



FINANCIAL REPORT 2022

YEAR ENDED MARCH 31, 2022

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MANAGEMENT POLICY, BUSINESS ENVIRONMENT, ISSUES TO BE ADDRESSED, ETC.

1. Basic Policy of Company Management

Mazda Motor Corporation (hereinafter “Mazda” or “the Company”) has established the following corporate vision in an effort to earn the trust of customers and other stakeholders and to be a brand that they will continue to choose, and also to pursue business activities in a unified manner:

We love cars and want people to enjoy fulfilling lives through cars.

We envision cars existing sustainably with the earth and society,
and we will continue to tackle challenges with creative ideas.

1. Brighten people’s lives through car ownership.
2. Offer cars that are sustainable with the earth and society to more people.
3. Embrace challenges and seek to master the Doh (“Way” or “Path”) of creativity.

2. Business Environment and Issues to be Addressed

(1) Medium-term Management Plan (Fiscal year ending March 2020 through Fiscal year ending March 2026)

To guide Mazda through this key period of transformation and achieve sustainable growth, the Company has formulated a Medium-term Management Plan in accordance with “Mazda’s uniqueness of co-creating with others,” our core policy, and is steadily implementing initiatives under this plan.

Medium-term Management Plan Key Initiatives

- Invest in brand value improvement
 - Invest in unique products, technologies, production, and customer experience -
 - Continued investment with further efficiency and leveling
 - Staggered launch of new products/derivatives at planned intervals
 - Continued product upgrades
- Curb expenses that depreciate brand value
- Accelerate fixed cost/cost reductions to lower break-even volume
- Invest in areas where we need to catch up and start investing in new areas
- Enhance alliances (CASE*¹, new partnerships)

Having earmarked the period up until the end of the fiscal year ended March 2022 as a foundation-building period, the Company has completed preparations as planned for stronger growth from the fiscal year ending March 2023. With our sights set on 2030 to realize the Company’s long-term vision for technology development, “Sustainable Zoom-Zoom 2030”, we are now examining the transformation of our business structure, bearing in mind changes in the business environment due to the worldwide tightening and acceleration of environmental regulations and competition in new value creation in an era characterized by CASE. We will strive to achieve significant growth by leveraging the assets we have built to date and accelerate efforts to achieve a resilient management structure capable of withstanding major changes over time.

Medium-term Management Plan Financial Metrics

Key financial metrics for the fiscal year ending March 2026, the final year of the Medium-term Management Plan are as follows.

Net sales	· About 4.5 trillion yen
Profit	· Operating return on sales (ROS) 5% or higher · Return on equity (ROE) 10% or higher
Investment for future	· Capex and R&D: 7-8% of net sales or less · Actions for electrification, IT and carbon neutrality
Financial structure	· Maintenance of a net cash position
Shareholder return	· Sustainable payout ratio of 30% or higher
Sales volume	· About 1.8 million units
Break-even volume	· About 1 million units (wholesales)

*1 CASE: an acronym that combines the initial letters of the following areas, namely Connected technology, Autonomous driving technology, Shared services, and Electrification technology

(2) Initiatives to Raise Brand Value through Introduction of New Products

In the SUV segment, which has been experiencing growth on a global basis, Mazda will further enhance its crossover SUV lineup and in 2022 will commence the launch of five new models: the Mazda CX-50, Mazda CX-60, Mazda CX-70, Mazda CX-80 and Mazda CX-90. In the fiscal year ending March 2023, Mazda plans to launch the CX-60 mainly in Japan and Europe in the summer to autumn period, and commence production of the CX-90 for the North American market. Through ongoing improvement in quality of sales, we will raise brand value and ensure our achievement of solid growth.

Making full use of bundled planning,^{*2} flexible production^{*3} and other technological assets, we will expand this product lineup efficiently with low investment and provide customers with diverse choices that will offer both driving pleasure and the latest environmental performance.

<Crossover SUVs to be introduced from 2022 onwards>

Product group	Models	Main markets for introduction
Large Product group	Mazda CX-60 (two rows of seats)	Europe, Japan, etc.
	Mazda CX-70 (wide body, two rows of seats)	North America, etc.
	Mazda CX-80 (three rows of seats)	Europe, Japan, etc.
	Mazda CX-90 (wide body, three rows of seats)	North America, etc.
Small Product group	Mazda CX-50	USA

*2 A method for developing a common chassis and parts across vehicle models, vehicle classes and segments to be introduced in the future

*3 A production system capable of producing multiple models and parts on the same line as well as flexibly accommodating the introduction of new models quickly with low investment

(3) Promotion of Multi-solutions in Electrification and Initiatives for Achieving Carbon

Neutrality

To fulfill our social responsibility in curbing global warming, we have been directing our efforts to promoting electrification and carbon neutrality.

Under our Building Block Strategy,^{*4} we will further improve internal combustion engines and build on our electrification technologies to introduce a range of models with diverse electrification technologies. Applying our “SKYACTIV Multi-Solution Scalable Architecture,” a platform compatible with transverse power units in our Small Products and longitudinal power units in our Large Products, we plan to roll out multiple electrification solutions including EVs, plug-in hybrids, and hybrids capable of meeting various customer needs, environmental regulations, and electric power generating infrastructure. From 2025 onwards, we will also newly introduce “SKYACTIV EV-dedicated scalable architecture,” Mazda’s proprietary EV-dedicated platform that can be adapted to EV models of various vehicle classes and body types.

To achieve carbon neutrality by 2050, Mazda has been striving to promote wider use of renewable liquid fuel, make production plants and offices carbon neutral, and reduce CO₂ in the entire life cycle of cars and throughout the entire supply chain.^{*5} In November 2021, Mazda participated in launching the Carbon Neutral Electricity Promotion Subcommittee in the Chugoku Region and has been serving as the secretariat in promoting initiatives to increase the supply and demand of electricity derived from renewable energy in the region.

^{*4} Mazda’s technology strategy for achieving multiple solutions by first improving base technologies in areas such as the engine, transmission, body and chassis (Skyactiv technologies), which determine a vehicle’s basic performance, and then combining these with electric devices such as Mazda’s idling stop system, regenerative braking system, and hybrid system.

^{*5} A series of processes through which products are delivered to customers’ hands, including procurement, manufacturing, inventory management, shipping, sales, and consumption

(4) Recruitment and Education of Personnel with Skills in Areas of Electrification and

Connectivity

In the Medium-term Management Plan, we identified investment in people as one of the areas we must focus on intensively. In today’s business landscape where the environment surrounding the automobile industry is dramatically changing, we must assign talented personnel to and develop high-level skills in new areas including electrification and vehicle software development. To acquire skills and technologies in these new areas, we have been strengthening our investment in human resources by stepping up HR initiatives such as mid-career hires and personnel development through education in technologies and skills in new areas including digital education through external organizations. In cooperation with Hiroshima University, Mazda has also developed an education program on model-based development^{*6} and has been promoting personnel development in the region.

^{*6} An efficient development method that minimizes the number of prototypes and verification of actual units by using desk-top simulation as the main method of verification in development

(5) Strengthening of Investment in IT for Digital Transformation (DX)

We will utilize digital technologies to further advance Monotsukuri Innovation. In production processes, we have been able to significantly reduce man-hours, expense and preparation time by building a virtual production line on computers, connecting the computers with actual equipment and robot control devices, and introducing technology to check all operations online even when there are no physical vehicles. In the area of Research and Development (R&D), we have been expeditiously expanding the scope of application of Model Based Development to realize Model Based Development at all vehicle levels. The use of AI and digital technologies has also greatly improved the efficiency of R&D investment. In tandem with the tenacious efforts and challenging spirit of our development and production engineers, we will shore up investment in digital technologies to continue our pursuit of highly efficient monotsukuri with a moderate outlay.

There is increasing uncertainty in the business environment due to shortages in the supply of semiconductors, logistics problems, and the situation in Ukraine. By rigorously pressing forward with innovations in cross-functional operations in areas such as continuous supply chain improvements and cost structure reforms, we will respond promptly and appropriately to changes in the environment. Furthermore, we will continue to strengthen our efforts to lower the break-even volume and we will keep our finger on the business pulse to increase profitability by further improving operational efficiency and thoroughly reviewing investments and fixed costs other than future growth investment.

Note: The future plans in this text are based on certain assumptions made by the Mazda Group at the time of issuance of this report. As such, statements in the text may differ from actual results and no warranty is given about their achievement.

BUSINESS RISKS

Significant risks that could affect the Mazda Group's business results and financial position include those listed below. This list, however, shows the main risks anticipated at the end of the fiscal year ended March 2022 and does not represent a comprehensive list of all the risks faced by the Group. The forward-looking statements in this section are based on the judgments of the Group as of the end of the fiscal year ended March 2022.

Risks Associated with the External Environment

1. Economic Conditions Impacting the Group

Selling its products in Japan and other parts of the world, including in North America, Europe, and Asia, the Group is greatly impacted by economic trends and fluctuations in demand in each of its markets. Therefore, the Group's business results and financial position could be adversely affected by, for example, an economic downturn, recession, changes in demand structure, declining demand, and intensifying price competition in its main markets.

2. Fluctuations in Exchange Rates

The Group is engaged in business activities on a global scale. The Group not only exports products from Japan to other parts of the world but also exports products manufactured at overseas plants to other markets in the world. These transactions are conducted in various currencies, and consequently its business results and financial position are exposed to the effects of fluctuations in exchange rates. In addition, as overseas assets and liabilities denominated in local currencies are translated into yen, there could be an adverse effect on shareholders' equity through foreign currency translation adjustments due to exchange rate fluctuations. The Group uses forward exchange contracts and other instruments to minimize the impact of short-term exchange rate risk. However, depending on the circumstances of fluctuations in exchange rates, loss of opportunity could be generated.

3. Statutory Regulations Covering the Environment

In addition to being subject to environmental regulations pertaining to fuel consumption and exhaust emissions, automobile safety, and the pollutant emission levels from manufacturing plants, the Group's operations in each country where it does business are subject to various statutory regulations, such as labor regulations. In particular, the demand for carbon neutrality is accelerating around the world. In order to fulfill its responsibility to society as a company, the Group is working to reduce CO₂ emissions from a well-to-wheel (from fuel extraction to driving) perspective, as well as from a life cycle assessment (LCA) perspective, which covers from automobile production, to logistics, disposal, and recycling. We are working to help resolve issues with multi-electrification solutions based on the electric power generating infrastructure and usage environment of each country, as well as the diversity of customers and their needs. However, going forward, the Group's business results and financial position could be adversely affected by the increased costs associated with even more stringent statutory and political regulations.

4. Procurement of Materials and Components

The Group relies on numerous suppliers for the procurement of materials and components. For that reason, the Group may face difficulties in procuring the necessary level of materials and components for volume production, due to supply constraints or reduced logistics functions in the event of these suppliers being affected by a disaster, due to tight supply balances, or due to changes to and breaches of supply contracts. Should the Group be unable to absorb the effects of any increases in the prices of the materials being procured by the Group, logistics expenses, and other costs—for example, by making internal efforts to boost productivity or passing on price rises to customers—or should procured materials and components be of insufficient quality, the possibility exists of a deterioration in output or higher costs, which could adversely affect the Group's business results and financial position.

5. International Business Activities

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

- Adverse political and economic developments
- Impediments arising from changes in laws and regulations
- Import/export regulations, such as tariffs, detrimental taxes, and other 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 or restrictions

Furthermore, the Group's business results and financial position could be adversely affected by changes in circumstances including the global spread of the novel coronavirus in the future.

6. Natural Disasters and Accidents

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

7. Changes in Financing Procurement Environment and Interest Rate Fluctuations

In addition to loans from banks, the Group has been raising funds by issuing its shares and bonds. However, in the event of turmoil in financial markets, tax reforms or institutional changes being made to government-affiliated financial organizations, or the downgrading of the Group's credit rating, the Group's business results and financial position could be adversely affected due to such factors as the increased funding costs and the difficulties associated with raising money for the amount of funds required. Moreover, factoring in the effect of interest rate changes on the Group's interest-bearing debt, were the costs of financing to increase due to a rise in interest rates, the Group's business results and financial position could also be adversely affected. In the event that any deterioration in the Group's financial standing were to infringe upon the financial covenants

of some of the loans and lead to the forfeiture of the benefit of time, the Group's business results and financial position could be adversely affected.

Risks Associated with Business Activities

8. Alliances and Joint Ventures

The Group is performing or examining 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, in the event of a disagreement over management, financial, or other matters between the parties involved, or in the event that the expected results were not produced due to such factors as changes to or terminations of alliances and joint ventures, the Group's business results and financial position could be adversely affected. In addition, unintended changes to or terminations of alliances and joint ventures could have an adverse effect on the Group's business results and financial position.

9. Market Competitiveness

Automobile markets, in which the Group sells its products, are undergoing rapid changes in their industrial structures due to the expansion of new added-value businesses represented by connected technology, autonomous driving technology, shared services, and electrification technology, as well as a succession of new entrants from other industries, resulting in an increasingly competitive and diverse environment. Maintaining and enhancing the Group's ability to compete in these markets, which includes maintaining and developing the Mazda brand value, is crucial to ensuring growth. The Group is implementing a range of initiatives to boost its competitiveness in all areas, including product planning and development, manufacturing, and sales, in order to respond to these rapid changes. However, the Group's business results and financial position could be adversely affected, including declines in market share or product prices, in the event that the scope and speed of changes to the competitive environment exceed expectations or the Group fails to launch appealing products at opportune times as a result of issues related to technological capabilities and manufacturing. The same holds true if the Group fails to take effective steps to respond to changes in customer values and needs, which continue to rapidly diversify, through its dealership network or sales methods.

10. Protection of Intellectual Property

In order to maintain competitiveness, the Group is working to accumulate and protect technologies and expertise that help it to develop unique products. At the same time, the Group is taking steps to prevent the infringement of third-party intellectual property rights. Nonetheless, should differences in recognition or opinion lead to a disputed infringement of third-party intellectual property rights that results in the Group being forced to halt the production and sales of products, or needing to pay damages, this could also adversely affect the Group's business results and financial position. The Group's intellectual property is not subject to complete protection in certain regions. In the event that third parties use the Group's intellectual property rights on an unauthorized basis to produce similar products, the Group may have to pay substantial expenses for litigation, or experience a decline in sales due to an inability to offer unique products. This could adversely affect the Group's business results and financial position.

11. Product Quality

While striving to improve the quality of its products to meet the requirements of the market, the Group also does its utmost to ensure the safety of its products. However, should a defect develop in a product due to unforeseen circumstances or a large-scale recall occur, this could adversely affect the Group's business results and financial position due to such factors as the incurring of significant costs, the Group's diminished brand image, and loss of market trust.

