Shifting Up

ANNUAL REPORT 2003

Year ended March 31, 2004

mazda

Profile

Established in 1920, Mazda Motor Corporation is headquartered in Hiroshima in western Japan. Initially a maker of machine tools, Mazda later moved into the passenger car market and quickly became known the world over for distinctively designed vehicles with exceptional functionality and responsive handling and performance. Today, Mazda is a truly global company: more than half of annual sales are generated overseas, supported by a

following of admiring customers in more than 140 countries. Mazda's international success is also founded on a global manufacturing network comprising two domestic and 18 global sites.

Our highly visible "Zoom-Zoom" brand message seeks to recapture the sheer enjoyment of speed we all knew in childhood. At Mazda, we refuse to outgrow it, designing it into every car that rolls off our production lines. In recent years, we've launched a stream of exciting new models such as the Mazda6, Mazda2, Mazda RX-8, and Mazda3*. All these cars are stylish, insightful and spirited, embodying Mazda DNA. It's these groundbreaking products that are enhancing the presence of the Mazda marque in car markets around the world today.

ZOOM-ZOOM

Contents

* Model names appearing in this annual report are those generally used in international markets. In some cases, names used in the domestic market differ: Mazda2 (Mazda Demio), Mazda3 (Mazda Axela), Mazda6 (Mazda Atenza), Mazda MX-5 Miata/Mazda MX-5 (Mazda Roadster), Mazdaspeed MX-5 Miata/Mazda MX-5 SE (Mazda Roadster Turbo), Mazda Protegé/Mazda 323 (Mazda Familia) and Mazda 626 (Mazda Capella).

FORWARD-LOOKING STATEMENTS:

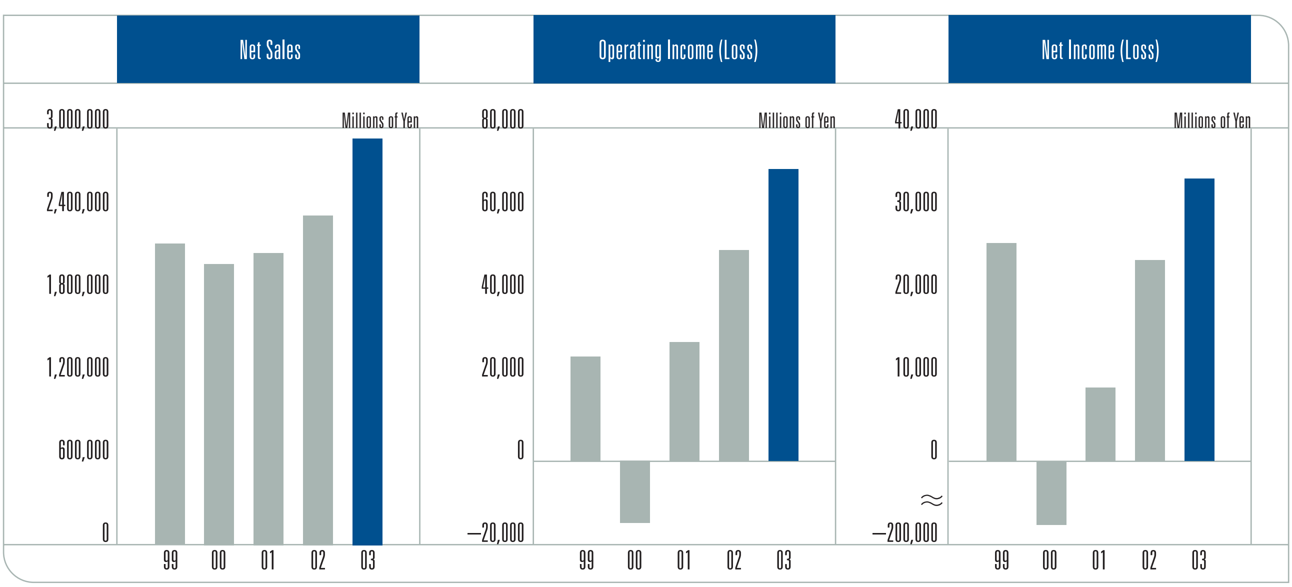
Statements made in this annual report with respect to Mazda's plans, strategies and future performance are forward-looking statements based on management's assumptions and beliefs in the light of information currently available, and involve risks and uncertainties. Potential risks and uncertainties include,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

FINANCIAL HIGHLIGHTS

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

	Millions of yen			Thousands of U.S. dollars*1
	2003 March 31, 2004	2002 March 31, 2003	Increase (decrease) 2003/2002	2003 March 31, 2004
For the year:				
Net sales	¥2,916,130	¥2,364,512	23.3%	$27,510,660
Operating income	70,174	50,656	38.5%	662,019
Income before income taxes	54,072	28,134	92.2%	510,113
Net income	33,901	24,134	40.5%	319,821
At the year-end:				
Total assets	1,795,573	1,754,017	2.4%	16,939,368
Shareholders' equity	222,605	194,071	14.7%	2,100,047
	Yen			U.S. dollars*1
Amounts per share of common stock:				
Net income*2	¥ 27.84	¥ 19.80	40.6%	$0.26
Cash dividends applicable to the year*3	2.00	2.00	—	0.02
Shareholders' equity	182.91	159.22	14.9%	1.73

Notes: 1. The translation of the Japanese yen amounts into U.S. dollars is presented solely for the convenience of readers, using the prevailing exchange rate at March 31, 2004, of ¥106 to US$1.
2. The computations of net income per share of common stock are based on the average number of shares outstanding during each fiscal year.
3. Cash dividends per share represent actual amounts applicable to the respective years.



DYNAMIC PRODUCT-LED GROWTH

We've launched a steady stream of new models over the past few years. Every one has been designed and built to embody the Mazda brand DNA, and every one exudes the intense motoring enjoyment that has won the hearts of customers the world over. In short, they couldn't be anything but Mazda cars. These products are the driving force behind our recent growth.

Mazda Tribute

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

2001
1.4%

2000
–0.7%

Mazda MPV

Spacious and responsive, this sporty minivan offers comfort and high equipment levels in a stylish, efficient package. Dual power sliding doors are just one of the Mazda MPV's numerous features.

2.4%
Operating Income Ratio
2003

2.1%
2002

Mazda RX-8

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

Mazda6

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

Mazda2

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

THE NEXT PIECE FALLS INTO PLACE: THE MAZDA3

When we launched the Mazda3, we turned accepted wisdom in the compact car segment on its head. Fun to drive with provocative, bold styling, the Mazda3 immerses the driver in quality. Thanks to superior body engineering that delivers maximum rigidity and class-leading suspension and braking systems, you know you're in for a smooth drive with the Mazda3.

"WITH A PRODUCT-LED GROWTH STRATEGY SUPPORTED BY A STEADY STREAM OF EYE-CATCHING NEW MODELS, MAZDA IS POISED TO SHIFT UP TO THE NEXT STAGE OF GROWTH."

A CONVERSATION WITH PRESIDENT HISAKAZU IMAKI

"In fiscal 2003, Mazda posted top- and bottom-line growth for the third consecutive year by capitalizing on a raft of new product launches. Never satisfied, we're now focusing on further raising customer satisfaction and taking profitability to a new level."

Hisakazu Imaki
Representative Director, President and CEO

Mr. Imaki, who joined Mazda in 1965, previously held the positions of Representative Director, Executive Vice President and Chief Engineering & Manufacturing Officer and actively participated in formulating the Millennium Plan. He was appointed President and CEO in August 2003.

Question 1

Mazda posted operating income of ¥70.2 billion in fiscal 2003, the highest level in a decade. What was behind this robust performance?

Stronger sales of our latest models undoubtedly had a significant bearing on results. Sales of the Mazda6 rose steadily after its May 2002 launch, and it was supported by strong performances from the Mazda2, Mazda RX-8, and Mazda3. Growth was particularly robust in Europe, Australia and China. Although the ¥70.2 billion in operating income is our best result in 10 years, it merely marks a waypoint on the road to realizing our long-term vision for the company. When I became president, I set out four priority objectives—revitalize the Mazda brand in North America, roll out our China strategy, aggressively pare back costs, and revamp the model range. Motivated by these clearly defined goals, we're totally committed to further boosting profitability.

Question 2

The Mazda6, Mazda2, Mazda RX-8, and Mazda3, all did well last year. Why was this, and what's Mazda's model strategy going forward?

When we develop a new car, we aim first and foremost to make it unmistakably stylish, insightful and spirited. These three key words embody our brand DNA. Why have our latest models sold so well and won such high marks in the industry? Because we successfully incorporated these concepts into our products, demonstrating the unique qualities of the Mazda brand in the process. Our latest compact, mid-range and sports car models were also snapped up by one customer segment in particular—drivers with young families. This was another factor supporting sales last year.

As for future model strategies, we will accelerate our product-led growth by developing and launching two to three entirely new models that leverage the technologies and components in the Mazda2, Mazda3, Mazda6, and Mazda RX-8.

Question 3

How are you realigning the production framework to support growth?

In April 2004, we ended final vehicle assembly at our paint shop and assembly line in the Hiroshima Plant, also known as the F Plant. The following month, operations got under way again at our Ujina No. 2 Plant, also known as the U2 Plant. This site had been mothballed since September 2001. By realigning our production framework in this way, we've boosted annual domestic output to 898,000 units, an increase of 110,000 units. U2 also uses a more environmentally friendly Three Layer Wet Paint System and other innovative manufacturing equipment, giving us an enhanced environmental capability.

Question 4

What initiatives do you have in store for the North American market?

We're starting to see a real recovery in sales in North America thanks to the roll out of our latest models. Right now, we're strengthening our sales capabilities to maintain this momentum. One initiative is raising the percentage of exclusive Mazda dealers. Although there are currently about 700 Mazda dealers in the US, 76% were joint dealerships at the end of 2003. To remedy this, we launched a new program to give dealers financial support to refurbish and remodel their dealerships, under the condition that they deal exclusively in Mazda vehicles. In this way, we plan to boost dealer exclusivity in the US from 24% at the close of 2003, to 50% by the end of 2007. As for new models, we intend to roll out crossover vehicles, SUVs and other products that dovetail with the needs of drivers in North America.

Question 5

In China, annual passenger car sales are approaching the 2-million unit mark. What's Mazda's marketing and manufacturing stance in the country?

Mazda cars are incredibly popular in China. The Mazda6 was awarded 2004 Car of the Year by China's Auto Club-Motor Trend magazine. And during 2003 we posted sales of 80,000 units, a year-on-year increase of 3.5 times. With an eye on further expanding sales, we will build a marketing and manufacturing framework to give us the capacity to sell 300,000 cars annually by 2010. To reach this target, we plan to roll out eight new models in China in the next three to four years and set up a local distributor to expand our dealership network. Local partner First Automobile Works Group (FAW) currently assembles Mazda vehicles in China. Going forward, and in parallel with our marketing efforts, we will also enhance our production presence in the country with new sites.

Question 6

How do you plan to boost profitability?

In fiscal 2003, the operating income ratio improved 0.3 of a percentage point to 2.4%. Building on this progress, we will enhance our earnings capability by paring back costs in line with our ABC (Achieve Best Cost) Initiative, launched in fiscal 2002. The goal is to achieve a 25% reduction in costs by the end of fiscal 2004. Reducing costs will also be a key element of our production activities. Here, we are building a more efficient manufacturing framework and developing new technologies, based on the view that adopting new technologies has the greatest impact when accompanied by cost reductions. In North America, we will boost earnings by reducing fleet sales to rental car companies and concentrating on the more profitable retail sector.

Question 7

How is Mazda strengthening its alliance with Ford?

In December 2003, Mazda was chosen to develop a comprehensive package of architecture for a new global model in the B segment. This clearly underlines Ford's confidence in our technologies and product development track record. It also bodes well for a greater role for Mazda in the Ford Group. Leveraging the economies of scale from this closer relationship with Ford, we will actively reduce costs in product development and procurement going forward.

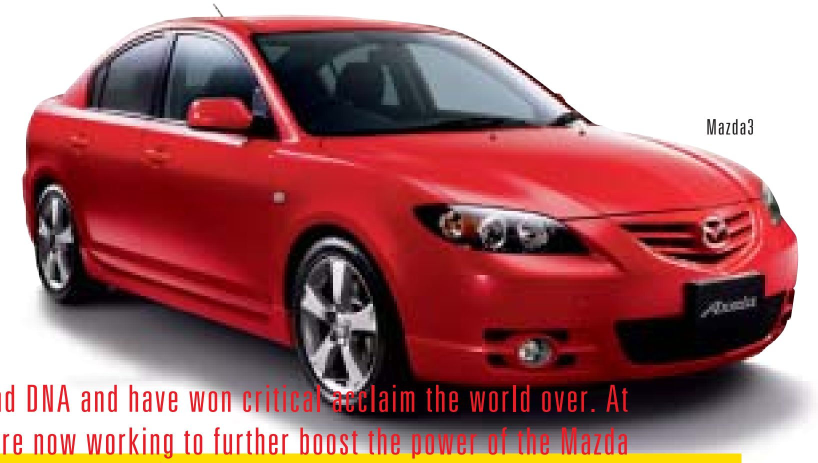
Question 8

Finally, how are you investing in people——Mazda's most important resource?

At Mazda, we're convinced that a company is only as good as its people. Developing human resources is therefore vital to deliver sustainable long-term growth. Specifically, we've instituted a range of programs, like Leading Mazda 21, to groom candidates for future leadership positions in the company. And we also run regular group training seminars to enhance the skills of Mazda employees. Mazda's e-learning program, meanwhile, gives personnel the flexibility to build stronger skill sets when they want, how they want. As a global company with Ford as our Partner, one of the US Big Three automakers, we are fully committed to enhancing the English communication skills of our staff. We run programs to this end. In these ways, we're developing our human resources and fostering a future class of Mazda leaders better equipped to make strategic decisions from a global perspective.

Shifting Up

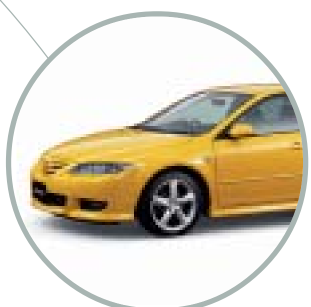
Mazda is poised to deliver the next stage of growth. Three areas are crucial to achieving this: A Broader Model Range, Stronger Sales Channels and Cost-efficient Manufacturing.



Mazda3

A BROADER MODEL RANGE

Our latest models effectively showcase our brand DNA and have won critical acclaim the world over. At Mazda though, we never rest on our laurels. We're now working to further boost the power of the Mazda marque by aggressively launching and developing a raft of new models.



