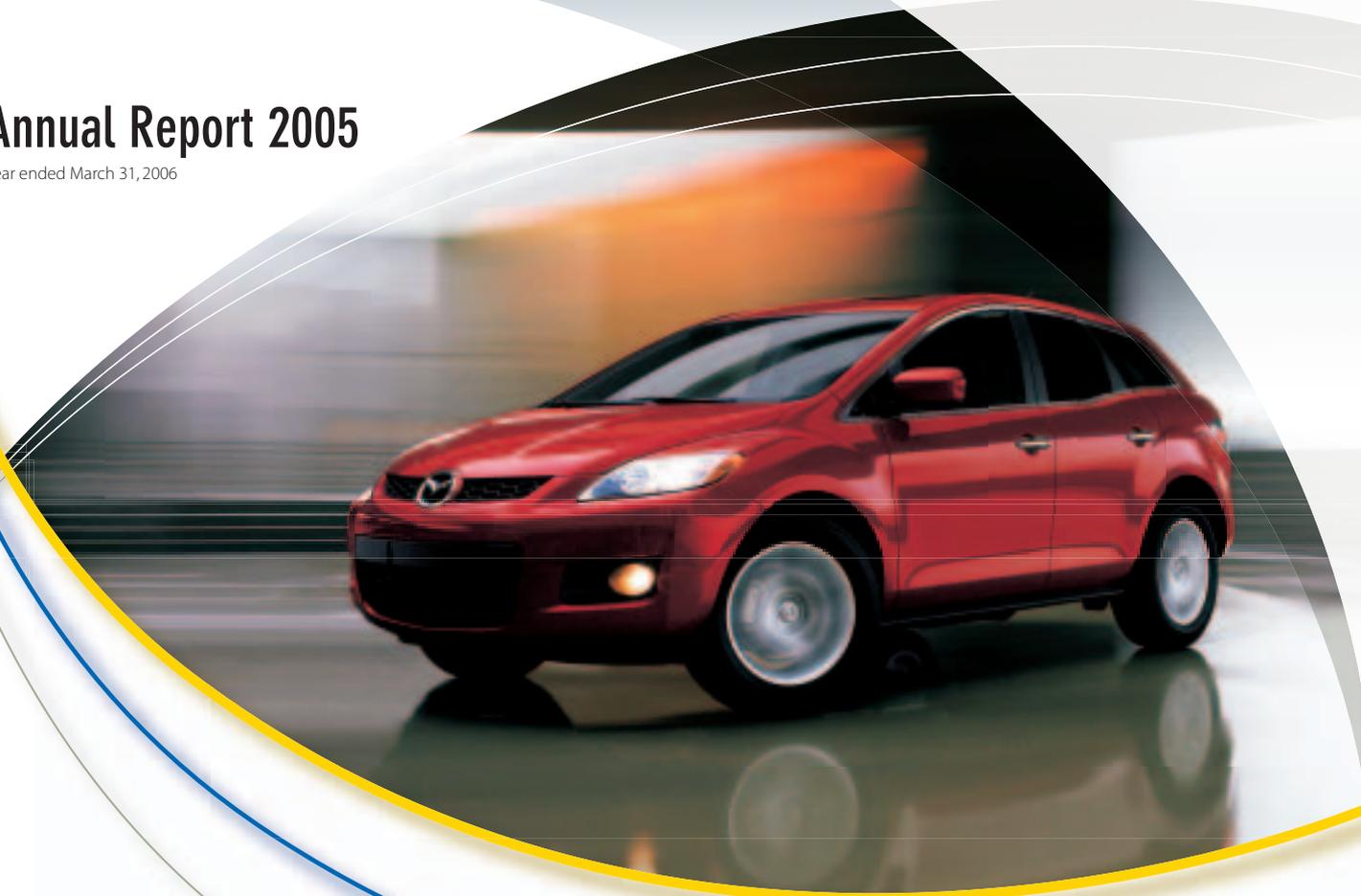




Annual Report 2005

Year ended March 31, 2006



Driving Momentum

Driving Momentum

Established in 1920, Mazda Motor Corporation is headquartered in Hiroshima, Western Japan.

Today, Mazda is a truly international company with a following of admiring customers in more than 140 countries. Every car in our rapidly expanding range of new models realizes our highly visible “Zoom-Zoom” brand message by offering an exciting ownership experience.

In fiscal 2006, the last year of our medium-term management plan Mazda Momentum, we are concentrating on three key areas: reinforcing the Mazda brand; revitalizing operations in North America; and investing in the future. Together, these initiatives will accelerate us along our current growth trajectory and ensure we have the foundation in place to sustain growth well into the future.

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.



Crossover SUV Mazda CX-7

NOTE ON MODEL NAMES:

Unless otherwise stated, model names appearing in this annual report are those generally used in international markets. In some cases, names used in the domestic market differ: Mazda2 (Mazda Demio), Mazda3 (Mazda Axela), Mazdaspeed3 (Mazda Axela), Mazda5 (Mazda Premacy), Mazda6 (Mazda Atenza), Mazdaspeed6/Mazda6 MPS (Mazdaspeed Atenza), Mazda MX-5 Miata/Mazda MX-5 (Mazda Roadster) and Mazda Protégé/Mazda 323 (Mazda Familia).

MAZDA BRAND DNA

| Personality | Product |
|-------------|-------------------------------------|
| Stylish | Distinctive Design |
| Insightful | Exceptional Functionality |
| Spirited | Responsive Handling and Performance |

THE MEANING OF Zoom-Zoom

Brand positioning is vital to strengthening the presence of the Mazda marque in markets worldwide. As part of our approach, we have defined Mazda brand DNA as having two key elements: personality and products. "Zoom-Zoom" embodies these elements. Expressing the sheer enjoyment of motion we all knew in childhood, this message reflects our determination to help customers reconnect with this feeling through Mazda cars packed with innovation and excitement.

Zoom-Zoom

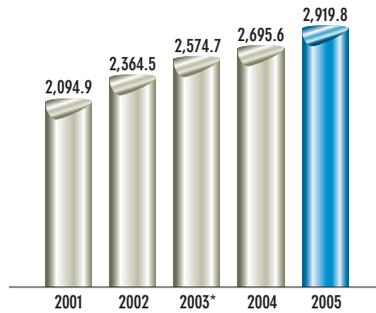
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FINANCIAL HIGHLIGHTS

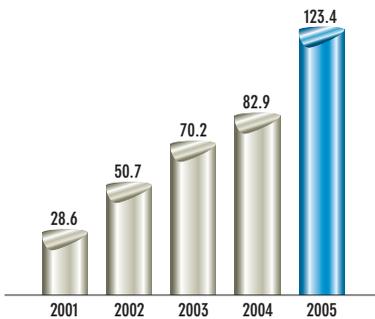
NET SALES

(Billions of Yen)



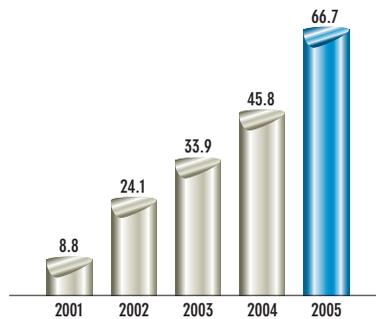
OPERATING INCOME

(Billions of Yen)



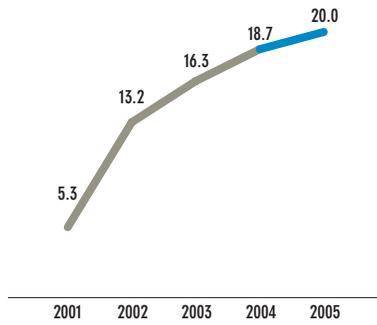
NET INCOME

(Billions of Yen)



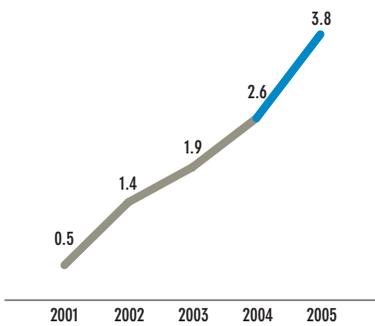
RETURN ON EQUITY (ROE)

(%)



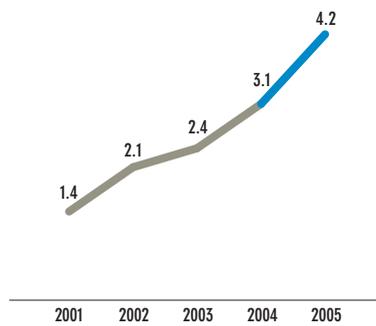
RETURN ON ASSETS (ROA)

(%)



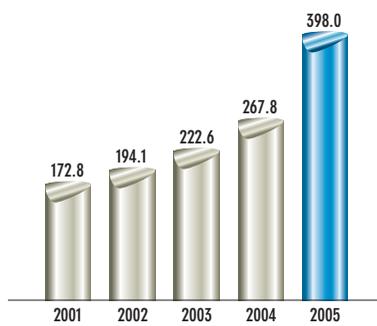
OPERATING INCOME RATIO

(%)



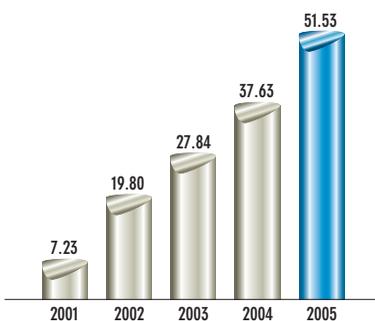
SHAREHOLDERS' EQUITY

(Billions of Yen)

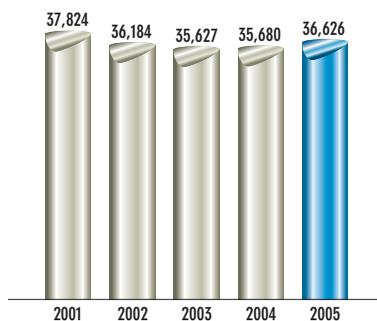


NET INCOME PER SHARE

(Yen)



NUMBER OF EMPLOYEES



*Excluding the effect of a change in fiscal years at overseas subsidiaries.

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2006, 2005 and 2004

| | Millions of yen | | | | Increase (decrease) 2005/2004 | Thousands of U.S. dollars*1 |
|---|------------------------|------------------------|------------------------|------------------------|----------------------------------|--------------------------------|
| | 2005 March 31, 2006 | 2004 March 31, 2005 | 2003 March 31, 2004 | 2005 March 31, 2006 | | |
| For the year*2: | | | | | | |
| Net sales | ¥2,919,823 | ¥2,695,564 | ¥2,916,130 | 8.3 % | \$24,955,752 | |
| Operating income | 123,435 | 82,947 | 70,174 | 48.8 % | 1,055,000 | |
| Income before income taxes | 117,468 | 73,847 | 54,072 | 59.1 % | 1,004,000 | |
| Net income | 66,711 | 45,772 | 33,901 | 45.7 % | 570,179 | |
| At the year-end: | | | | | | |
| Total assets | 1,788,659 | 1,767,846 | 1,795,573 | 1.2 % | 15,287,684 | |
| Shareholders' equity | 398,024 | 267,815 | 222,605 | 48.6 % | 3,401,915 | |
| Amounts per share of common stock: | | | | | | |
| | Yen | | | | | U.S. dollars*1 |
| Net income*3 | ¥ 51.53 | ¥ 37.63 | ¥ 27.84 | 36.9 % | \$0.44 | |
| Cash dividends applicable to the year*4 | 5.00 | 3.00 | 2.00 | 66.7 % | 0.04 | |
| Shareholders' equity | 284.28 | 220.22 | 182.91 | 29.1 % | 2.43 | |

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, 2006 of ¥117 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. The computations of net income 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.

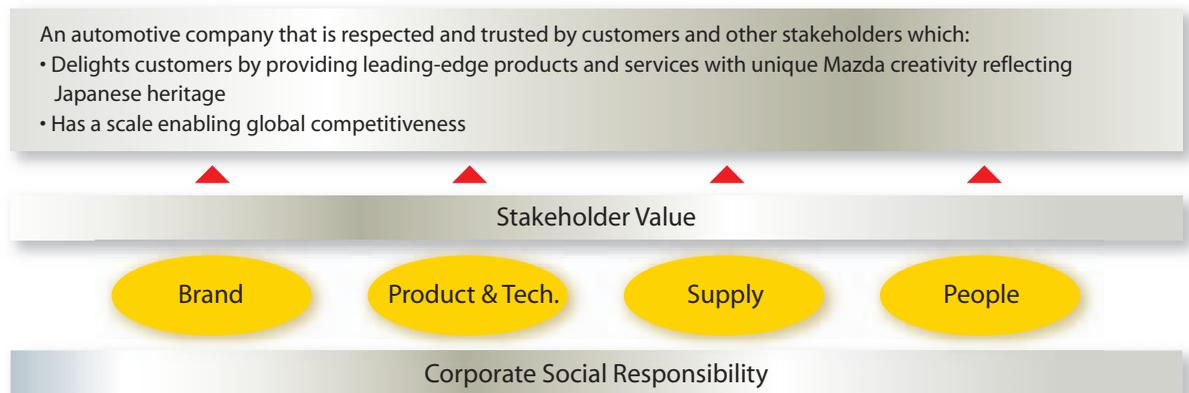
MAZDA MOMENTUM—OVERVIEW AND PROGRESS REPORT

In November 2004, we announced Mazda Momentum, our current medium-term management plan, together with a long-term vision for Mazda. This plan is designed to accelerate us along our current growth trajectory and create the business base we need to deliver full-scale growth going forward.

LONG-TERM VISION

Our primary goal is not to be one of the largest automotive companies, but instead, to be universally admired and trusted for our commitment to delivering true Mazda products that always provide an exhilarating ownership experience. To achieve this goal, we are focusing on four areas—establishing a stronger brand, strengthening products and technologies, pursuing globally competitive efficiency, and developing a globally competent motivated workforce.

In addition, through these measures, we are aiming to fulfill our corporate social responsibility, including our duty to help protect the environment.



POSITIONING

The Mazda Momentum plan seeks to create a business base to support full-scale growth and sustain expansion in sales and earnings as we strive to realize our long-term vision.



MAZDA MOMENTUM PERFORMANCE TARGETS FOR FISCAL 2006



KEY INITIATIVES

1. Strengthen key markets
2. Reinforce R&D
3. Enhance global efficiencies and synergies
4. Leverage human resources

*Excluding the effect of a change in fiscal years at overseas subsidiaries.

A CONVERSATION WITH THE PRESIDENT



Representative Director and Chairman of the Board,
President and CEO
Hisakazu Imaki

“Mazda posted another year of record earnings in fiscal 2005. But we know there are still challenges we need to tackle. Fiscal 2006, the final year of our medium-term management plan, Mazda Momentum, is a vital year for us, as we pull together to build a foundation that will underpin sustained growth well into the future.”

Q: Mazda posted operating income of ¥123.4 billion in fiscal 2005, reaching its Mazda Momentum target one year early. What was behind this strong performance?

We continued to see robust product-led growth during the year, paced by the sales of Mazda3, Mazda5 and Mazda MX-5. Consolidated wholesales rose 4.0% to 1,149,000 units, lifting net sales 8.3% to ¥2,919.8 billion. This top-line growth supported a strong rise in operating income of 48.8% to ¥123.4 billion, and a marked increase in net income of 45.7% to ¥66.7 billion. Both were record figures. We also comfortably cleared our final-year Mazda Momentum target of over ¥100.0 billion in operating income, one year ahead of plan.

In addition to the benefits of a weaker yen and cost reduction initiatives, the ¥40.5 billion increase in operating income reflected higher sales volumes and net sales, as well as a better product mix. New model launches went well. The all-new Mazda MPV made its debut in Japan and the Mazda MX-5 arrived in showrooms in Japan, Europe, North America and other markets worldwide. Mazda models continue to win high marks from the global motoring community, with the Mazda MX-5 winning car of the year awards in Japan, Australia and New Zealand, for example. In the US, we made progress reducing both fleet sales and incentives. Various initiatives to strengthen the Mazda brand are starting to produce benefits for our business.

Q: You've now completed the second year of Mazda Momentum. What progress have you made on the plan's key initiatives?

We're focusing on four key areas with Mazda Momentum: strengthening key markets, reinforcing R&D, enhancing global efficiencies and synergies, and leveraging human resources.

In the first area, we rolled out a number of initiatives to strengthen the Mazda marque in markets worldwide. In Japan, we launched the all-new Mazda MPV in February 2006. The following month, total production of this model, including the previous versions, reached 1 million units. I have every confidence that the new Mazda MPV, like its predecessors, will become a key model for us in Japan, helping to drive domestic sales. We are on track with plans under Mazda Momentum to expand our dealer network by 30 new-car dealerships and 20 used-car outlets.

In the US, sales of Mazda cars dipped slightly during fiscal 2005. Despite higher sales of passenger cars, we experienced falling sales of light trucks, which are approaching the end of their product lifecycles. But we are determined to raise our presence and strengthen sales in the US. This drive will be based on two all-new crossover SUVs—the Mazda CX-7, launched in May 2006, and the Mazda CX-9, which is slated to arrive in showrooms in early 2007 following

rave reviews at the New York International Auto Show earlier this year.

In terms of sales initiatives, we're achieving a continuous decrease in incentives and steadily reducing our reliance on fleet sales as we enhance our brand equity. The residual value of our cars is also rising and profits from US operations are continuing to recover. We're also making steady progress on another key goal in the US market—our exclusive dealer count stood at 43% as of March 31, 2006 and we are on track to achieve our 50% goal by March 31, 2007.

We will continue to give top priority to the US, which remains the most important market for the Mazda marque.

In Europe, we faced tough market conditions in the first half of the fiscal year when there was a pause in Mazda model changes. Sales rebounded in the second half after we launched the Mazda5 and Mazda MX-5. European drivers also showed strong interest in diesel-powered variants of the Mazda6 and the Mazda5 equipped with the MZR-CD engine.

Efforts to strengthen our sales network across the continent included establishing a national sales company in Russia, which began operations in April 2006. We will also set up a distributor in the Republic of Ireland in July 2006. In the second half of 2006, we

plan to establish similar companies in both the Czech Republic and the Slovak Republic.

In China, we worked to reinforce our manufacturing and sales framework with a view to selling 300,000 units in the country in 2010. One step toward this goal was the June 2005 opening of Mazda Motor (Shanghai) Business Management & Consulting Co., Ltd., also known as Mazda China Operations (MCO), to oversee all our business in China. In August 2005, MCO established the Mazda China Engineering Support Center, a branch office located in the Jia Ding district of Shanghai. This center is responsible for providing technical support related to R&D, purchasing, quality, and after-sales service for Mazda business operations in Nanjing, Changchun and Hainan.

We've also made steady progress with our second Mazda Momentum initiative—reinforcing R&D. Over the last two years, we've increased R&D personnel by 15%. We've also rolled out MDI-II, the second phase of the Mazda Digital Innovation (MDI) initiative to increase the efficiency of new car development. MDI-II helped us to cut vehicle development time and achieve higher levels of quality in the Mazda CX-7 program.

Enhancing global efficiencies and synergies is the plan's third key area. Here, phase two of the Achieve Best Cost (ABC) program is helping us to realize sustained reductions in costs. With the ABC program, component development and procurement teams





continue to work closely to speed up the development of best-in-class commodities. They're also moving forward with the creation of Commodity Cycle Plans, which lie at the heart of the ABC program.

Finally, efforts to leverage our human resources continue to center on the Mazda Business Leader Development (MBLD) program, which all Mazda employees participate in. The theme of the sixth program was "Enhance work quality to boost product quality." I constantly emphasize the importance of people to our organization, but this latest program honed in on a crucial issue for us as a manufacturer: building quality products starts with cultivating a quality workforce. I know full well that our recent recovery has been underpinned by the highly skilled and hardworking people of the Mazda Group. And I'm equally aware of the fact that while money has its limits, human ingenuity doesn't. Whether we can tap into the ingenuity of our own personnel will be a crucial issue for Mazda going forward.

Q: You're projecting even stronger sales in the year ahead with the launch of new models, particularly crossover SUVs. But there are concerns in some quarters about Mazda's ability to increase output to meet demand. What steps are you taking?

Annual production capacity in Japan currently stands at around 898,000 units. However, in the first half of fiscal 2005, our plants struggled to keep up with strong demand for Mazda vehicles worldwide. Our core MZR engine presented particular challenges because we had to ramp up output in a short space of time. In response, we increased annual capacity by 55,000 units to 705,000 units in the second half of the fiscal year. In fiscal 2005, all our plants were running at 95% capacity. Moving into fiscal 2006, this figure has increased to 100%. We're therefore now looking at boosting output in fiscal 2006 by 10%, particularly in powertrain components like engines and transmissions. Looking ahead to fiscal 2007, we will examine the possibility of further reinforcing our assembly capabilities.

Q: What are Mazda Momentum's key initiatives in fiscal 2006, the final year of the plan? Please also tell us about your longer-term growth strategies.

The final year of Mazda Momentum is crucial: we have to put in place a solid business base to underpin sustained growth well into the future.

Although we achieved two of the plan's targets one year early—operating income of over ¥100.0 billion and a net debt-to-equity ratio of below 100%—we've revised our fiscal 2006 forecast for

consolidated wholesales from 1.25 to 1.21 million units. This decision was taken to ensure we remained focused on reinforcing the Mazda brand, our priority objective at the moment. So, we're achieving a steady turnaround, but we still have much to do.

