# Building Momentum

## Annual Report 2004

Year ended March 31, 2005

mazda

Mazda Motor Corporation "Building Momentum" Annual Report 2004

Profile

# Building

Established in 1920, Mazda Motor Corporation is headquartered in Hiroshima in western Japan. Our new lineup of models reflects our highly visible "Zoom-Zoom" brand message that seeks to recapture the sheer enjoyment of motion we all knew in childhood. All these cars are infused with the unique qualities of the Mazda marque—stylish, insightful and spirited—winning high marks from people around the world who know and love their cars.

In November 2004, we launched Mazda Momentum, our new medium-term management plan. Leveraging our newfound energy derived from recent model launches, this plan is designed to create the business base we need to accelerate and deliver sustained growth. By steadily implementing Mazda Momentum, we aim to build a stronger presence for Mazda in automotive markets worldwide.

zoom-zoom

*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), Mazda5 (Mazda Premacy), Mazda6 (Mazda Atenza), Mazdaspeed6/Mazda6 MPS (Mazdaspeed Atenza), Mazda MX-5 Miata/Mazda MX-5 (Mazda Roadster) and Mazda Protegé/Mazda 323 (Mazda Familia).

# Momentum

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### FORWARD-LOOKING STATEMENTS:

Statements made in this annual report with respect to Mazda's plans, strategies and future performance are forward-looking statements based on management's assumptions and beliefs in the light of information currently available, and involve risks and uncertainties. Potential risks and uncertainties include, but are not limited to: sudden changes in general economic conditions in Mazda's markets and operating environment; exchange rates, particularly 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.

# FINANCIAL HIGHLIGHTS

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

| | Millions of yen | | | | Thousands of U.S. dollars*1 |
|---|---|---|---|---|---|
| | 2004 March 31, 2005 | 2003 March 31, 2004 | 2002 March 31, 2003 | Increase (decrease) 2004/2003 | 2004 March 31, 2005 |
| **For the year*2:** | | | | | |
| Net sales | ¥2,695,564 | ¥2,916,130 | ¥2,364,512 | (7.6)% | $25,192,187 |
| Operating income | 82,947 | 70,174 | 50,656 | 18.2 % | 775,206 |
| Income before income taxes | 73,847 | 54,072 | 28,134 | 36.6 % | 690,159 |
| Net income | 45,772 | 33,901 | 24,134 | 35.0 % | 427,776 |
| **At the year-end:** | | | | | |
| Total assets | 1,767,846 | 1,795,573 | 1,754,017 | (1.5)% | 16,521,925 |
| Shareholders' equity | 267,815 | 222,605 | 194,071 | 20.3 % | 2,502,944 |
| | Yen | | | | U.S. dollars*1 |
| **Amounts per share of common stock:** | | | | | |
| Net income*3 | ¥ 37.63 | ¥ 27.84 | ¥ 19.80 | 35.2 % | $0.35 |
| Cash dividends applicable to the year*4 | 3.00 | 2.00 | 2.00 | 50.0 % | 0.03 |
| Shareholders' equity | 220.22 | 182.91 | 159.22 | 20.4 % | 2.06 |

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, 2005 of ¥107 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.

# DELIVERING PROGRESS
## —But More to Do

### U2 BACK ON STREAM

Operations at the Ujina No. 2 Plant (U2) were restarted in May 2004. This was just one step we took to reinforce our production framework as we work to maintain product-led growth with more new model launches. Bringing U2 back on stream means we now have the capacity to produce around 898,000 vehicles annually in Japan, an increase of 110,000.

### MAZDA VERISA AND ALL-NEW MAZDA5 HIT THE ROAD IN JAPAN

After its launch, the Mazda Verisa received the 2004–2005 Japan Car of the Year: Best Value award in November 2004. The all-new Mazda5, rolled out in February 2005, also got off to a good start after proving popular with Japanese drivers and the automotive press.

### ANOTHER GREAT YEAR IN EUROPE

Models like the Mazda6, Mazda3 and Mazda RX-8 helped sustain strong product-led growth in Europe. In fiscal 2004, we recorded our best-ever unit sales figures in the UK, Italy, Spain, Russia and Portugal.

### SHIFTING TO A HIGHER GEAR IN CHINA

Aiming to leverage our powerful brand in China, we took a number of steps to create a manufacturing and sales framework in the country with a view to selling 300,000 units in fiscal 2010. One initiative was the establishment of FAW Mazda Motor Sales Co., Ltd. to handle all sales operations in China. Business got under way in March 2005.

**Mazda reports operating income**

We're now focusing on Mazda Momentum to achieve our medium-term targets and realize our long-term vision

We proved Mazda is firmly back on the road to growth, but we've still got much to do

Dynamic product-led growth

What underpinned this result?

for fiscal 2004 of ¥83 billion—an all-time high

Mazda RX-8

Mazda6

Mazda3

Mazda5

Mazda2

Mazda Verisa

# A Conversation With the President

## Building Momentum on the Road to Growth

Representative Director, President and CEO
HISAKAZU IMAKI

"Mazda posted record profits in fiscal 2004, but I believe we can do even better. Always aiming higher, we'll push ahead with Mazda Momentum to ensure your company is back on the path to a solid and sustained recovery."

**Mazda reported operating income of ¥82.9 billion and net income of ¥45.8 billion for fiscal 2004, both record figures. What underpinned this performance?**

Our turnaround goes back to when Henry Wallace was appointed president of Mazda in 1996. After him, Mazda was led by three more executives from Ford—James Miller, Mark Fields and Lewis Booth. Their decisions in response to the operating environment they faced built the foundation for these record results. During this period there was a 19-month hiatus when no Mazda models were introduced, but with the well-received launch of our new cars worldwide, starting with the Mazda6, things began to look up with product-led growth. Thanks to this, we achieved record results this year. But I believe we can do even better. In fact, what I think we've done so far is to finally grasp the momentum we need to deliver a more solid and sustained turnaround at Mazda.

In light of our improved performance in the year under review, we've decided to increase the dividend applicable to the year from ¥2.0 to ¥3.0 per share. This is just the initial step in returning profits to shareholders who have stood by us over the years.

**What was the impact of the fire in the paint shop at the Ujina No.1 Plant in December 2004, and how did recovery operations progress?**

Fortunately, the impact of the fire was minimized thanks to our flexible production framework, allowing us to use the paint shop at the Ujina No.2 plant, for example. By using a modular construction method and calling on a range of partners, we managed to restart paint operations for volume car production only about four months after the fire. The new paint shop has also been fitted with our Three Layer Wet Paint System, which has a shorter processing time and is more environmentally friendly than the previous system.

Although we regret the damage caused, cooperation between Mazda employees and people from other organizations reached new heights as we worked to overcome the difficulties faced because of the fire. We often like to talk about our "One Mazda" ideal of close teamwork, but this incident was the catalyst for even closer cooperation among employees, contributing to our strong performance in fiscal 2004. Mazda will work to prevent any similar incidents from happening in the future, while enhancing safety and quality initiatives based on an even greater consideration for local communities and the environment.

**Please outline your new medium-term management plan—Mazda Momentum—launched in November 2004.**

Mazda Momentum was the result of a thorough analysis of our previous Millennium Plan. This review didn't just focus on the successes and failures of our earlier medium-term management plan. It also focused on where we needed to take the company next. We came up with two overarching goals to ensure Mazda remains a key player in the automotive field in the years ahead: create a more powerful brand, and ensure Mazda has the capability to compete in the global market. Based on these goals,

we formulated a long-term vision. Put simply, we want to be a company that satisfies and is trusted by stakeholders, not by being a large-scale automaker, but by continuing to create cars that give drivers an exciting ownership experience. With this long-term objective clear in our minds, we formulated a strategic plan covering four areas to help us realize this vision—enhance Mazda's brand power, strengthen products and technologies, pursue efficiency based on global competitiveness, and cultivate a global workforce through higher ideals.

Mazda Momentum is designed to draw all these strands together by combining the strategic plan for our long-term vision with our newfound momentum as a company. Over the next two years we'll work to sustain our current growth while building a more robust operating base, and at the same time, strive to achieve the plan's targets.

**Mazda Momentum also includes four key initiatives. What are they?**

Our first initiative is reinforcing R&D. Mazda is already known and loved by drivers worldwide as a company with technically advanced products. But to stay competitive in a global market, where the race to develop better technologies is intensifying, we need to invest even more in research into new fields such as the environment, safety and onboard IT. We also need to enhance our product development capabilities to expand our model range. Above all though, as part of our commitment to being a good corporate citizen, we have to implement far-reaching measures that protect the environment. Here we aim to continue supplying the industry's cleanest and most efficient engines, and in parallel, develop and introduce more advanced technologies like hybrid engines and our own hydrogen rotary engine. This rotary engine, incorporating technology unique to Mazda, stands at

the pinnacle of our efforts to protect the environment.

Supporting our "Zoom-Zoom" brand message with a more extensive model lineup is vital if we want to sustain product-led growth. That's why we plan to complete the roll out of 16 new models, born out of our strengthened R&D program, in the three years ending in fiscal 2006. I believe that these new models, designed for specific car markets, will be highly competitive in their respective segments.

The second key initiative in Mazda Momentum is strengthening key markets. To become a truly global company, Mazda has to energetically work to boost customer satisfaction by launching new models targeting specific markets and strengthening dealership networks.

In Japan, we plan to introduce new minivan models and other products specifically targeting domestic customers. In February 2005 we launched the all-new Mazda5, which earned an excellent market response. This model, the first to be launched under Mazda Momentum, heralded a strong start to the new plan. We've also started reinforcing our domestic dealership network. Starting with 20 locations in fiscal 2005, we aim to open or replace around 15 dealerships annually to cover any areas where Mazda's presence is lacking and steadily boost retail sales.

The U.S. market remains our biggest challenge. Our goal in the country is to revitalize sales by implementing a plan focusing on three key areas. First, expand the model range. In the last three years we've launched six new models, but in the next three years we plan to up the pace of model roll-outs with nine new cars for U.S drivers. Notably, we're pushing forward the development of new models for the growing sport utility vehicle (SUV) and crossover segments in North America. We plan to launch three models that should be highly competitive in these segments. Second, we want to continue increasing the ratio of exclusive dealerships—that is, those

▼ MAZDA MOMENTUM STRATEGY ▼

▼ MAZDA MOMENTUM COMMITMENTS ▼

dealers committed to only selling and servicing Mazda cars. At the end of fiscal 2003, 24% of Mazda dealers in the region were exclusive. By the end of the year under review, we had boosted this figure to 33%, and we plan to further raise dealer exclusivity to 50% by the end of fiscal 2006. Third, we aim to offer customers a superb ownership experience by upgrading dealer sales and servicing processes.

Mazda has done well in Europe recently, and we hope to sustain current growth by offering a wider range of cars. The all-new Mazda5 has been launched in Europe in fiscal 2005, and we're confident it will be hugely popular with European drivers. Other key issues for us in Europe will be offering more diesel-engine models, actively responding to $CO_2$ emissions regulations, and continuing to expand our dealership network. In the latter area, we're currently reinforcing our sales network in Scandinavia following the establishment of national sales companies in Sweden and Norway in April last year, and we're also building Mazda's presence in emerging markets like Russia and Eastern Europe. We expect these steps to underpin further sales growth in the market.

Mazda Momentum's third key initiative is enhancing global efficiencies and synergies. One of the challenges we face as a company is how to ensure all the constituent parts of our supply chain—research and development, procurement, manufacturing and logistics—function flexibly and rapidly enough to create an organization that can compete globally on quality and cost. Naturally, further reducing costs will also be vital. Here we'll implement phase 2 of our Achieve Best Cost (ABC) program, which is focused on the development of best-in-class commodities, or components, and work to generate even greater synergies with Ford.

The fourth and final key initiative is leveraging human resources. Continuing to cultivate and train our workforce is key to the success of Mazda Momentum. This includes efforts

## MAZDA MOMENTUM KEY INITIATIVES

1. **Reinforce Research & Development**
2. **Strengthen Key Markets**
3. **Enhance Global Efficiencies and Synergies**
4. **Leverage Human Resources**

to accelerate the training of Mazda's next generation of leaders with a battery of programs that give middle management the necessary leadership skills. On a global level, we're hunting for the best people in every corner of the Mazda Group and actively working to encourage personnel exchanges. Our personnel development program is firmly focused on creating an environment that allows the creativity of every employee to flourish. This is crucial to deriving the best possible performance from each employee and creating a vibrant workplace.

**Finally, do you have a word for Mazda's stakeholders?**

In my answer to your first question I told you that although Mazda posted record profits in fiscal 2004, I believed we could do better. Many people ask me, "Has Mazda really turned the corner?" Well, we've definitely put the company back on the path to steady growth, but I'm still not satisfied with our current performance. And fiscal 2005, when Mazda Momentum gets fully underway, will be a crucial year in ensuring we deliver a solid and sustained recovery. At the same time, by attaining our targets through the steady implementation of this plan, I believe we can fulfill our responsibilities to you, our stakeholders. I hope we can continue to count on your support as we take on new challenges in the years ahead.

July 2005

Hisakazu Imaki

Representative Director, President and CEO

# BUILDING EXCITEMENT:

## Satisfying the Passion for Driving the World Over

### A Conversation With Hirotaka Kanazawa

The pace of new model launches at Mazda has been frenetic. Phase three of our strategy to strengthen the Mazda brand saw the launch of the Mazda6, Mazda2, Mazda RX-8 and Mazda3 in just two years. Even so, we plan to quicken the pace. In phase four, from fiscal 2004 to fiscal 2006, we plan to launch 16 new models specifically designed for key auto markets around the world. It promises to be quite a ride.

**Hirotaka Kanazawa**
Executive Officer, in charge of Vehicle Development, Vehicle Engineering, Powertrain Development and Technical Research Center
1974: Joined Mazda
1998: Appointed Manager, Europe R&D Representative Office
2002: Appointed General Manager, Platform & Program Management Division
2003: Appointed Executive Officer
2005: Appointed to current post

**How did phase three of your product strategy go, and what are your plans for phase four?**

During phase three, we launched four new models featuring entirely new bodies and engines. This gave us the powerful lineup we needed to drive growth, and together with our "Zoom-Zoom" brand message, helped us to generate new momentum at Mazda. I think we achieved our goals for phase three, but phase four will see us move up a gear: we'll actively launch more new models but with a greater focus on specific markets. Our aim is to accelerate the pace of growth and build more Mazda brand equity in markets worldwide.