Mazda6

Mazda RX-8

Mazda Verisa

In fiscal 1996, we embarked on a new strategy to develop the Mazda brand. This was guided by a quest to instill three concepts in our cars—distinctive design, exceptional functionality and responsive handling and performance. During the first two phases of this strategy, lasting until fiscal 2000, we enhanced the competitiveness of our core products and revamped our RV models with the launch of the Mazda Tribute and the Mazda MPV. In the third phase, covering fiscal 2001 to 2003, we raised our game to a new level. In just three short years, we delivered improvements across our entire range with the debut of the Mazda6, Mazda2, Mazda RX-8, and Mazda3. Together with sedan, 5-door and sport wagon variants of the Mazda6, and sedan and 5-door variants of the Mazda3, we've created a model range with real strength in depth capable of satisfying a wide range of customer needs.

Apart from positive feedback from customers, nothing puts a bigger smile on our faces at Mazda than recognition from the automotive community. And the Mazda6, Mazda2, Mazda RX-8, and Mazda3 have been no slouches in this area. Collectively, they have been showered with more than 150 international awards and accolades. Here we name just a handful: the 2003 RJC Car of the Year for the Mazda6 from the Automotive Researchers' & Journalists' Conference of Japan (RJC); RJC Car of the Year 2003: Best 6, for the Mazda2; and the 2004 RJC Car of the Year for the Mazda RX-8. The Mazda3, meanwhile, was named 2004 Canadian Car of the Year by the Automobile Journalists Association of Canada, and was runner-up for 2004 European Car of the Year.

The engines powering these cars haven't escaped the attention of industry watchers either. Under the hood of the Mazda RX-8 is RENESIS, Mazda's dynamic new rotary engine. RENESIS received three major awards in fiscal 2003, including International Engine of the Year 2003 in the 2.5 to 3.0-liter engine class from the UK engineering journal, Engine Technology International. RENESIS then had the distinct honor of winning the same award for the second straight year in May 2004. In Japan, the entire Mazda2 lineup and the 1.5-liter version of the Mazda3 were recognized as super ultra-low emission vehicles (SULEVs). This certification was based on 2005 standards aimed at reducing vehicle exhaust emissions by 75%, and 2010 standards designed to boost fuel efficiency by 5%.

FUTURE VEHICLE DEVELOPMENT

In fiscal 2004, we entered phase four of our strategy to strengthen the Mazda brand. The effective use of key architecture from our latest models underpins plans to maintain the aggressive pace of new car launches. June 2004 saw the debut of Mazda Verisa, a high-end model for the Japanese market built on key B segment architecture. Targeting a broad age range, but specifically aimed at 30-something couples, Mazda Verisa has been designed for the discerning consumer.

During the year, we rolled out a number of striking new concept cars, hinting at the direction we want to take the Mazda brand. At the Detroit Motor Show in the US in January 2004, we proudly showed off the Mazda MX-Micro Sport. This car features a distinctive streamlined nose and twin tailpipes, and skillfully condenses our "Zoom-Zoom" design language into a sporty, ultra-modern package. It may be small, but it boasts ample cabin space, as well as familiar design cues that allow it to fit right into our existing lineup. In March 2004, another concept car, the Mazda MX-Flexa, wowed visitors to the Geneva Motor Show in Switzerland. This next-generation space wagon has been specifically designed to offer a new level of emotional appeal. Based on Mazda3 architecture, the Mazda MX-Flexa comes with an array of features that offer high levels of cabin versatility and comfort, including dual sliding doors, two captain-style seats and fold-flat luggage space. Wrapping up a busy period of concept car activity, we showed off the six-seater Mazda Washu in China in June 2004. This sleek, long wheelbase six-seater takes our evolving "Zoom-Zoom" concept to the next level. Extensive use of glass in the Washu and steer-by-wire technology creates a spacious and airy interior, while innovative aircraft door design means passengers can enter the vehicle in an almost upright position. Collectively, these vehicles embody our constant efforts to strengthen and recast our "Zoom-Zoom" model range.

Mazda MX-Flexa (concept model)

Mazda Washu (concept model)

STRONGER SALES CHANNELS

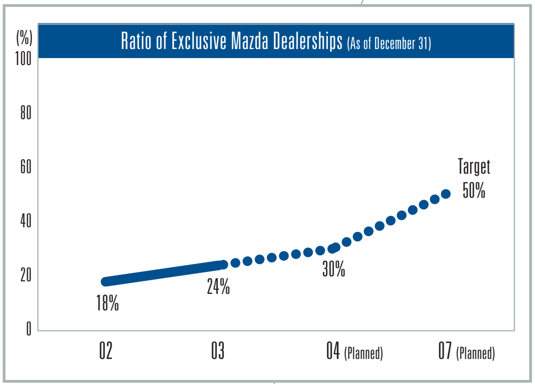
At Mazda, we're well aware that we have to strengthen our sales and marketing capabilities to maintain our recent growth. North America and China are two markets we're focusing on.

Revitalizing the Mazda Brand in North America

Drivers in North America really know their cars. That makes it all the more satisfying to see our models receive numerous accolades there in recent years. Although the Mazda brand is regaining some of its former strength in the market, we can't afford to ease back now. The initiatives outlined below are just some of the steps we're taking to sustain Mazda's growth in North America.

Promoting Dealer Exclusivity

First, we're focusing on increasing the ratio of exclusive dealers—dealers committed to only selling and servicing Mazda cars—to boost market share in the US. Our strategy includes encouraging more retailers to sign exclusive dealership contracts by offering financial support for facility refurbishment and other improvements. This strategy seems to be working: at the close of 2002, only 18% of Mazda dealers in the region were exclusive. By the end of 2003, this figure had risen to 24%. Building on this momentum by further expanding our dealer support program and launching new models, we plan to boost dealer exclusivity to 30% by the end of 2004, and 50% by the end of 2007.



Changing the Showroom Experience

To increase customer footfall, we've been converting our showrooms into Retail Revolution dealerships. These facilities reinforce our "Zoom-Zoom" marketing message through test drives and other sales tools. Specifically, we're changing the showroom experience by creating interactive kiosks, giving shoppers more opportunity to actually drive our award-winning lineup of cars, and introducing café areas. Sales staff have also been issued with handheld computers to input customer data and requirements anywhere in the showroom. As of July 31, 2004, there were 8 exclusive Retail Revolution dealerships in Alabama, Texas and other regions of the US, with plans in development for a further 59.

A Retail Revolution dealership in the US

Boosting Profitability

Fleet sales to car rental companies typically involve single, large-volume contracts. On the downside, margins are tighter. This was one reason for Mazda's weaker profitability in the US in the past. Aware of this problem, we're now working to reduce fleet sales as a ratio of total sales, and channel more resources into increasing market share in the more profitable retail market. The benefits of this approach are already emerging: in 2003, fleet sales declined 22%, while retail sales rose. Other initiatives to boost profitability in North America include reducing incentives, particularly on new models, and using advertising and PR budgets more efficiently.

Revamping the Model Range

Keeping our model lineup fresh is vital if we're to maintain momentum in the highly competitive US market. Production of the Mazda6 sports sedan got under way at joint venture AutoAlliance International, Inc. (AAI) in October 2002, followed by the Mazda6 5-door and the Mazda6 sport wagon at the same facility in March 2004. Together with the launch of the Mazda3, the new Mazdaspeed MX-5 Miata, and design changes to the Mazda Tribute, these Mazda6 models have given us our strongest lineup ever in North America.

On the Move in China

This rapidly growing automotive market holds the key to our sustained long-term growth. Since forging a tie-up in 2001 with China's largest automaker, the First Automobile Works Group (FAW), FAW subsidiary FAW Hainan Motor Co., Ltd. has assembled the Mazda 323 and the Mazda Premacy. Another FAW company, FAW Car Co., Ltd., has assembled the Mazda6. We've also been working closely with FAW in marketing: by May 2004 we had built a network of 144 Mazda dealers in the country. Thanks to these efforts, we posted sales of 80,000 units in China in 2003, 3.5 times more than a year earlier.

This illustrates the significant progress we've made in China, but we need to do much more to capture a greater share of burgeoning demand in the country to boost sales. We've therefore formulated a new strategy for China, with the main points as follows:

Medium-term Goal

Put in place a marketing and manufacturing framework by 2010 with an annual capacity for 300,000 cars

Initiatives

- Strengthen the model lineup with eight new car launches in the next 3 to 4 years
- Set up a local distributor to strengthen our dealership network
- Boost local production by securing new production sites

Supported by these initiatives, and working closely with local partners, we will aggressively build a stronger presence on the ground to win a greater share of the rapidly expanding Chinese market.

One of Mazda's 144 dealerships in China

COST-EFFICIENT MANUFACTURING

Cost-efficient Manufacturing is the vital ingredient that supports our two other strategies—A Broader Model Range and Stronger Sales Channels. Mazda is taking active steps companywide to enhance cost-competitiveness in development, production and procurement on a global basis.

OUR ALLIANCE WITH FORD

Working Together in Product Development

AutoAlliance International, Inc.

Synergies generated by business ties with Ford, particularly in product development, are key to our revitalization. One example of how we're working together is the Mazda3, rolled out in October 2003 and developed under the shared technology concept espoused by Ford. This concept covers automotive technology in the broadest sense, not just platforms. By flexibly carrying out joint design in core areas, and sharing development costs and personnel, we've gained the freedom to significantly reduce our own development costs. In short, exchanging expertise and resources gives full play to the merits of our alliance with Ford. And it's precisely this kind of cross-pollination that allowed the Mazda3, Ford Focus Series, and the Volvo S40/V50 to be built using the same architecture.

In December 2003, Mazda was tapped to head up development of the Ford Group's next-generation vehicle in the B segment. Our presence at the vanguard of this project will help to enhance the skills we've already acquired in the development of the Mazda3.

Joint Production Initiatives

Mazda also works closely with Ford in production. In October 2002, AutoAlliance International, Inc. (AAI), a joint venture with Ford based in Michigan, began manufacturing the Mazda6 sports sedan. AAI has since started producing sport wagon and 5-door variants of the Mazda6. The Mazda2 has also been rolling off production lines at Ford's plant in Valencia, Spain, since January 2003. And in Rayong, Thailand, another joint venture with Ford, AutoAlliance (Thailand) Company Limited (AAT), is producing Mazda one-ton pickup trucks. AAT is making a major contribution to Mazda sales in Asia and exports to a number of global markets.

AutoAlliance (Thailand) Company Limited


Mazda3

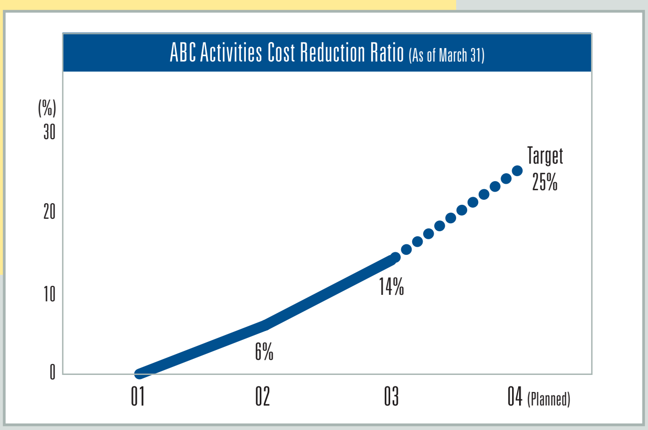
REORGANIZING THE DOMESTIC PRODUCTION FRAMEWORK

In April 2004, Mazda ended final vehicle assembly at Hiroshima No. 1 Plant and restarted operations at the mothballed Ujina No. 2 Plant the following month. These steps were taken to boost the capacity and improve the efficiency of our production framework in Japan. This realignment has increased our domestic annual output from 788,000 to 898,000 units, an increase of 110,000 units. To reduce the environmental footprint of our production activities and curb costs, we also fitted U2 with the latest production technology, including an eco-friendly Three Layer Wet Paint System.

Ceremony marking the restart of operations at the Ujina No. 2 Plant

ABC COST REDUCTION INITIATIVE

In fiscal 2002, we embarked on an aggressive cost-cutting program called the ABC (Achieve Best Cost) Initiative. The aim is to reduce costs by 25% by the end of fiscal 2004. We need to pare back costs for three main reasons: to help fund product enhancements and efforts to meet more stringent regulatory requirements; to protect against competitive pricing pressures; and, most importantly, to improve profit margins. Rather than targeting cost reductions for each model, the ABC Initiative seeks to achieve optimal costs along component lines such as brakes, wheels, and seats for all models. Presently, more than 60 teams organized by component category and made up of suppliers, developers, and purchasers, are working to achieve efficiencies through improved component sharing. This approach is backed up by efforts to select optimum procurement sources, reign in logistics costs, and take advantage of suppliers with global networks.



REVIEW OF OPERATIONS

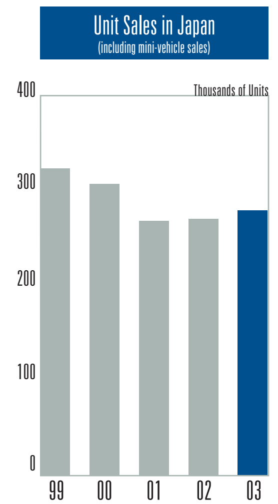

Mazda RX-8

Japan

In fiscal 2003, ended March 31, 2004, total demand for passenger cars and commercial vehicles in Japan was 5.89 million units, an increase of 0.4% year on year. Mazda's domestic sales volume rose 3.4% to 279,000 units on the back of new model launches, lifting Mazda's share of the registered vehicle market 0.2 of a percentage point to 5.8%. Including mini-vehicles, Mazda's share of the total Japanese market grew 0.1 of a percentage point to 4.7%.

In the year under review, the Mazda RX-8 received the 2004 RJC Car of the Year Award from the Automotive Researchers' & Journalists' Conference of Japan (RJC). This marked the second year in a row that Mazda won the award. Launched in April 2003, the Mazda RX-8 has registered impressive sales, capturing more than 50% of the sports car segment in Japan. In July 2003, we launched a 2.3-liter version of the Mazda6. This car gained certification as an ultra-low emission vehicle, giving customers more environmental options in the Mazda6 lineup. In fiscal 2003, the Mazda2 ranked seventh overall in annual sales in Japan, while sales of the Mazda3 have been strong since its launch in October 2003.

In marketing, we expanded our Web-Tuned Factory website, which allows customers to order customized cars over the Internet. The site can now take orders for the Mazda3, Mazda2 and Mazda Verisa, as well as the existing Mazda MX-5. In further efforts to grow sales, we have expanded product availability in the domestic market by launching sales of mini-vehicles at all affiliated dealerships beginning in March 2004. At the same time, we increased the number of models we sell through the Mazda Autozam Channel, a dealership network primarily handling mini-vehicles. In addition to the Mazda2, Mazda3, Mazda Premacy and Mazda Bongo, we now sell the Mazda MPV, Mazda Bongo Friendee and Mazda Tribute through this network. By expanding the range of models handled by affiliated dealerships, we are doing two things: raising the level of retailing and servicing convenience for customers and increasing sales opportunities.