The key issues that we're tackling in fiscal 2006 are strengthening the Mazda brand; revitalizing operations in North America; and investing in our future growth. In the first area, we continue to take steps to strengthen our brand to make it more appealing and trusted by customers worldwide. But the biggest challenge we face at the moment is revitalizing operations in North America. We're going about this in three ways: expanding our model range in the region, augmenting our dealer network and striving to offer drivers an even more exhilarating Mazda ownership experience. Based on this approach, we plan to increase our US sales by 10.9% to 290,000 units in fiscal 2006. Finally, investing in the future will mean reinforcing R&D and increasing capital investment to create more attractive models and boost production capacity.

Achieving real progress in these three key areas will go a long way to creating the kind of business base we're aiming for. At the same time, it will help

us pick up more momentum. Confident we can do this, we're targeting operating income of ¥135.0 billion, an increase of 9.4%, and net income of ¥75.0 billion, up 12.4%, on consolidated net sales of ¥3,100.0 billion, an increase of 6.2%, compared to the year under review. If achieved, all these figures will be records for the company.

Our primary goal remains not to be one of the largest automotive companies, but instead, to be universally admired and trusted for our commitment to delivering true Mazda products that always provide an exhilarating ownership experience. Aiming to realize this vision, we set up a cross-functional team comprising personnel from all the company's key divisions to develop business strategy from a long-term perspective. The team is now working on the final details of this strategy. In broad terms, however, it comprises sub-strategies covering the Mazda brand, individual markets, global manufacturing, product development, and personnel. Together, they spell out the kind of company we want Mazda to be in ten years' time. After we complete Mazda Momentum, we will fine-tune the scope of our long-term strategy, and formulate our next medium-term management plan to build on the new business base we've created over the previous three years.



Q: What's Mazda's thinking on raising shareholder and enterprise value? What kind of concrete steps are you taking?

Naturally, we want to satisfy shareholder expectations in terms of dividends. Our goal is to pay a sustainable dividend while at the same time enhancing our corporate performance and strengthening the balance sheet. As a first step, we increased the year-end dividend for fiscal 2005 by ¥2.00 to ¥5.00 per share.

At Mazda, we believe that efforts to realize a sustainable society are crucial to increasing the company's enterprise value. Corporate social responsibility (CSR) is the bedrock of our long-term vision. Reflecting this, we're reinforcing CSR measures Group-wide, with a current emphasis on initiatives designed to protect the environment. In April 2005, we revised the Mazda Global Environmental Charter to put a stronger slant on Group efforts. In July 2005, we also replaced the Mazda Global Environmental Conference with the Mazda Environmental Committee. This move has strengthened environmental management and given it a more global perspective.

Finally, as I mentioned earlier, the last year of Mazda Momentum will be crucial to building a business base to underpin sustained growth well into the future. With intense competition an enduring feature of the global auto industry, we will continue to champion "One Mazda," eliminating barriers between departments and working as one to achieve our goals. This approach will bolster our efforts to boost shareholder and enterprise value.

June 2006



Hisakazu Imaki
Representative Director and
Chairman of the Board, President and CEO

MAIN MAZDA MODELS

Mazda's lineup just gets bigger and better. One thing never changes though—our commitment to creating stylish, insightful and spirited cars infused with the Zoom-Zoom brand message. Our unique range of new models has now won a total of more than 300 motoring awards worldwide (as of June 30, 2006).

All-new Mazda CX-7

Launched in North America in May 2006, the Mazda CX-7 is a brand new take on the crossover SUV concept. Seating five in comfort, this model skillfully combines all the power of a sports car with the practicality of an SUV.



All-new Mazda MPV

Rolled out in February 2006, the totally revamped Mazda MPV improves on the performance and handling of its predecessor while achieving major innovations in design, drivability and overall packaging. The result—a sporty minivan with outstanding environmental credentials.



Mazda5

Inspired by our determination to create a “communicative and dynamic” minivan from the outset, the dynamically styled Mazda5 is fun to drive while its innovative 6+One cabin lets passengers communicate and travel in comfort.



Mazda6

A tour de force in every area: maneuverability, design, safety and environmental performance. The Mazda6 was created for one purpose—to redefine the global standard in the midsize car segment.



Updated Mazda3

We updated the Mazda3 in June 2006 to create an even more dynamic model that continues to exceed the expectations of drivers. Styling, performance and craftsmanship are all of a higher order. Drivers also get more choice with the new Mazdaspeed3, equipped with a 2.3-liter DISI turbo engine.

**Mazda RX-8**

The latest in a line of innovative rotary-engine sports cars, the Mazda RX-8 has pedigree running through its veins. With the RENESIS rotary engine under the hood, this striking four-seater, four-door sports car breaks the mold.

**Mazda MX-5**

This drop-top is already in the Guinness World Records as the world's best-selling two-seater lightweight sports car. Now, based on the Japanese idea of *Jinba Ittai*, or "rider and horse as one," we've totally redesigned the MX-5 to create a new level of driving pleasure.

**Mazda Verisa**

With the Mazda Verisa, we tore up the rulebook on car categories to craft a premium compact car with high equipment levels characterized by an attention to detail. The result is an understated, quality compact car for the discerning driver.

**Mazda2**

The Mazda2 delivers all the comfort you'd expect from a larger car, as well as class-leading driving performance. Its sporty looks and handling hide the fact that the entire Mazda2 lineup has won ultra-low emission certification.



DRIVING MOMENTUM WORLDWIDE

Our new-generation models, packed with Zoom-Zoom spirit, were hailed by the motoring community worldwide in fiscal 2005. We are now aiming to boost sales by expanding the Mazda product range and reinforcing our sales network worldwide.

Japan

BRAND NEW MODELS ARRIVE IN SHOWROOMS

The Mazda MX-5, launched in August 2005, captured the Japan Car of the Year 2005-2006 prize in November 2005, while the all-new Mazda MPV arrived in domestic showrooms in February 2006. Along with an even bigger cabin than its predecessor and other packaging improvements, the MPV is full of design and handling innovations and boasts excellent environmental credentials. It also offers dynamic performance and numerous maneuverability refinements, making this next-generation people mover a “minivan with the soul of a sports car.”



DOMESTIC SALES NETWORK STRENGTHENED AND EXPANDED

We are actively expanding our domestic dealership network. In fiscal 2005, we opened 12 new-car dealerships and 7 used-car outlets.

In parallel, we are gradually deploying our Visual IT Presentation system, an advanced sales tool, to raise customer satisfaction. Utilizing video, computer graphics and CAD data used in the actual development of vehicles, this system is helping salespeople to provide a more interesting car shopping experience.

Europe

PRODUCT-LED GROWTH CONTINUES

In fiscal 2005, we sustained the momentum of our recent product-led growth in the region. This was reflected in the launch of the Mazda5 and Mazda MX-5, and the arrival of diesel versions of the Mazda6 and Mazda5 equipped with the new MZR-CD engine.

In July 2006, a Mazda MX-5 variant with a power retractable hardtop roof debuted at the 2006 British International Motor Show. Global sales of this model are set to start sometime during 2006.



ENHANCING THE EUROPEAN SALES NETWORK

Mazda continues to take steps to enhance its sales network in Europe. A key example is Russia, where sales of Mazda vehicles are growing strongly. We have converted a local Mazda representative office in the country into a wholly owned distributor. Commencing operations in April 2006, this new company imports and distributes Mazda cars and parts, provides technical support, and actively conducts marketing activities.

In July 2006, we will establish a distributor in the Republic of Ireland. Plans also call for the creation of similar companies in the Czech and Slovak republics in the second half of 2006.

China

RECORD UNIT SALES

In fiscal 2005, Mazda posted record sales in China of 130,000 units, an increase of 35.6% compared to a year earlier. The Mazda6, Mazda 323 and Mazda Premacy saw big increases in unit sales. Initiatives to strengthen local production capability also continued apace, with a new vehicle assembly facility and an engine plant, both in Nanjing, set to come onstream in 2007.



Southeast Asia

BUILDING A STRONGER PRESENCE ACROSS THE REGION

A new company established in Thailand to handle marketing, sales and distribution will spearhead our efforts to establish the Mazda brand in Southeast Asia. A wholly owned distribution company set up in Indonesia has also helped to reinforce our sales network.

In February 2006, we began producing our all-new global pickup, the Mazda BT-50, at AutoAlliance (Thailand) Co., Ltd. The vehicle will be successively rolled out in Asian markets, Europe, Australia, New Zealand and other areas after initially going on sale in Thailand.





TARGETING NORTH AMERICA

We plan to generate added momentum in fiscal 2006 by unleashing new models on the North American market that break the SUV mold.

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

REALIZING GREATER MOMENTUM WITH

NORTH AMERICAN STRATEGY--REAPING THE REWARDS

Three years ago, we began implementing a strategy to grow our business and increase profits in North America. These efforts are starting to have a positive impact on our operations in the US, Canada, Mexico, and on our parent. North America was a major contributor to Mazda's earnings growth and record profits. And we're poised to pick up even more momentum in fiscal 2006 as we greatly expand the Mazda lineup. We plan to boost sales and profits with four new vehicles: two crossover sport-utility vehicles (SUVs), the Mazda CX-7 and CX-9, a power retractable hardtop version of the successful third-generation Mazda MX-5, and a new ultra high-performance Mazda3 five-door called the Mazdaspeed3. A restyled Mazda Tribute SUV will also join the Mazda showroom as our first 2008 model.

The Mazda CX-7, a key model which is pivotal to our growth in the North American market, was launched in the US and Canada in May 2006 where it received high marks from the motoring press, our dealers, and most importantly, North American consumers. The larger seven-seat Mazda CX-9, which arrives in Mazda dealerships in early 2007, is destined to be another strong contributor to sales and profit growth. These new models will supplement our existing Mazda6, Mazda3, Mazda5, Mazda MX-5 and Mazda RX-8 vehicle lines, giving us the tools to achieve major gains in the marketplace.

IMPROVED IMAGE, MORE VALUE FOR THE MAZDA BRAND

Since I took charge of Mazda North American Operations (MNAO) in April 2003, I've had my management team concentrate on four core areas of our business: improving dealer profitability, having the right products for the North American market, reducing incentive spending, and optimizing fleet sales. These initiatives, which are key to MNAO's long-term success, are now beginning to pay off.



AN EXPANDED MODEL RANGE

EXCLUSIVE DEALERSHIPS = IMPROVED SALES, CUSTOMER SATISFACTION

Increasing the ratio of exclusive dealerships—dealers committed to only selling and servicing Mazda cars—is a vital US strategy designed to substantially improve our sales and customer satisfaction while increasing dealer profitability. Our goal is to boost the number of exclusive dealerships so that they account for half the national dealer network in the US. In the year under review, the ratio rose to around 43%, so we fully expect to reach our target by the end of fiscal 2006. In addition, our radical, customer-focused dealership facilities program, called Retail Revolution, is now in high gear with many new and existing exclusive dealers investing heavily in our new facility design. In fact, we expect to have nearly 100 Retail Revolution dealerships up and running by the end of fiscal 2006.

REDUCING INCENTIVES AND FLEET SALES

Another issue of vital importance in North America has been to reduce incentives and fleet sales to inject greater value into the Mazda brand. In the US, for instance, we expect the launch of new models, which traditionally require fewer incentives, to further reduce the level of incentive

spending in fiscal 2006. Mazda dealers not only have the strongest array of vehicles in the company's history, but Mazda is also the only non-luxury Japanese brand in the US to improve residual values year over year. Mazda fleet sales are also falling. These sales now account for just 12% of total sales in North America. We project this figure will drop to below 10% in fiscal 2006.

POISED TO DELIVER MEDIUM- TO LONG-TERM GROWTH

I've always looked at the automotive business as a marathon, not a sprint. Because of our efforts and the progress we've made, MNAO is now in a much better position to deliver even more successful product launches, greater customer satisfaction, increased sales, and stronger profits for the global concern.

But we're not slowing down. The grueling pace of our business and the ever changing demands of the North American market don't permit us to let up, not even for a second. We continue to work tirelessly to build on Mazda's momentum to achieve sustained growth and profitability.

BREAKING NEW GROUND WITH THE MAZDA CX-7

Shunsuke Kawasaki Program Manager



THE MAZDA CX-7 HITS THE ROAD

One of our key objectives in fiscal 2006 is to revitalize our operations in North America. The launch of the all-new Mazda CX-7, a totally new take on the crossover SUV concept, will play a pivotal role in achieving this aim.

The public received their first glimpse of the CX-7 in the form of the Mazda MX-Crossport, a concept car showcased at the North American International Auto Show (NAIAS) in Detroit in January 2005. Meanwhile, efforts to create a mass-production version of this vehicle continued apace, culminating in the CX-7's eye-catching debut at the Greater

Los Angeles Auto Show and NAIAS in January this year.

Eager customers finally got to sample the Mazda CX-7 for themselves when the car arrived in North American showrooms in May 2006.

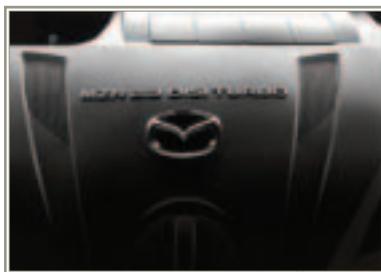
HOW IT ALL STARTED

I took charge of the CX-7 development program four years ago. Today, like then, the US SUV market is a segment with great growth potential. Targeting this potential, we decided to start developing a new vehicle, an SUV specifically designed for the US market, but with a twist: a distinctive new SUV that customers could instantly recognize as a Mazda. Another aim was to utilize the latest computer technology to enhance development efficiency and boost quality. These were the two key tasks entrusted to me as the Mazda CX-7 program manager.

With these goals clear in my mind, I immediately flew to Mazda North American Operations (MNAO), where we initiated a market survey to find out exactly what US drivers



The MZR 2.3L DISI, a straight-four intercooled, turbocharged gasoline engine.



ZOOM-ZOOM

wanted from their SUVs. The results underscored our own convictions—drivers were tired of conventional, boxy SUVs and models that just seemed to be extensions of everyday saloons. They wanted a bold, new SUV that offered something totally different.

This galvanized our resolve to develop an all-new crossover SUV with sports car styling and verve and infused with Mazda's trademark sports car spirit.

CREATING AN SUV WITH SPORTS CAR VERVE

After we had made the decision to go ahead with the concept of a sports crossover SUV, my first step was to make sure the 300 or so personnel associated with the development of the CX-7 knew exactly what we were aiming for. To achieve this, a key phrase that the whole team could connect with was needed. I chose Metropolitan Hawk—evoking the image of a lone hawk looking down on a metropolitan landscape from a skyscraper. This image, which we cultivated in the development team right up to the model's launch, expressed my desire to create a car right at home in modern urban landscapes, but with a wild and powerful side.

With the product concept and keyword firmly planted in our minds, we embarked on the product



The CX-7 cabin boasts high levels of quality and craftsmanship.

development process by initially seeking a benchmark vehicle that we could refer to and build on. But we immediately encountered a problem—nobody had created anything like the sports car-inspired SUV we were aiming for, which didn't seem to fit into the existing small or mid-size SUV segments. That's when we turned our gaze to Mazda's iconic RX-8, asking ourselves, "What would an RX-8 look like in an SUV body?" This change of tack provided the spark we needed, kicking the development process into motion. The unique Mazda CX-7 you see in North American showrooms today was born directly out of this idea.

To complement the overall product concept, we also chose a design concept—Advanced Frontier. This expressed our desire to create a vehicle with real presence that grabbed people's attention instantly. We also wanted to create a vehicle that blended sports car verve with SUV practicality by



METROPOLITAN HAWK

adding a highly functional luggage area to the existing strengths of the RX-8.

As program manager, I focused on encouraging information sharing and building trust in the team. More than anything though, my job was to ensure we never compromised our original concept. With the support of our colleagues in North America in identifying and discussing what local drivers really wanted from an SUV, we channeled all our energies into designing a sports crossover SUV imbued with all the qualities of our Zoom-Zoom brand message. We also managed to cut development time by making full use of the Mazda Digital Innovation (MDI) initiative, which helped us complete a greater proportion of the design process in virtual environments.

THE MAZDA CX-7: ZOOM-ZOOM WITH ROOM

All our hard work paid off. The Mazda CX-7 offers all the practical strengths of an SUV with all the fun and styling of a sports car. Fun to drive and fun to own, this truly Zoom-Zoom sports crossover SUV is squarely aimed at people always looking for something new. The car's key target customer segment is working couples, but its spacious cabin and luggage area mean the CX-7 is also ideal for family use.

Under the CX-7's hood is an MZR 2.3L DISI (direct injection spark ignition) engine. This straight-four

intercooled, turbocharged gasoline engine is basically the same power plant as in the Mazdaspeed6 and the Mazdaspeed3. Power is sent to the wheels via a 6-speed automatic transmission. We chose a four-cylinder, direct-injection turbo engine over a V6 because we wanted better responsiveness, acceleration and more muscular torque in the low to mid-range. So with the Mazda CX-7 you get the best of both worlds—great visibility that comes with the high driving position of an SUV, plus all the excitement of sports car driving. The CX-7 doesn't break the bank either, thanks to an emphasis on fuel consumption as well as driving performance, all offered at a highly competitive price considering what the car offers.

THE ROAD AHEAD

Right from its Mazda MX-Crossport concept car beginnings, the Mazda CX-7 has wowed the auto industry. Dealers have also been hugely impressed. In all, the response has been unprecedented. The Mazda CX-7 may be a strategic vehicle specifically crafted for the North American market, but the interest it's attracting worldwide means we now have plans to successively roll the model out in

other key markets like Japan, Europe and Australia from the fall of 2006.

The CX-7 is also paving the way for other exciting SUVs, like the CX-9, that will play a pivotal role in the crucial North America market. As program manager, I could wish for nothing more than the CX-7 to raise Mazda's presence in North America. The Mazda CX-7 journey is just beginning.

Sitting behind the wheel of the CX-7 offers sportscar feel with SUV drive position.



THE ALL-NEW MAZDA CX-9

SECOND CROSSOVER SUV DESIGNED FOR NORTH AMERICA

Arriving in Mazda dealerships in early 2007, the all-new seven-passenger Mazda CX-9 is our second crossover SUV after the CX-7 to be designed and engineered specifically for North America.

First unveiled at the New York International Auto Show in April 2006 to great acclaim, the CX-9 and five-passenger CX-7 will underpin a more powerful crossover SUV lineup. Both these models will play a strategic role in boosting our product lineup and enhancing our brand image in North America.

THE BIRTH OF THE MAZDA CX-9

The mid-size SUV segment in North America is growing rapidly. Seeking to tap this demand, we worked closely with our design and marketing colleagues on the ground at Mazda North American Operations (MNAO) to identify the latest local trends in three-row, seven-passenger SUVs. Our research revealed that North American customers are on the lookout for an entirely new type of SUV in this segment that's neither minivan nor conventional SUV. Buoyed by this feedback and following our own instincts, we initiated the development of a brand-new, mid-size crossover SUV primarily targeted at modern families.





To make sure we created a vehicle ideally suited to the specific characteristics of the North American market, we brought MNAO personnel on board right from the first phase of development and appointed a chief designer with experience in the US.

This team did Mazda proud and we're now poised to launch the Mazda CX-9, a highly competitive seven-passenger crossover SUV boasting styling, performance and practicality way ahead of anything else in its class.

ZOOM-ZOOM WITH EVEN MORE ROOM

Incorporating Mazda's unique design styling cues and offering dynamic driving and handling performance, the Mazda CX-9 easily accommodates the full spectrum of North American driver needs thanks to an up-market interior with class-leading space and unmatched versatility. Engineered with Mazda's "soul of a sports car" signature, the CX-9 deftly blends a sporty Zoom-Zoom driving spirit with seven-passenger crossover SUV practicality. In short, the Mazda CX-9 embodies our ambition to create insightful and spirited cars that are fun to drive.



A host of options and high interior equipment levels mark the CX-9 as an upmarket SUV.

POISED FOR LAUNCH

As the early-2007 launch date nears, we're shifting from the development to the mass-production phase. We have great hopes for the Mazda CX-9 as a model that can further drive momentum in our North American operations and contribute to our earnings, as well as reinforce the Mazda brand.

REVIEW OF OPERATIONS

Japan

In fiscal 2005, total demand in Japan was 5.86 million units, a slight increase of 0.7% from a year earlier. However, while the registered vehicle market weakened marginally by 0.7% to 3.91 million units, Mazda recorded a modest increase in domestic sales to 287,000 units, representing the fourth consecutive year of higher sales. Including mini-vehicles, Mazda's share in Japan remained stable at 4.9%.

We launched the Mazda5 in February 2005, boosting sales of this model by 142% compared to a year earlier. Average monthly sales were also healthy at roughly 2,500 units. The Mazda MX-5 had a strong year after its launch in August 2005, winning the Japan Car of the Year 2005–2006 Award in November 2005 and continuing to post strong monthly sales ahead of forecasts. February 2006 saw the launch of the new Mazda MPV, a next-generation people mover with sports car styling. A DISI turbo model went on sale the following month and a 4WD version in April, with all models recording strong sales thanks to popularity across a broad driver base.

Mazda made steady progress in strengthening its domestic sales framework during the year under review. A total of 19 new dealers were opened and 94 underwent interior refurbishment. Changes included adding more prominent Mazda logos, installing large monitors to realistically communicate the excitement of driving Mazda cars, and displaying large graphic panels centered on the Zoom-Zoom brand message. We also deployed our Visual IT Presentation system at 466 dealers nationwide. This advanced sales system utilizes PC terminals to provide salespeople with easy access to animation, computer graphics and other tools to create a more interesting car shopping experience. We plan to roll out similar sales innovations in the future.