12. Dependence on Information Technology

In the course of various business activities such as development, production, and sales of products, the Group utilizes information technology, networks, and systems. The Group's products are also equipped with these technologies, including a driving support system, etc. Despite countermeasures implemented in information technology, networks, and systems to allow safe operations, such factors as failures in infrastructure, cyberattacks, and infection by computer viruses may result in suspension of business activities, loss of data, leakage of confidential information, and deterioration in product functions. Should these events occur, the Group's business results and financial position could be adversely affected due to the incurring of costs associated with countermeasures, loss of product credibility, and damage to the brand image, etc.

13. Compliance and Reputation

Commencing with information security efforts to protect personal information and confidential information, the Group has taken preventive measures regarding compliance, such as compliance with the law. In addition, in the event of a compliance-related incident being detected, the Group has a rapid response system in place to prevent any impact on the Group's social credibility and reputation. However, the Group cannot guarantee that there is no possibility of a legal violation occurring in the future. Should there be evidence of an illegal act or should the rapidity and content of the response prove insufficient, the Group's social credibility and reputation could be harmed, and the Group's business results and financial position could be adversely affected.

14. Forecasts

In November 2020, the Group announced its Medium-term Management Plan Revision (from the fiscal year ending March 2020 to the fiscal year ending March 2026). If the execution of the various measures does not realize the expected benefits, owing to such factors as substantial changes in the operating environment and slower progress with the plan than projected, the Group's business results and financial position could be adversely affected.

BUSINESS RESULTS, FINANCIAL POSITION, AND CASH FLOWS

1. Business Results, etc.

With regard to the business environment surrounding the Mazda Group in the fiscal year ended March 31, 2022, the global economy as a whole showed signs of recovery against a background of additional economic stimulus measures in the U.S. and Europe, and improvement in corporate performance in the wake of an increase in demand despite lockdowns, restrictions on movement, and other measures taken by various countries following new waves of the novel coronavirus outbreaks. Since the fourth quarter, however, the outlook for the business environment remains unclear amid growing concerns about inflation due to a dramatic increase in demand, the spread of the novel coronavirus in China, and the emergence of geopolitical risks such as the situation in Ukraine.

Under these conditions, despite a reduction in production due to new waves of the novel coronavirus outbreaks and a semiconductor supply shortage as well as a deterioration in the external environment including surges in material prices, the Group steadily implemented sales quality improvements such as streamlining sales costs and improving unit prices as well as cost cutting and improving fixed cost efficiency. As a result, we achieved the lower break-even volume target we committed to in our Medium-term Management Plan ahead of schedule and steadily improved our profit base.

Furthermore, taking into account the rigorous competition the Group will face in new value creation in an era of CASE, the Group shifted the focus of investment quality to electrification, IT and realizing carbon neutrality by 2050 and pressed forward in all areas to complete preparations for stronger growth in the future.

In October 2021, Mazda announced the introduction of five new models, namely the Mazda CX-50, Mazda CX-60, Mazda CX-70, Mazda CX-80 and Mazda CX-90, globally, as part of its plan to enhance its crossover SUV lineup from 2022 onward. We began production of the CX-50 at our new U.S. plant in January 2022, and production of the CX-60 also commenced in March 2022. Making full use of bundled planning, flexible production and other technological assets, we will expand this product lineup efficiently with low investment and work toward stable growth of our business over the medium and long term. We will continue to provide customers with diverse choices that will offer both the latest environmental performance and driving pleasure, which is the fundamental appeal of automobiles, and realize a beautiful planet, enrich the lives of people and society, and inspire the hearts of people, and thereby aim to become a brand that creates special bonds with customers.

Global Sales

Global sales volume for the fiscal year ended March 31, 2022 was 1,251,000 units, down 2.8% year on year as sales declined in Japan, China, ASEAN and other countries due to new waves of the novel coronavirus outbreaks and a semiconductor supply shortage. On the other hand, in the U.S. and Australia, where sales have been robust, year-on-year increases in sales volume were achieved in both markets as Mazda sales outpaced average demand recovery in the industry.

Sales volumes in individual markets were as follows.

<Japan>

While sales of the Mazda CX-5 were strong following the introduction of updated models, total sales declined due to supply shortages, resulting in sales of 149,000 units, down 15.8% year on year.

<North America>

In the U.S., sales rose 12.6% year on year to 332,000 units, led by crossover SUVs such as the Mazda CX-30, CX-5, and Mazda CX-9. Although sales in both Canada and Mexico declined, sales in North America as a whole rose 8.9% year on year to 439,000 units.

<Europe>

As the CX-30 enjoyed strong sales and sales recovered in the U.K., one of the key markets, sales in Europe rose 6.3% year on year to 190,000 units. The Mazda2 Hybrid was launched onto the European market in March 2022.

<China>

While sales of the Mazda3 were strong, sales of key models such as the Mazda CX-4 and CX-5 declined, resulting in sales of 170,000 units, down 25.5% year on year.

<Other Markets>

In Australia, another key market, sales rose 11.7% year on year to 103,000 units, as Mazda sales outpaced the recovery in overall demand with crossover SUV models such as the CX-30 and CX-5 leading the strong sales. Meanwhile, although sales in ASEAN markets such as Thailand declined, sales in other markets as a whole rose 0.7% year on year to 303,000 units.

Business Results

Financial performance on a consolidated basis for the fiscal year ended March 31, 2022 was as follows.

<Net Sales>

Net sales for the fiscal year ended March 31, 2022 totaled ¥3,120.3 billion, an increase of ¥238.2 billion, or 8.3% year on year, reflecting efficient inventory management and the improvement of unit prices.

By region, domestic sales amounted to ¥569.6 billion, a decrease of ¥24.9 billion, or 4.2% year on year, due to a drop in sales resulting from supply shortages. Overseas sales amounted to ¥2,550.7 billion, an increase of ¥263.2 billion, or 11.5% year on year, mainly due to an increase in wholesales volume in the North American market.

By product, vehicle sales increased by ¥240.9 billion, or 10.3% year on year, to ¥2,581.1 billion as efforts to strengthen sales capabilities and enhance brand power in the U.S. market, which is driving our growth, proved effective, and sales of knock-down parts for overseas production declined by ¥27.0 billion, or 39.6% year on year, to ¥41.1 billion. Sales of parts increased by ¥33.5 billion, or 14.6% year on year, to ¥262.5 billion. Other sales fell ¥9.2 billion, or 3.7% year on year, to ¥235.6 billion.

<Operating Income>

In addition to an increase in net sales, a steady accumulation of improvements, including improvement in sales quality and improved efficiency of fixed cost, resulted in operating income of ¥104.2 billion, an increase of ¥95.4 billion year on year, and consolidated operating income ratio of 3.3%, an increase of 3.0 percentage points year on year. Furthermore, we achieved our goal of one million units for break-even sales volume, as set out in our Medium-term Management Plan, ahead of schedule.

The main causes of changes in operating income were as follows.

	Full year
	(Billion yen)
Volume and mix	+98.4
Foreign exchange	+45.7
Cost improvement	(59.4)
Fixed costs and others	+22.3
Transfer to extraordinary loss	+8.9
Transfer to extraordinary loss in the previous fiscal year	(20.5)
Total	+95.4

<Net Income Attributable to Owners of the Parent>

Net income attributable to owners of the parent was ¥81.6 billion, compared with net loss attributable to owners of the parent of ¥31.7 billion in the previous fiscal year, due to factors such as the recording of equity in net loss of affiliated companies of ¥4.1 billion, losses of ¥8.9 billion resulting from suspension of operations, etc. due to the novel coronavirus, and tax expenses of ¥30.1 billion, despite the recording of foreign exchange gains of ¥30.3 billion.

<Capital Expenditures and R&D Costs>

Capital expenditures (including intangible assets) for the fiscal year ended March 31, 2022 totaled ¥144.3 billion as a result of efficient investments for future growth such as those in new-generation products, environmental and safety technologies, and the reinforcement of the global production system. By segment, capital expenditures totaled ¥92.8 billion in Japan and were mainly focused on new-generation products, environmental and safety technologies, and increased production capacity at the Hiroshima and Hofu Plants. In North America, ¥46.3 billion was invested in projects such as the construction of a new plant in the United States. Capital expenditures in Europe totaled ¥1.4 billion, and totaled ¥3.9 billion in other regions. Additionally, Mazda is not implementing the disposal or sale of any major facilities in any segment.

R&D costs totaled ¥134.6 billion, for the research and development of new-generation products and environmental and safety technologies.

2. Financial Position

Total assets as of March 31, 2022 came to ¥2,968.1 billion, up ¥50.7 billion from the end of previous fiscal year. This was mainly due to increases in property, plant and equipment, such as investment in the plant in the United States. Total liabilities fell ¥70.1 billion from the end of previous fiscal year to ¥1,651.5 billion, due mainly to early repayment of long-term loans.

Net assets amounted to ¥1,316.7 billion, an increase of ¥120.9 billion from the end of previous fiscal year, due mainly to net income attributable to owners of the parent of ¥81.6 billion. The equity ratio increased 3.3 percentage points from the previous fiscal year to 43.8% (the percentage after consideration of the equity credit attributes of the subordinated loan was 45.0%).

3. Cash Flows

As of March 31, 2022, cash and cash equivalents increased ¥1.6 billion from the end of previous fiscal year to ¥740.4 billion. Interest-bearing debt fell ¥75.1 billion from the end of previous fiscal year to ¥680.8 billion. As a result, after subtracting cash and cash equivalents from interest-bearing debt, net cash position was net interest-bearing debt of ¥59.6 billion.

Cash flows in the fiscal year ended March 31, 2022 were as follows.

Cash flow from operating activities

Net cash provided by operating activities was ¥189.2 billion, compared with ¥120.1 billion provided in the previous fiscal year, mainly reflecting income before income taxes of ¥112.4 billion and a decrease in inventories.

Cash flow from investing activities

Net cash used in investing activities was ¥136.2 billion, compared with ¥78.9 billion used in the previous fiscal year, mainly reflecting capital expenditure for the purchase of property, plant and equipment of ¥121.9 billion.

As a result of this, consolidated free cash flow (net of cash flow from operating activities and investing activities) was a positive ¥52.9 billion, compared with the previous fiscal year's positive free cash flow of ¥41.2 billion.

Cash flow from financing activities

Net cash used in financing activities was ¥86.4 billion, compared with net cash provided by financing activities of ¥99.3 billion in the previous fiscal year, mainly reflecting the repayment of long-term loans.

4. Source of Funds and Liquidity

In order for the Group to reliably secure the funds needed for business activities, the Group is striving to create cash flows. Furthermore, the Group is procuring the necessary funds through bank borrowing and the issuance of bonds for the purpose of allocating the capital expenditures necessary for manufacturing and selling automobiles and parts.

The liquidity risks of the Group are managed mainly through the preparation and update of the cash schedule on a timely basis, and the Group maintains a certain level of liquidity at hand in order to respond to sudden changes in the external environment. The Company also has systems and procedures in place that allow us to respond flexibly to liquidity risks through managing the funds of the Group and intercompany loans within the Group. In addition, the Company ensures sufficient liquidity by entering into commitment line agreements with domestic financial institutions.

At the end of the fiscal year ended March 31, 2022, liquidity, comprising cash and cash equivalents of ¥740.4 billion, in addition to unused commitment credit lines of ¥200.0 billion, amounted to ¥940.4 billion, which is equivalent to 3.6 months of monthly sales.

5. Basic Dividend Policy, Dividends for the Fiscal Year ended March 31, 2022

Mazda strives to pay a stable dividend with steady increases under a basic policy of determining the dividend amount by comprehensively taking into account the Company's financial results for the fiscal year, the business environment, and the Company's financial position.

For the fiscal year ended March 31, 2022, we paid a full-year dividend of ¥20 per share.

CONSOLIDATED BALANCE SHEETS

Mazda Motor Corporation and Consolidated Subsidiaries
As of March 31, 2021 and 2022

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2022	2022
Current assets:			
Cash and cash equivalents (Note 5)	¥ 738,793	¥ 740,385	\$ 6,068,730
Trade notes and accounts receivable (Notes 5 and 15)	167,533	146,136	1,197,836
Inventories (Notes 8 and 10)	433,049	399,923	3,278,057
Other current assets	152,023	173,182	1,419,525
Allowance for doubtful receivables	(1,803)	(1,813)	(14,861)
Total current assets	1,489,595	1,457,813	11,949,287
Property, plant and equipment:			
Land (Note 9)	417,027	418,454	3,429,951
Buildings and structures	549,059	568,740	4,661,803
Machinery, equipment and vehicles	893,991	974,510	7,987,787
Tools, furniture and fixtures	281,970	337,082	2,762,967
Leased assets	31,100	33,622	275,590
Construction in progress	113,733	82,949	679,910
	2,286,880	2,415,357	19,798,008
Accumulated depreciation	(1,211,712)	(1,268,641)	(10,398,697)
Net property, plant and equipment (Notes 10 and 19)	1,075,168	1,146,716	9,399,311
Intangible assets (Note 19)	42,914	48,358	396,377
Investments and other assets:			
Investment securities (Note 5):			
Affiliated companies	123,173	122,050	1,000,410
Other	80,259	100,142	820,836
Asset for retirement benefits (Note 21)	6,660	7,912	64,852
Deferred tax assets (Note 22)	61,120	37,256	305,377
Other investments and other assets	38,870	52,964	434,132
Allowance for doubtful receivables	(345)	(5,063)	(41,500)
Total investments and other assets	309,737	315,261	2,584,107
Total assets	¥ 2,917,414	¥ 2,968,148	\$ 24,329,082