**What kinds of strategic products do you plan to launch in Japan during phase four?**

Our overriding goal is to maintain the momentum from phase three and expand sales further by rolling out new models. We've already launched the all-new Mazda5, our first foray into the minivan segment since we started revamping our model range. Together with a complete redesign of the Mazda MPV, this will give us the vehicles we need to grab a larger share of the growing minivan segment in Japan. Other planned launches are the third-generation Mazda MX-5, the first complete redesign of this model in seven years, and the Mazdaspeed6.

**What's your strategy for building a stronger presence in North America?**

Our aim is to develop new models more closely tailored to the needs of North American drivers. Specifically, we'll create three new SUV vehicles, including crossover models. The first of these, the Mazda CX-7, based on the Mazda MX-Crossport concept car, which was well received at the Detroit Auto Show, will hit the market in 2006. This car, which fits right into our "Zoom-Zoom" design language by combining the best elements of our sportscar and SUV models, offers a totally new take on the crossover vehicle genre. The Mazda CX-7 is pitched squarely at baby boomers and generation Y drivers (16~25 year olds), and it will be a key model in our North American operations.

**Mazda's doing well in Europe right now, but how do you plan to maintain this momentum?**

We've successfully translated the rave reviews our cars have received in Europe into strong sales. This has underpinned some pretty impressive growth in the market. The way Mazda cars are built and designed makes them fun to drive, and I think this was picked up by European drivers who are used to the same kind of build with their own marques. In phase four, using our redesigned MZR-CD diesel engine, we plan to increase the number of diesel-powered cars in our range. As in Japan, the launch of the all-new Mazda5 was welcomed by drivers in Europe, and together with the launch of the third-generation Mazda MX-5 in fall this year, these cars will help us to maintain momentum in the market.

**What's your product strategy for the rapidly expanding Chinese market?**

As consumer needs and customer segments diversify, I feel that more Chinese drivers are becoming attracted to our stylish "Zoom-Zoom" cars. The Mazda brand continues to gain ground in the country, illustrated by the 2004 Car of the Year Award for the Mazda6. With the planned launch of eight new models over the next three years, specifically designed for the Chinese market, we aim to reach our sales target of 300,000 units in fiscal 2010.

# NEW FRONTIERS:

## Mazda MX-Crossport

We unveiled the Mazda MX-Crossport, our crossover concept vehicle, at the North American International Detroit Auto Show in January 2005. Staying true to our "Zoom-Zoom" design language and boasting a striking interior, this car in its volume-production guise promises to be a valuable addition to our growing lineup of exciting new cars. The Mazda MX-Crossport also gave the global auto community a glimpse of where we plan to take our model range next.

After the great reviews the Mazda MX-Crossport received at the Detroit Auto Show, in May 2005 we announced that we'd be launching a volume-production version. Called the Mazda CX-7, this car is set for release in North America in 2006.

### DEVELOPED FOR THE NORTH AMERICAN MARKET

To maintain the momentum of our recent product-led growth, our strategy is to actively launch cars that are tailored to the needs of drivers and automotive environments in target markets around the world. The Mazda MX-Crossport embodies this approach. The brief for our designers with this car, aimed mainly at consumers in North America, was to further refine our existing design DNA to create a totally new crossover vehicle that fuses the strong, sportscar styling of the Mazda RX-8 with the rugged values of an SUV. The result: a striking new vehicle that has won plaudits at autoshows worldwide.

### "ADVANCED FRONTIER" DESIGN CONCEPT SHOWS THE WAY

Styling is a vital element of any Mazda car. The Mazda MX-Crossport is no exception. With this car, we set out to design a crossover vehicle based on what we call the "advanced frontier" design concept—where drivers can experience the world of the sportscar every time they sit behind the wheel.

Guided by this design concept, we deftly combined the speedy, athletic image of our well-known sports cars with the toughness and practicality of an SUV. The Mazda MX-Crossport's bold and powerful exterior is also nicely offset by its sporty and cutting-edge cabin environment.

### MAZDA CX-7 TO HIT THE ROADS IN 2006

The Mazda CX-7, modeled on the Mazda MX-Crossport concept car, is scheduled for launch in North America in 2006. Faithful to the same design cues and concept as the Mazda MX-Crossport, this new model transcends the existing SUV and crossover boundaries. With its sporty drive and styling, the Mazda CX-7 will blaze a trail for our "Zoom-Zoom" message, leading our efforts to build a stronger presence for the Mazda marque in North America.

# Mazda MX-Crossport

# DRIVER AND CAR AS ONE:

## All-new Mazda MX-5

All-new Mazda MX-5

Since launching the Mazda MX-5 in 1989, we've relentlessly worked to offer drivers the kind of fun they can only find in a lightweight open-top sportscar. This has won the car a global following of loyal fans, reflected by its place in the Guinness World Records as the world's best-selling two-seater lightweight drop-top. The third-generation version of the Mazda MX-5 is poised for launch around the world from the second half of 2005.

The new Mazda MX-5 is based on the Japanese idea of *jinba ittai*, or "rider and horse as one," which best describes the car's fun-to-drive character. This product concept is realized with a dynamic quality that creates a feeling of oneness between driver and car. With reliable, high-levels of build and interior quality, and major improvements to body safety and toughness, combined with a raft of safety features such as newly developed side airbags, this latest incarnation of the Mazda MX-5 takes driving comfort and safety to a new level—while staying faithful to our lightweight sportscar concept that's worked so well since 1989. By combining the distinct concept of *jinba ittai* and the ever-evolving "Zoom-Zoom" design language, we've crafted an all-new Mazda MX-5 that will continue to be fun to drive, but also play both a real and symbolic role in our efforts to build a more powerful Mazda brand.

# INNOVATIVE COMFORT:

## All-new Mazda5

The all-new Mazda5 is the fifth car in our latest wave of new model launches, following close on the heels of the Mazda6, Mazda2, Mazda RX-8 and Mazda3. This innovative people-carrier represents our first foray into the C-class minivan segment since we started revamping our lineup.

Based on the design concept of "Communicative and Dynamic," we aimed to create a car brimming with Mazda DNA and innovation. The result is a fun-to-drive minivan with dynamic styling, and an innovative 6+One cabin that lets passengers communicate and move about freely. The industry-first 6+One concept is the Mazda5's standout feature. In addition to enabling six adults to ride in comfort, we've created a central cabin space with a high level of functionality and multiple seating options—the +One element of the layout—giving passengers a relaxing space where they can communicate freely. By designing our now well-known "Zoom-Zoom" ride into the Mazda5, equipping it with large, double sliding doors, easy-to-use seat controls and other highly functional features, and offering it all in a stylish package, we've redefined the minivan concept.

We have high hopes for the Mazda5 as a strategic vehicle in the growing global minivan segment. We believe this vehicle has the potential to win over new fans to the Mazda marque and build a more powerful presence in the people-carrier market.

# SPINE-TINGLING PERFORMANCE:

## Mazdaspeed6

Mazdaspeed6 challenges the boundaries of our "Zoom-Zoom" concept. Developed by our engineers over a period of two years, this sophisticated high-performance sports sedan takes its cue from a concept car we showcased at the Paris Motor Show in 2002.

Based on the dynamic design and performance of the Mazda6, a car acclaimed by the world's motoring community, the Mazdaspeed6 is packed with high-performance features and innovative technology that combine to offer an exhilarating and refined drive. The new, direct-injection turbocharged 2.3-liter engine delivers a maximum 200kW in power (272PS) through an all-new active torque split all-wheel drive system. These and other exclusive technologies propel this car to the limits of dynamism enshrined in Mazda's design DNA. But the Mazdaspeed6 also has a quieter side: a comfortable and economical sedan ideally suited to everyday life.

Blending blistering performance and a fun-to-drive quality, the Mazdaspeed6 leaves other high-performance sedans standing. In short, it's both the essence and the pinnacle of our "Zoom-Zoom" brand message.

# THE ROAD AHEAD:

## Mazda RX-8 Hydrogen RE

# Mazda RX-8 Hydrogen RE

We pulled the wraps off the Mazda RX-8 Hydrogen RE at the Tokyo Motor Show in 2003. Powered by a hydrogen rotary engine that employs a dual fuel system*, this groundbreaking car can run on both gasoline and hydrogen. After receiving certification to be tested on public roads from the Land, Infrastructure and Transportation Ministry, the Mazda RX-8 Hydrogen RE became the world's first hydrogen rotary engine-powered car to be driven on public highways in October 2004.

The Mazda RX-8 Hydrogen RE is fitted with a modified version of the conventional RENESIS rotary engine found in the Mazda RX-8. The modifications allow the car to run safely on hydrogen as well as conventional gasoline.

In February 2005, we installed a hydrogen filling station near our head office in Hiroshima, and in 2006 we plan to begin lease sales of vehicles with hydrogen rotary engines to government agencies and businesses.

*A system that allows drivers to select gasoline or hydrogen-powered driving at the flick of a switch.

# THE GROWING MAZDA LINEUP OF EXCITING NEW MODELS

**All-new Mazda MX-5**
The Mazda MX-5 is already in the Guinness World Records as the world's best-selling two-seater lightweight drop-top. Now, based on the Japanese idea of *jinba ittai*, or "rider and horse as one," we've totally revamped the Mazda MX-5 to create a new level of driving pleasure.

**All-new Mazda5**
Right from the outset we wanted to make the all-new Mazda5 "Communicative and Dynamic." The result is a fun-to-drive minivan with dynamic styling, and an innovative 6+One cabin that lets passengers comfortably communicate and move about freely.

**Mazda3**
With the Mazda3, we've turned conventional wisdom on its head in the compact car segment. Exciting to drive and with provocative, bold styling, the Mazda3 immerses the driver in quality. And with improved levels of passenger safety, you know you're in for a smooth ride.

**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 new RENESIS rotary engine under the hood, this striking four-seater, four-door sports car literally breaks the mold.

**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.

**Mazda Verisa**
With the Mazda Verisa, we tore up the rulebook on car segments 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 revamped 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.

**Mazda MPV**
This spacious and sporty minivan offers comfort and multiple seating options in a stylish, efficient package. Dual power sliding doors are just some of the numerous Mazda MPV features that passengers love.

**Mazda Tribute**
With superior off-road handling and a roomy cabin, the Mazda Tribute is a perfect match for rugged, outdoor lifestyles. Its power and interior flexibility qualify it as a true sport utility vehicle (SUV).

Four of our new models—the Mazda3, Mazda RX-8, Mazda6 and Mazda2—and our RENESIS rotary engine, had won a total of 227 awards worldwide by May 31, 2005.

# REVIEW OF OPERATIONS

## JAPAN

In fiscal 2004, total demand in Japan was 5.82 million units, a decrease of 1.1% year on year. Mazda posted the third consecutive year of domestic sales growth, with volume rising 2.4% to 286,000 units, which lifted Mazda's share of the registered vehicle market 0.1 of a percentage point to 5.9%. Including mini-vehicles, Mazda's share of the total Japanese market grew 0.2 of a percentage point to 4.9%. Sales of Mazda vehicles in the mini-vehicle segment increased 17.8% year on year thanks to the start of sales of these models across the entire dealership network, which helped to increase convenience for our customers.

We launched two all-new models in the domestic market during the year. The Mazda Verisa, which hit Japan's roads in June 2004, was presented with the 2004–2005 Japan Car of the Year: Best Value award. Meanwhile, the all-new Mazda5 rolled out in February 2005, marking Mazda's first foray into the minivan market. This followed a stream of other new model launches kicked off with the Mazda6 in 2002.

In marketing strategy, Mazda worked to reinforce its brand by expanding retailing capacity, primarily in urban areas. And in corporate communications, our "Zoom-Zoom" brand positioning achieved heightened visibility thanks to a new message tailored especially for the Japanese market supported by "Zoom-Zoom" promotional music with Japanese lyrics. In order to ensure an integrated communications strategy from mass-media advertising down to the dealership level, we also took steps to make the "Zoom-Zoom" message more prominent in showrooms. Meanwhile, retailing initiatives included issuing a PC to every member of our sales team to revolutionize the sales process. Among other applications, we aim to use these PCs to show potential customers presentations that enhance their understanding of our model range.

Mazda5

Mazda Verisa

Unit Sales in Japan

(including mini-vehicle sales)

# NORTH AMERICA

In fiscal 2004, US auto and light truck sales totaled 16.7 million units, an increase of 0.7% from a year earlier. Mazda's US sales in fiscal 2004 fell 3.3% to 264,000 units, reflecting our decision to reduce incentive spending in the market, counter to the industry trend. Market share held steady at 1.6% in the year under review.

The Mazda3 sold 81,000 units in fiscal 2004, and for much of the year, demand outstripped supply. During the year we also added 5-Door and Sport Wagon versions to the Mazda6 lineup. Together with the existing Mazda6 Sports Sedan, we now offer customers the most comprehensive mid-size lineup in the industry.

As part of our plans to strengthen our brand in the US, we are currently working to increase the ratio of exclusive Mazda dealers to 50%, and have made significant progress toward this goal. As of March 2005, this ratio stood at 33%, up from 24% a year earlier.

Mazda will further bolster its model range over the next 12 months with the launch of four new cars: the all-new Mazda MX-5 Miata, the Mazdaspeed6, the all-new Mazda5, and our first crossover SUV, the Mazda CX-7, based on the Mazda MX-Crossport concept car.

With the 2004 Mexico City Auto Show as a backdrop, Mazda announced it will begin selling vehicles in Mexico in late 2005. In Canada, sales increased by an industry-leading 2.7% over the previous fiscal year to 71,000 units, the highest annual sales volume in the company's 35-year history. Market share increased to 4.5% from 4.3% in fiscal 2003. In contrast, total industry sales in the light vehicle segment declined 1.4% to 1.58 million units. Mazda's record-breaking sales were driven by the Mazda3, which recorded 40,000 units in its first year, becoming the third best selling passenger car on the market. Sales of the Mazda6 increased 94.3% to 12,000 units, supported by the launch of the Hatchback and Sport Wagon models. Mazda Canada's national dealer network now comprises exclusive dealerships.