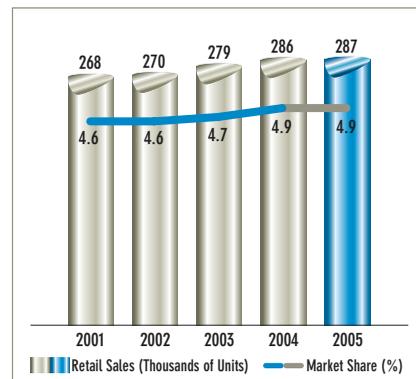
Mazda MX-5



All-new Mazda MPV



UNIT SALES (JAPAN)
(Retail sales basis)



Mazdaspeed6



North America

In fiscal 2005, US auto and light truck sales totaled 16.88 million units, an increase of 1.1% from a year earlier. However, Mazda's US sales dipped slightly to 262,000 units, and market share edged down 0.1 of a percentage point to 1.5%, reflecting lower light truck sales.

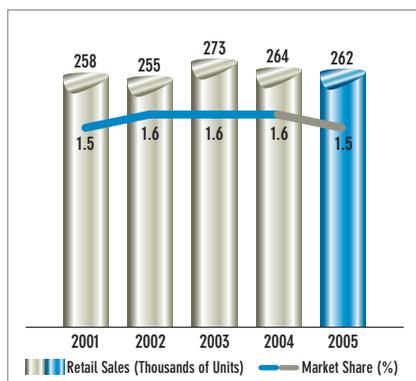
The Mazda3 remains our best-selling vehicle in the US with a total of 97,000 units in fiscal 2005. Despite increasing output, demand continues to outstrip supply. During the year, we also added the Mazdaspeed6 to the lineup, helping to boost combined sales of Mazda6 models to 72,000 units. Together with the existing Mazda6 Sports Sedan, 5-Door and Sport Wagon versions, we now offer customers the most comprehensive mid-size lineup in the industry. In addition, we are the only non-luxury Japanese brand in the US to improve residual values year on year, while Mazda cars have attracted the youngest median-age buyers in the country.

As part of plans to strengthen the Mazda brand in the US, we are currently working to increase the ratio of exclusive Mazda dealers to 50%. As of March 2006, this ratio stood at 43%, up from 33% a year earlier. Approximately 59% of our vehicles were sold through exclusive dealers in fiscal 2005.

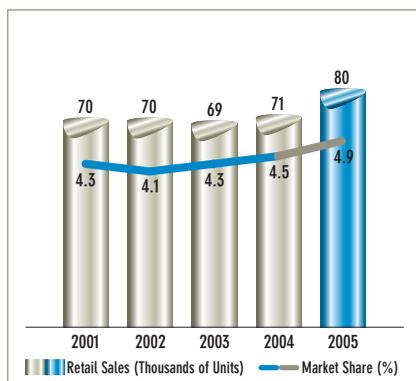
In Canada, total industry sales in the light vehicle segment increased 3.6% to 1.64 million units, while Mazda's sales increased by a healthy 13.8% year on year to 80,000 units. This represented the highest annual sales volume in Mazda's 35-year history in the country and helped us to increase market share to 4.9% from 4.5% in fiscal 2004. As in the US, the Mazda3 was our best-selling vehicle, with a total of 51,000 units.

Mazda commenced operations in Mexico in October last year. We have already established 9 exclusive dealers in the country and all were reporting healthy sales in the latter part of the fiscal year.

UNIT SALES (US)
(Retail sales basis)



UNIT SALES (CANADA)
(Retail sales basis)



Europe

Mazda continued to maintain its sales momentum in the European market. In fiscal 2005, we posted sales of 282,000 units, an increase of 3.5% year on year and the highest volume achieved since the early 1990s. Market share was 1.5%, equal to fiscal 2004. Sales growth was driven by successful launches of exciting all-new products such as the Mazda5 and Mazda MX-5, as well as stronger sales of our core Mazda3 model. New diesel-engine versions of the Mazda6 and Mazda5 launched in the second half of fiscal 2005 also supported sales in the latter part of the year.

The Mazda5 captured roughly 2% of its market segment in the first year after launch, and unit sales jumped 82% compared to a year earlier. Meanwhile, there is no sign of waning demand for the Mazda3, despite first being launched in Europe in October 2003. Sales of this model rose by more than 20% during the year. The Mazda MX-5, already the open-top segment leader in many markets, won multiple awards from the European motoring press, while the Mazda brand was honored again by Germany's prestigious *Autobild* magazine, winning first place for reliability.

Buoyed by the strength of our model range, we achieved record sales in the UK, Russia and Spain, and a number of other markets recorded firm growth. Russia stood out in particular, with the second consecutive year of double-digit sales growth, securing Mazda's position as one of the fastest growing brands in the market.

Efforts to strengthen our sales network continued apace during the year, underpinning higher sales and helping to further enhance the Mazda brand image. Future prospects for growth remain strong, with plans to assume control of distribution in a number of markets in fiscal 2006, including Russia, Ireland, and the Czech and Slovak republics.

Mazda5

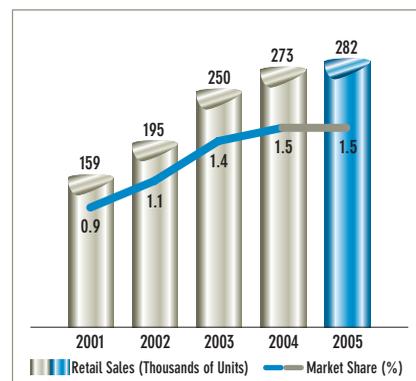


Mazda3



UNIT SALES (EUROPE)

(Retail sales basis)



Mazda6



China

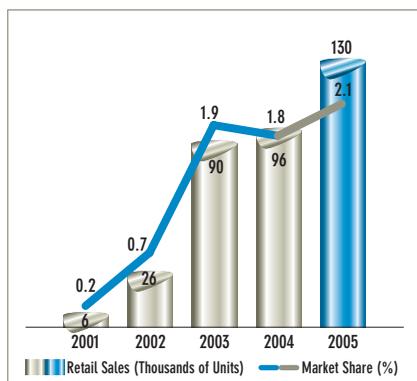
In fiscal 2005, sales of Mazda models in China grew 35.6% year on year to 130,000 units, while Mazda's market share rose by 0.3 of a percentage point to 2.1%. By model, sales of the Mazda6 surged 63% to 53,000 units, the Mazda 323 achieved an increase of 22% to 62,000 units, and sales of the Mazda Premacy rose 21% to 16,000 units.

Total demand in the Chinese automotive market continued to grow strongly, rising 23% compared to the previous fiscal year. However, competition intensified as automakers in the country launched a raft of new models. In this climate, Mazda reinforced its model range and implemented dynamic marketing initiatives through its Chinese distributors to maintain a firm level of sales.

In terms of product initiatives, we began exporting the iconic Mazda RX-8 to the market from Japan in July 2005. Manufacturing partner FAW Car Co., Ltd. (FCC) also rolled out an updated version of the Mazda6 in October 2005. These and other initiatives enhanced our product offering in the market. The strength of our range was highlighted by an award for China's most popular cars in 2005 run by Shanghai satellite broadcaster Eastern Satellite TV Station: the new Mazda6 won an award in the category for domestically manufactured cars, and the Mazda RX-8 was honored in the import category. Meanwhile, the Mazda 323 and Mazda Premacy continued to prove popular with Chinese drivers thanks to equipment upgrades, price repositioning and the launch of limited editions.

As of March 31, 2006, the Mazda sales network in China consisted of 270 dealers, an increase of 19 compared to a year earlier. Through FAW Mazda Motor Sales Co., Ltd. (FMSC), we worked to raise Mazda brand equity to underpin targeted improvements in customer satisfaction and took a variety of steps to reinforce the dealership network.

UNIT SALES (CHINA)
(Retail sales basis)



Other Regions

Sales in other regions rose 10.4% year on year to 194,000 units in 20 key markets.

Sales in Australia rose 10.3% to 65,000 units, representing the third consecutive year of record sales. Mazda's share of the market also edged up by 0.5 of a percentage point to 6.6%. Accolades for our models included the 2005 Car of the Year Award for the Mazda MX-5 from *Wheels* magazine. Mazda also secured the top spot in an industry sales satisfaction survey for the second year running.

In Thailand, an estimated 707,000 vehicles were sold during the year—a record high and an increase of 9.6% compared to a year earlier. In this robust environment, Mazda posted sales ahead of overall market growth at 16.1%, to 17,000 units, primarily reflecting strong demand for the Mazda3. At the 2006 Bangkok International Motor Show at the end of March, Mazda showcased its new global pickup to plaudits from the motoring press and driving public. Called the Mazda BT-50, the model replaces the previous Mazda B-Series and offers new 3.0L and 2.5L common-rail direct injection turbo diesel engines.

In Israel, Mazda was the top-selling marque in the country for the tenth year running with 25,000 units, up 9.1% from a year earlier. Mazda's market share reached 16.1%. The Mazda3 was also crowned Car of the Year for the second straight year by the *Yedihot Achronot*, a leading Israeli daily.

Sales were robust in other markets, with sales volumes rising 60.4% in Venezuela, 58.8% in the Philippines, 24.2% in Ecuador and 15.6% in Puerto Rico.

Mazda3

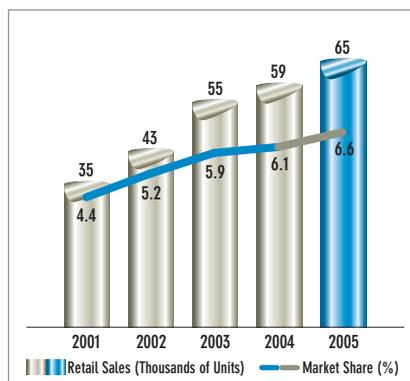


MazdaBT-50



UNIT SALES (AUSTRALIA)

(Retail sales basis)



THE MAZDA MX-5

Winner of Japan Car of the Year 2005–2006 and
Wheels Car of the Year 2005

Japan Car of the Year 2005–2006

The panel of judges, mostly made up of motoring journalists, overwhelmingly selected the Mazda MX-5 for Japan's top car prize in November 2005. With resource and energy conservation now increasingly important in today's world, the judges put particular importance on technology that reduced weight. The Mazda MX-5 was seen as achieving this, but without sacrificing performance. It was also praised for its balanced ride and fun-to-drive appeal, all offered in a highly rigid body. The judges held up the all-new Mazda MX-5 as an iconic sports car with broad-based appeal for drivers of all ages.

Wheels Car of the Year 2005—Australia's Most Prestigious Motoring Award

In January 2006, the Mazda MX-5 captured Australia's top motoring award, sponsored by motoring magazine *Wheels*. Competing against 20 vehicles, the Mazda MX-5 was voted Australia's best new car by a panel of expert judges. Ged Bulmer, *Wheels* editor, said: "Precision and harmony are what make it so special to drive; the MX-5 is so perfectly balanced, so intuitively agile, so thoroughly thrilling, that it can't fail to make the spirit soar."



Launched in August 2005, the new Mazda MX-5 was completely designed around two product concepts: *jinba ittai*, or "rider and horse as one," and "fun-to-drive." This meant making the MX-5 fun like its predecessors: able to communicate the simple enjoyment of open-top sports car driving, great to look at, and fun to customize as part of one big MX-5 community—all in a package offering the latest advances in environmental technology and safety.

In July 2006, we revealed a new version of the Mazda MX-5 with a power retractable hardtop roof at the 2006 British International Motor Show.



TECHNOLOGY DEVELOPMENT

Mazda is enhancing its initiatives in product development and manufacturing technology to accelerate the pace of product-led growth.

CONTINUED PROGRESS WITH THE MDI-II PROJECT

MDI-II, the second phase of the Mazda Digital Innovation (MDI) initiative, got under way in April 2004. The main thrust of this phase is to raise the quality and speed of concurrent development and manufacturing to enhance product development.

The MDI initiative is designed to create a shared digital data system covering all phases of vehicle development and ensure all areas of the company have access to the most up-to-date digital information. This approach includes making greater use of virtual development tools and fusing them effectively with physical design activities. This will lead to dramatic efficiency improvements across the whole company.

With virtual development, we are aiming to boost product development capabilities and vehicle quality by completing a greater proportion of the design process in virtual environments. Before releasing the final production blueprints, we plan to have conducted integrated and parallel product design, virtual testing and manufacturing design using the MDI system. Using virtual environments in this way to ensure vehicles are closer to production, faster is the main objective of MDI-II. By intelligently combining the virtual and physical worlds, we believe we can create a more responsive, highly competitive product development framework where physical prototypes and the human touch are added at the final stages.

DIRECT SPOT WELDING TECHNOLOGY FOR STEEL AND ALUMINUM DEVELOPED

In June 2005, Mazda announced the development of the world's first direct spot welding technology for steel and aluminum using friction heat.

Until this achievement, joining two different metals like steel and aluminum had presented significant technical challenges. We overcame these hurdles by optimizing the rotating tool shape and joining characteristics, and by using galvanized steel for one side of the weld. The process is similar to that used



Mazda's direct spot welding technology for steel and aluminum that uses friction heat (Mazda MX-5 trunk lid and bolt retainers).

for joining two pieces of aluminum, when a joining gun holds the parts from both sides with a welding tool. The joining tool is then made to spin while force is applied, which in turn generates frictional heat that directly joins the aluminum material to the steel sheet metal. Galvanized steel helps prevent galvanic corrosion resulting from the contact of two different types of metal. Compared with conventional joining techniques, steel and aluminum spot friction welding makes it easier to join materials that are

difficult to deform, such as aluminum casting and high tensile steel. Running costs can also be reduced because riveting becomes unnecessary.

We have already applied this innovative technology in the Mazda MX-5, where it is used to join the car's aluminum trunk lid with its bolt retainers. The process contributed significantly to our vehicle weight reduction efforts during the model's development, where every gram counted, and also helped to lower costs.

ENVIRONMENTAL IMPACT OF PAINT PROCESSES REDUCED FURTHER

Mazda and Nippon Paint Co., Ltd. have teamed up to develop a new electrodeposition basecoat—known as e-coating—that substantially reduces both volatile organic compounds (VOC) and carbon dioxide (CO₂) emissions. Raising our painting process to a new world standard, e-coating makes paint adhere to metal surfaces more efficiently and raises the corrosion protection of Mazda vehicles. Since introducing this new technology in May 2005 at the Ujina No. 2 Plant, we have progressively rolled it out to all four of our domestic plants.



A new Mazda vehicle moves through the new basecoat process.

Mazda has already completed the introduction of its world-first Three Layer Wet Paint System at all of its plants in Japan. This system combines the primer, top and clear coats into a single painting process, significantly reducing the burden on the environment by cutting VOC and CO₂ emissions.

Our new e-coating technology is used in the basecoat process, prior to the existing three-layer paint stage, helping to realize further significant reductions in environmental impact. As a result, our entire vehicle paint process now has a much smaller environmental footprint.

The introduction of e-coating technology has several advantages:

- Lowers VOC emissions that occur during basecoat painting at Mazda's plants in Japan by 32 tons per year.
- Reduces CO₂ emissions during paint processes by 8.8 tons per year.
- Reduces the volume of required basecoat materials by at least 10%.
- Improves corrosion protection thanks to a more uniform thickness of paint film on vehicle inner bodies.

ENVIRONMENTAL TECHNOLOGY

In developing environmental technology, Mazda focuses on superior environmental performance but also seeks to preserve the enjoyment of the Zoom-Zoom driving experience.

DEVELOPING HYDROGEN ROTARY ENGINE VEHICLES

Mazda is striving to enhance the performance of its existing hydrogen engine technology to play its part in the creation of a more environmentally friendly society based in part on hydrogen energy.

The Mazda RX-8 Hydrogen RE

First revealed to the public in 2003, the Mazda RX-8 Hydrogen RE is equipped with a rotary engine capable of running on hydrogen. A dual fuel system—which allows gasoline- or hydrogen-powered driving at the flick of a switch—means drivers have no worries about running out of fuel in areas without hydrogen refueling stations. The vehicle also boasts exceptional environmental performance: the engine emits no CO₂ and almost no NOx in the hydrogen-powered mode. Despite this, drivers can still experience the authentic feel of a car powered by an internal combustion engine. In addition to its outstanding environmental credentials, the Mazda RX-8 Hydrogen RE can also be commercialized at relatively low-cost thanks to the use of existing engine components and production facilities.

After receiving permission from Japan's Minister of Land, Infrastructure and Transport (MLIT) in February 2006, Mazda began leasing the RX-8 Hydrogen RE to its first two corporate customers the following month—Idemitsu Kosan Co., Ltd. and Iwatani International Corporation; both of these energy-sector companies leased one vehicle each. Total orders for vehicle leases have now reached four following decisions by the City of Hiroshima and Hiroshima Prefecture to each lease one vehicle in April this year. These orders marked the first time anywhere in the world that vehicles equipped with a dual gasoline and hydrogen internal combustion engine have been commercially leased. Plans call for leasing up to ten vehicles, including the four currently leased, to other customers, including local governments and energy companies.



Mazda hands over an RX-8 Hydrogen RE to Hiroshima Prefecture.

The Mazda5 Hydrogen RE Hybrid

The Mazda5 Hydrogen RE Hybrid concept car takes the hydrogen engine idea to a new level by combining our existing hydrogen rotary engine dual fuel system with a new hybrid power unit incorporating an electric motor. Both the rotary engine and power unit are installed at the front of the vehicle and supply power to the front wheels. A high-voltage battery is fitted under the second row of seats and a large-capacity hydrogen fuel tank replaces the third row of seats. Thanks to this efficient setup, the Mazda5 Hydrogen RE Hybrid offers exceptional environmental performance, driving enjoyment and plenty of cabin space.



The Mazda5 Hydrogen RE Hybrid

DEVELOPING OTHER HYBRID VEHICLES

As part of efforts to enhance the environmental performance of our vehicles and develop our environmental technologies globally, we are currently working toward the full-scale launch of the Mazda Tribute Hybrid, an SUV that combines an MZR 2.3L internal combustion engine with a new hybrid system.

Sharing the same basic architecture as the Ford Escape Hybrid launched in the fall of 2004, the Mazda Tribute Hybrid improves fuel economy by 74% compared to the base model Mazda Tribute. It also meets California's strict Super Ultra Low Emissions Vehicle (SULEV) and Advanced Technology Partial Zero Emissions Vehicle (AT-PZEV) standards, the most stringent emissions regulations for gasoline-powered vehicles in the US. By combining the MZR 2.3L engine with a hybrid system, we have created a vehicle that offers smooth, powerful acceleration comparable to a V6 3.0L engine. With the Mazda Tribute Hybrid, drivers get superior environmental performance without compromising on the Zoom-Zoom driving experience.



Mazda Tribute Hybrid in front of the Orange County Fire Authority

In February 2006, we loaned ten Mazda Tribute Hybrid vehicles to the Orange County Fire Authority in Irvine, California, for a period of two years, marking the start of on-road testing for this vehicle. We plan to loan a further 20 to fire agencies across Southern California.

At Mazda, design is everything. Our recent growth has been underpinned by stylish cars that are immediately recognizable as coming from the Mazda design studios. The goal now is to maintain this momentum with a steady stream of new, eye-catching models.

A GLOBAL PERSPECTIVE

Although Mazda clearly has Japanese roots, we have evolved into a global company, with more than 75% of our products sold outside Japan. This means we need to have a thorough understanding and intimate knowledge of regional markets and their customers. To that end, along with the design headquarters in Hiroshima, which houses about 200 designers, modelers and design engineers, Mazda has founded advanced design studios in Irvine, California; Frankfurt, Germany; and Yokohama, Japan that each fulfill a crucial role in providing us with those insights.

The Mazda North America studio is located in Irvine, a stone's throw from Los Angeles. In other words, the hotbed of all the new design trends that shape the American automotive market. No surprise then, that this studio was the birthplace of the Mazda MX-5, RX-7 and Kabura.

The Mazda Europe studio was established in Frankfurt, Germany, in 1988, centrally located in the heart of Europe, and one of the toughest automotive markets in the world. This studio has been instrumental in creating the successful Mazda3, Mazda6 MPS and Sassou.

The Mazda Yokohama studio is only a short bullet train ride from Tokyo, a city like no other, and in terms of design, very influential in Asia, if not the world. This region is not only an automotive Mecca, but in terms of graphics, product design, fashion, architecture and culture, a true inspiration. This studio was responsible for the development of the rotary-engine Senku concept car.

Mazda's design headquarters are based in Hiroshima, Japan. Hardly a provincial city anymore with more than 1.2 million people, it still follows a tradition of doing things in its own unique way. This pioneering spirit has rubbed off on Mazda: this is the home of the rotary engine, Zoom-Zoom and "the soul of a sports car," maybe best embodied by the new Mazda MX-5, winner of the Japan Car of the Year 2005–2006 prize and second in the 2006 World Car of the Year contest.

REALIZING ZOOM-ZOOM

Zoom-Zoom is the soul of our brand, guiding us in everything we do. In design terms, it means creating athletic, sporty and distinctive designs; exciting cars that turn heads and look fast—even when they are standing still—aimed at people who are young at heart and who love to drive.

THE 5-POINT GRILLE SHAPE

The 5-point grille is Mazda's most prominent design signature, and it can be found in every Mazda design. It is this key element that ties all Mazda cars together. It embodies the concept of "center focus," meaning that all the key character lines of our vehicles come together in a point, like the head of an arrow.