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2022	2022
Current liabilities:			
Short-term debt (Notes 5 and 10)	¥ 1,608	¥ 1,526	\$ 12,508
Long-term debt due within one year (Notes 5 and 10)	15,805	66,831	547,795
Trade notes and accounts payable	363,679	345,443	2,831,500
Income taxes payable	5,336	6,621	54,270
Accrued expenses	286,061	287,268	2,354,656
Reserve for warranty expenses	80,504	66,261	543,123
Provision for loss on compensation for damage	-	11,500	94,262
Other current liabilities (Notes 5 and 22)	54,657	113,483	930,190
Total current liabilities	807,650	898,933	7,368,304
Non-current liabilities:			
Long-term debt due after one year (Notes 5 and 10)	738,515	609,098	4,992,607
Deferred tax liability related to land revaluation (Note 9)	64,537	64,537	528,992
Liability for retirement benefits (Note 21)	50,039	33,433	274,041
Other non-current liabilities (Notes 5 and 22)	60,843	45,450	372,540
Total non-current liabilities	913,934	752,518	6,168,180
Total liabilities	1,721,584	1,651,451	13,536,484
Contingent liabilities (Note 11)			
Net assets:			
Capital and retained earnings (Notes 13):			
Common stock	283,957	283,957	2,327,516
Authorized: 1,200,000,000 shares			
Issued: 631,803,979 shares in 2022 and 2021			
Capital surplus	263,028	263,003	2,155,762
Retained earnings	508,784	581,458	4,766,050
Treasury stock	(2,187)	(2,100)	(17,213)
(1,938,951 shares in 2022 and 2,018,122 shares in 2021)			
Total capital and retained earnings	1,053,582	1,126,318	9,232,115
Accumulated other comprehensive income/(loss):			
Net unrealized gain/(loss) on available-for-sale securities	16,002	29,707	243,500
Deferred gains/(losses) on hedges	(312)	(1,314)	(10,770)
Land revaluation (Note 9)	145,536	145,536	1,192,917
Foreign currency translation adjustment	(30,897)	(6,162)	(50,508)
Accumulated adjustments for retirement benefits	(2,181)	7,055	57,828
Total accumulated other comprehensive income	128,148	174,822	1,432,967
Stock acquisition rights (Note 14)	382	440	3,607
Non-controlling interests	13,718	15,117	123,909
Total net assets	1,195,830	1,316,697	10,792,598
Total liabilities and net assets	¥ 2,917,414	¥ 2,968,148	\$ 24,329,082

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2021 and 2022

Consolidated Statements of Operations

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2022	2022
Net sales (Note 15)	¥ 2,882,066	¥ 3,120,349	\$ 25,576,631
Cost and expenses:			
Cost of sales	2,268,422	2,432,645	19,939,713
Selling, general and administrative expenses (Note 16)	604,824	583,477	4,782,598
	2,873,246	3,016,122	24,722,311
Operating income	8,820	104,227	854,320
Other income/(expenses):			
Interest and dividend income	5,173	5,795	47,500
Interest expense	(8,034)	(6,782)	(55,590)
Equity in net income/(loss) of affiliated companies	6,622	(4,074)	(33,393)
Other, net (Note 18)	(10,379)	13,233	108,466
	(6,618)	8,172	66,983
Income before income taxes	2,202	112,399	921,303
Income taxes (Note 22):			
Current	17,400	11,219	91,959
Deferred	16,856	18,833	154,369
	34,256	30,052	246,328
Net income/(loss)	(32,054)	82,347	674,975
Net income/(loss) attributable to non-controlling interests	(403)	790	6,475
Net income/(loss) attributable to owners of the parent	¥ (31,651)	¥ 81,557	\$ 668,500
	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income/(loss):			
Basic	¥ (50.26)	¥ 129.49	\$ 1.06
Diluted	-	129.38	1.06
Cash dividends applicable to the year	-	20.00	0.16
Net assets	1,876.40	2,065.74	16.93

Consolidated Statements of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2022	2022
Net income/(loss)	¥ (32,054)	¥ 82,347	\$ 674,975
Other comprehensive income/(loss):			
Net unrealized gain/(loss) on available-for-sale securities	13,754	13,709	112,369
Deferred gains/(losses) on hedges	(545)	(1,141)	(9,352)
Foreign currency translation adjustment	19,698	20,909	171,385
Adjustments for retirement benefits	22,384	8,807	72,189
Share of other comprehensive income/(loss) of affiliates accounted for using equity method	(2,780)	5,192	42,557
Total other comprehensive income/(loss)	52,511	47,476	389,148
Comprehensive income	¥ 20,457	¥ 129,823	\$ 1,064,123
Comprehensive income/(loss) attributable to:			
Owners of the parent	21,269	128,231	1,051,074
Non-controlling interests	(812)	1,592	13,049

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2021 and 2022

	Millions of yen				
	Capital and retained earnings				Total
	Capital stock	Capital surplus	Retained earnings	Treasury stock	
April 1, 2020	¥ 283,957	¥ 264,917	¥ 552,993	¥ (2,186)	¥ 1,099,681
Cumulative effects of changes in accounting policies	-	-	-	-	-
Restated balance	283,957	264,917	552,993	(2,186)	1,099,681
Increase/(decrease)					
Dividends paid	-	-	(12,596)	-	(12,596)
Net loss attributable to owners of the parent	-	-	(31,651)	-	(31,651)
Purchase of treasury stock	-	-	-	(1)	(1)
Sale of treasury stock	-	-	-	-	-
Reversal for land revaluation	-	-	38	-	38
Change in ownership interest of parent arising from transactions with non-controlling shareholders	-	(1,889)	-	-	(1,889)
Changes in items other than capital and retained earnings, net	-	-	-	-	-
Total changes during the fiscal year	-	(1,889)	(44,209)	(1)	(46,099)
April 1, 2021	¥ 283,957	¥ 263,028	¥ 508,784	¥ (2,187)	¥ 1,053,582
Cumulative effects of changes in accounting policies	-	-	(8,883)	-	(8,883)
Restated balance	283,957	263,028	499,901	(2,187)	1,044,699
Increase/(decrease)					
Dividends paid	-	-	-	-	-
Net income attributable to owners of the parent	-	-	81,557	-	81,557
Purchase of treasury stock	-	-	-	(1)	(1)
Sale of treasury stock	-	(25)	-	88	63
Reversal for land revaluation	-	-	-	-	-
Change in ownership interest of parent arising from transactions with non-controlling shareholders	-	-	-	-	-
Changes in items other than capital and retained earnings, net	-	-	-	-	-
Total changes during the fiscal year	-	(25)	81,557	87	81,619
March 31, 2022	¥ 283,957	¥ 263,003	¥ 581,458	¥ (2,100)	¥ 1,126,318

	Millions of yen									
	Accumulated other comprehensive income/(loss)						Total	Stock acquisition rights	Non-controlling interests	Total net assets
	Net unrealized gain/(loss) on available-for-sale securities	Deferred gains/(losses) on hedges	Land revaluation	Foreign currency translation adjustment	Accumulated adjustments for retirement benefits					
April 1, 2020	¥ 2,231	¥ 321	¥ 145,574	¥ (48,256)	¥ (24,604)	¥ 75,266	¥ 290	¥ 30,609	¥ 1,205,846	
Cumulative effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	
Restated balance	2,231	321	145,574	(48,256)	(24,604)	75,266	290	30,609	1,205,846	
Increase/(decrease)										
Dividends paid	-	-	-	-	-	-	-	-	(12,596)	
Net loss attributable to owners of the parent	-	-	-	-	-	-	-	-	(31,651)	
Purchase of treasury stock	-	-	-	-	-	-	-	-	(1)	
Sale of treasury stock	-	-	-	-	-	-	-	-	-	
Reversal for land revaluation	-	-	-	-	-	-	-	-	38	
Change in ownership interest of parent arising from transactions with non-controlling shareholders	-	-	-	-	-	-	-	-	(1,889)	
Changes in items other than capital and retained earnings, net	13,771	(633)	(38)	17,359	22,423	52,882	92	(16,891)	36,083	
Total changes during the fiscal year	13,771	(633)	(38)	17,359	22,423	52,882	92	(16,891)	(10,016)	
April 1, 2021	¥ 16,002	¥ (312)	¥ 145,536	¥ (30,897)	¥ (2,181)	¥ 128,148	¥ 382	¥ 13,718	¥ 1,195,830	
Cumulative effects of changes in accounting policies	-	-	-	-	-	-	-	-	(8,883)	
Restated balance	16,002	(312)	145,536	(30,897)	(2,181)	128,148	382	13,718	1,186,947	
Increase/(decrease)										
Dividends paid	-	-	-	-	-	-	-	-	-	
Net income attributable to owners of the parent	-	-	-	-	-	-	-	-	81,557	
Purchase of treasury stock	-	-	-	-	-	-	-	-	(1)	
Sale of treasury stock	-	-	-	-	-	-	-	-	63	
Reversal for land revaluation	-	-	-	-	-	-	-	-	-	
Change in ownership interest of parent arising from transactions with non-controlling shareholders	-	-	-	-	-	-	-	-	-	
Changes in items other than capital and retained earnings, net	13,705	(1,002)	-	24,735	9,236	46,674	58	1,399	48,131	
Total changes during the fiscal year	13,705	(1,002)	-	24,735	9,236	46,674	58	1,399	129,750	
March 31, 2022	¥ 29,707	¥ (1,314)	¥ 145,536	¥ (6,162)	¥ 7,055	¥ 174,822	¥ 440	¥ 15,117	¥ 1,316,697	

Thousands of U.S. dollars (Note 1)

	Capital and retained earnings				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total
April 1, 2021	\$2,327,516	\$2,155,967	\$ 4,170,361	\$ (17,926)	\$ 8,635,918
Cumulative effects of changes in accounting policies	-	-	(72,811)	-	(72,811)
Restated balance	2,327,516	2,155,967	4,097,550	(17,926)	8,563,107
Increase/(decrease)	-	-	-	-	-
Dividends paid	-	-	-	-	-
Net income attributable to owners of the parent	-	-	668,500	-	668,500
Purchase of treasury stock	-	-	-	(8)	(8)
Sale of treasury stock	-	(205)	-	721	516
Reversal for land revaluation	-	-	-	-	-
Change in ownership interest of parent arising from transactions with non-controlling shareholders	-	-	-	-	-
Changes in items other than capital and retained earnings, net	-	-	-	-	-
Total changes during the fiscal year	-	(205)	668,500	713	669,008
March 31, 2022	\$2,327,516	\$2,155,762	\$ 4,766,050	\$ (17,213)	\$ 9,232,115

Thousands of U.S. dollars (Note 1)

	Accumulated other comprehensive income/(loss)								
	Net unrealized gain/(loss) on available-for-sale securities	Deferred gains/(losses) on hedges	Land revaluation	Foreign currency translation adjustment	Accumulated adjustments for retirement benefits	Total	Stock acquisition rights	Non-controlling interests	Total net assets
April 1, 2021	\$ 131,164	\$ (2,557)	\$1,192,917	\$ (253,254)	\$ (17,877)	\$1,050,393	\$ 3,131	\$ 112,443	\$ 9,801,885
Cumulative effects of changes in accounting policies	-	-	-	-	-	-	-	-	(72,811)
Restated balance	131,164	(2,557)	1,192,917	(253,254)	(17,877)	1,050,393	3,131	112,443	9,729,074
Increase/(decrease)	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-
Net income attributable to owners of the parent	-	-	-	-	-	-	-	-	668,500
Purchase of treasury stock	-	-	-	-	-	-	-	-	(8)
Sale of treasury stock	-	-	-	-	-	-	-	-	516
Reversal for land revaluation	-	-	-	-	-	-	-	-	-
Change in ownership interest of parent arising from transactions with non-controlling shareholders	-	-	-	-	-	-	-	-	-
Changes in items other than capital and retained earnings, net	112,336	(8,213)	-	202,746	75,705	382,574	476	11,466	394,516
Total changes during the fiscal year	112,336	(8,213)	-	202,746	75,705	382,574	476	11,466	1,063,524
March 31, 2022	\$ 243,500	\$ (10,770)	\$1,192,917	\$ (50,508)	\$ 57,828	\$1,432,967	\$ 3,607	\$ 123,909	\$ 10,792,598

CONSOLIDATED STATEMENTS OF CASH FLOWS

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2022	2022
Cash flows from operating activities:			
Income before income taxes	¥ 2,202	¥ 112,399	\$ 921,303
Adjustments to reconcile income before income taxes to net cash provided by/(used in) operating activities:			
Depreciation and amortization	89,765	90,281	740,008
Impairment loss	1,355	691	5,664
Increase/(decrease) in allowance for doubtful receivables	847	4,625	37,910
Increase/(decrease) in reserve for warranty expenses	(6,664)	(14,243)	(116,746)
Increase/(decrease) in provision for loss on compensation for damage	-	11,500	94,262
Increase/(decrease) in liability for retirement benefits	2,796	(5,169)	(42,369)
Interest and dividend income	(5,173)	(5,795)	(47,500)
Interest expense	8,034	6,782	55,590
Equity in net loss/(income) of affiliated companies	(6,622)	4,074	33,393
Loss/(gain) on change in equity	-	(4,047)	(33,172)
Loss/(gain) on sale and retirement of property, plant and equipment, net	4,383	4,597	37,680
Loss/(gain) on sale of investment securities, net	(120)	-	-
Decrease/(increase) in trade notes and accounts receivable	5,785	(17,929)	(146,959)
Decrease/(increase) in inventories	30,051	77,411	634,516
Decrease/(increase) in other current assets	(6,113)	(24,064)	(197,246)
Increase/(decrease) in trade notes and accounts payable	(6,864)	(22,963)	(188,221)
Increase/(decrease) in other current liabilities	19,591	11,043	90,516
Other	(4,467)	(52,763)	(432,481)
Subtotal	128,786	176,430	1,446,148
Interest and dividends received	23,452	36,743	301,172
Interest paid	(7,730)	(9,176)	(75,213)
Proceeds from insurance income	-	1,009	8,270
Income taxes refunded/(paid)	(30,004)	(18,250)	(149,590)
Refund of income taxes for prior periods	5,554	2,456	20,131
Other	-	(57)	(467)
Net cash provided by/(used in) operating activities	120,058	189,155	1,550,451
Cash flows from investing activities:			
Net decrease/(increase) in time deposits	759	203	1,664
Purchase of investment securities	(255)	(389)	(3,189)
Proceeds from sales and redemption of investment securities	1,785	323	2,648
Purchase of property, plant and equipment	(71,776)	(121,946)	(999,557)
Proceeds from sale of property, plant and equipment	1,462	709	5,811
Purchase of intangible assets	(14,263)	(17,405)	(142,664)
Net decrease/(increase) in short-term loans receivable	263	598	4,902
Payments of long-term loans receivable	(587)	(145)	(1,189)
Collections of long-term loans receivable	3,848	1,480	12,131
Other	(98)	335	2,746
Net cash provided by/(used in) investing activities	(78,862)	(136,237)	(1,116,697)
Cash flows from financing activities:			
Net increase/(decrease) in short-term debt	(120,121)	(92)	(754)
Proceeds from long-term debt	291,575	70,709	579,582
Repayments of long-term debt	(41,541)	(156,891)	(1,285,992)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(17,831)	-	-
Cash dividends paid	(12,596)	-	-
Cash dividends paid to non-controlling interests	(137)	(193)	(1,582)
Net decrease/(increase) in treasury stock	(1)	62	508
Net cash provided by/(used in) financing activities	99,348	(86,405)	(708,238)
Effect of exchange rate fluctuations on cash and cash equivalents	30,255	35,079	287,533
Net increase/(decrease) in cash and cash equivalents	170,799	1,592	13,049
Cash and cash equivalents at beginning of the period	567,994	738,793	6,055,681
Cash and cash equivalents at end of the period	¥ 738,793	¥ 740,385	\$ 6,068,730

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mazda Motor Corporation and Consolidated Subsidiaries

1 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Mazda Motor Corporation (the “Company”) and its consolidated subsidiaries (together, the “Group”) have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards (“IFRS”).