## Unit Sales in the US

(retail sales basis)

## Unit Sales in Canada

(retail sales basis)

# EUROPE

In fiscal 2004, Mazda posted sales of 273,000 units in Europe, an increase of 9.0% year on year and the best figure in a decade. Our share of the market also rose to 1.5%, up 0.1 of a percentage point.

Mazda vehicles continued to win the favor of customers and the press last year. In addition to other awards, Germany's *Auto Bild* magazine awarded the Mazda6 its top reliability ranking, and the UK's *What Car?* named the Mazda RX-8 "Car of the Year 2004 (Best Coupe)." Even before its launch, the Mazda5 was named one of the best looking compact minivans in the German market by *MOT Magazine*.

Buoyed by these accolades, Mazda posted new sales records in five countries—the UK, Italy, Spain, Russia and Portugal. We also had a record year in the small car segment with our best-ever sales of the Mazda2, at 42,000 units. Mid-sized cars, primarily the Mazda3, and sports cars, including the Mazda MX-5 and Mazda RX-8, had their best year in the last five.

Finally, the company launched national sales companies in Norway and Sweden, commencing operations in those countries in April 2004. We also opened a representative office in Russia to support our growing presence in that increasingly important market.

Mazda3

Mazda RX-8

## Unit Sales in Europe

(retail sales basis)

# CHINA

In fiscal 2004, Mazda posted sales of 96,000 units in China, an increase of 5.8% compared to a year earlier. This sales growth came on the back of strong performances by the Mazda6, Mazda 323 and Mazda Premacy, which recorded sales of approximately 32,000, 51,000 and 13,000 units, respectively. Mazda's market share in China remained stable at 1.9%.

During 2002 and 2003, Mazda unit sales grew rapidly, supported by significant annual growth of more than 60% in the Chinese passenger vehicle market. However, the government began introducing restrictive financial policies from 2004, and growth in the market slowed from the second half of the year, with all manufacturers reporting a substantial drop in sales. Sales of Mazda vehicles were also affected, but aggressive marketing initiatives, including improved equipment options, helped us to maintain market share. Although growth in the market has continued to slow in 2005, we are increasing our share supported by popular models and active sales promotion activities by local marketing companies.

With the cooperation of partners FAW Car Co., Ltd. (FCC) in Changchun, and FAW Haima Motor Co., Ltd. (FHC) in Hainan, both subsidiaries of the First Auto Works (FAW) Group, we sold approximately 100,000 cars in China in the year under review. By building even stronger links with our global partner Ford, we plan to further boost this figure through our joint venture Changan Ford.

Mazda 323

Mazda6

## Unit Sales in China

(retail sales basis)

# OTHER REGIONS

Sales in other regions, except China, rose during fiscal 2004, growing 1.3% year on year in 20 key markets.

Sales in Australia totaled 59,000 units, an increase of 7.8%. This was the best-ever sales figure for Mazda in the country for the second year running, and represented a market share of 6.1%. The *Age*, a Melbourne-based newspaper, named the Mazda3 "Top Ten Cars of 2004: Best Small Car," while Mazda Australia achieved the top position in an industry sales satisfaction index.

In Thailand, Mazda posted sales of 15,000 units, an increase of 24.4% from a year earlier. Since its market launch, the Mazda3 has been enthusiastically accepted by the market and was named one of the country's top ten cars of 2004 by the *Bangkok Post*. Other major Asian and Pacific markets also saw substantial sales increases, including Singapore with a rise of 14.6% and New Zealand, up 9.2%.

In Israel, Mazda was the top-selling marque in the country for the ninth year running with 23,000 units, up 1.5% from fiscal 2003. Mazda's market share of 15.9% was also our best-ever annual figure since we entered the market in 1991. Mazda continues to command the top position in terms of both sales and customer satisfaction in Israel. As an added bonus, the Mazda3 was named "Car Of The Year 2005" by the *Yedihot Achronot*, a leading Israeli daily.

Sales were robust in other regions, with sales volumes rising 105.8% in Turkey, 20.2% in India, 19.3% in Ecuador and 7.6% in Puerto Rico.

## Unit Sales in Australia

(retail sales basis)

# CHINA STRATEGY:
## On the Road to Growth

### A Conversation With Kiyoshi Ozaki

Mazda's business in China is growing rapidly as a wave of motorization sweeps the country. Our key medium-term goal for the market is to put in place a manufacturing and sales network for 300,000 vehicles in fiscal 2010. With the Mazda brand gaining recognition among Chinese consumers, we're confident that this goal is well within reach.

**Kiyoshi Ozaki**
Director and Senior Managing Executive Officer in charge of China Business
1971: Joined Mazda
2000: Appointed General Manager of Corporate Planning Div. and Corporate Planning Dept.
2001: Appointed Director in charge of Financial Services and Domestic Dealer Financial Administration, and General Manager of Financial Services Div.
2003: Appointed Managing Executive Officer
2004: Appointed to current post

**How do you plan to attain your key medium-term goal?**

In fiscal 2001, sales of Mazda-branded cars in China totaled around 6,000 units. By the year under review, this figure had swelled to 96,000 units. In fiscal 2005, we plan to sell 103,000 vehicles, and continue increasing this figure to reach our medium-term goal of 300,000 units in fiscal 2010.

Reinforcing three areas—models, production and sales—will be crucial to achieving this target. Manufacturing operations are starting up at a new plant in China, and we plan to launch highly competitive models specifically designed for the Chinese market. In parallel, we'll reinforce our dealership network across the country.

**What model-launch plan have you put in place for China?**

Over the next three years we plan to roll out eight models. Specifically, we'll focus on the C/D segment, equivalent to our current Mazda6 model, and the growing B and C segments, while also launching new products in promising new growth areas like SUVs and minivans. We also plan to introduce the iconic 4-door, 4-seater Mazda RX-8 sportscar as part of efforts to boost Mazda brand visibility in China. And in the summer of 2005, we'll open a Technical Support Center in Shanghai to give us the capability to create models specifically designed for the Chinese market.

**What specific measures do you have in mind for reinforcing your production and sales framework in China?**

Until now we've manufactured the Mazda6, Mazda 323 and other models in China through a joint venture with the country's largest automaker, First Auto Works (FAW) Group. But we knew from the start that if we wanted to achieve greater growth in this rapidly expanding market, we had to set up a new manufacturing facility. This prompted the decision to build a new assembly plant incorporating the latest Mazda technology and establish an engine manufacturing company, both in Nanjing, through a joint venture with Ford Motor Company and the Changan Automotive Group.

In sales, we've established a joint-venture sales company with FAW called FAW Mazda Motor Sales Co., Ltd. (FMSC). Headquartered in Changchun, the company began operations in March 2005. As the only national company in China wholesaling Mazda vehicles produced locally, FMSC will be the ideal tool for implementing integrated sales and marketing strategies and reinforcing the dealership network.

**Mazda set up its first wholly owned subsidiary in China to manage operations in the country. What was the thinking behind this move?**

Mazda Motor (Shanghai) Business Management & Consulting Co., Ltd. (Mazda China Operations, or MCO) began operations in March 2005. As the headquarters of Mazda's operations in China, MCO will support efforts to strengthen the local production and sales framework. By choosing to site the company in Shanghai, close to Mazda sites in Nanjing, Changchun and Hainan, MCO will be able to make rapid decisions and offer efficient and coordinated support for operations in China.

## Mazda in China

Measures to create a manufacturing and sales network to achieve goal of selling 300,000 vehicles in fiscal 2010

| | |
|---|---|
| **Models** | Launch eight models in the next three years |
| **Production** | Begin work on a new assembly plant<br>(Output of 160,000 vehicles in the first year, rising to 200,000 thereafter)<br>Establish an engine manufacturing company |
| **Sales** | Wholly owned subsidiary Mazda Motor (Shanghai) Business Management & Consulting Co., Ltd. (MCO) established |

### Base Locations

# RESEARCH & DEVELOPMENT

Nothing is more important than strengthening product development to build a lasting business base. By fiscal 2006, we plan to boost R&D expenses by 30% compared with fiscal 2003. At the same time, a larger R&D staff will enhance our R&D- and technology-side capabilities in the pursuit of continuous, product-led growth, and more robust environmental R&D programs.

## PROMOTING THE MDI-II PROJECT

In MDI-I, the first phase of the Mazda Digital Innovation (MDI) initiative, we created a shared digital data system covering all phases of vehicle development—from concept development, to design, testing and pilot production. This yielded a concurrent development structure enabling the parallel design of vehicle functions and manufacturing processes. The launch of the Mazda Verisa in June 2004 proved that this new approach can deliver high-quality design and development within a shorter-than-ever timeframe.

But this MDI development structure is also proving instrumental to reducing Mazda's environmental footprint. How? By allowing us to conserve resources through increasingly paperless design work, thanks to the organization-wide sharing of 3D design digital data. We're also making more active use of virtual technology. One area where benefits have emerged is collision safety testing, specifically in the number of test vehicles needed. By using crash simulators to boost unit test precision and raising the bar on virtual testing itself through the very latest computer simulation technology, we've slashed the average number of test vehicles by nearly 45% from earlier years.

In April 2004, Mazda embarked on MDI-II, the second phase of the MDI initiative. Over the next four years, we'll take Mazda's development capabilities to the next level by investing ¥13.9 billion to upgrade to the world's most advanced software, state-of-the-art supercomputers, and research and development facilities. One goal here is to raise operational efficiency by pushing the quality and speed of operations even higher, while another is to expand the scope of virtual development to make the most of our engineers' skills and creativity.

## THREE LAYER WET PAINT SYSTEM FOR ALL MAZDA PLANTS IN JAPAN

Mazda pioneered development of the Three Layer Wet Paint System, a new environmentally friendly painting technology. Here's how it works: the conventional primer and top-layer painting stages are combined on the paint line, typically the most energy-consuming part of the production process. The vehicle is coated first with a primer, then a base coat and clear coat in quick succession.

All layers are then baked onto the vehicle simultaneously. This system reduces energy consumption on the paint line by 15%, while cutting the level of volatile organic compounds (VOC) by 45%. In fiscal 2004, this technology earned Mazda several accolades, including a commendation from Japan's Ministry of the Environment recognizing our efforts to prevent global warming through technology development and product commercialization. The Energy Conservation Center, Japan (ECCJ) also honored Mazda with an award from Japan's Ministry of Economy, Trade and Industry for our Three Layer Wet Paint System. The award recognized this innovative painting system as an outstanding example of energy-saving technology. It also marked the third consecutive year that Mazda has received this distinction, following previous honors for our semidry processing and aluminum welding technologies.

The Three Layer Wet Paint System was first adopted at the Hofu No. 1 Plant in July 2002, followed soon after by installation at the Hofu No. 2 and Ujina No. 2 plants. In April 2005, the technology was installed on the paint line at the Ujina No. 1 Plant, where production is once again under way. This final step has brought Mazda's groundbreaking painting technology to all of its production plants in Japan.

Three Layer Wet Paint System

## COLLABORATIVE RESEARCH AGREEMENTS IN ADVANCED TECHNOLOGY

In advanced technology, Mazda has inked comprehensive, collaborative research agreements with the Hiroshima University Graduate School of Engineering and technology research institutes active in Mazda's own advanced automotive fields. Our motivation here is to spark more effective and strategic ties between industry and academia, as well as revitalize local industry and contribute to scientific and technological progress.

These agreements offer several merits. First, they provide Mazda with long-term insight into emerging needs over a 10- to 20-year span in fields such as the environment and safety. Mazda can also call on the excellent research resources at universities for a multitude of tasks. Finally, these agreements enable Mazda to rapidly uncover promising new technologies. Specific collaboration is planned in the seven automotive-related advanced technology fields shown below. The duration of these partnerships was initially slated for three years, but we plan to assess and continue these relationships in line with research progress.

The seven fields identified for collaboration are:

- Vehicle body technology
- Powertrains
- Automation control technology
- IT
- Materials technology
- Ergonomics
- Next-generation energy

# ENHANCING GLOBAL EFFICIENCIES AND SYNERGIES

One of the key pillars of Mazda Momentum is enhancing global efficiencies and synergies, and we're implementing a number of initiatives in this area to boost Mazda's cost-competitiveness in the global market, including launching phase 2 of the ABC program and expanding cooperation with Ford.

## ABC PROGRAM PHASE 2

In fiscal 2002, we initiated phase 1 of our ABC program. The program's ultimate objective was to reduce costs by 25% over three years. Thanks to the dedication of Mazda employees and cooperation from suppliers, we achieved the 25% cost-reduction objective by the end of fiscal 2004. The savings have allowed us to both improve earnings and upgrade our model range to make our vehicles more competitive in the marketplace.

Building on the success of phase 1, we launched phase 2 of the ABC program at the beginning of fiscal 2005. Phase 2 will last four years, through the end of fiscal 2008. This period will see significant model changes in our highest-volume products. Like in phase 1, phase 2 ABC teams are organized by commodity—brakes, seats, wheels, engines and other components. The teams include personnel from Product Design, Development and Purchasing departments, as well as

The Ratio of Joint Development Programs

employees from our suppliers. In phase 2, these teams will apply Group Value Engineering (VE) and create Commodity Cycle Plans (CCPs). The Group VE process includes thorough consideration of alternative approaches and emerging technologies to ensure Mazda maximizes value when making trade-offs between cost and functionality. The Group VE process also drives a more common approach to commodities across vehicle lines and markets. The CCPs will ensure that our steps to change the commodities are linked with our plans to introduce new models. We believe this approach will allow Mazda and its suppliers to continue to make significant progress on efficiency and cost.

## SYNERGIES WITH FORD

November 2004 marked the 25th anniversary of Mazda's capital tie-up with Ford. During this period Mazda's position in the Ford Group has continued to grow. Illustrating this is Mazda's instrumental role in the development of a new mid-size 4-cylinder engine. In this project, sharing technology, development expenses and personnel has reduced costs significantly.

Through Mazda Momentum, we plan to promote even greater cooperation with Ford. In product development, we are playing a key part in the development of the Ford Group's next-generation B-class car. The ratio of Mazda vehicles created through joint development programs was 10% in fiscal 2000. In the year under review, we pushed that figure up to 50%, and during the course of Mazda Momentum, we aim to boost this ratio to 80%.

Our cooperation with Ford extends to other areas. In purchasing, we're working with our partner to build a global procurement system. And these efforts are supported by moves to reinforce shared frameworks in areas like retailing, logistics and IT systems. All these initiatives are aimed at building a globally competitive cost structure that is more resilient to exchange-rate fluctuations.