DESIGN AWARDS FOR MAZDA MODELS IN FY2005

| MODEL | ORGANIZATION | AWARD |
|--------------------|--|------------------------------|
| Mazda MX-5 | Japan Industrial Design | Good Design Award |
| Mazda MX-5 | Gulliver Vehicle Distribution Research Institute | Best Design Award |
| Mazda MX-Crossport | Automotive News (US) | Top 10 Concept Cars |
| Mazda Senku | Car Styling | Best Concept Car |
| Mazda Senku | Festival Automobile Internationale | Best Concept Car of the Year |
| Mazda Kabura | North American International Auto Show | Eyes on Design Award |

We will continue to use design to communicate the promise that Zoom-Zoom offers, using the creativity that exists in our Mazda global design centers.

LEVERAGING MDI

At Mazda, we are continuously looking for ways to make our design processes quicker, better and more nimble, and our communications more effective. In recent years, the Mazda Digital Innovation (MDI) initiative has played a vital role in saving time and raising quality at the design stage on almost every front.

MAZDA CONCEPT CARS

Mazda has wowed the public at motor shows over the last year with its Sassou, Senku and Kabura concept cars designed by teams in Europe, Japan and North America.

Mazda Senku

This four-seater, rotary-engine sports car for more mature drivers offers a radical new departure in design. The Senku features an ultra-long wheelbase, minimal overhangs, a unique, "floating" appearance supported by large tires and a smoothly dignified shape devoid of all ornamentation.

**Mazda Kabura**

With a rear-drive powertrain and dynamic styling, the Kabura sports coupé was designed for car buyers who love to drive. The Kabura embodies the highest elements of Mazda's Zoom-Zoom spirit.

**Mazda Sassou**

Unveiled at the Frankfurt Motor Show in September 2005, the dramatically sculpted Sassou is a small, lightweight, three-door hatchback powered by a turbocharged 1.0-liter MZR DISI engine.



PRODUCTION FRAMEWORK



HEAD OFFICE PLANT

Location:

Aki-gun, Hiroshima Prefecture, Japan

Output:

Around 500,000 units/year

Models:

Ujina No. 1 Plant: Mazda MX-5, Mazda2, Mazda Verisa,
Mazda RX-8, Mazda MPV, Mazda Bongo

Ujina No. 2 Plant: Mazda CX-7, Mazda5



HOFU PLANT

Location:

Hofu-shi, Yamaguchi Prefecture, Japan

Output:

Around 400,000 units/year

Models:

Hofu No. 1 Plant: Mazda3

Hofu No. 2 Plant: Mazda6, Mazda3

AUTOALLIANCE INTERNATIONAL (AAI)

Location:

Michigan, USA

Output:

Around 240,000 units/year

Models:

Mazda6



AUTOALLIANCE THAILAND (AAT)

Location:

Rayong Province, Thailand

Output:

Around 175,000 units/year

Models:

Mazda BT-50



MANAGEMENT FRAMEWORK

CORPORATE GOVERNANCE

Corporate auditors are the cornerstone of governance at Mazda. Ensuring proper corporate governance is one of Mazda management's top concerns, and is the reason we vigorously launch various initiatives in this area. In addition to statutory bodies such as the annual general meeting of shareholders, the board of directors and the board of corporate auditors, Mazda has an executive committee. Executive committee meetings are held to formulate and discuss important company-wide policies and measures, and receive reports on the day-to-day running of the business. Other advisory bodies that assist the president with decision-making have also been established.

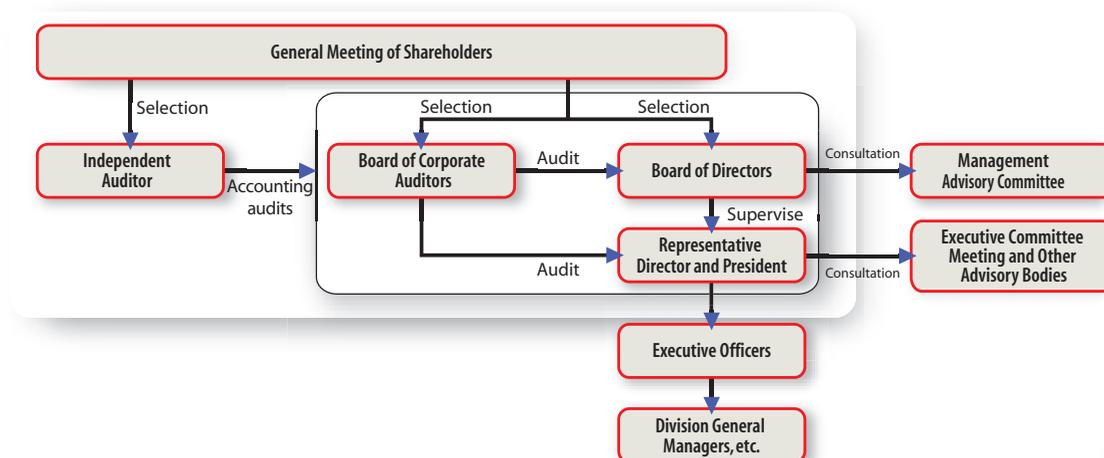
Mazda has introduced the executive officer system to promote the separation of executive and management functions. This has augmented the effectiveness of the board of directors as a supervisory body. These and other steps are helping to improve management efficiency at Mazda, resulting in faster decision-making through enhanced discussion, delegation of authority to executive officers and other initiatives. As of June 30, 2006, Mazda had a total of 34 executive officers and nine directors, some of whom are also executive officers.

In addition, Mazda has established a Management Advisory Committee composed of leading figures from outside the company and all Mazda directors. The committee meets four times a year. Mazda receives managerial opinions and recommendations from these committee members, who offer their specialized knowledge and insight from a global perspective. Mazda reflects the committee's input in its management practices.

SUPERVISORY FRAMEWORK

Mazda's board of corporate auditors is composed of five members, including three outside corporate auditors. Each corporate auditor is responsible for auditing business execution by 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 outside corporate auditors. The Internal Auditing Division,

BUSINESS EXECUTION AND SUPERVISORY FRAMEWORK



meanwhile, contributes to sound and efficient management by checking the appropriateness of operations at Mazda and its affiliates with reference to management's objectives, policies and plans, as well as all relevant laws and regulations. Independent audits are conducted under contract by KPMG AZSA & Co. The corporate auditors, both independently and collectively as the board of corporate auditors, the Internal Auditing Division, and the independent auditor cooperate through frequent meetings.

Cooperation between corporate auditors and the independent auditor

Regular meetings are held between Mazda's corporate auditors and the independent auditor to promote close cooperation between both parties. The independent auditor provides Mazda's corporate auditors with details of audit plans, any issues identified and the results of audits, while corporate auditors explain their audit plans, as well as the current status and results of these audits. Corporate auditors and the independent auditor also conduct joint audits in certain areas, including physical inspections of inventories and stock certificates. Mazda's Internal Auditing Division also exchanges opinions with the corporate auditors.

Cooperation between corporate auditors and the Internal Auditing Division

Corporate auditors meet with the Internal Auditing Division on a monthly basis to exchange information. At these meetings, the Internal Auditing Division provides details of plans and results of internal audits, which also cover Group companies, and reports on the status of initiatives to reinforce internal control systems. Information gleaned by corporate auditors through the audit process is also provided. Corporate auditors also submit any requests they have to the Internal Auditing Division. In addition, representatives of the Internal Auditing Division attend every meeting of the Group Audit Liaison Meeting organized by the corporate auditors, and exchange opinions with the independent auditor.

Main activities of outside corporate auditors

In principle, the board of corporate auditors meets on a monthly basis. Provided there are no special reasons to prevent them, outside corporate auditors attend these meetings, where they actively exchange opinions with fellow corporate auditors. Outside corporate auditors also attend meetings of the board of directors. Their role at these meetings is to ask pertinent questions regarding director proposals and reports, provide appropriate input, and express views from an audit perspective. Together with Mazda's full-time corporate auditors, outside corporate auditors receive reports from directors and executive officers, meet with representative directors, and inspect business sites and subsidiaries.

Corporate auditor support system

Mazda has established an Audit Office to support the activities of the corporate auditors. The Audit Office is an independent body, and its staff are selected and evaluated by the personnel department after prior consultation with the full-time corporate auditors. Meanwhile, the full-time corporate auditors brief outside corporate auditors prior to meetings of the board of directors or during meetings of the board of corporate auditors to keep them informed of the latest developments. Information and related findings gleaned from attendance at important meetings such as the executive committee meeting and other audit activities are provided to the outside corporate auditors.

Reporting crucial information to corporate auditors

If directors or executive officers become aware of certain facts that could have serious implications for the Mazda Group, they must immediately report this information to the corporate auditors. In addition, any major lawsuits or disputes, changes in accounting policy, serious incidents, government penalties or other matters that the board of corporate auditors has stipulated as requiring joint discussion with directors and executive officers, must be reported to the corporate auditors, even in cases where no significant impact on the Mazda Group is anticipated.

RISK MANAGEMENT

Mazda has a Risk Management Office that oversees company-wide risk management activities. A Risk Management Committee has also been set up to promote risk management policy from the perspective of individual Mazda executive and regular employee actions. To appropriately manage various internal and external risks, Mazda is establishing internal risk management regulations, phasing in company-wide risk management activities, strengthening management of sensitive information, and enhancing disaster-prevention measures. In this way, we are building a robust framework to support sustained and stable growth. During the year under review, Mazda began conducting pre-risk surveys in the Group, starting with six consolidated subsidiaries.

COMPLIANCE

Every Mazda executive and regular employee understands that compliance is vitally important. Based on this mindset, the entire Mazda Group is striving to ensure honesty and fairness in its business activities.

Specifically, we have conducted ethical business activities in accordance with the Mazda Code of Corporate Conduct, formulated in 1998. Concrete steps to raise awareness of the importance of business ethics, compliance and human rights include annual seminars and the distribution of a compliance manual to all executives and regular employees since 2004. Furthermore, during the year under review, every Mazda executive and regular employee, including personnel indirectly employed by the company, sat and completed a compulsory e-learning course on the fundamentals of business ethics and compliance.

Mazda is stepping up initiatives in the area of corporate social responsibility (CSR) as it aims to play its part in realizing a sustainable society. In fiscal 2005, our CSR program put particular emphasis on the environment.

REINFORCING GROUP-WIDE ENVIRONMENTAL EFFORTS

In April 2005, we reviewed the Mazda Global Environmental Charter, which defines our basic corporate policy concerning the environment. The scope of the updated charter has been extended from Mazda Motor Corporation to cover the entire Mazda Group, providing a stronger framework for a more concerted Group-wide approach to tackling environmental issues.

To accelerate Group environmental efforts, Mazda overhauled its environmental promotion system in July 2005. Executive Vice President John G. Parker was appointed officer in charge of environmental issues, and the Mazda Global Environmental Conference was replaced by the Mazda Environmental Committee. Chaired by the president, this committee has five subcommittees to handle environmental action in specific areas.

Moreover, we have started introducing an environmental management system at sales, component sales and other consolidated non-manufacturing subsidiaries to promote environmental activities at Mazda Group companies.

MAZDA GLOBAL ENVIRONMENTAL CHARTER

ENVIRONMENTAL PRINCIPLES

The Mazda Group aims to promote environmental protection and contribute to a better society by maintaining harmony with nature in its business activities worldwide.

55 ACTION PLANS LAUNCHED TO PREVENT GLOBAL WARMING

In July 2005, Mazda announced its participation in "Team Minus 6%," a government-led initiative to reduce emissions of greenhouse gases by 6%.

As an automaker, Mazda has been working for many years to reduce emissions of gases that cause global warming. Participation in Team Minus 6% has further raised awareness of the issues at stake and led us to step up our environmental activities. Specifically, we have drafted a total of 55 action

plans, split between 28 office- and 27 home-based initiatives. These include setting air conditioner thermostats at 28°C and wearing lighter clothes in the summer and turning lights off during lunch hour. We are encouraging all of our approximately 25,000 personnel and their families to do what they can to implement these initiatives on an individual basis.

SOCIAL & ENVIRONMENTAL REPORT 2005 EXPANDED TO INCLUDE MORE SOCIAL INFORMATION

Although Mazda started including social information in the 2004 edition of its Social & Environmental Report, this content was expanded further in 2005 to encourage greater understanding among stakeholders about Mazda's social activities by offering more readily understandable information. We were also conscious of the need to create a more visually appealing, easier-to-understand report and selected individuals from related divisions to develop stronger content for each section.

We are currently working on the 2006 edition of the report, due to be published this summer, with the goal of offering even more content to readers.



"FAMILY OF EXPERTS" SYSTEM INTRODUCED

In April 2006, taking advantage of revisions to Japan's Law Concerning Stabilization of Employment of Elder Persons, Mazda introduced a new system that enables the reemployment of workers who reach retirement age. Called the "Family of Experts" system, this new program gives all Mazda employees who reach mandatory retirement age the opportunity to continue working provided they meet certain criteria.

For some time, Mazda has been addressing the issue of how to pass on the techniques and technical skills at the core of automotive craftsmanship to a new generation of workers. In 1991, Mazda inaugurated the "Senior Family" system, which was designed to promote the reemployment of retired technical workers engaged in automotive manufacturing. This system serves as the foundation for the new Family of Experts system, which is an expanded program covering all retiring employees across the company. As specialists in the area where they are rehired, these valued employees bring with them the critical skills and experience to help energize Mazda's corporate culture.

BOARD OF DIRECTORS, AUDITORS AND EXECUTIVE OFFICERS (As of June 27, 2006)

DIRECTORS



HISAKAZU IMAKI
Representative Director and
Chairman of the Board



JOHN G. PARKER
Representative Director and
Vice Chairman of the Board



MUTSUMI FUJIWARA
Representative Director



DAVID E. FRIEDMAN
Representative Director



DANIEL T. MORRIS
Director



TAKASHI YAMANOUCHI
Director



RYOICHI HASEGAWA
Director



KIYOSHI OZAKI
Director



SEITA KANAI
Director

AUDITORS

Corporate Auditors (Full time)

KOJI KUROSAWA
JUNICHI YAMAMOTO

Corporate Auditors

TAKAHARU DOHI
KENICHI KOMATSU
SHIGEO SHIRAKURA

EXECUTIVE OFFICERS

*President and CEO

Hisakazu Imaki

*Senior Executive Vice President

John G. Parker

Assistant to President;
In charge of China Business, R&D,
Purchasing, Quality Assurance, Marketing,
Sales, IT Solutions and Environment

*Executive Vice President

Mutsumi Fujiwara

In charge of Corporate Liaison and
Purchasing

*Senior Managing Executive Officer and CFO

David E. Friedman

In charge of Corporate Planning

*Senior Managing Executive Officers

Daniel T. Morris

In charge of Marketing, Sales and
Customer Service

Takashi Yamanouchi

In charge of Corporate Affairs, Secretariat,
Personnel & Human Development,
Internal Auditing

Ryoichi Hasegawa

In charge of Corporate Communications &
Liaison and IT Solution:
Assistant to the CFO

Kiyoshi Ozaki

In charge of China Business

Seita Kanai

In charge of R&D

Senior Managing Executive Officer

Masaharu Yamaki

In charge of Production and Business
Logistics

Managing Executive Officers

Masazumi Wakayama

In charge of Domestic Marketing, Domestic
Sales and Domestic Customer Service

Nobuhiro Hayama

In charge of R&D Quality and Powertrain
Development

James J. O'Sullivan

President and CEO, Mazda Motor of
America, Inc. (Mazda North American
Operations)

Masaki Kanda

In charge of Corporate Affairs, Risk
Management, CSR and Mazda Hospital

Akira Marumoto

In charge of Product Planning and
Program Management

Keishi Egawa

In charge of Corporate Planning and
Financial Services

Toru Oka

In charge of Purchasing

Malcolm D. Gough

In charge of Overseas Sales and Customer
Service

James M. Muir

President and CEO, Mazda Motor Europe
GmbH

Executive Officers

Nobuhide Inamoto

General Manager, Quality Div.

Satoshi Tachikake

President, Mazda Motor (Shanghai) Business
Management & Consulting Co., Ltd. and
General Manager, China Business Div.

Yasuto Tatsuta

General Manager, Production Engineering Div.

Hiroataka Kanazawa

In charge of Vehicle Development and
Technical Research Center

Masamichi Kogai

President, AutoAlliance (Thailand) Co., Ltd.

Shiro Mikami

General Manager, Domestic Marketing Div.

Kozo Kawakami

General Manager, Purchasing Div.

Noriaki Yamada

President, FAW Mazda Motor Sales Co., Ltd.

Toshinori Kusuhashi

General Manager, Hiroshima Plant

Yuji Nakamine

General Manager, Overseas Sales Div.

A. Kumar Galhotra

General Manager, Program Management Div.

Hiroshi Yamamoto

General Manager, Domestic Sales Div.

Tatsuji Ikeda

General Manager, Powertrain Development Div.

Minoru Mitsuda

General Manager, Personnel & Human
Development Div.

Masafumi Nakano

General Manager, Hofu Plant

Note: Asterisks denote Executive Officers
who also hold the post of Director.

FINANCIAL SECTION

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SIX-YEAR SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2006, 2005, 2004, 2003, 2002 and 2001

| | 2005 March 31, 2006 | Increase (decrease) 2005/2004 | 2004 March 31, 2005 | Increase (decrease) 2004/2003 |
|--|------------------------|----------------------------------|------------------------|----------------------------------|
| For the year*2: | | | | |
| Net sales | ¥2,919,823 | 8.3 % | ¥2,695,564 | (7.6)% |
| Domestic | 887,662 | 5.0 % | 845,620 | (0.1)% |
| Overseas | 2,032,161 | 9.8 % | 1,849,944 | (10.6)% |
| North America | 843,988 | 10.8 % | 761,684 | (18.7)% |
| Europe | 668,941 | 5.5 % | 634,233 | (3.9)% |
| Other areas | 519,232 | 14.4 % | 454,027 | (4.1)% |
| Cost of sales | 2,110,934 | 7.0 % | 1,972,574 | (8.9)% |
| Selling, general and administrative expenses | 685,454 | 7.1 % | 640,043 | (6.0)% |
| Operating income (loss) | 123,435 | 48.8 % | 82,947 | 18.2 % |
| Income (loss) before income taxes | 117,468 | 59.1 % | 73,847 | 36.6 % |
| Net income (loss) | 66,711 | 45.7 % | 45,772 | 35.0 % |
| Capital expenditures*3 | 72,070 | 6.2 % | 67,881 | 48.7 % |
| Depreciation and amortization | 45,805 | 14.4 % | 40,036 | 5.6 % |
| Research and development costs | 95,730 | 5.4 % | 90,841 | 3.5 % |
| Cash flows*4 | 33,611 | (6.4)% | 35,900 | (26.9)% |
| At the year-end: | | | | |
| Total assets | 1,788,659 | 1.2 % | 1,767,846 | (1.5)% |
| Shareholders' equity | 398,024 | 48.6 % | 267,815 | 20.3 % |
| Financial debt | 455,409 | (13.8)% | 528,145 | (16.2)% |
| Net financial debt | 246,751 | (21.3)% | 313,506 | (12.5)% |
| Average number of shares outstanding | | | | |
| (in thousands) | 1,294,534 | 6.4 % | 1,216,245 | (0.1)% |
| Number of employees | 36,626 | 2.7 % | 35,680 | 0.1 % |
| Amounts per share of common stock: | | | | |
| Net income (loss)*5 | ¥ 51.53 | 36.9 % | ¥ 37.63 | 35.2 % |
| Cash dividends applicable to the year*6 | 5.00 | 66.7 % | 3.00 | 50.0 % |
| Shareholders' equity | 284.28 | 29.1 % | 220.22 | 20.4 % |
| <hr/> | | | | |
| Operating income ratio | 4.2% | | 3.1% | |
| Return on equity (ROE) | 20.0% | | 18.7% | |
| Equity ratio | 22.3% | | 15.1% | |

Notes:

- 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, 2006 of ¥117 to US\$1.
- 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.
- Capital expenditures are calculated on an accrual basis.
- Cash flows represent net cash flows from operating activities and from investing activities.
- The computations of net income (loss) per share of common stock are based on the average number of shares outstanding during each fiscal year.
- Cash dividends per share represent actual amounts applicable to the respective years.

