Advancing into the Future

Annual Report 2007

Year ended March 31, 2007

Mazda Motor Corporation

Profile

Contents

Established in 1920, Mazda Motor Corporation is an automobile manufacturer headquartered in Hiroshima, in western Japan. It is listed on the Tokyo Stock Exchange and its securities code is 7261. From 2002 through 2006, Mazda introduced a new-generation product lineup imbued with the Mazda DNA which embodies the "Zoom-Zoom" brand message. These Mazda products provide an exhilarating ownership experience to our customers. This year, beginning in Japan, the Company embarked on its worldwide launch of the new Mazda2, which expresses the Mazda brand DNA and offers luxurious ride quality, featuring quiet operation and enhanced environmental and safety functions. This model is the first in a series that elevates Mazda's new-generation product lineup onto an altogether new stage. With the aim of sustainable growth, Mazda introduced the new mid-term plan, "Mazda Advancement Plan," which went into effect in April 2007. This plan builds on the Mazda Momentum Plan that steered the Company from fiscal 2004 to fiscal 2006. The Mazda Advancement Plan focuses on accelerating growth while building Mazda's brand value and enhancing business efficiencies.

Forward-Looking Statements

What is “Zoom-Zoom”?

All children instinctively know it. A few adults still embrace it.
One unique car company refuses to outgrow it.
In grown-up language, it means the exhilaration and liberation from experiencing the emotion of motion.

But as usual, children put it much better and simply call it “Zoom-Zoom.”
At Mazda, we practice it every day.
It’s who we are. It’s why we design and build the kind of cars we do.
“Zoom-Zoom”—let us re-awaken it in you today!

The “Zoom-Zoom” Brand Message

As part of our approach to expressing our unique value direction in markets worldwide, we have defined the Mazda brand DNA as having two key elements: personality and products. The “Zoom-Zoom” message embodies these elements. Expressing the sheer enjoyment of motion we all knew in childhood, this message reflects our determination to help customers reconnect with this feeling through Mazda cars that are packed with innovation and excitement.

Mazda Brand DNA	
Personality	Product
Stylish	Distinctive Design
Insightful	Exceptional Functionality
Spirited	Responsive Handling and Driving Performance

Mazda’s creativity, passion and innovation are dedicated to delivering fun and exhilarating driving experiences to customers who remember the emotion of motion first felt as a child. It’s the “wind-in-your-hair” feeling you get from horseback riding on a crisp fall day, the sense of freedom from cruising down a wooded country lane in a sleek convertible, or the exhilaration that comes from a roller coaster ride.

“Zoom-Zoom” starts with a visual promise. Mazda vehicles are designed to not only catch the eye, they convey an immediate image of youthful exuberance, style and driving fun. Spirited performance is an essential element of Zoom-Zoom. With that goal always in mind, every Mazda vehicle is designed to offer features that continually surprise and delight our customers.

Mazda CX-9

Showcasing Mazda's unique design skills and featuring superbly dynamic performance, the Mazda CX-9 leaves nothing to chance. Embodying the spirit of a sports car, the Mazda CX-9 is a “Zoom-Zoom” seven-passenger crossover SUV that combines practicality with sporty driving.

Mazda CX-7

The roomy interior is housed in advanced urban styling and sophisticated chic. The Mazda CX-7’s 2.3-liter DISI turbo engine provides excellent response and powerful acceleration. This crossover SUV that seats five clearly carries on the Mazda sports car DNA.

Mazda MPV

In addition to fuel efficiency, the 2.3-liter DISI turbo engine delivers powerful acceleration plus strong environmental performance. The large and lavishly appointed cabin, encased in sporty styling, creates a sense of openness. Effortless driving performance and a comfort-filled interior make driving a time of luxury.

Mazda5

The dynamically styled Mazda5 is fun to drive, while its innovative 6+One cabin lets passengers communicate and travel in comfort. A new 2.0-liter direct-injection engine and electronically controlled five-speed automatic transmission boost fuel economy and driving performance.

Mazda6

Dignified and mature, the sophisticated Mazda6 shows off its craftsmanship in painstaking attention to detail. The dauntless exterior and top-end interior achieve a vibrantly dynamic combination that has won more than 130 prizes around the world.

Mazda RX-8

With the new-generation RENESIS rotary engine, the Mazda RX-8 introduces the innovative concept of a four-door, four-seater sports car with thrilling driving power. Full of the Mazda sports car DNA and spirit of challenge, the Mazda RX-8 is a car for car-lovers.

Mazda MX-5

This drop-top is already in the Guinness Book of World Records as the world's best-selling, two-seater, lightweight sports car. Maintaining the concepts of *jinba ittai*, or "rider and horse as one," and "lots of fun," we've continued to improve the Mazda MX-5.

Mazda3

Delivering a powerfully exciting ride and vibrant clarity of styling, this dynamic and compact sports car has chalked up more than 80 awards around the world. The high-performance Mazdaspeed3 model, powered by the 2.3-liter DISI turbo engine, has also been added to the lineup.

Mazda Verisa

Simple, high-quality and modern were the concepts behind the design that breaks the Mazda Verisa out of the compact car stereotype. Offering superlative base performance while also being fun-to-drive, this compact car exudes beauty and attention to detail.

All-New Mazda2

This new model takes the Mazda new-generation product lineup to the next stage. More lightweight by approximately 100 kg, the new Mazda2 is ready to compete in the global marketplace. Styling, drivability, economy...the Mazda2 delivers on a long list of customer requests.

In December 1999, Mazda established a new corporate vision, consisting of three elements: vision, mission and value. This corporate vision defines the goals of the company and its employees, their roles and responsibilities, and the sense of values we embrace in pursuit of our targets.

Vision

To create new value, excite and delight our customers through the best automotive products and services.

Mission

With passion, pride and speed, we actively communicate with our customers to deliver insightful automotive products and services that exceed their expectations.

Value

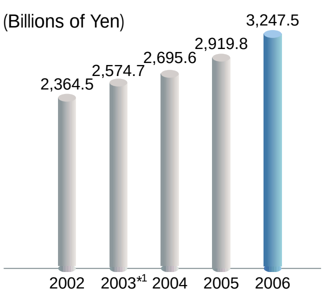
We value integrity, customer focus, creativity, and efficient and nimble actions and respect highly motivated people and team spirit. We positively support environmental matters, safety and society. Guided by these values, we provide superior rewards to all people associated with Mazda.

Note on Model Names:

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

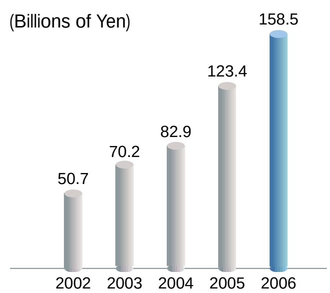
Financial Highlights

Net Sales

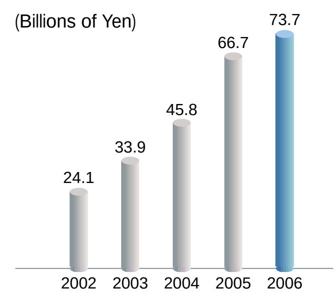


*1 Excluding the effect of a change in fiscal years at overseas subsidiaries

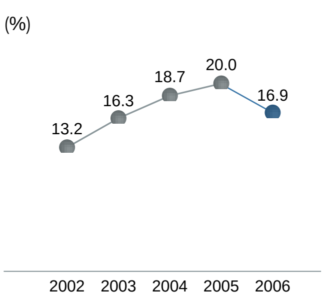
Operating Income



Net Income

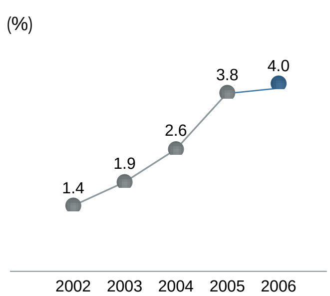


Return on Equity*2 (ROE)

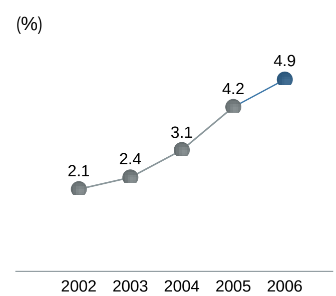


*2 The amounts of equity used in the calculation of return on equity exclude minority interests (and, for current year, stock acquisition rights).

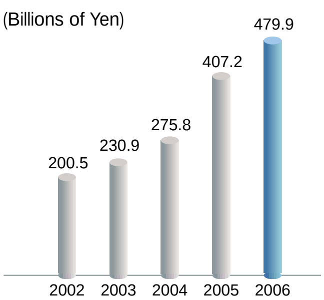
Return on Assets (ROA)



Operating Income Ratio

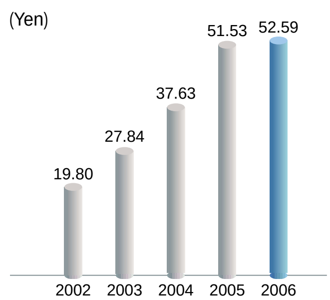


Equity*3

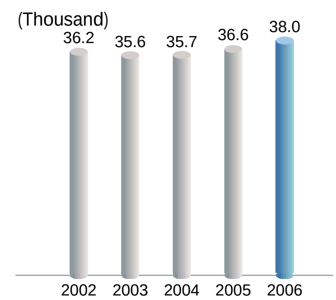


*3 Prior-year amounts have been reclassified to conform to current year presentation to include minority interests as a separate component of equity.