Ford Chairman and CEO Bill Ford visits Mazda's Head Office in Hiroshima on June 25, 2004 to celebrate 25 years of the Mazda-Ford alliance.

# PERSONNEL DEVELOPMENT

Our people are vital to implementing the initiatives in Mazda Momentum to realize radical change within the company. Personnel development therefore remains a very important issue for Mazda.

In conjunction with the start of Mazda Momentum, we began using the term "One Mazda." This slogan reflects our desire to motivate and bring every person in the global Mazda workforce into step as we push forward with business reform. These efforts to reinvent Mazda aren't simply about encouraging a particular operating region, subsidiary or division to attain a set of performance targets. What we're trying to do is to create a corporate culture where everybody is part of a close-knit team that cooperates, supports and helps each other, resulting in the creation of added value. In short, a corporate culture that generates results greater than the sum of its individual parts. Realizing our "One Mazda" vision means breaking down the walls that divide regions, companies and organizations and creating a shared enthusiasm for reform.

To attain this goal, we need to cultivate our people. At Mazda, we're working to create a highly skilled and diverse workforce with an international outlook, to support the implementation of management strategy.

Specifically, in addition to our Leading Mazda 21 program launched in fiscal 2002, we introduced an MBA course and other training programs in the year under review to groom employees for future leadership positions. We plan to further enhance this kind of training going forward. Also in fiscal 2004, we implemented the fifth Mazda Business Leader Development (MBLD) program. This companywide program is designed to raise awareness about the company's current operating situation and encourage discussion and understanding regarding Mazda's future direction, thereby contributing to the development of business leaders, helping to change the mindset of employees and encouraging shared goals.

In order to create a more diverse and international workforce, we're drawing on our alliance with Ford to implement personnel exchanges and other initiatives that maximize synergies with our partner. By approaching personnel development, recruitment and training from an international perspective, we're fostering the kind of workforce we need to realize our "One Mazda" vision.

# CORPORATE SOCIAL RESPONSIBILITY

## COMPLIANCE

Following the formulation of the Mazda Corporate Ethics Code of Conduct in 1998, we have consistently worked to live up to our own corporate ethics standards. In addition to conducting yearly seminars on corporate ethics and human rights, we created a Compliance Manual in 2004 and distributed it to all Mazda officers and employees. These and other actions are designed to drive home the primacy of legal compliance, ethical business behavior and respect for human rights. In fiscal 2004, we worked to further raise awareness of compliance issues by distributing cards to every employee, including senior managers and temporary staff, printed with the key points of the Mazda Corporate Ethics Code of Conduct. Employees are required to carry these cards at all times.

## MAZDA AND THE ENVIRONMENT

In April 2005, we revised the Mazda Global Environmental Charter for the first time in 13 years. Guided by this document, which sets out the basic environmental policy for the entire Mazda Group, we are implementing a range of measures to protect the environment and help realize a sustainable society. In the area of new vehicle development, we plan to improve fuel-efficiency and expand our lineup of ultra low-emission cars. We are also developing a rotary hydrogen engine vehicle, which we aim to launch within two years. In production activities, we will work to reduce our environmental footprint by cutting $CO_2$ emissions and maintaining zero-emission operations. Our goal will be to ensure a balance between Mazda's business activities and environmental protection. Additionally, we will look at rolling out our environmental initiatives across the Mazda Group, including at sales companies and suppliers.

## Mazda Environmental Pyramid

In response to Japan's End-of-life Vehicle Recycling Law, Mazda is using R&D programs to boost the recyclability of its cars. These efforts are in parallel with steps to create a smooth-running and legally compliant recycling system for three specific items: airbags, fluorocarbons and shredder dust. Specifically, we are putting in place the necessary end-of-life vehicle (ELV) handling and processing systems and providing training to sales companies on relevant recycling laws.

### Mazda Earns Top Environmental Ranking

In order to take advantage of the Development Bank of Japan's project financing scheme for promoting environmentally friendly business development, Mazda underwent a preliminary environmental evaluation by the bank. Mazda earned top marks, helping it to become the first company from the auto industry to be selected for the scheme.

With this scheme, a world-first, companies are chosen on the basis of high levels of environmental management. Based on scores from evaluations, specialist techniques are used to give environmental rankings that correspond to three applicable rates of interest for project financing loans.

In three areas—management, business activities and performance—Mazda received an extremely high ranking, and was commended for its balanced approach to environmental management. Areas that were specifically singled out for praise included: in management, efforts to reinforce environmental management across the whole Mazda Group, including overseas operations, centered on the acquisition of ISO 14001 certification; in product development, the development of fuel-efficient, low-emission vehicles through the introduction of next-generation engines; and in production, the attainment of zero-emissions status at all domestic manufacturing sites.

# MAZDA MUSEUM

## SOCIAL ACTIVITIES

As a responsible corporate citizen, Mazda is committed to winning the trust and esteem of society through its involvement in volunteer and humanitarian activities, as well as other social initiatives that meet the needs of local communities. Part of our efforts in this area is the Mazda Foundation, set up to promote science and technology and assist in the development of well-rounded young people.

### A New Look for the Mazda Museum

The Mazda Museum was completely refurbished in February 2005. On average, around 60,000 people have visited the site annually since it opened in May 1994. Taking Mazda's 85th anniversary as the perfect opportunity, we gave the museum its first ever face-lift to create an exhibition space bursting with Mazda's "Zoom-Zoom" energy.

The new museum layout comprises six areas. First, visitors enter a new entrance hall area displaying Mazda's latest models and vehicle design projects, then move into an exhibition area that tells the story of Mazda's corporate history since 1920 through its historic cars. In another new display area, visitors can learn everything they want to know about Mazda's rotary engines, while a technology display explains the processes that led to the creation of the Mazda RX-8. Finally, the Ujina No. 1 Plant (U1) assembly line area gives visitors the chance to see actual vehicle assembly, while the future exhibit offers a glimpse of what the next-generation automotive society might look like.

# CORPORATE GOVERNANCE

Corporate auditors underpin governance at Mazda. Ensuring proper corporate governance is one of management's top concerns, and is the reason we vigorously launch various initiatives in this area. In addition to bodies prescribed by law such as the annual general meeting of shareholders, the board of directors and the board of corporate auditors, Mazda has established an executive committee. Executive committee meetings are held to formulate and discuss important company-wide policies and measures, and hear reports on the day-to-day running of the business. Other advisory bodies that assist the president with decision-making have also been set up. Moreover, Mazda has introduced the executive officer system to promote the separation of executive and management functions. This has augmented the board's effectiveness as a supervisory body. These and other steps are helping to improve management efficiency at Mazda, resulting in faster decision-making through enhanced discussion, devolution of authority to the executive officer level and other benefits. As of June 30, 2005, Mazda had total of 9 directors and 35 executive officers, some of whom hold concurrent posts as directors.

An active IR program is among the range of measures Mazda has implemented in the pursuit of good corporate governance. As part of this program, we have long avoided holding the annual general meeting of shareholders during peak scheduling days for these meetings in Japan. We also strive for timely disclosure of information to shareholders and investors, and maintain a well-developed IR website.

## Business Execution and Supervisory Framework

## MANAGEMENT ADVISORY COMMITTEE

Mazda has established a Management Advisory Committee composed of leading figures from outside the company and 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. To enhance management transparency, 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 auditors. Each auditor is responsible for monitoring business policy execution by the board of 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 auditors. The Internal Auditing Division, meanwhile, contributes to sound and efficient management by checking that operations at Mazda and its Group companies are being carried out in accordance with management's objectives, policies, and plans, as well as all relevant laws and regulations. Accounting audit services are conducted under contract by KPMG AZSA & Co. The auditors, both independently and collectively as the board of corporate auditors, stay in close communication with this auditing firm through periodic meetings.

## 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, such as those for large-scale earthquakes. In this way, we are building a robust framework to support sustained and stable growth.

# BOARD OF DIRECTORS, AUDITORS AND EXECUTIVE OFFICERS

## DIRECTORS

**Kazuhide Watanabe**
Representative Director and Chairman of the Board

**Hisakazu Imaki**
Representative Director

**John G. Parker**
Representative Director

**Gideon Wolthers**
Representative Director

**Daniel T. Morris**
Director

**Mutsumi Fujiwara**
Director

**Takashi Yamanouchi**
Director

**Ryoichi Hasegawa**
Director

**Kiyoshi Ozaki**
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**

*Executive Vice President
**John G. Parker**
Assistant to President;
In charge of R&D, Purchasing, Quality Assurance, Marketing, Sales and IT Solutions

*Senior Managing Executive Officer and CFO
**Gideon Wolthers**
In charge of Corporate Planning and Product Profit Control

*Senior Managing Executive Officers
**Daniel T. Morris**
In charge of Marketing, Sales and Customer Service

**Mutsumi Fujiwara**
In charge of Purchasing

**Takashi Yamanouchi**
In charge of Secretariat, Personnel & Human Development, Internal Auditing and Mazda Hospital

**Ryoichi Hasegawa**
In charge of IT Solutions, e-Business, Corporate Affairs and Risk Management; Assistant to the CFO

**Kiyoshi Ozaki**
In charge of China Business

Managing Executive Officers
**Seita Kanai**
In charge of R&D

**Masao Furuta**
In charge of Domestic Marketing, Domestic Sales and Domestic Customer Service

**Masaharu Yamaki**
In charge of Production and Business Logistics

**Masazumi Wakayama**
In charge of Corporate Communications & Liaison

**Nobuhiro Hayama**
In charge of R&D Quality

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

**Masaki Kanda**
General Manager, Personnel & Human Development Div.

Executive Officers
**Akira Marumoto**
In charge of Product Planning, Program Management

**Keishi Egawa**
In charge of Financial Services; General Manager, Financial Services Div.

**Hiroshi Hosaka**
General Manager, Domestic Sales Div.

**Nobuhide Inamoto**
General Manager, Quality Div.

**Kazuhiko Tanaka**
General Manager, Corporate Affairs Div.

**Toru Oka**
General Manager, Purchasing 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.

**Hirotaka Kanazawa**
In charge of Vehicle Development, Vehicle Engineering, Powertrain Development and Technical Research Center

**Malcolm D. Gough**
General Manager, Overseas Sales Div.

**Kazuyuki Okada**
General Manager, Vehicle Development Div.

**Masamichi Kogai**
General Manager, Hofu Plant

**Shiro Mikami**
General Manager, Domestic Marketing Div.

**Kozo Kawakami**
Deputy General Manager, Purchasing Div.

**Noriaki Yamada**
President, FAW Mazda Motor Sales Co., Ltd.

**Toshinori Kusuhashi**
General Manager, Hiroshima Plant

**Yuji Nakamine**
President, AutoAlliance (Thailand) Co.,Ltd.

**Moray S. Callum**
General Manager, Design Div.

**James M. Muir**
President and CEO, Mazda Motor Europe GmbH

**A. Kumar Galhotra**
General Manager, Program Management Div.

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

(As of June 24, 2005)

# FINANCIAL SECTION


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# SIX-YEAR SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2005, 2004, 2003, 2002, 2001 and 2000

| | 2004 March 31, 2005 | Increase (decrease) 2004/2003 | 2003 March 31, 2004 | Increase (decrease) 2003/2002 |
|---|---|---|---|---|
| For the year*2: | | | | |
| Net sales | ¥2,695,564 | (7.6)% | ¥2,916,130 | 23.3 % |
| Domestic | 845,620 | (0.1)% | 846,231 | 3.4 % |
| Overseas | 1,849,944 | (10.6)% | 2,069,899 | 33.9 % |
| North America | 761,684 | (18.7)% | 936,718 | 10.8 % |
| Europe | 634,233 | (3.9)% | 659,813 | 79.3 % |
| Other areas | 454,027 | (4.1)% | 473,368 | 42.2 % |
| Cost of sales | 1,972,574 | (8.9)% | 2,165,160 | 25.5 % |
| Selling, general and administrative expenses | 640,043 | (6.0)% | 680,796 | 15.6 % |
| Operating income (loss) | 82,947 | 18.2 % | 70,174 | 38.5 % |
| Income (loss) before income taxes | 73,847 | 36.6 % | 54,072 | 92.2 % |
| Net income (loss) | 45,772 | 35.0 % | 33,901 | 40.5 % |
| Capital expenditures*3 | 67,881 | 48.7 % | 45,644 | 3.5 % |
| Depreciation and amortization | 40,036 | 5.6 % | 37,900 | 2.5 % |
| Research and development costs | 90,841 | 3.5 % | 87,807 | 0.0 % |
| Cash flows*4 | 35,900 | (26.9)% | 49,128 | 4.4 % |
| At the year-end: | | | | |
| Total assets | 1,767,846 | (1.5)% | 1,795,573 | 2.4 % |
| Shareholders' equity | 267,815 | 20.3 % | 222,605 | 14.7 % |
| Financial debt | 528,145 | (16.2)% | 630,360 | (7.1)% |
| Net financial debt | 313,506 | (12.5)% | 358,129 | (11.2)% |
| Average number of shares outstanding (in thousands) | 1,216,245 | (0.1)% | 1,217,692 | (0.1)% |
| Number of employees | 35,680 | 0.1 % | 35,627 | (1.5)% |
| Amounts per share of common stock: | | | | |
| Net income (loss)*5 | ¥ 37.63 | 35.2 % | ¥ 27.84 | 40.6 % |
| Cash dividends applicable to the year*6 | 3.00 | 50.0 % | 2.00 | 0.0 % |
| Shareholders' equity | 220.22 | 20.4 % | 182.91 | 14.9 % |
| Operating income ratio | 3.1% | | 2.4% | |
| Return on equity (ROE) | 18.7% | | 16.3% | |
| Equity ratio | 15.1% | | 12.4% | |

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, 2005 of ¥107 to US$1.
2. The consolidated operating results for the year ended March 31, 2004 consist of 15 months of operations for the major overseas subsidiaries that changed their fiscal year-ends.
3. Capital expenditures are calculated on an accrual basis.
4. Cash flows represent net cash flows from operating activities and from investing activities.
5. The computations of net income (loss) per share of common stock are based on the average number of shares outstanding during each fiscal year.
6. Cash dividends per share represent actual amounts applicable to the respective years.