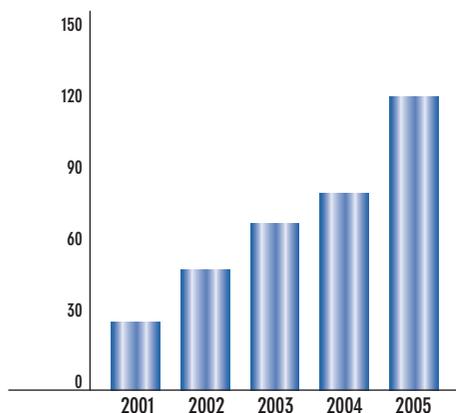
| Millions of yen | | | | | | | Thousands of U.S. dollars*1 |
|------------------------|----------------------------------|------------------------|----------------------------------|------------------------|----------------------------------|------------------------|-----------------------------|
| 2003 March 31, 2004 | Increase (decrease) 2003/2002 | 2002 March 31, 2003 | Increase (decrease) 2002/2001 | 2001 March 31, 2002 | Increase (decrease) 2001/2000 | 2000 March 31, 2001 | 2005 March 31, 2006 |
| ¥2,916,130 | 23.3 % | ¥2,364,512 | 12.9 % | ¥2,094,914 | 3.9 % | ¥2,015,812 | \$24,955,752 |
| 846,231 | 3.4 % | 818,271 | 0.9 % | 811,050 | (11.1)% | 911,968 | 7,586,855 |
| 2,069,899 | 33.9 % | 1,546,241 | 20.4 % | 1,283,864 | 16.3 % | 1,103,844 | 17,368,897 |
| 936,718 | 10.8 % | 845,241 | 8.8 % | 776,889 | 25.7 % | 618,076 | 7,213,573 |
| 659,813 | 79.3 % | 368,045 | 61.3 % | 228,120 | (3.5)% | 236,324 | 5,717,444 |
| 473,368 | 42.2 % | 332,955 | 19.4 % | 278,855 | 11.8 % | 249,444 | 4,437,880 |
| 2,165,160 | 25.5 % | 1,725,058 | 11.2 % | 1,551,410 | (0.2)% | 1,555,130 | 18,042,171 |
| 680,796 | 15.6 % | 588,798 | 14.3 % | 514,951 | 8.3 % | 475,619 | 5,858,581 |
| 70,174 | 38.5 % | 50,656 | 77.4 % | 28,553 | – | (14,937) | 1,055,000 |
| 54,072 | 92.2 % | 28,134 | 81.4 % | 15,508 | – | (242,442) | 1,004,000 |
| 33,901 | 40.5 % | 24,134 | 173.3 % | 8,830 | – | (155,243) | 570,179 |
| 45,644 | 3.5 % | 44,080 | (22.2)% | 56,641 | 19.8 % | 47,285 | 615,983 |
| 37,900 | 2.5 % | 36,989 | (17.6)% | 44,890 | (9.4)% | 49,531 | 391,496 |
| 87,807 | 0.0 % | 87,800 | (7.5)% | 94,964 | 13.6 % | 83,617 | 818,205 |
| 49,128 | 4.4 % | 47,054 | 53.7 % | 30,623 | (41.4)% | 52,257 | 287,274 |
| 1,795,573 | 2.4 % | 1,754,017 | 1.1 % | 1,734,895 | (0.5)% | 1,743,627 | 15,287,684 |
| 222,605 | 14.7 % | 194,071 | 12.3 % | 172,837 | 8.8 % | 158,872 | 3,401,915 |
| 630,360 | (7.1)% | 678,205 | (1.2)% | 686,318 | (11.7)% | 777,292 | 3,892,385 |
| 358,129 | (11.2)% | 403,483 | (11.7)% | 456,874 | (5.7)% | 484,677 | 2,108,983 |
| 1,217,692 | (0.1)% | 1,219,050 | (0.2)% | 1,221,750 | (0.1)% | 1,222,495 | |
| 35,627 | (1.5)% | 36,184 | (4.3)% | 37,824 | (4.5)% | 39,601 | |
| Yen | | | | | | | U.S. dollars*1 |
| ¥ 27.84 | 40.6 % | ¥ 19.80 | 173.9 % | ¥ 7.23 | – | ¥ (126.99) | \$0.44 |
| 2.00 | 0.0 % | 2.00 | 0.0 % | 2.00 | – | – | 0.04 |
| 182.91 | 14.9 % | 159.22 | 12.5 % | 141.52 | 8.9 % | 129.96 | 2.43 |
| % | | | | | | | |
| 2.4% | | 2.1% | | 1.4% | | – | |
| 16.3% | | 13.2% | | 5.3% | | – | |
| 12.4% | | 11.1% | | 10.0% | | 9.1% | |

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL 2005 HIGHLIGHTS

- Operating income increased 48.8% to ¥123.4 billion, net income rose 45.7% to ¥66.7 billion—both well above record figures achieved in fiscal 2004
- Two of the targets in Mazda Momentum, our medium-term management plan, were achieved one year early—over ¥100.0 billion in operating income and a net debt-to-equity ratio below 100%.
- Dividend per share set at ¥5.0, an increase of ¥2.0 from fiscal 2004

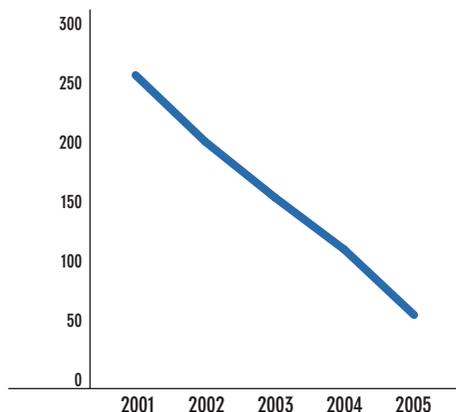
OPERATING INCOME
(Billions of Yen)



OVERVIEW OF THE MAZDA GROUP

The consolidated financial statements for fiscal 2005, ended March 31, 2006, include the accounts of Mazda Motor Corporation, the parent company; 58 consolidated subsidiaries (21 overseas and 37 in Japan); and 14 equity-method affiliates (five overseas and nine in Japan). During the year under review, Okinawa Mazda Hanbai Co., Ltd. was reclassified from an equity-method affiliate to a consolidated subsidiary after an additional stake was taken in the company. Mazda also established four new consolidated subsidiaries: Mazda Motor de Mexico S. de R.L. de C.V., Mazda Servicios de Mexico S. de R.L. de C.V., Mazda Motor Rus, OOO, and P.T. Mazda Motor Indonesia. In addition, Changan Ford Mazda Automobile Co., Ltd., Changan Ford Mazda Engine Co., Ltd., and MCM Energy Service Co., Ltd. were reclassified as equity-method affiliates.

NET DEBT-TO-EQUITY RATIO
(%)



BUSINESS CONDITIONS

During fiscal 2005, the Japanese economy saw a solid recovery in private-sector demand, such as capital investment and consumer spending, despite surging prices for crude oil, steel and other raw materials. Overseas, the US economy continued to expand, European economies showed signs of recovery overall, and Asian economies maintained high growth, led by China. As a result, economic activity was generally strong worldwide.

In Japan, automotive sales, including mini vehicles, totaled 5.86 million units, edging up 0.7% year on year. This reflected growth in commercial vehicles and mini vehicles. In the US, industry sales were 16.88 million units, increasing 1.1% from a year earlier. Industry sales in Europe rose 2.5% to 18.37 million units, while sales in China increased 23.0% year on year to 6.22 million units.

CONSOLIDATED FINANCIAL RESULTS

Consolidated Net Sales

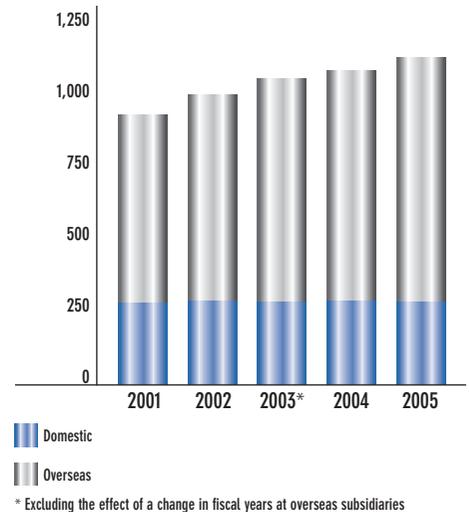
During the year under review, Mazda retail sales in the Japanese market totaled 287,000 units, up slightly year on year, led by the Mazda5, the Mazda MX-5 and the new Mazda MPV. Including mini vehicles, Mazda's market share was 4.9%, unchanged from fiscal 2004. In major overseas markets, Mazda retail sales in the US declined slightly to 262,000 units, with market share slipping 0.1 of a percentage point to 1.5%. This was due to a decline in light-truck sales even as passenger car sales continued to increase strongly. In Europe, retail sales grew 3.5% to 282,000 units thanks to new model launches such as the Mazda5 and Mazda MX-5. Market share was unchanged at 1.5%. Retail sales in China, where growth has been brisk, rose 35.6% to 130,000 units, and market share increased 0.3 of a percentage point to 2.1%.

Consolidated wholesales in fiscal 2005 totaled 1,149,000 units, up 45,000 units, or 4.0%, due to higher sales of the Mazda3 worldwide, as well as strong sales of the Mazda5 and Mazda MX-5. Consolidated net sales were ¥2,919.8 billion, up ¥224.2 billion, or 8.3%. Of this increase, around 5.0 points was attributable to a rise in the number of units sold and an improved product mix, while roughly 3.0 points came from the impact of exchange rates. By region, overseas sales increased ¥182.2 billion, or 9.8%, to ¥2,032.2 billion, and domestic sales increased ¥42.1 billion, or 5.0%, to ¥887.7 billion.

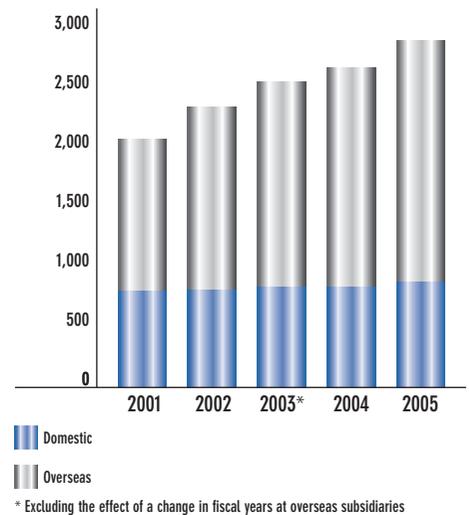
Operating Income

Operating income increased 48.8% year on year, or ¥40.5 billion, to reach a record-high ¥123.4 billion. This was mainly attributable to increased wholesales due to stronger retail sales, as well as an improved product mix, which together contributed ¥22.0 billion to operating income, a foreign currency translation impact of ¥19.1 billion due to the weaker yen, and cost savings of ¥30.9 billion, net of the negative impact of more than ¥25.0 billion from increased prices for raw materials such as steel. These positive factors were partially negated by higher product enhancement costs of ¥28.2 billion, mainly related to the Mazda5 and Mazda MX-5, and a ¥5.0 billion increase in fixed marketing expenses due to new model launches. Other costs rose ¥1.7 billion as increases in R&D expenses and depreciation expenses on new facilities outweighed continued cost reductions in manufacturing and other divisions. The rate of increase in operating income exceeded the rate of increase in sales, leading to an improvement in the operating income ratio of 1.1 percentage points to 4.2%.

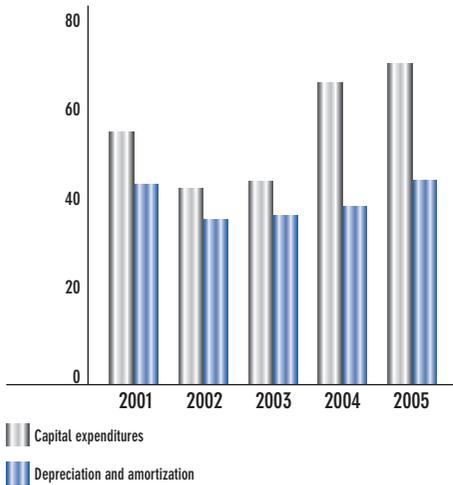
CONSOLIDATED WHOLESALES
(Thousands of Units)



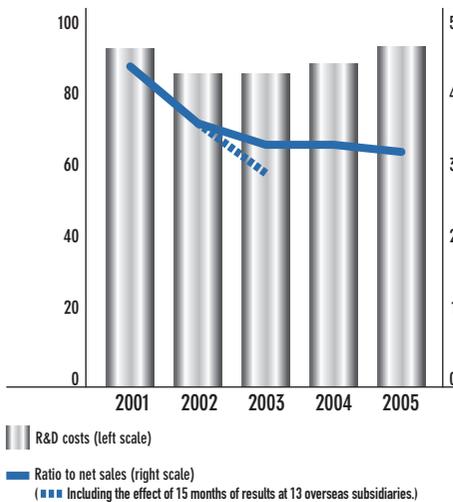
NET SALES
(Billions of Yen)



CAPITAL EXPENDITURES/DEPRECIATION AND AMORTIZATION
(Billions of Yen)



R&D COSTS/RATIO TO NET SALES
(Billions of Yen/%)



Net Income

Net other expenses decreased ¥3.1 billion year on year to ¥6.0 billion. This reflected a loss on impairment of fixed assets of ¥36.7 billion due to the adoption of accounting for impairment of fixed assets, which was offset by a gain of ¥59.6 billion on the transfer to the government of the substitutional portion of employee pension fund liabilities.

Income taxes rose ¥22.4 billion to ¥49.1 billion, reflecting an increase in income before income taxes. The effective tax rate for the year under review was 41.8%. Minority interests of consolidated subsidiaries increased ¥0.2 billion to ¥1.7 billion. As a result, net income increased ¥20.9 billion, or 45.7%, to a record-high ¥66.7 billion, and the net income ratio rose 0.6 of a percentage point to 2.3%. Net income per share of common stock increased ¥13.9 from ¥37.63 in fiscal 2004 to ¥51.53.

Based on year-on-year increases in net sales, operating income and net income, the Company decided to increase the dividend applicable to the year from ¥3.0 to ¥5.0 per share. Mazda seeks to maintain the payment of a stable dividend to shareholders while taking into account operating performance in each period, business environment and other factors. Retained earnings are used to raise competitiveness through capital investment, spending on R&D and other areas.

CAPITAL EXPENDITURES

Capital expenditures totaled ¥72.1 billion, an increase of ¥4.2 billion from a year earlier, and was mainly used for new model launches, restarting the paint shop at the Ujina No. 1 Plant and boosting production capacity.

Mazda strengthened its production framework in line with recent efforts to drive product-led growth. Production capacity for the MZR engine, which is used globally, was boosted in January 2006, and in February, production of the Mazda CX-7 began. This model, which was launched in the North American market in the spring, is a crossover SUV that makes a clean break from traditional SUVs in terms of performance and design.

In China, Mazda, Ford Motor Company, and Changan Automotive Group jointly established an engine manufacturing company, Changan Ford Mazda Engine Co., Ltd., in Nanjing in September 2005 (startup scheduled for 2007). Mazda also invested in Changan Ford Mazda Automobile Co., Ltd. (Chongqing) in spring 2006. In this way, Mazda is strengthening its cooperative relationship with Ford and Changan, helping to build a solid foundation to produce high-quality products in the Chinese market.

RESEARCH AND DEVELOPMENT

Research and development costs totaled ¥95.7 billion during the year under review, an increase of ¥4.9 billion year on year. R&D is actively carried out to infuse Mazda cars with the Zoom-Zoom brand message, as well as to support development in the areas of safety and environmental protection. In technical development, Mazda was the first in the world to produce a hydrogen rotary engine vehicle, the Mazda RX-8 Hydrogen RE, which has been developed independently. Leasing of this vehicle began in March 2006 to two companies in the energy sector and to local government bodies.

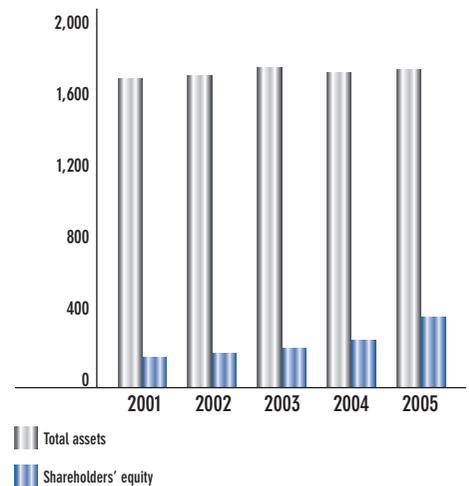
Mazda's R&D framework is based on collaboration between Head Office R&D divisions, which conduct cutting-edge research on emerging technologies and plan, design, and test new models, and the Mazda R&D Center Yokohama in Japan. Mazda also works in cooperation with overseas facilities, including the R&D departments of US-based Mazda Motor of America, Inc. and Germany-based Mazda Motor Europe GmbH, as well as the China Engineering Support Center, an R&D division established within Mazda Motor (Shanghai) Business Management & Consulting Co., Ltd. in August 2005. Joint research projects are also conducted with Ford Motor Company. In all cases, product development is tailored to the unique characteristics of each market.

CONSOLIDATED FINANCIAL POSITION

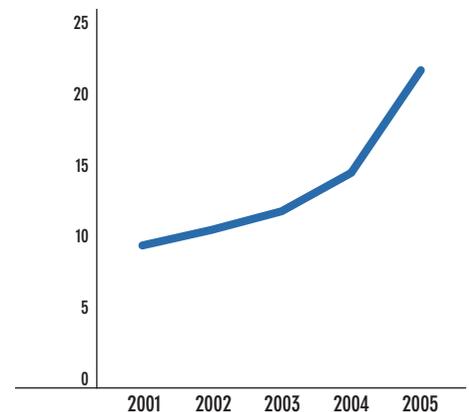
Total assets as of March 31, 2006 were ¥1,788.7 billion, ¥20.8 billion more than a year ago. Cash and cash equivalents decreased ¥5.9 billion to ¥208.7 billion. Trade notes and accounts receivable increased ¥22.2 billion compared to a year earlier to ¥164.2 billion due to the increase in sales. Inventories increased ¥2.8 billion to ¥256.7 billion, mainly due to a large increase at overseas subsidiaries resulting from foreign exchange translation. Net property, plant and equipment increased ¥6.3 billion to ¥830.5 billion as capital investment exceeded depreciation.

Trade notes and accounts payable increased ¥16.7 billion to ¥307.2 billion due to increased vehicle production volume, while financial debt declined ¥72.7 billion to ¥455.4 billion. This decrease included ¥56.1 billion from the exercise of bonds with stock acquisition rights. Financial debt comprised short-term debt of ¥82.1 billion, long-term loans of ¥304.4 billion, and bonds, including bonds with stock acquisition rights, of ¥68.8 billion. After deducting cash and cash equivalents, net financial debt at the end of the fiscal year totaled ¥246.8 billion, a decrease of ¥66.7 billion compared to the previous fiscal year-end. The net debt-to-equity ratio improved 55 percentage points year on year to 62%.

TOTAL ASSETS/SHAREHOLDERS' EQUITY
(Billions of Yen)



SHAREHOLDERS' EQUITY RATIO
(%)



Total shareholders' equity increased ¥130.2 billion to ¥398.0 billion, mainly due to net income of ¥66.7 billion and the exercise of ¥56.1 billion in bonds with stock acquisition rights. The equity ratio rose 7.2 percentage points to 22.3%.

CASH FLOWS

Cash and cash equivalents as of March 31, 2006 totaled ¥208.7 billion, a decrease of ¥5.9 billion from a year earlier. This reflected cash provided by operating activities of ¥114.6 billion, against cash used in investing activities of ¥81.0 billion and cash used in financing activities of ¥43.5 billion.

1. Cash flows from operating activities

Operating activities provided net cash of ¥114.6 billion, mainly reflecting income before income taxes of ¥117.5 billion, depreciation and amortization of ¥45.8 billion, and loss on impairment of fixed assets of ¥36.7 billion, against employees' severance and retirement benefits of ¥71.1 billion, including the substitutional portion of employee pension fund liabilities, and income taxes paid of ¥17.1 billion.

2. Cash flows from investing activities

Investing activities used net cash of ¥81.0 billion. This was primarily attributable to ¥75.5 billion for additions to property, plant and equipment related to investment in manufacturing facilities.

3. Cash flows from financing activities

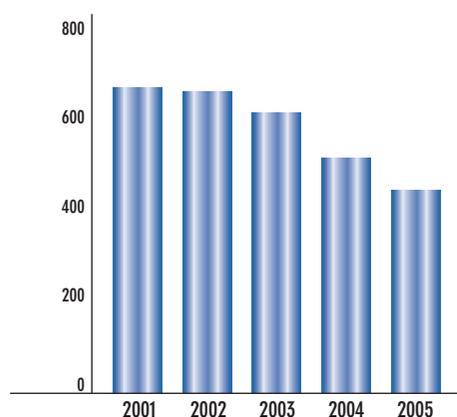
Financing activities used net cash of ¥43.5 billion, mainly reflecting repayments of long-term debt of ¥89.1 billion exceeding proceeds from long-term debt of ¥67.1 billion, and redemption of bonds of ¥30.4 billion exceeding proceeds from issuance of bonds of ¥25.0 billion.

As a result, free cash flow, the sum of operating and investing cash flows, totaled ¥33.6 billion.

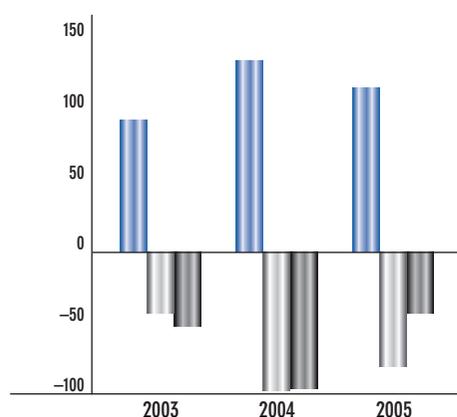
MAZDA MOMENTUM TARGETS AND FISCAL 2006 OUTLOOK

Targets under Mazda Momentum are consolidated wholesales of 1.25 million units, operating income over ¥100.0 billion, and a net debt-to-equity ratio below 100%. Mazda achieved the operating income and net debt-to-equity ratio targets in fiscal 2005 due to steady execution of key measures. In fiscal 2006, the plan's final year, Mazda will focus on achieving solid operating results capable of supporting full-scale growth.

FINANCIAL DEBT
(Billions of Yen)



CASH FLOWS
(Billions of Yen)



Our business outlook for fiscal 2006 is as follows. The target for wholesales under Mazda Momentum was revised due to a reassessment of demand trends and a continuing focus on strengthening the Mazda brand.

- Wholesales 1.21 million units (up 5.3% year on year)
- Net sales ¥3,100.0 billion (up 6.2% year on year)
- Operating income ¥135.0 billion (up 9.4% year on year)
- Net income ¥75.0 billion (up 12.4% year on year)

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

Mazda 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

Mazda 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 US dollar and euro, could lower Mazda'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 a loss of contingent gains.

3. Alliances and Mergers

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

4. Laws and Regulations

Mazda'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's business results and financial position.

