal System (ESS) automatically triggers a hazard lamp that blinks at high speed, warning the following vehicle of danger. This system is highly effective in preventing rear-end collisions.

How ESS works

RVM alerts drivers of vehicles approaching from behind

When traveling at high speeds, the Rear Vehicle Monitoring system (RVM) uses radar to detect vehicles approaching from behind on either side. Warning signals alert the driver if he or she attempts to change lanes when there is a risk of collision.

How RVM works

Building Cars that Support Accurate Recognition, Judgment and Operation

A key goal at Mazda is to build cars that accurately detect and judge driving conditions and inform the driver so that he or she can respond correctly. One effort in this direction is our research and development on human-machine interfaces (HMIs).

Through this research, we explore ways of optimizing the movement of the driver's line of sight and the placement of various devices. By designing the cockpit so as to support concentration on driving, Mazda enables drivers to detect and assess the driving and traffic environment quickly and accurately and take appropriate operation.

■ Intelligent Transport System (ITS)

Mazda Participates in a Wide Range of Projects

Intelligent Transport System (ITS) is intended to offer solutions to traffic accidents, congestion and other road transportation problems by using the latest information and communication technology to connect drivers, roads and vehicles through a data network. Spearheaded by the Japanese Ministry of Land, Infrastructure and Transport and the National Police Agency, industry, academia and government are conducting various research and development activities to make this system a reality. Mazda actively participates in many of these projects as it seeks to achieve a sustainable future for traffic environments. ITS-supporting onboard navigation systems and improved HMIs for navigation system information delivery are the ITS technologies Mazda is endeavoring to develop and improve.

CSR of Mazda

Basic Approach

In 1999, Mazda overhauled its Corporate Philosophy and established its Corporate Vision as follows: "We consistently bring joy and excitement to everyone connected to Mazda by creating new value and delivering the very best in vehicles and services." We believe we can grow and develop with society by fulfiling our vision.

In 2004, Mazda established the CSR Committee and in so doing launched CSR activities Company-wide encompassing the interests of customers, shareholders, investors, business partners, local communities and future generations.

Today, all CSR activities at Mazda are underpinned by the Mazda Way. The Mazda Way summarizes the perspectives that are vital for each employee in the Mazda Group to bring to their everyday work. Based on the Mazda Way, our employees, who are the stewards of CSR activities, strive to meet the wishes and expectations of our various stakeholders. Through such efforts, Mazda gains the trust of community members and contributes to the development of a sustainable society.

Six Areas of Mazda's CSR Activities

Based on the Charter of Corporate Behavior* set forth by the Japan Business Federation, Mazda evaluates its CSR activities by dividing them into six key areas: environmental protection, customer satisfaction, respect for people, social contributions, compliance and information disclosure. In addition, we clearly specify the order of precedence of these activities, to deliver concrete improvements in each field with a clear recognition of stakeholder wishes and expectations.

Through close dialogue with the full spectrum of stakeholders, Mazda has identified three of its six categories of CSR activities as areas for high-priority attention. These areas are environmental protection, identified as an urgent issue for humanity and a top priority for the automobile industry; respect for people, with focus on the education and training that is the bedrock of society and corporate activities; and social contributions, meaning to act as a good corporate citizen with roots in local communities.

CSR Promotion Organization

Mazda established the CSR Committee, chaired by the president, in December 2004. In June 2007, the Company created a specialized organization, the CSR Promotion Department, to carry out CSR activities in close liaison with related departments and sections. In August 2008, the CSR Committee was reorganized as the CSR Management Strategy Committee. This new committee promotes activities suitable to the Mazda corporate character, from a global perspective and in consideration of changes in the social environment.

Six Areas of CSR Operations

Environmental Protection	Developing environmentally responsible products, taking measures against global warming, recycling automobiles, etc.
Customer Satisfaction	Developing compelling products, improving customer satisfaction and the Company's service brand, improving product reliability, etc.
Respect for People	Taking consideration of the work environment, promoting work-life balance, cultivating a climate of respect for human rights, etc.
Social Contributions	Participating in local community activities, promoting traffic safety, supporting social welfare, etc.
Compliance	Enforcing internal controls, ensuring appropriate transactions, promoting and thoroughly implementing the Corporate Ethics Code of Conduct, etc.
Information Disclosure	Actively disseminating information about CSR initiatives, communicating with stakeholders, disclosing financial statements, etc.

* Mazda actively supports the Charter of Corporate Behavior of Nippon Keidanren (the Japan Business Federation), and refers to its Implementation Guidelines when making self-assessments.

The CSR Management Strategy Committee convenes twice a year, with members of the Executive Committee in attendance. Its task is to identify CSR implementation policy and high-priority issues from medium- to long-term perspectives, and to set specific issues for each field and area of operations. Based on the policies mooted by this committee, each department and section in Mazda prepares medium- to long-term and annual work targets and plans for each field, and carries out CSR activities in close liaison with other Group companies in Japan and around the world. At the same time, Mazda has organized the CSR Strategy Core Team, consisting of working members engaged in relevant work in CSR-related departments and sections. The Core Team discusses new proposals to be presented to the CSR Management Strategy Committee, seeks out and devises new ideas, and works out specific implementations for the policies decided by the committee.

Organization (As of the end of March 2009)

Corporate Governance and Internal Controls

Corporate Governance

We have statutory bodies and functions at Mazda, such as the annual General Meeting of Shareholders, the Board of Directors and the Board of Corporate Auditors. We have also separated the execution and management functions through the introduction of the executive officer system. These measures are intended to enhance management efficiency by helping the Board of Directors function more effectively as a supervisory body, enhacing the effectiveness of the Board's deliberations and speeding up decision making by delegation of authority to executive officers. As of the end of June 2009, this system comprises nine directors and 33 executive officers, some of whom hold concurrent posts as directors.

In addition, we have established the Executive Committee to discuss policies and measures of importance for all of the Company and to make reports necessary for business management, as well as various other advisory bodies tasked with assisting the president in decision making.

Supervisory Framework

The Board of Corporate Auditors has five members, including three external corporate auditors. Each corporate auditor is responsible for auditing business execution by the directors in accordance with the Board of Corporate Auditors' annual audit plan. There are no business relationships or other conflicts of interest between Mazda and its external corporate auditors.

The Global Auditing Department contributes to sound and efficient management by checking management's targets, policies and plans, as well as compliance with laws and regulations.

Auditing of accounts is carried out by an auditing corporation under contract with Mazda.

The corporate auditors or Board of Corporate Auditors, Global Auditing Department and independent auditors meet periodically to cooperate in auditing.

Management Advisory Committee

Four times a year, Mazda convenes the Management Advisory Committee, consisting of leading figures outside the Company and all Mazda directors. The outside members are a group carefully selected for their outstanding professional expertise and fresh perspectives in a diverse range of fields. The global perspective and wide range of opinions the Company gleans from these committee meetings serve to ensure sound and transparent practices in Mazda's management.

Corporate Governance Framework

Directors' and Auditors' Compensation

The amount of compensation paid to directors and corporate auditors is within the limit approved at the annual General Meeting of Shareholders. Total compensation paid to directors and corporate auditors during the March 2009 fiscal year was as follows:

	Persons	Amount (million yen)
Directors	10	554
Corporate Auditors (of which, Outside Auditors)	5 (3)	104 (33)
Total	15	658

*1. The number of directors shown above includes one director who retired as of the conclusion of the 142nd annual General Meeting of Shareholders held on June 25, 2008, and two directors who retired as of November 19, 2008.
*2. The amounts of compensation shown above include ¥5,845 thousand paid in the form of stock options to directors, and ¥70 thousand paid in the form of stock options to corporate auditors (excluding outside auditors).
*3. The amounts paid to directors do not include the employee's portion of compensation for directors who serve concurrently as employees. However, none of the 10 directors shown above serve concurrently as employees.

Message from an External Corporate Auditor To All Stakeholders

Isao Akaoka
Corporate Auditor
Chairman and President,
Prefectural University of Hiroshima

Since my appointment as an external auditor at Mazda, I have had numerous opportunities for direct contact with directors and a wide range of employees. In addition to attending meetings of the Board of Directors and hearings with various officers in charge, I travel on observation tours to plants and subsidiaries, and participate in improvement exhibitions and other events. In the course of these encounters, I am often deeply inspired by Mazda employees' dedication and forward-looking attitude toward improvement. Moreover, their managers and supervisors consistently recognize each individual's achievements and draw their superiors' attention to each worker's results. I also noticed that directors and employees are free to speak openly and frankly to senior management, who evaluate their input fairly and display genuine gratitude for feedback. When I witness the atmosphere of openness and mutual respect Mazda has instilled in its enterprise, my heart is filled with admiration. Building on Mazda's culture of openness in business and management, I'd like to speak frankly whenever possible to help create even stronger, more effective corporate governance.

■ Internal Controls

Internal Control Promotion Framework

In 1998, Mazda began using a checklist to conduct an autonomous diagnosis of internal controls at its subsidiaries in Japan. In 1999, Mazda introduced the same system at its headquarter and at its affiliates both in Japan and around the world, using customized lists for each core business area. Through these and other pioneering measures, Mazda established itself as an early adopter of rigorous internal controls.

In order to raise its internal controls to international levels, in June 2007 Mazda established a dedicated sector within the CSR Promotion Department for the promotion of internal controls; worked with related departments and major affiliates to respond to the reporting requirements on internal controls mandated by the Financial Instruments and Exchange Law; enhanced its autonomous diagnosis framework; and carried out educational, awareness-raising and supporting activities throughout the Company and its affiliates. As this array of bold measures began bearing fruit. In February 2009, Mazda transferred its internal control promotion functions from the CSR Promotion Department to the Global Auditing Department in order to further strengthen internal controls by stepping up information sharing with auditing departments and further improving efficiency.

Mazda is also moving forward with efforts to strengthen its financial reporting processes. In January 2008, the Financial Internal Control Department was established within the Financial Services Division. This department implements international guidelines on financial controls, and promotes and supports effective controls from accounting and tax-management perspectives.

Internal Auditing Framework

Mazda has the Global Auditing Department for the internal auditing of its headquarter. In addition, in each of its major operational centers in North America, Europe, Australia and South America, Mazda has established internal auditing departments that are fully independent from the operating departments. These departments and the Global Auditing Department work closely to conduct a full range of auditing tasks, including internal control evaluations, based on the Company's auditing plan.

With qualifications such as Certified Internal Auditor (CIA) and Certified Information System Auditor (CISA), these dedicated professionals are at the forefront of Mazda's determined efforts to implement auditing of the highest quality. The Company is also focusing on the development of such personnel.

■ Risk Management

■ Risk Management

Risk Management Framework

Mazda appropriately manages the risks facing the Company, in accordance with the Basic Risk Management Policy, Risk Management Regulations and other related internal regulations. For individual business risks, the department in charge of that business area is responsible for carrying out appropriate management, whereas for Company-wide risks, it is the responsibility of departments that carry out business on a Company-wide basis.

Additionally, in the event of emergencies such as a major incident or accident, we will take measures that we deem appropriate, including the establishment of an emergency response task force if needed.

■ Information Security

Framework for Promoting Information Security

Mazda is dedicated to ensuring information security. We are determined to protect and to carry out appropriate management of the personal information customers entrust to us and other important information in our care. In 2005, when the Personal Information Protection Law came into force in Japan, Mazda overhauled its information-security promotion framework, to ensure the fullest protection not only of confidential information but of all information under the management of the Mazda Group.

Mazda strives to maintain information security throughout the Group, with the CSR Promotion Department given general responsibility for

the handling of information at Mazda. The general manager of each division is designated as the person responsible for the handling of information in their division, and works with the CSR Promotion Department to ensure proper controls. In addition, the IT Solution Division works to ensure information security throughout the Group by specifying IT security rules, providing guidelines regarding information security and supporting improvements to management systems, both within Mazda and at affiliated companies.

To raise employee awareness about information security, Mazda trains employees on the management of confidential information as soon as they join Mazda. At the time they join Mazda and once every year thereafter, employees are required to enroll in e-learning classes about privacy and IT security. To supplement this training, Mazda's intranet hosts a dedicated site with useful tips and study materials on information management. Mazda provides affiliated companies with learning tools and other study support, and is considering introducing e-learning to them in the near future.

Protection of Personal Information

In addition to strict compliance with applicable laws related to the protection of personal information, Mazda rigorously protects personal information in accordance with its own Personal Data Protection Policy.

Under the aegis of the CSR Promotion Department, which has Company-wide authority over the handling of personal information, Mazda divides the task of appropriate privacy management among four distinct bodies, charged respectively with the management of customer information, employee information, patient information (at the Mazda Hospital) and other/general information.

Customers who wish to inquire about the Company's handling of personal information and persons requesting disclosure regarding privacy issues are asked to contact the Mazda Call Center.