| Millions of yen | | | | | | | Thousands of U.S. dollars*1 |
|---|---|---|---|---|---|---|---|
| 2002 March 31, 2003 | Increase (decrease) 2002/2001 | 2001 March 31, 2002 | Increase (decrease) 2001/2000 | 2000 March 31, 2001 | Increase (decrease) 2000/1999 | 1999 March 31, 2000 | 2004 March 31, 2005 |
| ¥2,364,512 | 12.9 % | ¥2,094,914 | 3.9 % | ¥2,015,812 | (6.7)% | ¥2,161,572 | $25,192,187 |
| 818,271 | 0.9 % | 811,050 | (11.1)% | 911,968 | (4.6)% | 955,460 | 7,902,991 |
| 1,546,241 | 20.4 % | 1,283,864 | 16.3 % | 1,103,844 | (8.5)% | 1,206,112 | 17,289,196 |
| 845,241 | 8.8 % | 776,889 | 25.7 % | 618,076 | (1.5)% | 627,371 | 7,118,542 |
| 368,045 | 61.3 % | 228,120 | (3.5)% | 236,324 | (30.8)% | 341,386 | 5,927,411 |
| 332,955 | 19.4 % | 278,855 | 11.8 % | 249,444 | 5.1 % | 237,355 | 4,243,243 |
| 1,725,058 | 11.2 % | 1,551,410 | (0.2)% | 1,555,130 | (4.5)% | 1,628,814 | 18,435,271 |
| 588,798 | 14.3 % | 514,951 | 8.3 % | 475,619 | (6.3)% | 507,647 | 5,981,710 |
| 50,656 | 77.4 % | 28,553 | – | (14,937) | – | 25,111 | 775,206 |
| 28,134 | 81.4 % | 15,508 | – | (242,442) | – | 22,678 | 690,159 |
| 24,134 | 173.3 % | 8,830 | – | (155,243) | – | 26,155 | 427,776 |
| 44,080 | (22.2)% | 56,641 | 19.8 % | 47,285 | (3.2)% | 48,867 | 634,402 |
| 36,989 | (17.6)% | 44,890 | (9.4)% | 49,531 | (4.4)% | 51,800 | 374,168 |
| 87,800 | (7.5)% | 94,964 | 13.6 % | 83,617 | 9.8 % | 76,126 | 848,981 |
| 47,054 | 53.7 % | 30,623 | (41.4)% | 52,257 | (58.7)% | 126,638 | 335,514 |
| | | | | | | | |
| 1,754,017 | 1.1 % | 1,734,895 | (0.5)% | 1,743,627 | 18.7 % | 1,469,533 | 16,521,925 |
| 194,071 | 12.3 % | 172,837 | 8.8 % | 158,872 | (35.3)% | 245,709 | 2,502,944 |
| 678,205 | (1.2)% | 686,318 | (11.7)% | 777,292 | 0.9 % | 770,610 | 4,935,935 |
| 403,483 | (11.7)% | 456,874 | (5.7)% | 484,677 | (9.7)% | 537,017 | 2,929,963 |
| | | | | | | | |
| 1,219,050 | (0.2)% | 1,221,750 | (0.1)% | 1,222,495 | 0.0 % | 1,222,494 | |
| 36,184 | (4.3)% | 37,824 | (4.5)% | 39,601 | (9.6)% | 43,818 | |
| Yen | | | | | | | U.S. dollars*1 |
| ¥ 19.80 | 173.9 % | ¥ 7.23 | – | ¥ (126.99) | – | ¥ 21.39 | $0.35 |
| 2.00 | 0.0 % | 2.00 | – | – | – | 2.00 | 0.03 |
| 159.22 | 12.5 % | 141.52 | 8.9 % | 129.96 | (35.3)% | 200.98 | 2.06 |
| % | | | | | | | |
| 2.1% | | 1.4% | | – | | 1.2% | |
| 13.2% | | 5.3% | | – | | 11.2% | |
| 11.1% | | 10.0% | | 9.1% | | 16.7% | |

## FISCAL 2004 HIGHLIGHTS

- Fourth consecutive year of top- and bottom-line growth on strong sales and cost reductions
- Growth in both unit volume and revenue
- Operating income increased 18.2% to ¥82.9 billion, and net income jumped 35.0% to ¥45.8 billion, both record figures

## OVERVIEW OF THE MAZDA GROUP

The consolidated financial statements for fiscal 2004, ended March 31, 2005, include the accounts of Mazda Motor Corporation, the parent company; 53 consolidated subsidiaries (17 overseas and 36 in Japan); and 12 equity-method affiliates (3 overseas and 9 in Japan). During the year under review, 3 domestic consolidated subsidiaries, including Mazda Car Rental Corporation, and 1 domestic equity-method affiliate were excluded from the scope of consolidation due to disposal, liquidation or other reasons. Mazda established 2 new companies in China during the year, Mazda Motor (Shanghai) Business Management & Consulting Co., Ltd. and FAW Mazda Motor Sales Co., Ltd. These companies were included within the scope of consolidation as a consolidated subsidiary and an equity-method affiliate, respectively.

In the previous fiscal year, the fiscal year-ends of a number of major overseas subsidiaries were changed from December 31 to March 31 to correspond to the parent company's balance sheet date. Due to this change in fiscal year-ends, 15 months of operating results at these overseas subsidiaries were reflected in the Company's consolidated financial statements for fiscal 2003. The effect of this change was to increase consolidated net sales by ¥341.4 billion and decrease operating income by ¥0.1 billion, income before income taxes by ¥1.6 billion and net income by ¥2.4 billion.

## BUSINESS CONDITIONS

During fiscal 2004, the Japanese economy continued to face uncertainties such as rapidly rising prices for crude oil, steel and other materials. However, there was a moderate recovery as consumer spending in some areas continued to strengthen from the previous fiscal year, companies boosted capital investment and production on the back of rising exports, and business performance improved. Despite some cause for concern in the U.S. such as rapid increases in crude oil prices and a weakening dollar, the economy remained firm during fiscal 2004. The economies of Europe and other major regions generally showed signs of recovery, although the impact of tighter financial policies in China put a negative slant on this country's recent strong performance.

In Japan, automotive sales, including mini vehicles, totaled 5.82 million units, falling 1.1% year on year despite a significant increase in sales of mini vehicles. In the U.S., industry sales were 16.70 million units, a slight rise of 0.7% from a year earlier. Industry sales in Europe increased 1.9% to 17.84 million units, while sales growth in China slowed to 6.2% year on year and totaled 5.15 million units.

## CONSOLIDATED FINANCIAL RESULTS

### Consolidated Net Sales

During the year under review, Mazda retail sales in the Japanese market totaled 286,000 units, up 2.4% year on year, on the back of new model launches such as the Mazda Verisa and the Mazda5. Including mini vehicles, Mazda's share increased 0.2 of a percentage point to 4.9%.

In major overseas markets, Mazda retail sales in the U.S. declined 3.3% to 264,000 units compared to the previous fiscal year, as strong sales of the popular Mazda3 model could not compensate for falling sales of truck and SUV models that are approaching the end of their product cycles. Market share was unchanged at 1.6%. In Europe, retail sales grew 9.0% to 273,000 units centered on the Mazda3, and market share increased 0.1 of a percentage point to 1.5%.

Consolidated wholesales in fiscal 2004 totaled 1,104,000 units, up 28,000 units, or 2.6%, after excluding the impact of the change in accounting periods at overseas consolidated subsidiaries.

Consolidated net sales were ¥2,695.6 billion. Excluding the effect of the change in accounting periods at overseas consolidated subsidiaries, this represented an increase of ¥120.9 billion, or 4.7%, compared to fiscal 2003. A rise in the number of units sold and an improved product mix helped to boost sales by 6.0% from a year earlier, although this was offset by the impact of exchange rates, which had the effect of reducing sales by 1.0%.

Excluding the impact of the change in the fiscal year-ends at overseas subsidiaries, sales by region were as follows. In Japan, sales declined ¥0.6 billion, or 0.1%, to ¥845.6 billion, as lower-margin models in the product mix canceled out the increase in units sold. In North America, sales fell ¥11.0 billion, or 1.4%, to ¥761.7 billion. Despite an increase in units sold and improvements to the product mix, these positive factors were negated by foreign currency translations. In Europe, higher units sold and a better product mix supported an increase in sales of ¥119.2 billion, or 23.1%, to ¥634.2 billion. In Other areas, sales increased ¥13.3 billion, or 3.0%, to ¥454.0 billion due to an improved product mix and other factors that compensated for a decline in units sold.

## Operating Income

Mazda recorded an increase in operating income of ¥12.7 billion, or 18.2%, to ¥82.9 billion. This was mainly attributable to stronger sales, centered on the Mazda3 in Europe and North America, which contributed ¥10.8 billion to operating income, and cost savings of ¥44.3 billion generated by the ABC cost-reduction program. This was partially offset by expenses of ¥28.7 billion to improve the model range, including responses to new regulations, the impact of foreign currency translations of ¥2.0 billion due to the weaker dollar and other factors, and higher expenses to enhance product quality and R&D. As a result of the above, the operating income ratio improved by 0.7 of a percentage point to 3.1%.

## Net Income

Net other expenses decreased ¥7.0 billion to ¥9.1 billion due to a number of factors, including insurance claim income of ¥25.4 billion and loss on disasters of ¥12.6 billion related to the fire at the Ujina No. 1 Plant (U1) in December 2004. In addition, equity in net income of unconsolidated subsidiaries and affiliated companies increased ¥0.8 billion to ¥10.0 billion, and interest expense declined ¥4.5 billion to ¥13.8 billion. In the year under review, the Company also booked a loss of ¥2.2 billion on the liquidation of a *Tokumei Kumiai*. This was related to a real estate trust contract that the Company concluded in September 1999. The beneficial ownership of property was transferred to a *Tokumei Kumiai*, and the real estate was leased back to the Company. The real estate included an educational facility, a research and development facility, distribution centers, and stores of domestic dealers. In September 2004, however, the Company terminated the real estate trust contract and the lease contract on the real estate.

Income taxes rose ¥9.0 billion to ¥26.7 billion, primarily reflecting an increase in income before income taxes, while minority interests of consolidated subsidiaries declined ¥1.1 billion to ¥1.4 billion. As a result, net income jumped ¥11.9 billion, or 35.0%, to a record-high ¥45.8 billion and the net income ratio rose 0.5 of a percentage point to 1.7%. Net income per share of common stock increased from ¥27.84 to ¥37.63.

Based on the year-over-year increases in net sales and operating income, the Company decided to increase the dividend applicable to the year from ¥2.0 to ¥3.0 per share. Mazda seeks to maintain the payment of a stable dividend to shareholders while taking into account operating performance in each period, the business environment and other factors. Retained earnings are used to raise competitiveness through capital investment, spending on R&D and other areas.

## CAPITAL INVESTMENT

Mazda worked to use capital expenditures efficiently and concentrate them in strategic areas. Capital expenditures were mainly channeled into developing new products such as the Mazda5 and boosting production capacity for the popular Mazda3. As a result, capital investment on new models, equipment to rationalize and save labor on production lines, as well as research and development facilities for new technologies and products, totaled ¥67.9 billion, ¥22.3 billion higher than a year earlier.

During the year, Mazda realigned its production framework as part of efforts to keep pace with recent product-led growth. Operations at the Ujina No. 2 Plant (U2) were restarted in May 2004. Applying a number of key concepts for production line design—environmentally and people friendly production line, high-quality concurrent production line, and flexible production—this facility was reborn with a substantial increase in production capacity. U2 now symbolizes Mazda's state-of-the-art, high-quality manufacturing system, capable of flexible and synchronized production activities. With the opening of U2, paint operations and vehicle assembly ended at the Hiroshima Plant No. 1 in April 2004.

Meanwhile, the Company shifted the Hofu Plant to full production capacity to meet strong global demand for the Mazda3. Output was increased in November 2004, allowing this plant to achieve annual production of 320,000 units for the Mazda3 alone.

## RESEARCH AND DEVELOPMENT

Research and development costs totaled ¥90.8 billion, an increase of ¥3.0 billion from a year earlier. 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, as well as the R&D departments of U.S.-based Mazda Motor of America, Inc. and Germany-based Mazda Motor Europe GmbH. Joint research projects are also conducted with Ford Motor Company. In all cases, product development is tailored to the unique characteristics of each market. Research is also actively carried out in other areas such as safety and environmental protection.

## CONSOLIDATED FINANCIAL POSITION

Total assets as of March 31, 2005 were ¥1,767.8 billion, ¥27.8 billion less than a year ago. Cash and cash equivalents decreased ¥57.6 billion to ¥214.6 billion due to the repayment of financial debt and other factors. Trade notes and accounts receivable were ¥142.0 billion, down a marginal ¥3.8 billion. Compared to the end of the previous fiscal year, inventories declined ¥14.4 billion to ¥253.9 billion, due mainly to lower vehicle inventories in North America. Net property, plant and equipment was ¥824.2 billion, up ¥38.3 billion. This reflected new acquisitions that exceeded depreciation and disposals.

Trade notes and accounts payable increased marginally by ¥5.9 billion to ¥290.5 billion, while financial debt declined ¥102.3 billion to ¥528.1 billion. After deducting cash and cash equivalents, net financial debt at the end of the fiscal year totaled ¥313.5 billion, a decrease of ¥44.6 billion compared to the previous fiscal year-end. The net debt-to-equity ratio was 117%, representing an improvement of 44 percentage points from a year ago. Financial debt comprised short-term debt of ¥100.5 billion, long-term loans of ¥297.2 billion, and bonds, including bonds with stock acquisition rights, of ¥130.4 billion. During the year under review, Mazda procured long-term loans through a syndicated loan totaling ¥80.0 billion and a loan of ¥10.0 billion from the Development Bank of Japan.

Total shareholders' equity increased ¥45.2 billion to ¥267.8 billion, mainly due to net income of ¥45.8 billion. The equity ratio rose 2.7 percentage points to 15.1%.

## CASH FLOWS

Cash and cash equivalents as of March 31, 2005 were ¥214.6 billion, a decrease of ¥57.6 billion from a year earlier. This reflected cash provided by operating activities of ¥133.7 billion, against cash used in investing activities of ¥97.8 billion and cash used in financing activities of ¥96.1 billion.