Net Income per Share



Number of Employees



Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of Yen			Increase (decrease)	Thousands of U.S. dollars[*1]
	2006 March 31, 2007	2005 March 30, 2006	2004 March 30, 2005	2006/2005	**2006 March 31,2007**
For the year:					
Net sales	**¥3,247,485**	¥2,919,823	¥2,695,564	11.2%	**$27,521,059**
Operating income	**158,532**	123,435	82,947	28.4%	**1,343,492**
Income before income taxes	**118,450**	117,468	73,847	0.8%	**1,003,814**
Net income	**73,744**	66,711	45,772	10.5%	**624,949**
At the year-end:					
Total assets	**1,907,752**	1,788,659	1,767,846	6.7%	**16,167,390**
Equity[*2]	**479,882**	407,208	275,841	17.8%	**4,066,797**
	Yen				U.S. dollars[*1]
Amounts per share of common stock:					
Net income[*3]	**¥ 52.59**	¥ 51.53	¥ 37.63	2.1%	**$0.45**
Cash dividends applicable to the year[*4]	**6.00**	5.00	3.00	20.0%	**0.05**
Equity[*5]	**336.45**	284.28	220.22	18.4%	**2.85**

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, 2007 of ¥118 to US$1.
2. Prior-year amounts have been reclassified to conform to current year presentation to include minority interests as a separate component of equity.
3. The computations of net income per share of common stock are based on the average number of shares outstanding during each fiscal year.
4. Cash dividends per share represent actual amounts applicable to the respective years.
5. The amounts of equity used in the calculation of equity per share exclude minority interests (and, for the current year, stock acquisition rights).

A Conversation with the President

Representative Director, Chairman of the Board, President and CEO

Hisakazu Imaki

"Mazda posted record earnings once again in fiscal 2006, the last fiscal year of our mid-term plan, Mazda Momentum. Mazda has embarked on a new mid-term plan—the Mazda Advancement Plan—to maintain the growth trajectory that Mazda Momentum has achieved. Progress is already well under way in fiscal 2007, the first year of the new plan, and we will continue to press forward to meet our targets."

Mazda extended its consecutive years of record earnings in fiscal 2006, the final fiscal year of Mazda Momentum. What factors contributed to this achievement?

We set new earnings records in all categories in fiscal 2006, surpassing the records set in fiscal 2005. In addition to higher unit sales and an improved model mix, and the impact of a weaker yen, we benefited from cost reductions that exceeded increases in raw material prices. Consequently, in fiscal 2006, consolidated operating income rose 28.4%, to ¥158.5 billion and ordinary income increased 25.9%, to ¥127.8 billion. Net income rose 10.5%, to ¥73.7 billion. However, it was affected by such extraordinary items as the transfer to the government of the substitution portion of employee pension fund liabilities and a loss on impairment registered in fiscal 2005. Excluding these one-time items, effective annual growth in net income was 26.2%. The operating income ratio was 4.9%, a solid 0.7 percentage point improvement.

We succeeded in maintaining overall growth in sales volumes, thanks to solid sales in North America and Europe and despite sluggish results in Japan and China. We launched the Mazda MPV in Japan in February 2006 and the Mazda CX-7 in North America in May and in Japan in December. In January 2007, we followed up those models with the introduction of the Mazda CX-9 in the North American market. As Mazda's "Zoom-Zoom" approach to products is earning widespread acclaim, product-led growth continues to generate tangible benefits for our business.

The Mazda Momentum Plan concluded in March 2007. What were Mazda's achievements during the plan period? What are some upcoming challenges?

Under Mazda Momentum, we laid the foundation for product-led and full-fledged future growth. Our specific initiatives focused on four areas: reinforcing R&D, strengthening key markets, enhancing global efficiencies and synergies, and leveraging human resources.

In the first area, reinforcing R&D, we have steadily reinforced our development resources and infrastructure. Doing so has allowed us to roll out the 16 market-focused models as planned.

With regard to strengthening key markets, our U.S. exclusive dealership ratio reached 52%, which exceeded the target. We are making steady progress in strengthening our sales capacity by building new dealerships in Japan and expanding our European sales networks. Our Nanjing engine plant came on line this past April, and plans call for vehicle assembly operations to commence by year's end.

Mazda Momentum Achievements — As of March 31, 2007

	Target	Result	Difference
Operating Income (billions of yen)	100.0+	158.5	58.5
Net Debt to Equity Ratio	<100%	49%	51 Pts
Consolidated Wholesales (thousands of units)	1,250	1,177	(73)

Turning to enhancing global efficiencies and synergies, joint program volume, involving our global collaboration with Ford Motor Company, has grown to the 90% level. We have also succeeded in building an infrastructure with our suppliers for even greater efficiencies by means of Integrated Scheduled Production that competitors cannot emulate.

Regarding leveraging human resources, we have built a foundation for cultivating a workforce that will take Mazda into the future, chiefly by means of the Mazda Business Leader Development (MBLD) program and the Family of Experts System, the latter of which is designed to use and pass on the skills, abilities and knowledge of Mazda retirees.

Implementing these key strategies has allowed us to achieve the numerical goals of Mazda Momentum—operating income of more than ¥100 billion and a net debt to equity ratio of less than 100%—a year ahead of schedule. On the other hand, our consolidated wholesales reached 1,177,000 units, short of the target of 1,250,000 units, owing to lower demand in Japan, increased competition and our focus on reinforcing the Mazda brand.

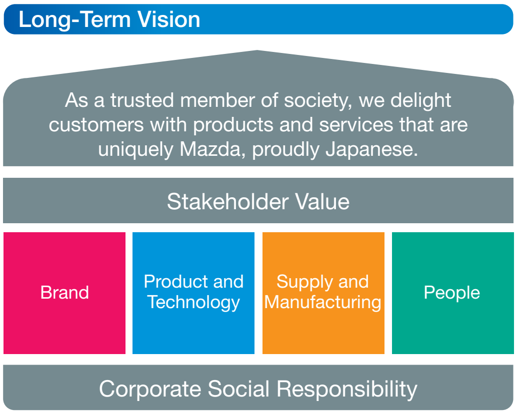
While Mazda Momentum has followed on from the Millennium Plan in terms of significant accomplishments, we are fully aware that there remain issues that demand resolution. We have thus created the Mazda Advancement Plan, which will guide us in achieving our long-term vision of how we see our company in a decade from now. Mazda Advancement Plan's mid-term objectives are:

1. Continue to strengthen brand, owner loyalty and quality;
2. Improve business efficiency in all areas;
3. Build a global production framework; and

4. Further reinforce research and development.

Q Please describe the background of Mazda's long-term vision and the Company's efforts to turn this vision into reality.

During the Mazda Momentum Plan period, we drafted a long-term vision of where we want to be a decade from now. Personnel from across divisions were brought together to form cross-functional teams, which carried out a wide range of studies and reviews. We adopted an approach of aligning each employee with an operating vector that he or she could understand and accept, rather than using a top-down approach. That vector approach is the Mazda way. It is my way. While it has been a time-consuming process, I believe that



persons using their own initiatives will make a significant difference when it comes time to take actions, versus the traditional top-down scheme.

Rather than simply becoming one of the largest automobile manufacturers, our aim is to be admired and trusted by our stakeholders. To that end, we will continue to offer the products and services that only Mazda can, and always provide an exhilarating ownership experience. Our long-term vision is underpinned by four core concepts: the brand, product and technology, supply and manufacturing, and people. We will work to establish a firm financial framework by intensifying the synergies between ourselves and Ford, as well as by reinforcing the Mazda brand as we pursue the "Zoom-Zoom" spirit and making our business more efficient.

Q What are the targets of the new mid-term Mazda Advancement Plan?

This new plan will run from fiscal 2007 through fiscal 2010. The plan's objective is to further strengthen the foundation that was built during Mazda Momentum so as to promote long-term, sustained growth. Targets for fiscal 2010 have been set accordingly, as follows: we will achieve retail sales exceeding 1.6 million units worldwide, operating income over ¥200 billion and a 6% operating income ratio. Plans also call for stability in dividend payments and steady improvements in our dividend payout ratio.

First, we will achieve our growth plan in terms of worldwide retail sales by reinforcing our products and our key markets. Plans call for increasing sales by at least 20% over the four-year life of the plan. We intend to concentrate particularly on the Chinese market, where plans call for doubling our sales.

Fiscal 2010 Targets

Global Retail Volume	1.60+ Million Units
Operating Income	¥200.0+ Billion
Operating Income Ratio	6%
Dividend Payout Ratio	Improve steadily

Mazda will also strive for greater sales growth than was achieved in the fiscal year in review in North America, Europe and other markets. Plans include maintaining our current sales figures in Japan, where we foresee continued challenges in the tough operating environment.

We are making progress toward our operating income target over ¥200 billion through sustained product-led growth and cost reduction. We forecast that factors external to Mazda's operations, which may include but are not limited to, rates of exchange, commodities markets and sales environments, will become increasingly severe over time. Despite these conditions, we will bring our operating income ratio to 6% while making forward-looking investments.

As with Mazda Momentum, we will make Mazda's unique brand bigger and stronger, while leveraging our synergies with Ford to the utmost. During the Mazda Advancement Plan period, we will accelerate our structural reform centering on Monotsukuri Innovation and to strive for steady progress. At the same time, we will continue to maintain our current trajectory of growth. Achieving our fiscal 2010 targets is not easy and will require initiative and determination, qualities that we are bringing to bear.

Q Monotsukuri Innovation is at the heart of the Mazda Advancement Plan. Would you please describe what Monotsukuri Innovation is?

