



June 7, 2006

Additional Notes
To the Consolidated and the Unconsolidated Financial Statements
For the Year Ended March 31, 2006

English Translation from the Original Japanese-Language Document

Company Name : **Mazda Motor Corporation** (Tokyo Stock Exchange / Code No. 7261)
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Mazda Motor Corporation today released the following additional notes to the consolidated and the unconsolidated financial statements for the year ended March 31, 2006. The financial statements were originally released on April 28, 2006.

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1. Notes to the Consolidated Financial Statements

Employees' and Executive Officers' Severance and Retirement Benefits

FY2005 (March 31, 2006)

1. Overview of Employees' Severance and Retirement Benefits

Mazda Motor Corporation ("the Company") and its consolidated subsidiaries have various combinations of employer-sponsored pension plans and/or severance pay plans, which are primarily defined benefit plans.

In connection with the enactment of the Defined Benefit Corporate Pension Law, as of July 31, 2005, the Mazda Social Welfare Pension Fund, which the Company and certain consolidated domestic subsidiaries are members of, obtained approval from the Minister of Health, Labor and Welfare for separation of the retirement benefit obligation of the substitutional portion which relates to past employee services and for transfer of the retirement benefit obligation of the substitutional portion and the related plan assets to the government. On March 28, 2006, the transfer of the plan assets attributable to the substitutional portion to the government was completed.

2. Liability for Severance and Retirement Benefits (as of March 31, 2006)

	(in millions of yen) FY2005 (March 31, 2006)
Projected benefit obligation	(322,108)
Fair value of pension plan assets	164,224
Subtotal	(157,884)
Unrecognized:	
Actuarial differences	60,662
Prior service cost	(25,347)
Total	(122,569)
Prepaid pension cost	2,435
Liability for severance and retirement benefits	(125,004)

Note:

1) Certain consolidated subsidiaries estimate their liability for severance and retirement benefits by a "simplified" method.

3. Severance and Retirement Benefit Expenses (from April 1, 2005 to March 31, 2006)

	(in millions of yen) FY2005 (April 1, 2005 - March 31, 2006)
Service costs--benefits earned during the year	8,630
Interest cost on projected benefit obligation	10,809
Expected return on pension plan assets	(4,365)
Amortization of actuarial differences	5,195
Amortization of prior service costs	(2,302)
Severance and retirement benefit expenses	17,967

Notes:

1) The severance and retirement benefit expenses of those consolidated subsidiaries using the "simplified" method of estimation are included in the service costs.

2) In addition, the Company and certain consolidated domestic subsidiaries completed the transfer of the retirement benefit obligation of the substitutional portion and the related plans assets to the government. The effect of the transfer on the consolidated statement of income for the year ended March 31, 2006 was to increase extraordinary profits by 59,611 million yen.

4. Assumptions

	FY2005 (April 1, 2005 - March 31, 2006)
Inter-period allocation method for estimated severance and retirement benefits	Allocated proportionally based on years worked
Discount rate	Primarily 2.0%
Expected return on pension plan assets	Primarily 3.0%
Amortization period of prior service cost	Primarily 12 years
Amortization period of actuarial differences	Primarily 13 years

FY2004 (March 31, 2005)

1. Overview of Employees' Severance and Retirement Benefits

The Company and its consolidated subsidiaries have various combinations of employer-sponsored pension plans and/or severance pay plans, which are primarily defined benefit plans.

According to the enactment of the Defined Benefit Pension Plan Law, Mazda and its certain domestic subsidiaries applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion and obtained an approval of exemption from future obligation by the Ministry of Health, Labor and Welfare on March 26, 2004.

2. Liability for Severance and Retirement Benefits (as of March 31, 2005)

	(in millions of yen)
	FY2004
	(March 31, 2005)
Projected benefit obligation	(537,801)
Fair value of pension plan assets	272,891
Subtotal	(264,910)
Unrecognized:	
Actuarial differences	95,764
Prior service cost	(25,050)
Total	(194,196)
Prepaid pension cost	1,696
Liability for severance and retirement benefits	(195,892)

Notes:

- 1) The above amounts include those ascribed to the portions of certain employer-sponsored pension plans that partially substitute the national pension plan.
- 2) Certain consolidated subsidiaries estimate their liability for severance and retirement benefits by a "simplified" method.
- 3) In relation to the exemption from the benefits related to future employee service under the substitutional portion from the Ministry of Health, Labor and Welfare, estimated plan assets to be returned to the government on March 31, 2005 were 138,133 million yen. If the estimated plan assets had been returned to the government on March 31, 2005 and the transitional measurement of accounting standard for employees' retirement benefits as stipulated in the Accounting Committee Report No. 13, Article 44-2 (the Japanese Institute of Certified Public Accountants) had been adopted, the effect of the adoption on the consolidated statement of operations for the year ended March 31, 2005 would have been to increase the extraordinary profits by 58,696 million yen.