Mazda6

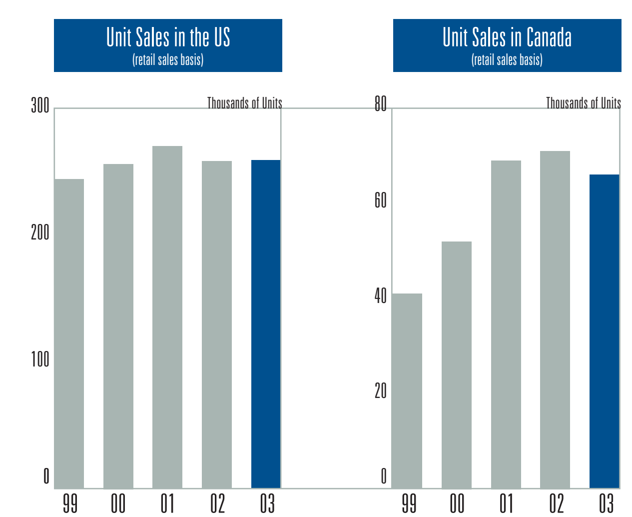
North America

Total US vehicle sales in the 2003 calendar year declined 1.0% to 16.45 million units. Sales of Mazda vehicles grew 0.3% to 259,000 units, and market share was steady at 1.6%.

In November 2002, we began selling the Mazda6 sports sedan, which posted strong sales growth. In March 2004, the sport wagon and 5-door variants of the Mazda6 were launched nationwide, helping to boost sales in the region. During fiscal 2003, we carried out minor design changes to the US version of the Mazda Tribute, and launched the Mazdaspeed MX-5 Miata, Mazda RX-8, and Mazda3.

In Canada, total industry sales for the 2003 calendar year fell 6.2% to 1.62 million units. In this environment, Mazda sales declined 7.9% to 66,000 units, mainly reflecting the end of the model cycle for the Mazda Protegé. The Mazda3 became Canada's best-selling passenger car in January 2004 with sales in the 3,000-unit range. This marked the first time that we have topped the passenger car sales rankings in the country. In February 2004, the Mazda3 was named 2004 Canadian Car of the Year in the C segment, the largest in the Canadian vehicle market, by the Automobile Journalists Association of Canada.

Mazda3



Mazda3

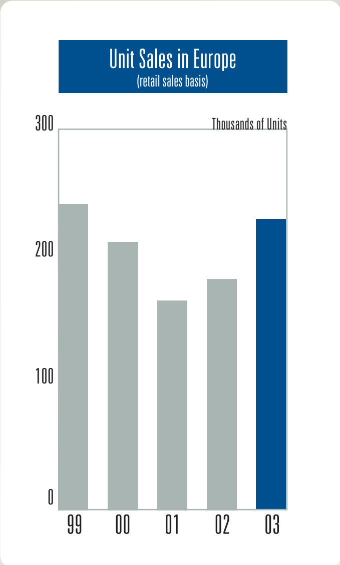
Europe

In the 2003 calendar year, Mazda sales volume in Europe jumped 25.8% year on year to 229,000 units. Mazda's share of the European market rose 0.2 of a percentage point to 1.3%.

Mazda vehicles continued to win critical acclaim in Europe in 2004. The Mazda3 finished runner-up in 2004 European Car of the Year voting by a panel of senior motoring journalists. This followed a second place award for the Mazda6 in 2003, marking the first time that a Japanese automaker has captured runner-up awards two years in a row. Other successes included 2004 Car of the Year Awards for the Mazda3 in Denmark, the Czech Republic, Turkey, and Croatia.

Our diesel models also earned high marks, with the Mazda6 named Best Diesel Family Car in the 2004 Diesel Car Awards. This marked the second straight year the Mazda6 has won this award, showing sustained strength in the face of new model launches by our rivals. In the 2003 calendar year, Mazda6 sales volume in Europe totaled 100,000 units, up 93.6% compared to combined sales of the Mazda6 and Mazda 626 in the previous year. Boosted by the April 2003 launch of the Mazda2, B-segment sales surged 102.8% year on year, while sales of the Mazda MPV climbed 18.6% to their highest-ever level in Europe. During the year, we sold 19,000 units of the Mazda MX-5, marking this model's fourth ever best year of sales: a major achievement considering the Mazda MX-5 was originally launched in 1990. By market, Mazda reclaimed the No. 1 spot in Austria among Japanese automakers in terms of sales, and posted record-high sales figures in the UK, Italy, Spain, and Portugal.

In marketing, we continue to strengthen our European sales network. In September 2003, we made our Austrian distributor a wholly owned subsidiary, a step that now gives us direct control over distribution for more than 80% of European sales.




Mazda RX-8

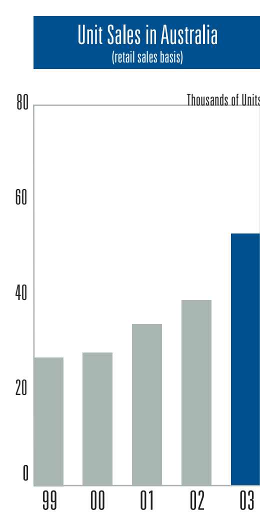
Other Regions

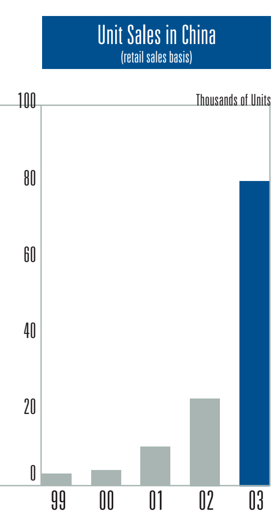
In Australia, Mazda posted a 35.9% jump in sales volume to a record high of 53,000 units. This reflected strong performances by the Mazda6, Mazda2, and Mazda RX-8, which was named 2003 Car of the Year by Wheels magazine in January 2004.

The Asia-Oceania market as a whole showed substantial growth, with Mazda sales volume in the key Asia-Pacific markets rising 80.9% year on year. In particular, we are focusing on the rapidly growing Chinese market, continuing to take active steps to enhance our position there. Supported by our close relationship with local partner FAW, we posted sales of 80,000 units in the 2003 calendar year, representing year-on-year sales growth of 250%. The Mazda6, which went into production in China in March 2003 and was launched the following month, was named 2004 Car of the Year by Auto Club-Motor Trend magazine. This award is testament to the popularity and selling power of Mazda vehicles in the country.

Sales were also robust in other areas, with sales volume rising 26.1% in Thailand, 13.8% in Taiwan, 28.8% in New Zealand, and 49.9% in Singapore. As a result, the Asia-Pacific region accounted for 16.1% of Mazda sales in major markets in the 2003 calendar year. Meanwhile, sales in Israel remained strong, rising 27.7% year on year to approximately 20,000 units. This marked the eighth straight year that Mazda has been the top-selling marque in the country.


Mazda6





RESEARCH & DEVELOPMENT

Mazda has four major R&D bases in Japan, the United States and Europe. This configuration allows us to rapidly and accurately assess global market and technology trends. Leveraging this information, we can develop unique and innovative vehicles tailored to specific market needs.

The MZR-CD engine

Mazda's latest rotary engine, the RENESIS

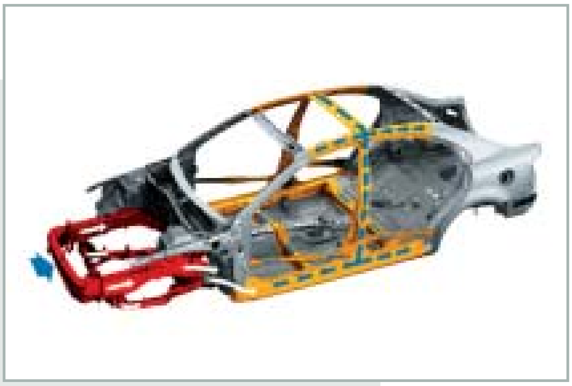
ENGINE DEVELOPMENT

The engines that power the latest generation of Mazda vehicles exemplify our "Zoom-Zoom" brand message. The 2.0/2.3-liter and 1.3/1.5-liter MZR engines are equipped with a raft of features that reduce engine noise and deliver higher output, while offering enhanced fuel efficiency and lower emissions. Features include a sequential valve timing (S-VT) system, tumble swirl control valves (TSCV), equal length intake manifolds and reverse intake/exhaust layouts. Building a lighter engine is key to boosting fuel efficiency, and we're doing this with technologies ranging from lightweight aluminum alloy cylinder blocks to newly developed plastic intake and fuel modules. All this means we're now ready for Japan's "Green Tax" system and other exacting fuel efficiency and emissions standards in Japan, the United States and Europe. In fact, the entire Mazda2 range and the 1.5-liter version of the Mazda3 were recognized as super ultra-low emission vehicles (SULEVs) in Japan, under 2005 standards aimed at reducing vehicle exhaust emissions by 75%.

The MZR-CD turbo diesel engine uses a common-rail diesel injection system, technology specifically developed to address environmental concerns. By adopting these systems, which use high-pressure fuel injection, we're designing powerful diesel engines that are quieter and more fuel-efficient. Better still, these engines are much cleaner, clearing Europe's upcoming Stage 4 exhaust gas emission standards.

We plan to steadily introduce MZR engines across our next-generation model range, while other members of the Ford family are slated to use them in some of their models. We therefore expect to ramp up global production of MZR engines to around 2 million units annually in the near term.

The jewel in our engine lineup is undoubtedly the RENESIS, the latest in a long-line of innovative rotary engines from Mazda. With the RENESIS, we've arranged the exhaust and intake ports along the side of the engine, boosting output and significantly improving fuel efficiency. The engine also has new fuel injectors that deliver an ultra-fine spray pattern and high-performance



Mazda's high-integrity MAGMA vehicle body

spark plugs to provide improved combustion of the fuel-air mix. Together, these improvements make the RENESIS more powerful, efficient, and cleaner than legacy rotary engines.

SAFETY MEASURES

In April 2004, Japan's Ministry of Land, Infrastructure and Transport released its New Car Assessment Test Results 2003. This report gave the Mazda RX-8 high marks for braking performance in tests under dry road conditions. In fact the Mazda RX-8 set a new record for braking distance, needing only 38.6 meters to come to a full stop at 100km/h. Under similar conditions, the Mazda3 was rated one of the top performers in the compact car class with a braking distance of just 41.1 meters. These results illustrate the high level of active safety features embedded in our latest models.

Active safety technology naturally plays an important role in preventing accidents. Backing up their highly rated braking performance, Mazda vehicles also come with other advanced technologies to help drivers prevent potential accidents. In passive safety technology, we're upgrading our safe, high-integrity MAGMA vehicle body used since 1997, and devising new techniques to improve occupant restraint and protection. And in collision safety performance, the Mazda RX-8 earned an overall six-star ranking, the highest possible, while the Mazda3 received a five-star ranking.

EFFICIENT PRODUCT DEVELOPMENT: THE MDI-II PROJECT

The second phase of the Mazda Digital Innovation (MDI) initiative, MDI-II, got under way in April 2004. In this phase, we're developing new software and installing supercomputers in a bid to expand the use of digital technology in product development. This will help us to reduce our reliance on mock-ups and prototypes. We will continue to enhance our vehicle development capabilities going forward, with plans to invest ¥13.9 billion over the next four years to ensure our designers have access to the world's most advanced digital technology.

With MDI-I, launched in 1996, we created a shared digital data system covering all phases of vehicle development—from concept development, to design, testing and pilot production. This yielded a concurrent development structure enabling the parallel design of vehicle functions and manufacturing processes. The result was a marked improvement in efficiency, with new vehicle development times cut from 27 months to between 12 and 18 months. The Mazda Verisa is testament to this new approach: launched in June 2004, production got under way after a development time of just 12 months.

CORPORATE GOVERNANCE

Mazda is implementing various polices to enhance corporate governance. These are specifically aimed at increasing management transparency and speeding up decision-making. In addition to bodies prescribed by law such as the annual general meeting of shareholders, the board of directors and the board of corporate auditors, Mazda has established an executive committee. Executive committee meetings are held to formulate and discuss important company-wide policies and measures, and hear reports on the day-to-day running of the business. Other advisory bodies that assist the president with decision-making have also been set up. In addition, Mazda has introduced the executive officer system to promote the separation of executive and management functions. This has augmented the board's effectiveness as a supervisory body. A review of how the board is run was also carried out, and this resulted in faster decision-making through enhanced discussion, devolution of authority to the executive officer level and other initiatives. These and other steps are helping to improve management efficiency at Mazda.

BOARD OF DIRECTORS AND BOARD OF AUDITORS

Mazda's board of directors, comprising nine members, is responsible for making decisions on important management issues and overseeing the business activities and affairs of the corporation. The board of auditors, comprising five members and including two outside auditors, is responsible for auditing business policy execution by the board of directors.

MANAGEMENT ADVISORY COMMITTEE

Mazda established a Management Advisory Committee in December 2002 composed of four leading figures from outside the company and Mazda directors. The committee meets four times a year. Mazda receives managerial opinions and recommendations from these committee members, who offer their specialized knowledge and insight from a global perspective.

RISK MANAGEMENT

In January 2002, Mazda established a Risk Management Office to oversee companywide risk management activities. A system to promote risk management centered on the Risk Management Committee was also set up. To appropriately manage various internal and external risks Mazda is establishing internal risk management regulations, phasing in companywide risk management activities and enhancing disaster-prevention measures, such as those for large-scale earthquakes. In this way, we are building a robust framework to support sustained and stable growth.

BOARD OF DIRECTORS, AUDITORS AND EXECUTIVE OFFICERS

From Left: Ryoichi Hasegawa, Mutsumi Fujiwara, Gideon Wolthers, Hisakazu Imaki, Kazuhide Watanabe, John G. Parker, Stephen T. Odell, Takashi Yamanouchi, Kiyoshi Ozaki

DIRECTORS AND AUDITORS

REPRESENTATIVE DIRECTOR AND CHAIRMAN OF THE BOARD
KAZUHIDE WATANABE

REPRESENTATIVE DIRECTORS
HISAKAZU IMAKI
JOHN G. PARKER
GIDEON WOLTHERS

DIRECTORS
STEPHEN T. ODELL
MUTSUMI FUJIWARA
TAKASHI YAMANOUCHI
RYOICHI HASEGAWA
KIYOSHI OZAKI

CORPORATE AUDITORS (FULL TIME)
TOSHIKI SAKATA
KAZUMI IKEDA
KOJI KUROSAWA

CORPORATE AUDITORS
TAKAHARU DOHI
KENICHI KOMATSU

EXECUTIVE OFFICERS

*PRESIDENT AND CEO
HISAKAZU IMAKI

*EXECUTIVE VICE PRESIDENT
JOHN G. PARKER
ASSISTANT TO PRESIDENT;
IN CHARGE OF R&D, PURCHASING, QUALITY ASSURANCE, MARKETING, SALES AND IT SOLUTIONS

*SENIOR MANAGING EXECUTIVE OFFICER AND CFO
GIDEON WOLTHERS
IN CHARGE OF CORPORATE PLANNING AND PRODUCT PROFIT CONTROL

*SENIOR MANAGING EXECUTIVE OFFICERS
STEPHEN T. ODELL
IN CHARGE OF MARKETING, SALES AND CUSTOMER SERVICE;
GENERAL MANAGER, CUSTOMER SERVICE DIV.