For the convenience of readers outside Japan, the accompanying consolidated financial statements have been reformatted and translated into English from the consolidated financial statements of the Group prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law of Japan. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The conversion of the Japanese yen into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2022, which was ¥122 to U.S. \$1.00. The conversions should not be construed as representations that the Japanese yen 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the Company and companies, over which the Company has power of control through majority voting rights or there are certain conditions evidencing control by the Company. Investments in affiliates, over which the Company has the ability to exercise significant influence over operating and financial policies of the investees, are accounted for under the equity method.

The consolidated financial statements include the Company and 71 subsidiaries (70 in the year ended March 31, 2021). In addition, 18 affiliates (18 in the year ended March 31, 2021) are accounted for under the equity method.

The consolidated balance sheet date is March 31. Among the consolidated subsidiaries, 21 companies have fiscal year-ends for their statutory financial statements that are different from the consolidated balance sheet date, most of which are December 31. In preparing the consolidated financial statements, for 7 of the 21 companies, provisional settlement of accounts that are prepared for consolidation are used to supplement the companies’ statutory financial statements. For the other 14 companies, in preparing the consolidated financial statements, financial statements of these companies with different balance sheet dates are used. However, adjustments necessary in consolidation are made for material transactions that have occurred between the balance sheet date of these subsidiaries and the consolidated balance sheet date.

FOREIGN CURRENCY CONVERSION

Receivables and payables denominated in foreign currencies are converted into Japanese yen at the exchange rate at the year-end; gains and losses in foreign currency conversion are included in the income for the current period.

Balance sheet accounts of consolidated foreign subsidiaries are converted into Japanese yen at the rates on the subsidiaries’ balance sheet dates except for net assets accounts, which are converted at the historical rates. Income statement accounts of consolidated foreign subsidiaries are converted into Japanese yen at the average rates during the subsidiaries’ accounting periods, with the conversion differences prorated and included in the net assets as a foreign currency conversion adjustment and non-controlling interests in the consolidated subsidiaries.

CASH AND CASH EQUIVALENTS

The Group considers all highly liquid short-term investments with a minimum risk of price fluctuation, whose maturity date comes within three months from the time of purchase, to be cash equivalents.

SECURITIES

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

The Group does not have trading securities. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by unconsolidated subsidiaries and affiliated companies that, based on the applicable materiality provisions of Japanese GAAP, are not accounted for under the equity method are stated at moving-average cost.

Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of accumulated other comprehensive income within net assets. Realized gains and losses on the sale of such securities are computed using moving-average cost. Available-for-sale securities without available fair market values are stated mainly at moving-average cost.

If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method and of available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as a loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method and of available-for-sale securities is not readily available and the net asset value declines significantly, such securities shall be written down to net asset value with a corresponding charge to income. 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 fiscal year.

DERIVATIVES AND HEDGE ACCOUNTING

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

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

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

INVENTORIES

Inventories are stated at the lower of cost (determined principally by the weighted average method), or net realizable value.

PROPERTY, PLANT AND EQUIPMENT (EXCEPT FOR LEASED ASSETS)

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

INTANGIBLE ASSETS (EXCEPT FOR LEASED ASSETS)

Intangible assets are amortized using the straight-line method over the estimated useful lives of the assets. Software for internal use is amortized on a straight-line basis over the period of internal use, i.e. 5 years.

AMORTIZATION OF GOODWILL

The difference between the consideration transferred and the fair value of net assets acquired is shown as goodwill, and amortized on a straight-line basis over a period (primarily 5 years) during which each investment is expected to generate benefits.

LEASED ASSETS

FINANCE LEASES IN WHICH OWNERSHIP IS NOT TRANSFERRED TO THE LESSEE

Contents of leased assets are as follows. Property, plant and equipment are mainly sales administration facilities, parts of automobile manufacturing equipment and molds, and electronic calculators. Intangible assets are software.

Finance leases are capitalized on the consolidated balance sheet. Depreciation or amortization expense is recognized on a straight-line basis over the lease period.

For leases with a guaranteed minimum residual value, the contracted residual value is considered to be the residual value for financial accounting purposes. For other leases, the residual value is zero.

The consolidated foreign subsidiaries that apply IFRS adopted IFRS 16 "Leases" ("IFRS 16"). In accordance with IFRS 16, the lessee recognizes in principle all of the lease assets and lease liabilities on the balance sheet. For lease assets, depreciation or amortization expense is recognized on a straight-line basis over the lease period.

ALLOWANCE FOR DOUBTFUL RECEIVABLES

Allowance for doubtful receivables provides for losses from bad debts. The amount estimated to be uncollectible is recorded. For receivables at an ordinary risk, the amount is based on the past default ratio, and for receivables at a high risk, the amount is calculated in consideration of the collectibility of individual receivables.

RESERVE FOR WARRANTY EXPENSES

Reserve for warranty expenses provides for after-sales expenses of products (vehicles). In accordance with the coverage of the warranty booklet and relevant laws and regulations, the amount is estimated per product warranty provisions and actual costs incurred in the past, taking future prospects and expected reimbursements into consideration.

PROVISION FOR LOSS ON COMPENSATION FOR DAMAGE

Provision for loss on compensation for damage provides for expected loss from compensation for damages in the future when the loss is probable and the amount is reasonably estimable.

REVENUES

The main business of the Group is the manufacturing and sale of automobiles and their components, as well as maintenance services. For product sales, the revenue is recognized when control over the products is transferred to the customer and the performance obligation is satisfied. This transfer generally takes place when the product is delivered at a location agreed with the customer. Maintenance services, etc. are treated as a separate performance obligation from the delivery of the product. For non-recurring services such as maintenance, the performance obligation is satisfied and the revenue is recognized when the service is completed and delivered to the customer. For recurring services such as Connected Services, the performance obligation is satisfied and the revenue is recognized over the period the service is provided.

Revenue is measured based on the consideration specified in the contract with the customer and excludes amounts collected on behalf of third parties. The total consideration of the contract is allocated to performance obligations based on their standalone selling prices. These standalone selling prices are determined with reference to the selling prices of similar products or services, or other reasonably available information.

The Group provides dealers with sales incentives calculated based on sales promotion programs, which generally represent discount from the Group to dealers. This sales incentive is deducted from the revenue recognized when the applicable product is delivered to the dealers.

The consideration for the product is usually collected from customers within 30 days from the time when revenue is recognized, and the consideration for the service is collected from customers within 30 days from the time when the service is provided, and there are no significant payment terms.

EMPLOYEES' RETIREMENT BENEFITS

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

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

The recognition of actuarial differences is deferred on the straight-line basis over a period equal to or less than the average remaining service period of employees at the time such gains or losses are realized (mainly 13 years). The amortization of net gains or losses starts from the year immediately following the year in which such gains or losses arise.

The recognition of past service costs is deferred on a straight-line basis over a period equal to or less than the average remaining service period of employees at the time such cost is incurred (mainly 12 years).

INCOME TAXES

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

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

The Company and its certain domestic consolidating subsidiaries will apply group tax sharing system from the next fiscal year. However, for the transition to the group tax sharing system established under the “Act on partial Revision of Income Tax Act, etc.” (Act No.8 of 2020) and items revised on the non-consolidated taxation system in line with the transition to the group tax sharing system, the Company and its certain consolidated domestic subsidiaries calculate the amounts of deferred tax assets and deferred tax liabilities based on the existing Income Tax Act and do not apply the provisions stipulated in Paragraph 44 of the “Implementation Guidance on Tax Effect Accounting” (ASJB Guidance No.28, February 16, 2018) in accordance with the treatment set forth in Paragraph 3 of the “Practical Solution on Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ PITF No.39, March 31, 2020).

From the beginning of the fiscal year ending March 31, 2023, the Company and its certain domestic subsidiaries will apply the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (ASJB Guidance No.42, August 12, 2021), which stipulates the accounting treatment and disclosure procedures for corporate tax, local corporate tax and tax effect accounting after the group tax sharing system is applied.

AMOUNTS PER SHARE OF COMMON STOCK

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

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

RECLASSIFICATION

Certain comparative figures have been reclassified to conform with the current period’s presentation.

ADDITIONAL INFORMATION

ACCOUNTING ESTIMATES REGARDING THE CORONAVIRUS PANDEMIC IMPACT

As the impact of the coronavirus pandemic is still unpredictable, the Company has assessed the recoverability of deferred tax assets assuming that the pandemic will continue to have an impact to some extent on the fiscal year ending March 31, 2023.

It should be noted that the changes in the assumptions including the global spread of the pandemic in the future may affect the Company’s consolidated financial results.

3 SIGNIFICANT ACCOUNTING ESTIMATES

Accounting estimates are calculated based on the information available at the time of the preparation of the consolidated financial statements. Accounting estimates that are recorded in the consolidated financial statements for the current fiscal year and have a risk of a material effect on consolidated financial statements for the next fiscal year are as follows:

RECOVERABILITY OF DEFERRED TAX ASSETS

1) Amounts reported in the consolidated financial statements are as follows:

As of March 31	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Deferred tax assets	¥ 61,120	¥ 37,256	\$ 305,377
Of which, the balance of the Company’s deferred tax assets	37,208	15,355	125,861

2) Other information that assists readers of consolidated financial statements in understanding the nature of the estimates:

Based on the estimated future taxable income, deferred tax assets are recognized for tax loss carryforwards and deductible temporary differences to the extent that they are expected to reduce the amount of future tax payments.

The estimated future taxable income was based on the next year’s budget prepared by management. Accordingly, it included significant assumptions involving estimation uncertainty, such as the prospects for consolidated wholesales volume assuming a certain business environment that incorporated the effect of the shortage of semiconductors, etc., the results of unit selling price improvement measures, the impact of rising raw material prices, as well as transaction prices between the Company and its U.S. subsidiary, which required management judgment. Therefore, if changes in the market environment, etc. cause significant changes to these assumptions and reduce the estimated future taxable income, the amount of deferred tax assets may be reduced and additional tax costs may be incurred.

RESERVE FOR WARRANTY EXPENSES

1) Amounts reported in the consolidated financial statements are as follows:

As of March 31	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Reserve for warranty expenses	¥ 80,504	¥ 66,261	\$ 543,123

2) Other information that assists readers of consolidated financial statements in understanding the nature of the estimates:

For after-sales service expenses of products, the Group estimates future repair costs to be incurred in accordance with the coverage of the warranty booklet (“general warranty”) and with the related laws and regulations such as recalls and service campaigns (“recall-related repair costs”), and records them in the reserve for product warranty expenses. The estimation also reflects the expected reimbursement amounts to be recovered from the supplier.

Of the above, the reserve for general warranty is estimated by calculating the repair cost per vehicle for each major market based on historical data, and multiplying it by the number of vehicles covered under the warranty. The reserve for recall-related repair costs is estimated for each recall and service campaign. It is estimated by calculating the repair cost per vehicle, which includes parts costs and labor costs, and multiplying it by the estimated number of vehicles subject to each recall and service campaign. With regard to the expected reimbursement amounts to be recovered from the supplier, based upon the analysis of the causes of defects, the expected reimbursement rate is determined by considering technical responsibility, the suppliers’ payment ability, and the status of negotiations with suppliers. It is then incorporated into the calculation of the reserve.

The expected reimbursement rate included management’s assessment of technical responsibility, involved uncertainty, and was dependent upon future negotiations with suppliers. Therefore, if the actual reimbursement rate in the future is different from the reimbursement rate used for the estimation, additional recognition or reversal of reserve for warranty expenses may be required.

PROVISION FOR LOSS ON COMPENSATION FOR DAMAGE

1) Amounts reported in the consolidated financial statements are as follows:

As of March 31	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Provision for loss on compensation for damage	¥ -	¥ 11,500	\$ 94,262

2) Other information that assists readers of consolidated financial statements in understanding the nature of the estimates:

The Group owns one subsidiary that is a distributor and one affiliate that manufactures and sells automobiles, etc. in Russia. Due to the situation in Ukraine that arose in February 2022, the Group has ceased the shipments of parts to Russia since March 2022, and local affiliated company has ceased its operations since the end of April 2022.

In the context of the current situation in Ukraine, the Company reasonably estimated the loss on compensation for damage that are expected to occur within the next fiscal year, and recorded ¥11,500 million (\$94,262 thousand) as a provision for loss on compensation for damage.

The expected occurrence rate used in the estimation of the loss on compensation for damage involved management's judgment and uncertainty. Therefore, if there is a significant change in these assumptions, additional recognition or reversal of provision for loss on compensation for damage may be required.

4 ACCOUNTING CHANGES

CHANGES IN ACCOUNTING POLICIES

-APPLICATION OF ACCOUNTING STANDARD FOR REVENUE RECOGNITION

The Group has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as “Revenue Recognition Accounting Standards”), etc., effective from the beginning of the fiscal year ended March 31, 2022, which stipulates that revenue shall be recognized when (or as) it satisfies a performance obligation by transferring control of promised goods or services (i.e. an asset) to a customer for the amount expected to receive upon the exchange of goods or services. An asset is transferred when (or as) the customer obtains control of that asset. It recognizes as revenue the amount expected to be received upon the exchange of goods or services.

Dealers, domestic subsidiaries, recognized revenue for the sales of new cars at the time of the registration of vehicles under the previous accounting standards and now recognize revenue at the time of the delivery to customers under the current accounting standards. In addition, the Company's Connected Services was not recognized as revenue under the previous accounting standards as no consideration was received, and it is considered as an individual performance obligation and associated revenue is recognized over a certain period for the amount allocated based on the standalone selling price under the current accounting standards. Certain sales promotion expenses paid by the Company and the U.S. subsidiary to the dealers were accounted as selling, general and administrative expenses under the previous accounting standards, they are accounted as deduction from revenue under the current accounting standards.

The application of the Revenue Recognition Accounting Standards, etc. is in accordance with the transitional treatment provided in Paragraph 84 of the Revenue Recognition Accounting Standards. The cumulative effect of the retrospective application, assuming the new accounting standard had been applied to periods prior to the beginning of the fiscal year ended March 31, 2022, was added or subtracted from the beginning balance of retained earnings of the fiscal year ended March 31, 2022, and thus the new accounting standards have been applied from the beginning balance.