Operating activities provided net cash of ¥133.7 billion, a year-over-year increase of ¥41.4 billion, reflecting higher earnings, fluctuations in assets and liabilities such as inventories used in operating activities, and other factors. Cash was provided by income before income taxes of ¥73.8 billion and depreciation and amortization of ¥40.0 billion, as well as a decrease in inventories and other items. Cash inflows also included insurance proceeds received of ¥11.0 billion related to the fire at the U1 plant in December 2004.

Investing activities used net cash of ¥97.8 billion, an increase of ¥54.5 billion from the previous fiscal year. This mainly reflected increased investments in production equipment and facilities for the introduction of new models and increased production capacity, as well as cash used for the purchase of property, plant and equipment related to the buyback of lease assets after the termination of a real estate trust contract.

As a result, free cash flow, the sum of operating and investing cash flows, was ¥35.9 billion, a decrease of ¥13.2 billion compared to the previous fiscal year.

Financing activities used net cash of ¥96.1 billion, ¥43.3 billion more than the previous fiscal year, primarily reflecting fluctuations in financial debt. Financing activities are mainly reliant on financial debt, and in the year under review and the previous fiscal year, repayments exceeded the amount procured.

## FIRE AT UJINA NO. 1 PLANT PAINT SHOP

The Company's U1 paint shop suffered damage from a fire that broke out in December 2004. To minimize the impact of the fire, the U2 paint shop and other facilities were used to support continued vehicle assembly at U1. The paint shop was reopened in late April 2005, enabling integrated paint operations and vehicle assembly to restart at U1.

As a result of this fire, the Company booked a number of extraordinary items, including insurance claim income of ¥25.4 billion and loss on disasters of ¥12.6 billion related to the shutdown of equipment and production. The insurance claim income of ¥25.4 billion included costs and estimated lost earnings related to the fire. The Company also expects to book investments in equipment and facilities associated with the restart of paint shop operations of approximately ¥10.7 billion, the majority of which will be recorded in fiscal 2005.

## 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. Global Economic Conditions

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 U.S. 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 exchange rate risk. However, a weakening of the yen could result in a loss of contingent gains.

### 3. Alliances

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 problems, automobile safety, fuel consumption and exhaust emissions. Observance of 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. Procurement of 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 United States 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. However, the Company's intellectual property is not subject to complete protection in certain regions. In the event that third parties use Mazda's intellectual property on an unauthorized basis to produce similar products, the Company 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.

At the same time, in the event of a disputed infringement of third-party intellectual property rights by Mazda, the Company may be subject to substantial damages claims or be forced to halt the sale of products. This could also 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, 2005 and 2004

| ASSETS | As of | Millions of yen 2004 March 31, 2005 | Millions of yen 2003 March 31, 2004 | Thousands of U.S. dollars (Note 1) 2004 March 31, 2005 |
|---|---|---|---|---|
| **Current assets:** | | | | |
| Cash and cash equivalents | | ¥ 214,639 | ¥ 272,231 | $ 2,005,972 |
| Short-term investments | | 4,334 | 10,105 | 40,505 |
| Trade notes and accounts receivable | | 142,011 | 145,829 | 1,327,206 |
| Inventories (Note 5) | | 253,869 | 268,317 | 2,372,607 |
| Deferred taxes (Note 13) | | 80,133 | 74,412 | 748,907 |
| Other current assets | | 80,641 | 57,023 | 753,653 |
| Allowance for doubtful receivables | | (8,031) | (8,190) | (75,056) |
| Total current assets | | 767,596 | 819,727 | 7,173,794 |
| **Property, plant and equipment:** | | | | |
| Land (Note 6) | | 449,356 | 432,278 | 4,199,589 |
| Buildings and structures | | 406,804 | 397,162 | 3,801,907 |
| Machinery and equipment | | 744,689 | 772,684 | 6,959,710 |
| Tools, furniture, fixtures and other | | 234,242 | 253,736 | 2,189,178 |
| Construction in progress | | 40,158 | 19,180 | 375,308 |
| | | 1,875,249 | 1,875,040 | 17,525,692 |
| Accumulated depreciation | | (1,051,002) | (1,089,121) | (9,822,449) |
| Net property, plant and equipment | | 824,247 | 785,919 | 7,703,243 |
| **Intangible assets** | | 23,367 | 21,099 | 218,383 |
| **Investments and other assets:** | | | | |
| Investment securities: | | | | |
| Unconsolidated subsidiaries and affiliated companies | | 47,305 | 40,230 | 442,103 |
| Other | | 11,706 | 11,256 | 109,402 |
| Long-term loans receivable | | 8,017 | 15,937 | 74,925 |
| Deferred taxes (Note 13) | | 73,747 | 93,953 | 689,224 |
| Other investments and other assets | | 23,695 | 20,563 | 221,449 |
| Allowance for doubtful receivables | | (10,820) | (12,380) | (101,121) |
| Investment valuation allowance | | (1,014) | (731) | (9,477) |
| Total investments and other assets | | 152,636 | 168,828 | 1,426,505 |
| **Total assets** | | ¥1,767,846 | ¥1,795,573 | $16,521,925 |

See accompanying notes.

| LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY | As of | Millions of yen 2004 March 31, 2005 | Millions of yen 2003 March 31, 2004 | Thousands of U.S. dollars (Note 1) 2004 March 31, 2005 |
|---|---|---|---|---|
| Current liabilities: | | | | |
| Short-term debt (Note 7) | | ¥ 100,555 | ¥ 186,880 | $ 939,766 |
| Long-term debt due within one year (Note 7) | | 113,247 | 120,022 | 1,058,383 |
| Trade notes and accounts payable | | 290,476 | 284,536 | 2,714,729 |
| Accrued expenses | | 295,723 | 262,769 | 2,763,767 |
| Reserve for warranty expenses | | 24,150 | 22,507 | 225,701 |
| Reserve for loss on business restructuring | | – | 2,329 | – |
| Other | | 53,077 | 59,573 | 496,047 |
| Total current liabilities | | 877,228 | 938,616 | 8,198,393 |
| Long-term debt due after one year (Note 7) | | 314,343 | 323,458 | 2,937,785 |
| Deferred tax liability related to land revaluation (Note 6) | | 91,132 | 91,113 | 851,701 |
| Employees' severance and retirement benefits (Note 8) | | 195,892 | 198,253 | 1,830,766 |
| Directors' and corporate auditors' retirement benefits | | 1,500 | 1,397 | 14,019 |
| Liabilities from application of equity method | | 734 | 879 | 6,860 |
| Other long-term liabilities | | 11,176 | 10,920 | 104,449 |
| Contingent liabilities (Note 9) | | | | |
| Minority interests in consolidated subsidiaries | | 8,026 | 8,332 | 75,008 |
| Shareholders' equity: | | | | |
| Common stock: | | | | |
| Authorized: 3,000,000,000 shares | | | | |
| Issued: 1,223,911,682 shares in 2004 and 1,222,496,655 shares in 2003 (Note 10) | | 120,295 | 120,078 | 1,124,253 |
| Capital surplus (Note 10) | | 104,435 | 104,217 | 976,028 |
| Land revaluation (Note 6) | | 130,895 | 131,470 | 1,223,318 |
| Retained earnings (deficit) | | (34,581) | (78,220) | (323,187) |
| Net unrealized gains on available-for-sale securities | | 422 | 428 | 3,944 |
| Foreign currency translation adjustments | | (51,454) | (53,913) | (480,879) |
| Treasury stock (7,780,996 shares in 2004 and 5,482,972 shares in 2003) | | (2,197) | (1,455) | (20,533) |
| Total shareholders' equity | | 267,815 | 222,605 | 2,502,944 |
| Total liabilities, minority interests and shareholders' equity | | ¥1,767,846 | ¥1,795,573 | $16,521,925 |

# CONSOLIDATED STATEMENTS OF INCOME

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

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| For the years ended | 2004 March 31, 2005 | 2003 March 31, 2004 | 2002 March 31, 2003 | 2004 March 31, 2005 |
| Net sales | ¥2,695,564 | ¥2,916,130 | ¥2,364,512 | $25,192,187 |
| Cost and expenses: | | | | |
| Cost of sales | 1,972,574 | 2,165,160 | 1,725,058 | 18,435,271 |
| Selling, general and administrative expenses | 640,043 | 680,796 | 588,798 | 5,981,710 |
| | 2,612,617 | 2,845,956 | 2,313,856 | 24,416,981 |
| Operating income | 82,947 | 70,174 | 50,656 | 775,206 |
| Other income (expenses): | | | | |
| Interest and dividend income | 2,416 | 2,517 | 1,907 | 22,579 |
| Interest expense | (13,786) | (18,299) | (16,927) | (128,841) |
| Equity in net income of unconsolidated subsidiaries and affiliated companies | 9,963 | 9,199 | 7,674 | 93,112 |
| Other, net (Note 11) | (7,693) | (9,519) | (15,176) | (71,897) |
| | (9,100) | (16,102) | (22,522) | (85,047) |
| Income before income taxes | 73,847 | 54,072 | 28,134 | 690,159 |
| Income taxes (Note 13): | | | | |
| Current | 12,343 | 13,105 | 7,450 | 115,355 |
| Deferred | 14,315 | 4,563 | (4,364) | 133,785 |
| | 26,658 | 17,668 | 3,086 | 249,140 |
| Income before minority interests | 47,189 | 36,404 | 25,048 | 441,019 |
| Minority interests of consolidated subsidiaries | (1,417) | (2,503) | (914) | (13,243) |
| Net income | ¥ 45,772 | ¥ 33,901 | ¥ 24,134 | $ 427,776 |

| | Yen | | | U.S. dollars (Note 1) |
|---|---|---|---|---|
| Amounts per share of common stock: | | | | |
| Net income: | | | | |
| Basic | ¥37.63 | ¥27.84 | ¥19.80 | $0.35 |
| Diluted | 32.41 | 23.98 | 18.37 | 0.30 |
| Cash dividends applicable to the year | 3.00 | 2.00 | 2.00 | 0.03 |

See accompanying notes.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

| | | 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, 2002 | 1,222,496,655 | ¥120,078 | ¥104,217 | ¥125,326 | ¥(128,565) | ¥ (28) | ¥(47,879) | ¥ (312) |
| Net income | – | – | – | – | 24,134 | – | – | – |
| Cash dividends paid | – | – | – | – | (2,442) | – | – | – |
| Land revaluation | – | – | – | 4,612 | (858) | – | – | – |
| Net unrealized losses on available-for-sale securities | – | – | – | – | – | (165) | – | – |
| Adjustments from translation of foreign currency financial statements | – | – | – | – | – | – | (3,436) | – |
| Exclusion of consolidated subsidiaries and companies accounted for by the equity method | – | – | (52) | – | (11) | – | – | – |
| Treasury stock | – | – | 52 | – | – | – | – | (600) |
| 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) |

| | 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, 2004 | $1,122,224 | $973,991 | $1,228,692 | $(731,028) | $4,000 | $(503,860) | $(13,598) |
| Net income | – | – | – | 427,776 | – | – | – |
| Exercise of stock acquisition rights | 2,029 | 2,018 | – | – | – | – | – |
| Cash dividends paid | – | – | – | (22,748) | – | – | – |
| Land revaluation | – | – | (5,374) | 3,093 | – | – | – |
| Net unrealized losses on available-for-sale securities | – | – | – | – | (56) | – | – |
| Adjustments from translation of foreign currency financial statements | – | – | – | – | – | 22,981 | – |
| Exclusion of consolidated subsidiaries and companies accounted for by the equity method | – | – | – | (280) | – | – | – |
| Treasury stock | – | 19 | – | – | – | – | (6,935) |
| Balance at March 31, 2005 | $1,124,253 | $976,028 | $1,223,318 | $(323,187) | $3,944 | $(480,879) | $(20,533) |

See accompanying notes.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

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

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| For the years ended | 2004 March 31, 2005 | 2003 March 31, 2004 | 2002 March 31, 2003 | 2004 March 31, 2005 |
| **Cash flows from operating activities:** | | | | |
| Income before income taxes | ¥ 73,847 | ¥ 54,072 | ¥ 28,134 | $ 690,159 |
| Adjustments to reconcile income before income taxes to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 40,036 | 37,900 | 36,989 | 374,168 |
| Allowance for doubtful receivables | 1,462 | 1,620 | 3,117 | 13,664 |
| Investment valuation allowance | 371 | (81) | (10) | 3,467 |
| Reserve for warranty expenses | 1,539 | 4,077 | 3,032 | 14,383 |
| Reserve for loss on business restructuring | – | – | 2,695 | – |
| Employees' severance and retirement benefits | (2,361) | 15,353 | 8,600 | (22,065) |
| Interest and dividend income | (2,416) | (2,517) | (1,907) | (22,579) |
| Interest expense | 13,786 | 18,299 | 16,927 | 128,841 |
| Equity in net income of unconsolidated subsidiaries and affiliated companies | (9,963) | (9,199) | (7,674) | (93,112) |
| Loss on sale/disposition of property, plant and equipment, net | 8,714 | 990 | 4,961 | 81,439 |
| Loss (gain) on sale of investment securities, net | 425 | 108 | (1,712) | 3,972 |
| Restructuring of subsidiaries and affiliates | – | – | 683 | – |
| Insurance claim income | (27,942) | – | – | (261,140) |
| Decrease (increase) in trade notes and accounts receivable | 6,212 | (10,616) | (17,437) | 58,056 |
| Decrease (increase) in inventories | 23,246 | (37,113) | 11,896 | 217,252 |
| Increase (decrease) in trade notes and accounts payable | (275) | 50,766 | (14,903) | (2,570) |
| Increase (decrease) in other current liabilities | 14,079 | (10,560) | 28,112 | 131,579 |
| Other | 3,170 | 1,658 | 9,814 | 29,626 |
| Subtotal | 143,930 | 114,757 | 111,317 | 1,345,140 |
| Interest and dividends received | 2,710 | 2,862 | 2,463 | 25,328 |
| Interest paid | (13,912) | (18,216) | (16,781) | (130,019) |
| Insurance proceeds received | 13,383 | – | – | 125,075 |
| Income taxes paid | (12,376) | (7,024) | (7,331) | (115,664) |
| Net cash provided by operating activities | 133,735 | 92,379 | 89,668 | 1,249,860 |
| **Cash flows from investing activities:** | | | | |
| Purchase of investment securities | (5,611) | (1,527) | (3,254) | (52,439) |
| Sale of investment securities | 95 | 1,174 | 2,325 | 888 |
| Purchase of investments in subsidiaries affecting scope of consolidation | – | (760) | – | – |
| Sale of investments in subsidiaries affecting scope of consolidation | (595) | – | 5,790 | (5,561) |
| Additions to property, plant and equipment | (93,481) | (41,130) | (62,431) | (873,654) |
| Proceeds from sale of property, plant and equipment | 5,052 | 14,730 | 25,696 | 47,215 |
| Decrease (increase) in short-term loans receivable | 874 | (871) | 80 | 8,168 |
| Long-term loans receivable made | (204) | (821) | (122) | (1,907) |
| Collections of long-term loans receivable | 3,490 | 750 | 1,150 | 32,617 |
| Other | (7,455) | (14,796) | (11,848) | (69,673) |
| Net cash used in investing activities | (97,835) | (43,251) | (42,614) | (914,346) |
| **Cash flows from financing activities:** | | | | |
| Decrease in short-term debt | (56,746) | (29,002) | (50,815) | (530,336) |
| Proceeds from long-term debt | 107,142 | 119,743 | 130,923 | 1,001,327 |
| Repayment of long-term debt | (145,583) | (139,817) | (78,651) | (1,360,589) |
| Cash dividends paid | (2,434) | (2,438) | (2,442) | (22,748) |
| Other | 1,497 | (1,280) | (1,089) | 13,991 |
| Net cash used in financing activities | (96,124) | (52,794) | (2,074) | (898,355) |
| Effect of exchange rate fluctuations on cash and cash equivalents | 2,632 | 1,175 | 298 | 24,598 |
| Net increase (decrease) in cash and cash equivalents | (57,592) | (2,491) | 45,278 | (538,243) |
| Cash and cash equivalents at beginning of the year | 272,231 | 274,722 | 229,444 | 2,544,215 |
| Cash and cash equivalents at end of the year | ¥214,639 | ¥272,231 | ¥274,722 | $2,005,972 |

See accompanying notes.