MUTSUMI FUJIWARA
IN CHARGE OF PURCHASING

TAKASHI YAMANOUCHI
IN CHARGE OF SECRETARIAT, PERSONNEL & HUMAN DEVELOPMENT, INTERNAL AUDITING AND MAZDA HOSPITAL

RYOICHI HASEGAWA
IN CHARGE OF IT SOLUTIONS, E-BUSINESS, CORPORATE AFFAIRS AND RISK MANAGEMENT;
ASSISTANT TO THE CFO

KIYOSHI OZAKI
IN CHARGE OF CHINA BUSINESS

SENIOR MANAGING EXECUTIVE OFFICER
JOSEPH BAKAJ
IN CHARGE OF R&D

MANAGING EXECUTIVE OFFICERS
MASAO FURUTA
IN CHARGE OF DOMESTIC MARKETING, DOMESTIC SALES AND DOMESTIC CUSTOMER SERVICE

MASAHARU YAMAKI
IN CHARGE OF PRODUCTION AND BUSINESS LOGISTICS

MASAZUMI WAKAYAMA
IN CHARGE OF CORPORATE COMMUNICATIONS & LIAISON; GENERAL MANAGER, CORPORATE COMMUNICATIONS & LIAISON DIV.

NOBUHIRO HAYAMA
IN CHARGE OF R&D QUALITY

SEITA KANAI
IN CHARGE OF VEHICLE DEVELOPMENT AND TECHNICAL AFFAIRS

JAMES J. O'SULLIVAN
PRESIDENT AND CEO,
MAZDA MOTOR OF AMERICA, INC.
(MAZDA NORTH AMERICAN OPERATIONS)

DANIEL T. MORRIS
PRESIDENT AND CEO,
MAZDA MOTOR EUROPE GMBH

EXECUTIVE OFFICERS
AKIRA MARUMOTO
GENERAL MANAGER, PROGRAM MANAGEMENT DIV.

KEISHI EGAWA
IN CHARGE OF FINANCIAL SERVICES AND DOMESTIC DEALER FINANCIAL ADMINISTRATION;
GENERAL MANAGER, FINANCIAL SERVICES DIV.

MASAKI KANDA
GENERAL MANAGER, PERSONNEL & HUMAN DEVELOPMENT DIV.

HIROSHI HOSAKA
GENERAL MANAGER, DOMESTIC SALES DIV.

NOBUHIDE INAMOTO
IN CHARGE OF SIX SIGMA;
GENERAL MANAGER, QUALITY DIV.

HIROSHI KAMIYA
GENERAL MANAGER, HIROSHIMA PLANT

KAZUHIKO TANAKA
GENERAL MANAGER, CORPORATE AFFAIRS DIV.

TORU OKA
GENERAL MANAGER, PURCHASING DIV.

SATOSHI TACHIKAKE
GENERAL MANAGER, CHINA BUSINESS DIV.

YASUTO TATSUTA
GENERAL MANAGER, PRODUCTION ENGINEERING DIV.

HIROTAKA KANAZAWA
IN CHARGE OF PRODUCT PLANNING, PROGRAM MANAGEMENT AND TECHNICAL RESEARCH CENTER

MALCOLM D. GOUGH
GENERAL MANAGER, OVERSEAS SALES DIV.

KAZUYUKI OKADA
GENERAL MANAGER, VEHICLE DEVELOPMENT DIV.

MASAMICHI KOGAI
GENERAL MANAGER, HOFU PLANT

NOTE: THE "*" MARK STANDS FOR THE EXECUTIVE OFFICERS WHO ALSO HOLD THE POST OF DIRECTOR.

(As of June 22, 2004)

CORPORATE SOCIAL RESPONSIBILITY

CORPORATE ETHICS AND COMPLIANCE

Mazda firmly believes that achieving sustainable growth as a company is untenable without first earning the trust of customers, suppliers, distributors, and investors—in short our global community of stakeholders.

Mazda formulated the Mazda Corporate Ethics Code of Conduct in 1998. Disseminating and raising awareness of these guidelines has enabled us to maintain our track record in conducting ethical corporate activities. More recently, in March 2004, we created a Compliance Manual and distributed it to all Mazda officers and employees. Mazda also conducts yearly seminars on ethics and human rights, in parallel with other actions designed to drive home the primacy of legal compliance and ethical business behavior.

MAZDA AND THE ENVIRONMENT

Environmental Activities

In 1992, Mazda formulated its Environmental Principles and a set of Environmental Guidelines. These documents have both been enshrined in the Mazda Global Environmental Charter, a collection of basic policies defining our stance vis-à-vis the natural environment. Mazda has steadily drafted and implemented environmental action plans anchored by these policies. We have also worked to raise environmental awareness among Mazda employees through a far-reaching environmental education program.

Mazda's environmental activities are evaluated through internal audits and external inspections carried out by third parties. This process ensures that companywide environmental policies and planning, as well as environmental conservation activities based on ISO 14001 certification acquired by each Mazda business site, are all operated and implemented in an appropriate manner. Mazda also discloses its environmental accounting data. We do this for two reasons: to encourage greater efficiency by accurately assessing the costs and benefits associated with environmental conservation activities, and to promote understanding of our environmental activities.

Development of Environmental Technology

❒ **Environmentally Friendly Three Layer Wet Paint System**

With our Three Layer Wet Paint System, the vehicle is coated first with a primer, then a base coat and clear coat in quick succession. All layers are then baked onto the vehicle simultaneously. This innovative technology has earned Mazda the 50th Okochi Memorial Production Prize and the Minister of International Trade and Industry Award, presented by the Japan Society for the Promotion of Machine Industry.

Three Layer Wet Paint System

Our system shortens the entire painting process by combining the conventional primer and top layer painting stages, making the whole operation more environmentally sound. This technique also cuts the level of volatile organic compounds (VOC) by 45%, meeting Europe's progressive VOC standard of $35g/m^2$. Other benefits include a more than 15% reduction in CO_2 emissions and cost savings compared to conventional painting methods. Installed at the Hofu No. 1 and No. 2 plants and the Ujina No. 2 Plant, our Three Layer Wet Paint System is already used in the production of the Mazda6 and Mazda3.

❒ Hydrogen Rotary Engine

Society may one day be powered by hydrogen energy. Preparing for that future, Mazda has developed an experimental car, the Mazda RX-8 Hydrogen RE, powered by the RENESIS Hydrogen Engine. This groundbreaking rotary engine realizes high-efficiency combustion by directly injecting hydrogen via two electronically controlled gas injectors per intake chamber. The Mazda RX-8 Hydrogen RE also has a dual-fuel system, comprising a high-pressure hydrogen tank and a gasoline tank, enabling it to run on either fuel. Although the roll out of hydrogen infrastructure is still in its infancy, there is no denying the potential of this exciting new technology.

Mazda RX-8 Hydrogen RE

SOCIAL ACTIVITIES

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

❒ The Mazda Community Services Committee

Regional communities are the lifeblood of any business. We believe this makes activities that target communities all the more vital to our role as a responsible corporate citizen. Underpinning our actions in this area is the Mazda Community Services Committee. Founded in 1993, this committee is chaired by Mazda directors and includes representatives from relevant internal divisions and group companies. Mazda's community activities are chiefly conducted by this committee and the Promotion Committee, which handles operational aspects. The defining feature of these activities is encapsulated in a single phrase: Contributing Human Resources to Match Regional Needs.

❐ Mazda Specialist Bank

To better assist regional communities in implementing activities and events, we established the Mazda Specialist Bank in 1994 to help focus our volunteer efforts. The bank is essentially a register of Mazda and group company employees, former directors and family members. All possess specialist knowledge, skills, or talents and interests that are classified into four different fields: professional skill (group), professional skill (individual), sports, and culture/other. These individuals are then dispatched to regions that require their specific services.

❐ The Mazda Volunteer Center

In 1996, the Mazda Volunteer Center was created to support Mazda employees in their volunteer activities. Employees from Mazda and group companies and former directors or family members wishing to volunteer and register with the center are dispatched to help regional groups when requests are received for voluntary assistance.

❐ The Mazda Foundation

Founded in October 1984, the Mazda Foundation is committed to the promotion of science and technology and to helping develop well-rounded young people. In doing so, Mazda aims to play its part in creating a society where people the world over can lead prosperous and enriching lives. From fiscal 2004, the foundation will use the Internet to announce and accept online requests for research assistance.

Mazda volunteers show how to take apart and reassemble a RENESIS engine.

Mazda volunteers help in river clean-up activities.

Mazda volunteers help to create a water feature at a local welfare facility.

FINANCIAL SECTION

FIVE-YEAR SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS

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

	Millions of yen					Thousands of U.S. dollars *1
	2003 March 31, 2004	2002 March 31, 2003	2001 March 31, 2002	2000 March 31, 2001	1999 March 31, 2000	2003 March 31, 2004
For the year:						
Net sales	¥2,916,130	¥2,364,512	¥2,094,914	¥2,015,812	¥2,161,572	$27,510,660
Domestic	846,231	818,271	811,050	911,968	955,460	7,983,311
Overseas	2,069,899	1,546,241	1,283,864	1,103,844	1,206,112	19,527,349
North America	936,718	845,241	776,889	618,076	627,371	8,836,962
Europe	659,813	368,045	228,120	236,324	341,386	6,224,651
Other areas	473,368	332,955	278,855	249,444	237,355	4,465,736
Operating income (loss)	70,174	50,656	28,553	(14,937)	25,111	662,019
Income (loss) before income taxes	54,072	28,134	15,508	(242,442)	22,678	510,113
Net income (loss)	33,901	24,134	8,830	(155,243)	26,155	319,821
Capital expenditures *2	45,644	44,080	56,641	47,285	48,867	430,604
Depreciation and amortization	37,900	36,989	44,890	49,531	51,800	357,547
Research and development expenses	87,807	87,800	94,964	83,617	76,126	828,368
Financial debt	630,360	678,205	686,318	777,292	770,610	5,946,792
Cash flows *3	49,128	47,054	30,623	52,257	126,638	463,472
At the year-end:						
Total assets	1,795,573	1,754,017	1,734,895	1,743,627	1,469,533	16,939,368
Shareholders' equity	222,605	194,071	172,837	158,872	245,709	2,100,047
Average number of shares outstanding (in thousands)	1,217,692	1,219,050	1,221,750	1,222,495	1,222,494	
Number of employees	35,627	36,184	37,824	39,601	43,818	
	Yen					U.S. dollars *1
Amounts per share of common stock:						
Net income (loss) *4	¥ 27.84	¥ 19.80	¥ 7.23	¥(126.99)	¥ 21.39	$0.26
Cash dividends applicable to the year *5	2.00	2.00	2.00	—	2.00	0.02
Shareholders' equity	182.91	159.22	141.52	129.96	200.98	1.73
Ratios (%):						
Operating income ratio	2.4%	2.1%	1.4%	—	1.2%	
Return on equity (ROE)	16.3%	13.2%	5.3%	—	11.2%	
Shareholders' equity ratio	12.4%	11.1%	10.0%	9.1%	16.7%	

Notes: 1. The translation of the Japanese yen amounts into U.S. dollars is presented solely for the convenience of readers, using the prevailing exchange rate at March 31, 2004, of ¥106 to US$1.
2. Capital expenditures are calculated on an accrual basis.
3. Cash flows represent net cash flows from operating activities and from investing activities.
4. The computations of net income (loss) per share of common stock are based on the average number of shares outstanding during each fiscal year.
5. Cash dividends per share represent actual amounts applicable to the respective years.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MAZDA MOTOR CORPORATION AND CONSOLIDATED SUBSIDIARIES

FISCAL 2003 HIGHLIGHTS

- Third consecutive year of top- and bottom-line growth on strong sales and cost reduction
- Net income up 40.5% to ¥33.9 billion
- Growth in both unit volume and revenue
- Sharply higher earnings propels operating income to ¥70.2 billion, an increase of 38.5% and the highest level in a decade

BUSINESS CONDITIONS

During fiscal 2003, the Japanese economy continued to languish, although there were signs of an upturn in exports and industrial output, and deflationary pressures showed signs of easing. The U.S. economy began to show signs of a strong recovery, buoyed by record low interest rates and other factors, while the economies of Europe and other major regions recovered, but at a more moderate pace. Overall, however, key economic indicators failed to confirm a widespread and sustainable economic turnaround.

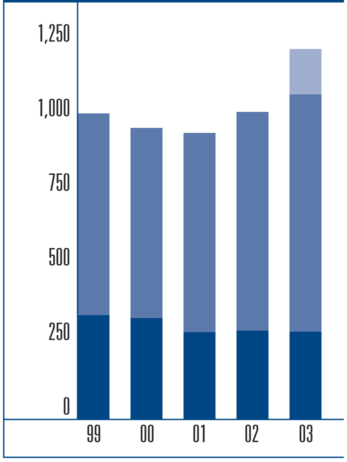
In Japan, automotive sales, including mini vehicles, totaled 5.89 million units, edging up 0.4% over the previous fiscal year. In the U.S., industry sales during the 2003 calendar year were 16.45 million units, down 1.0% year on year. Industry sales in Europe during the same period slipped 0.8% to 17.09 million units.

CHANGE IN FISCAL YEAR-ENDS AT SUBSIDIARIES

The consolidated financial statements for fiscal 2003, ended March 31, 2004, include the accounts of Mazda Motor Corporation, the parent company; 55 consolidated subsidiaries (16 overseas and 39 in Japan); and 12 equity-method affiliates (2 overseas and 10 in Japan).

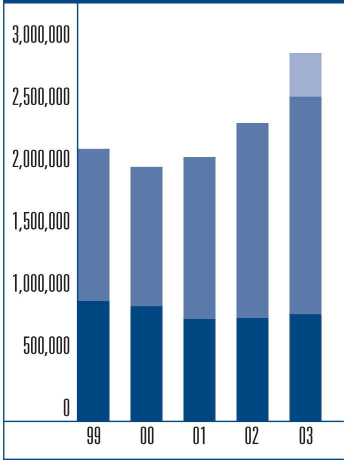
Previously, the overseas subsidiaries had fiscal year-ends that were different from the consolidated balance sheet date of March 31. In using the financial statements of these overseas consolidated subsidiaries to prepare the consolidated financial statements, Mazda made necessary adjustments on consolidation for material transactions occurring between the fiscal year-ends of these subsidiaries and the consolidated balance sheet date. Effective from fiscal 2003, however, in the interest of better disclosure and administration of consolidated business results, the fiscal year-ends of 13 of Mazda's overseas subsidiaries were changed to March 31 to correspond to the parent company's balance sheet date. These companies included Mazda Motor of America, Inc., Mazda Canada Inc., Mazda Motors (Deutschland) GmbH and Mazda Australia Pty., Ltd. Due to this change in fiscal year-ends, the operating results of the 13 overseas subsidiaries concerned are for the 15-month period from January 1, 2003 to March 31, 2004. Three overseas subsidiaries, Compania Colombiana Automotriz S.A., Mazda Motors of New Zealand Limited and Mazda Sales (Thailand) Co., Ltd., have retained their December 31 fiscal year-ends.