As a result, for the fiscal year ended March 31, 2022, net sales decreased by ¥42,003 million (\$344,287 thousand), cost of sales increased by ¥12,194 million (\$99,951 thousand), selling, general and administrative expenses decreased by ¥58,760 million (\$481,639 thousand), and operating income and income before income taxes increased by ¥4,561 million (\$37,385 thousand). Furthermore, on the consolidated balance sheet for the fiscal year ended March 31, 2022, the beginning balance of retained earnings decreased by ¥8,883 million (\$72,811 thousand). The impact on per share information is immaterial.

It should be noted that information for the previous fiscal year is not described in the notes in accordance with the transitional treatment prescribed in the provision of paragraph 89-3 of this accounting standard.

-APPLICATION OF ACCOUNTING STANDARD FOR FAIR VALUE MEASUREMENT

The Group has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No.30, July 4, 2019; hereinafter referred to as "Fair Value Accounting Standards"), etc., from the beginning of the fiscal year ended March 31, 2022 and have applied a new accounting policy provided for by the Fair Value Accounting Standards, etc., in accordance prospectively with the transitional treatment specified in Paragraph 19 of the Fair Value Accounting Standards and Paragraph 44-2 of "Accounting Standard for Financial Instruments." This has no impact on the consolidated financial statements.

Hierarchy of the financial instruments is included under Note 5, "Financial Instruments." However, information for the previous fiscal year is not included in the notes in accordance with the transitional treatment prescribed in the proviso of paragraph 7-4 of "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, July 4, 2019).

NEW ACCOUNTING STANDARDS NOT YET APPLIED

- ASU 2016-02 "Leases"

1) Summary

Under this accounting standard, a lessee is required to recognize assets and liabilities for almost all of the assets on a balance sheet.

2) Effective date

Effective from the year ending March 31, 2023.

3) Effects of the application of the standards

The impact is yet to be determined at this time.

- "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021)

1) Summary

The handling of the calculation and notes of the market value of investment trusts and the handling of the notes of the market value of investment in partnerships, etc. whose net amount equivalent to equity interest is recorded in the balance sheet have been established.

2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2023.

3) Effects of the application of the standards

The application of this accounting standard has no effect on the consolidated financial statements.

5 FINANCIAL INSTRUMENTS

QUALITATIVE INFORMATION ON FINANCIAL INSTRUMENTS

POLICIES FOR USING FINANCIAL INSTRUMENTS

The Group finances cash mainly through bank loans and the issuance of bonds for the purpose of planned capital investment. Temporary surplus funds are managed through investments in low-risk assets. Short-term operating funds are financed mainly through bank loans. Derivative instruments are used to hedge risks, as discussed below, and not to conduct speculative transactions.

DETAILS OF FINANCIAL INSTRUMENTS AND THE EXPOSURES TO RISK

Trade notes and accounts receivable, while due within one year, are subject to customers' credit risks. Accounts receivable denominated in foreign currencies are subject to the risk of fluctuations in foreign currency exchange rates; such risk is hedged, in principle, by netting the foreign-currency-denominated accounts receivable against accounts payable and applying foreign exchange forward contracts on the resulting net position.

Short-term investments consist mainly of certificates of deposit and other highly-liquid short-term investments. Investment securities consist mainly of stocks of our business partner companies and are subject to the risk of market price fluctuations and other factors. Long-term loans receivable are provided mainly to our business partner companies.

Trade notes and accounts payable, as well as other accounts payable, are due within one year. Of these payables, those denominated in foreign currencies are subject to the risk of fluctuations in foreign currency exchange rates. However, for the most part, the balance of such payables is constantly less than that of the accounts receivable denominated in the same foreign currency. For other parts, such payables are hedged, as necessary, through foreign exchange forward contracts, considering the transaction amounts and the degree of risk of foreign exchange rate fluctuation.

Loans payable, bonds payable, and lease obligations are mainly used to finance cash required for capital investment. The longest time to maturity of these liabilities is 59 years and 4 months from March 31, 2022 (55 years and 4 month in the year ended March 31, 2021).

Derivative instruments consist of foreign exchange forward contracts. For details on derivative instruments, refer to "Derivatives and Hedge Accounting" under Note 2, "Summary of Significant Accounting Policies," and Note 7, "Derivatives."

POLICIES AND PROCESSES FOR MANAGING RISK

MANAGEMENT OF CREDIT RISKS (I.E. RISKS ASSOCIATED WITH THE DEFAULT OF COUNTERPARTIES)

The Group manages credit risks in compliance with internal control rules and procedures.

The due dates and the balances of trade notes, accounts receivable, and loans receivable from major counterparties are monitored and managed in order to detect early and mitigate the risk of doubtful receivables.

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

The amount of maximum risk as of March 31, 2022 is represented by the balance sheet amount of financial assets exposed to credit risks.

MANAGEMENT OF MARKET RISKS (I.E. RISKS ASSOCIATED WITH FLUCTUATIONS IN FOREIGN EXCHANGE RATES AND INTEREST RATES)

The Group hedges the risk of foreign exchange rate fluctuation on foreign-currency-denominated receivables and payables, using foreign exchange forward contracts, on a monthly and individual currency basis. Foreign exchange forward contracts are executed as necessary, up to 6 months ahead, on foreign-currency-denominated receivables and payables that are expected to arise with certainty as a result of forecasted export and import transactions.

The Company and some of its consolidated subsidiaries use interest rate swaps, as necessary, in order to reduce the risk of interest rate fluctuation on loans payable.

For details on management of derivative transactions, refer to Note 7, "Derivatives".

With regard to short-term investments and investment securities, their fair values as well as the financial standing of their issuing entities are monitored on a regular basis. Ownership of available-for-sale securities are reviewed on a continuous basis.

MANAGEMENT OF LIQUIDITY RISKS RELATED TO FINANCING (I.E. RISKS OF NON-PERFORMANCE OF PAYMENTS ON THEIR DUE DATES)

The liquidity risks of the Group are managed mainly through the preparation and update of the cash schedule on a timely basis, and the Company maintains a certain level of liquidity at hand in order to respond to sudden changes in external environment. The Company also has systems and procedures in place that allow us to respond flexibly to liquidity risks through managing the funds of the Group and intercompany loans within the Group. In addition, the Company ensures sufficient liquidity by entering into commitment line agreements with domestic financial institutions.

FAIR VALUES OF FINANCIAL INSTRUMENTS

As of March 31, 2021 and 2022, the carrying values on the consolidated balance sheet, the fair values, and the differences between these amounts, respectively, of financial instruments were as follows. Financial instruments without observable market data are excluded from the following table. Cash and cash equivalents (except for Securities), Trade notes and accounts receivable, Trade notes and accounts payable, Other accounts payable, Short-term debt are also excluded since the carrying values approximate fair values.

As of March 31, 2021	Millions of yen			Thousands of U.S. dollars		
	Carrying values	Fair values	Difference	Carrying values	Fair values	Difference
Assets:						
1) Securities (*1)						
Available-for-sale securities	¥ 147,900	¥ 147,900	¥ -	\$ 581,968	\$ 581,968	\$ -
2) Investment securities						
Available-for-sale securities	78,888	78,888	-	492	492	-
Total	¥ 226,788	¥ 226,788	¥ -	808,959	808,959	-
Liabilities:						
1) Bonds	¥ 50,000	¥ 49,484	¥ (516)	\$ 409,836	\$ 406,689	\$ (3,148)
2) Long-term loans	682,243	688,123	5,880	4,938,689	4,956,664	17,975
3) Lease obligations	22,077	22,102	25	191,877	192,041	164
Total	¥ 754,320	¥ 759,709	¥ 5,389	\$ 5,540,402	\$ 5,555,394	\$ 14,991
Derivative instruments:(*2)						
1) Hedge accounting not applied	¥ (1,377)	¥ (1,377)	¥ -	\$ (28,164)	\$ (28,164)	\$ -
2) Hedge accounting applied	(346)	(346)	-	(16,279)	(16,279)	-
Total	¥ (1,723)	¥ (1,723)	¥ -	\$ (44,443)	\$ (44,443)	\$ -
As of March 31, 2022						
Assets:						
1) Securities (*1)						
Available-for-sale securities	¥ 71,000	¥ 71,000	¥ -	\$ 581,968	\$ 581,968	\$ -
2) Investment securities						
Held-to-maturity debt securities	60	60	-	492	492	-
Available-for-sale securities	98,693	98,693	-	808,959	808,959	-
Total	¥ 169,753	¥ 169,753	¥ -	\$ 1,391,419	\$ 1,391,419	\$ -
Liabilities:						
1) Bonds	¥ 50,000	¥ 49,616	¥ (384)	\$ 409,836	\$ 406,689	\$ (3,148)
2) Long-term loans	602,520	604,713	2,193	4,938,689	4,956,664	17,975
3) Lease obligations	23,409	23,429	20	191,877	192,041	164
Total	¥ 675,929	¥ 677,758	¥ 1,829	\$ 5,540,402	\$ 5,555,394	\$ 14,991
Derivative instruments:(*2)						
1) Hedge accounting not applied	¥ (3,436)	¥ (3,436)	¥ -	\$ (28,164)	\$ (28,164)	\$ -
2) Hedge accounting applied	(1,986)	(1,986)	-	(16,279)	(16,279)	-
Total	¥ (5,422)	¥ (5,422)	¥ -	\$ (44,443)	\$ (44,443)	\$ -

(*1) Securities are included in “Cash and cash equivalents” in the consolidated balance sheets.

(*2) Receivables and payables resulting from derivative transactions are offset against each other and presented on a net basis; when a net liability results, the net amount is shown in ().

The financial instruments in the following table are excluded from “Assets: 2) Investment securities” in the above tables.

As of March 31	Millions of yen		Thousands of
	Carrying values		U.S. dollars
	2021	2022	Carrying values
Available-for-sale securities:			
Non-listed equity securities	¥ 1,371	¥ 1,389	\$ 11,385
Investment securities of affiliated companies	123,173	122,050	1,000,410
Total	¥ 124,544	¥ 123,439	\$ 1,011,795

FAIR VALUE OF FINANCIAL INSTRUMENTS AND HIERARCHY

The fair values of financial instruments are classified into the following three levels depending on the observability and significance of the input used in the fair value measurement.

Level 1: Fair value determined based on the (unadjusted) quoted prices in active markets for identical assets or liabilities

Level 2: Fair value determined based on directly or indirectly observable inputs other than Level 1 inputs

Level 3: Fair value determined based on significant unobservable inputs

If multiple inputs with a significant impact are used for the fair value measurement, the financial instrument is classified to the lowest level of the fair value hierarchy.

1) Financial assets and financial liabilities that are recorded on the consolidated balance sheet at fair value are as follows:

As of March 31, 2022	Millions of yen				Thousands of U.S. dollars			
	Fair values				Fair values			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Investment securities								
Available-for-sale securities								
Stocks	¥ 97,446	¥ -	¥ -	¥ 97,446	\$ 798,738	\$ -	\$ -	\$ 798,738
Other	1,247	-	-	1,247	10,221	-	-	10,221
Total	¥ 98,693	¥ -	¥ -	¥ 98,693	\$ 808,959	\$ -	\$ -	\$ 808,959
Derivative instruments:(*1)								
Currency related	-	(5,422)	-	(5,422)	-	(44,443)	-	(44,443)
Total	¥ -	¥ (5,422)	¥ -	¥ (5,422)	\$ -	\$ (44,443)	\$ -	\$ (44,443)

(*1) Receivables and payables resulting from derivative transactions are offset against each other and presented on a net basis; when a net liability results, the net amount is shown in ().

2) Financial assets and financial liabilities that are not recorded on the consolidated balance sheet at fair value are as follows:

As of March 31, 2022	Millions of yen				Thousands of U.S. dollars			
	Fair values				Fair values			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Securities								
Available-for-sale securities (other)	¥ -	¥ 71,000	¥ -	¥ 71,000	\$ -	\$ 581,968	\$ -	\$ 581,968
Investment securities								
Held-to-maturity debt securities (bonds)	-	60	-	60	-	492	-	492
Total	¥ -	¥ 71,060	¥ -	¥ 71,060	\$ -	\$ 582,460	\$ -	\$ 582,460
Liabilities:								
Bonds	¥ -	¥ 49,616	¥ -	¥ 49,616	\$ -	\$ 406,689	\$ -	\$ 406,689
Long-term loans	-	604,713	-	604,713	-	4,956,664	-	4,956,664
Lease obligations	-	23,429	-	23,429	-	192,041	-	192,041
Total	¥ -	¥ 677,758	¥ -	¥ 677,758	\$ -	\$ 5,555,394	\$ -	\$ 5,555,394

DESCRIPTION OF THE VALUATION TECHNIQUES AND INPUTS USED TO MEASURE FAIR VALUE INVESTMENT SECURITIES

Investments in publically traded equity securities are actively traded and valued based on their market prices, and their fair values are mainly classified as Level 1 assets.

SECURITIES

Securities consist mainly of certificates of deposits of creditworthy financial institutions and are settled within short periods of time, and their carrying amounts approximate their fair values. Accordingly, their fair value is classified as Level 2 assets, and carrying amounts are used as the fair values of these securities.

DERIVATIVE INSTRUMENTS

The fair value of foreign exchange forward contracts is calculated based on the price presented by financial institutions and is classified as Level 2 assets.

LONG-TERM DEBT

Bonds payable

The fair value of bonds issued by the Group is calculated based on the market price (JSDA “Reference Statistical Prices [Yields] for OTC Bond Transactions”) and classified as Level 2 assets.

Long-term loans payable and Finance lease obligations

The fair value of these liabilities is calculated by discounting the principal and interest payments to present value, using the imputed interest rate that would be applied for similar new borrowings or leases. Accordingly, their fair value is classified as Level 2 assets.

SCHEDULE OF REPAYMENTS OF RECEIVABLE

Schedule of repayments of receivable were as follows:

	Millions of yen				Thousands of U.S. dollars			
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
As of March 31, 2021								
Trade notes and accounts receivable	¥ 167,533	¥ -	¥ -	¥ -	\$ 1,197,836	\$ -	\$ -	\$ -
As of March 31, 2022								
Trade notes and accounts receivable (*1)	¥ 146,136	¥ -	¥ -	¥ -	\$ 1,197,836	\$ -	\$ -	\$ -

(*1) Trade notes and accounts receivable do not include ¥7,707 million (\$63,172 thousand) for doubtful accounts receivables, such that payments are not expected.

For the schedule of repayment of long-term debt after the consolidated balance sheet date, refer to Note 10, “Short-Term Debt and Long-Term Debt.”