## 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.

In the year ended March 31, 2005, the Company and its consolidated domestic subsidiaries (together the "Domestic Companies") did not adopt early 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 is required to be adopted effective April 1, 2005.

The Company estimates that the effect of adopting the new accounting standard will have a material effect on the Company's 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, 2005, which was ¥107 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 53 subsidiaries (55 in the year ended March 31, 2004 and 65 in the year ended March 31, 2003). In addition, 12 non-consolidated subsidiaries and affiliates (12 in the year ended March 31, 2004 and 15 in the year ended March 31, 2003) are accounted for on the equity method.

The consolidated year-end balance sheet date is March 31. Among the consolidated subsidiaries, 4 companies (3 at March 31, 2004 and 15 at March 31, 2003) 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, 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.

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 fiscal year ends of the subsidiaries' accounting periods except for shareholders' equity accounts, which are translated at the historical rates. Income statements of consolidated overseas subsidiaries are translated at average rates of the subsidiaries' fiscal years, 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 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 at cost. Through the year ended March 31, 2002, depreciation was computed principally using a declining balance method over the useful lives of the assets determined in accordance with Japanese income tax law, except for tools and buildings acquired after March 31, 1998, which were depreciated using the straight-line method. Effective April 1, 2002, however, as explained in Note 3, depreciation has been 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.

### Reserve for loss on business restructuring

Reserve for loss on business restructuring provides for losses related to the closure of a plant in accordance with the Company's business restructuring plan. An amount rationally estimated for such losses 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 8, in connection with the enactment of the Japanese Welfare Pension Insurance Law, the Company and certain other Domestic Companies obtained the approval of exemption from the benefits related to future employee service under the substitutional portion from the Ministry of Health, Labor and Welfare on March 26, 2004.

### Directors' and corporate auditors' retirement benefits

Directors' and corporate auditors' retirement benefits provide for the payment of retirement benefits to directors and corporate auditors. The equivalent of the amount that would be required by the internal corporate policy if all the directors and corporate auditors retired at the end of this 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, 2005, 2004 and 2003, research and development costs were ¥90,841 million ($848,981 thousand), ¥87,807 million and ¥87,800 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.

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002). Under the prior accounting standard, net income per share of common stock for the year ended March 31, 2003 would have been as follows: basic ¥19.78 and diluted ¥18.35.

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

### Reclassifications

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

## 3. ACCOUNTING CHANGES

### 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.

### Depreciation of property, plant and equipment

Through the year ended March 31, 2002, the Company depreciated property, plant and equipment on the declining-balance method equivalent to the provisions of Japanese income tax laws, except for buildings (excluding fixtures) acquired after March 31, 1998 and tools that were depreciated on the straight-line method. Commencing in the year ended March 31, 2003, however, the Company changed its depreciation method for property, plant and equipment from the declining-balance method to the straight-line method.

This change was made in order to improve the matching of revenues and expenses in consideration of recent changes in the Company's business environment. Progress made in the concentration of production and the common utilization of the same production facilities for different models has facilitated the stable use of production facilities; as a result, the recovery of investments can be expected equally over the periods of useful lives.

The effects of this change for the year ended March 31, 2003 were to decrease depreciation expense by ¥12,856 million, to increase operating income by ¥11,014 million, and to increase income before income taxes by ¥11,114 million.

## 4. SECURITIES

The Company and its consolidated subsidiaries had no trading or held-to-maturity debt securities with available fair values at March 31, 2005 and 2004.

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

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| | Acquisition costs | Carrying values | Unrealized gains | Acquisition costs | Carrying values | Unrealized gains |
| Stocks | ¥549 | ¥1,513 | ¥964 | $5,130 | $14,140 | $9,010 |
| Bonds | 11 | 11 | – | 103 | 103 | – |
| Other | 175 | 175 | – | 1,636 | 1,636 | – |
| | ¥735 | ¥1,699 | ¥964 | $6,869 | $15,879 | $9,010 |

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

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | Book value | Book value |
| Non-listed equity securities | ¥9,369 | $87,561 |

Available-for-sale securities that have available market values as of March 31, 2004 were as follows:

| | Millions of yen | | |
|---|---|---|---|
| | Acquisition costs | Carrying values | Unrealized gains (losses) |
| Stocks | ¥563 | ¥1,562 | ¥ 999 |
| Bonds | 10 | 11 | 1 |
| Other | 117 | 117 | – |
| | ¥690 | ¥1,690 | ¥1,000 |

Available-for-sale securities with no available fair values as of March 31, 2004 were as follows:

| | Millions of yen |
|---|---|
| | Book value |
| Non-listed equity securities | ¥8,959 |

## 5. INVENTORIES

Inventories at March 31, 2005 and 2004 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| As of | 2004 March 31, 2005 | 2003 March 31, 2004 | 2004 March 31, 2005 |
| Finished products | ¥213,004 | ¥230,077 | $1,990,691 |
| Work in process | 31,999 | 31,116 | 299,056 |
| Raw materials and supplies | 8,866 | 7,124 | 82,860 |
| | ¥253,869 | ¥268,317 | $2,372,607 |

## 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, 2005 from that at the time of revaluation, as stipulated in Article 10 of the Land Revaluation Law, is ¥71,914 million ($672,093 thousand).

## 7. SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt at March 31, 2005 and 2004 consisted of loans, principally from banks with interest at March 31, 2005 and 2004 averaging 1.0% and 1.5%, respectively.

Long-term debt at March 31, 2005 and 2004 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| As of | 2004 March 31, 2005 | 2003 March 31, 2004 | 2004 March 31, 2005 |
| Domestic unsecured bonds due serially 2004 through 2009 at rates of 0.28% to 2.65% per annum | ¥ 70,800 | ¥137,800 | $ 661,682 |
| Domestic unsecured convertible bonds with stock acquisition rights due 2007 with no interest | 59,567 | 60,000 | 556,701 |
| Loans principally from banks and insurance companies: | | | |
| Secured loans, maturing through 2014 | 107,001 | 148,004 | 1,000,009 |
| Unsecured loans, maturing through 2012 | 190,222 | 97,676 | 1,777,776 |
| | 427,590 | 443,480 | 3,996,168 |
| Amount due within one year | (113,247) | (120,022) | (1,058,383) |
| | ¥314,343 | ¥323,458 | $2,937,785 |

The annual interest rates applicable to long-term loans outstanding averaged 1.8% for due within one year and 1.4% for due after one year at March 31, 2005 and 1.8% for both due within one year and due after one year at March 31, 2004.

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 annual maturities of long-term debt at March 31, 2005 were as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2006 | ¥113,247 | $1,058,383 |
| 2007 | 54,206 | 506,598 |
| 2008 | 116,288 | 1,086,804 |
| 2009 | 51,745 | 483,598 |
| 2010 | 17,684 | 165,271 |
| Thereafter | 74,420 | 695,514 |
| | ¥427,590 | $3,996,168 |

The assets pledged as collateral for short-term debt of ¥57,892 million ($541,047 thousand) and long-term debt of ¥107,001 million ($1,000,009 thousand) at March 31, 2005 were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Property, plant and equipment, at net book value | ¥464,018 | $4,336,617 |
| Other | 378 | 3,533 |
| | ¥464,396 | $4,340,150 |

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

## 8. 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, 2005 and 2004 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2004 March 31, 2005 | 2003 March 31, 2004 | 2004 March 31, 2005 |
| Projected benefit obligation | ¥537,801 | ¥541,802 | $5,026,178 |
| Unrecognized prior service costs | 25,050 | 13,084 | 234,112 |
| Unrecognized actuarial differences | (95,764) | (100,231) | (894,991) |
| Less fair value of pension assets | (272,891) | (256,415) | (2,550,383) |
| Prepaid pension cost | 1,696 | 13 | 15,850 |
| Liability for severance and retirement benefits | ¥195,892 | ¥198,253 | $1,830,766 |

Severance and retirement benefit expenses included in the consolidated statements of income for the years ended March 31, 2005, 2004 and 2003 consisted of the following:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2004 March 31, 2005 | 2003 March 31, 2004 | 2002 March 31, 2003 | 2004 March 31, 2005 |
| Service costs—benefits earned during the year | ¥10,454 | ¥15,052 | ¥17,042 | $ 97,701 |
| Interest cost on projected benefit obligation | 15,369 | 15,396 | 15,129 | 143,635 |
| Expected return on plan assets | (8,081) | (6,223) | (9,556) | (75,523) |
| Amortization of prior service costs | (2,134) | 279 | 270 | (19,944) |
| Amortization of actuarial differences | 9,774 | 12,234 | 8,472 | 91,346 |
| Severance and retirement benefit expenses | ¥25,382 | ¥36,738 | ¥31,357 | $237,215 |

The discount rates and the rates of expected return on plan assets used by the Domestic Companies are primarily 3.0% and 3.0%, respectively, for the years ended March 31, 2005 and 2004, respectively. 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") of the exemption from the payment of the benefits related to future employee service. In addition, a company must obtain approval from the "MHLW" for separation of 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 some 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. These Domestic Companies did not apply this transitional provision in the year ended March 31, 2004. Recognition will be on the date the transfer of the substitutional portion is actually executed.

At 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 income before income taxes for the year ended March 31, 2004 would have been to increase other income by ¥47,517 million.

At March 31, 2005, estimated plan assets to be returned to the government were ¥138,133 million ($1,290,963 thousand). If the transfer of the substitutional portion had been actually executed and the effect of such transfer had been recognized in the year ended March 31, 2005, based on the estimated plan assets at March 31, 2005, the effect of the recognition on the consolidated income before income taxes for the year ended March 31, 2005 would have been to increase other income by ¥58,696 million ($548,561 thousand).

## 9. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2005 were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Discounted trade notes receivable | ¥ 826 | $ 7,720 |
| Factoring of receivables with recourse | 8,567 | 80,065 |
| Guarantees of loans and similar agreements | 19,493 | 182,178 |
| Letters of undertaking to provide guarantees for leases for factory facilities | 26,914 | 251,533 |

## 10. 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.

In addition, information related to the Company's stock options is as follows:

## 11. OTHER INCOME (EXPENSES)

The components of "Other, net" in Other income (expenses) in the statements of income for the years ended March 31, 2005, 2004 and 2003 were comprised as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| For the years ended | 2004 March 31, 2005 | 2003 March 31, 2004 | 2002 March 31, 2003 | 2004 March 31, 2005 |
| Valuation loss on investment securities | ¥ – | ¥(2,832) | ¥ (3,160) | $ – |
| Gain (loss) on sale of investment securities, net | (425) | (108) | 1,712 | (3,972) |
| Gain (loss) on sale of property, plant and equipment, net | (10,638) | (990) | (4,961) | (99,421) |
| Rental income | 1,961 | 1,986 | 2,194 | 18,327 |
| Restructuring of subsidiaries and affiliates | – | – | (683) | – |
| Investment valuation allowance | – | – | – | – |
| Foreign exchange gain (loss) | (7,443) | (2,870) | 1,038 | (69,561) |
| Loss on business restructuring | – | – | (2,695) | – |
| Compensation received for the exercise of eminent domain | 1,924 | – | – | 17,981 |
| Loss on liquidation of a *Tokumei Kumiai* | (2,226) | – | – | (20,804) |
| Insurance claim income | 27,942 | – | – | 261,140 |
| Loss on disasters | (14,831) | – | – | (138,607) |
| Other | (3,957) | (4,705) | (8,621) | (36,980) |
| | ¥ (7,693) | ¥(9,519) | ¥(15,176) | $ (71,897) |

Of the insurance claim income recognized in other income for the year ended March 31, 2005, the amount of ¥25,399 million ($237,374 thousand) 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 ($117,879 thousand) was for the fire incident.

## 12. 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 ($20,804 thousand).

The present value of the lease payment obligations unaccrued as of March 31, 2004, including an amount equivalent to the prescribed penalties for non-renewal, etc., was included in future minimum lease payments under operating leases as lessee in Note 15.