5. Market Competitiveness

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

6. Reliance on Certain Materials and Components

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

7. International Business Activities

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

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

8. Protection of Intellectual Property

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

Mazda'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 Mazda's business results and financial position.

9. Defective Products

While striving to improve the quality of its products to meet the requirements of the market, Mazda also does its utmost to ensure the safety of its products. However, the Company 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 Company, 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 Company has concluded natural disaster insurance contracts and taken other steps to minimize the financial risk of such events. However, the ability of Mazda to supply products may be severely disrupted in the event of a major earthquake, typhoon or other natural disaster, fire and other accidents, which could adversely affect Mazda's business results and financial position.

CONSOLIDATED BALANCE SHEETS

Mazda Motor Corporation and Consolidated Subsidiaries
March 31, 2006 and 2005

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|---------------------------------|------------------------|--|
| | As of 2005 March 31, 2006 | 2004 March 31, 2005 | 2005 March 31, 2006 |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | ¥ 208,658 | ¥ 214,639 | \$ 1,783,402 |
| Short-term investments | 110 | 4,334 | 940 |
| Trade notes and accounts receivable | 164,220 | 142,011 | 1,403,590 |
| Inventories (Note 5) | 256,652 | 253,869 | 2,193,607 |
| Deferred taxes (Note 14) | 94,685 | 80,133 | 809,274 |
| Other current assets | 58,059 | 80,641 | 496,229 |
| Allowance for doubtful receivables | (6,739) | (8,031) | (57,598) |
| Total current assets | 775,645 | 767,596 | 6,629,444 |
| Property, plant and equipment: | | | |
| Land (Note 6) | 445,562 | 449,356 | 3,808,222 |
| Buildings and structures | 412,414 | 406,804 | 3,524,906 |
| Machinery and equipment | 757,441 | 744,689 | 6,473,855 |
| Tools, furniture, fixtures and other | 229,337 | 234,242 | 1,960,146 |
| Construction in progress | 26,622 | 40,158 | 227,538 |
| | 1,871,376 | 1,875,249 | 15,994,667 |
| Accumulated depreciation | (1,040,875) | (1,051,002) | (8,896,368) |
| Net property, plant and equipment (Note 7) | 830,501 | 824,247 | 7,098,299 |
| Intangible assets | 24,792 | 23,367 | 211,898 |
| Investments and other assets: | | | |
| Investment securities: | | | |
| Unconsolidated subsidiaries and affiliated companies | 64,796 | 47,305 | 553,812 |
| Other | 22,845 | 11,706 | 195,256 |
| Long-term loans receivable | 6,265 | 8,017 | 53,547 |
| Deferred taxes (Note 14) | 51,296 | 73,747 | 438,427 |
| Other investments and other assets | 20,311 | 23,695 | 173,599 |
| Allowance for doubtful receivables | (7,163) | (10,820) | (61,222) |
| Investment valuation allowance | (629) | (1,014) | (5,376) |
| Total investments and other assets | 157,721 | 152,636 | 1,348,043 |
| Total assets | ¥1,788,659 | ¥1,767,846 | \$15,287,684 |

See accompanying notes.

| | As of | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-------|------------------------|------------------------|--|
| | | 2005 March 31, 2006 | 2004 March 31, 2005 | 2005 March 31, 2006 |
| LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY | | | | |
| Current liabilities: | | | | |
| Short-term debt (Note 8) | ¥ | 82,134 | ¥ 100,555 | \$ 702,000 |
| Long-term debt due within one year (Note 8) | | 62,573 | 113,247 | 534,812 |
| Trade notes and accounts payable | | 307,217 | 290,476 | 2,625,786 |
| Accrued expenses | | 319,496 | 295,723 | 2,730,735 |
| Reserve for warranty expenses | | 29,088 | 24,150 | 248,615 |
| Other | | 36,355 | 53,077 | 310,727 |
| Total current liabilities | | 836,863 | 877,228 | 7,152,675 |
| Long-term debt due after one year (Note 8) | | 310,702 | 314,343 | 2,655,573 |
| Deferred tax liability related to land revaluation (Note 6) | | 93,713 | 91,132 | 800,966 |
| Employees' severance and retirement benefits (Note 9) | | 125,004 | 195,892 | 1,068,410 |
| Directors' and corporate auditors' retirement benefits | | 1,590 | 1,500 | 13,590 |
| Liabilities from application of equity method | | 787 | 734 | 6,726 |
| Other long-term liabilities | | 12,792 | 11,176 | 109,333 |
| Contingent liabilities (Note 10) | | | | |
| Minority interests in consolidated subsidiaries | | 9,184 | 8,026 | 78,496 |
| Shareholders' equity: | | | | |
| Common stock: | | | | |
| Authorized: 3,000,000,000 shares | | | | |
| Issued: 1,407,342,954 shares in 2005 and 1,223,911,682 shares in 2004 (Note 11) | | 148,360 | 120,295 | 1,268,034 |
| Capital surplus (Note 11) | | 132,385 | 104,435 | 1,131,496 |
| Land revaluation (Note 6) | | 135,372 | 130,895 | 1,157,026 |
| Retained earnings (deficit) | | 24,005 | (34,581) | 205,171 |
| Net unrealized gains on available-for-sale securities | | 1,285 | 422 | 10,983 |
| Foreign currency translation adjustments | | (41,072) | (51,454) | (351,043) |
| Treasury stock (7,248,917 shares in 2005 and 7,780,996 shares in 2004) | | (2,311) | (2,197) | (19,752) |
| Total shareholders' equity | | 398,024 | 267,815 | 3,401,915 |
| Total liabilities, minority interests and shareholders' equity | | ¥1,788,659 | ¥1,767,846 | \$15,287,684 |

CONSOLIDATED STATEMENTS OF INCOME

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2006, 2005 and 2004

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|------------------------|------------------------|------------------------|--|
| | 2005 March 31, 2006 | 2004 March 31, 2005 | 2003 March 31, 2004 | 2005 March 31, 2006 |
| For the years ended | | | | |
| Net sales | ¥2,919,823 | ¥2,695,564 | ¥2,916,130 | \$24,955,752 |
| Cost and expenses: | | | | |
| Cost of sales | 2,110,934 | 1,972,574 | 2,165,160 | 18,042,171 |
| Selling, general and administrative expenses | 685,454 | 640,043 | 680,796 | 5,858,581 |
| | 2,796,388 | 2,612,617 | 2,845,956 | 23,900,752 |
| Operating income | 123,435 | 82,947 | 70,174 | 1,055,000 |
| Other income (expenses): | | | | |
| Interest and dividend income | 2,359 | 2,416 | 2,517 | 20,162 |
| Interest expense | (11,662) | (13,786) | (18,299) | (99,675) |
| Equity in net income of unconsolidated subsidiaries and affiliated companies | 8,976 | 9,963 | 9,199 | 76,718 |
| Other, net (Note 12) | (5,640) | (7,693) | (9,519) | (48,205) |
| | (5,967) | (9,100) | (16,102) | (51,000) |
| Income before income taxes | 117,468 | 73,847 | 54,072 | 1,004,000 |
| Income taxes (Notes 14 and 15): | | | | |
| Current | 26,439 | 12,343 | 13,105 | 225,975 |
| Prior year | 10,201 | – | – | 87,188 |
| Deferred | 12,454 | 14,315 | 4,563 | 106,444 |
| | 49,094 | 26,658 | 17,668 | 419,607 |
| Income before minority interests | 68,374 | 47,189 | 36,404 | 584,393 |
| Minority interests of consolidated subsidiaries | (1,663) | (1,417) | (2,503) | (14,214) |
| Net income | ¥ 66,711 | ¥ 45,772 | ¥ 33,901 | \$ 570,179 |
| | | Yen | | U.S. dollars (Note 1) |
| Amounts per share of common stock: | | | | |
| Net income: | | | | |
| Basic | ¥51.53 | ¥37.63 | ¥27.84 | \$0.44 |
| Diluted | 47.25 | 32.41 | 23.98 | 0.40 |
| Cash dividends applicable to the year | 5.00 | 3.00 | 2.00 | 0.04 |

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2006, 2005 and 2004

| | Millions of yen | | | | | | | |
|---|------------------------------|-----------------|--------------------|---------------------|-----------------------------------|---|---|-------------------|
| | Shares of common stock | Common stock | Capital surplus | Land revaluation | Retained earnings (deficit) | Net unrealized gains (losses) on available-for- sale securities | Foreign currency translation adjustments | Treasury stock |
| Balance at March 31, 2003 | 1,222,496,655 | ¥ 120,078 | ¥ 104,217 | ¥ 129,938 | ¥(107,742) | ¥ (193) | ¥ (51,315) | ¥ (912) |
| Net income | - | - | - | - | 33,901 | - | - | - |
| Cash dividends paid | - | - | - | - | (2,438) | - | - | - |
| Land revaluation | - | - | - | 1,532 | (1,532) | - | - | - |
| Net unrealized gains on available-for-sale securities | - | - | - | - | - | 621 | - | - |
| Adjustments from translation of foreign currency financial statements | - | - | - | - | - | - | (2,598) | - |
| Exclusion of consolidated subsidiaries and companies accounted for by the equity method | - | - | - | - | (409) | - | - | - |
| Treasury stock | - | - | - | - | - | - | - | (543) |
| Balance at March 31, 2004 | 1,222,496,655 | ¥ 120,078 | ¥ 104,217 | ¥ 131,470 | ¥ (78,220) | ¥ 428 | ¥ (53,913) | ¥ (1,455) |
| Net income | - | - | - | - | 45,772 | - | - | - |
| Exercise of stock acquisition rights | 1,415,027 | 217 | 216 | - | - | - | - | - |
| Cash dividends paid | - | - | - | - | (2,434) | - | - | - |
| Land revaluation | - | - | - | (575) | 331 | - | - | - |
| Net unrealized losses on available-for-sale securities | - | - | - | - | - | (6) | - | - |
| Adjustments from translation of foreign currency financial statements | - | - | - | - | - | - | 2,459 | - |
| Exclusion of consolidated subsidiaries and companies accounted for by the equity method | - | - | - | - | (30) | - | - | - |
| Treasury stock | - | - | 2 | - | - | - | - | (742) |
| Balance at March 31, 2005 | 1,223,911,682 | ¥120,295 | ¥104,435 | ¥130,895 | ¥(34,581) | ¥ 422 | ¥(51,454) | ¥(2,197) |
| Net income | - | - | - | - | 66,711 | - | - | - |
| Exercise of stock acquisition rights | 183,431,272 | 28,065 | 28,065 | - | - | - | - | - |
| Cash dividends paid | - | - | - | - | (3,648) | - | - | - |
| Land revaluation | - | - | - | 4,477 | (4,477) | - | - | - |
| Net unrealized gains on available-for-sale securities | - | - | - | - | - | 863 | - | - |
| Adjustments from translation of foreign currency financial statements | - | - | - | - | - | - | 10,382 | - |
| Treasury stock | - | - | (115) | - | - | - | - | (114) |
| Balance at March 31, 2006 | 1,407,342,954 | ¥148,360 | ¥132,385 | ¥135,372 | ¥ 24,005 | ¥1,285 | ¥(41,072) | ¥(2,311) |

| | Thousands of U.S. dollars (Note 1) | | | | | | | |
|--|------------------------------------|--------------------|---------------------|-----------------------------------|---|---|-------------------|--|
| | Common stock | Capital surplus | Land revaluation | Retained earnings (deficit) | Net unrealized gains (losses) on available-for- sale securities | Foreign currency translation adjustments | Treasury stock | |
| Balance at March 31, 2005 | \$1,028,162 | \$ 892,607 | \$1,118,761 | \$(295,564) | \$ 3,607 | \$(439,778) | \$(18,778) | |
| Net income | - | - | - | 570,179 | - | - | - | |
| Exercise of stock acquisition rights | 239,872 | 239,872 | - | - | - | - | - | |
| Cash dividends paid | - | - | - | (31,179) | - | - | - | |
| Land revaluation | - | - | 38,265 | (38,265) | - | - | - | |
| Net unrealized gains on available-for-sale securities | - | - | - | - | 7,376 | - | - | |
| Adjustments from translation of foreign currency financial statements | - | - | - | - | - | 88,735 | - | |
| Treasury stock | - | (983) | - | - | - | - | (974) | |
| Balance at March 31, 2006 | \$1,268,034 | \$1,131,496 | \$1,157,026 | \$ 205,171 | \$10,983 | \$(351,043) | \$(19,752) | |

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2006, 2005 and 2004

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|------------------------|------------------------|------------------------|--|
| | 2005 March 31, 2006 | 2004 March 31, 2005 | 2003 March 31, 2004 | 2005 March 31, 2006 |
| Cash flows from operating activities: | | | | |
| Income before income taxes | ¥117,468 | ¥ 73,847 | ¥ 54,072 | \$1,004,000 |
| Adjustments to reconcile income before income taxes to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 45,805 | 40,036 | 37,900 | 391,496 |
| Loss on impairment of fixed assets | 36,650 | – | – | 313,248 |
| Allowance for doubtful receivables | (206) | 1,462 | 1,620 | (1,761) |
| Investment valuation allowance | (115) | 371 | (81) | (983) |
| Reserve for warranty expenses | 4,734 | 1,539 | 4,077 | 40,462 |
| Employees' severance and retirement benefits | (71,087) | (2,361) | 15,353 | (607,581) |
| Interest and dividend income | (2,359) | (2,416) | (2,517) | (20,162) |
| Interest expense | 11,662 | 13,786 | 18,299 | 99,675 |
| Equity in net income of unconsolidated subsidiaries and affiliated companies | (8,976) | (9,963) | (9,199) | (76,718) |
| Loss on sale/disposition of property, plant and equipment, net | 5,961 | 8,714 | 990 | 50,949 |
| Loss (gain) on sale of investment securities, net | (1,407) | 425 | 108 | (12,026) |
| Insurance claim income | (996) | (27,942) | – | (8,513) |
| Decrease (increase) in trade notes and accounts receivable | (17,577) | 6,212 | (10,616) | (150,231) |
| Decrease (increase) in inventories | 10,332 | 23,246 | (37,113) | 88,308 |
| Increase (decrease) in trade notes and accounts payable | 10,974 | (275) | 50,766 | 93,795 |
| Increase (decrease) in other current liabilities | (15,989) | 14,079 | (10,560) | (136,658) |
| Other | (243) | 3,170 | 1,658 | (2,078) |
| Subtotal | 124,631 | 143,930 | 114,757 | 1,065,222 |
| Interest and dividends received | 2,838 | 2,710 | 2,862 | 24,256 |
| Interest paid | (11,292) | (13,912) | (18,216) | (96,513) |
| Insurance proceeds received | 15,554 | 13,383 | – | 132,940 |
| Income taxes paid | (17,133) | (12,376) | (7,024) | (146,435) |
| Net cash provided by operating activities | 114,598 | 133,735 | 92,379 | 979,470 |
| Cash flows from investing activities: | | | | |
| Purchase of investment securities | (8,875) | (5,611) | (1,527) | (75,855) |
| Sale of investment securities | 2,823 | 95 | 1,174 | 24,128 |
| Purchase of investments in subsidiaries affecting scope of consolidation | 31 | – | (760) | 265 |
| Sale of investments in subsidiaries affecting scope of consolidation | – | (595) | – | – |
| Additions to property, plant and equipment | (75,548) | (93,481) | (41,130) | (645,709) |
| Proceeds from sale of property, plant and equipment | 3,949 | 5,052 | 14,730 | 33,752 |
| Decrease (increase) in short-term loans receivable | 228 | 874 | (871) | 1,949 |
| Long-term loans receivable made | (110) | (204) | (821) | (940) |
| Collections of long-term loans receivable | 162 | 3,490 | 750 | 1,385 |
| Other | (3,647) | (7,455) | (14,796) | (31,172) |
| Net cash used in investing activities | (80,987) | (97,835) | (43,251) | (692,197) |
| Cash flows from financing activities: | | | | |
| Decrease in short-term debt | (8,845) | (56,746) | (29,002) | (75,598) |
| Proceeds from long-term debt | 92,102 | 107,142 | 119,743 | 787,197 |
| Repayment of long-term debt | (119,502) | (145,583) | (139,817) | (1,021,385) |
| Cash dividends paid | (3,930) | (2,434) | (2,438) | (33,590) |
| Other | (3,277) | 1,497 | (1,280) | (28,009) |
| Net cash used in financing activities | (43,452) | (96,124) | (52,794) | (371,385) |
| Effect of exchange rate fluctuations on cash and cash equivalents | 3,860 | 2,632 | 1,175 | 32,992 |
| Net decrease in cash and cash equivalents | (5,981) | (57,592) | (2,491) | (51,120) |
| Cash and cash equivalents at beginning of the year | 214,639 | 272,231 | 274,722 | 1,834,522 |
| Cash and cash equivalents at end of the year | ¥208,658 | ¥214,639 | ¥272,231 | \$1,783,402 |

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 have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of Mazda Motor Corporation (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 Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2006, which was ¥117 to U.S.\$1. The convenience 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 non-consolidated subsidiaries and affiliates, over which the Company has the ability to exercise significant influence over operating and financial policies of the investees, are accounted for on the equity method.

The consolidated financial statements include the accounts of the Company and 58 subsidiaries (53 in the year ended March 31, 2005 and 55 in the year ended March 31, 2004). In addition, 14 affiliates (12 in the year ended March 31, 2005 and 12 in the year ended March 31, 2004) are accounted for on the equity method.

The consolidated year-end balance sheet date is March 31. Among the consolidated subsidiaries, 7 companies (4 at March 31, 2005 and 3 at March 31, 2004) 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 5 of the 7 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 2 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.

Also, commencing in the year ended March 31, 2004, 13 consolidated overseas subsidiaries changed the year-end balance sheet date from December 31 to March 31. Accordingly, the results of operations for the year ended March 31, 2004 include 15 months (from January 1, 2003 to March 31, 2004) of operations for these companies. The effect of this change to the consolidated statement of income is discussed in Note 3.

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

Foreign currency translation

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

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

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

The Company and its consolidated domestic subsidiaries (together the "Domestic Companies") classify securities 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").

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which 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 shareholders' equity. Realized gains and losses on 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 market value of held-to-maturity debt securities, 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 in the statement of 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 cost determined principally by the average method.

Property, plant and equipment

Property, plant and equipment are stated mainly at cost. Depreciation is computed principally using the straight-line method over the useful lives of the assets determined in accordance with Japanese income tax law.

Intangible fixed assets

Intangible fixed assets are amortized principally on the straight-line method over useful lives of the assets determined in accordance with Japanese income tax law.

Allowance for doubtful receivables

The Domestic Companies provide for doubtful accounts principally at an amount computed based on past experience plus estimated uncollectible amounts based on the analysis of certain individual doubtful accounts.

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 three types of post-employment benefit plans, unfunded lump-sum plans, funded contributory pension plans, and funded non-contributory 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. For the Company, the pension plans cover 50% of total retirement benefits. The Domestic Companies provide defined benefit plans; consolidated overseas subsidiaries provide defined benefit and/or contribution plans.

For the Domestic Companies, the liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Domestic Companies provide for employees' severance and retirement benefits 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. For executive officers, the liability is provided for the amount that would be required if all the executive officers retired at the balance sheet date.

As discussed in Note 9, in connection with the enactment of the Defined Benefit Corporate Pension Law, as of July 31, 2005, the Mazda Social Welfare Pension Fund, which the Company and certain Domestic Companies are members of, obtained approval from the Minister of Health, Labor and Welfare to be relieved of the retirement benefit obligation of the substitutional portion which relates to past employee services and for transfer of the retirement benefit obligation of the substitutional portion and the related plan assets to the government. On March 28, 2006, the transfer of the plan assets attributable to the substitutional portion to the government was completed.

Directors' and corporate auditors' retirement benefits

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

Income 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, 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, 2006, 2005 and 2004, research and development costs were ¥95,730 million (\$818,205 thousand), ¥90,841 million and ¥87,807 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.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Domestic Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments 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.

Leases

Finance leases which do not transfer ownership and do not have bargain purchase provisions are accounted for in the same manner as operating leases in accordance with generally accepted accounting principles in Japan.

Amounts per share of common stock

The computations of net income per share of common stock are based on the average number of shares outstanding during each 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 shares to be issued upon the exercise of stock acquisition rights and stock options.

Cash dividends per share represent actual amounts applicable to the respective years.

3. ACCOUNTING CHANGES AND ADOPTION OF A NEW ACCOUNTING STANDARD

Synchronization of fiscal year-ends of overseas consolidated subsidiaries with the consolidated fiscal year-end

Through the year ended March 31, 2003, in consolidating the overseas subsidiaries, which had a year-end different from the consolidated year-end of March 31, the financial statements of each of these subsidiaries were used with adjustments necessary in consolidation for material transactions that occurred between the year-ends of the above subsidiaries and the consolidated year-end. Commencing in the year ended March 31, 2004, in order to better administer and disclose consolidated financial results, the fiscal year-ends of 13 consolidated overseas subsidiaries were changed to match the consolidated fiscal year-end of March 31. Accordingly, the consolidated operating results for the year ended March 31, 2004 consisted of 15 months of operations from January 1, 2003 to March 31, 2004 for those consolidated overseas subsidiaries.

The effects of this change on the consolidated statement of income were to increase net sales by ¥341,408 million and to decrease operating income, income before income taxes and net income by ¥150 million, ¥1,586 million and ¥2,429 million, respectively, for the year ended March 31, 2004.

Also, the effects of this change on the consolidated statement of cash flows were to decrease the operating cash flows, investing cash flows and financing cash flows by ¥18,525 million, ¥1,177 million and ¥600 million, respectively.