Framework for Management of Intellectual Property

Mazda has compiled guidelines committing it to "maintaining confidentiality and opposing infringement of its own, and other parties', intellectual property rights," the text of which is included in the Mazda Corporate Ethics Code of Conduct.

Based on this pledge, we have established the Intellectual Property Committee chaired by an executive officer responsible for intellectual property issues, comprising division general managers from related divisions. This committee discusses and makes decisions on important intellectual property issues. In addition, Mazda incorporates a dedicated Intellectual Property Department, which manages the acquisition and handling of patents on new technologies, copyrights on basic markings and model names, prevention of infringement of others' patents, copyrights and trademarks, and educates and raises awareness about intellectual property rights in general. This department also establishes global regulations to guide consolidated subsidiaries and affiliated companies on the handling and use of intellectual property.

Compliance

Compliance

Integrity

Mazda does not view compliance as simply a matter of strictly following legal requirements and regulations. We regard compliance as conforming to internal rules, as well as social expectations, requests and other social norms. We are continuously working to ensure that our business activities are fair and honest, in accordance with the Mazda Corporate Ethics Code of Conduct. Overseas, Mazda's compliance guidelines require employees not merely to follow international rules and all applicable laws, but also to respect local history, culture and customs.

More important than obeying these various laws and rules is understanding why they must be obeyed. Our aim is to instill in each employee the ability to form standards of his or her own, make them widespread and carry them out faithfully. This is what we at Mazda mean by "integrity."

Education on Compliance

Mazda emphasizes integrity in its education and training activities. When employees are unsure how to proceed, we encourage them to consult the Mazda Corporate Ethics Code of Conduct for guidance, and to discuss with coworkers when they are unable to decide on their own. In the March 2009 fiscal year, Mazda initiated compliance training for all newly hired graduates, mid-career hires, new managers and middle management members, drawing in some 1,379 participants. To prevent breaches of compliance guidelines arising from ignorance or lack of awareness, the Company uses its intranet to raise employee consciousness, introducing a number of themes to the workplace. In the March 2008 fiscal year, the Company began distributing a case study series entitled "Learning from Other Companies," which highlights problems at other companies in terms of compliance and risk management and some of the outstanding solutions used to solve them. In the March 2009 fiscal year, Mazda followed up with a monthly series entitled "Compliance Communications," using familiar situations to further heighten employees' understanding of compliance. Some of this information is also shared with other Group companies.

Board of Directors, Auditors and Executive Officers (As of June 24, 2009)

Directors

Hisakazu Imaki
Representative Director and Chairman of the Board

Takashi Yamanouchi
Representative Director

Philip G. Spender
Representative Director

Masaharu Yamaki
Representative Director

Kiyoshi Ozaki
Representative Director

Seita Kanai
Director

Masazumi Wakayama
Director

Yuji Harada
Director

Nobuhiro Hayama
Director

Corporate Auditors

Junichi Yamamoto
(Full time)

Shigeki Wakamatsu
(Full time)

Ichiro Sakai

Isao Akaoka

Masahide Hirasawa

Executive Officers

*** President & CEO**

Takashi Yamanouchi

*** Executive Vice Presidents**

Philip G. Spender
Assistant to President

Masaharu Yamaki
Assistant to President; In charge of R&D, Production, Purchasing, and Quality

*** Senior Managing Executive Officer and CFO**

Kiyoshi Ozaki
In charge of Corporate Planning, Product Profit Control, Financial Services and Cost Innovation

*** Senior Managing Executive Officers**

Seita Kanai
In charge of R&D and Program Management; President, Mazda Engineering & Technology Co., Ltd.

Masazumi Wakayama
In charge of Global Marketing, Global Sales and Customer Service

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

Nobuhiro Hayama
In charge of R&D Quality and Powertrain Development and Electric Drive System Development

Mark of "*" stands for the Executive Officers who also hold the post of Director.

Managing Executive Officers

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

Akira Marumoto
In charge of Corporate Planning, Product Planning and Product Profit Control; Assistant to the Officer in charge of Cost Innovation

Keishi Egawa
Executive Vice President and COO, Mazda Motor of America, Inc. (Mazda North American Operations)

Toru Oka
In charge of Purchasing; Assistant to the Officer in charge of Cost Innovation

Nobuhide Inamoto
In charge of Domestic Business; General Manager, Domestic Business Div.

Yasuto Tatsuta
In charge of Quality Assurance; Assistant to the Officer in charge of R&D (In charge of MONO TSUKURI Innovation) and President, Toyo Advanced Technologies Co., Ltd.

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

Hirotaka Kanazawa
In charge of Vehicle Development and Technical Research Center; Assistant to the Officer in charge of Cost Innovation

Masamichi Kogai
In charge of Production, Business Logistics and IT Solution; Assistant to the Officer in charge of Cost Innovation and General Manager, Production Engineering Div.

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

Kozo Kawakami
In charge of Customer Service; General Manager, Customer Service Div. and President, Mazda Parts Co., Ltd.

Yuji Nakamine
In charge of Overseas Sales; General Manager, Overseas Sales Div. and President, Mazda South East Asia Ltd.

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

Executive Officers

Shiro Mikami
In charge of Special Project in the Domestic Business

Noriaki Yamada
COO, Mazda Motor (China) Co., Ltd.

Toshinori Kusuhashi
General Manager, Hiroshima Plant

Hiroshi Yamamoto
In charge of Fleet Sales in the Domestic Business

Tatsuji Ikeda
General Manager, Quality Div.

Minoru Mitsuda
General Manager, Human Resources Div.

Masafumi Nakano
General Manager, Hofu Plant

Kazuki Imai
General Manager, Purchasing Div.

Kiyotaka Shobuda
President, AutoAlliance (Thailand) Co., Ltd.

Kiyoshi Fujiwara
General Manager, Powertrain Development Div.

Masahiro Moro
Assistant to the Officer in charge of Global Sales; In charge of Global Marketing

Akira Koga
General Manager, Corporate Planning Div.

Financial Section

Contents

38 Ten-Year Summary of Consolidated Financial Statements

40 Management's Discussion and Analysis

48 Consolidated Balance Sheets

50 Consolidated Statements of Operations

51 Consolidated Statements of Equity

52 Consolidated Statements of Cash Flows

53 Notes to Consolidated Financial Statements

70 Assurance by Key Management

71 Independent Auditors' Report

Ten-Year Summary of Consolidated Financial Statements

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31

	2009	2008	2007	2006
For the year*2:				
Net sales	**¥2,535,902**	¥3,475,789	¥3,247,485	¥2,919,823
Domestic	**620,336**	880,132	887,327	887,662
Overseas	**1,915,566**	2,595,657	2,360,158	2,032,161
North America	**697,600**	1,015,315	1,017,874	843,988
Europe	**653,382**	888,555	789,135	668,941
Other areas	**564,584**	691,787	553,149	519,232
Cost of sales	**2,021,851**	2,485,905	2,322,644	2,110,934
Selling, general and administrative expenses	**542,432**	827,737	766,309	685,454
Operating income (loss)	**(28,381)**	162,147	158,532	123,435
Income (loss) before income taxes	**(51,339)**	143,117	118,450	117,468
Net income (loss)	**(71,489)**	91,835	73,744	66,711
Capital expenditures*3	**81,838**	75,518	79,641	72,070
Depreciation and amortization	**75,221**	66,460	47,045	45,805
Research and development costs	**95,967**	114,400	107,553	95,730
Free cash flow*4	**(129,244)**	10,209	20,995	33,611
At the year-end:				
Total assets	**¥1,800,981**	¥1,985,566	¥1,907,752	¥1,788,659
Equity*5	**414,731**	554,154	479,882	407,208
Financial debt	**753,355**	504,979	474,684	455,409
Net financial debt	**532,631**	281,085	232,179	246,751
Average number of shares outstanding (in thousands)	**1,371,456**	1,408,368	1,402,315	1,294,533
Number of employees	**39,852**	39,364	38,004	36,626
Amounts per share of common stock:				
Net income (loss)*6	**¥(52.13)**	¥ 65.21	¥ 52.59	¥ 51.53
Cash dividends applicable to the year*7	**3.00**	6.00	6.00	5.00
Equity*8	**314.98**	391.82	336.45	284.28
Operating income ratio	**(1.1)%**	4.7%	4.9%	4.2%
Return on equity (ROE)*9	**(14.8)%**	17.9%	16.9%	20.0%
Equity ratio*9	**22.9 %**	27.8%	24.8%	22.3%

Notes:
1. The translation of the Japanese yen amounts into U.S. dollars is presented solely for the convenience of readers, using the prevailing exchange rate at March 31, 2009, of ¥98 to US$1.
2. The consolidated operating results for the year ended March 31, 2004 consist of 15 months of operations for the major overseas subsidiaries that changed their fiscal year-ends.
3. Capital expenditures are calculated on an accrual basis.
4. Free cash flow represents net cash flows from operating activities and from investing activities.
5. Prior-year amounts have been reclassified to conform to figures for the March 2007 fiscal year and subsequent fiscal years presentation to include minority interests.
6. The computations of net income (loss) per share of common stock are based on the average number of shares outstanding during each fiscal year.
7. Cash dividends per share represent actual amounts applicable to the respective years.
8. The amounts of equity used in the calculation of equity per share, return on equity and equity ratio exclude minority interests (and, from the March 2007 fiscal year, stock acquisition rights).
9. The amounts of equity exclude minority interests (and, from the March 2007 fiscal year, stock acquisition rights).

Millions of yen						Thousands of U.S. dollars*1
2005	2004	2003	2002	2001	2000	2009
¥2,695,564	¥2,916,130	¥2,364,512	¥2,094,914	¥2,015,812	¥2,161,572	**$25,876,551**
845,620	846,231	818,271	811,050	911,968	955,460	**6,329,959**
1,849,944	2,069,899	1,546,241	1,283,864	1,103,844	1,206,112	**19,546,592**
761,684	936,718	845,241	776,889	618,076	627,371	**7,118,367**
634,233	659,813	368,045	228,120	236,324	341,386	**6,667,163**
454,027	473,368	332,955	278,855	249,444	237,355	**5,761,061**
1,972,574	2,165,160	1,725,058	1,551,410	1,555,130	1,628,814	**20,631,133**
640,043	680,796	588,798	514,951	475,619	507,647	**5,535,020**
82,947	70,174	50,656	28,553	(14,937)	25,111	**(289,602)**
73,847	54,072	28,134	15,508	(242,442)	22,678	**(523,867)**
45,772	33,901	24,134	8,830	(155,243)	26,155	**(729,480)**
67,881	45,644	44,080	56,641	47,285	48,867	**835,082**
40,036	37,900	36,989	44,890	49,531	51,800	**767,561**
90,841	87,807	87,800	94,964	83,617	76,126	**979,255**
35,900	49,128	47,054	30,623	52,257	126,638	**(1,318,816)**
¥1,767,846	¥1,795,573	¥1,754,017	¥1,734,895	¥1,743,627	¥1,469,533	**$18,377,357**
275,841	230,937	200,546	180,892	166,123	257,371	**4,231,949**
528,145	630,360	678,205	686,318	777,292	770,610	**7,687,296**
313,506	358,129	403,483	456,874	484,677	537,017	**5,435,010**
1,216,245	1,217,692	1,219,050	1,221,750	1,222,495	1,222,494	
35,680	35,627	36,184	37,824	39,601	43,818	
Yen						U.S. dollars*1
¥ 37.63	¥ 27.84	¥ 19.80	¥ 7.23	¥(126.99)	¥ 21.39	**$(0.53)**
3.00	2.00	2.00	2.00	—	2.00	**0.03**
220.22	182.91	159.22	141.52	129.96	200.98	**3.21**
%						
3.1%	2.4%	2.1%	1.4%	(0.7)%	1.2%	
18.7%	16.3%	13.2%	5.3%	(76.7)%	8.4%	
15.1%	12.4%	11.1%	10.0%	9.1 %	16.7%	

Management's Discussion and Analysis

Highlights of the March 2009 Fiscal Year

- Reflecting a global contraction in automobile demand, net sales declined 27.0% to ¥2,535.9 billion; operating income declined ¥190.5 billion to a ¥28.4 billion operating loss; and net income declined ¥163.3 billion for a ¥71.5 billion net loss.
- Global sales volume was down 7.5%, at 1,261,000 units.
- The dividend was reduced by ¥3, to ¥3 per share.

Overview of the Mazda Group

The consolidated financial statements for the March 2009 fiscal year include the accounts of Mazda Motor Corporation, 54 consolidated subsidiaries (26 overseas and 28 in Japan) and 14 equity-method affiliates (5 overseas and 9 in Japan).