3. Severance and Retirement Benefit Expenses (from April 1, 2004 to March 31, 2005)

	(in millions of yen)
	FY2004
	(April 1, 2004 - March 31, 2005)
Service costs--benefits earned during the year	10,454
Interest cost on projected benefit obligation	15,369
Expected return on pension plan assets	(8,081)
Amortization of actuarial differences	9,774
Amortization of prior service costs	(2,134)
Severance and retirement benefit expenses	25,382

Notes:

- 1) Employees' contributions to employer-sponsored pension plans are excluded from the expenses.
- 2) The severance and retirement benefit expenses of those consolidated subsidiaries using the "simplified" method of estimation are included in the service costs.

4. Assumptions

	FY2004
	(April 1, 2004 - March 31, 2005)
Inter-period allocation method for estimated severance and retirement benefits	Allocated proportionally based on years worked
Discount rate	Primarily 3.0%
Expected return on pension plan assets	Primarily 3.0%
Amortization period of prior service cost	Primarily 12 years
Amortization period of actuarial differences	Primarily 13 years

Income Taxes

1. Deferred tax assets and liabilities reflect the estimated tax effects of accumulated temporary differences between assets and liabilities for financial accounting purposes and those for tax purposes. The significant components of deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	(in millions of yen)	
	FY2005	FY2004
	(March 31, 2006)	(March 31, 2005)
Deferred tax assets		
Allowance for doubtful receivables	3,936	6,141
Employees' and executive officers' severance and retirement benefits	50,389	76,970
Loss on impairment of fixed assets	9,146	-
Accrued bonuses and other reserves	23,987	21,182
Inventory valuation	4,504	4,878
Valuation loss on investment securities, etc.	1,364	1,297
Net operating loss carryforwards	10,174	5,244
Other	75,591	67,004
Total gross deferred tax assets	<u>179,091</u>	<u>182,716</u>
Less: valuation allowance	(22,103)	(17,626)
Total deferred tax assets	<u>156,988</u>	<u>165,090</u>
Deferred tax liabilities		
Reserves under Special Taxation Measures Law	(8,198)	(8,608)
Other	(2,955)	(2,655)
Total deferred tax liabilities	<u>(11,153)</u>	<u>(11,263)</u>
Net deferred tax assets	<u>145,835</u>	<u>153,827</u>
Deferred tax liability related to land revaluation		
Deferred tax liability related to land revaluation	-	(91,132)
Deferred tax assets related to land revaluation	1,133	-
Valuation allowance	(1,071)	-
Deferred tax liability related to land revaluation	<u>(93,775)</u>	<u>-</u>
Net deferred tax liability related to land revaluation	<u>(93,713)</u>	<u>-</u>

The net deferred tax assets and deferred tax liability related to land revaluation are included in the following accounts in the consolidated balance sheet:

Current assets--Deferred taxes	94,685	80,133
Fixed assets--Deferred taxes	51,296	73,747
Current liabilities--Other	(1)	(1)
Fixed liabilities--Other	(145)	(52)
Fixed liabilities--Deferred tax liability related to land revaluation	(93,713)	(91,132)

2. The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2005 and 2004 differ from the statutory tax rate for the following reasons:

	FY2005	FY2004
	(March 31, 2006)	(March 31, 2005)
Statutory tax rate	40.4 %	40.4 %
Equity in net income of unconsolidated subsidiaries and affiliated companies	(3.1)	(5.5)
Valuation allowances	1.0	9.0
Reversal of unrealized profits from intercompany transactions	(6.6)	(5.7)
Prior year income taxes	8.7	-
Other	1.4	(2.1)
Effective tax rate	<u>41.8</u>	<u>36.1</u>

Related Party Transactions

FY2005 (Year ended March 31, 2006)

1. Directors and Major Individual Stockholders

Party Type	Director
Party Name	Kazuhide Watanabe
Line of Business	Representative Director and Chairman of the Board, Mazda Motor Corporation Chairman, The Mazda Foundation
% of Voting Stock Held	Mr. Watanabe holds a nominal share (0.0% direct) of Mazda's voting stock.
Detail of Transaction	Mazda donated funds to the Mazda Foundation.
Transaction amount	50 million yen
Account Title	-
Ending Balance	-

Note: These transactions are so-called related party transactions for a third party.