## 13. INCOME TAXES

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

| For the years ended | 2004 March 31, 2005 | 2003 March 31, 2004 | 2002 March 31, 2003 |
|---|---|---|---|
| Statutory tax rate | 40.4% | 41.7% | 41.7% |
| Equity in net income of unconsolidated subsidiaries and affiliated companies | (5.5) | (7.1) | (11.4) |
| Deferred taxes on net operating losses of consolidated subsidiaries and equity method companies | – | – | (32.7) |
| Taxes on retained earnings of subsidiaries in which investments were sold during this period | – | – | (2.2) |
| Valuation allowances | 9.0 | 5.3 | (3.6) |
| Unrealized profits from intercompany transactions | (5.7) | (5.6) | 9.9 |
| Effect of tax rate change | – | – | 8.7 |
| Elimination of dividend income from overseas consolidated subsidiaries | – | – | 0.9 |
| Other | (2.1) | (1.6) | (0.3) |
| Effective tax rate | 36.1% | 32.7% | 11.0% |

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, 2005 and 2004 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| As of | 2004 March 31, 2005 | 2003 March 31, 2004 | 2004 March 31, 2005 |
| Deferred tax assets: | | | |
| Allowance for doubtful receivables | ¥ 6,141 | ¥ 7,433 | $ 57,393 |
| Employees' severance and retirement benefits | 76,970 | 76,161 | 719,346 |
| Accrued bonuses and other reserves | 21,182 | 20,837 | 197,963 |
| Inventory valuation | 4,878 | 3,641 | 45,589 |
| Valuation loss on investment securities, etc. | 1,297 | 2,974 | 12,121 |
| Net operating loss carryforwards | 5,244 | 21,389 | 49,009 |
| Other | 67,004 | 57,634 | 626,205 |
| Total gross deferred tax assets | 182,716 | 190,069 | 1,707,626 |
| Less valuation allowance | (17,626) | (11,676) | (164,729) |
| Total deferred tax assets | 165,090 | 178,393 | 1,542,897 |
| Deferred tax liabilities: | | | |
| Reserves under Special Taxation Measures Law | (8,608) | (5,843) | (80,449) |
| Other | (2,655) | (4,365) | (24,812) |
| Total deferred tax liabilities | (11,263) | (10,208) | (105,261) |
| Net deferred tax assets | ¥153,827 | ¥168,185 | $1,437,636 |

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 | 2004 March 31, 2005 | 2003 March 31, 2004 | 2004 March 31, 2005 |
| Current assets—Deferred taxes | ¥ 80,133 | ¥ 74,412 | $ 748,907 |
| Investments and other assets—Deferred taxes | 73,747 | 93,953 | 689,224 |
| Current liabilities—Other | (1) | (1) | (9) |
| Other long-term liabilities | (52) | (179) | (486) |
| Net deferred tax assets | ¥153,827 | ¥168,185 | $1,437,636 |

## 14. 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 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, 2005 and 2004 of derivative transactions for which hedge accounting has not been applied:

| 2004<br>As of March 31, 2005 | 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 | ¥ 5,731 | ¥ 5,645 | ¥ 86 | $ 53,561 | $ 52,757 | $ 804 |
| Canadian dollars | 2,617 | 2,653 | (36) | 24,458 | 24,794 | (336) |
| Australian dollars | 257 | 266 | (9) | 2,402 | 2,486 | (84) |
| Euro | 360 | 371 | (11) | 3,364 | 3,467 | (103) |
| Sterling pound | 2,764 | 2,861 | (97) | 25,831 | 26,738 | (907) |
| Buy: | | | | | | |
| Thailand baht | 5,799 | 5,951 | 152 | 54,196 | 55,617 | 1,421 |
| Australian dollars | 4,862 | 4,860 | (2) | 45,440 | 45,421 | (19) |
| Currency swap contracts: | | | | | | |
| U.S. dollars | 279 | 277 | (2) | 2,608 | 2,589 | (19) |
| | ¥22,669 | ¥22,884 | ¥ 81 | $211,860 | $213,869 | $ 757 |

| 2003<br>As of March 31, 2004 | Millions of yen | | |
|---|---|---|---|
| | Contract amount | Estimated fair value | Unrealized gain (loss) |
| Forward foreign exchange contracts: | | | |
| Sell: | | | |
| U.S. dollars | ¥ 73 | ¥ 70 | ¥ 3 |
| Canadian dollars | 3,135 | 3,102 | 33 |
| Australian dollars | 355 | 375 | (20) |
| Euro | 13,317 | 13,370 | (53) |
| Sterling pound | 8,662 | 9,080 | (418) |
| Swiss franc | 764 | 773 | (9) |
| Buy: | | | |
| Thailand baht | 2,788 | 2,785 | (3) |
| | ¥29,094 | ¥29,555 | ¥(467) |

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.

## 15. 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, 2005 and 2004 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| As of | 2004 March 31, 2005 | 2003 March 31, 2004 | 2004 March 31, 2005 |
| Acquisition costs for machinery, tools and equipment | ¥84,724 | ¥141,043 | $791,813 |
| Accumulated depreciation | 43,819 | 87,191 | 409,523 |
| Net book value | ¥40,905 | ¥ 53,852 | $382,290 |

Lease payments under non-capitalized finance leases amounted to ¥17,957 million ($167,822 thousand), ¥22,486 million and ¥22,342 million for the years ended March 31, 2005, 2004 and 2003, respectively. The equivalents of the related depreciation and interest expenses amounted to ¥15,035 million ($140,514 thousand) and ¥1,637 million ($15,299 thousand) for the year ended March 31, 2005, ¥18,505 million and ¥2,281 million for the year ended March 31, 2004, and ¥18,638 million and ¥2,671 million for the year ended March 31, 2003, 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, 2005 and 2004 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 | 2004 March 31, 2005 | 2003 March 31, 2004 | 2004 March 31, 2005 | 2004 March 31, 2005 | 2003 March 31, 2004 | 2004 March 31, 2005 |
| Current portion | ¥14,062 | ¥22,046 | $131,421 | ¥ 6,597 | ¥31,115 | $ 61,654 |
| Non-current portion | 28,720 | 34,346 | 268,411 | 14,382 | 16,322 | 134,411 |
| | ¥42,782 | ¥56,392 | $399,832 | ¥20,979 | ¥47,437 | $196,065 |

## 16. 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, 2005, 2004 and 2003 were as follows:

| 2004 | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| For the year ended March 31, 2005 | Japan | North America | Europe | Other areas | Total | Elimination or corporate | Consolidated |
| 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 (loss) | ¥ 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<br>For the year ended March 31, 2004 | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Japan | North America | Europe | Other areas | Total | Elimination or corporate | Consolidated |
| 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 |

| 2002<br>For the year ended March 31, 2003 | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Japan | North America | Europe | Other areas | Total | Elimination or corporate | Consolidated |
| Net sales: | | | | | | | |
| Outside customers | ¥1,110,796 | ¥825,569 | ¥313,843 | ¥114,304 | ¥2,364,512 | ¥ – | ¥2,364,512 |
| Inter-area | 634,994 | 16,012 | 7,785 | 230 | 659,021 | (659,021) | – |
| Total | 1,745,790 | 841,581 | 321,628 | 114,534 | 3,023,533 | (659,021) | 2,364,512 |
| Costs and expenses | 1,705,835 | 835,124 | 316,140 | 110,167 | 2,967,266 | (653,410) | 2,313,856 |
| Operating income (loss) | ¥ 39,955 | ¥ 6,457 | ¥ 5,488 | ¥ 4,367 | ¥ 56,267 | ¥ (5,611) | ¥ 50,656 |
| Total identifiable assets | ¥1,556,306 | ¥190,720 | ¥118,044 | ¥ 26,437 | ¥1,891,507 | ¥(137,490) | ¥1,754,017 |

| 2004<br>For the year ended March 31, 2005 | Thousands of U.S. dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | Japan | North America | Europe | Other areas | Total | Elimination or corporate | Consolidated |
| Net sales: | | | | | | | |
| Outside customers | $10,617,776 | $7,023,421 | $5,843,710 | $1,707,280 | $25,192,187 | $ – | $25,192,187 |
| Inter-area | 8,860,598 | 119,897 | 128,495 | 860 | 9,109,850 | (9,109,850) | – |
| Total | 19,478,374 | 7,143,318 | 5,972,205 | 1,708,140 | 34,302,037 | (9,109,850) | 25,192,187 |
| Costs and expenses | 18,929,094 | 7,061,187 | 5,891,710 | 1,655,046 | 33,537,037 | (9,120,056) | 24,416,981 |
| Operating income (loss) | $ 549,280 | $ 82,131 | $ 80,495 | $ 53,094 | $ 765,000 | $ 10,206 | $ 775,206 |
| Total identifiable assets | $14,230,290 | $1,795,832 | $1,134,776 | $ 385,822 | $17,546,720 | $(1,024,795) | $16,521,925 |

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.

In addition, as discussed in Note 3, the Company changed its depreciation method of property, plant and equipment as of the beginning of the year ended March 31, 2003. The effect of this change was to decrease the costs and expenses of the Japan area by ¥11,014 million and to increase the operating income by the same amount.

For the years ended March 31, 2005, 2004 and 2003, 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, 2005, 2004 and 2003 were as follows:

| 2004<br>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<br>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% |

| 2002<br>For the year ended March 31, 2003 | Millions of yen | | | |
|---|---|---|---|---|
| | North America | Europe | Other areas | Total |
| International sales | ¥845,241 | ¥368,045 | ¥332,955 | ¥1,546,241 |
| Percentage of consolidated net sales | 35.7% | 15.6% | 14.1% | 65.4% |

| 2004<br>For the year ended March 31, 2005 | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | North America | Europe | Other areas | Total |
| International sales | $7,118,542 | $5,927,411 | $4,243,243 | $17,289,196 |

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, 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.

For the year ended March 31, 2003, the principal countries included in North America, Europe, and Other areas were: the United States and Canada; Germany and Britain; and Australia, Thailand and Colombia, respectively.

## 17. 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, 2005 and 2004, guarantees of loans and letters of undertaking, included in contingent liabilities, covered ¥32,504 million ($303,776 thousand) and ¥37,574 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 years ended March 31, 2005 and 2004, the transactions amounted to ¥177,470 million ($1,658,598 thousand) and ¥262,923 million, respectively, in the aggregate. As of March 31, 2005 and 2004, the ending balances of accounts receivable related to the transactions were ¥4,312 million ($40,299 thousand) and ¥3,568 million, respectively. 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 and 2004, the ending balances of the bonds with stock acquisition rights held by FLP Canada were ¥20,000 million ($186,916 thousand) and ¥20,000 million, respectively.

## 18. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended March 31, 2005, exercise of bonds with stock acquisition rights increased common stock by ¥217 million ($2,029 thousand), increased capital surplus by ¥216 million ($2,018 thousand), and decreased bonds with stock acquisition rights by ¥433 million ($4,047 thousand).

In addition, for the year ended March 31, 2005, assets and liabilities related to capital lease transactions that were newly recognized amounted to ¥2,861 million ($26,738 thousand).

Also, of the insurance claims received that were included in the net cash provided by operating activities for the year ended March 31, 2005, the amount of ¥11,045 million ($103,224 thousand) was for the fire incident at Ujina No. 1 Plant that occurred on December 15, 2004.

## 19. SUBSEQUENT EVENTS

The following appropriation of retained earnings was approved at a shareholders' meeting held on June 24, 2005:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Year-end cash dividends: ¥3.00 ($0.03) per share | ¥3,648 | $34,093 |

# ASSURANCE BY KEY MANAGEMENT

To the best of our knowledge, after due inquiry, the financial statements and other financial information included in the company's fiscal 2004 annual report are presented fairly, in all material respects, in conformity with the generally accepted accounting principles in Japan and contained no material errors or omissions.

President and
Chief Executive Officer

Hisakazu Imaki

Senior Managing Executive Officer and
Chief Financial Officer

Gideon Wolthers

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, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2005, 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, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, 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, 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. 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.

(2) As referred to in Note 3, Mazda Motor Corporation changed its method of accounting for the depreciation of property, plant and equipment in the year ended March 31, 2003.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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 25, 2005

# DIRECTORY

(As of March 31, 2005)

## PLANTS

| Plant | Land area ($m^2$) | Products |
|---|---|---|
| Hiroshima | 2,241,000 | Passenger cars and commercial vehicles |
| Hofu | | |
| Nishinoura | 792,000 | Passenger cars |
| Nakanoseki | 537,000 | Transmissions |
| Miyoshi | 1,667,000 | Reciprocating engines and diesel engines |

## 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, 2005)

| | |
|---|---|
| Name: | Mazda Motor Corporation |
| Founded: | January 1920 |
| Capital: | ¥120,295 million |
| Number of Employees: | 35,680 |

## OFFICES

**Head Office:**
3-1 Shinchi, Fuchu-cho, Aki-gun,
Hiroshima 730-8670, Japan
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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 or to
request supplementary information, please contact:

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# STOCK INFORMATION

(As of March 31, 2005)

## COMMON STOCK

| | |
|---|---|
| Authorized: | 3,000,000,000 shares |
| Issued: | 1,223,911,682 shares |
| Number of Shareholders: | 68,175 |
| Listing: | Tokyo Stock Exchange, First Section |
| Code: | 7261 |
| Fiscal Year-end: | March 31 |
| Transfer Agent: | The Sumitomo Trust & Banking Co., Ltd.<br>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 | 33.4% |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 98,193,000 | 8.0 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 62,081,000 | 5.1 |
| Tokio Marine & Nichido Fire Insurance Co., Ltd. | 40,410,500 | 3.3 |
| Sumitomo Mitsui Banking Corp. | 37,624,500 | 3.1 |
| Mitsui Sumitomo Insurance Co., Ltd. | 32,483,250 | 2.7 |
| Sompo Japan Insurance Inc. | 20,210,000 | 1.7 |
| Nippon Life Insurance Company | 15,819,215 | 1.3 |
| Trust & Custody Services Bank, Ltd. (Trust Account B) | 15,626,000 | 1.3 |
| Trust & Custody Services Bank, Ltd. (Pension Trust Account) | 12,530,000 | 1.0 |

## BREAKDOWN OF SHAREHOLDERS

| Classification | No. of Shares Owned | Ratio (%) |
|---|---|---|
| ● Foreign institutions & others | 486,671,473 | 39.8% |
| ● Japanese financial institutions | 453,272,080 | 37.1 |
| ● Japanese individuals & others | 202,465,221 | 16.5 |
| ● Other Japanese corporations | 75,092,319 | 6.1 |
| ● Japanese securities companies | 6,367,589 | 0.5 |
| ○ Japanese government & municipal corporations | 43,000 | 0.0 |
| Total | 1,223,911,682 | 100.0% |

## ▼ Share Price and Trading Volume ▼

# Mazda Motor Corporation

Mazda Motor Corporation Building Momentum Annual Report 2004

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