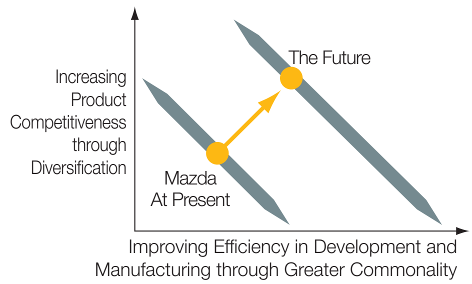
Monotsukuri Innovation, the very important concept, is to meet diverse customers' needs and to realize both flexibility that continuously improves products competitiveness and commonality that drastically enhance efficiency in development and production. To implement this innovation, we will work together with our suppliers as one multi-discipline team. As a result, we will be able to manufacture our products in a leaner, more flexible way.

Q What underlies the decision to strengthen Mazda's production capacity within Japan, and what are your thoughts regarding how to respond to the resulting increased exchange rate risk?

Mazda's fundamental policy regarding supply is to expand our manufacturing capacity by taking full advantage of our efficiencies, while taking into account marketplace demand and available resources. Accordingly, in fiscal 2007 we will increase production capacity at our Hiroshima and Hofu plants, resulting in an increase of about 98,000 units, or approximately 11% more than our existing manufacturing capacity, for a total capacity of 996,000 units. We will also increase our engine manufacturing capacity.

Our intent is to improve profitability through greater efficiency, rather than by expanding the scale of our operations. Monotsukuri Innovation forms the basis of this concept. Under the aegis of Monotsukuri Innovation, we will pursue greater efficiency by involving R&D, production, sales divisions and even suppliers in the product planning stage based on the "One Mazda" concept.

Business Efficiency—Monotsukuri Innovation



Implementing the Mazda Monotsukuri Innovation
Multidisciplinary approach to realize product competitiveness and manufacturing efficiency

Naturally, we must be prepared for risks associated with currency exchange. We are reviewing the possible construction of a new plant in Thailand. In addition, we are using optimized global procurement and cost cutting to ensure that we continue to be cost-competitive.

Q "Sustainable Zoom-Zoom" was announced together with the Mazda Advancement Plan. Would you please describe that concept, as well as how Mazda is responding to environmental issues?

"Sustainable Zoom-Zoom" refers to a long-term vision for technology development that will raise the value of the Mazda brand. With this concept in mind, everyone in the Mazda Group is working on developing technologies to deal with the various issues the automobile is confronting, with the aim of achieving a sustainable future.

In more concrete terms, Mazda will intensify the pace of its pursuit of harmony between driving pleasure and environmental and safety features to help bring about a sustainable social framework, one in which everyone may enjoy the happiness and excitement that comes from automobiles, with a clear conscience. Our hope is that the excitement and fun that Mazda vehicles offer to our customers will contribute to the maturation of a socially responsible culture, one that will bring about a sustainable future.

Mazda is clearly making progress in its work on environmental concerns. Our aim in this regard is to introduce, in stages, highly efficient, environmentally cleaner powertrains, as well as a brand new, lightweight and safe product platforms. We also have a wide range of technological development efforts under way to improve traffic congestion and road safety. Examples include human–machine interface technology and a driver's cockpit design that assists the driver in identifying and making decisions based on traffic conditions, as well as improving dynamic performance to realize automobiles with advanced collision avoidance systems.

Q What is Mazda doing to enhance shareholder and enterprise value?

Mazda is fully cognizant of the need to meet the expectations of its shareholders concerning dividends. Our objective is to pay a dividend that will be sustainable over the long term, even as we enhance our corporate performance and strengthen our balance sheet. We are also taking steps to make steady improvements to our dividend payout ratio. The first of these has been to increase the dividend per share by ¥1 for fiscal 2006—as we did in the previous fiscal year—to ¥6. We also plan to commence paying interim dividends for the first time in 15 years. Plans call for an interim dividend payment of ¥3 and a year-end dividend payment of ¥3 in fiscal 2007.

Q What are the Mazda Group's aspirations going forward?

Our aim is to move ever closer to our vision of the future by properly carrying out our targets for fiscal 2007, the inaugural year of the Mazda Advancement Plan.

Up to now, Mazda has been focused on operating from one day to the next. Now, however, we have reached a point where we can look ahead, where we can think about tomorrow. This does not mean, however, that Mazda has excess reserves to fall back on. We will continue to move forward one step at a time to ensure steadily enhanced shareholder and corporate value.

June 2007

Hisakazu Imaki

Representative Director, Chairman of the Board, President and CEO

New Mid-Term Plan

Mazda Advancement Plan

Building on the foundations laid by Mazda Momentum, we are accelerating business structural reforms centering on Monotsukuri Innovation.
To achieve the goals we set for 10 years hence, which are outlined in our long-term vision, our new mid-term management plan—the Mazda Advancement Plan—sets growth targets for the four-year period concluding in the fiscal year ending March 31, 2011.
Mazda is steadily advancing into the future.

Long-Term Vision

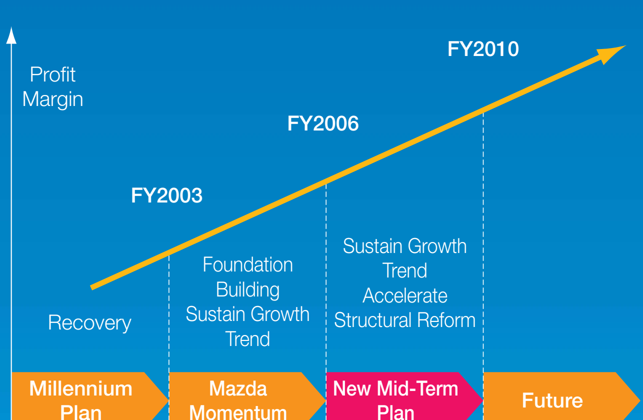
As a trusted member of society, we delight customers with products and services that are uniquely Mazda, proudly Japanese.

Stakeholder Value

Brand	Product and Technology	Supply and Manufacturing	People

Corporate Social Responsibility

Overview of the Mid-Term Plans



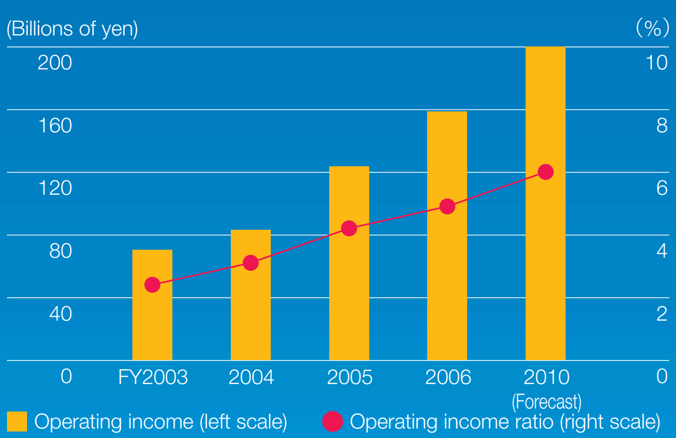
Targets for Fiscal 2010

Global retail volume	1.6+ million units
Operating income	¥200+ billion
Operating income ratio	6%
Dividend payout ratio	Improve steadily

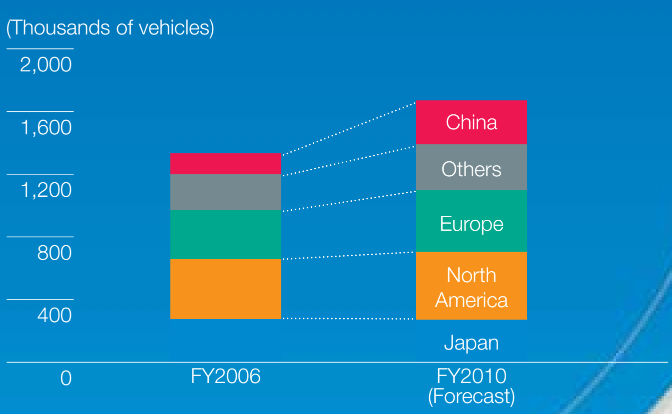
The Mazda Advancement Plan sets four targets for fiscal 2010. The first, a global retail volume of more than 1.6 million units, amounts to a 23% increase from our fiscal 2006 total. We will achieve this goal by introducing new products and strengthening our operations in our core markets. We will earn operating income of ¥200 billion or more, our second target, through sustained product-led growth and by continuing to curtail costs. Our third target is a consolidated operating income ratio of 6%, while continuing to make larger investments in research and development and manufacturing efficiency. Finally, moving on from our goal of stable dividends, we plan to steadily raise the payout ratio.

In support of Mazda's efforts to achieve these goals, our long-term vision is defined by four pillars: brand, product and technology, supply and manufacturing, and people. We are promoting specific measures for each of these.

Operating Income/Operating Income Ratio



Global Retail Volume



Brand

To steadily build brand value, Mazda is implementing measures to ensure effectiveness in each of its key markets. These include strengthening our product lineup, improving owner loyalty and expanding our sales network.

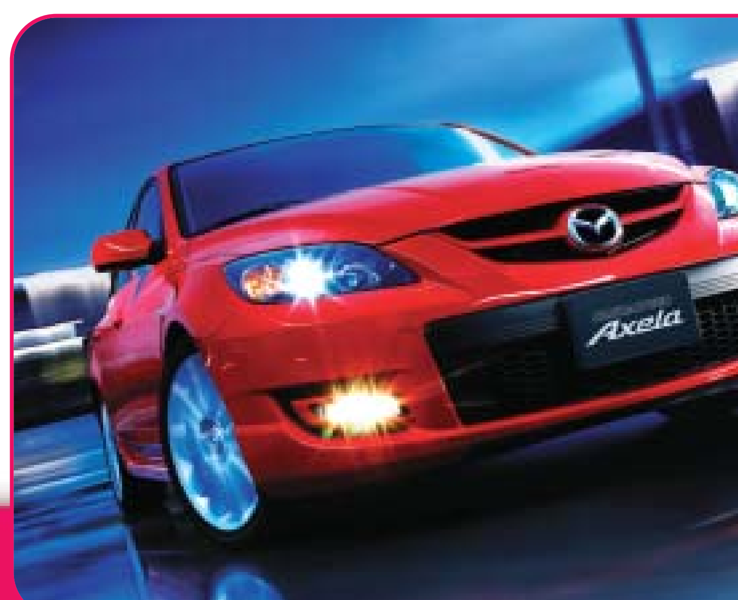
North America

In North America, an essential growth market for Mazda, we are working to raise profitability. To this end, we are reflecting customer feedback to improve our products and will continue to improve customer contact in a variety of areas. In line with our brand strategy, we will accelerate openings of next-generation outlets and work to raise sales efficiency at exclusive outlets. At the same time, we aim to strengthen marketing measures to create a stronger base of Generation Y customers*.