2. Subsidiaries and Other Similar Parties

Party Type	Affiliate
Party Name	AutoAlliance International, Inc. (AAI)
Address	Flat Rock, Michigan, USA
Capital	US\$760,000 thousand
Line of Business	Manufacturing and sales of automobiles
% of Voting Stock Held	Mazda holds 50.0% (direct) of AAI's voting stock.
Concurrent board appointment	1 person
Business relation	AAI manufactures and sells Mazda-brand products.
Nature of Relation	
Detail of Transaction	Mazda issued letters of undertaking to AAI's creditors for its loans.
Transaction amount	25,790 million yen
Account Title	-
Ending Balance	-

Note: Letters of undertaking are issued by taking the financial positions and other conditions of the guarantee companies into consideration.

3. Subsidiaries of Other Affiliates

Party Type	Subsidiary of a company classified as other affiliates
Party Name	FLP Canada
Address	Saint John, New Brunswick, Canada
Capital	2,925,987 (in thousands of Canadian dollars)
Line of Business	Ownership and financing of global automotive ventures
% of Voting Stock Held	FLP Canada holds 4.6% (direct) of Mazda's voting stock.
Concurrent board appointment	-
Business relation	FLP Canada purchased Mazda's bonds with stock acquisition rights.
Nature of Relation	
Detail of Transaction	FLP Canada exercised the stock acquisition rights.
Transaction amount	20,000 million yen
Account Title	-
Ending Balance	-

2. Notes to the Unconsolidated Financial Statements

Deferred Tax

1. Deferred tax assets and liabilities reflect the estimated tax effects of 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 were as follows:

	(in millions of yen)	
	FY2005	FY2004
	<u>(Mar.31,2006)</u>	<u>(Mar.31,2005)</u>
Deferred tax assets		
Allowance for doubtful receivables	3,608	4,708
Accrued employees' bonuses	7,571	7,304
Reserve for warranty claims	10,786	8,888
Reserve for retirement benefits	40,284	63,930
Loss on liquidation of affiliates	236	1,901
Loss on impairment of fixed assets	6,403	-
Denial of loss on evaluation of stocks	37,453	24,842
Prepaid expenses, etc.	10,458	8,970
Other	<u>11,876</u>	<u>12,051</u>
Sub total gross deferred tax assets	128,675	132,594
Allowance account	<u>(44,940)</u>	<u>(28,058)</u>
Total gross deferred tax assets	83,735	104,536
Deferred tax liabilities		
Reserve for advanced depreciation deduction of fixed assets, etc.	<u>(9,153)</u>	<u>(9,336)</u>
Net deferred tax assets	<u><u>74,582</u></u>	<u><u>95,200</u></u>
Deferred tax liabilities related to land revaluation		
Deferred tax liabilities related to land revaluation	-	(91,132)
Deferred tax assets related to land revaluation	1,133	-
Allowance account	(1,071)	-
Deferred tax liabilities related to land revaluation	<u>(93,775)</u>	<u>-</u>
	<u><u>(93,713)</u></u>	<u><u>-</u></u>

2. The effective tax rate reflected in the non-consolidated statements of income for the years ended March 31, 2006 and 2005 differs from the statutory tax rate for the following reasons:

	FY2005	FY2004
	<u>(Mar.31,2006)</u>	<u>(Mar.31,2005)</u>
Statutory tax rate	40.4 %	40.4 %
(Adjustments)		
Increase of allowance account	28.8	21.5
Dividends receivables, etc. which are not included in taxable income	(2.3)	(8.3)
Prior year	17.3	(13.9)
Tax credit	(7.0)	-
Entertainment expenses, etc. which are not deducted from taxable income	3.5	22.6
Other	<u>0.6</u>	<u>(2.8)</u>
Effective tax rate reflecting on the tax effect accounting	<u><u>81.3</u></u>	<u><u>59.5</u></u>