Unit Wholesales
Thousands of Units



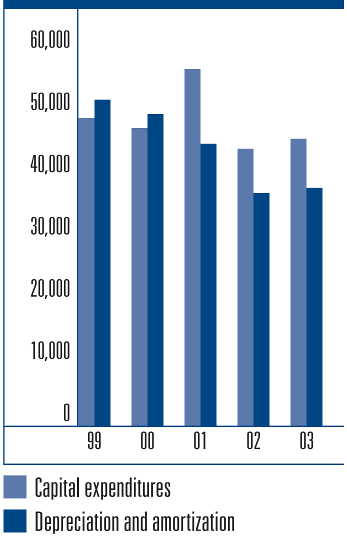
Domestic
Overseas (Including the effect of 15 months of results at 13 overseas subsidiaries.)

Net Sales
Millions of Yen

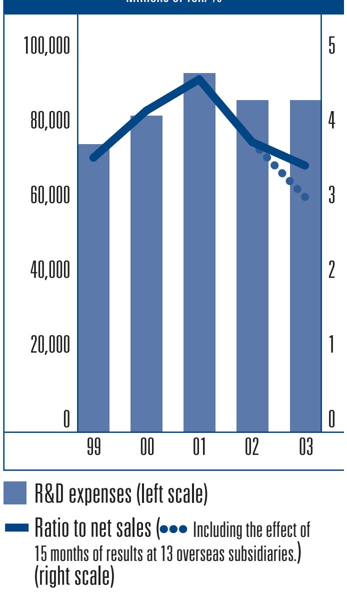


Domestic
Overseas (Including the effect of 15 months of results at 13 overseas subsidiaries.)

Capital Expenditures/Depreciation and Amortization
Millions of Yen



R&D Expenses/Ratio to Net Sales
Millions of Yen/%



The effect of the change in fiscal year-ends at the aforementioned overseas consolidated subsidiaries was to increase consolidated net sales by ¥341.4 billion and decrease operating income by ¥0.1 billion, income before income taxes by ¥1.6 billion and net income by ¥2.4 billion.

CONSOLIDATED FINANCIAL RESULTS

Consolidated Net Sales

Turning to the company's performance during the year under review, Mazda retail sales in the Japanese market totaled 279,000 units, up 3.4% year on year, on the back of new model launches. Registered vehicle share in the domestic market was 5.8%, up 0.2 percentage points, and total share, including mini vehicles, was 4.7%, up 0.1 percentage point from the previous fiscal year.

In major overseas markets on a calendar year basis, Mazda retail sales in the United States edged up 0.3% to 259,000 units compared to the previous fiscal year. Market share was unchanged at 1.6%. In Europe, retail sales climbed 25.8% to 229,000 units and market share was up 0.2 percentage points to 1.3%.

Consolidated wholesales in fiscal 2003 totaled 1,225,000 units, up 59,000 units, or 5.8%, excluding the impact of the change in accounting periods at certain overseas consolidated subsidiaries.

Consolidated net sales were ¥2,916.1 billion. Excluding the effect of the change in accounting periods at certain overseas consolidated subsidiaries, this represented a ¥210.2 billion, or 8.9%, year-on-year increase, primarily reflecting the significant contribution from higher sales of new models launched in the past two fiscal years.

OPERATING INCOME

Mazda recorded operating income of ¥70.2 billion, an increase of ¥19.6 billion or 38.5% year on year. The sharp improvement from the previous fiscal year was mainly the result of the significant contribution from higher sales of new models launched in the past two fiscal years. In addition, cost reductions in all areas of Mazda's business and favorable exchange rates offset higher new model launch costs, sales promotion costs and fixed costs.

NET INCOME

Net other expenses decreased ¥6.4 billion to ¥16.1 billion due to a number of factors including the absence of a charge taken in fiscal 2002 for business restructuring. Income taxes increased ¥14.6 billion to ¥17.7 billion due to an increase in income before income taxes and other factors. Minority interests of consolidated subsidiaries were ¥2.5 billion, ¥1.6 billion more than in the previous fiscal year. Net income climbed 40.5% to ¥33.9 billion and the net income ratio rose 0.2 of a percentage point to 1.2%. Net income per share of common stock increased from ¥19.80 to ¥27.84.

CAPITAL EXPENDITURES

Capital expenditures totaled ¥45.6 billion, ¥1.6 billion higher than a year earlier. Mazda worked to use capital expenditures efficiently and to concentrate them in strategic areas. The bulk of capital expenditures were channeled into production equipment for new models, as well as research and development facilities for new technologies and products. To strengthen the production framework in Japan, Mazda closed down the Hiroshima No. 1 Plant in April 2004 and reopened the Ujina No. 2 Plant in May 2004. This restructuring of automobile production facilities yielded a 14% increase in output.

RESEARCH AND DEVELOPMENT

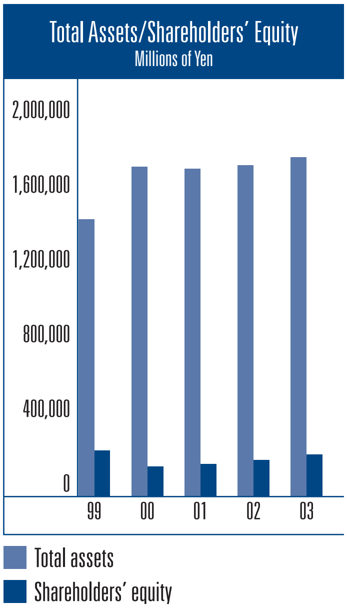
Research and development expenses totaled ¥87.8 billion, the same as in the previous fiscal year. Mazda's R&D framework is based on collaboration between Head Office R&D divisions, which conduct cutting-edge research on emerging technologies, and plan, design and test new models, the Mazda R&D Center Yokohama, and the R&D departments of U.S.-based Mazda Motor of America and Germany-based Mazda Motors (Deutschland). Joint research projects are also conducted with Ford Motor Company. In all cases, product development is tailored to the unique characteristics of each market. Research is also actively carried out in other areas such as safety and environmental protection.

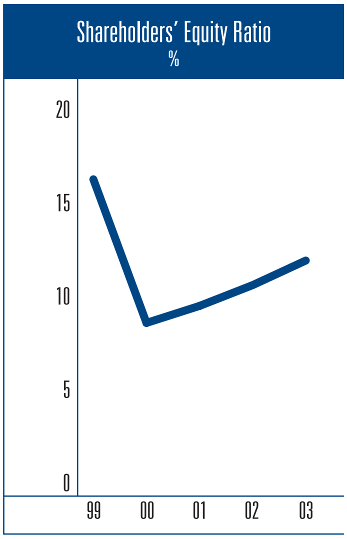
CONSOLIDATED FINANCIAL POSITION

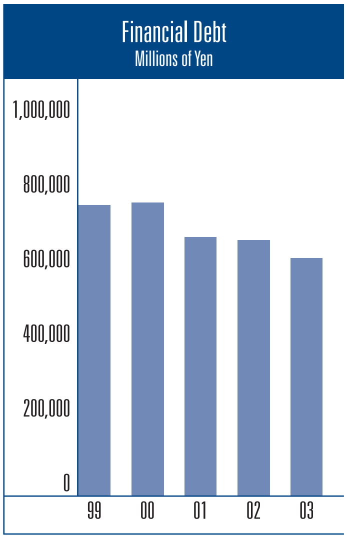
Total assets as of March 31, 2004 were ¥1,795.6 billion, ¥41.6 billion higher than a year ago. Cash and cash equivalents decreased by ¥2.5 billion to ¥272.2 billion. Trade notes and accounts receivable were ¥145.8 billion, up ¥13.4 billion, in line with higher sales and one-off factors accompanying the change in fiscal year-ends at certain overseas subsidiaries. Inventories increased ¥30.7 billion to ¥268.3 billion in line with higher sales and due to increases in North America. Net property, plant and equipment was ¥785.9 billion, down ¥7.6 billion. This decline reflected depreciation as well as sales and disposals of property, plant and equipment, partially offset by capital expenditures.

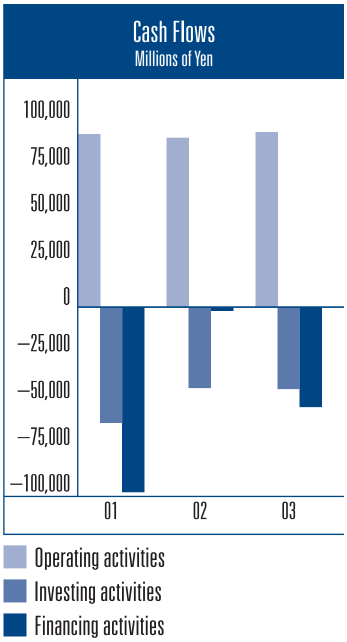
Total liabilities were ¥1,564.6 billion, an increase of ¥11.2 billion from a year ago, mainly on account of higher trade notes and accounts payable in line with higher sales and an increase in employees' severance and retirement benefits, partly offset by a decrease in short-term and long-term debt, which declined ¥47.8 billion to ¥630.4 billion. After deducting cash and cash equivalents, net debt declined ¥45.4 billion to ¥358.1 billion. The net debt-to-equity ratio was 161%, representing a 47 percentage point improvement from a year ago. Mazda intends to continue taking measures to reduce debt in order to further strengthen its financial position.

Total shareholders' equity increased ¥28.5 billion to ¥222.6 billion, mainly due to net income of ¥33.9 billion. The shareholders' equity ratio rose 1.3 percentage points to 12.4%.









CASH FLOWS

Cash and cash equivalents as of March 31, 2004 were ¥272.2 billion, a decrease of ¥2.5 billion from a year earlier. Cash provided by operating activities was slightly less than cash used in investing and financing activities.

Operating activities provided net cash of ¥92.4 billion, a year-on-year increase of ¥2.7 billion. The increase mainly reflected income before income taxes of ¥54.1 billion and an increase in trade notes and accounts payable, partly offset by an increase in inventories.

Investing activities used net cash of ¥43.3 billion, a ¥0.6 billion increase from the previous fiscal year. This slight increase in the net cash used in investing activities was primarily due to a decrease in proceeds from sale of property, plant and equipment and the sale of investment securities as well as an increase in the net cash used in other investing activities, offset by a decrease in additions to property, plant and equipment.

As a result, the sum of operating and investing cash flows, was ¥49.1 billion, a ¥2.1 billion increase over the previous fiscal year.

Financing activities used net cash of ¥52.8 billion, ¥50.7 billion more than the previous fiscal year, primarily due to the repayment of loans and the redemption of bonds. Management continues to focus on reducing financial debt.

BUSINESS RISKS

Risks that could affect Mazda's business results include, but are not limited to, the following:

1. Global Economic Conditions

Mazda sells products in Japan and around the world, including in North America, Europe and Asia. An economic downturn or declining demand in these markets could aversely affect Mazda's business results and financial position.

2. Exchange Rates

Mazda exports products from Japan to the rest of the world and consequently its business results and financial position are exposed to the effects of fluctuations in exchange rates. An appreciation of the yen, particularly against the U.S. dollar and euro, could lower Mazda's profitability.

3. Alliances

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

4. Laws and Regulations

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

5. Dependence on Certain Raw Materials and Parts and Suppliers

Mazda relies on multiple suppliers outside the group for supplies of materials and components. A change in or termination of a contract with an external supplier could affect the manufacture of products and result in higher costs, which could in turn adversely affect Mazda's business results and financial position.

CONSOLIDATED BALANCE SHEETS

MAZDA MOTOR CORPORATION AND CONSOLIDATED SUBSIDIARIES
March 31, 2004 and 2003

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2003	2002	2003
ASSETS	As of	March 31, 2004	March 31, 2003	March 31, 2004
Current assets:				
Cash and cash equivalents		¥ 272,231	¥ 274,722	$ 2,568,217
Short-term investments		10,105	5,246	95,330
Trade notes and accounts receivable		145,829	132,443	1,375,745
Inventories (Note 5)		268,317	237,663	2,531,292
Deferred taxes (Note 13)		74,412	54,398	702,000
Other current assets		57,023	47,725	537,954
Allowance for doubtful receivables		(8,190)	(6,448)	(77,264)
Total current assets		819,727	745,749	7,733,274
Property, plant and equipment:				
Land (Note 6)		432,278	437,335	4,078,094
Buildings and structures		397,162	396,830	3,746,811
Machinery and equipment		772,684	787,719	7,289,472
Tools, furniture, fixtures and other		253,736	257,540	2,393,736
Construction in progress		19,180	20,387	180,943
		1,875,040	1,899,811	17,689,056
Accumulated depreciation		(1,089,121)	(1,106,313)	(10,274,726)
Net property, plant and equipment		785,919	793,498	7,414,330
Intangible assets		21,099	18,835	199,047
Investments and other assets:				
Investment securities:				
Unconsolidated subsidiaries and affiliated companies		40,230	33,810	379,528
Other		11,256	15,243	106,189
Long-term loans receivable		15,937	23,073	150,349
Deferred taxes (Note 13)		93,953	121,310	886,349
Other investments and other assets		20,563	25,248	193,990
Allowance for doubtful receivables		(12,380)	(21,937)	(116,792)
Investment valuation allowance		(731)	(812)	(6,896)
Total investments and other assets		168,828	195,935	1,592,717
Total assets		¥1,795,573	¥1,754,017	$16,939,368

See accompanying notes.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	As of	Millions of yen 2003 March 31, 2004	Millions of yen 2002 March 31, 2003	Thousands of U.S. dollars (Note 1) 2003 March 31, 2004
Current liabilities:				
Short-term debt (Note 7)		¥ 186,880	¥ 214,637	$ 1,763,019
Long-term debt due within one year (Note 7)		120,022	106,458	1,132,283
Trade notes and accounts payable		284,536	241,097	2,684,302
Accrued expenses		262,769	282,830	2,478,953
Reserve for warranty expenses		22,507	18,361	212,330
Reserve for loss on restructuring of subsidiaries and affiliates		—	1,695	—
Reserve for loss on business restructuring		2,329	2,695	21,972
Other		59,573	42,892	562,009
Total current liabilities		938,616	910,665	8,854,868
Long-term debt due after one year (Note 7)		323,458	357,110	3,051,491
Deferred tax liability related to land revaluation (Note 6)		91,113	90,832	859,557
Employees' severance and retirement benefits (Note 8)		198,253	182,900	1,870,311
Directors' and corporate auditors' retirement benefits (Note 3)		1,397	1,275	13,179
Liabilities from application of equity method		879	1,529	8,292
Other long-term liabilities		10,920	9,160	103,019
Contingent liabilities (Note 9)				
Minority interests in consolidated subsidiaries		8,332	6,475	78,604
Shareholders' equity:				
Common stock:				
Authorized: 3,000,000,000 shares				
Issued: 1,222,496,655 shares in 2003 and 2002 (Note 10)		120,078	120,078	1,132,811
Capital surplus (Note 10)		104,217	104,217	983,179
Land revaluation (Note 6)		131,470	129,938	1,240,283
Retained earnings (deficit)		(78,220)	(107,742)	(737,925)
Net unrealized gains (losses) on available-for-sale securities		428	(193)	4,038
Foreign currency translation adjustments		(53,913)	(51,315)	(508,613)
Treasury stock (5,482,972 shares in 2003 and 3,647,708 shares in 2002)		(1,455)	(912)	(13,726)
Total shareholders' equity		222,605	194,071	2,100,047
Total liabilities, minority interests and shareholders' equity		¥1,795,573	¥1,754,017	$16,939,368