* Generation Y customers: Generation Y designates people born after the mid-1970s. The values, consumption patterns and lifestyle common to this consumer group are factors that are affecting the marketplace.

Japan

In the Japanese market, which is afflicted by stagnant overall demand, we are focusing on boosting profitability. The key is to boost our product lineup in segments where demand is strong. To reinforce our sales network, we are accelerating the opening of new dealerships primarily in the Tokyo metropolitan area and raising dealership profitability. We will also continue to promote the Mazda brand.



Europe

To enhance sales in Europe, which are already robust, we need to further develop our powertrains—the heart of any automobile—and boost customer satisfaction. To sustain sales in our core and mature markets in western Europe, we will improve dealer sales efficiency and accelerate outlet openings in key urban areas. We will also advance selectively into emerging markets.

China

To support Mazda's future growth in China, in April 2007, we began operations at an engine plant in Nanjing, and introduced Mazda manufacturing methods. We aim to commence operations at a new vehicle assembly plant by the end of 2007 and operate the two plants in a stable manner. We will increase our number of outlets in China to approximately 300 by 2010, supporting anticipated annual sales of 300,000 units. Mazda will also introduce products efficiently and continue to build our "Zoom-Zoom" brand message.

Other Markets

In ASEAN nations and Australia, we will strengthen our product lineup. As part of this initiative, Mazda will introduce the Mazda CX-7 and the Mazda CX-9 in Australia. We will also reinforce sales in growing markets, particularly in major cities. Mazda intends to raise the functionality of its ASEAN management company and increase customer satisfaction in Australia through Customer Relationship Management (CRM)*.

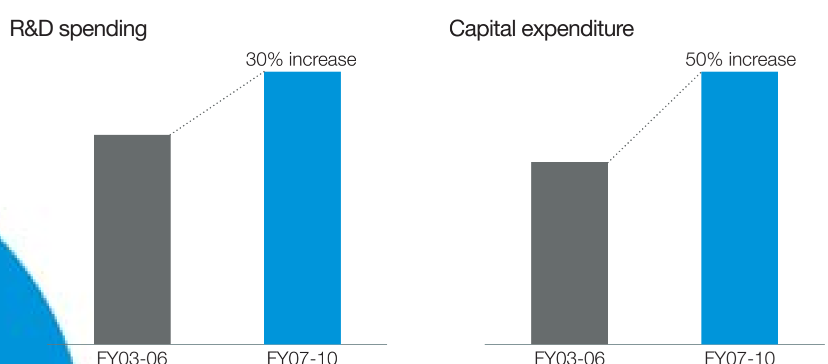
* CRM: Processes and implementation systems designed to enhance customer satisfaction

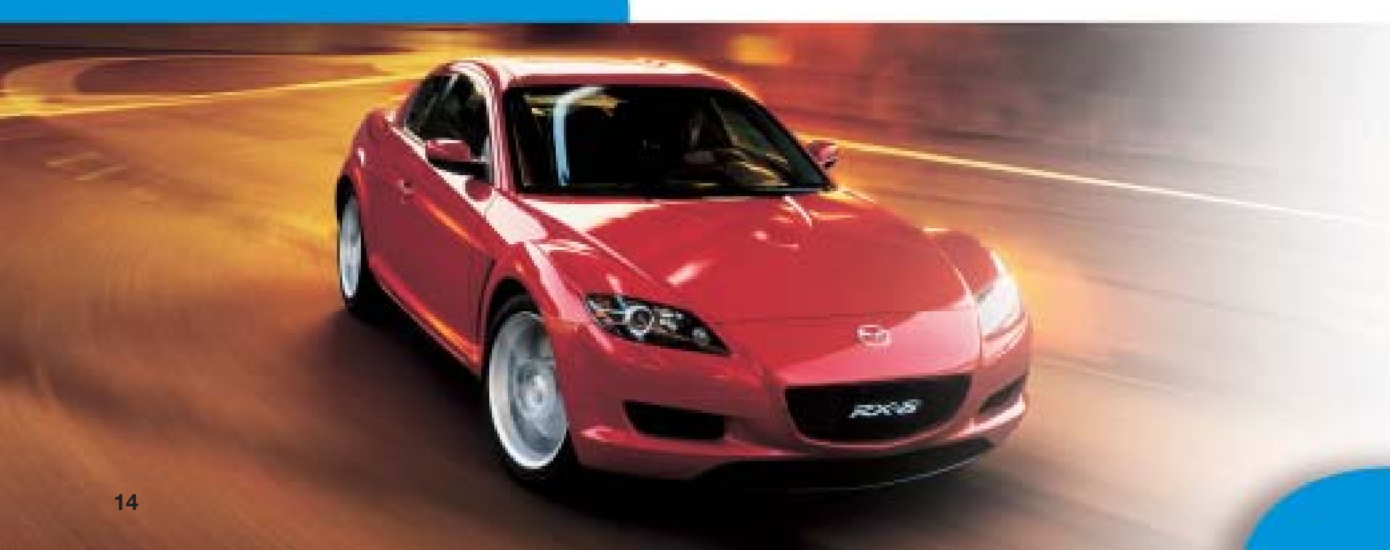
Product and Technology

Through product and technology developments, Mazda will continue to boost its product-led growth. At the same time, we will strengthen technology development, particularly in response to environmental and safety measures. Accordingly, R&D and capital expenditures will increase significantly. During the four years covered by the Mazda Advancement Plan, we plan to increase R&D spending by 30% and raise capital spending 50% compared with the previous four years.

In terms of future product strategies, we will concentrate on brand building and raising business efficiency in line with the product-led growth in phase three and phase four during the Mazda Advancement Plan time frame. We will enhance the brand by further advancing our products introduced during the Millennium Plan and Mazda Momentum. Similarly, during the period of the Mazda Advancement Plan we will accelerate new

Investing in Development





technology development and improve business efficiency to achieve major advances on our next-generation product lineup after 2011. Specifically, we will implement full model changes during the next two years on the B, C and CD cars, further advancing core models. The first model in this process is the new Mazda2. We will also cultivate the development of the core models that will supersede our C and CD cars. Based on Monotsukuri Innovation, during phase six we will introduce our next-generation product lineup that employs new technologies, centered on advanced technical developments that emphasize powertrains and platforms, and further reinforce our business foundation. Mazda will pursue further business growth after 2011.

Overview of Product Strategies

'02 '03 — Millennium	'04 '05 '06 — Momentum	'07 '08 '09 '10 — Advancement	'11
Phase 3	**Phase 4**	**Phase 5**	**Phase 6**
Core Full-model changes on B, C, CD and sports models	New Mazda CX-7 and Mazda CX-9 models with a new core platform	New product lineup promotion • New Demio, C and CD models • New core models	Introduction of next-generation product lineup using new technologies
		Enhance business foundation • Mazda Monotsukuri Innovation • Accelerate new technology development New powertrains and platforms	Further business growth

Supply and Manufacturing

We consider our overriding management focuses to be: 1) ensuring efficient capacity expansion matched with growth, 2) enhancing the quality and cost competitiveness of our existing footprint and 3) working toward future capacity expansion based on sales demand. We will expand capacity based on market demand and available resources while leveraging efficiencies in Japan.

At our production bases in Japan, we will raise production capacity efficiently, swiftly and with minimum investment. Specifically, we will raise production capacity at our Hiroshima and Hofu plants by 98,000 units, to 996,000 units, by the end of 2007. In terms of powertrains, in October 2006, we raised production capacity of the MZR engine and automatic transmissions, and we will continue to increase engine production capacity in the future.

Overseas, we introduced Mazda's manufacturing methods and smoothly launched the Nanjing plant. This engine factory began operations in April 2007. At present, the plant is mass-producing BZ-series engines. Before the end of 2007, we also aim to begin operations at a new vehicle assembly plant that is slated to manufacture the new Mazda2 for the Chinese market.

We will maximize production at overseas plants and focus on boosting quality and cost competitiveness. In North America, we will strive to raise the efficiency of AutoAlliance International. We have introduced Mazda's manufacturing methods and are endeavoring to raise the quality and cost competitiveness of the Mazda6. In the ASEAN region, initiatives are in place to cultivate local technical staff and other employees through AutoAlliance Thailand.

Mazda Cumulative Domestic Production Reaches 40 Million Units

In July 2007, Mazda held a commemorative ceremony to mark its 40 millionth unit of cumulative production in Japan—a level achieved 75 years and nine months after beginning production of three-wheeled trucks in 1931. At the ceremony, President Imaki noted, "The support of our customers allowed Mazda to reach this milestone. It is also the result of the steadfast efforts of the many employees and people associated with Mazda who have worked together from our founding to the present. Mazda's appetite for embracing challenges and its spirited corporate culture drive us to develop new technologies and create new value. Achieving this record is a breakthrough on our road to further growth, and Mazda will continue to provide its customers with cars that look inviting to drive, are fun to drive and make you want to drive them again."