6 SECURITIES

The carrying values and the fair values of held-to-maturity debt securities and the acquisition costs and the carrying values of available-for-sale securities as of March 31, 2021 and 2022 were as follows:

	Millions of yen		
	Acquisition costs	Carrying values	Difference
As of March 31, 2021			
Available-for-sale securities:			
Stocks	¥ 54,660	¥ 77,710	¥ 23,050
Other	148,973	149,078	105
Total	¥ 203,633	¥ 226,788	¥ 23,155

As of March 31, 2022	Millions of yen			Thousands of U.S. dollars		
	Carrying values	Fair values	Difference	Carrying values	Fair values	Difference
Held-to-maturity debt securities:						
Bonds	¥ 60	¥ 60	¥ -	\$ 492	\$ 492	\$ -

As of March 31, 2022	Millions of yen			Thousands of U.S. dollars		
	Acquisition costs	Carrying values	Difference	Acquisition costs	Carrying values	Difference
Available-for-sale securities:						
Stocks	¥ 54,666	¥ 97,446	¥ 42,780	\$ 448,082	\$ 798,738	\$ 350,656
Other	72,187	72,247	60	591,697	592,189	492
Total	¥ 126,853	¥ 169,693	¥ 42,840	\$ 1,039,779	\$ 1,390,927	\$ 351,148

7 DERIVATIVES

The Group uses derivative financial instruments to reduce foreign exchange risk and interest rate risk and to determine cash flows.

The Group uses forward foreign exchange contracts for the purpose of mitigating future risks of fluctuations in foreign currency exchange. Also, for the purpose of mitigating future risks of fluctuations in interest rates with respect to borrowings, the Group uses interest rate swap contracts, as necessary. The Group does not engage in speculative transactions as a matter of policy, limiting the transaction amount to actual demand.

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

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

Derivative transactions are conducted in compliance with internal control rules and procedures that prescribe transaction authority. The policies for derivative transactions of the Group are approved by the Company's President or Financial Officer. Transactions are approved in advance by either the Company's Financial Services Division General Manager or Treasury Department General Manager. Based on these approvals, the Treasury Department conducts and books the transactions as well as confirms the balance between the counterparty of the derivatives contract.

The operation of the transaction is segregated from its clerical administration, in order to maintain internal check within the Treasury Department, and is audited periodically by the Global Auditing Department. Derivative transactions are reported, upon execution, to the Company's Financial Officer, Financial Services Division General Manager, and Treasury Department General Manager. The consolidated subsidiaries also follow internal control rules and procedures pursuant to those of the Company, obtain an approval of the Company, and conduct and manage the transactions according to the approval.

As the important conditions concerning the hedging instrument and the hedged item are the same, it is expected that the effects of currency and interest rate fluctuations will be canceled or restricted to a certain extent at the beginning of the hedge and continuing thereafter. Therefore, judgment on the effectiveness of hedging is omitted.

The following summarizes hedging derivative financial instruments used by the Group and items hedged:

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

The following tables summarize fair value information as of March 31, 2021 and 2022 of derivative transactions for which hedge accounting has not been applied:

The amount in the contract itself does not indicate the market risk related to derivative transactions.

1) Currency related

As of March 31, 2021	Millions of yen			
	Contract amount	Thereof due after 1 year	Estimated fair value	Valuation gain(loss)
Forward foreign exchange contracts:				
Sell:				
U.S. dollar	¥ 19,875	¥ -	¥ (604)	¥ (604)
Canadian dollar	8,645	-	(576)	(576)
Australian dollar	10,701	-	(260)	(260)
Buy:				
Thai baht	5,240	-	63	63
Total	¥ 44,461	¥ -	¥ (1,377)	¥ (1,377)

As of March 31, 2022	Millions of yen				Thousands of U.S. dollars			
	Contract amount	Thereof due after 1 year	Estimated fair value	Valuation gain(loss)	Contract amount	Thereof due after 1 year	Estimated fair value	Valuation gain(loss)
Forward foreign exchange contracts:								
Sell:								
U.S. dollar	¥ 40,557	¥ -	¥ (2,269)	¥ (2,269)	\$ 332,435	\$ -	\$ (18,598)	\$ (18,598)
Canadian dollar	9,177	-	(614)	(614)	75,221	-	(5,033)	(5,033)
Australian dollar	8,093	-	(638)	(638)	66,336	-	(5,230)	(5,230)
Buy:								
Thai baht	1,758	-	85	85	14,410	-	697	697
Total	¥ 59,585	¥ -	¥ (3,436)	¥ (3,436)	\$ 488,402	\$ -	\$ (28,164)	\$ (28,164)

2) Interest rate related
Not applicable.

The following tables summarize fair value information as of March 31, 2021 and 2022 of derivative transactions for which hedge accounting has been applied:

The amount in the contract itself does not indicate the market risk related to derivative transactions.

1) Currency related

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

As of March 31, 2021	Millions of yen			As of March 31, 2022	Millions of yen			Thousands of U.S. dollars		
	Contract amount	Thereof due after 1 year	Estimated fair value		Contract amount	Thereof due after 1 year	Estimated fair value	Contract amount	Thereof due after 1 year	Estimated fair value
Forward foreign exchange contracts:										
Sell:										
U.S. dollar	¥ -	¥ -	¥ -	U.S. dollar	¥ 2,322	¥ -	¥ (122)	\$ 19,033	\$ -	\$ (1,000)
Euro	23,122	-	(255)	Euro	9,237	-	(346)	75,713	-	(2,836)
Canadian dollar	2,983	-	(90)	Canadian dollar	11,926	-	(793)	97,754	-	(6,500)
Australian dollar	1,685	-	(1)	Australian dollar	9,751	-	(814)	79,926	-	(6,672)
Buy:										
Thai baht	-	-	-	Thai baht	1,752	-	89	14,361	-	730
Total	¥ 27,790	¥ -	¥ (346)	Total	¥ 34,988	¥ -	¥ (1,986)	\$ 286,787	\$ -	\$ (16,279)

2) Interest rate related
Not applicable.

8 INVENTORIES

Inventories as of March 31, 2021 and 2022 were as follows:

As of March 31	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Merchandise and finished products	¥ 330,109	¥ 234,324	\$ 1,920,689
Work in process	81,206	134,851	1,105,336
Raw materials and supplies	21,734	30,748	252,032
Total	¥ 433,049	¥ 399,923	\$ 3,278,057

9 LAND REVALUATION

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

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

The amounts of decrease in the aggregate fair value of the revalued land as of March 31, 2021 and 2022 from that at the time of revaluation, as stipulated in Article 10 of the Land Revaluation Law, were ¥77,059 million and ¥72,056 million (\$590,623 thousand), respectively.

10 SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt as of March 31, 2021 and 2022 consisted of loans, principally from banks with interest rates averaging 1.21% and 1.02% for the respective years.

Long-term debt as of March 31, 2021 and 2022 consisted of the following:

As of March 31	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Domestic unsecured bonds due serially through 2023 to 2027 at rate of 0.30% to 0.42% per annum	¥ 50,000	¥ 50,000	\$ 409,836
Loans principally from banks, maturing through 2081:			
Secured loans	4,135	3,230	26,475
Unsecured loans	678,108	599,290	4,912,214
Lease obligations, maturing through 2039	22,077	23,409	191,877
Other interest-bearing debt, maturing through 2026 (*)	-	3,352	27,475
Subtotal	754,320	679,281	5,567,877
Amount due within one year	(15,805)	(67,605)	(554,139)
Total	¥ 738,515	¥ 611,676	\$ 5,013,738

(*) Other interest-bearing debt are recorded as accrued expense and other non-current liabilities of ¥774 million (\$6,344 thousand) and ¥2,578 million (\$21,131 thousand), respectively, in the consolidated balance sheets.

The annual interest rates applicable to long-term loans and lease obligations outstanding averaged 1.72% and 2.13%, respectively, for obligations due within one year and 0.71% and 3.13%, respectively, for obligations due after one year at March 31, 2021.

The annual interest rates applicable to long-term loans and lease obligations outstanding averaged 0.72% and 2.16%, respectively, for obligations due within one year and 0.67% and 3.01%, respectively, for obligations due after one year at March 31, 2022.

The annual maturities of long-term debt at March 31, 2022 were as follows:

Year ending March 31	Millions of yen		Thousands of
			U.S. dollars
2023	¥	67,605	\$ 554,139
2024		188,874	1,548,148
2025		87,030	713,361
2026		84,454	692,246
2027		151,913	1,245,189
Thereafter		99,405	814,794
Total	¥	679,281	\$ 5,567,877

The assets pledged as collateral for short-term debt of ¥190 million and ¥190 million (\$1,557 thousand), and long-term debt of ¥4,135 million and ¥3,230 million (\$26,475 thousand) at March 31, 2021 and 2022, respectively, were as follows:

As of March 31	Millions of yen		Thousands of
	2021	2022	U.S. dollars
Property, plant and equipment, at net book value	¥ 439,215	¥ 531,553	\$ 4,356,992
Inventories	67,422	74,018	606,705
Other	105,953	66,322	543,623
Total	¥ 612,590	¥ 671,893	\$ 5,507,320

11 CONTINGENT LIABILITIES

Contingent liabilities for guarantees of loans and similar agreements as of March 31, 2021 and 2022 were as follows:

As of March 31	Millions of yen		Thousands of
	2021	2022	U.S. dollars
Guarantees of loans and similar agreements	¥ 14,070	¥ 15,192	\$ 124,525

12 OPERATING LEASES

The amounts of future minimum lease payments under non-cancellable operating leases as of March 31, 2021 and 2022 were as follows:

As of March 31	Millions of yen		Thousands of
	2021	2022	U.S. dollars
Current portion	¥ 3,291	¥ 3,301	\$ 27,057
Non-current portion	8,932	8,921	73,123
Total	¥ 12,223	¥ 12,222	\$ 100,180

13 NET ASSETS

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

Under the Corporate Law (“the Law”), in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit or could be capitalized by a resolution of the shareholders’ meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

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

Cash dividends charged to retained earnings during the year are year-end cash dividends for the previous year and interim cash dividends for the current year.

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

Dividends

1) Dividends paid to shareholders

No items to disclose.

2) Dividends with the cut-off date within the current fiscal year, but the effective date falls within the subsequent fiscal year

Resolution	Amount (Millions of yen) (Thousands of U.S. dollars)	Amount per share	Shareholders' cut-off date	Effective date
Annual general meeting of shareholders held on June 24, 2022	¥12,597 \$103,254	¥20.00 \$0.16	March 31, 2022	June 27, 2022

14 STOCK OPTIONS

The stock options outstanding as of March 31, 2022 were as follows:

Stock Options	Persons Granted	Number of Options Granted	Date of Grant	Exercise Period
2016 Stock Acquisition Rights	8 Directors(*1) 18 Executive Officers	Common stock 68,200 shares(*3)	August 22, 2016	From August 23, 2016 to August 22, 2046
2017 Stock Acquisition Rights	8 Directors(*1) 21 Executive Officers	Common stock 72,200 shares(*3)	August 21, 2017	From August 22, 2017 to August 21, 2047
2018 Stock Acquisition Rights	8 Directors(*1) 20 Executive Officers	Common stock 89,700 shares(*3)	August 20, 2018	From August 21, 2018 to August 20, 2048
2019 Stock Acquisition Rights	6 Directors(*2) 19 Executive Officers and Fellow	Common stock 104,700 shares(*3)	August 20, 2019	From August 21, 2019 to August 20, 2049
2020 Stock Acquisition Rights	6 Directors(*2) 21 Executive Officers and Fellow	Common stock 223,300 shares(*3)	August 18, 2020	From August 19, 2020 to August 18, 2050
2021 Stock Acquisition Rights	7 Directors(*2) 19 Executive Officers and Fellow	Common stock 124,000 shares(*3)	August 17, 2021	From August 18, 2021 to August 17, 2051

(*1) Except for outside directors

(*2) Except for directors who are the Audit and Supervisory Committee members and outside directors

(*3) Converted into number of shares

The stock options activities for the year ended March 31, 2022 were as follows:

	2016 Stock Acquisition Rights (Shares)	2017 Stock Acquisition Rights (Shares)	2018 Stock Acquisition Rights (Shares)	2019 Stock Acquisition Rights (Shares)	2020 Stock Acquisition Rights (Shares)	2021 Stock Acquisition Rights (Shares)
For the year ended March 31, 2022						
Non-vested:						
March 31, 2021 - Outstanding	-	-	-	-	-	-
Granted	-	-	-	-	-	124,000
Forfeited	-	-	-	-	-	-
Vested	-	-	-	-	-	124,000
March 31, 2022 - Outstanding	-	-	-	-	-	-
Vested:						
March 31, 2021 - Outstanding	48,800	56,800	78,900	104,700	223,300	-
Vested	-	-	-	-	-	124,000
Exercised	10,000	9,500	12,100	16,100	32,500	-
Canceled	-	-	-	-	-	-
March 31, 2022 - Outstanding	38,800	47,300	66,800	88,600	190,800	124,000
Price of Stock Options:						
Exercise price	¥ 1 \$ 0.01					
Weighted average stock price at exercise	¥ 948.0 \$ 7.8	¥ - \$ -				
Fair value price at grant date	¥ 1,327 \$ 10.88	¥ 1,336 \$ 10.95	¥ 1,027 \$ 8.42	¥ 650 \$ 5.33	¥ 415 \$ 3.40	¥ 968 \$ 7.93

The assumptions used to measure the fair value of 2021 Stock Acquisition Rights

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	36.817%
Estimated remaining outstanding period:	8 years
Estimated dividend:	¥ - per share
Risk-free interest rate:	(0.096)%

15 REVENUE RECOGNITION

BREAKDOWN OF REVENUE

The Group's revenues consist primarily of revenues recognized from contracts with customers, and revenues generated from sources other than contracts with customers are insignificant. Accordingly, in the consolidated statements of operations, net sales are not presented separately from revenues recognized from contracts with customers and revenues generated from sources other than contracts with customers. The following table shows revenues recognized at a point in time, such as product sales or maintenance services, and revenues recognized over time based on contract period, for each of reportable segments.

For the year ended March 31, 2022	Millions of yen				
	Reportable Segments				
	Japan	North America	Europe	Other areas	Total
Timing of revenue recognition:					
Revenue recognized at a point in time	¥ 815,893	¥ 1,196,822	¥ 538,025	¥ 557,254	¥ 3,107,994
Revenue recognized over time	464	9,845	1,374	672	12,355
Total	¥ 816,357	¥ 1,206,667	¥ 539,399	¥ 557,926	¥ 3,120,349

For the year ended March 31, 2022	Thousands of U.S. dollars				
	Reportable Segments				
	Japan	North America	Europe	Other areas	Total
Timing of revenue recognition:					
Revenue recognized at a point in time	\$ 6,687,648	\$ 9,810,016	\$ 4,410,041	\$ 4,567,656	\$ 25,475,361
Revenue recognized over time	3,803	80,697	11,262	5,508	101,270
Total	\$ 6,691,451	\$ 9,890,713	\$ 4,421,303	\$ 4,573,164	\$ 25,576,631

BASIC INFORMATION FOR UNDERSTANDING REVENUE

For details on Basic information for understanding revenue, refer to “Revenues” under Note 2, “Summary of Significant Accounting Policies.”