Business Conditions

With the global financial crisis that started in the United States having spread to the real economy, both the domestic economy and overseas economies deteriorated rapidly from the second half of 2008. A global contraction in automobile demand and a sharply stronger yen during the second half of the fiscal year made the economic environment surrounding the Mazda Group even more difficult, to a degree not seen in the past.

In addition to wages remaining depressed throughout the March 2009 fiscal year, a major global recession in the second half of the year, triggered by the U.S. financial crisis, led to major deterioration in consumer sentiment and corporate earnings, and the size of the domestic automobile industry shrank 12%, to 4.7 million units. Total demand in the United States contracted 25%, to 11.9 million units, while Europe (including Russia) saw a 12% decline, to 18.54 million units. The Chinese market, on the other hand, grew 2%, to 9.45 million units.

Consolidated Financial Results

Given this difficult operating environment, Mazda has implemented emergency measures in all areas—production, sales and development—in response to the economic crisis, while continuing to pursue the mid-term strategy laid out in the Mazda Advancement Plan. First, production was adjusted to bring inventories to appropriate levels, all costs including labor and advertising were reviewed, and cost reductions were implemented. In terms of capital expenditures, priority is being given to targeted investment in forward-looking technology development programs such as next-generation products and environmental technologies, and less urgent plans have been postponed. Cost Innovation initiatives are also being accelerated, and we have moved toward a streamlined and lean management structure.

Net sales

Operating income (loss)

Nevertheless, Mazda's consolidated results fell short of the previous year's levels because of lower sales volumes and the yen's appreciation. Looking at sales volumes in major markets, despite the introduction of the new Mazda Biante, lower sales of existing models resulted in a 14.5% decline in domestic sales, to 219,000 units. North American sales were down 14.4%, to 347,000 units, on declines in sales of models including the Mazda CX-7. Europe recorded a 1.5% decline, to 322,000 units. In China, sales grew 33.2%, to 135,000 units, led by the Mazda6, while other markets saw a 12.8% decline, to 238,000 units. Total global sales declined 7.5%, to 1,261,000 units.

Consolidated wholesales for the year were 123,000 units (9.9%) lower, at 1,116,000 units.

Results by Geographic Segment

(Japan)

Net sales declined ¥652.8 billion (24.2%), to ¥2,045.4 billion, and operating income was ¥202.7 billion lower, recording a ¥95.0 billion operating loss. This was primarily the result of lower vehicle wholesales and the yen's appreciation.

(North America)

Net sales were down ¥294.2 billion (30.1%), at ¥684.8 billion, but operating income rose ¥19.5 billion (325.7%), to ¥25.5 billion. Although net sales declined on lower vehicle wholesales and a stronger yen, adjustments in export prices from Japan raised operating income.

(Europe)

Net sales were down ¥242.4 billion (27.1%), to ¥652.5 billion, with a ¥9.4 billion (52.2%) decline in operating income, to ¥8.6 billion, mainly reflecting lower vehicle wholesales and a stronger yen.

(Other areas)

Net sales declined ¥110.8 billion (32.4%), to ¥231.1 billion, and operating income was ¥11.1 billion (53.4%) lower, at ¥9.7 billion, mainly reflecting lower vehicle wholesales and a stronger yen.

Net Sales

Consolidated net sales declined ¥939.9 billion (27.0%), to ¥2,535.9 billion. Of this decline, lower sales volume and a deteriorated model mix accounted for 11.0%, the yen's appreciation accounted for 7.0% and changes in

Net income (loss)/Return on equity (ROE)

Global sales

accounting standards accounted for 9.0%. The consolidated net sales breakdown showed a ¥680.1 billion (26.2%) decline in overseas sales, to ¥1,915.6 billion, and a ¥259.8 billion (29.5%) decline in domestic sales, to ¥620.3 billion.

By product, vehicle sales were down ¥696.1 billion (27.0%), to ¥1,882.2 billion, from the yen's appreciation against major currencies in addition to the decline in sales volume. Sales of parts for overseas production declined ¥19.6 billion (18.1%), to ¥89.1 billion, while sales of parts were down ¥13.6 billion (4.7%), to ¥272.8 billion. Other sales, which also reflect changes in accounting policies, were ¥210.6 billion (41.9%) lower, at ¥291.9 billion.

Operating Income

Operating income declined ¥190.5 billion, for a ¥28.4 billion operating loss.

The major components of this decline were ¥86.5 billion from lower sales volume and a deteriorated model mix, a ¥102.0 billion negative foreign exchange impact from the yen's sharp appreciation since the onset of the financial crisis and ¥44.0 billion in higher costs for raw materials. With the deterioration in the sales environment from the second half of 2008, sales volume declined in all markets except China. Although there was an impact from higher raw material costs, this was offset by ¥44.0 billion in cost reductions from accelerated Cost Innovation initiatives. In addition, marketing expenses were reduced by ¥6.5 billion as an emergency measure with regard to selling expenses.

Net Income

Net other expenses grew ¥3.9 billion, to ¥23.0 billion, which included a ¥28.3 billion impairment loss from tooling at overseas subsidiaries. As a result, income before income taxes declined ¥194.5 billion, to a ¥51.3 billion loss.

Income taxes were ¥30.0 billion lower, at ¥20.6 billion, and minority interests in consolidated subsidiaries declined ¥1.2 billion, to a ¥0.5 billion loss. As a result, consolidated net income declined ¥163.3 billion, to a net loss of ¥71.5 billion. Net income per share of common stock decreased ¥117.34, to a ¥52.13 loss, from income of ¥65.21 in the March 2008 fiscal year.

Dividend

Mazda's policy is to set a dividend that reflects each year's earnings and operating environment, and to pay a stable dividend while striving to increase the amount. An interim dividend in the amount of ¥3.0 per share was paid, but given the results for the March 2009 fiscal year and the recent drastic weakening in the operating environment it was deemed necessary to forgo the payment of a year-end dividend. As a result, the full-year dividend was ¥3.0 per share.

Consolidated wholesales

Cash dividends applicable to the year

Capital Expenditures

Capital expenditures for the year increased ¥6.3 billion, to ¥81.8 billion, on investments in equipment for new models and the lump-sum recognition of approximately ¥30 billion in tooling expenses at overseas subsidiaries. Depreciation and amortization expenses rose ¥8.7 billion, to ¥75.2 billion, reflecting increases in capital spending over recent years.

In terms of production capacity, progress was made in building a flexible production system to increase productivity. A flexible production system will make it possible to quickly develop models for various markets and enhance Mazda's cost competitiveness by shortening production lead times. This will also make it possible to significantly reduce lead times in new model development, thereby making capital expenditures more efficient. Along with the steady implementation of these measures at domestic plants, they will be simultaneously rolled out at overseas plants as well.

Research and Development

As part of the emergency measures to curtail expenditures, investment in research and development was decreased ¥18.4 billion, to ¥96.0 billion. Nevertheless, we pursued efficient development and increased investment in next-generation products and environmental technologies and other forward-looking technology development programs. As a measure toward reducing future CO_2 emissions, a plan was announced in June 2008 to raise the average fuel economy of all Mazda cars sold globally by 30% by 2015.

One step toward attaining this target was the development in September 2008 of a new clean diesel engine that has high performance in terms of both power and environmental considerations, and this is being progressively rolled out in Europe. In addition, the new Mazda3 is equipped with the "i-stop" idling stop system, which significantly raises fuel economy. We were also the world's first automaker to successfully make use of single-nanocatalyst technology, which effectively purifies exhaust gases and is very durable, while significantly reducing the amount of precious metals used in the catalytic converter. This is also incorporated in the new Mazda3.

Following the Mazda RX-8 Hydrogen RE vehicle that began running on Norway's public roads in October 2008, in March 2009 we commenced commercial leasing of the Mazda Premacy Hydrogen RE Hybrid, the world's first vehicle with a hybrid hydrogen rotary engine.

In terms of safety technology, in Europe the Mazda6 received a five-star rating under the Euro NCAP evaluation standards for new cars in February 2009, officially placing the Mazda6 among the safest cars in the world. Also in February, Mazda provided Mazda MPV and Mazda6 cars with a cutting-edge system to support safe driving, developed by Mazda, for Japan's ITS-Safety 2010 joint verification testing of a safe-driving support system that uses an Intelligent Transport System (ITS).

Capital expenditures/Depreciation and amortization

Research and development costs/Share of net sales

Financial Position

Total assets as of March 31, 2009, stood at ¥1,801.0 billion, which was ¥184.6 billion lower than at the previous year-end as a result of reductions in inventories and trade receivables. Cash and cash equivalents ("cash") decreased ¥3.2 billion, to ¥220.7 billion. Inventories were reduced by ¥73.3 billion, to ¥214.4 billion. Net property, plant and equipment decreased ¥21.0 billion, to ¥877.4 billion.

The total short- and long-term interest-bearing debt grew ¥248.4 billion, to ¥753.4 billion. Net interest-bearing debt, which deducts the ¥220.7 billion in cash as of the fiscal year-end, increased ¥251.5 billion, to ¥532.6 billion, thereby resulting in a 78 percentage point rise in the net debt-to-equity ratio, to 129%.

Equity as of the fiscal year-end decreased ¥139.4 billion from the previous year-end, to ¥414.7 billion. Equity per share decreased ¥76.84 (19.6%), to ¥314.98, from ¥391.82 at the end of the previous year. Equity—calculated as net assets less minority interests and stock acquisition rights—stood at ¥413.1 billion, for a 4.9 percentage point decline in the equity ratio, to 22.9%.

Cash Flows

Cash and cash equivalents ("cash") as of March 31, 2009, totaled ¥220.7 billion, which was ¥3.2 billion less than at the previous fiscal year-end. Although financing activities generated ¥137.0 billion in net cash, operating activities and investing activities used cash in the amount of ¥67.4 billion and ¥61.8 billion, respectively.

(Cash Flow from Operating Activities)

Operating activities during the year used net cash in the amount of ¥67.4 billion. Loss before income taxes was ¥51.3 billion, while depreciation and amortization was ¥75.2 billion. However, accompanying reduced production and other factors, decrease in trade notes and accounts payable was ¥158.7 billion, and income taxes paid was ¥30.3 billion.

(Cash Flow from Investing Activities)

Investing activities used net cash in the amount of ¥61.8 billion, the main component of which was ¥49.0 billion of capital expenditures for the acquisition of plant and equipment.

(Cash Flow from Financing Activities)

Financing activities generated net cash of ¥137.0 billion. The Company procured funds through long-term borrowing while repaying interest-bearing debt and acquiring treasury stock.

Total assets/Equity

Financial debt/Net financial debt

Free cash flow—the sum of cash flows from operating and investing activities—was negative in the amount of ¥129.2 billion for the year.

Fund procurement during the year consisted of ¥211.9 billion in long-term borrowing and a bond issue in June 2008 with a total amount of ¥10.0 billion.

Significant Contracts, etc.

Mazda formed a global partnership with the Ford Motor Company in 1979, and since then both companies have further developed and strengthened their cooperative relationship. An agreement was concluded in 1996 to further bolster that relationship through Ford's acquisition of 33.4% of Mazda's total shares outstanding. On November 19, 2008, Ford sold a portion of its shareholding, reducing its stake in Mazda to 13.8%. However, this does not represent any change in the strategic relationship between the two companies, as Ford remains Mazda's largest shareholder and the two companies continue to operate joint businesses and use common platforms and powertrains.

March 2010 Fiscal Year Outlook

Our forecasts for the March 2010 fiscal year are shown below. Although improvements continue to be made in areas including vehicle cost and fixed expense reductions, the effects of lower sales volume and a deteriorated model mix from lower demand and the yen's appreciation against major currencies are seen as outpacing these improvements. Our exchange rate assumptions for the year are ¥95/U.S. dollar and ¥125/euro.

- Global sales volume: 1.10 million units (a 12.8% decrease from the March 2009 fiscal year)
- Net sales: ¥2,030.0 billion (a 19.9% decrease from the March 2009 fiscal year)
- Operating income (loss): ¥(50.0) billion
- Net income (loss): ¥(50.0) billion

An operating loss is forecast for the first half of the March 2010 fiscal year on continued weak demand and some remaining effect from inventory level adjustments, but we are however projecting a turnaround to an operating profit for the second half due to a full contribution to earnings from the new Mazda3 and further progress in cost reductions. We are also aiming for positive free cash flow over the full year.

Equity ratio*

* The amounts of equity used in the calculation of equity ratio exclude minority interests (and, from the March 2007 fiscal year, stock acquisition rights).

Cash flows

Business Risks

Significant risks that could affect the Company's business results and financial position include those listed below. This, however, does not represent a comprehensive list of all the risks faced by the Mazda Group at the current time.

1. Economic Conditions Impacting the Mazda Group

The 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

The 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 the 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 short-term exchange rate risk. However, a weakening of the yen could result in opportunity losses.