Hofu Plant

Mixed Model Production of V6 and In-Line Four-Cylinder Engines

—Industry's First Engine Parts Machining Line to Achieve Volume and Model Mix Flexible Production—

In May 2007, Mazda began mixed production of its new 3.7-liter V6 engine and a current in-line four-cylinder gasoline engine on an engine parts machining line. The new V6 engine is mounted on the 2008 Mazda CX-9 for the U.S. market. Jigs and tools that were previously specific to each engine model have been replaced with generic equipment, resulting in a consolidated process. In addition to reducing capital investment, this approach enabled Volume and Model Mix Flexible Production.

This process uses Mazda's cutting-edge production and manufacturing technologies on the engine parts machining line that simultaneously achieves efficiency and diversification. This flexible production is a concrete first step toward realizing Mazda's concept of Monotsukuri Innovation. Going forward, Mazda plans to steadily introduce advanced functions planned and designed around Monotsukuri Innovation into all of its plants in Japan and overseas to enhance brand value and business efficiency in its manufacturing.

The further reinforcement of *monotsukuri* and product development capabilities are essential to the successful expansion of production capacity overseas. For this reason, even if production volumes are low, we will pursue Monotsukuri Innovation as we work to achieve innovative design and production, which enables "Volume and Model Mix Flexible Production" that is competitive in both quality and cost. More specifically, at the product development stage, we will expand our use of common architecture that transcends car lines. This commonality will enable Mazda to benefit from economies of scale in its procurement. At the same time, we will be able to realize "Volume and Model Mix Flexible Production" leading to swifter changes in unit production and faster new model introduction with minimum investment.

Looking toward future capacity increases, we expect to build production capacity that balances our strength in sales, and optimizes our responsiveness to future demand fluctuations. In short, we plan to maintain current production capacity in Japan while raising capacity overseas.

People

Driving Mazda's growth are the individual employees that make up the Mazda Group. We conduct the following activities to cultivate the growth of our people.

We Encourage Each Person to Have a Management-Oriented Mindset, and to Individually Consider the Company's Situation

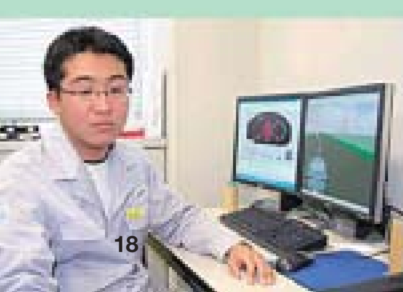
All employees participate in the Mazda Business Leader Development Program. During this course, employees discuss the current status of the Company, as well as its future direction, and work together to achieve common goals. We began offering this course in 2000. We plan to continue the course, which has become part of Mazda's corporate culture.

Cultivating the Management Cadre for the Mazda Group of Tomorrow

In the Global Leader Program designed to nurture the Company's next-generation management candidates, employees learn about management essentials and mindsets. The program is selective and is conducted for employees handpicked from Mazda Group locations around the world. Employees selected to participate have the opportunity to communicate with the Company's top management, are dispatched to universities around the world and work as a team to address management issues. Such hands-on experience develops leadership skills, broadens participants' horizons and hones their strategic creativity. In this manner, Mazda trains the people who will become its next-generation management leaders.

Applying Mazda-Specific Qualifications and Technical Expertise

The Family of Experts provides experienced engineers who have passed the statutory retirement age with ample opportunity to




continue to apply their advanced qualifications and technical expertise in car manufacturing. To ensure that intangible intellectual assets are passed on to the next generation, Mazda is expanding a wide range of training systems.

The education of our people continues well past the end of training. During the timeframe of the Mazda Advancement Plan, the Mazda Group will implement the following three initiatives for all employees.

Employment of People on a Global Scale

To grow through the “One Mazda” concept, in which all Mazda Group members share a common spirit, we will disseminate Mazda values and behavioral standards globally. In addition to training people in each region to lead the global business, we will formulate personnel management systems that allocate and employ people worldwide.

Development of People to Support a Thriving Workplace

To maximize the potential of each workplace to contribute towards achieving Monotsukuri Innovation, we will enhance our tradition of passing on qualifications and technical expertise that support the creativity unique to Mazda.

Creation of an Environment and Atmosphere to Stimulate Individuals in Their Work

The Mazda Group will enable each individual employee to make the most of his or her capabilities through an evolution in working styles that features a diverse employment system. Mazda is promoting various measures to achieve a work-life balance. We will also further activities to take advantage of human resource diversity.

In May 2007, Mazda received next-generation *kurumin* certification from the Ministry of Health, Labor and Welfare for the introduction of measures to support a work-life balance. For example, in 2002, Mazda became the first company in the industry to open a childcare center within its business facilities. This certification underscores Mazda’s aim to be a company that provides a fulfilling workplace environment that takes into account the lifestyles of each of its employees and grows in tandem with its people.

A Long-Term Vision for Technology Development

"Sustainable Zoom-Zoom"

Mazda is working toward a sustainable future that brings continued happiness and excitement to people in a global society by developing vehicles that look inviting to drive, are fun to drive, and make you want to drive them again.

"Sustainable Zoom-Zoom" is our long-term vision for technological development, wherein we work toward harmony between driving pleasure on the one hand and environmental friendliness on the other. The technology development plan that underpins this vision involves increasing the value of the Mazda brand by pursuing attractive styling and driving pleasure, while also providing enhanced environmental friendliness and safety.

Toward a Sustainable Future for the Global Environment

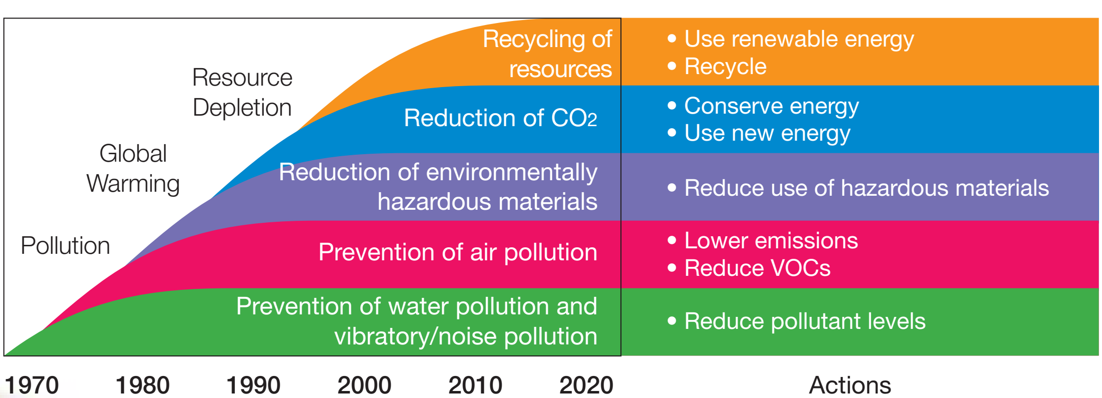
Economic Growth and Environmental Concerns

Since the Industrial Revolution, mankind has seen significant cultural as well as economic advances. We have gained comfort, convenience and entertainment as never before. At the same time, these gains have placed an increasing burden on the environment, as a consequence of our accelerating consumption of natural resources. If we continue consuming such vital natural resources as fossil fuels at or above our current rates, natural reserves will dry up. Of equal if not greater concern are the various pollutants emitted as a consequence of consumption. Global warming caused by carbon dioxide (CO_2) is of particular concern.

The chart below depicts environmental concerns cited over the past 40 years. The chart reveals the progression of environmental matters from local to global concerns.

Individuals and governments must collaborate to advance comprehensive initiatives aimed at solving these problems while there is still time. Our mission is to create a recyclable, sustainable society, one that enables us to thrive without further damaging the environment (see

Economic Growth and Environmental Concerns



page 40, the Mazda Global Environmental Charter).

Issues Confronting the Automotive Industry and the Industry's Response

Within the automotive industry, at this time, the most practical and economically viable source of energy is fossil fuels. As more automobiles are driven worldwide, we must work harder to reduce CO_2 emissions, whether through purifying exhaust gases or by improving fuel consumption efficiency. At the same time, ongoing efforts are aimed at ending the industry's dependence on fossil fuels.

Initiatives are under way to produce biomass for fuel on a commercial scale, chiefly in South America, northern Europe and the United States. Practical electric-powered cars are restricted to short-range travel, due to the existing technological limitations of their batteries. Hydrogen is an even more limited fuel source, albeit one that is widely regarded by government agencies and private organizations as most likely to become the primary fuel for transportation. The environmental issues that confront the automotive industry have a number of facets—in particular, they vary by global region, vehicle properties and time periods. The automotive industry must accordingly have a wide range of solutions on hand. The problems cannot be solved by the industry alone, however. Governments and other public-sector agencies must participate in a collaborative manner, along with industrial sectors, such as energy and transportation, and last but not least, each of us.