Accounting for forward foreign exchange contracts

Through the year ended March 31, 2003, the Company accounted for sales and purchases in foreign currencies and related forward foreign exchange contracts qualifying as hedges in the manner that sales and purchases hedged by qualifying forward foreign exchange contracts were translated at the corresponding foreign exchange contract rates. Commencing on April 1, 2003, the Company changed the accounting to the standard method. Under the standard method, sales and purchases are translated into Japanese yen at the exchange rates in effect at the dates they are transacted, and related receivables and payables are translated at the exchange rates in effect at the balance sheet date, while forward foreign exchange contracts qualifying as hedges on those sales and purchases transactions are recognized at their fair value at the balance sheet date and changes in fair values are charged to earnings. This change was made as a result of improvements made in the Company's internal system to properly grasp the conditions of derivative transactions.

The effects of this change on the consolidated statement of income for the year ended March 31, 2004 were to increase operating income by ¥4,546 million and to increase income before income taxes by ¥82 million.

Adoption of new accounting standard for impairment of fixed assets

Commencing in the year ended March 31, 2006, the Domestic Companies adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003).

The new accounting standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured at the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adopting the new accounting standard on the consolidated statement of income for the year ended March 31, 2006 was to decrease income before income taxes by ¥21,891 million (\$187,103 thousand). (See Note 7)

Also, the impaired fixed assets are presented in the consolidated balance sheet net of accumulated impairment in accordance with the revised standard for preparation of consolidated financial statements.

4. SECURITIES

The Company and its consolidated subsidiaries had no trading or held-to-maturity debt securities with available fair values at March 31, 2006 and 2005.

Available-for-sale securities that have available market values as of March 31, 2006 were as follows:

| | Millions of yen | | | Thousands of U.S. dollars | | |
|--------|-------------------|-----------------|------------------|---------------------------|-----------------|------------------|
| | Acquisition costs | Carrying values | Unrealized gains | Acquisition costs | Carrying values | Unrealized gains |
| Stocks | ¥563 | ¥2,684 | ¥2,121 | \$4,812 | \$22,940 | \$18,128 |
| Other | 277 | 277 | – | 2,368 | 2,368 | – |
| | ¥840 | ¥2,961 | ¥2,121 | \$7,180 | \$25,308 | \$18,128 |

Available-for-sale securities with no available fair values as of March 31, 2006 were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|------------------------------|-----------------|---------------------------|
| | Book value | Book value |
| Non-listed equity securities | ¥19,801 | \$169,239 |

Available-for-sale securities that have available market values as of March 31, 2005 were as follows:

| | Millions of yen | | |
|--------|-------------------|-----------------|---------------------------|
| | Acquisition costs | Carrying values | Unrealized gains (losses) |
| Stocks | ¥549 | ¥1,513 | ¥964 |
| Bonds | 11 | 11 | – |
| Other | 175 | 175 | – |
| | ¥735 | ¥1,699 | ¥964 |

Available-for-sale securities with no available fair values as of March 31, 2005 were as follows:

| | Millions of yen |
|------------------------------|-----------------|
| | Book value |
| Non-listed equity securities | ¥9,369 |

5. INVENTORIES

Inventories at March 31, 2006 and 2005 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|----------------------------|---|------------------------|--------------------------------|
| | As of 2005 March 31, 2006 | 2004 March 31, 2005 | 2005 March 31, 2006 |
| Finished products | ¥215,103 | ¥213,004 | \$1,838,487 |
| Work in process | 30,336 | 31,999 | 259,282 |
| Raw materials and supplies | 11,213 | 8,866 | 95,838 |
| | ¥256,652 | ¥253,869 | \$2,193,607 |

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 shareholders' 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 amount of decrease in the aggregate fair value of the revalued land as of March 31, 2006 from that at the time of revaluation, as stipulated in Article 10 of the Land Revaluation Law, is ¥83,721 million (\$715,564 thousand).

7. IMPAIRMENT OF FIXED ASSETS

As discussed in Note 3, the Domestic Companies adopted the new accounting standard for impairment of fixed assets and reviewed their fixed assets for impairment as of the year ended March 31, 2006. Assets are generally grouped by company; however, idle assets and assets for rent are individually reviewed for impairment. As a result, an impairment loss of ¥21,891 million (\$187,103 thousand) was recognized on certain idle assets without a future business plan, including distribution centers and production equipment, by reducing the carrying amount to the amount recoverable. The reduction in the carrying amount was recognized as an impairment loss.

The impairment loss on idle production equipment included tooling to be held for an extended period of time for the production of parts to be individually shipped; the impairment loss on such tooling amounted to ¥11,026 million (\$94,239 thousand). The recoverable amount of an idle asset is measured based on the net selling amount. For land, the net selling amount is estimated based on a third-party appraisal; for other idle assets, the net selling amount is nominal.

In addition, a consolidated subsidiary in the United States recognized an impairment loss of ¥14,759 million (\$126,145 thousand) on certain assets held for use in accordance with the accounting principles generally accepted in the United States.

The loss on impairment of fixed assets of ¥36,650 million (\$313,248 thousand) recognized in other income (expenses) (see Note 12) in the consolidated statement of income for the year ended March 31, 2006 consisted of the following:

| Use | Location | Type | Millions of yen | Thousands of U.S. dollars |
|---|-----------|-------------------------------|-----------------|---------------------------|
| Idle assets (distribution centers, etc.) | Kobe | Buildings and structures | ¥ 2,687 | \$ 22,966 |
| | | Machinery and vehicles | 665 | 5,684 |
| | | Tools, furniture and fixtures | 7 | 60 |
| | | Land | 4,089 | 34,949 |
| | | Other | 96 | 820 |
| | | Subtotal | 7,544 | 64,479 |
| Idle assets (production equipment, etc.) | Hiroshima | Machinery and vehicles | 3,321 | 28,385 |
| | | Tools, furniture and fixtures | 11,026 | 94,239 |
| | | Subtotal | 14,347 | 122,624 |
| Subtotal for the Domestic Companies: | | | 21,891 | 187,103 |
| Assets held for use (production equipment) | USA | Tools, furniture and fixtures | 14,759 | 126,145 |
| Total consolidated: | | | ¥36,650 | \$313,248 |

8. SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt at March 31, 2006 and 2005 consisted of loans, principally from banks with interest at March 31, 2006 and 2005 averaging 1.0% for both the years.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

| As of | Millions of yen | | Thousands of U.S. dollars |
|--|------------------------|------------------------|---------------------------|
| | 2005 March 31, 2006 | 2004 March 31, 2005 | 2005 March 31, 2006 |
| Domestic unsecured bonds due serially 2005 through 2012 at rates of 0.51% to 1.58% per annum | ¥ 65,400 | ¥ 70,800 | \$ 558,974 |
| Domestic unsecured convertible bonds with stock acquisition rights due 2007 with no interest | 3,437 | 59,567 | 29,376 |
| Loans principally from banks and insurance companies: | | | |
| Secured loans, maturing through 2020 | 57,932 | 107,001 | 495,145 |
| Unsecured loans, maturing through 2017 | 246,506 | 190,222 | 2,106,890 |
| | 373,275 | 427,590 | 3,190,385 |
| Amount due within one year | (62,573) | (113,247) | (534,812) |
| | ¥310,702 | ¥314,343 | \$2,655,573 |

The annual interest rates applicable to long-term loans outstanding averaged 2.4% for due within one year and 1.6% for due after one year at March 31, 2006 and 1.8% for due within one year and 1.4% for due after one year at March 31, 2005.

As is customary in Japan, security must be given if requested by a lending bank. Such a bank has the right to offset cash deposited with it against any debt or obligation that becomes due and, in the case of default or certain other specified events, against all debts payable to the bank. The Company has never received any such requests.

The exercise price of the domestic unsecured convertible bonds with stock acquisition rights is ¥306.

The annual maturities of long-term debt at March 31, 2006 were as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|----------------------|-----------------|---------------------------|
| 2007 | ¥ 62,573 | \$ 534,812 |
| 2008 | 63,048 | 538,872 |
| 2009 | 52,091 | 445,222 |
| 2010 | 19,243 | 164,470 |
| 2011 | 37,952 | 324,376 |
| Thereafter | 138,368 | 1,182,633 |
| | <u>¥373,275</u> | <u>\$3,190,385</u> |

The assets pledged as collateral for short-term debt of ¥49,952 million (\$426,940 thousand) and long-term debt of ¥57,932 million (\$495,145 thousand) at March 31, 2006 were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|--|-----------------|---------------------------|
| Property, plant and equipment, at net book value | ¥475,515 | \$4,064,231 |
| Other | 998 | 8,530 |
| | <u>¥476,513</u> | <u>\$4,072,761</u> |

9. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The liabilities for severance and retirement benefits included in the liability sections of the consolidated balance sheets as of March 31, 2006 and 2005 consisted of the following:

| As of | Millions of yen | | Thousands of U.S. dollars |
|---|------------------------|------------------------|---------------------------|
| | 2005 March 31, 2006 | 2004 March 31, 2005 | 2005 March 31, 2006 |
| Projected benefit obligation | ¥322,108 | ¥537,801 | \$2,753,060 |
| Unrecognized prior service costs | 25,347 | 25,050 | 216,641 |
| Unrecognized actuarial differences | (60,662) | (95,764) | (518,479) |
| Less fair value of pension assets | (164,224) | (272,891) | (1,403,624) |
| Prepaid pension cost | 2,435 | 1,696 | 20,812 |
| Liability for severance and retirement benefits | ¥125,004 | ¥195,892 | \$1,068,410 |

Severance and retirement benefit expenses included in the consolidated statements of income for the years ended March 31, 2006, 2005 and 2004 consisted of the following:

| For the years ended | Millions of yen | | | Thousands of U.S. dollars |
|---|------------------------|------------------------|------------------------|---------------------------|
| | 2005 March 31, 2006 | 2004 March 31, 2005 | 2003 March 31, 2004 | 2005 March 31, 2006 |
| Service costs—benefits earned during the year | ¥ 8,630 | ¥10,454 | ¥15,052 | \$ 73,761 |
| Interest cost on projected benefit obligation | 10,809 | 15,369 | 15,396 | 92,385 |
| Expected return on plan assets | (4,365) | (8,081) | (6,223) | (37,308) |
| Amortization of prior service costs | (2,302) | (2,134) | 279 | (19,675) |
| Amortization of actuarial differences | 5,195 | 9,774 | 12,234 | 44,401 |
| Severance and retirement benefit expenses | ¥17,967 | ¥25,382 | ¥36,738 | \$153,564 |

The discount rates and the rates of expected return on plan assets used by the Domestic Companies are primarily 2.0% and 3.0%, respectively, for the year ended March 31, 2006, and 3.0% and 3.0%, respectively, for the year ended March 31, 2005. 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.

Employees of Japanese companies are compulsorily included in the Welfare Pension Insurance Scheme operated by the government. Employers are legally required to deduct employees' welfare pension insurance contributions from their payroll and to pay them to the government together with employers' own contributions. For companies that have established their own Employees' Pension Fund which meets certain legal requirements, it is possible to transfer a part of their welfare pension insurance contributions (referred to as the "substitutional portion" of the government's Welfare Pension Insurance Scheme) to their own Employees' Pension Fund under the government's permission and supervision.

The newly enacted Defined Benefit Corporate Pension Law allows a company to transfer the substitutional portion back to the government. In order to transfer the substitutional portion, a company must obtain approval from the Minister of Health, Labor and Welfare ("MHLW") for the exemption from the payment of the benefits related to future employee service. In addition, a company must obtain approval from the "MHLW" to be relieved from the remaining benefit obligation of the substitutional portion which relates to past employee services. On obtaining that approval, a company will transfer the remaining benefit obligation of the substitutional portion pertaining to past employee services and the related plan assets to the government.

Based on the Defined Benefit Corporate Pension Law, the Company and certain other Domestic Companies decided to restructure their Employees' Pension Fund and were permitted by the MHLW on March 26, 2004 to be released from their future obligation for payments for the substitutional portion. Upon such approval, as a transitional provision, a company is allowed to recognize the effect of transferring the substitutional portion on the date permission was received from the MHLW for financial accounting purposes. The Company and the other Domestic Companies did not apply this transitional provision in the year ended March 31, 2004.

On March 31, 2004, estimated plan assets to be returned to the government were ¥144,871 million.

If the transitional provision had been adopted in the year ended March 31, 2004, based on the estimated plan assets at March 31, 2004, the effect of the adoption on the consolidated statement of income for the year ended March 31, 2004 would have been to increase other income by ¥47,517 million.

On July 31, 2005, the Company and the other Domestic Companies obtained approval from the MHLW to be relieved from the retirement benefit obligation of the substitutional portion which relates to past employee services and to transfer of the retirement benefit obligation of the substitutional portion and the related plan assets to the government. On March 28, 2006, the transfer of the plan assets attributable to the substitutional portion to the government was completed. The effect of the transfer on the consolidated statement of income for the year ended March 31, 2006 was to increase other income by ¥59,611 million.

10. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2006 were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|--|-----------------|---------------------------|
| Discounted trade notes receivable | ¥ 63 | \$ 538 |
| Factoring of receivables with recourse | 23,391 | 199,923 |
| Guarantees of loans and similar agreements | 9,703 | 82,932 |
| Letters of undertaking to provide guarantees for leases for factory facilities | 24,383 | 208,402 |

11. SHAREHOLDERS' EQUITY

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as stated capital, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

The Japanese Commercial Code also provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the board of directors. On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for dividends by the resolution of shareholders' meeting. Legal reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Commercial Code of Japan.

12. OTHER INCOME (EXPENSES)

The components of "Other, net" in Other income (expenses) in the statements of income for the years ended March 31, 2006, 2005 and 2004 were comprised as follows:

| | Millions of yen | | | Thousands of U.S. dollars | | | |
|---|---------------------|------------------------|------------------------|---------------------------|------------------------|----|--------------------|
| | For the years ended | 2005 March 31, 2006 | 2004 March 31, 2005 | 2003 March 31, 2004 | 2005 March 31, 2006 | | |
| Valuation loss on investment securities | ¥ | – | ¥ | – | ¥(2,832) | \$ | – |
| Gain (loss) on sale of investment securities, net | | 1,407 | (425) | (108) | | | 12,026 |
| Loss on sale of property, plant and equipment, net | | (6,433) | (10,638) | (990) | | | (54,983) |
| Rental income | | 1,926 | 1,961 | 1,986 | | | 16,462 |
| Gain on the transfer to the government of the substitutional portion of employee pension fund liabilities | | 59,611 | – | – | | | 509,496 |
| Loss on impairment of fixed assets | | (36,650) | – | – | | | (313,248) |
| Foreign exchange loss | | (19,088) | (7,443) | (2,870) | | | (163,145) |
| Compensation received for the exercise of eminent domain | | 472 | 1,924 | – | | | 4,034 |
| Loss on liquidation of a <i>Tokumei Kumiai</i> | | – | (2,226) | – | | | – |
| Insurance claim income | | 996 | 27,942 | – | | | 8,513 |
| Loss on disasters | | – | (14,831) | – | | | – |
| Other | | (7,881) | (3,957) | (4,705) | | | (67,360) |
| | | ¥ (5,640) | ¥ (7,693) | ¥(9,519) | | | \$ (48,205) |

Of the insurance claim income recognized in other income for the year ended March 31, 2005, the amount of ¥25,399 million was for the fire incident at Ujina No. 1 Plant that occurred on December 15, 2004. Also, of the loss on disasters recognized in other expenses for the year ended March 31, 2005, the amount of ¥12,613 million was for the fire incident.

13. REAL ESTATE TRUST CONTRACT

In the year ended March 31, 2000, the Company entered into a real estate trust contract. The beneficial ownership of property was transferred to a third party, and the real estate was leased back to the Company.

In addition, the Company entered a "Tokumei Kumiai" agreement with, and made an investment in the transferee. In order to fairly state the Company's investment at its substantial value, the cumulative amount of investment loss that the Company is responsible for is directly deducted from the balance of the investment, with the excess of cumulative loss over investment being reported in liabilities. As of March 31, 2004, the excess of cumulative loss over investment that was included in other current liabilities was ¥1,888 million. The balance of the investment at March 31, 2004 was zero.

In September of 2004, however, the Company terminated the real estate trust contract and the lease contract of the real estate. The loss incurred on the termination of the *Tokumei Kumiai* agreement amounted to ¥2,226 million.

14. INCOME TAXES

The effective tax rates reflected in the consolidated statements of income differ from the statutory tax rate for the following reasons.

| | 2005 For the years ended March 31, 2006 | 2004 March 31, 2005 | 2003 March 31, 2004 |
|--|---|------------------------|------------------------|
| Statutory tax rate | 40.4% | 40.4% | 41.7% |
| Equity in net income of unconsolidated subsidiaries and affiliated companies | (3.1) | (5.5) | (7.1) |
| Valuation allowances | 1.0 | 9.0 | 5.3 |
| Unrealized profits from intercompany transactions | (6.6) | (5.7) | (5.6) |
| Prior year income taxes | 8.7 | - | - |
| Other | 1.4 | (2.1) | (1.6) |
| Effective tax rate | 41.8% | 36.1% | 32.7% |

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 at March 31, 2006 and 2005 were as follows:

| | Millions of yen | | Thousands of U.S. dollars | |
|---|-----------------|------------------------|------------------------------|------------------------|
| | As of | 2005 March 31, 2006 | 2004 March 31, 2005 | 2005 March 31, 2006 |
| Deferred tax assets: | | | | |
| Allowance for doubtful receivables | ¥ | 3,936 | ¥ 6,141 | \$ 33,641 |
| Employees' severance and retirement benefits | | 50,389 | 76,970 | 430,675 |
| Loss on impairment of fixed assets | | 9,146 | – | 78,171 |
| Accrued bonuses and other reserves | | 23,987 | 21,182 | 205,017 |
| Inventory valuation | | 4,504 | 4,878 | 38,496 |
| Valuation loss on investment securities, etc. | | 1,364 | 1,297 | 11,658 |
| Net operating loss carryforwards | | 10,174 | 5,244 | 86,957 |
| Other | | 75,591 | 67,004 | 646,077 |
| Total gross deferred tax assets | | 179,091 | 182,716 | 1,530,692 |
| Less valuation allowance | | (22,103) | (17,626) | (188,914) |
| Total deferred tax assets | | 156,988 | 165,090 | 1,341,778 |
| Deferred tax liabilities: | | | | |
| Reserves under Special Taxation Measures Law | | (8,198) | (8,608) | (70,068) |
| Other | | (2,955) | (2,655) | (25,257) |
| Total deferred tax liabilities | | (11,153) | (11,263) | (95,325) |
| Net deferred tax assets | | ¥145,835 | ¥153,827 | \$1,246,453 |

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 | 2005 March 31, 2006 | 2004 March 31, 2005 | 2005 March 31, 2006 |
| Current assets—Deferred taxes | ¥ | 94,685 | ¥ 80,133 | \$ 809,274 |
| Investments and other assets—Deferred taxes | | 51,296 | 73,747 | 438,427 |
| Current liabilities—Other | | (1) | (1) | (9) |
| Other long-term liabilities | | (145) | (52) | (1,239) |
| Net deferred tax assets | | ¥145,835 | ¥153,827 | \$1,246,453 |

15. PRIOR YEAR INCOME TAXES

Prior year income taxes recorded in the year ended March 31, 2006 are primarily for the taxes expected to be reassessed on transactions between the Company and an overseas subsidiary. The Company was audited by the Hiroshima Regional Taxation Bureau, and the Company expects that the tax audit is likely to conclude in the near future. As a result of the tax audit, it is highly likely that additional income taxes will be reassessed on transactions between the Company and an overseas subsidiary, and the Company recognized the expected increase in tax with respect to the transactions as prior year income taxes in the consolidated statement of income for the year ended March 31, 2006. The Company plans to formally request for bilateral consultations between the two countries under the applicable tax treaties for transfer pricing in order to obtain relief from double taxation.

16. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

The Company and its consolidated subsidiaries use forward foreign exchange contracts and currency option and swap 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 and currency option and swap contracts are subject to risks of foreign exchange rate changes. Interest rate swap contracts are subject to risks of interest rate changes.

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 group-wide 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 loans receivable and future transactions |
| Currency option contracts | Future transactions |
| Interest rate swap contracts | Interest on borrowings |

The following tables summarize market value information as of March 31, 2006 and 2005 of derivative transactions for which hedge accounting has not been applied:

| 2005 As of March 31, 2006 | Millions of yen | | | Thousands of U.S. dollars | | |
|-------------------------------------|-----------------|----------------------|------------------------|---------------------------|----------------------|------------------------|
| | Contract amount | Estimated fair value | Unrealized gain (loss) | Contract amount | Estimated fair value | Unrealized gain (loss) |
| Forward foreign exchange contracts: | | | | | | |
| Sell: | | | | | | |
| U.S. dollars | ¥18,494 | ¥18,872 | ¥ (378) | \$158,068 | \$161,299 | \$ (3,231) |
| Canadian dollars | 4,780 | 4,992 | (212) | 40,855 | 42,667 | (1,812) |
| Australian dollars | 920 | 914 | 6 | 7,863 | 7,812 | 51 |
| Euro | 23,770 | 24,647 | (877) | 203,162 | 210,658 | (7,496) |
| Sterling pound | 3,798 | 3,856 | (58) | 32,462 | 32,957 | (495) |
| Swiss Franc | 173 | 174 | (1) | 1,479 | 1,487 | (8) |
| Buy: | | | | | | |
| Australian dollars | 3,739 | 3,745 | 6 | 31,957 | 32,008 | 51 |
| | ¥55,674 | ¥57,200 | ¥(1,514) | \$475,846 | \$488,888 | \$(12,940) |

| 2004 As of March 31, 2005 | Millions of yen | | |
|-------------------------------------|-----------------|----------------------|------------------------|
| | Contract amount | Estimated fair value | Unrealized gain (loss) |
| Forward foreign exchange contracts: | | | |
| Sell: | | | |
| U.S. dollars | ¥ 5,731 | ¥ 5,645 | ¥ 86 |
| Canadian dollars | 2,617 | 2,653 | (36) |
| Australian dollars | 257 | 266 | (9) |
| Euro | 360 | 371 | (11) |
| Sterling pound | 2,764 | 2,861 | (97) |
| Buy: | | | |
| Thai baht | 5,799 | 5,951 | 152 |
| Australian dollars | 4,862 | 4,860 | (2) |
| Currency swap contracts: | | | |
| U.S. dollars | 279 | 277 | (2) |
| | <u>¥22,669</u> | <u>¥22,884</u> | <u>¥ 81</u> |

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

For currency swap contracts, fair values at year end are estimated based on information obtained from financial institutions engaged in the transactions.