3. Alliances and Mergers

The 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 the Mazda Group's business results and financial position.

4. Laws and Regulations

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

5. Market Competitiveness

The 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, the Mazda Group is implementing a range of initiatives to boost its competitiveness in product development, manufacturing, sales and other areas. However, the 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 the Mazda Group fails to take effective steps to respond to customer values or changes thereof, including declines in market share or product prices, through its dealership network or sales methods.

6. Procurement of Materials and Parts

The 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, the 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 the Mazda Group's business results and financial position.

7. International Business Activities

In addition to Japan, the 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, the Mazda Group is working to accumulate and protect technologies and expertise that help it to develop unique products. At the same time, the Group is taking steps to prevent the infringement of third-party intellectual property rights. Nonetheless, in the event of a disputed infringement of third-party intellectual property rights by the Mazda Group, the Mazda Group may be subject to substantial damages claims or be forced to halt the production and sale of products. This could also adversely affect the Mazda Group's business results and financial position.

The Mazda Group's intellectual property is not subject to complete protection in certain regions. In the event that third parties use the 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 the 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, the 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's business results and financial position.

10. Natural Disasters and Accidents

In addition to measures to protect its manufacturing sites and other important facilities against fire and earthquakes, the 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 Mazda 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 the Mazda Group's business results and financial position.

Consolidated Balance Sheets

Mazda Motor Corporation and Consolidated Subsidiaries
March 31, 2009 and 2008

ASSETS	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars (Note 1) 2009
Current assets:			
Cash and cash equivalents	¥ 220,724	¥ 223,894	$ 2,252,286
Trade notes and accounts receivable	132,355	201,259	1,350,561
Inventories (Note 5)	214,388	287,716	2,187,633
Deferred taxes (Note 13)	67,985	92,594	693,724
Other current assets	93,961	91,868	958,786
Allowance for doubtful receivables	(2,736)	(2,019)	(27,918)
Total current assets	726,677	895,312	7,415,072
Property, plant and equipment:			
Land (Note 6)	441,265	442,237	4,502,704
Buildings and structures	433,895	432,510	4,427,500
Machinery and equipment	794,880	809,447	8,111,020
Tools, furniture, fixtures and other	194,221	196,538	1,981,847
Leased properties	75,180	73,458	767,143
Construction in progress	20,289	25,161	207,031
	1,959,730	1,979,351	19,997,245
Accumulated depreciation	(1,082,329)	(1,080,983)	(11,044,174)
Net property, plant and equipment (Note 7)	877,401	898,368	8,953,071
Intangible assets	27,078	33,951	276,306
Investments and other assets:			
Investment securities:			
Affiliated companies	65,576	87,611	669,143
Other (Note 4)	8,278	4,861	84,469
Long-term loans receivable	6,004	6,293	61,265
Deferred taxes (Note 13)	72,940	45,516	744,286
Other investments and other assets	22,946	18,591	234,143
Allowance for doubtful receivables	(4,346)	(4,329)	(44,347)
Investment valuation allowance	(1,573)	(608)	(16,051)
Total investments and other assets	169,825	157,935	1,732,908
Total assets	¥ 1,800,981	¥ 1,985,566	$ 18,377,357

See accompanying notes.

LIABILITIES AND EQUITY	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars (Note 1) 2009
Current liabilities:			
Short-term debt (Note 8)	¥ 127,219	¥ 69,851	$ 1,298,153
Long-term debt due within one year (Note 8)	61,613	66,024	628,704
Trade notes and accounts payable	176,504	336,731	1,801,061
Accrued expenses	185,817	280,340	1,896,092
Reserve for warranty expenses	37,989	51,535	387,643
Other current liabilities	27,420	40,454	279,796
Total current liabilities	616,562	844,935	6,291,449
Long-term liabilities:			
Long-term debt due after one year (Note 8)	564,523	369,104	5,760,439
Deferred tax liability related to land revaluation (Note 6)	93,729	93,740	956,418
Employees' severance and retirement benefits (Note 9)	90,921	99,844	927,765
Other long-term liabilities	20,515	23,789	209,337
Total long-term liabilities	769,688	586,477	7,853,959
Contingent liabilities (Note 10)			
Equity:			
Capital and retained earnings:			
Common stock:			
Authorized: 3,000,000,000 shares			
Issued: 1,418,509 thousand shares in 2009 and 2008 (Note 11)	150,068	150,068	1,531,306
Capital surplus (Note 11)	133,760	133,838	1,364,898
Retained earnings	86,874	167,332	886,469
Treasury stock (106,954,832 shares in 2009 and 9,205,707 shares in 2008)	(22,976)	(4,549)	(234,449)
Total capital and retained earnings	347,726	446,689	3,548,224
Valuation and translation adjustments:			
Net unrealized gains on available-for-sale securities	160	545	1,633
Net (loss)/gain on derivative instruments	(1,230)	4,158	(12,551)
Land revaluation (Note 6)	136,032	136,048	1,388,082
Foreign currency translation adjustments	(69,483)	(34,090)	(709,010)
Pension adjustments recognized by an overseas consolidated subsidiary	(86)	(1,160)	(878)
Total valuation and translation adjustments	65,393	105,501	667,276
Stock acquisition rights	340	209	3,469
Equity attributable to shareholders of Mazda Motor Corporation	413,459	552,399	4,218,969
Minority interests in consolidated subsidiaries	1,272	1,755	12,980
Total equity	414,731	554,154	4,231,949
Total liabilities and equity	¥1,800,981	¥1,985,566	$18,377,357

Consolidated Statements of Operations

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Net sales	¥2,535,902	¥3,475,789	$25,876,551
Cost and expenses:			
Cost of sales	2,021,851	2,485,905	20,631,133
Selling, general and administrative expenses	542,432	827,737	5,535,020
	2,564,283	3,313,642	26,166,153
Operating (loss)/income	(28,381)	162,147	(289,602)
Other income/(expenses):			
Interest and dividend income	3,552	4,740	36,245
Interest expense	(14,224)	(19,020)	(145,143)
Equity in net (loss)/income of affiliated companies	(2,665)	8,409	(27,194)
Other, net (Note 12)	(9,621)	(13,159)	(98,173)
	(22,958)	(19,030)	(234,265)
(Loss)/income before income taxes	(51,339)	143,117	(523,867)
Income taxes (Notes 13 and 14):			
Current	16,332	43,710	166,653
Prior year	—	6,290	—
Deferred	4,271	555	43,582
	20,603	50,555	210,235
(Loss)/income before minority interests	(71,942)	92,562	(734,102)
Minority interests in consolidated subsidiaries	453	(727)	4,622
Net (loss)/income	¥ (71,489)	¥ 91,835	$ (729,480)

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net (loss)/income:			
Basic	¥(52.13)	¥65.21	$(0.53)
Diluted	—	65.09	—
Cash dividends applicable to the year	3.00	6.00	0.03

See accompanying notes.

Consolidated Statements of Equity

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	Millions of yen								
	Equity attributable to shareholders of Mazda Motor Corporation								
	Capital and retained earnings					Valuation and translation adjustments	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total				
March 31, 2007	¥149,513	¥133,393	¥ 90,024	¥ (3,338)	¥369,592	¥103,811	¥ 67	¥ 6,412	¥479,882
Exercise of stock acquisition rights (convertible bonds)	555	555	—	—	1,110	—	—	—	1,110
Treasury stock	—	(110)	—	(1,211)	(1,321)	—	—	—	(1,321)
Net income	—	—	91,835	—	91,835	—	—	—	91,835
Cash dividends paid	—	—	(12,670)	—	(12,670)	—	—	—	(12,670)
Land revaluation	—	—	49	—	49	(49)	—	—	—
Cumulative effect of applying FASB Interpretation No. 48 by a foreign subsidiary	—	—	(1,906)	—	(1,906)	—	—	—	(1,906)
Net unrealized loss on available-for-sale securities	—	—	—	—	—	(489)	—	—	(489)
Net gain on derivative instruments	—	—	—	—	—	5,023	—	—	5,023
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	(2,562)	—	—	(2,562)
Pension adjustments recognized by a foreign subsidiary	—	—	—	—	—	(233)	—	—	(233)
Stock acquisition rights from granting of share-based payment	—	—	—	—	—	—	142	—	142
Minority interests in consolidated subsidiaries	—	—	—	—	—	—	—	(4,657)	(4,657)
March 31, 2008	¥150,068	¥133,838	¥167,332	¥ (4,549)	¥446,689	¥105,501	¥209	¥ 1,755	¥554,154
Effect of changes in accounting policies applied to foreign subsidiaries on the beginning balance of retained earnings	—	—	(1,554)	—	(1,554)	—	—	—	(1,554)
Treasury stock	—	(78)	—	(18,427)	(18,505)	—	—	—	(18,505)
Net loss	—	—	(71,489)	—	(71,489)	—	—	—	(71,489)
Cash dividends paid	—	—	(8,453)	—	(8,453)	—	—	—	(8,453)
Land revaluation	—	—	16	—	16	(16)	—	—	—
Adjustments for prior year deferred taxes by a foreign subsidiary	—	—	1,022	—	1,022	—	—	—	1,022
Net unrealized loss on available-for-sale securities	—	—	—	—	—	(385)	—	—	(385)
Net loss on derivative instruments	—	—	—	—	—	(5,388)	—	—	(5,388)
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	(35,393)	—	—	(35,393)
Pension adjustments recognized by a foreign subsidiary	—	—	—	—	—	1,074	—	—	1,074
Stock acquisition rights from granting of share-based payment	—	—	—	—	—	—	131	—	131
Minority interests in consolidated subsidiaries	—	—	—	—	—	—	—	(483)	(483)
March 31, 2009	¥150,068	¥133,760	¥ 86,874	¥(22,976)	¥347,726	¥ 65,393	¥340	¥ 1,272	¥414,731

	Thousands of U.S. dollars (Note 1)								
	Equity attributable to shareholders of Mazda Motor Corporation								
	Capital and retained earnings					Valuation and translation adjustments	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total				
March 31, 2008	$1,531,306	$1,365,694	$1,707,469	$ (46,418)	$4,558,051	$1,076,541	$2,133	$17,908	$5,654,633
Effect of changes in accounting policies applied to foreign subsidiaries on the beginning balance of retained earnings	—	—	(15,857)	—	(15,857)	—	—	—	(15,857)
Treasury stock	—	(796)	—	(188,031)	(188,827)	—	—	—	(188,827)
Net loss	—	—	(729,480)	—	(729,480)	—	—	—	(729,480)
Cash dividends paid	—	—	(86,255)	—	(86,255)	—	—	—	(86,255)
Land revaluation	—	—	163	—	163	(163)	—	—	—
Adjustments for prior year deferred taxes by a foreign subsidiary	—	—	10,429	—	10,429	—	—	—	10,429
Net unrealized loss on available-for-sale securities	—	—	—	—	—	(3,929)	—	—	(3,929)
Net loss on derivative instruments	—	—	—	—	—	(54,980)	—	—	(54,980)
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	(361,152)	—	—	(361,152)
Pension adjustments recognized by a foreign subsidiary	—	—	—	—	—	10,959	—	—	10,959
Stock acquisition rights from granting of share-based payment	—	—	—	—	—	—	1,336	—	1,336
Minority interests in consolidated subsidiaries	—	—	—	—	—	—	—	(4,928)	(4,928)
March 31, 2009	$1,531,306	$1,364,898	$ 886,469	$(234,449)	$3,548,224	$ 667,276	$3,469	$12,980	$4,231,949

See accompanying notes.