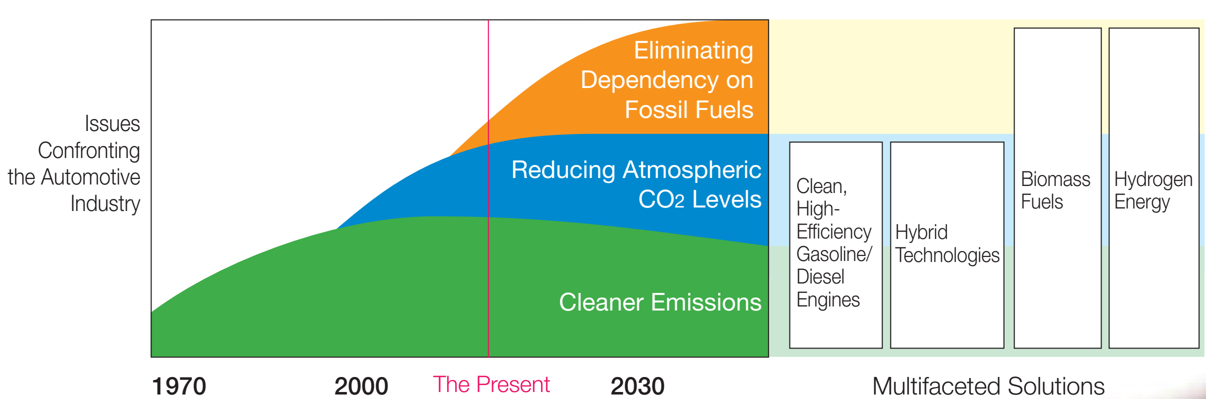
Toward a Sustainable Future for Road Traffic

The automotive industry realizes that people are harmed, even killed, by cars, which are by design meant to help people get around, experience the joy of driving, and share enjoyable times with friends and family. Despite a trend of declining fatalities in developed nations owing to advances in impact absorption technologies, overall injury and fatality rates continue to increase worldwide.

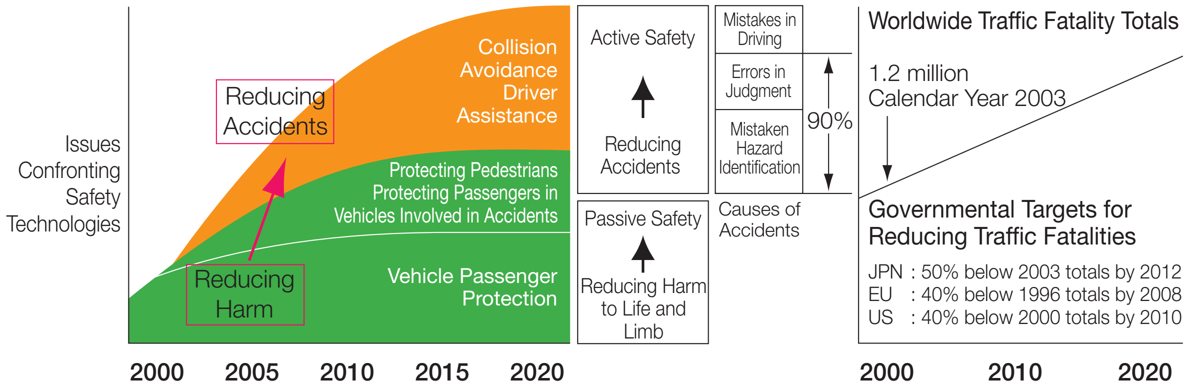
Governments everywhere are taking steps to reduce traffic fatalities. Going forward, the automotive industry must undertake initiatives, not only to develop technologies to further reduce casualties, including cases of cars hitting pedestrians, or when cars collide with other cars, but also to avoid accidents altogether.

Findings suggest that some 90% of all accidents are caused by human error, such as drivers' failure to identify or make correct decisions about road hazards. We need to combine a wide range of technologies to create cars capable of avoiding accidents—in other words, cars that reduce or eliminate collisions. While the automotive industry can do

Issues Confronting the Automotive Industry and the Industry's Response



Traffic fatalities are rising annually worldwide.
We must reduce the loss of life and limb, as well as the occurrence of accidents.

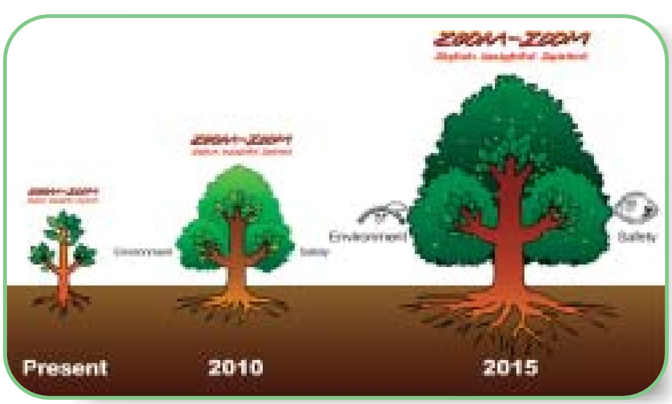


some of the work on its own, we hope for additional technologies that may prove useful, in conjunction with developments in societies' infrastructures. Local and national governments are investigating the possibilities, and the automotive industry will not falter in offering ideas and cooperation.

If we are to create a sustainable society, governments, the private sector and all of us must work together toward this end. Mazda will make recommendations to government and society at large, and educate drivers everywhere about safety concerns, in addition to its commitment to advancing technology.

A Long-Term Vision for Technology Development: "Sustainable Zoom-Zoom"

The preceding pages provide Mazda's statement of policy concerning its plans for future automotive development. In addition, we will cultivate the "Zoom-Zoom Tree" so that it grows larger. As is apparent from the illustration, the crown of the tree represents the qualities of being stylish, insightful and spirited, with the solid branches on either side representing the environment and safety, respectively. The tree also has thick roots sunk deep into the ground, signifying Mazda's technological prowess. These roots will grow even deeper, absorbing the nutrients represented by Mazda's corporate culture. These nutrients will make the trunk, the crown and the branches thicker and more solid, and produce ever more lush leaves.



The section beginning on page 24 describes the initiatives in technology development that Mazda will undertake going forward, in order to make the "Zoom-Zoom Tree" grow larger.

Mazda Celebrates the 40th Anniversary of the Rotary Engine Vehicle

In May 2007, Mazda celebrated its 40th anniversary of selling automobiles powered by rotary engines. As of April 30, 2007, Mazda had manufactured approximately 1.97 million such vehicles. “It took an unwavering outlook, rooted in a corporate culture that wasn’t afraid to take risks, to make the rotary engine work,” said Hisakazu Imaki, president of Mazda. “These attributes can truly be said to characterize Mazda as it is today. As I said in March 2007, when I made the ‘Sustainable Zoom-Zoom’ announcement, Mazda will continue its research and development efforts into rotary engine technology. We anticipate that the hydrogen-powered version of the rotary engine will become the next generation of environmentally friendly engine technologies. This incarnation of the technology has reached the practical application stage. We intend to create greater value still in the rotary engine through further research and development, in times to come.”

Since the late 1950s, automotive companies worldwide have been involved in R&D efforts aimed at building a commercially viable rotary engine. Many companies gave up, however, overwhelmed by technical problems. Mazda surmounted these problems, and successfully entered into the full-fledged manufacturing of automobiles powered by rotary engines. In May 1967, Mazda rolled out the Cosmo Sport, the world’s first dual-rotor, rotary-engine-powered vehicle. Other rotary-engine-powered vehicles soon followed, such as the Familia Rotary Coupe, Savanna, RX-7 and Eunos Cosmo. Mazda continues to market rotary-engine-powered vehicles, making ongoing improvements to the technology in such varied aspects as fuel economy and environmental friendliness. In 1991, the Mazda 787B became the first rotary-engine-powered vehicle, and Mazda, the only Japanese automobile manufacturer to win the Le Mans 24-Hours endurance race. Mazda has also won numerous other motor sports competitions.

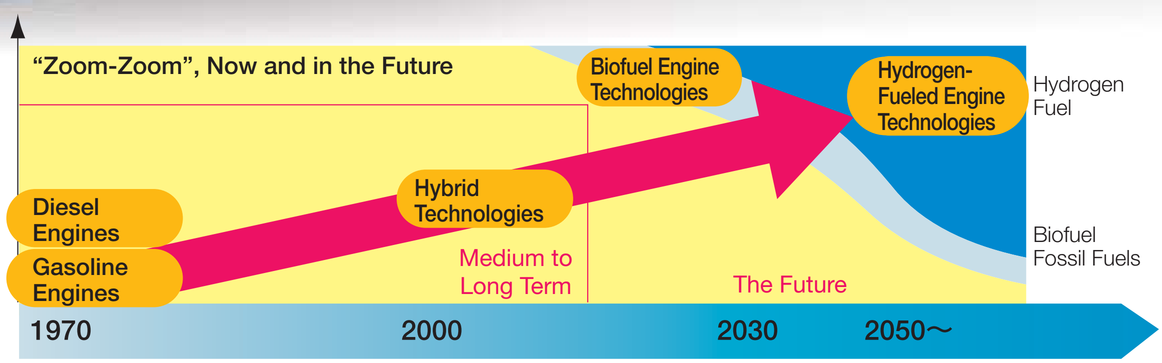
Mazda has been involved in the development of a hydrogen fuel rotary engine. Such a system emits only trace elements of CO_2 gas, one of the exhaust products that contribute to global warming. In February 2006, Mazda began commercial leasing of its Mazda RX-8 Hydrogen RE (Rotary Engine) in Japan.

Mazda Powertrains

Vision:
Pursue powertrain technologies that will excite customers, make our cars fun to drive, and will make them want to drive them again.

Policies:
Medium to Long Term
- Combine strong, dynamic performance with the environmental friendliness that customers demand;

Future
- Continue to advance internal combustion technology and pursue hydrogen combustion technology; and
- In the course of our progress, introduce technologies as they become practical, paving our way to the future.



Mazda is improving dynamic performance to realize its vision for its powertrains. The Company is also improving its powertrain's environmental friendliness, so customers can savor its performance to the fullest. In the near future, Mazda will significantly overhaul the performance and fuel economy of its models powered by gasoline and diesel internal combustion engines. The Company will add vehicles powered by biofuels and hybrid technologies over the near term, and is making sustained research efforts into hydrogen-fuel-powered engines as well. The latter effort is to prepare for the eventual emergence of a hydrogen fuel-based society. At Mazda, we consider powertrain enhancements to be a critical concern for performance and fiscal reasons, and accordingly we are earmarking resources for this area.