INFORMATION FOR UNDERSTANDING THE AMOUNT OF REVENUE FOR THE CURRENT AND SUBSEQUENT PERIODS

1) Contract Balances

Receivables from contracts with customers and contract liabilities as of March 31, 2021 and 2022 were as follows:

As of March 31	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Receivables from contracts with customers	¥ 123,896	¥ 146,136	\$1,197,836
Contract liabilities	52,530	83,710	686,148

(*1) In the consolidated balance sheet, receivables from contracts with customers are included in “Trade notes and accounts receivable,” and contract liabilities are included in “Other current liabilities.”

(*2) Contract liabilities consist mainly of advances received related to product sales and deferred revenue related to Connected Services. Of the amount recognized as revenue in the current fiscal year, the amount included in the contract liabilities balance at the beginning of the period was ¥24,913 million (\$204,205 thousand).

2) Transaction price allocated to remaining performance obligations

The total transaction price allocated to unsatisfied (or partially unsatisfied) performance obligations and the breakdown by period in which revenue is expected to be recognized as of March 31, 2022 were as follows:

As of March 31	Millions of yen		Thousands of U.S. dollars
	2022		2022
Within 1 year	¥ 22,775		\$ 186,680
Over 1 year		28,380	232,623
Total	¥ 51,155		\$ 419,303

Please note that the above amounts do not include information on remaining performance obligations that have original expected duration of one year or less, applying the practical expedient. There are no material amounts not included in the transaction price in the consideration arising from contracts with customers.

16 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major items and amounts included in “Selling, general and administrative expenses” in the consolidated statements of operations for the years ended March 31, 2021 and 2022 were as follows:

For the years ended March 31	Millions of yen		Thousands of
	2021	2022	U.S. dollars
Advertising expenses	¥ 92,560	¥ 79,308	\$ 650,066
Freight and packing expenses	43,783	55,763	457,074
Reserve for warranty expenses	33,230	26,464	216,918
Salaries and wages	115,880	121,133	992,893
Retirement benefit expenses	6,451	3,888	31,869
Research and development costs	127,432	134,622	1,103,459
Provision for loss on compensation for damage	-	11,500	94,262

17 RESEARCH AND DEVELOPMENT COSTS

All research and development costs are included in selling, general and administrative expenses. The research and development costs for the years ended March 31, 2021 and 2022 were as follows:

For the years ended March 31	Millions of yen		Thousands of
	2021	2022	U.S. dollars
Research and development costs	¥ 127,432	¥ 134,622	\$ 1,103,459

18 OTHER INCOME /(EXPENSES)

The components of “Other, net” in Other income/(expenses) in the consolidated statements of operations for the years ended March 31, 2021 and 2022 were as follows:

For the years ended March 31	Millions of yen		Thousands of
	2021	2022	U.S. dollars
Rental income	¥ 1,682	¥ 1,634	\$ 13,393
Loss on sale of receivables	(891)	(932)	(7,639)
Foreign exchange gain/(loss)	16,062	30,288	248,262
Taxes and dues	-	(2,387)	(19,566)
Loss on sales and retirement of property, plant and equipment, net	(4,563)	(4,600)	(37,705)
Impairment loss (Note 19)	(1,355)	(691)	(5,664)
Loss on disaster	-	(1,563)	(12,811)
Loss on production suspension and others due to the novel coronavirus (*1)	(20,460)	(8,861)	(72,631)
Gain on sale of investment securities	400	-	-
Insurance claim income	-	1,009	8,270
Gain on change in equity (*2)	-	4,047	33,172
Other	(1,254)	(4,711)	(38,615)
Total	¥ (10,379)	¥ 13,233	\$ 108,466

(*1) Loss on production suspension and others due to the novel coronavirus for the years ended March 31, 2021 represents the fixed cost during the production suspension due to the impact of the novel coronavirus. This extraordinary loss was due to the period during which overseas production bases were shut down at the request of the government and the effects of governments declaring emergencies and taking measures to prevent the spread of infection by limiting economic activities.

Loss on production suspension and others due to the novel coronavirus for the years ended March 31, 2022 represents the fixed cost during the reduction of production due to the impact of the pandemic. This extraordinary loss was caused by shortages in the supply of parts associated with the outbreak of the pandemic in Southeast Asia, where suppliers restricted their operations at the request of governments.

(*2) Gain on change in equity represents the profit from the change in equity resulting from the capital increase of Changan Mazda Automobile Co., Ltd. (CMA), affiliated company accounted for using equity method.

As China FAW Corporation Limited (FAW) participated in and won the bid for a capital increase project implemented by CMA in August 2021, CMA has become a joint venture company (new CMA) that are owned by the Company, Chongqing Changan Automobile Co., Ltd. (CA), and FAW. The Company and CA each own 47.5 percent of new CMA's shares while FAW owns 5 percent.

19 IMPAIRMENT LOSS

Details of impairment losses for the years ended March 31, 2021 and 2022 were as follows:

For the year ended March 31, 2021			
Purpose of use	Location	Type of assets	Millions of yen
Idle assets (Sales facilities)	State of California, U.S.A, etc.	Buildings and structures, Machinery, equipment and vehicles, etc.	¥ 749
Idle assets (Production facilities)	Hiroshima Prefecture, Japan, etc.	Machinery, equipment and vehicles, etc.	506
Assets held for sales	Tokyo Metropolis, Japan, etc.	Buildings and structures, Land	100
Total			¥ 1,355

For the year ended March 31, 2022				Thousands of U.S. dollars
Purpose of use	Location	Type of assets	Millions of yen	
Idle assets (Sales facilities)	Fukuoka Prefecture, Japan, etc.	Buildings and structures, Machinery, equipment and vehicles	¥ 204	\$ 1,672
Idle assets (Production facilities)	Hiroshima Prefecture, Japan, etc.	Buildings and structures, Machinery, equipment and vehicles, etc.	487	3,992
Total			¥ 691	\$ 5,664

The Group principally groups its long-lived assets at each operating company level and assesses whether indicators of impairment exist. Idle assets, assets held for leasing, and assets held for sale, however, are assessed individually.

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

20 OTHER COMPREHENSIVE INCOME/(LOSS)

The following table presents reclassification and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2021 and 2022.

For the years ended March 31	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Net unrealized gain/(loss) on available-for-sale securities			
Amounts arising during the fiscal year	¥ 19,571	¥ 19,759	\$ 161,959
Reclassification adjustments	(70)	-	-
Subtotal before tax	19,501	19,759	161,959
Tax effect	(5,747)	(6,050)	(49,590)
Balance at end of period	13,754	13,709	112,369
Deferred gains/(losses) on hedges			
Amounts arising during the fiscal year	(2,159)	(5,084)	(41,672)
Reclassification adjustments	1,375	3,443	28,221
Subtotal before tax	(784)	(1,641)	(13,451)
Tax effect	239	500	4,098
Balance at end of period	(545)	(1,141)	(9,352)
Foreign currency translation adjustment			
Amounts arising during the fiscal year	19,698	20,909	171,385
Adjustments for retirement benefits			
Amounts arising during the fiscal year	27,864	14,235	116,680
Reclassification adjustments	4,182	(1,382)	(11,328)
Subtotal before tax	32,046	12,853	105,352
Tax effect	(9,662)	(4,046)	(33,164)
Balance at end of period	22,384	8,807	72,189
Share of other comprehensive income/(loss) of affiliates accounted for using equity method			
Amounts arising during the fiscal year	(2,785)	5,111	41,893
Reclassification adjustments	5	81	664
Balance at the end of period	(2,780)	5,192	42,557
Total other comprehensive income/(loss)	¥ 52,511	¥ 47,476	\$ 389,148

21 EMPLOYEES' RETIREMENT BENEFITS

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

For the accounting policies for retirement benefits, refer to “Employees’ Retirement Benefits” under Note 2, “Summary of Significant Accounting Policies”.

Reconciliations of beginning and ending balances of the retirement benefit obligations and the plan assets for the years ended March 31, 2021 and 2022 were as follows:

For the years ended March 31	Millions of yen		Thousands of
	2021	2022	U.S. dollars
Movements in retirement benefit obligations:			2022
Balance at beginning of year	¥ 353,670	¥ 356,441	\$ 2,921,648
Service cost	13,343	13,253	108,631
Interest cost	2,732	2,949	24,172
Actuarial differences	448	(11,163)	(91,500)
Benefits paid	(16,828)	(20,252)	(166,000)
Past service costs	5	(6,733)	(55,189)
Other	3,071	4,144	33,968
Balance at end of year	¥ 356,441	¥ 338,639	\$ 2,775,730

For the years ended March 31	Millions of yen		Thousands of
	2021	2022	U.S. dollars
Movements in plan assets:			2022
Balance at beginning of year	¥ 281,532	¥ 313,062	\$ 2,566,082
Expected return on plan assets	4,930	5,911	48,451
Actuarial differences	28,486	(3,066)	(25,131)
Contributions paid by the employer	8,230	7,858	64,410
Benefits paid	(12,635)	(14,466)	(118,574)
Other	2,519	3,819	31,303
Balance at end of year	¥ 313,062	¥ 313,118	\$ 2,566,541

The reconciliation of the retirement benefit obligations and plan assets to the liability and asset for retirement benefits recognized in the consolidated balance sheets as of March 31, 2021 and 2022 was as follows:

As of March 31	Millions of yen		Thousands of
	2021	2022	U.S. dollars
Funded retirement benefit obligations	¥ 340,294	¥ 322,887	\$ 2,646,615
Plan assets	(313,062)	(313,118)	(2,566,541)
Subtotal	27,232	9,769	80,074
Unfunded retirement benefit obligations	16,147	15,752	129,115
Total net liability (asset) for retirement benefits recognized in consolidated balance sheets	43,379	25,521	209,189
Liability for retirement benefits	50,039	33,433	274,041
Asset for retirement benefits	(6,660)	(7,912)	(64,852)
Total net liability (asset) for retirement benefits recognized in consolidated balance sheets	¥ 43,379	¥ 25,521	\$ 209,189

The profits and losses related to retirement benefits for the years ended March 31, 2021 and 2022 were as follows:

For the years ended March 31	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Service cost	¥ 13,343	¥ 13,253	\$ 108,631
Interest cost	2,732	2,949	24,172
Expected return on plan assets	(4,930)	(5,911)	(48,451)
Actuarial differences amortization	4,774	(786)	(6,443)
Past service costs amortization	(592)	(596)	(4,885)
Other	23	100	820
Severance and retirement benefit expenses	¥ 15,350	¥ 9,009	\$ 73,844

Note: For the years ended March 31, 2021 and 2022, accrued pension costs related to defined contribution plans were charged to income as ¥ 3,426 million and ¥3,412 million (\$27,967 thousand), respectively. This cost is not included in the above.

The breakdown of items of adjustments for retirement benefit (before tax) recognized in other comprehensive income for the years ended March 31, 2021 and 2022 was as follows:

For the years ended March 31	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Past service costs	¥ (597)	¥ 6,137	\$ 50,303
Actuarial differences	32,643	6,716	55,049
Total	¥ 32,046	¥ 12,853	\$ 105,352

The breakdown of items of accumulated adjustments for retirement benefits (before tax) recognized in accumulated other comprehensive income as of March 31, 2021 and 2022 was as follows:

As of March 31	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Past service costs that are yet to be recognized	¥ 2,712	¥ 8,849	\$ 72,533
Actuarial differences that are yet to be recognized	(3,499)	3,217	26,369
Total	¥ (787)	¥ 12,066	\$ 98,902

The breakdown of plan assets by major category as of March 31, 2021 and 2022 was as follows:

As of March 31		
	2021	2022
Bonds	46%	42%
Equity securities	29%	29%
General accounts of the life insurance companies	15%	16%
Other	10%	13%
Total	100%	100%

The major items of actuarial assumptions for the years ended March 31, 2021 and 2022 were as follows:

For the years ended March 31		
	2021	2022
Discount rate	Primarily 0.7%	Primarily 0.9%
Long-term expected rate of return	Primarily 1.5%	Primarily 1.5%

To determine the long-term expected rate of return on plan assets, the Company considers current and expected allocation of the plan assets, as well as current and expected future long-term returns on various assets constituting the plan assets.

22 INCOME TAXES

The effective tax rate reflected in the consolidated statements of operations for the years ended March 31, 2021 and 2022 differs from the statutory tax rate for the following reasons.

For the years ended March 31	2021	2022
Statutory tax rate	30.5 %	30.5 %
Foreign withholding tax	203.2 %	5.2 %
Unrecognized tax effect on unrealized gains	(111.9)%	0.8 %
Retained earnings in subsidiaries and affiliates	(30.3)%	0.3 %
Equity in net income of affiliated companies	(91.6)%	(0.5)%
Different tax rates applied to foreign consolidated subsidiaries	(101.8)%	(1.4)%
Valuation allowance	1,722.0 %	(8.5)%
Tax system differences for foreign consolidated subsidiaries	(60.2)%	- %
Other	(4.2)%	0.3 %
Effective tax rate	1,555.7 %	26.7 %

Deferred tax assets and liabilities reflect the estimated tax effects of loss carryforwards and accumulated temporary differences between assets and liabilities for financial accounting purposes and those for tax purposes.