Consolidated Statements of Cash Flows

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Cash flows from operating activities:			
(Loss)/income before income taxes	¥ (51,339)	¥143,117	$ (523,867)
Adjustments to reconcile (loss)/income before income taxes to net cash (used in)/provided by operating activities:			
Depreciation and amortization	84,043	74,217	857,582
Loss on impairment of fixed assets	28,262	2,196	288,388
Adoption of revised accounting standard for leases	—	1,144	—
Allowance for doubtful receivables	882	253	9,000
Investment valuation allowance	965	—	9,847
Reserve for warranty expenses	(13,546)	10,772	(138,224)
Employees' severance and retirement benefits	(10,367)	(11,721)	(105,786)
Interest and dividend income	(3,552)	(4,740)	(36,245)
Interest expense	14,224	19,020	145,143
Equity in net loss/(income) of affiliated companies	2,665	(8,409)	27,194
Loss on sale/disposition of property, plant and equipment, net	2,456	3,030	25,061
Gain on sale of investment securities, net	(77)	(27)	(786)
Decrease/(increase) in trade notes and accounts receivable	51,972	(14,595)	530,327
Decrease/(increase) in inventories	54,309	(17,472)	554,173
(Decrease)/increase in trade notes and accounts payable	(158,708)	39,204	(1,619,469)
Decrease in other current liabilities	(42,046)	(31,356)	(429,041)
Other	8,576	(32,122)	87,509
Subtotal	(31,281)	172,511	(319,194)
Interest and dividends received	7,974	7,977	81,367
Interest paid	(13,800)	(19,458)	(140,816)
Income taxes paid	(30,311)	(58,061)	(309,296)
Net cash (used in)/provided by operating activities	(67,418)	102,969	(687,939)
Cash flows from investing activities:			
Purchase of investment securities	(11,044)	(2,004)	(112,694)
Sale of investment securities	147	98	1,500
Purchase of additional shares of stock in subsidiaries from minority shareholders	—	(9,194)	—
Additions to property, plant and equipment	(49,011)	(79,597)	(500,112)
Proceeds from sale of property, plant and equipment	5,424	3,186	55,347
Acquisition of intangible assets	(6,463)	(9,483)	(65,949)
(Increase)/decrease in short-term loans receivable	(1,008)	5	(10,286)
Long-term loans receivable made	(213)	(459)	(2,173)
Collections of long-term loans receivable	234	153	2,388
Other	108	4,535	1,101
Net cash used in investing activities	(61,826)	(92,760)	(630,878)
Cash flows from financing activities:			
Increase/(decrease) in short-term debt	8,492	(574)	86,653
Proceeds from long-term debt	228,816	69,094	2,334,857
Repayment of long-term debt	(72,355)	(76,914)	(738,316)
Cash dividends paid	(8,453)	(12,670)	(86,255)
Cash dividends paid to the minority shareholders of consolidated subsidiaries	(27)	(644)	(276)
Treasury stock transactions	(18,505)	(1,321)	(188,827)
Other	(960)	(1,066)	(9,795)
Net cash provided by/(used in) financing activities	137,008	(24,095)	1,398,041
Effect of exchange rate fluctuations on cash and cash equivalents	(16,372)	(4,725)	(167,061)
Net decrease in cash and cash equivalents	(8,608)	(18,611)	(87,837)
Cash and cash equivalents at beginning of the year	223,894	242,505	2,284,633
Increase in cash and cash equivalents due to additional subsidiaries newly consolidated	5,438	—	55,490
Cash and cash equivalents at end of the year	¥ 220,724	¥223,894	$ 2,252,286

See accompanying notes.

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 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").

The accounts of consolidated foreign subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. Prior to the year ended March 31, 2009, in preparing the consolidated financial statements, in principle, the accounts of consolidated foreign subsidiaries were used, without reflecting reconciling adjustments from accounting principles of various countries to Japanese GAAP, as allowed under then-effective Japanese GAAP. As discussed in Note 3, commencing in the year ended March 31, 2009, the Company and its consolidated foreign subsidiaries adopted Practical Issues Task Force ("PITF") No. 18, *Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements*, issued by the Accounting Standards Board of Japan ("ASBJ") on May 17, 2006. Accordingly, adjustments were made to the accounts of consolidated foreign subsidiaries to reconcile from the accounting principles of the respective countries of domicile to either IFRS or the United States generally accepted accounting principles ("U.S. GAAP") as necessary, plus adjustments for the six items specified in PITF No. 18 from IFRS or U.S. GAAP to Japanese GAAP as necessary in consolidation.

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

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2009, which was ¥98 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 accounts of the Company and significant companies, over which the Company has power of control through majority voting rights or existence of certain conditions evidencing control by the Company. Investments in affiliates, over which the Company has the ability to exercise significant influence over operating and financial policies of the investees, are accounted for by the equity method.

The consolidated financial statements include the accounts of the Company and 54 subsidiaries (58 in the year ended March 31, 2008). In addition, 14 affiliates (13 in the year ended March 31, 2008) are accounted for by the equity method.

The consolidated year-end balance sheet date is March 31. Among the consolidated subsidiaries, nine companies (eight at March 31, 2008) have a year-end balance sheet date of December 31, which is different from the consolidated balance sheet date. In preparing the consolidated financial statements, for six of the nine companies, the financial statements of these companies with the December 31 year-end balance sheet date 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 year-end balance sheet date. For the other three companies, special purpose financial statements that are prepared for consolidation as of the consolidated balance sheet date are used to supplement the companies' statutory financial statements.

In the elimination of investments in subsidiaries, the assets and liabilities of subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

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.

Prior to the year ended March 31, 2008, among the consolidated foreign subsidiaries, Compania Colombiana Automotriz S.A. ("CCA") prepared its financial statements based on the accounting principles generally accepted in Colombia to reflect adjustments for the country's inflationary economy and changing prices. Commencing in the year ended March 31, 2008, CCA's financial statements do not reflect such adjustments. Refer to Note 3 for more details.

Foreign currency translation

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

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

Cash and cash equivalents

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

Securities

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

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

If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as a loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method 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. For information on the new accounting standard on inventories adopted by the Company and its consolidated domestic subsidiaries (together the "Domestic Companies") in the year ended March 31, 2009, refer to Note 3.

Property, plant and equipment (except for leased properties)

Property, plant and equipment are stated mainly at cost. Depreciation is computed principally using the straight-line method over the estimated useful lives, net of the estimated residual values of the assets. For the Domestic Companies, useful lives and residual values are estimated by a method equivalent to the provisions of the Corporate Tax Code of Japan. In the year ended March 31, 2009, the Domestic Companies changed the estimated useful lives of property, plant and equipment in calculating depreciation expense in accordance with the revised Corporate Tax Code of Japan. Also, in the year ended March 31, 2008, the Domestic Companies changed the depreciation method

on certain property, plant and equipment as well as accounting for estimated residual value of certain property, plant and equipment in accordance with the applicable revisions to the Corporate Tax Code of Japan. Refer to Note 3 for more details.

Intangible assets (except for leased properties)

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

Leased properties

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. For information on the new accounting standard on leases adopted by the Domestic Companies in the year ended March 31, 2008, refer to Note 3.

Allowance for doubtful receivables

Allowance for doubtful receivables provides for the losses from bad debt. The amount estimated to be uncollectible is recognized. For receivables of ordinary risk, the amount is estimated based on the past default ratio. For receivables of high risk and receivables from debtors under bankruptcy proceedings, the amount is estimated based on the financial standing of the debtor.

Investment valuation allowance

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

Reserve for warranty expenses

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

Employees' severance and retirement benefits

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

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

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

Directors' and corporate auditors' retirement benefits

Prior to the year ended March 31, 2008, the Company accrued liabilities for directors' and corporate auditors' retirement benefits in an amount calculated based on the internal corporate policy. Commencing in the year ended March 31, 2008, the Company reached a decision to terminate retirement benefits to directors and corporate auditors. Refer to Note 3 for more details.

Income taxes

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

Research and development costs

Research and development costs are charged to income when incurred. For the years ended March 31, 2009 and 2008, research and development costs were ¥95,967 million ($979,255 thousand) and ¥114,400 million, respectively.

Derivatives and hedge accounting

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

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

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

Amounts per share of common stock

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

For the year ended March 31, 2009, only information on net loss per share of common stock is provided without information on diluted net loss per share of common stock to reflect the diluting effect in accordance with the applicable provisions of Japanese GAAP.

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

Reclassifications

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

3. ADOPTION OF NEW ACCOUNTING STANDARDS AND ACCOUNTING CHANGES

Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

As discussed in Note 1, commencing in the year ended March 31, 2009, the Company and its consolidated foreign subsidiaries adopted PITF No. 18, and made necessary adjustments in preparing the consolidated financial statements.

In principle, Japanese GAAP requires that accounting policies and procedures applied by a parent company and its consolidated subsidiaries, including consolidated foreign subsidiaries, be unified (in terms of Japanese GAAP) for the purpose of preparing consolidated financial statements. However, prior to the year ended March 31, 2009, in preparing the consolidated financial statements, as a tentative measure, for consolidated foreign subsidiaries, Japanese GAAP allowed a parent company to use the accounts of consolidated foreign subsidiaries maintained in conformity with the generally accepted accounting principles prevailing in the respective countries of domicile, without reflecting reconciling adjustments from accounting principles of various countries to Japanese GAAP.

PITF No. 18, which became effective as of April 1, 2008, revised the tentative measure. Under the revised tentative measure, PITF No. 18 allows a parent company to prepare consolidated financial statements, using consolidated foreign subsidiaries' financial statements which reflect adjustments to reconcile from the accounting principles of the respective countries of domicile to either IFRS or U.S. GAAP as necessary.

In addition, adjustments for the following six items specified in PITF No. 18 from IFRS or U.S. GAAP to Japanese GAAP should be made as necessary in the consolidation process unless the impact is immaterial:

(a) If the amortization of goodwill is not implemented, adjustments should be made to amortize it;
(b) If actuarial gains and losses of defined-benefit retirement plans are recognized outside profit and loss, adjustments should be made to recognize them in the income statement;
(c) If expenditures for research and development activities are capitalized, adjustments should be made to immediately expense them;
(d) If fair value measurement of investment properties is adopted or revaluation of property, plant and equipment and intangible assets is adopted, adjustments should be made for recording the depreciation expense calculated by applying the regular depreciation method;
(e) If retrospective treatment of a change in accounting policies is adopted, adjustments should be made to recognize the amount as profit and loss in the current fiscal year; and
(f) If minority interests are included in the current net income, adjustments should be made to exclude the minority interests from net income.

As a transition requirement of PITF No. 18, the balance of consolidated retained earnings as of April 1, 2008 was reduced by ¥1,554 million ($15,857 thousand). Also, in the consolidated statement of operations for the year ended March 31, 2009, while the effect of adopting PITF No. 18 on operating loss was immaterial, loss before income taxes was increased by ¥3,119 million ($31,827 thousand).

Also, in connection with adopting PITF No. 18, incentive expenses of consolidated foreign subsidiaries that were recognized in selling, general and administrative expenses in the prior periods are now recognized as a reduction to net sales. For the year ended March 31, 2009, such incentive expenses amounted to ¥146,697 million ($1,496,908 thousand), and the effects of this change on the consolidated statement of operations for the year ended March 31, 2009 were to decrease net sales, gross profit on sales, and selling, general and administrative expenses each by the same amount.

Also, the effects of adopting PITF No. 18 on segment information are discussed in the applicable section of the notes to the consolidated financial statements.

Accounting standard for measurement of inventories

Commencing in the year ended March 31, 2009, the Domestic Companies adopted ASBJ Statement No. 9, *Accounting Standards for Measurement of Inventories*, issued by the ASBJ on July 5, 2006. As permitted under the superseded accounting standard, the Domestic Companies previously stated inventories at cost. The new accounting standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net realizable value, which is defined as selling price less estimated additional manufacturing costs and estimated direct selling expenses.

The effects of adopting the new standard on the consolidated statement of operations for the year ended March 31, 2009 were to increase operating loss and loss before income taxes each by ¥2,461 million ($25,112 thousand).

Also, the effects of adopting the new standard on segment information are discussed in the applicable section of the notes to the consolidated financial statements.

Change in accounting for materials sold to and purchased back from suppliers after fabrication

Prior to the year ended March 31, 2009, in the consolidated statements of operations, the Company accounted for materials sold to suppliers for the purpose of purchasing back from them after fabrication in such a manner that the transactions were recognized in both net sales and cost of sales, as the Company was emphasizing the contractual condition that the ownership title to the materials transfers through the transactions. Commencing in the year ended March 31, 2009, the Company changed accounting for these transactions to exclude the amounts from both net sales and cost of sales, as the Company now emphasizes the substance of the transactions that the materials are purchased back after fabrication.

The effects of this accounting change on the consolidated statement of operations for the year ended March 31, 2009 were to decrease net sales and cost of sales each by ¥152,097 million ($1,552,010 thousand) with no effects on operating loss and loss before income taxes.

Also, the effects of this accounting change on segment information are discussed in the applicable section of the notes to the consolidated financial statements.

Accounting for leases

Commencing in the year ended March 31, 2008, the Domestic Companies early adopted ASBJ Statement No. 13, *Accounting Standard for Lease Transaction*, and ASBJ Guideline No. 16, *Guidance on Accounting Standard for Lease Transaction*, originally issued by the Business Accounting Deliberation Council on June 17, 1993 and by the Japanese Institute of Certified Public Accountants on January 18, 1994, respectively, and both revised by the ASBJ on March 30, 2007. Early adoption of ASBJ Statement No. 13 and ASBJ Guideline No. 16 is permitted as of the beginning of a fiscal year that begins on or after April 1, 2007.

The effects of adopting the new standards on the consolidated balance sheet as of March 31, 2008 were to increase property, plant and equipment and intangible assets by ¥33,862 million and ¥15 million, respectively, and to increase current liabilities and long-term liabilities by ¥12,448 million and ¥22,505 million, respectively. In addition, the effects of adopting the new standards on the consolidated statement of operations for the year ended March 31, 2008, were to increase operating income by ¥1,199 million and to decrease income before income taxes by ¥918 million.