CONSOLIDATED STATEMENTS OF INCOME

MAZDA MOTOR CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
For the years ended	2003 March 31, 2004	2002 March 31, 2003	2001 March 31, 2002	2003 March 31, 2004
Net sales	¥2,916,130	¥2,364,512	¥2,094,914	$27,510,660
Cost and expenses:				
Cost of sales	2,165,160	1,725,058	1,551,410	20,426,038
Selling, general and administrative expenses	680,796	588,798	514,951	6,422,603
	2,845,956	2,313,856	2,066,361	26,848,641
Operating income	70,174	50,656	28,553	662,019
Other income (expenses):				
Interest and dividend income	2,517	1,907	2,601	23,745
Interest expense	(18,299)	(16,927)	(22,678)	(172,632)
Equity in net income of unconsolidated subsidiaries and affiliated companies	9,199	7,674	6,303	86,783
Other, net (Note 11)	(9,519)	(15,176)	729	(89,802)
	(16,102)	(22,522)	(13,045)	(151,906)
Income before income taxes	54,072	28,134	15,508	510,113
Income taxes (Note 13):				
Current	13,105	7,450	9,048	123,632
Deferred	4,563	(4,364)	(5,016)	43,047
	17,668	3,086	4,032	166,679
Income before minority interests	36,404	25,048	11,476	343,434
Minority interests of consolidated subsidiaries	(2,503)	(914)	(2,646)	(23,613)
Net income	¥ 33,901	¥ 24,134	¥ 8,830	$ 319,821

	Yen			U.S. dollars (Note 1)
Amounts per share of common stock:				
Net income:				
Basic	¥27.84	¥19.80	¥7.23	$0.26
Diluted	23.98	18.37	7.23	0.23
Cash dividends applicable to the year	2.00	2.00	2.00	0.02

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

MAZDA MOTOR CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2004, 2003 and 2002

		Millions of yen						
	Shares of common stock	Common stock	Capital surplus	Land revaluation	Retained earnings (deficit)	Net unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2001	1,222,496,655	¥120,078	¥104,217	¥124,570	¥(136,639)	¥ —	¥(53,354)	¥ —
Net income	—	—	—	—	8,830	—	—	—
Land revaluation	—	—	—	756	(756)	—	—	—
Net unrealized losses on available-for-sale securities	—	—	—	—	—	(28)	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	5,475	—
Treasury stock	—	—	—	—	—	—	—	(312)
Balance at March 31, 2002	1,222,496,655	120,078	104,217	125,326	(128,565)	(28)	(47,879)	(312)
Net income	—	—	—	—	24,134	—	—	—
Cash dividends paid	—	—	—	—	(2,442)	—	—	—
Land revaluation	—	—	—	4,612	(858)	—	—	—
Net unrealized losses on available-for-sale securities	—	—	—	—	—	(165)	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	(3,436)	—
Exclusion of consolidated subsidiaries and companies accounted for by the equity method	—	—	(52)	—	(11)	—	—	—
Treasury stock	—	—	52	—	—	—	—	(600)
Balance at March 31, 2003	1,222,496,655	120,078	104,217	129,938	(107,742)	(193)	(51,315)	(912)
Net income	—	—	—	—	33,901	—	—	—
Cash dividends paid	—	—	—	—	(2,438)	—	—	—
Land revaluation	—	—	—	1,532	(1,532)	—	—	—
Net unrealized gains on available-for-sale securities	—	—	—	—	—	621	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	(2,598)	—
Exclusion of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	—	(409)	—	—	—
Treasury stock	—	—	—	—	—	—	—	(543)
Balance at March 31, 2004	1,222,496,655	¥120,078	¥104,217	¥131,470	¥ (78,220)	¥428	¥(53,913)	¥(1,455)

	Thousands of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Land revaluation	Retained earnings (deficit)	Net unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2003	$1,132,811	$983,179	$1,225,830	$(1,016,434)	$(1,821)	$(484,104)	$ (8,604)
Net income	—	—	—	319,821	—	—	—
Cash dividends paid	—	—	—	(23,000)	—	—	—
Land revaluation	—	—	14,453	(14,453)	—	—	—
Net unrealized gains on available-for-sale securities	—	—	—	—	5,859	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	(24,509)	—
Exclusion of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	(3,859)	—	—	—
Treasury stock	—	—	—	—	—	—	(5,122)
Balance at March 31, 2004	$1,132,811	$983,179	$1,240,283	$ (737,925)	$ 4,038	$(508,613)	$(13,726)

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

MAZDA MOTOR CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	2003
For the years ended	March 31, 2004	March 31, 2003	March 31, 2002	March 31, 2004
Cash flows from operating activities:				
Income before income taxes	¥ 54,072	¥ 28,134	¥ 15,508	$ 510,113
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	37,900	36,989	44,890	357,547
Allowance for doubtful receivables	1,620	3,117	3,064	15,283
Investment valuation allowance	(81)	(10)	996	(764)
Reserve for warranty expenses	4,077	3,032	30	38,462
Reserve for loss on business restructuring	—	2,695	—	—
Employees' severance and retirement benefits	15,353	8,600	1,681	144,840
Interest and dividend income	(2,517)	(1,907)	(2,601)	(23,745)
Interest expense	18,299	16,927	22,678	172,632
Equity in net income of unconsolidated subsidiaries and affiliated companies	(9,199)	(7,674)	(6,303)	(86,783)
Loss on sale of property, plant and equipment, net	990	4,961	2,972	9,340
Loss (gain) on sale of investment securities, net	108	(1,712)	(2,296)	1,019
Loss on liquidation of affiliated companies	—	683	1,495	—
Decrease (increase) in trade notes and accounts receivable	(10,616)	(17,437)	14,462	(100,151)
Decrease (increase) in inventories	(37,113)	11,896	28,779	(350,123)
Increase (decrease) in trade notes and accounts payable	50,766	(14,903)	13,031	478,925
Increase (decrease) in other current liabilities	(10,560)	28,112	12,836	(99,623)
Other	1,658	9,814	12,834	15,641
Subtotal	114,757	111,317	164,056	1,082,613
Interest and dividends received	2,862	2,463	3,945	27,000
Interest paid	(18,216)	(16,781)	(22,983)	(171,849)
Severance pay for early retirement paid	—	—	(45,232)	—
Income taxes paid	(7,024)	(7,331)	(8,274)	(66,264)
Net cash provided by operating activities	92,379	89,668	91,512	871,500
Cash flows from investing activities:				
Purchase of investment securities	(1,527)	(3,254)	(1,557)	(14,406)
Sale of investment securities	1,174	2,325	3,978	11,075
Purchase of investments in subsidiaries affecting scope of consolidation	(760)	—	(1,075)	(7,170)
Sale of investments in subsidiaries affecting scope of consolidation	—	5,790	(110)	—
Additions to property, plant and equipment	(41,130)	(62,431)	(71,712)	(388,019)
Proceeds from sale of property, plant and equipment	14,730	25,696	15,875	138,962
Decrease (increase) in short-term loans receivable	(871)	80	—	(8,217)
Long-term loans receivable made	(821)	(122)	(4,181)	(7,745)
Collections of long-term loans receivable	750	1,150	1,030	7,075
Other	(14,796)	(11,848)	(3,137)	(139,583)
Net cash used in investing activities	(43,251)	(42,614)	(60,889)	(408,028)
Cash flows from financing activities:				
Decrease in short-term debt	(29,002)	(50,815)	(80,584)	(273,604)
Proceeds from long-term debt	119,743	130,923	50,984	1,129,651
Repayment of long-term debt	(139,817)	(78,651)	(67,111)	(1,319,028)
Cash dividends paid	(2,438)	(2,442)	—	(23,000)
Other	(1,280)	(1,089)	(918)	(12,076)
Net cash used in financing activities	(52,794)	(2,074)	(97,629)	(498,057)
Effect of exchange rate fluctuations on cash and cash equivalents	1,175	298	2,411	11,085
Net increase (decrease) in cash and cash equivalents	(2,491)	45,278	(64,595)	(23,500)
Cash and cash equivalents at beginning of the year	274,722	229,444	292,615	2,591,717
Increases in cash and cash equivalents due to newly consolidated subsidiaries	—	—	1,424	—
Cash and cash equivalents at end of the year	¥272,231	¥274,722	¥229,444	$2,568,217

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MAZDA MOTOR CORPORATION AND CONSOLIDATED SUBSIDIARIES

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

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

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥106 to U.S.$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

The consolidated financial statements include the accounts of the Company and 55 subsidiaries (65 in the year ended March 31, 2003 and 83 in the year ended March 31, 2002). In addition, 12 non-consolidated subsidiaries and affiliates (15 in the year ended March 31, 2003 and 16 in the year ended March 31, 2002) are accounted for by the equity method.

The consolidated year-end balance sheet date is March 31. Among the consolidated subsidiaries, 3 companies (15 at March 31, 2003 and 16 at March 31, 2002) have a year-end balance sheet date of December 31, which is different from the consolidated balance sheet date. In preparing the consolidated financial statements, the financial statements of these companies with the December 31 year-end balance sheet 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 year-end balance sheet date.

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

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

Foreign currency translation

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

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

Cash and cash equivalents

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

Securities

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

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost. Available-for-sale securities without available fair market values are stated mainly at moving average cost. Also, the adoption of the new accounting standard for stating available-for-sale securities at fair value commenced in the fiscal year ended March 31, 2002. As a result, net unrealized losses on available-for-sale securities were recognized in shareholders' equity.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as a loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not using the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the statement of income in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

Inventories

Inventories are stated at cost determined principally by the average method.

Property, plant and equipment

Property, plant and equipment are stated at cost. Through the year ended March 31, 2002, depreciation was computed principally using a declining balance method over the useful lives of the assets determined in accordance with Japanese income tax law, except for tools and buildings acquired after March 31, 1998, which were depreciated using the straight-line method. Effective April 1, 2002, however, as explained in Note 3, depreciation has been computed principally using the straight-line method over the useful lives of the assets determined in accordance with Japanese income tax law.

Intangible fixed assets

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

Accounting for the impairment of fixed assets

In the year ended March 31, 2004, the Company did not adopt early the new accounting standard for impairment of fixed Assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted in periods beginning on or after April 1, 2005, but the standard does not prohibit earlier adoption. The Company has begun its analysis of possible impairment of fixed assets. The Company cannot currently estimate the effect of adoption of the new standard, because the Company has not yet completed its analysis.

Allowance for doubtful receivables

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

Investment valuation allowance

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

Reserve for warranty expenses

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

Reserve for loss on restructuring of subsidiaries and affiliates

Reserve for loss on restructuring of subsidiaries and affiliates provides for losses related to restructuring of subsidiaries and affiliates. The amount is estimated in light of the financial positions and other conditions of the subsidiaries and affiliates.

Reserve for loss on business restructuring

Reserve for loss on business restructuring provides for losses related to the closure of a plant in accordance with the Company's business restructuring plan. An amount rationally estimated for such losses is recognized.

Employees' severance and retirement benefits

The Domestic Companies provide three types of post-employment benefit plans, unfunded lump-sum plans, funded contributory pension plans, and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors. For the Company, the pension plans cover 50% of total retirement benefits. The Domestic Companies provide defined benefit plans; consolidated overseas subsidiaries provide defined benefit and/or contribution plans.

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

The Domestic Companies provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

Prior service costs are recognized in expenses in equal amounts mainly over 12 years, which is within the average of the estimated remaining service periods of employees, and actuarial gains and losses are recognized in expenses using the straight-line basis mainly over 13 years, which is within the average of the estimated remaining service periods, commencing with the following period. For executive officers, the liability is provided for the amount that would be required if all the executive officers retired at the balance sheet date.

As discussed in Note 8, in connection with the enactment of the Japanese Welfare Pension Insurance Law, the Company and certain domestic consolidated subsidiaries obtained the approval of exemption from the benefits related to future employee service under the substitutional portion from the Ministry of Health, Labor and Welfare on March 26, 2004.

Income taxes

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

Research and development costs

Research and development costs are charged to income when incurred. For the years ended March 31, 2004, 2003 and 2002, research and development costs of ¥87,807 million ($828,368 thousand), ¥87,800 million and ¥94,964 million, respectively, were incurred and expensed.

Derivatives and hedge accounting

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

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

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

Leases

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

Treasury stock and reversal of statutory reserves

Effective April 1, 2002, the Domestic Companies adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves", issued by the Accounting Standards Board of Japan on February 21, 2002). The effect on net income of the adoption of the new accounting standard was not material.

Amounts per share of common stock

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

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

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

Reclassifications

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

3. ACCOUNTING CHANGES

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

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

The effects of this change on the consolidated statement of income were to increase net sales by ¥341,408 million ($3,220,830 thousand) and to decrease operating income, income before income taxes and net income by ¥150 million ($1,415 thousand), ¥1,586 million ($14,962 thousand) and ¥2,429 million ($22,915 thousand), respectively, for the year ended March 31, 2004.

Also, the effects of this change on the consolidated statement of cash flows were to decrease the operating cash flows, investing cash flows and financing cash flows by ¥18,525 million ($174,764 thousand), ¥1,177 million ($11,104 thousand) and ¥600 million ($5,660 thousand), respectively.

Accounting for forward foreign exchange contracts

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

The effects of this change on the consolidated statement of income for the year ended March 31, 2004 was to increase operating income by ¥4,546 million ($42,887 thousand) and to increase income before income taxes by ¥82 million ($774 thousand).

Depreciation of property, plant and equipment

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

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

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

Directors' and corporate auditors' retirement benefits

Through the year ended March 31, 2001, the Company accounted for directors' and corporate auditors' retirement benefits on a cash basis. Commencing in the year ended March 31, 2002, the Company changed its method of accounting for directors' and corporate auditors' retirement benefits from the cash basis to an accrual basis. Under the new accrual method, the Company records the amount that is required by the internal corporate policy at the end of the fiscal year.

The Company believes that this change provides a better matching of costs and revenues over the period of service.

The portion of the accrual relating to the year of change, amounting to ¥167 million, has been included in selling, general and administrative expenses and the portion relating to the prior periods, amounting to ¥572 million, has been included in other expenses in the year ended March 31, 2002.