Reciprocating Gasoline Engines

In October 2005, Mazda announced it would unveil the proprietary Smart Idling Stop System (SISS). SISS will be introduced in the Mazda Advancement Plan period. The technology noticeably improves fuel economy. Plans also call for the adoption of an E85-compatible* flexible fuel engine during the term of the Mazda Advancement Plan. We expect that by the early part of the 2010s, practically all of Mazda's engine lineup will be replaced with all-new engines built on optimal-combustion technologies.

* An automobile fuel mixture consisting of 85% ethanol and 15% gasoline

Diesel Engines

Recently, diesel engine technologies featuring reduced CO_2 emissions have gained worldwide attention. The diesel engines that Mazda manufactures have received tremendous acclaim in European markets. Mazda is drawing on its accumulated experience to develop even more advanced diesel engines that comply with emissions standards in North America and Japan and offer improved fuel economy.

Automatic Transmissions

Mazda is developing new transmissions combining the direct gear shift sensation of a manual transmission with greater fuel economy, making them worthy of the Mazda “Zoom-Zoom” concept.

Rotary Engines

Mazda is not resting on its laurels where rotary engine advances are concerned. The rotary engine has been called the heart and soul of Mazda and plans call for significant improvements to performance and fuel economy, chiefly through such technologies as direct fuel injection and rapid combustion.

Future Technology Developments

Mazda began leasing the hydrogen-powered rotary engine vehicles in fiscal 2005. The question now is what sorts of cars will we be driving when the hydrogen economy really takes off?

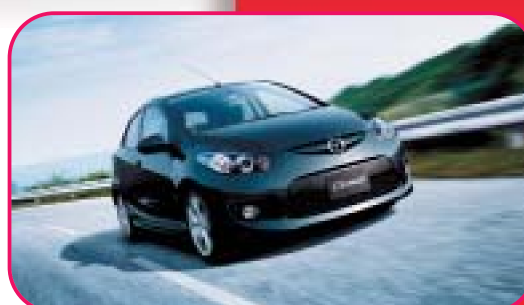
At Mazda, we remain convinced of the viability of internal combustion engines, because they have a flexibility not easily found in other engine technologies. Utilizing the rotary engine, which is well suited for hydrogen fuel combustion, allows us to build cars that can switch between hydrogen fuel and conventional gasoline. By leveraging this established technology, we can offer a more practical version of a hydrogen-powered automobile than one without such capabilities. In addition, we know that some of our customers, as well as our Mazda engineers, do not want to give up the sensual thrill that only internal combustion engines can provide.

As one specific move in this direction, we will introduce the Mazda5 Hydrogen RE Hybrid into the market in fiscal 2008, and plans are being drafted to bring other models to market that use Mazda’s proprietary hybrid technologies. Going forward, Mazda also plans to develop other hydrogen-powered rotary engine hybrid models that take advantage of its new rotary engine to combine “Zoom-Zoom” with practicality.

Mazda Vehicle Technologies

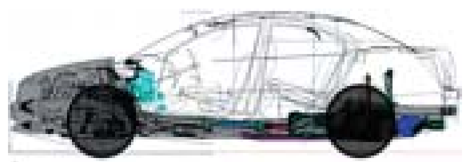
Vision:
Pursue platform technologies that will excite customers, make our cars fun to drive, and will make them want to drive them again.

Policies:
- Automotive technologies that feature styling which will captivate customers;
- A safe and pleasurable driving experience;
- Automated collision avoidance technologies that assist in safe driving;
- Using lightweight construction to improve driving performance and reduce CO_2 emissions.



Design and Platform

Mazda is steadily rolling out new platforms that combine advances in its world-renowned dynamic automotive performance with a lighter body weight, the latter providing improved fuel economy. The all-new Mazda2, which went on sale in Japan in July 2007, represents the first entry in a new platform to come to market. Weighing 100 kg (220 lb) less than its predecessor, this car offers driving performance worthy of the “Zoom-Zoom” promise, with top-class fuel economy, as well as superior safety features. Plans call for new platforms to be introduced gradually across our entire model lineup from 2010.



Safety Technologies

Mazda is developing its next-generation platforms which will support “Zoom-Zoom” safety features. Our human-machine interface (HMI) aids drivers in accurately identifying and making decisions while driving, a feature that we think is only going to increase in importance. One example of this interface is the development of a universal driver’s cockpit, designed to allow drivers of all sizes to maintain an adequate field of vision. Plans also call for including technologies to avoid road hazards. Mazda will carry out practical road trials of ITS*[1] in the Hiroshima region as part of a government infrastructure initiative aimed at making driving conditions safer.

*1 Short for “Intelligent Transport Systems,” a new concept in traffic control. The objective is to solve such problems as accidents, congestion and environmental damage by using cutting-edge IT to link drivers, vehicles and roadways via networks.

Materials and Manufacturing Technologies

As part of a partnership between the public and private sectors on the one side and academia on the other, Mazda has developed a first-of-its-kind bioplastic that can be used in automobile interiors. Made from biomass, the material is carbon neutral*[2], and will be used in the Mazda5 Hydrogen RE Hybrid that the Company plans to launch in fiscal 2008.

Mazda’s painting facilities have all fully switched over to the Three Layer Wet Paint System, which combines the primer, top and clear coats into a single painting process, achieving volatile organic compound (VOC) reductions, as well as the greatest CO_2 reductions in the industry. Going forward, Mazda plans to use this proprietary low-energy liquid coating technology to reduce VOCs further, resulting in a cleaner painting process.

*2 This means that CO_2 emissions are balanced by CO_2 absorbed from the atmosphere by photosynthesis, resulting in a net increase in atmospheric CO_2 of zero.

Mazda Design

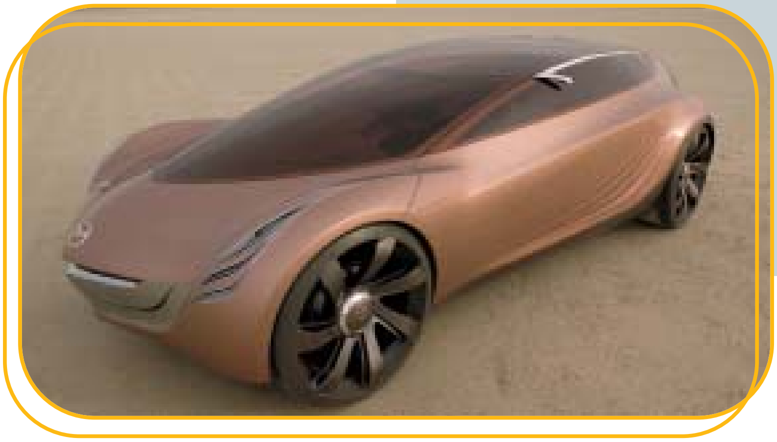
Vision:
Pursue designs that will always excite customers and let them know at a glance that they're looking at a Mazda.

Policies:
- A design that appeals to a typical family and that at a glance is recognizable as a Mazda;
- Suggesting new kinds of design cues and innovative proportions.

Design is Mazda's lifeblood. Our growth in recent years is largely due to the painstaking detail we lavish on the stylish designs of each of our models.

Mazda exhibits concept cars at many of the world's motor shows. Each concept car is based on a sense of flow as its design theme, with structural features to evoke a sense of motion, energy and sport. The three concept cars pictured here were designed, respectively, at design centers at our headquarters in Hiroshima; in Irvine, California, the United States; and in Frankfurt, Germany.

Our design centers in the world's major markets communicate with each other and have demonstrated success in incorporating the design preferences and characteristics



Mazda Nagare

This model signifies a new direction in car design at Mazda. Its smooth, flowing lines and surfaces suggest motion, energy and responsiveness.

of the markets in which they are located. The almost palpable creativity that flows from these design centers into our vehicles comes through so clearly that as soon as you see one of our cars, you want to ride in it. You know it's a Mazda. These are the designs we bring to the global marketplace.

Mazda Hakaze

This compact four-seater crossover SUV takes its design cues from a coupe. It is targeted at customers in their 30s and 40s who live an active, go-getting lifestyle.

Mazda Ryuga

This sporty, compact four-seater concept car is targeted at a new generation of young people.

The All-New Mazda2

Mazda has reinvented the compact car completely from scratch, with the aim of creating harmony between driving pleasure, safety and environmental friendliness.

**One look at the design is enough to make you want to drive it. And the moment you do, you'll be thrilled by its performance.
The car is friendly to the environment as well, helping to protect the richness of the natural world and its lush vistas.**

The principal thrust of the development effort on the all-new Mazda2 was to lighten the weight of the body by 100 kg (220 lb). Powered by a newly developed MZR 1.3-liter Miller-cycle engine, this new version of the Mazda2 achieves best-in-class fuel economy and even better safety than its predecessor by combining the new engine with CVT*. Our customers, and the times in which we live, demand value in design, ease of use and cost performance. This car delivers that value to a high degree, and builds on Mazda's signature dynamic performance.

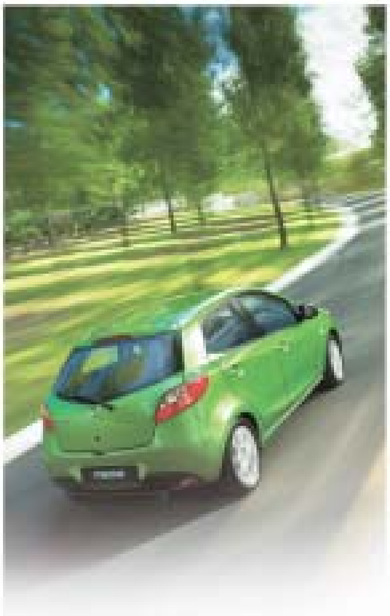
Collaborating with Ford, Mazda took the lead in engineering the basic structure and technologies for the platform of the new Mazda2. Although sharing the same basic structure, the Mazda vehicle that resulted, incorporated Mazda's DNA.