Prior to the year ended March 31, 2008, in the consolidated statements of cash flows, all payments of lease fees were included in the cash flows from operating activities. Commencing in the year ended March 31, 2008, however, those portions that constitute payment of lease obligations are included in the cash flows from financing activities.

Also, prior to the year ended March 31, 2008, proceeds from sale and leaseback transactions were included in the cash flows from investing activities. Commencing in the year ended March 31, 2008, however, proceeds from sale and leaseback transactions are included in the cash flows from financing activities by taking the financing nature of the transactions into consideration.

The effects of adopting the new standards on the consolidated statement of cash flows for the year ended March 31, 2008 were to increase cash flows from operating activities by ¥13,890 million, to decrease cash flows from investing activities by ¥8,794 million, and to decrease cash flows from financing activities by ¥5,096 million.

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.

Prior to the year ended March 31, 2008, in the consolidated balance sheets, leased properties related to finance lease transactions by a consolidated foreign subsidiary were included in tools, furniture, fixtures, and other of property, plant and equipment. Commencing in the year ended March 31, 2008, however, these leased properties are included in leased properties of property, plant and equipment, as the Domestic Companies adopted the revised accounting standards for leases as discussed earlier, which resulted in increased materiality of leased properties.

As of March 31, 2008, the balance of the leased properties in property, plant and equipment amounted to ¥1,384 million.

Depreciation of property, plant and equipment

Commencing in the year ended March 31, 2008, for those property, plant and equipment that were acquired on or after April 1, 2007, the Domestic Companies changed the depreciation method in accordance with the applicable revisions to the Corporate Tax Code of Japan, promulgated on March 30, 2007.

The effects of this change on the consolidated statement of operations for the year ended March 31, 2008 were to decrease operating income by ¥910 million and income before income taxes by ¥912 million.

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.

Adoption of new accounting standard by a consolidated foreign subsidiary

Prior to the year ended March 31, 2008, among the consolidated foreign subsidiaries, CCA prepared its financial statements based on the accounting principles generally accepted in Colombia to reflect adjustments for the country's inflationary economy and changing prices. On May 7, 2007, however, the federal government of Colombia promulgated a decree to abolish such adjustments from the country's accounting principles. As a result, commencing in the year ended March 31, 2008, CCA's financial statements do not reflect such adjustments.

In the consolidated statement of operations for the year ended March 31, 2008, the effects of adopting the new standard on operating income was none and those on income before income taxes were immaterial.

Additional Information

Change in estimated useful lives of property, plant and equipment

As the Corporate Tax Code of Japan was revised on April 30, 2008 to implement certain changes to useful lives of property, plant and equipment, commencing in the year ended March 31, 2009, the Domestic Companies changed the estimated useful lives of property, plant and equipment in calculating depreciation expense in accordance with the revised Corporate Tax Code of Japan.

The effects of this change on the consolidated statement of operations for the year ended March 31, 2009 were to increase operating loss by ¥2,325 million ($23,724 thousand) and to increase loss before income taxes by ¥2,337 million ($23,847 thousand).

The effects of this change on the segment information are discussed in the applicable section of the notes to the consolidated financial statements.

Accounting for estimated residual value of property, plant and equipment

In relation to the applicable changes in the Corporate Tax Code of Japan, commencing in the year ended March 31, 2008, for those property, plant and equipment that were acquired on or before March 31, 2007 and for which accumulated depreciation has reached 95% of the acquisition cost, the Domestic Companies recognize depreciation for the difference between the 5% residual value and the nominal value (i.e., 1 yen) on a straight-line basis over 5 years, starting in the year following the year in which accumulated depreciation has reached 95% of the acquisition cost (or the year ended March 31, 2008, whichever comes later).

The effects of adopting this accounting for residual value of property, plant and equipment on the consolidated statement of operations for the year ended March 31, 2008 were to decrease operating income by ¥3,951 million and to decrease income before income taxes by ¥4,113 million.

The effects of adopting this accounting for residual value of property, plant and equipment on the segment information are discussed in the applicable section of the notes to the consolidated financial statements.

Termination of directors' and corporate auditors' retirement benefits

Prior to the year ended March 31, 2008, the Company used to recognize, in liabilities, directors' and corporate auditors' retirement benefits; the amount that would be required by the internal corporate policy if all the directors and corporate auditors retired on the balance sheet date was recognized. As part of management reform, however, by the resolution of the general meeting of shareholders held on June 26, 2007, the Company reached a decision to terminate retirement benefits to directors and corporate auditors as of the end of this general meeting of shareholders as well as to pay the directors and corporate auditors such benefits already earned by the time of the decision.

In relation to this decision, commencing in the year ended March 31, 2008, the liabilities are included in other long-term liabilities. As of March 31, 2008, the outstanding amount of the liabilities included in other long-term liabilities amounted to ¥618 million.

4. SECURITIES

The Company and its consolidated subsidiaries had no trading or held-to-maturity debt securities with available fair values at March 31, 2009 and 2008.

Available-for-sale securities that have available market values as of March 31, 2009 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition costs	Carrying values	Unrealized gains	Acquisition costs	Carrying values	Unrealized gains
Stocks	¥4,465	¥4,712	¥247	$45,561	$48,081	$2,520
Other	376	376	—	3,837	3,837	—
	¥4,841	¥5,088	¥247	$49,398	$51,918	$2,520

Available-for-sale securities with no available fair values as of March 31, 2009 were as follows:

	Millions of yen	Thousands of U.S. dollars
	Carrying values	Carrying values
Non-listed equity securities	¥ 3,190	$ 32,551
Certificates of deposit and other	38,840	396,327

Available-for-sale securities that had available market values as of March 31, 2008 were as follows:

	Millions of yen		
	Acquisition costs	Carrying values	Unrealized gains
Stocks	¥558	¥1,441	¥883
Other	362	362	—
	¥920	¥1,803	¥883

Available-for-sale securities with no available fair values as of March 31, 2008 were as follows:

	Millions of yen
	Carrying values
Non-listed equity securities	¥ 3,196
Certificates of deposit	103,000

5. INVENTORIES

Inventories as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2009	2008	2009
Finished products	**¥171,412**	¥242,224	**$1,749,102**
Work in process	**29,648**	32,637	**302,531**
Raw materials and supplies	**13,328**	12,855	**136,000**
	¥214,388	¥287,716	**$2,187,633**

6. LAND REVALUATION

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

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

The amounts of decrease in the aggregate fair value of the revalued land as of March 31, 2009 and 2008 from that at the time of revaluation, as stipulated in Article 10 of the Land Revaluation Law, were ¥83,322 million ($850,224 thousand) and ¥82,650 million, respectively.

7. IMPAIRMENT OF LONG-LIVED ASSETS

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

For the year ended March 31, 2009, the Domestic Companies recognized an impairment loss of ¥2,218 million ($22,633 thousand) on idle assets. Also, an impairment loss of ¥2,366 million ($24,143 thousand) was recognized on goodwill, including the write-down of goodwill by a consolidated foreign subsidiary in Belgium. In addition, a consolidated foreign subsidiary in the United States reduced the carrying value of its leased properties held for use in production, resulting in an impairment loss of ¥23,678 million ($241,612 thousand) in the consolidated statement of operations. As a result, the total impairment loss that was recognized in the consolidated statement of operations for the year ended March 31, 2009 amounted to ¥28,262 million ($288,388 thousand).

In the consolidated statement of operations for the year ended March 31, 2008, a total impairment loss of ¥2,196 million was recognized, which primarily consisted of impairment on idle assets by the Domestic Companies.

8. SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt as of March 31, 2009 and 2008 consisted of loans, principally from banks with interest averaging 1.50% and 1.60% for the respective years.

Long-term debt as of March 31, 2009 and 2008 consisted of the following:

As of March 31	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars 2009
Domestic unsecured bonds due serially 2009 through 2014 at rates of 1.30% to 1.87% per annum	¥ 95,000	¥105,000	$ 969,388
Loans principally from banks:			
Secured loans, maturing through 2020	66,433	39,121	677,888
Unsecured loans, maturing through 2018	407,479	255,413	4,157,949
Lease obligations, maturing through 2017	57,224	35,594	583,918
	626,136	435,128	6,389,143
Amount due within one year	(61,613)	(66,024)	(628,704)
	¥564,523	¥369,104	$5,760,439

The annual interest rates applicable to long-term loans and lease obligations outstanding averaged 1.68% and 3.76%, respectively, for obligations due within one year and 1.86% and 4.39%, respectively, for obligations due after one year at March 31, 2009. The annual interest rates applicable to long-term loans and lease obligations outstanding averaged 1.95% and 2.99%, respectively, for obligations due within one year and 1.73% and 2.96%, respectively, for obligations due after one year at March 31, 2008.

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥ 61,613	$ 628,704
2011	72,565	740,459
2012	165,016	1,683,837
2013	79,099	807,133
2014	84,346	860,673
Thereafter	163,497	1,668,337
	¥626,136	$6,389,143

The assets pledged as collateral for short-term debt of ¥53,690 million ($547,857 thousand) and ¥39,497 million and long-term debt of ¥66,433 million ($677,888 thousand) and ¥39,121 million at March 31, 2009 and 2008, respectively, were as follows:

As of March 31	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars 2009
Property, plant and equipment, at net book value	¥458,911	¥473,554	$4,682,765
Other	5,079	36	51,827
	¥463,990	¥473,590	$4,734,592

9. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The liabilities for severance and retirement benefits as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2009	2008	2009
Projected benefit obligation	¥ 302,253	¥ 311,051	$ 3,084,214
Unrecognized prior service costs	19,428	21,633	198,245
Unrecognized actuarial differences	(95,144)	(66,966)	(970,857)
Less fair value of pension assets	(143,292)	(169,587)	(1,462,164)
Prepaid pension cost	7,676	3,713	78,327
Liability for severance and retirement benefits	¥ 90,921	¥ 99,844	$ 927,765

Severance and retirement benefit expenses for the years ended March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2009	2008	2009
Service costs—benefits earned during the year	¥12,195	¥11,262	$124,439
Interest cost on projected benefit obligation	6,486	6,623	66,184
Expected return on plan assets	(5,589)	(5,946)	(57,030)
Amortization of prior service costs	(2,232)	(2,095)	(22,777)
Amortization of actuarial differences	8,030	6,159	81,939
Severance and retirement benefit expenses	¥18,890	¥16,003	$192,755

The discount rates and the rates of expected return on plan assets were primarily 2.0% and 3.0%, respectively, for both the years ended March 31, 2009 and 2008. The estimated amount of all retirement benefits to be paid at the future retirement dates is allocated equally to each service year using the estimated number of total service years.

For the years ended March 31, 2009 and 2008, accrued pension cost related to defined contribution plans amounted to ¥2,079 million ($21,214 thousand) and ¥2,226 million, respectively.

10. CONTINGENT LIABILITIES

Contingent liabilities as of March 31, 2009 were as follows:

	Millions of yen	Thousands of U.S. dollars
Factoring of receivables with recourse	¥4,312	$44,000
Guarantees of loans and similar agreements	4,508	46,000
Letters of undertaking to provide guarantees for leases for factory facilities	525	5,357

11. EQUITY

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

Under the Corporate Law ("the Law"), in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve, must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit or could be capitalized by a resolution of the shareholder's meeting. Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law. Cash dividends charged to retained earnings during the fiscal year were year-end cash dividends for the preceding fiscal year and interim cash dividends for the current fiscal year.

The appropriations are not accrued in the consolidated financial statements for the corresponding period, but are recorded in the subsequent accounting period after shareholder's approval has been obtained.

For the year ended March 31, 2009, no year-end dividends were appropriated. Retained earnings at March 31, 2008 include amounts representing year-end cash dividends of ¥4,228 million, which were approved at the shareholder's meeting held on June 25, 2008.

Adjustment to the opening balance of consolidated retained earnings as of April 1, 2008 under PITF No. 18

As discussed in Note 3, commencing in the year ended March 31, 2009, the Company and its consolidated foreign subsidiaries adopted PITF No. 18. As a transition requirement of PITF No. 18, the balance of consolidated retained earnings as of April 1, 2008 was reduced.

Pension adjustments recognized by a foreign consolidated subsidiary

As of March 31, 2008, a consolidated foreign subsidiary in the United States recognized pension adjustments as a separate component of other comprehensive income in accordance with Statement of Financial Accounting Standards ("SFAS") No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. In the consolidated balance sheet, the amount was presented as "pension adjustments recognized by a foreign consolidated subsidiary" as a separate component of the valuation and translation adjustment of equity.