The effects of this change for the year ended March 31, 2002 were to decrease operating income by ¥167 million and to decrease income before income taxes by ¥739 million.

Also, the effects of this change on segment information are discussed in Note 16.

4. SECURITIES

The Company and its consolidated subsidiaries had no trading or held-to-maturity debt securities with available fair values at March 31, 2004 and 2003.

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

	Millions of yen			Thousands of U.S. dollars		
	Acquisition costs	Carrying values	Unrealized gains	Acquisition costs	Carrying values	Unrealized gains
Stocks	¥563	¥1,562	¥ 999	$5,311	$14,736	$9,425
Bonds	10	11	1	94	103	9
Other	117	117	—	1,104	1,104	—
	¥690	¥1,690	¥1,000	$6,509	$15,943	$9,434

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

	Millions of yen	Thousands of U.S. dollars
	Book value	Book value
Non-listed equity securities	¥8,959	$84,519

At March 31, 2004, available-for-sale securities with maturities mature as follows:

	Millions of yen		Thousands of U.S. dollars	
	Within one year	Over one year but within five years	Within one year	Over one year but within five years
Available-for-sale securities	¥4	¥63	$38	$594

Total sales of available-for-sales securities in the year ended March 31, 2004 amounted to ¥644 million ($6,075 thousand) and the related gains and losses amounted to ¥142 million ($1,340 thousand) and ¥48 million ($453 thousand), respectively.

Available-for-sale securities that have available market values as of March 31, 2003 were as follows:

	Millions of yen		
	Acquisition costs	Carrying values	Unrealized gains (losses)
Stocks	¥ 966	¥ 862	¥(104)
Bonds	12	14	2
Other	1,929	1,929	—
	¥2,907	¥2,805	¥(102)

Available-for-sale securities with no available fair values as of March 31, 2003 were as follows:

	Millions of yen
	Book value
Non-listed equity securities	¥12,490

At March 31, 2003, available-for-sale securities with maturities mature as follows:

	Millions of yen	
	Within one year	Over one year but within five years
Available-for-sale securities	¥4	¥76

Total sales of available-for-sales securities in the years ended March 31, 2003 and 2002 amounted to ¥1,738 million and ¥1,435 million, respectively. Also, the related gains and losses amounted to ¥37 million and ¥608 million in the year ended March 31, 2003 and ¥868 million and ¥3 million in the year ended March 31, 2002, respectively.

5. INVENTORIES

Inventories at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of	2003 March 31, 2004	2002 March 31, 2003	2003 March 31, 2004
Finished products	¥230,077	¥198,783	$2,170,538
Work in process	31,116	32,116	293,547
Raw materials and supplies	7,124	6,764	67,207
	¥268,317	¥237,663	$2,531,292

6. LAND REVALUATION

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

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

The amount of decrease in the aggregate fair value of the revalued land as of March 31, 2004 from that at the time of revaluation, as stipulated in Article 10 of the Land Revaluation Law, is ¥56,962 million ($537,377 thousand).

7. SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt at March 31, 2004, consisted of loans, principally from banks of ¥186,880 million ($1,763,019 thousand).

The annual interest rates applicable to short-term debt outstanding at March 31, 2004 and 2003 averaged 1.5% and 1.9%, respectively.

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
As of	2003 March 31, 2004	2002 March 31, 2003	2003 March 31, 2004
Domestic unsecured bonds due serially 2002 through 2009 at rates of 0.33% to 2.65% per annum	¥137,800	¥123,546	$1,300,000
Domestic unsecured convertible bonds with stock acquisition rights due 2007 with no interest	60,000	60,000	566,038
French franc notes due 2003 at a rate of 5.875% per annum	—	11,900	—
Loans principally from banks and insurance companies:			
Secured loans, maturing through 2013	148,004	205,957	1,396,264
Unsecured loans, maturing through 2008	97,676	62,165	921,472
	443,480	463,568	4,183,774
Amount due within one year	(120,022)	(106,458)	(1,132,283)
	¥323,458	¥357,110	$3,051,491

The annual interest rates applicable to loans outstanding averaged 1.8% for both due within one year and due after one year at March 31, 2004 and 1.9% for both due within one year and due after one year at March 31, 2003.

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

The annual maturities of long-term debt at March 31, 2004 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥120,022	$1,132,283
2006	115,443	1,089,085
2007	57,297	540,538
2008	101,341	956,047
2009	42,141	397,557
Thereafter	7,236	68,264
	¥443,480	$4,183,774

The assets pledged as collateral for short-term debt of ¥87,980 million ($830,000 thousand) and long-term debt of ¥148,004 million ($1,396,264 thousand) at March 31, 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, at net book value	¥471,174	$4,445,038
Other	1,898	17,905
	¥473,072	$4,462,943

8. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The liabilities for severance and retirement benefits included in the liability sections of the consolidated balance sheets as of March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003 March 31, 2004	2002 March 31, 2003	2003 March 31, 2004
Projected benefit obligation	¥541,802	¥544,579	$5,111,339
Unrecognized prior service costs	13,084	(2,624)	123,434
Unrecognized actuarial differences	(100,231)	(143,870)	(945,575)
Less fair value of pension assets	(256,415)	(215,202)	(2,419,009)
Prepaid pension cost	13	17	122
Liability for severance and retirement benefits	¥198,253	¥182,900	$1,870,311

Severance and retirement benefit expenses included in the consolidated statements of income for the years ended March 31, 2004, 2003 and 2002 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2003 March 31, 2004	2002 March 31, 2003	2001 March 31, 2002	2003 March 31, 2004
Service costs—benefits earned during the year	¥15,052	¥17,042	¥15,087	$142,000
Interest cost on projected benefit obligation	15,396	15,129	15,767	145,245
Expected return on plan assets	(6,223)	(9,556)	(13,541)	(58,707)
Amortization of prior service costs	279	270	333	2,632
Amortization of actuarial differences	12,234	8,472	3,355	115,415
Severance and retirement benefit expenses	¥36,738	¥31,357	¥21,001	$346,585

The discount rates and the rates of expected return on plan assets used by the Domestic Companies are primarily 3.0% and 3.0% for the year ended March 31, 2004 and 3.0% and 4.0% for the year ended March 31, 2003, respectively. The estimated amount of all retirement benefits to be paid at the future retirement dates is allocated equally to each service year using the estimated number of total service years.

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

Based on the newly enacted Defined Benefit Corporate Pension Law, the Company and some of its domestic consolidated subsidiaries decided to restructure their Employees' Pension Fund and were permitted by the Minister of Health, Labor and Welfare on March 26, 2004 to be released from their future obligation for payments for the substitutional portion of the Welfare Pension Insurance Scheme. Pension assets for the substitutional portion maintained by the Employees' Pension Fund are to be transferred back to the government's scheme.

The Company and the domestic consolidated subsidiaries did not apply the transitional provisions as prescribed in paragraph 47-2 of the JICPA Accounting Committee Report No. 13, "Practical Guideline for Accounting of Retirement Benefits (Interim Report)", which allows recognition of the effect of transferring the substitutional portion on the date permission was received from the Ministry of Health, Labor and Welfare for financial accounting purpose. It will be recognized on the date transfer of the substitutional portion is actually executed.

Estimated plan assets to be returned to the government at March 31, 2004 were ¥144,871 million ($1,366,708 thousand). If the estimated plan assets had been returned to the government on March 31, 2004 and the transitional provisions had been adopted, the effect of the adoption on the consolidated statement of income for the year ended March 31, 2004 would have been to increase other income by ¥47,517 million ($448,274 thousand).

9. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars
Discounted trade notes receivable	¥ 672	$ 6,340
Factoring of receivables with recourse	8,851	83,500
Guarantees of loans and similar agreements	25,081	236,613
Letters of undertaking to provide guarantees for leases for factory facilities	24,723	233,236

10. SHAREHOLDERS' EQUITY

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

Effective October 1, 2001, the Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for dividends by the resolution of the shareholders' meeting. Legal reserve is included in retained earnings in the accompanying financial statements.

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

11. OTHER INCOME (EXPENSES)

The components of "Other, net" in Other income (expenses) in the statements of income for the years ended March 31, 2004, 2003 and 2002 were comprised as follows:

	Millions of yen			Thousands of U.S. dollars
For the years ended	2003 March 31, 2004	2002 March 31, 2003	2001 March 31, 2002	2003 March 31, 2004
Valuation loss on investment securities	¥(2,832)	¥(3,160)	¥(1,685)	$(26,717)
Gain on sale of investment securities, net	(108)	1,712	2,296	(1,019)
Gain (loss) on sale of property, plant and equipment, net	(990)	(4,961)	(2,972)	(9,340)
Rental income	1,986	2,194	5,584	18,736
Restructuring of subsidiaries and affiliates	—	(683)	(215)	—
Investment valuation allowance	—	(50)	(514)	—
Foreign exchange gain (loss)	(2,870)	1,038	2,285	(27,075)
Loss on business restructuring	—	(2,695)	—	—
Directors' and corporate auditors' severance and retirement benefits for prior periods (Note 3)	—	—	(572)	—
Other	(4,705)	(8,571)	(3,478)	(44,387)
	¥(9,519)	¥(15,176)	¥ 729	$(89,802)

12. REAL ESTATE TRUST CONTRACT

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

In addition, the Company entered a "Tokumei Kumiai" agreement with, and made an investment in, the transferee. In order to fairly state the Company's investment at its substantial value, the cumulative amount of investment loss that the Company is responsible for is directly deducted from the balance of the investment, with the excess of cumulative loss over investment being reported in liabilities. As of March 31, 2004, the excess of cumulative loss over investment that was included in other current liabilities was ¥1,888 million ($17,811 thousand). The balances of the investment at March 31, 2004 and 2003 were zero and ¥1,162 million, respectively. The above investment is subordinate to other financial obligations of the transferee.

The term of lease is for five years and one month. The present values of the lease payment obligations unaccrued as of March 31, 2004 and 2003, including an amount equivalent to the prescribed penalties for non-renewal, etc., are included in future minimum lease payments under operating leases as lessee in Note 15.

13. INCOME TAXES

For the year ended March 31, 2002, the statutory tax rate used by the Domestic Companies to calculate deferred tax assets and deferred tax liabilities was 41.7%. For the year ended March 31, 2003, however, the statutory tax rate was changed due to an enacted change in tax laws. As a result, for those temporary differences expected to reverse on or before March 31, 2004, the statutory tax rate applied remained at 41.7%; however, for those temporary differences expected to reverse on or after April 1, 2004, the statutory tax rate was changed from 41.7% to 40.4%. The effect of this change in the statutory tax rate was to decrease deferred tax assets (net of deferred tax liabilities) by ¥2,456 million as of March 31, 2003 and to increase income tax expense for the year ended March 31, 2003 by the same amount. Foreign subsidiaries are subject to income taxes applicable in the countries of domicile.

The effective tax rates reflected in the consolidated statements of income differ from the statutory tax rate for the following reasons. In the following schedule, the statutory tax rate for the years ended March 31, 2004 and 2003 is assumed to be 41.7% with the effect of the tax rate change shown as a component of the reasons that the effective tax rate differs from the 41.7% statutory tax rate for the year ended March 31, 2003.

	2003	2002	2001
For the years ended	March 31, 2004	March 31, 2003	March 31, 2002
Statutory tax rate	41.7%	41.7%	41.7%
Equity in net income of unconsolidated subsidiaries and affiliated companies	(7.1)	(11.4)	(17.0)
Deferred taxes on net operating losses of consolidated subsidiaries and equity method companies	—	(32.7)	—
Taxes on retained earnings of subsidiaries in which investments were sold during this period	—	(2.2)	6.8
Valuation allowances	5.3	(3.6)	(34.3)
Unrealized profits from intercompany transactions	(5.6)	9.9	19.4
Effect of tax rate change	—	8.7	—
Elimination of dividend income from overseas consolidated subsidiaries	—	0.9	7.1
Other	(1.6)	(0.3)	2.3
Effective tax rate	32.7%	11.0%	26.0%

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, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
As of	March 31, 2004	March 31, 2003	March 31, 2004
Deferred tax assets:			
Allowance for doubtful receivables	¥ 7,433	¥ 9,095	$ 70,123
Employees' severance and retirement benefits	76,161	69,443	718,500
Accrued bonuses and other reserves	20,837	19,882	196,575
Inventory valuation	3,641	2,998	34,349
Valuation loss on investment securities, etc.	2,974	2,180	28,057
Recognition of deferred taxes on net operating losses of consolidated subsidiaries and equity method companies	—	9,205	—
Net operating loss carryforwards	21,389	23,438	201,783
Other	57,634	64,646	543,717
Total gross deferred tax assets	190,069	200,887	1,793,104
Less valuation allowance	(11,676)	(14,532)	(110,151)
Total deferred tax assets	178,393	186,355	1,682,953
Deferred tax liabilities:			
Reserves under Special Taxation Measures Law	(5,843)	(6,253)	(55,123)
Other	(4,365)	(4,396)	(41,179)
Total deferred tax liabilities	(10,208)	(10,649)	(96,302)
Net deferred tax assets	¥168,185	¥175,706	$1,586,651

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

	Millions of yen		Thousands of U.S. dollars
As of	2003 March 31, 2004	2002 March 31, 2003	2003 March 31, 2004
Current assets—Deferred taxes	¥ 74,412	¥ 54,398	$ 702,000
Investments and other assets—Deferred taxes	93,953	121,310	886,349
Current liabilities—Other	(1)	(2)	(9)
Other long-term liabilities	(179)	—	(1,689)
Net deferred tax assets	¥168,185	¥175,706	$1,586,651

14. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

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

Forward foreign exchange contracts and currency option contracts are subject to risks of foreign exchange rate changes.

Interest rate swap contracts are subject to risks of interest rate changes.

The policies for derivative transactions of the Company and its consolidated subsidiaries are determined by the Company's president or chief financial officer. Derivative contracts are concluded under the directions of the Company's Financial Services Division in accordance with the established rules of the Company.

Derivative transactions are executed and the balances are managed by each individual company; the president of each company is responsible for the inspection. Also, the Company's Financial Services Division is responsible for overall management on a group-wide basis.