The significant components of deferred tax assets and liabilities as of March 31, 2021 and 2022 were as follows:

As of March 31	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Deferred tax assets:			
Accrued bonuses and other reserves	¥ 59,909	¥ 51,329	\$ 420,730
Tax loss carryforwards (*2)	43,264	15,449	126,631
Inventory, etc.	10,570	12,664	103,803
Liability for retirement benefits	15,600	10,329	84,664
Excess of depreciation	3,785	3,931	32,221
Provision for loss on compensation for damage	-	3,503	28,713
Asset retirement obligations	1,584	1,628	13,344
Allowance for doubtful receivables	198	1,617	13,254
Impairment loss	1,247	1,345	11,025
Accrued business tax	262	1,164	9,541
Foreign tax credit carry forward	210	553	4,533
Valuation loss on investment securities, etc.	396	425	3,484
Other	45,192	49,269	403,844
Total	182,217	153,206	1,255,787
Valuation allowance for tax loss carryforwards (*2)	(38,549)	(12,815)	(105,041)
Valuation allowance for deductible temporary differences, etc.	(49,796)	(63,401)	(519,680)
Total valuation allowance (*1)	(88,345)	(76,216)	(624,721)
Total deferred tax assets	93,872	76,990	631,066
Deferred tax liabilities:			
Retained earnings in subsidiaries and affiliates	(13,532)	(13,846)	(113,492)
Net unrealized gain on available-for-sale securities	(7,073)	(13,120)	(107,541)
Effect of exchange rate fluctuations on foreign subsidiaries	(10,168)	(8,940)	(73,279)
Asset for retirement benefits	(2,990)	(3,025)	(24,795)
Other	(5,463)	(7,761)	(63,615)
Total deferred tax liabilities	(39,226)	(46,692)	(382,722)
Net deferred tax assets	¥ 54,646	¥ 30,298	\$ 248,344

(*1) Valuation allowance decreased by ¥12,129 million (\$99,418 thousand). This decrease was mainly resulted from the decrease in tax loss carryforward on the Company and its associated valuation allowance.

(*2) Tax loss carryforwards and their deferred tax assets by expiration periods are as follows:

	Millions of yen			Thousands of U.S. dollars		
	Tax loss carryforwards (a)	Valuation allowance	Deferred tax assets	Tax loss carryforwards (a)	Valuation allowance	Deferred tax assets
As of March 31, 2021						
2022	¥ 149	¥ -	¥ 149	\$ -	\$ -	\$ -
2023	-	-	-	-	-	-
2024	-	-	-	-	-	-
2025	-	-	-	-	-	-
2026	-	-	-	-	-	-
Thereafter	43,115	(38,549)	4,566	126,631	(105,041)	21,590
Total	¥ 43,264	¥ (38,549)	¥ 4,715 (b)	\$ 126,631	\$ (105,041)	\$ 21,590 (c)
As of March 31, 2022						
2023	¥ -	¥ -	¥ -	\$ -	\$ -	\$ -
2024	-	-	-	-	-	-
2025	-	-	-	-	-	-
2026	-	-	-	-	-	-
2027	-	-	-	-	-	-
Thereafter	15,449	(12,815)	2,634	126,631	(105,041)	21,590
Total	¥ 15,449	¥ (12,815)	¥ 2,634 (c)	\$ 126,631	\$ (105,041)	\$ 21,590 (c)

(a) Tax loss carryforwards are after multiplying the statutory tax rate.

(b) Deferred tax assets of ¥4,715 million were recognized for tax loss carryforwards of ¥43,264 million (amount multiplied by the statutory tax rate). No valuation allowance was recognized for the tax loss carryforwards, which were determined to be recoverable based on expected future taxable income.

(c) Deferred tax assets of ¥2,634 million (\$21,590 thousand) were recognized for tax loss carryforwards of ¥15,449 million (amount multiplied by the statutory tax rate; \$126,631 thousand). No valuation allowance was recognized for the tax loss carryforwards, which were determined to be recoverable based on expected future taxable income.

(d) Gross deferred tax assets before being offset by deferred tax liabilities were ¥76,990 million (\$631,066 thousand). Of this, the Company's deferred tax assets were ¥28,522 million (\$233,787 thousand).

23 SEGMENT INFORMATION

SEGMENT INFORMATION

OVERVIEW OF REPORTABLE SEGMENTS

The reportable segments of the Group consist of business components for which separate financial statements are available. The reportable segments are subject to periodical review by Board of Directors meetings for the purpose of making decisions on the distribution of corporate resources and evaluating business performance.

The Group is primarily engaged in the manufacturing and sale of passenger and commercial vehicles. Businesses in Japan are managed by the Company. Businesses in North America are managed by Mazda Motor of America, Inc. and the Company, while businesses in Europe are managed by Mazda Motor Europe GmbH and the Company. Areas other than Japan, North America, and Europe are defined as Other areas. Business deployment in countries in Other areas are managed in an integrated manner by the Company as one management unit. Accordingly, the Group consists of regional segments based on a system of managing production and sale. As such, Japan, North America, Europe, and Other areas are designated as 4 reportable segments.

CALCULATION METHODS USED FOR NET SALES, INCOME OR LOSS, ASSETS, AND OTHER ITEMS ON EACH REPORTABLE SEGMENTS

Accounting policies of the reportable segments are the same as those noted in Note 2, "Summary of Significant Accounting Policies".

Inter-segment sales and transfers are based on market prices.

NET SALES, INCOME OR LOSS, AND ASSETS BY REPORTABLE SEGMENTS

Net sales, income or loss, and assets by reportable segment for the years ended March 31, 2021 and 2022 were as follows:

As of and for the year ended	Millions of yen						Adjustment (*1)	Consolidated (*2)
	Reportable Segments					Total		
	Japan	North America	Europe	Other areas				
March 31, 2021								
Net sales:								
Sales to external customers	¥ 866,977	¥ 1,027,856	¥ 490,134	¥ 497,099	¥ 2,882,066	¥ -	¥ 2,882,066	
Inter-segment sales and transfers	1,464,574	252,611	19,600	57,664	1,794,449	(1,794,449)	-	
Total	2,331,551	1,280,467	509,734	554,763	4,676,515	(1,794,449)	2,882,066	
Segment income/(loss) :	(64,724)	40,477	10,002	17,761	3,516	5,304	8,820	
Segment assets:	2,343,476	449,287	198,115	354,802	3,345,680	(428,266)	2,917,414	
Other items:								
Depreciation and amortization	59,723	19,345	4,574	6,123	89,765	-	89,765	
Impairment losses	842	467	31	15	1,355	-	1,355	
Investments in affiliated companies on the equity method	32,612	5,230	2,444	82,776	123,062	-	123,062	
Increase in property, plant and equipment and intangible assets	64,238	24,892	2,063	1,779	92,972	-	92,972	

As of and for the year ended March 31, 2022	Millions of yen						Adjustment (*1)	Consolidated (*2)
	Reportable Segments					Total		
	Japan	North America	Europe	Other areas				
Net sales:								
Sales to external customers	¥ 816,357	¥ 1,206,667	¥ 539,399	¥ 557,926	¥ 3,120,349	¥ -	¥ 3,120,349	
Inter-segment sales and transfers	1,728,336	235,361	20,935	54,123	2,038,755	(2,038,755)	-	
Total	2,544,693	1,442,028	560,334	612,049	5,159,104	(2,038,755)	3,120,349	
Segment income/(loss) :	85,700	(9,485)	14,888	16,542	107,645	(3,418)	104,227	
Segment assets:	2,395,667	525,662	185,391	363,852	3,470,572	(502,424)	2,968,148	
Other items:								
Depreciation and amortization	56,664	22,101	5,098	6,418	90,281	-	90,281	
Impairment losses	627	64	1	(1)	691	-	691	
Investments in affiliated companies on the equity method	33,424	-	2,414	86,101	121,939	-	121,939	
Increase in property, plant and equipment and intangible assets	92,763	46,287	1,369	3,913	144,332	-	144,332	

As of and for the year ended March 31, 2022	Thousands of U.S. dollars					Adjustment (*1)	Consolidated (*2)	
	Reportable Segments							Total
	Japan	North America	Europe	Other areas				
Net sales:								
Sales to external customers	\$ 6,691,451	\$ 9,890,713	\$ 4,421,303	\$ 4,573,164	\$ 25,576,631	\$ -	\$ 25,576,631	
Inter-segment sales and transfers	14,166,689	1,929,189	171,598	443,631	16,711,107	(16,711,107)	-	
Total	20,858,140	11,819,902	4,592,901	5,016,795	42,287,738	(28,016)	25,576,631	
Segment income/(loss) :	702,459	(77,746)	122,033	135,590	882,336	(28,016)	854,320	
Segment assets:	19,636,615	4,308,705	1,519,598	2,982,393	28,447,311	(4,118,229)	24,329,082	
Other items:								
Depreciation and amortization	464,458	181,156	41,787	52,607	740,008	-	740,008	
Impairment losses	5,139	525	8	(8)	5,664	-	5,664	
Investments in affiliated companies on the equity method	273,967	-	19,787	705,746	999,500	-	999,500	
Increase in property, plant and equipment and intangible assets	760,353	379,402	11,221	32,073	1,183,049	-	1,183,049	

(*1) Notes on adjustment:

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

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

(*2) The segment income/(loss) is reconciled with the operating income in the consolidated statements of operations for the years ended March 31, 2021 and 2022.

The segment assets are reconciled with the total assets in the consolidated balance sheets as of March 31, 2021 and 2022.

Note: As described in Note 4, "Accounting Changes," the Group has "Accounting Standard for Revenue Recognition", etc. effective from the beginning of the fiscal year ended March 31, 2022 and changed the measuring method of segment income or loss. As a result, for the fiscal year ended March 31, 2022, net sales of Japan segment increased by ¥15,881 million (\$130,172 thousand) and North America segment decreased by ¥57,884 million (\$474,459 thousand), and segment income of Japan segment increased by ¥4,561 million (\$37,385 thousand), compared with the previous method.

ASSOCIATED INFORMATION INFORMATION BY GEOGRAPHIC AREA

The sales information by geographic area for the years ended March 31, 2021 and 2022 was as follows:

For the years ended March 31	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Japan	¥ 594,490	¥ 569,568	\$ 4,668,590
U.S.A	792,024	977,816	8,014,885
North America (Excluding U.S.A)	232,870	229,224	1,878,885
Europe	498,037	540,550	4,430,738
Other areas	764,645	803,191	6,583,533
Total	¥ 2,882,066	¥ 3,120,349	\$ 25,576,631

Sales are categorized by the countries or regions based on the customers' locations.

The property, plant and equipment information by geographic area as of March 31, 2021 and 2022 was as follows:

As of March 31	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Japan	¥ 861,731	¥ 890,152	\$ 7,296,328
Mexico	95,671	89,655	734,877
North America (Excluding Mexico)	45,075	92,545	758,566
Europe	16,924	18,811	154,189
Other areas	55,767	55,553	455,351
Total	¥ 1,075,168	¥ 1,146,716	\$ 9,399,311

24 RELATED PARTY TRANSACTIONS

There were no transactions with related parties to be disclosed during the years ended March 31, 2021 and 2022.

For the year ended March 31, 2022, important affiliates were Changan Mazda Automobile Co., Ltd. and Mazda Toyota Manufacturing, U.S.A., Inc., and the summary of their financial statements used in the calculation of the equity in net loss of affiliated companies was as follows:

As of and for the year ended March 31, 2022	Millions of yen	Thousands of U.S. dollars
Total current assets	¥ 198,351	\$ 1,625,828
Total non-current assets	178,011	1,459,107
Total current liabilities	225,768	1,850,558
Total non-current liabilities	97,065	795,615
Total net assets	53,529	438,762
Net sales	320,873	2,630,107
Net loss before income taxes	(12,135)	(99,467)
Net loss	(17,434)	(142,902)

INDEPENDENT AUDITOR'S REPORT



Independent auditor's report

To the Board of Directors of Mazda Motor Corporation:

Opinion

We have audited the accompanying consolidated financial statements of Mazda Motor Corporation (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”), which comprise the consolidated balance sheet as at March 31, 2022, the consolidated statements of operations, comprehensive income, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of management's judgment on the recoverability of deferred tax assets of Mazda Motor Corporation

The key audit matter	How the matter was addressed in our audit
Mazda Motor Corporation (hereinafter, the “Company”) and its consolidated subsidiaries recognized deferred tax assets of ¥37,256 million on the consolidated balance sheet for the current fiscal year. As described in Note 22 “Income Taxes” to the consolidated financial statements, the amount of gross deferred tax assets before	The primary procedures we performed to assess the appropriateness of management's judgment on the recoverability of deferred tax assets of the Company included the following: (1) Internal control testing

being offset by deferred tax liabilities amounted to ¥76,990 million. Of this, the amount of deferred tax assets of the Company in its standalone financial statements was ¥28,522 million, which accounted for approximately 1% of total assets in the consolidated financial statements.

Deferred tax assets are recognized for tax loss carryforwards and deductible temporary differences to the extent that they are expected to reduce the amount of future tax payments.

As described in Note 3, “Significant Accounting Estimates” to the consolidated financial statements, the estimated future taxable income, which was used to assess the recoverability of deferred tax assets, was based on the next year’s budget prepared by management. Accordingly, it included significant assumptions involving estimation uncertainty, such as the prospects for consolidated wholesales volume assuming a certain business environment that incorporated the effects of novel coronavirus, the shortage of semiconductors, etc., the results of unit selling price improvement measures, the effects of rising raw material prices, as well as transaction prices between the Company and its U.S. subsidiary which required management judgment.

We, therefore, determined that our assessment of the appropriateness of management’s judgment on the recoverability of deferred tax assets of the Company was the most significant matter in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.

We tested the design and operating effectiveness of the Company’s certain internal controls over the estimation related to the recoverability of deferred tax assets. In the assessment, we focused our testing on the internal controls relevant to management’s assessment of the appropriateness of the estimation related to consolidated wholesales volume, unit selling price improvement measures, the effects of rising raw material prices, as well as transaction prices between the Company and its US subsidiary, which were especially important in the next year’s budget.

(2) Assessment of the estimation included in the next year’s budget

We assessed the precision of management’s estimates by comparing the previous years’ budgets with the actual results and analyzing the causes of any variances. Then we inquired of management regarding key assumptions included in the next year’s budget to assess the appropriateness of those assumptions. In addition, we performed the following procedures, among others:

- inspected production forecast reports issued by external research organizations and assessed the appropriateness of the assumption of the consolidated wholesales volume included in the next year’s budget to evaluate the feasibility of the production plan included in the next year’s budget;
 - compared the assumptions related to the unit selling price improvement measures included in the next year’s budget with the results from the improvement achieved during the most recent accounting period;
 - compared the assumptions related to the effects of rising raw material prices included in the next year’s budget with price forecast reports issued by external research organizations; and
- assessed the appropriateness of management’s estimates of transaction prices between the Company and its U.S. subsidiary included in the next year’s budget by involving a tax specialist within our network firms.

Other Information

The other information comprises the information included in the Financial Report 2022, but does not include the consolidated financial statements, the financial statements, and our auditor's reports thereon. Management is responsible for the preparation and presentation of the other information. The audit and supervisory committee is responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the reporting process for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit and supervisory committee is responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from

error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit and supervisory committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit and supervisory committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit and supervisory committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2022 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.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

/S/ Satoshi Yokosawa
Designated Engagement Partner
Certified Public Accountant

/S/ Atsushi Nagata
Designated Engagement Partner
Certified Public Accountant

/S/ Takuya Morishima
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Hiroshima Office, Japan
August 10, 2022

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.