Commencing in the year ended March 31, 2009, as discussed in Note 3, the financial statements of certain consolidated foreign subsidiaries used in preparing the consolidated financial statements either are prepared in conformity with U.S. GAAP or reflect reconciling adjustments to U.S. GAAP plus six items of adjustments from IFRS or U.S. GAAP to Japanese GAAP as specified in PITF No. 18. As of March 31, 2009, as required by PITF No. 18, the amount presented in "pension adjustments recognized by a foreign subsidiary" in the consolidated balance sheet does not include unamortized actuarial differences originally recognized by SFAS No. 158.

Accounting for uncertainty in income taxes

Commencing in the year ended March 31, 2008, a consolidated subsidiary in the United States adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109,* and made a cumulative-effect adjustment to the opening balance of retained earnings. In the consolidated financial statements, the cumulative-effect was recognized as a reduction in retained earnings in the consolidated statement of equity for the year ended March 31, 2008.

12. OTHER INCOME (EXPENSES)

The components of "Other, net" in Other income/(expenses) in the consolidated statements of operations for the years ended March 31, 2009 and 2008 were comprised as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2009	2008	2009
Gain on sale of investment securities, net	¥ 77	¥ 27	$ 786
Loss on retirement and sale of property, plant and equipment, net	(2,707)	(3,030)	(27,622)
Rental income	2,179	1,989	22,235
Loss on sale of receivables	(5,376)	(3,042)	(54,857)
Loss on impairment of long-lived assets	(28,262)	(2,196)	(288,388)
Foreign exchange gain/(loss)	29,057	(7,544)	296,500
Compensation received for the exercise of eminent domain	251	122	2,561
Gain on retroactive correction of property, plant and equipment	—	1,330	—
Adoption of revised accounting standard for leases	—	(1,144)	—
Other	(4,840)	329	(49,388)
	¥ (9,621)	¥(13,159)	$ (98,173)

13. INCOME TAXES

The effective tax rate reflected in the consolidated statement of operations for the year ended March 31, 2008 differs from the statutory tax rate for the following reasons. For the year ended March 31, 2009, since loss before income taxes was reported, the information on the reconciliation from statutory tax rate to effective tax rate is not provided in accordance with the applicable provisions of Japanese GAAP.

For the year ended March 31	2008
Statutory tax rate	40.4%
Equity in net income of affiliated companies	(2.4)
Valuation allowances	(1.7)
Prior year income taxes	2.1
Tax credit	(3.3)
Other	0.2
Effective tax rate	35.3%

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, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2009	2008	2009
Deferred tax assets:			
Allowance for doubtful receivables	¥ 2,219	¥ 1,655	$ 22,643
Employees' severance and retirement benefits	34,989	40,043	357,031
Loss on impairment of long-lived assets	12,982	6,691	132,469
Accrued bonuses and other reserves	25,723	37,875	262,480
Inventory valuation	10,089	4,281	102,949
Valuation loss on investment securities, etc.	1,202	1,206	12,265
Net operating loss carryforwards	47,615	12,736	485,867
Other	63,065	70,568	643,520
Total gross deferred tax assets	197,884	175,055	2,019,224
Less valuation allowance	(45,888)	(21,014)	(468,244)
Total deferred tax assets	151,996	154,041	1,550,980
Deferred tax liabilities:			
Reserves under Special Taxation Measures Law	(6,662)	(7,193)	(67,980)
Other	(5,769)	(10,254)	(58,867)
Total deferred tax liabilities	(12,431)	(17,447)	(126,847)
Net deferred tax assets	¥139,565	¥136,594	$1,424,133

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

	Millions of yen		Thousands of U.S. dollars
As of March 31	2009	2008	2009
Current assets—Deferred taxes	¥ 67,985	¥ 92,594	$ 693,724
Investments and other assets—Deferred taxes	72,940	45,516	744,286
Current liabilities—Other	(261)	(5)	(2,663)
Other long-term liabilities	(1,099)	(1,511)	(11,214)
Net deferred tax assets	¥139,565	¥136,594	$1,424,133

14. PRIOR YEAR INCOME TAXES

Prior year income taxes recorded in the year ended March 31, 2008 are primarily for the taxes that the Company was subject to following a tax audit by the Hiroshima Regional Taxation Bureau. As a result of the tax audit, the Company had reassessed and corrected certain prior year income tax filings to pay additional income taxes and penalties in accordance with the reassessment in January 2008. These additional income taxes and penalties, which amounted to a total of ¥6,290 million, were recognized as prior year income taxes in the consolidated statement of operations for the year ended March 31, 2008.

15. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

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

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

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

The policies for derivative transactions of the Company and its consolidated subsidiaries are determined by the Company's president or chief financial officer. Derivative contracts are concluded under the directions of the Company's Financial Services Division in accordance with the established rules of the Company. Derivative transactions are executed and the balances are managed by each individual company; the president of each company is responsible for the inspection. Also, the Company's Financial Services Division is responsible for overall management on a Groupwide basis.

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

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

The following tables summarize market value information as of March 31, 2009 and 2008 of derivative transactions for which hedge accounting has not been applied:

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2009	Contract amount	Estimated fair value	Unrealized gain (loss)	Contract amount	Estimated fair value	Unrealized gain (loss)
Forward foreign exchange contracts:						
Sell:						
U.S. dollar	**¥ 1,939**	**¥ 2,046**	**¥(107)**	**$ 19,786**	**$ 20,878**	**$(1,092)**
Canadian dollar	**296**	**300**	**(4)**	**3,020**	**3,061**	**(41)**
Australian dollar	**2,409**	**2,553**	**(144)**	**24,582**	**26,051**	**(1,469)**
Buy:						
Thai baht	**2,260**	**2,117**	**(143)**	**23,061**	**21,602**	**(1,459)**
Australian dollar	**3,488**	**3,353**	**(135)**	**35,592**	**34,214**	**(1,378)**
Japanese yen	**348**	**347**	**(1)**	**3,551**	**3,541**	**(10)**
	¥10,740	**¥10,716**	**¥(534)**	**$109,592**	**$109,347**	**$(5,449)**

	Millions of yen		
As of March 31, 2008	Contract amount	Estimated fair value	Unrealized gain (loss)
Forward foreign exchange contracts:			
Sell:			
U.S. dollar	¥ 57,972	¥ 53,148	¥4,824
Australian dollar	2,289	2,133	156
Euro	21,431	21,169	262
Sterling pound	5,529	5,028	501
Buy:			
Thai baht	8,486	7,610	(876)
Australian dollar	6,489	6,524	35
Sterling pound	6,366	6,372	6
Swiss franc	788	787	(1)
	¥109,350	¥102,771	¥4,907

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

16. LEASES

As discussed in Note 3, commencing in the year ended March 31, 2008, the Domestic Companies early adopted the new accounting standard for leases to recognize leased properties and lease obligations in the balance sheet.

The present values of future minimum lease payments under operating leases as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Operating leases		
As of March 31	2009	2008	2009
Current portion	¥ 2,852	¥ 3,443	$ 29,102
Non-current portion	13,845	16,072	141,276
	¥16,697	¥19,515	$170,378

17. SEGMENT INFORMATION

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of passenger and commercial vehicles. For the years ended March 31, 2009 and 2008, net sales and total identifiable assets related to this industry exceeded 90% of the total respective amounts of all the industry segments. Also, in terms of absolute value, operating income/(loss) related to this industry exceeded 90% of the larger of the total amount of operating income for all the industry segments for which operating income was recorded and the total amount of operating loss for all the segments for which operating loss was recorded. Accordingly, information by industry segment is not shown.

Net sales, operating income/(loss), and identifiable assets by geographic area for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen						
For the year ended March 31, 2009	Japan	North America	Europe	Other areas	Total	Elimination or corporate	Consolidated
Net sales:							
Outside customers	¥ 988,829	¥677,348	¥640,904	¥228,821	¥2,535,902	¥ —	¥2,535,902
Inter-area	1,056,562	7,426	11,552	2,242	1,077,782	(1,077,782)	—
Total	2,045,391	684,774	652,456	231,063	3,613,684	(1,077,782)	2,535,902
Costs and expenses	2,140,405	659,286	643,856	221,357	3,664,904	(1,100,621)	2,564,283
Operating (loss)/income	¥ (95,014)	¥ 25,488	¥ 8,600	¥ 9,706	¥ (51,220)	¥ 22,839	¥ (28,381)
Total identifiable assets	¥1,607,364	¥186,263	¥197,624	¥ 57,641	¥2,048,892	¥ (247,911)	¥1,800,981

	Millions of yen						
For the year ended March 31, 2008	Japan	North America	Europe	Other areas	Total	Elimination or corporate	Consolidated
Net sales:							
Outside customers	¥1,289,248	¥974,504	¥872,616	¥339,421	¥3,475,789	¥ —	¥3,475,789
Inter-area	1,408,934	4,469	22,201	2,401	1,438,005	(1,438,005)	—
Total	2,698,182	978,973	894,817	341,822	4,913,794	(1,438,005)	3,475,789
Costs and expenses	2,590,533	972,986	876,835	321,001	4,761,355	(1,447,713)	3,313,642
Operating income	¥ 107,649	¥ 5,987	¥ 17,982	¥ 20,821	¥ 152,439	¥ 9,708	¥ 162,147
Total identifiable assets	¥1,775,855	¥174,719	¥179,411	¥ 68,629	¥2,198,614	¥ (213,048)	¥1,985,566

For the year ended March 31, 2009	Thousands of U.S. dollars						
	Japan	North America	Europe	Other areas	Total	Elimination or corporate	Consolidated
Net sales:							
Outside customers	$10,090,092	$6,911,714	$6,539,837	$2,334,908	$25,876,551	$ —	$25,876,551
Inter-area	10,781,245	75,776	117,877	22,878	10,997,776	(10,997,776)	—
Total	20,871,337	6,987,490	6,657,714	2,357,786	36,874,327	(10,997,776)	25,876,551
Costs and expenses	21,840,868	6,727,408	6,569,959	2,258,745	37,396,980	(11,230,827)	26,166,153
Operating (loss)/income	$ (969,531)	$ 260,082	$ 87,755	$ 99,041	$ (522,653)	$ 233,051	$ (289,602)
Total identifiable assets	$16,401,673	$1,900,643	$2,016,571	$ 588,174	$20,907,061	$ (2,529,704)	$18,377,357

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.....Russia, Belgium, and Germany

Other areas .....Australia and Colombia

2) As discussed earlier in Note 3, commencing in the year ended March 31, 2009, the Company and its consolidated foreign subsidiaries adopted PITF No. 18, *Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements.* The effects of adopting PITF No. 18 on the operating income of North America segment for the year ended March 31, 2009 were immaterial, but the effects on Europe segment and on Other areas segment were to decrease operating income by ¥2,898 million ($29,571 thousand) and to increase operating income by ¥3,125 million ($31,888 thousand), respectively.

Also, in connection with adopting PITF No. 18, incentive expenses of consolidated foreign subsidiaries that were recognized in selling, general and administrative expenses in the prior periods are now recognized as a reduction to net sales. The effects of this change on North America segment, Europe segment, and Other areas segment for the year ended March 31, 2009 were to decrease net sales by ¥73,289 million ($747,847 thousand), ¥62,725 million ($640,051 thousand), and ¥10,683 million ($109,010 thousand), respectively. However, this change had no effects on operating income of any of the segments as the operating expense (selling, general and administrative expenses) of each segment decreased by the amount equal to the amount of decrease in net sales.

3) As discussed earlier in Note 3, commencing in the year ended March 31, 2009, the Domestic Companies adopted ASBJ Statement No. 9, *Accounting Standards for Measurement of Inventories.* The effects of adopting the new standard on Japan segment for the year ended March 31, 2009 were to increase operating loss by ¥2,461 million ($25,112 thousand).

4) As discussed earlier in Note 3, commencing in the year ended March 31, 2009, the Company changed accounting for materials sold to and purchased back from suppliers after fabrication. The effects of this change on Japan segment for the year ended March 31, 2009 were to decrease net sales by ¥152,097 million ($1,552,010 thousand). However, since operating expense (cost of sales) decreased by the same amount, operating loss was not affected.

5) As discussed earlier in Note 3, commencing in the year ended March 31, 2009, the Domestic Companies changed the useful lives of tangible fixed assets in calculating their depreciation expenses in accordance with the revised Corporate Tax Code of Japan. The effects of this change on Japan segment for the year ended March 31, 2009 were to increase operating loss by ¥2,325 million ($23,724 thousand).

6) As discussed earlier in Note 3, commencing in the year ended March 31, 2008, the Domestic Companies early adopted the revised accounting standard for leases. The effects of adopting the new standards on Japan segment for the year ended March 31, 2008 were to decrease operating expense by ¥1,199 million and to increase operating income by the same amount.