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

Hedging instruments:	Hedged items:
Forward foreign exchange contracts	Foreign currency loans receivable and future transactions
Currency option contracts	Future transactions
Interest rate swap contracts	Interest on borrowings

The following tables summarize market value information as of March 31, 2004 and 2003 of derivative transactions for which hedge accounting has not been applied:

	Millions of yen			Thousands of U.S. dollars		
2003 As of March 31, 2004	Contract amount	Estimated fair value	Unrealized gain (loss)	Contract amount	Estimated fair value	Unrealized gain (loss)
Forward foreign exchange contracts:						
Sell:						
U.S. dollars	¥ 73	¥ 70	¥ 3	$ 689	$ 660	$ 28
Canadian dollars	3,135	3,102	33	29,575	29,264	311
Australian dollars	355	375	(20)	3,349	3,538	(189)
Euro	13,317	13,370	(53)	125,632	126,132	(500)
Sterling pound	8,662	9,080	(418)	81,717	85,661	(3,943)
Swiss franc	764	773	(9)	7,208	7,292	(85)
Buy:						
Thailand baht	2,788	2,785	(3)	26,302	26,274	(28)
	¥29,094	¥29,555	¥(467)	$274,472	$278,821	$(4,406)

2002 As of March 31, 2003	Millions of yen Contract amount	 Estimated fair value	 Unrealized gain (loss)
Forward foreign exchange contracts:			
Sell:			
U.S. dollars	¥ 1,160	¥ 1,134	¥ 26
Canadian dollars	620	656	(36)
Australian dollars	1,695	1,797	(102)
Euro	3,641	3,844	(203)
Sterling pound	4,222	4,190	32
Swiss franc	1,428	1,520	(92)
Buy:			
Australian dollars	3,002	2,864	(138)
	¥15,768	¥16,005	¥(513)

Fair values at year-end are estimated based on prevailing forward exchange rates at that date.

15. LEASES

(a) As lessee

The equivalents of the acquisition costs, accumulated depreciation and net book values of finance leases accounted for as operating leases as of March 31, 2004 and 2003 were as follows:

As of	Millions of yen 2003 March 31, 2004	 2002 March 31, 2003	Thousands of U.S. dollars 2003 March 31, 2004
Acquisition costs for machinery, tools and equipment	¥141,043	¥143,471	$1,330,595
Accumulated depreciation	87,191	81,921	822,557
Net book value	¥ 53,852	¥ 61,550	$ 508,038

Lease payments under non-capitalized finance leases amounted to ¥22,486 million ($212,132 thousand), ¥22,342 million and ¥23,733 million for the years ended March 31, 2004, 2003 and 2002, respectively.

The equivalents of the related depreciation and interest expenses amounted to ¥18,505 million ($174,575 thousand) and ¥2,281 million ($21,519 thousand) for the year ended March 31, 2004, ¥18,638 million and ¥2,671 million for the year ended March 31, 2003, and ¥19,388 million and ¥3,070 million for the year ended March 31, 2002, respectively.

The present values of future minimum lease payments under non-capitalized finance leases and future minimum lease payments under operating leases as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
	Finance leases			Operating leases		
As of	2003 March 31, 2004	2002 March 31, 2003	2003 March 31, 2004	2003 March 31, 2004	2002 March 31, 2003	2003 March 31, 2004
Current portion	¥22,046	¥20,301	$207,981	¥31,115	¥ 6,888	$293,538
Non-current portion	34,346	45,000	324,019	16,322	41,137	153,981
	¥56,392	¥65,301	$532,000	¥47,437	¥48,025	$447,519

(b) As lessor

For the year ended March 31, 2004, there were no lease payments received under finance leases, accounted for as operating leases. Lease payments received under finance leases, accounted for as operating leases, amounted to ¥489 million and ¥1,193 million for the years ended March 31, 2003 and 2002, respectively.

The present values of future minimum lease payments to be received under operating leases as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of	2003 March 31, 2004	2002 March 31, 2003	2003 March 31, 2004
Current portion	¥11	¥13	$104
Non-current portion	22	33	207
	¥33	¥46	$311

16. SEGMENT INFORMATION

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of passenger and commercial vehicles. Net sales, operating income (loss) and identifiable assets related to this industry have exceeded 90% of the respective consolidated amounts. Accordingly, information by industry segment is not shown.

Net sales, operating income (loss) and identifiable assets by geographic area for the years ended March 31, 2004, 2003 and 2002 were as follows:

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

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

2001 For the year ended March 31, 2002	Millions of yen Japan	 North America	 Europe	 Other areas	 Total	 Elimination or corporate	 Consolidated
Net sales:							
Outside customers	¥1,071,430	¥739,896	¥191,005	¥92,583	¥2,094,914	¥ —	¥2,094,914
Inter-area	547,334	28,473	212	11	576,030	(576,030)	—
Total	1,618,764	768,369	191,217	92,594	2,670,944	(576,030)	2,094,914
Costs and expenses	1,594,198	760,210	190,245	89,272	2,633,925	(567,564)	2,066,361
Operating income (loss)	¥ 24,566	¥ 8,159	¥ 972	¥ 3,322	¥ 37,019	¥ (8,466)	¥ 28,553
Total identifiable assets	¥1,555,771	¥223,528	¥ 82,990	¥28,741	¥1,891,030	¥(156,135)	¥1,734,895

2003 For the year ended March 31, 2004	Thousands of U.S. dollars Japan	 North America	 Europe	 Other areas	 Total	 Elimination or corporate	 Consolidated
Net sales:							
Outside customers	$10,914,519	$8,704,453	$6,145,868	$1,745,820	$27,510,660	$ —	$27,510,660
Inter-area	7,151,849	97,991	147,500	2,679	7,400,019	(7,400,019)	—
Total	18,066,368	8,802,444	6,293,368	1,748,499	34,910,679	(7,400,019)	27,510,660
Costs and expenses	17,619,783	8,808,038	6,194,793	1,679,565	34,302,179	(7,453,538)	26,848,641
Operating income (loss)	$ 446,585	$ (5,594)	$ 98,575	$ 68,934	$ 608,500	$ 53,519	$ 662,019
Total identifiable assets	$14,691,717	$1,897,151	$1,283,925	$ 309,028	$18,181,821	$(1,242,453)	$16,939,368

As discussed in Note 3, the fiscal year-ends of 13 consolidated overseas subsidiaries were changed to match the consolidated fiscal year-end of March 31. As a result of this change, net sales increased by ¥166,633 million ($1,572,009 thousand) in North America, ¥148,679 million ($1,402,632 thousand) in Europe, and ¥32,671 million ($308,217 thousand) in Other areas for the year ended March 31, 2004. Also, net sales decreased by ¥6,575 million ($62,028 thousand) in the elimination or corporate category for the year ended March 31, 2004. In addition, operating income decreased by ¥4,382 million ($41,340 thousand) in North America, increased by ¥2,022 million ($19,075 thousand) in Europe, and increased by ¥2,210 million ($20,849 thousand) in Other areas for the year ended March 31, 2004.

Also, as discussed in Note 3, the Company changed the accounting for forward foreign exchange contracts to the standard method. The effect of this change was to increase operating income by ¥4,546 million ($42,887 thousand) in Japan.

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

Furthermore, as discussed in Note 3, the Company changed its method of accounting for directors' and corporate auditors' retirement benefits. The effect of this change on the results of operations for the year ended March 31, 2002 was to increase the operating expenses of the Japan area by ¥167 million and to decrease the operating income by the same amount.

For the years ended March 31, 2004 and 2003, the principal countries included in North America, Europe, and Other areas were: the United States and Canada; Germany, Belgium and England; and Australia and Colombia, respectively. For the year ended March 31, 2002, the principal countries included in North America, Europe, and Other areas were: the United States and Canada; Germany and Belgium; and Australia and Colombia, respectively.

International sales for the years ended March 31, 2004, 2003 and 2002 were as follows:

2003 For the year ended March 31, 2004	Millions of yen North America	 Europe	 Other areas	 Total
International sales	¥936,718	¥659,813	¥473,368	¥2,069,899
Percentage of consolidated net sales	32.1%	22.6%	16.2%	71.0%

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

2001 For the year ended March 31, 2002	Millions of yen North America	 Europe	 Other areas	 Total
International sales	¥776,889	¥228,120	¥278,855	¥1,283,864
Percentage of consolidated net sales	37.1%	10.9%	13.3%	61.3%

2003 For the year ended March 31, 2004	Thousands of U.S. dollars North America	 Europe	 Other areas	 Total
International sales	$8,836,962	$6,224,651	$4,465,736	$19,527,349

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

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

For the years ended March 31, 2003 and 2002, the principal countries included in North America, Europe, and Other areas were: the United States and Canada; Germany and England; and Australia, Thailand and Colombia, respectively.

17. RELATED PARTY TRANSACTIONS

The Company issued guarantees of loans and letters of undertaking to provide guarantees to certain creditors of AutoAlliance International, Inc. ("AAI"), an affiliate which is accounted for by the equity basis. As of March 31, 2004 and 2003, guarantees of loans and letters of undertaking, included in contingent liabilities, covered ¥37,574 million ($354,472 thousand) and ¥44,857 million, respectively, of AAI's obligations.

In addition, the Company transferred (sold) receivables to Primus Financial Services, Inc., a subsidiary of Ford Motor Company. For the years ended March 31, 2004 and 2003, the transactions amounted to ¥262,923 million ($2,480,406 thousand) and ¥310,739 million, respectively, in the aggregate. As of March 31, 2004 and 2003, the ending balances of accounts receivable related to the transactions were ¥3,568 million ($33,660 thousand) and ¥3,850 million, respectively. The terms of the transactions are determined on an arm's length basis.

Also, in the year ended March 31, 2003, the Company issued ¥60,000 million of convertible bonds with stock acquisition rights. Of the bonds, the Company sold ¥20,000 million to FLP Canada, a subsidiary of Ford Motor Company. As of March 31, 2004 and 2003, the ending balances of the bonds with stock acquisition rights held by FLP Canada were ¥20,000 million ($188,679 thousand) and ¥20,000 million, respectively.

18. SUBSEQUENT EVENTS

The following appropriation of retained earnings was approved at a shareholders' meeting held on June 22, 2004:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends: ¥2.00 ($0.02) per share	¥2,434	$22,962

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Mazda Motor Corporation (a Japanese corporation) and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2004, expressed in Japanese yen. These consolidated financial statements are the responsibility of Mazda Motor Corporation's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mazda Motor Corporation and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2004, in conformity with accounting principles generally accepted in Japan.

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

(1) As referred to in Note 3, Mazda Motor Corporation synchronized the fiscal year-end of certain overseas consolidated subsidiaries with the consolidated fiscal year-end in the year ended March 31, 2004. As referred to in Note 3, Mazda Motor Corporation changed its method of accounting for forward foreign exchange contracts in the year ended March 31, 2004.

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

(3) As referred to in Note 3, Mazda Motor Corporation changed its method of accounting for the directors' and corporate auditors' retirement benefits in the year ended March 31, 2002. As referred to in Note 2, in the same year Mazda Motor Corporation and domestic subsidiaries adopted the new Japanese accounting standard for financial instruments with respect to available-for-sale securities.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Hiroshima, Japan
June 23, 2004

DIRECTORY

(As of March 31, 2004)

PLANTS

Plant	Land area (m²)	Products
Hiroshima	2,246,000	Passenger cars and commercial vehicles
Hofu		
Nishinoura	792,000	Passenger cars
Nakanoseki	537,000	Transmissions
Miyoshi	1,667,000	Reciprocating engines and diesel engines

PRINCIPAL SUBSIDIARIES AND AFFILIATES

Company	Capital	Voting rights (%)
Mazda Motor of America, Inc.	$240,000,000	92.6
Mazda Motors (Deutschland) GmbH	Euro 17,895,000	100.0
Mazda Canada Inc.	C$13,000,000	60.0
Mazda Australia Pty, Ltd.	A$31,000,000	100.0
Mazda Motor Logistics Europe N.V.	Euro 13,602,000	100.0
Mazda Motor Europe GmbH	Euro 26,000	100.0*
Mazda Motors UK Ltd.	£4,000,000	100.0
Mazda Autozam Inc.	¥1,725,000,000	100.0
Kanto Mazda Co., Ltd.	¥3,028,000,000	100.0
Tokai Mazda Hanbai Co., Ltd.	¥2,110,000,000	100.0
Kansai Mazda Co., Ltd.	¥962,000,000	100.0
Kyushu Mazda Co., Ltd.	¥826,000,000	100.0
Mazda Parts Kanto Co., Ltd.	¥501,000,000	97.0
Mazda Chuhan Co., Ltd.	¥1,500,000,000	100.0
Kurashiki Kako Co., Ltd.	¥72,000,000	75.0
Malox Co., Ltd.	¥430,000,000	69.2*
Toyo Advanced Technologies Co., Ltd.	¥3,000,000,000	100.0
Mazda Motor International Co., Ltd.	¥115,000,000	100.0
AutoAlliance International, Inc.	$760,000,000	50.0
AutoAlliance (Thailand) Co., Ltd.	Bt5,000,000,000	50.0*

Note: *Including voting rights held by subsidiaries.

CORPORATE DATA

(As of March 31, 2004)

Name:	Mazda Motor Corporation
Founded:	January 1920
Capital:	¥120,078 million
Number of Employees:	35,627

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MAZDA WEBSITE ADDRESS

Additional information is available on Mazda's global website.
URL: http://www.mazda.com

For investors:
URL: http://www.mazda.com/investors/

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STOCK INFORMATION

(As of March 31, 2004)

COMMON STOCK

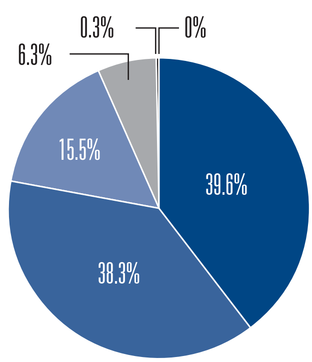
Authorized:	3,000,000,000 shares
Issued:	1,222,496,655 shares
Number of Shareholders:	65,886
Listing:	Tokyo Stock Exchange, First Section
Code:	7261
Fiscal Year-end:	March 31
Transfer Agent:	The Sumitomo Trust & Banking Co., Ltd. 5-33, Kitahama 4-chome, Chuo-ku, Osaka 540-8639, Japan

MAJOR SHAREHOLDERS

Shareholder	No. of Shares Owned	Voting Rights (%)
Ford Automotive International Holding, S.L.	408,175,800	33.6%
Japan Trustee Services Bank, Ltd. (Trust Account)	118,298,000	9.8
The Master Trust Bank of Japan, Ltd. (Trust Account)	47,365,000	3.9
Sumitomo Mitsui Banking Corp.	37,624,500	3.1
Mitsui Sumitomo Insurance Co., Ltd.	32,483,250	2.7
The Tokio Marine and Fire Insurance Co., Ltd.	20,860,000	1.7
Sompo Japan Insurance Inc.	20,212,000	1.7
The Nichido Fire and Marine Insurance Co., Ltd.	19,550,500	1.6
Nippon Life Insurance Company	19,444,215	1.6
Trust & Custody Services Bank, Ltd. (Pension Trust Account)	13,693,000	1.1

BREAKDOWN OF SHAREHOLDERS

Classification	No. of Shares Owned	No. of Shareholders	Ratio (%)
● Foreign institutions & others	484,395,325	309	39.6%
● Japanese financial institutions	467,472,080	111	38.3
● Japanese individuals & others	189,813,118	64,679	15.5
● Other Japanese corporations	76,589,345	744	6.3
● Japanese securities companies	4,175,787	41	0.3
○ Japanese government & municipal corporations	51,000	2	0
Total	1,222,496,655	65,886	100.0




ZOOM-ZOOM

Mazda Motor Corporation

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