17. LEASES

As lessee, the equivalents of the acquisition costs, accumulated depreciation and net book values of finance leases accounted for as operating leases as of March 31, 2006 and 2005 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|------------------------------|------------------------|---------------------------|
| | As of 2005 March 31, 2006 | 2004 March 31, 2005 | 2005 March 31, 2006 |
| Acquisition costs for machinery, tools and equipment | ¥76,910 | ¥84,724 | \$657,350 |
| Accumulated depreciation | 37,285 | 43,819 | 318,675 |
| Net book value | ¥39,625 | ¥40,905 | \$338,675 |

Lease payments under non-capitalized finance leases amounted to ¥14,514 million (\$124,051 thousand), ¥17,957 million and ¥22,486 million for the years ended March 31, 2006, 2005 and 2004, respectively.

The equivalents of the related depreciation and interest expenses amounted to ¥12,878 million (\$110,068 thousand) and ¥1,248 million (\$10,667 thousand) for the year ended March 31, 2006, ¥15,035 million and ¥1,637 million for the year ended March 31, 2005, and ¥18,505 million and ¥2,281 million for the year ended March 31, 2004, respectively.

The present values of future minimum lease payments under non-capitalized finance leases and future minimum lease payments under operating leases as of March 31, 2006 and 2005 were as follows:

| | Millions of yen | | Thousands of U.S. dollars | Millions of yen | | Thousands of U.S. dollars |
|---------------------|------------------------------|------------------------|---------------------------|------------------------|------------------------|---------------------------|
| | Finance leases | | | Operating leases | | |
| | As of 2005 March 31, 2006 | 2004 March 31, 2005 | | 2005 March 31, 2006 | 2004 March 31, 2005 | |
| Current portion | ¥13,301 | ¥14,062 | \$113,684 | ¥ 5,860 | ¥ 6,597 | \$ 50,085 |
| Non-current portion | 28,295 | 28,720 | 241,837 | 9,607 | 14,382 | 82,112 |
| | ¥41,596 | ¥42,782 | \$355,521 | ¥15,467 | ¥20,979 | \$132,197 |

18. SEGMENT INFORMATION

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of passenger and commercial vehicles. Net sales, operating income (loss) and identifiable assets related to this industry have exceeded 90% of the respective consolidated amounts. 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, 2006, 2005 and 2004 were as follows:

| 2005 For the year ended March 31, 2006 | Millions of yen | | | | | | Consolidated |
|--|-----------------|---------------|----------|-------------|------------|--------------------------|--------------|
| | Japan | North America | Europe | Other areas | Total | Elimination or corporate | |
| Net sales: | | | | | | | |
| Outside customers | ¥1,213,283 | ¥823,447 | ¥655,370 | ¥227,723 | ¥2,919,823 | ¥ - | ¥2,919,823 |
| Inter-area | 1,056,948 | 7,397 | 18,275 | 1,106 | 1,083,726 | (1,083,726) | - |
| Total | 2,270,231 | 830,844 | 673,645 | 228,829 | 4,003,549 | (1,083,726) | 2,919,823 |
| Costs and expenses | 2,169,998 | 816,941 | 664,074 | 220,237 | 3,871,250 | (1,074,862) | 2,796,388 |
| Operating income | ¥ 100,233 | ¥ 13,903 | ¥ 9,571 | ¥ 8,592 | ¥ 132,299 | ¥ (8,864) | ¥ 123,435 |
| Total identifiable assets | ¥1,556,200 | ¥202,238 | ¥143,626 | ¥ 48,148 | ¥1,950,212 | ¥ (161,553) | ¥1,788,659 |

| 2004 For the year ended March 31, 2005 | Millions of yen | | | | | | Consolidated |
|--|-----------------|---------------|----------|-------------|------------|--------------------------|--------------|
| | Japan | North America | Europe | Other areas | Total | Elimination or corporate | |
| Net sales: | | | | | | | |
| Outside customers | ¥1,136,102 | ¥751,506 | ¥625,277 | ¥182,679 | ¥2,695,564 | ¥ - | ¥2,695,564 |
| Inter-area | 948,084 | 12,829 | 13,749 | 92 | 974,754 | (974,754) | - |
| Total | 2,084,186 | 764,335 | 639,026 | 182,771 | 3,670,318 | (974,754) | 2,695,564 |
| Costs and expenses | 2,025,413 | 755,547 | 630,413 | 177,090 | 3,588,463 | (975,846) | 2,612,617 |
| Operating income | ¥ 58,773 | ¥ 8,788 | ¥ 8,613 | ¥ 5,681 | ¥ 81,855 | ¥ 1,092 | ¥ 82,947 |
| Total identifiable assets | ¥1,522,641 | ¥192,154 | ¥121,421 | ¥ 41,283 | ¥1,877,499 | ¥(109,653) | ¥1,767,846 |

| 2003 For the year ended March 31, 2004 | Millions of yen | | | | | | Consolidated |
|--|-----------------|---------------|----------|-------------|------------|--------------------------|--------------|
| | Japan | North America | Europe | Other areas | Total | Elimination or corporate | |
| Net sales: | | | | | | | |
| Outside customers | ¥1,156,939 | ¥922,672 | ¥651,462 | ¥185,057 | ¥2,916,130 | ¥ - | ¥2,916,130 |
| Inter-area | 758,096 | 10,387 | 15,635 | 284 | 784,402 | (784,402) | - |
| Total | 1,915,035 | 933,059 | 667,097 | 185,341 | 3,700,532 | (784,402) | 2,916,130 |
| Costs and expenses | 1,867,697 | 933,652 | 656,648 | 178,034 | 3,636,031 | (790,075) | 2,845,956 |
| Operating income (loss) | ¥ 47,338 | ¥ (593) | ¥ 10,449 | ¥ 7,307 | ¥ 64,501 | ¥ 5,673 | ¥ 70,174 |
| Total identifiable assets | ¥1,557,322 | ¥201,098 | ¥136,096 | ¥ 32,757 | ¥1,927,273 | ¥(131,700) | ¥1,795,573 |

2005For the year ended
March 31, 2006

Thousands of U.S. dollars

| | Japan | North America | Europe | Other areas | Total | Elimination or corporate | Consolidated |
|---------------------------|--------------|---------------|-------------|-------------|--------------|--------------------------|--------------|
| Net sales: | | | | | | | |
| Outside customers | \$10,369,940 | \$7,038,009 | \$5,601,453 | \$1,946,350 | \$24,955,752 | \$ - | \$24,955,752 |
| Inter-area | 9,033,744 | 63,222 | 156,197 | 9,453 | 9,262,616 | (9,262,616) | - |
| Total | 19,403,684 | 7,101,231 | 5,757,650 | 1,955,803 | 34,218,368 | (9,262,616) | 24,955,752 |
| Costs and expenses | 18,546,992 | 6,982,402 | 5,675,847 | 1,882,366 | 33,087,607 | (9,186,855) | 23,900,752 |
| Operating income | \$ 856,692 | \$ 118,829 | \$ 81,803 | \$ 73,437 | \$ 1,130,761 | \$ (75,761) | \$ 1,055,000 |
| Total identifiable assets | \$13,300,855 | \$1,728,530 | \$1,227,573 | \$ 411,521 | \$16,668,479 | \$(1,380,795) | \$15,287,684 |

As discussed in Note 3, the fiscal year-ends of 13 consolidated overseas subsidiaries were changed to match the consolidated fiscal year-end of March 31. As a result of this change, net sales increased by ¥166,633 million in North America, ¥148,679 million in Europe, and ¥32,671 million in Other areas for the year ended March 31, 2004. Also, net sales decreased by ¥6,575 million in the elimination or corporate category for the year ended March 31, 2004. In addition, operating income decreased by ¥4,382 million in North America, increased by ¥2,022 million in Europe, and increased by ¥2,210 million in Other areas for the year ended March 31, 2004.

Also, as discussed in Note 3, the Company changed the accounting for forward foreign exchange contracts to the standard method. The effect of this change was to increase operating income by ¥4,546 million in Japan for the year ended March 31, 2004.

For the years ended March 31, 2006, 2005 and 2004, the principal countries included in North America, Europe, and Other areas were: the United States and Canada; Germany, Belgium and Britain; and Australia and Colombia, respectively.

International sales for the years ended March 31, 2006, 2005 and 2004 were as follows:

2005

For the year ended March 31, 2006

Millions of yen

| | North America | Europe | Other areas | Total |
|--------------------------------------|---------------|----------|-------------|------------|
| International sales | ¥843,988 | ¥668,941 | ¥519,232 | ¥2,032,161 |
| Percentage of consolidated net sales | 28.9% | 22.9% | 17.8% | 69.6% |

2004

For the year ended March 31, 2005

Millions of yen

| | North America | Europe | Other areas | Total |
|--------------------------------------|---------------|----------|-------------|------------|
| International sales | ¥761,684 | ¥634,233 | ¥454,027 | ¥1,849,944 |
| Percentage of consolidated net sales | 28.3% | 23.5% | 16.8% | 68.6% |

2003

For the year ended March 31, 2004

Millions of yen

| | North America | Europe | Other areas | Total |
|--------------------------------------|---------------|----------|-------------|------------|
| International sales | ¥936,718 | ¥659,813 | ¥473,368 | ¥2,069,899 |
| Percentage of consolidated net sales | 32.1% | 22.6% | 16.2% | 71.0% |

2005

For the year ended March 31, 2006

Thousands of U.S. dollars

| | North America | Europe | Other areas | Total |
|---------------------|---------------|-------------|-------------|--------------|
| International sales | \$7,213,573 | \$5,717,444 | \$4,437,880 | \$17,368,897 |

International sales include exports by the Domestic Companies as well as sales of consolidated overseas subsidiaries outside Japan.

As discussed in Note 3, the fiscal year-ends of 13 consolidated overseas subsidiaries were changed to match the consolidated fiscal year-end of March 31. As a result of this change, international sales increased by ¥163,988 million in North America, ¥144,749 million in Europe, and ¥32,671 million in Other areas for the year ended March 31, 2004.

For the years ended March 31, 2006, 2005 and 2004, the principal countries included in North America, Europe, and Other areas were: the United States and Canada; Germany and Britain; and Australia, Thailand and China, respectively.

19. RELATED PARTY TRANSACTIONS

The Company issued guarantees of loans and letters of undertaking to provide guarantees to certain creditors of AutoAlliance International, Inc. ("AAI"), an affiliate which is accounted for by the equity basis. As of March 31, 2006 and 2005, guarantees of loans and letters of undertaking, included in contingent liabilities, covered ¥25,790 million (\$220,427 thousand) and ¥32,504 million, respectively, of AAI's obligations.

In addition, the Company transferred (sold) receivables to Primus Financial Services, Inc., a subsidiary of Ford Motor Company. For the year ended March 31, 2006, the aggregate amount of transactions was immaterial. For the year ended March 31, 2005, the transactions amounted to ¥177,470 million in the aggregate. As of March 31, 2005, the ending balance of accounts receivable related to the transactions was ¥4,312 million. The terms of the transactions are determined on an arm's length basis.

Also, in the year ended March 31, 2003, the Company issued ¥60,000 million of convertible bonds with stock acquisition rights. Of the bonds, the Company sold ¥20,000 million to FLP Canada, a subsidiary of Ford Motor Company. As of March 31, 2005, the ending balances of the bonds with stock acquisition rights held by FLP Canada was ¥20,000 million. In the year ended March 31, 2006, FLP Canada exercised all the stock acquisition rights it held.

20. SUPPLEMENTARY CASH FLOW INFORMATION

For the years ended March 31, 2006 and 2005, exercise of bonds with stock acquisition rights increased common stock by ¥28,065 million (\$239,872 thousand) and ¥217 million, respectively, and increased capital surplus by ¥28,065 million (\$239,872 thousand) and ¥216 million, respectively, and decreased bonds with stock acquisition rights by ¥56,130 million (\$479,744 thousand) and ¥433 million, respectively.

In addition, for the years ended March 31, 2006 and 2005, assets and liabilities related to capital lease transactions that were newly recognized amounted to ¥18,262 million (\$156,085 thousand) and ¥2,861 million, respectively.

Also, of the insurance claims received that were included in the net cash provided by operating activities for the years ended March 31, 2006 and 2005, the amounts of ¥15,180 million (\$129,744 thousand) and ¥11,045 million, respectively, were for the fire incident at Ujina No. 1 Plant that occurred on December 15, 2004.

21. SUBSEQUENT EVENTS

The following appropriation of retained earnings was approved at a shareholders' meeting held on June 27, 2006:

| | Millions of yen | Thousands of U.S. dollars |
|---|-----------------|---------------------------|
| Year-end cash dividends: ¥5.00 (\$0.04) per share | ¥7,001 | \$59,838 |

ASSURANCE BY KEY MANAGEMENT

June 27, 2006

To the best of our knowledge, after due inquiry, the financial statements and other financial information included in the company's fiscal 2005 annual report are presented fairly, in all material respects, in conformity with the generally accepted accounting principles in Japan.

President and
Chief Executive Officer



Hisakazu Imaki

Senior Managing Executive Officer and
Chief Financial Officer



David E. Friedman

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS



To the Shareholders and the Board of Directors of
Mazda Motor Corporation:

We have audited the accompanying consolidated balance sheets of Mazda Motor Corporation (a Japanese corporation) and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2006, expressed in Japanese yen. These consolidated financial statements are the responsibility of Mazda Motor Corporation'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 consolidated financial position of Mazda Motor Corporation and subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, 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, in the year ended March 31, 2006, Mazda Motor Corporation and domestic subsidiaries adopted the new accounting standard for impairment of fixed assets.
- (2) As referred to in Note 3, Mazda Motor Corporation synchronized the fiscal year-end of certain overseas consolidated subsidiaries with the consolidated fiscal year-end in the year ended March 31, 2004.
- (3) As referred to in Note 3, Mazda Motor Corporation changed its method of accounting for forward foreign exchange contracts in the year ended March 31, 2004.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 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.

KPMG AZSA & Co.
Hiroshima, Japan
June 27, 2006

DIRECTORY

(As of March 31, 2006)

RESEARCH AND DEVELOPMENT SITES:

Hiroshima Head Office, Miyoshi, Mazda R&D Center Yokohama, Mazda Motor of America (US), Mazda Motor Europe (Germany)

MANUFACTURING SITES:

Japan

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

Overseas

US, China, Taiwan, Vietnam, Thailand, Malaysia, Philippines, Indonesia, India, Iran, Spain, Kenya, Zimbabwe, South Africa, Ecuador, Colombia

PRINCIPAL SUBSIDIARIES AND AFFILIATES

| Company | Capital | Holding (%) |
|--------------------------------------|-----------------|-------------|
| Mazda Motor of America, Inc. | \$240,000,000 | 92.6 |
| Mazda Motors (Deutschland) GmbH | Euro 17,895,000 | 100.0 |
| Mazda Canada Inc. | C\$13,000,000 | 60.0 |
| Mazda Australia Pty., Ltd. | A\$31,000,000 | 100.0 |
| Mazda Motor Logistics Europe N.V. | Euro 13,602,000 | 100.0 |
| Mazda Motor Europe GmbH | Euro 26,000 | 100.0* |
| Mazda Motors UK Ltd. | £4,000,000 | 100.0 |
| Mazda Autozam Inc. | ¥1,725,000,000 | 100.0 |
| Kanto Mazda Co., Ltd. | ¥3,022,000,000 | 100.0 |
| Tokai Mazda Hanbai Co., Ltd. | ¥2,110,000,000 | 100.0 |
| Kansai Mazda Co., Ltd. | ¥950,000,000 | 100.0 |
| Kyushu Mazda Co., Ltd. | ¥826,000,000 | 100.0 |
| Mazda Parts Kanto Co., Ltd. | ¥501,000,000 | 97.0 |
| Mazda Chuhan Co., Ltd. | ¥1,500,000,000 | 100.0 |
| Kurashiki Kako Co., Ltd. | ¥72,000,000 | 75.0 |
| Malox Co., Ltd. | ¥490,000,000 | 99.6 |
| Toyo Advanced Technologies Co., Ltd. | ¥3,000,000,000 | 100.0 |
| AutoAlliance International, Inc. | \$760,000,000 | 50.0 |
| AutoAlliance (Thailand) Co., Ltd. | Bt5,000,000,000 | 50.0* |

Note: *Including voting rights held by subsidiaries.

CORPORATE DATA

(As of March 31, 2006)

Name: Mazda Motor Corporation
Founded: January 1920
Capital: ¥148,360 million
Number of Employees: 36,626

OFFICES

Head Office:

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

Tokyo Office:

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Phone: +81 (3) 3508-5031

Osaka Branch:

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Kita-ku, Osaka 531-6008, Japan
Phone: +81 (6) 6440-5811

MAZDA WEBSITE ADDRESS

Additional information is available on
Mazda's global website.

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:

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Australia

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385 Ferntree Gully Road, Notting Hill,
Victoria 3149, Australia
Phone: +61 (3) 8540-1800 Fax: +61 (3) 8540-1920

STOCK INFORMATION

(As of March 31, 2006)

COMMON STOCK

| | |
|-------------------------|--|
| Authorized: | 3,000,000,000 shares |
| Issued: | 1,407,342,954 shares |
| Number of Shareholders: | 55,462 |
| 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 |

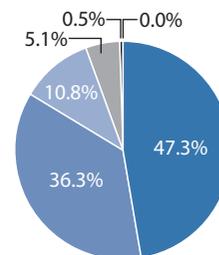
MAJOR SHAREHOLDERS

| Shareholder | No. of Shares Owned | Holding (%) |
|---|---------------------|-------------|
| Ford Automotive International Holding, S.L. | 408,175,800 | 29.0% |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 124,520,000 | 8.8 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 84,792,000 | 6.0 |
| FLP Canada | 65,359,476 | 4.6 |
| Tokio Marine & Nichido Fire Insurance Co., Ltd. | 40,410,500 | 2.9 |
| Sumitomo Mitsui Banking Corp. | 37,624,500 | 2.7 |
| Mitsui Sumitomo Insurance Co., Ltd. | 32,483,250 | 2.3 |
| Trust & Custody Services Bank, Ltd. (Trust Account B) | 27,564,000 | 2.0 |
| Sompo Japan Insurance Inc. | 20,210,000 | 1.4 |
| Morgan Stanley and Company Inc. | 19,089,262 | 1.4 |

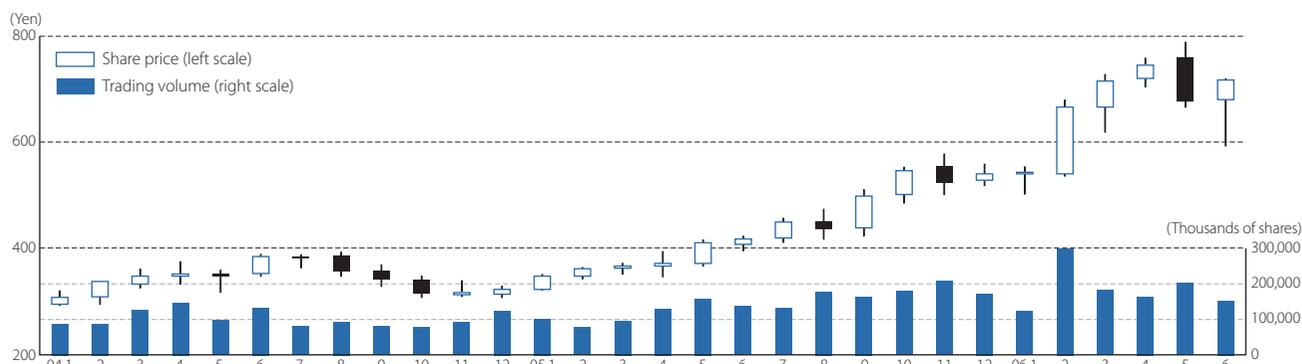
Note: Ford Automotive International Holding, S.L. and FLP Canada are 100% subsidiaries of Ford Motor Company.

BREAKDOWN OF SHAREHOLDERS

| Classification | No. of Shares Owned | Ratio (%) |
|--|---------------------|-----------|
| ● Foreign institutions & others | 665,526,913 | 47.3% |
| ● Japanese financial institutions | 510,634,080 | 36.3 |
| ● Japanese individuals & others | 152,280,016 | 10.8 |
| ● Other Japanese corporations | 71,663,937 | 5.1 |
| ● Japanese securities companies | 7,195,008 | 0.5 |
| ○ Japanese government & municipal corporations | 43,000 | 0.0 |



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



Mazda Motor Corporation



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