7) As discussed earlier in Note 3, commencing in the year ended March 31, 2008, for those property, plant and equipment that were acquired on or after April 1, 2007, the Domestic Companies changed the depreciation method in relation to the change in the Corporate Tax Code of Japan. The effects of this change on Japan segment for the year ended March 31, 2008 were to increase operating expense by ¥910 million and to decrease operating income by the same amount.

8) As discussed earlier in Note 3, commencing in the year ended March 31, 2008, in relation to the changes in the Corporate Tax Code of Japan, for the tangible fixed assets that were acquired on or before March 31, 2007 and for which accumulated depreciation has reached 95% of the acquisition cost, the Domestic Companies recognize depreciation for the difference between the 5% residual value and the nominal value (i.e., 1 yen) on a straight-line basis over 5 years, starting in the year following the year in which accumulated depreciation has reached 95% of the acquisition cost (or the year ending March 31, 2008, whichever comes later). The effects of this change on Japan segment for the year ended March 31, 2008 were to increase operating expense by ¥3,951 million and to decrease operating income by same amount.

International sales for the years ended March 31, 2009 and 2008 were as follows:

For the year ended March 31, 2009	Millions of yen			
	North America	Europe	Other areas	Total
International sales	¥697,600	¥653,382	¥564,584	¥1,915,566
Percentage of consolidated net sales	27.5%	25.8%	22.2%	75.5%

For the year ended March 31, 2008	Millions of yen			
	North America	Europe	Other areas	Total
International sales	¥1,015,315	¥888,555	¥691,787	¥2,595,657
Percentage of consolidated net sales	29.2%	25.6%	19.9%	74.7%

	Thousands of U.S. dollars			
For the year ended March 31, 2009	North America	Europe	Other areas	Total
International sales	**$7,118,367**	**$6,667,163**	**$5,761,062**	**$19,546,592**

Notes: 1) International sales include exports by Mazda Motor Corporation 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 ..... Russia, Germany and U.K.
Other areas ..... Australia, China and Thailand

18. RELATED PARTY TRANSACTIONS

(Additional Information)

Commencing in the year ended March 31, 2009, the Company and its consolidated subsidiaries adopted ASBJ Statement No. 11, *Accounting Standard for Related Party Disclosures*, and its Implementation Guidance—ASBJ Guidance No. 13, *Guidance on Accounting Standard for Related Party Disclosures*—both issued on October 17, 2006. Prior to the year ended March 31, 2009, only those transactions between the Company and its related parties were considered for disclosure as material related party transactions. Commencing in the year ended March 31, 2009, as a result of adopting these new standards, in addition to the transactions considered for disclosure in the prior years, those transactions between the Company's consolidated subsidiaries and the Company's related parties are also considered for disclosure as material related party transactions.

During the year ended March 31, 2009, the Company purchased treasury stock from Ford Motor Company ("Ford"). Prior to November 19, 2008, Ford had owned one-third of the Company's voting interest, and the Company had been an (equity method-applied) affiliate of Ford. On November 19, 2008, Ford sold part of its shares of the Company's common stock, and of the total shares sold by Ford, the Company purchased 96,802,000 shares at ¥184 ($1.88) per share, or a total amount of ¥17,812 million ($181,755 thousand), through ToSTNeT-3 Off-Hour Trading System of the Tokyo Stock Exchange. As a result, the Company is no longer an (equity method-applied) affiliate of Ford. However, Ford still remains a major shareholder of and, as such, a related party to the Company. As of March 31, 2009, Ford had a 14.9% voting interest of the Company.

During the year ended March 31, 2009, the Company's consolidated foreign subsidiaries in Europe liquidated their receivables with FCE Bank plc. ("FCE"), a subsidiary in Europe of Ford. The total amount of transactions during the year was ¥393,490 million ($4,015,204 thousand). To the extent the transactions are subject to the guarantee extended to FCE by the Company's subsidiaries, the amount received is accounted for as financial liability and reported as short-term debt in the consolidated balance sheet; otherwise, the transactions are accounted for as sale of receivables. The balance of short-term debt in the consolidated balance sheet as of March 31, 2009 was ¥5,472 million ($55,837 thousand).

During the year ended March 31, 2009, the Company's consolidated foreign subsidiary in the United States recognized, based on the applicable U.S. GAAP, lease obligations for certain tooling used in production that is owned by AutoAlliance International, Inc. ("AAI"), an affiliate which is accounted for by the equity method by the Company. The total amount of transaction was ¥32,069 million ($327,235 thousand), and the ending balance of lease obligations was ¥27,187 million ($277,418 thousand). The actual payments of lease obligations are made through the Company.

The Company issued guarantees of loans and letters of undertaking to provide guarantees to certain creditors of AAI. As of March 31, 2008, guarantees of loans and letters of undertaking covered ¥16,480 million of AAI's obligations.

19. SUPPLEMENTARY CASH FLOW INFORMATION

Assets and liabilities related to finance lease transactions that were newly recognized in the year ended March 31, 2009 amounted to ¥34,291 million ($349,908 thousand) and ¥34,400 million ($351,020 thousand), respectively. Also, for the year ended March 31, 2008, assets and liabilities related to finance lease transactions that were newly recognized amounted to ¥38,743 million and ¥39,906 million, respectively.

For the year ended March 31, 2008, exercise of bonds with stock acquisition rights increased common stock by ¥555 million, increased capital surplus by ¥555 million, and decreased bonds with stock acquisition rights by ¥1,110 million.

Assurance by Key Management

June 24, 2009

To the best of our knowledge, after due inquiry, the financial statements and other financial information included in the company's annual report for the year ended March 31, 2009 are presented fairly, in all material respects, in conformity with the generally accepted accounting principles in Japan.

President and Chief Executive Officer	Senior Managing Executive Officer and Chief Financial Officer
Takashi Yamanouchi	Kiyoshi Ozaki

Independent Auditors' Report

To the Board of Directors of Mazda Motor Corporation

We have audited the accompanying consolidated balance sheet of Mazda Motor Corporation and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statement of operations, equity and cash flows for the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mazda Motor Corporation and subsidiaries as of March 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:

(1) As referred to in Note 3, effective April 1, 2008, Mazda Motor Corporation adopted new accounting standard "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (*"PITF No. 18"*).

(2) As referred to in Note 3, effective April 1, 2008, Mazda Motor Corporation changed accounting policy for materials sold to and purchased back from suppliers after fabrication.

(3) As referred to in Note 3, effective April 1, 2007, Mazda Motor Corporation and domestic subsidiaries adopted new accounting standard for lease transaction.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 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 & Co.

Hiroshima, Japan
June 24, 2009

Corporate Data (As of March 31, 2009)

Name:	Mazda Motor Corporation
Founded:	January 1920
Capital:	¥150,068 million
Number of Employees:	39,852 (consolidated)

OFFICES

Head Office:
3-1 Shinchi, Fuchu-cho, Aki-gun,
Hiroshima 730-8670, Japan
Phone: +81 (82) 282-1111

Tokyo Office:
1-1-7 Uchisaiwai-cho, Chiyoda-ku,
Tokyo 100-0011, Japan
Phone: +81 (3) 3508-5031

Osaka Branch:
1-1-88-800 Oyodonaka,
Kita-ku, Osaka 531-6008, Japan
Phone: +81 (6) 6440-5811

MAZDA WEB SITE ADDRESS
Additional information is available on Mazda's global web site.
URL: http://www.mazda.com
For investors:
URL: http://www.mazda.com/investors/

FOR REQUESTS AND INQUIRIES
For inquiries concerning this annual report, please contact:

Japan
IR Office
Financial Services Division
Mazda Motor Corporation
3-1 Shinchi, Fuchu-cho, Aki-gun, Hiroshima 730-8670, Japan
Phone: +81 (82) 287-4114
Fax: +81 (82) 287-5234

North America
Mazda Information Bureau
10 Corporate Park Suite 200, Irvine, CA 92606, U.S.A.
Phone: +1 (800) 248-0459
Fax: +1 (949) 752-2130

Europe
Mazda Motor Europe G.m.b.H
Hitdorfer Strasse 73, D-51371 Leverkusen, Germany
Phone: +49 (2173) 943-0
Fax: +49 (2173) 943-553

Australia
Mazda Australia Pty., Ltd.
385 Ferntree Gully Road, Mount Waverley, Victoria 3149, Australia
Phone: +61 (3) 8540-1800
Fax: +61 (3) 8540-1920

Directory (As of March 31, 2009)

RESEARCH AND DEVELOPMENT SITES
Hiroshima Head Office, Mazda R&D Center (Yokohama), Mazda Motor of America (U.S.), Mazda Motor Europe (Germany), China Engineering Support Center

MANUFACTURING SITES

Japan
Hiroshima Plant (Head Office, Ujina), Hofu Plant (Nishinoura, Nakanoseki), Miyoshi Plant

Overseas
U.S.A., China, Taiwan, Thailand, Philippines, Zimbabwe, South Africa, Ecuador, Colombia

PRINCIPAL SUBSIDIARIES AND AFFILIATES

Company	Capital		Holding (%)
Mazda Motor of America, Inc.	240,000	Thousand USD	100.0
Mazda Canada Inc.	111,000	Thousand CAD	100.0
Mazda Motor Europe G.m.b.H	26	Thousand EUR	100.0*
Mazda Motor Logistics Europe N.V.	71,950	Thousand EUR	100.0
Mazda Motors (Deutschland) G.m.b.H	17,895	Thousand EUR	100.0*
Mazda Motors UK Ltd.	4,000	Thousand GBP	100.0*
Mazda Motor Russia, OOO	286	Thousand RUB	100.0
Mazda Australia Pty. Ltd.	31,000	Thousand AUD	100.0
Mazda Motor (China) Co., Ltd.	78,290	Thousand CNY	100.0
Kanto Mazda Co., Ltd.	3,022	Million JPY	100.0
Tokai Mazda Sales Co., Ltd.	2,110	Million JPY	100.0
Kansai Mazda Co., Ltd.	950	Million JPY	100.0
Kyushu Mazda Co., Ltd.	826	Million JPY	100.0
Mazda Autozam Inc.	1,725	Million JPY	100.0
Mazda Parts Co., Ltd.	1,018	Million JPY	99.7
Kurashiki Kako Co., Ltd.	310	Million JPY	75.0
Malox Co., Ltd.	490	Million JPY	99.6
Mazda Chuhan Co., Ltd.	1,500	Million JPY	100.0
Toyo Advanced Technologies Co., Ltd.	3,000	Million JPY	100.0
Mazda Motor International Co., Ltd.	115	Million JPY	100.0
AutoAlliance International, Inc.	760,000	Thousand USD	50.0
AutoAlliance (Thailand) Co., Ltd.	5,700,000	Thousand THB	50.0*
Changan Ford Mazda Automobile Co., Ltd.	2,787,156	Thousand CNY	15.0
Changan Ford Mazda Engine Co., Ltd.	1,114,586	Thousand CNY	25.0
FAW Mazda Motor Sales Co., Ltd.	100,000	Thousand CNY	25.0
SMM Auto Finance, Inc.	7,700	Million JPY	40.0

* Including voting rights held by subsidiaries.

Stock Information (As of March 31, 2009)

Authorized:	3,000,000,000 shares
Issued:	1,418,509,399 shares
Number of Shareholders:	66,134
Listing:	Tokyo Stock Exchange, First Section
Code:	7261
Fiscal Year-End:	March 31
Transfer Agent:	The Sumitomo Trust & Banking Co., Ltd. 5-33, Kitahama 4-chome, Chuo-ku, Osaka 540-8639, Japan

BREAKDOWN OF SHAREHOLDERS

MAJOR SHAREHOLDERS

Shareholder	No. of Shares Owned (Thousands)	Ownership (%)
Ford Motor Company	195,493	14.9
Japan Trustee Services Bank, Ltd. (Trust Acount)	61,168	4.7
Mitsui Sumitomo Banking Corp.	51,824	4.0
The Master Trust Bank of Japan, Ltd. (Trust Acount)	47,765	3.6
Mitsui Sumitomo Insurance Co., Ltd.	46,683	3.6
Japan Trustee Services Bank, Ltd. (Trust Acount 4G)	42,880	3.3
Tokio Marine & Nichido Fire Insurance Co., Ltd.	40,410	3.1
Sompo Japan Insurance Inc.	30,210	2.3
Nippon Life Insurance Company	29,753	2.3
Japan Trustee Services Bank, Ltd. (Trust Acount 4)	16,900	1.3

Notes: 1. Mazda Motor Corporation owns treasury stock of 106,920,914 shares, but it is not shown in the list of major shareholders above.
2. The treasury stock is excluded for the calculation of the ratio.

SHARE PRICE AND TRADING VOLUME (Tokyo Stock Exchange, First Section)

Mazda Motor Corporation

zoom-zoom

New Mazda3 (Japanese name: Mazda Axela),
European model

This report was produced from soy ink.
Printed in Japan