The all-new Mazda2 is manufactured at the Company's headquarters plant in Hiroshima. Although previous Mazda2 models were produced in Valencia, Spain, as well as in Hiroshima, Mazda elected to consolidate production of the all-new Mazda2 at its headquarters plant to maximize manufacturing efficiencies and economies of scale. Mazda arrived at this decision after carefully considering exchange rate fluctuations, the potential for growth in Asian markets and a host of other possibilities and risks. In 2007, we also plan to begin manufacturing a model for sale in China at the Nanjing plant, operated by Changan Ford Mazda Automobile Co., Ltd.

Mazda's design division in Hiroshima designed the new model. Their purpose was to display a compact, clean dynamism, a concept expressed as "exquisite and dynamic." In this context, "exquisite" means "possessing a beauty that is designed and built in a precise, sophisticated manner." The car was designed to represent the idea of exquisiteness imbued in the chassis together with the dynamic characteristics of a Mazda.

The 2002 rollout of the Mazda6 inaugurated a new generation for the Mazda fleet. The all-new Mazda2 is the first model to take that lineup to a new level of competitiveness in the global marketplace. Plans call for the new Mazda2 to be rolled out worldwide, starting in Japan, followed by Europe and Australia.

* CVT: Continuously variable transmission.



History of the Mazda2

The compact, stylish lines of the Mazda2 have long since become a common sight on our roads. We would like to take this opportunity to look back over the story of this car at the rollout of its third model revision.

1996: With a size that makes for ease of handling on city streets and a top-notch package that leverages minimal space to the utmost, the original Mazda2 raises the bar for compact cars. In Japan, the car receives much acclaim, chiefly being named the 1996-1997 RJC Car of the Year. Sales are also strong, with 14,250 units sold monthly in fiscal 1997, far and above the initial monthly sales plan of 4,000 units.

2002: The all-new second generation Mazda2 is rolled out into the Japanese marketplace. Part of Mazda's new-generation line-up*, the car is the epitome of the Company's "Zoom-Zoom" slogan. Its unification of highly efficient assembly, dramatically designed exterior, high-quality interior, and excellent handling and safety earn it acclaim for being what a compact car ought to be. Known as the Mazda Demio in Japan, this is the first model to go on sale elsewhere in the world under the brand name Mazda2.

2006: Total production in Japan reaches the one million threshold as of September 30, 2006. This year marks the 10th anniversary since the rollout of the original model, and the car maintains solid sales for Mazda, selling 4,672 units in August 2006, good enough to earn an eighth-place ranking in sales by make and model, according to the Japan Automobile Dealers Association.

2007: Mazda goes back to the drawing board, reinventing the compact car as a personal smart commuter vehicle. The all-new third generation Mazda2, with best-in-class performance, goes on sale worldwide.

* Referring to all-new Mazda models since the May 2002 rollout in Japan of the Mazda6.

Japan

In fiscal 2006, total demand in Japan declined 4.1%, to 5.62 million units, due to an 8.3% decline in the registered vehicle market, while mini-vehicle demand expanded 4.2%. Owing to sluggish demands, Mazda's sales in Japan fell 8.6%, to 261,000 units, causing our domestic market share to slip 0.3 percentage point to 4.6%.

We introduced the Mazda CX-7—a new crossover SUV—into the market in December 2006. In January 2007, we launched the new Mazda Familia Van and the Mazda Titan, both featuring environmentally friendly performance upgrades. The Mazda CX-7, which sports an athletic exterior design and delivers dynamic driving performance, demonstrated its strong customer appeal by selling an average of 820 units per month, exceeding our forecast.

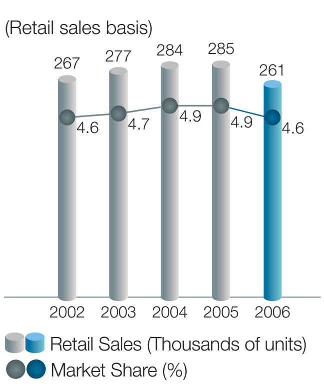
During the year, we refreshed models already on the market, added new variations and designed special-feature models. The Mazda3 and Mazda Verisa delivered solid sales performance, and the Mazda MPV, fully upgraded in February 2006, posted a 4.6% sales increase. Now available with a 2.3-liter DISI turbo engine, the Mazda MPV earned the Eco-Products Promotion Council Chairman's Prize 2006 by delivering top-class environmental performance.

We also continued to expand our sales networks. We opened 14 new-car dealerships in fiscal 2006, bringing to 36 the number of dealerships added during the Mazda Momentum Plan period and exceeding the plan's target of 30. We focused on launching new dealerships in open areas, while at the same time reconfiguring our existing dealership coverage to take advantage of demand trends and reinforcing the quality of our sales network.

Mazda has now finished the makeover of 200 domestic dealerships, in an effort to better embody the Mazda brand. Also, at 700 outlets we have now deployed our Visual IT Presentation to enhance the Mazda brand–customer interface.

Various indices that measure Mazda's customer satisfaction progressed steadily. We will continue to push forward in both the hard and the soft aspects of our business as we strive to reinforce the "Zoom-Zoom" spirit in the Japanese marketplace.

Unit Sales (Japan)



North America

Fiscal 2006 sales were strong in North America, expanding 8.0%, to 380,000 units, as the Mazda3 continued to deliver impressive sales results. Also contributing to this performance were introductions of the new Mazda CX-7 and Mazda CX-9 crossover SUVs and the launch of the new Mazda Tribute.

Overall U.S. industry sales, which include light trucks, decreased by 3.1%, to 16.51 million units. Mazda's sales in this market rose 7.3%, to 281,000 units, of which light trucks and sport utility vehicles accounted for 67,000 units, up 18%, reflecting contributions of the Mazda CX-7, Mazda CX-9 and new Tribute sales. Our U.S. market share improved 0.2 percentage point, to 1.7%. In fiscal 2006, 349 Mazda dealerships, which account for 52% of total dealerships in the market, were exclusively dedicated to the Mazda brand, surpassing our 50% target established in our medium-term Mazda Momentum Plan. In addition, over the past five years 84 dealerships have renovated their facilities and customer processes as part of our Retail Revolution Program.

In Canada, total industry sales increased by 1.7%, to 1.62 million units, and Mazda recorded a 4.2% increase in unit sales, achieving best-ever sales of 84,000 units. Our share of the Canadian market consequently rose 0.2 percentage point, to 5.2%, and we posted 10 consecutive months of record monthly sales results from June 2006 to March 2007.

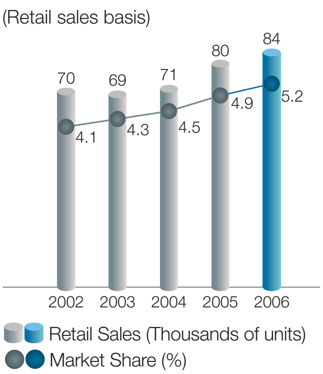
In Mexico, in our first full year of distribution, Mazda sales expanded to 9,800 units, accounting for a 0.8% share of the market. The number of Mazda dealerships throughout the entire country of Mexico increased to 12, all of which are exclusively dedicated to the Mazda brand, and all constructed to meet the requirements of our Retail Revolution Program. We plan to raise the number of dealerships in this market still further, to around 20.

The market environment grew increasingly severe in Puerto Rico, with total industry sales slumping 18.4%, to 112,000 units. Mazda's unit sales, however, dropped 24%, to 6,000 units, causing our share of this market to drop from 5.7% to 5.3%.

Note: The North American market includes the United States, Canada, Mexico and Puerto Rico.

Unit Sales (US)

Unit Sales (Canada)



Europe

Mazda maintained its growth trajectory in Europe throughout fiscal 2006, with overall sales, including Russia, increasing to 301,000 units, up 6.7% from the prior year's level. This volume represented our highest level in 15 years and accounted for a market share of 1.5%, on a par with the preceding year.

Contributing to our strong European sales were favorable sales of new models such as the Mazda5 and the Mazda MX-5, and complemented by higher unit sales of already established models, such as the Mazda6 and Mazda3. The first full year sales for the Mazda5 pushed up our volume in the compact multi-activity vehicle (MAV) segment more than 50% from the previous year. Furthermore, the addition of a model with a powered retractable hardtop in the second half of the year boosted unit sales of the Mazda MX-5 more than 60% over the fiscal 2005 level. Unit sales of the Mazda6 rose 4% from fiscal 2005. The Mazda3—our best seller in the European market—generated sales of more than 100,000 units, representing a 2% increase year-on-year.

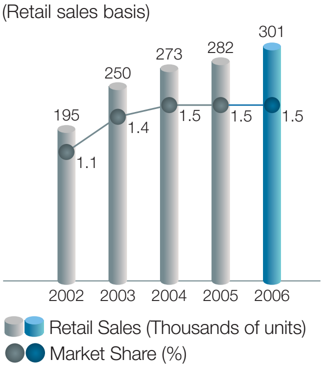
These robust sales results helped to keep the Mazda brand recognition high in Europe. Our "Zoom-Zoom" brand message is one of the most widely known in the European auto industry, and our correct slogan attribution rate has risen to an average of 40% in Europe's five biggest markets.

Mazda car owners rate the quality of their new purchases highly, as attested by our top ranking for the third consecutive year in the quality survey conducted by *Autobild*, a German publication.

By country, we posted record sales levels for the second consecutive year in the United Kingdom, Russia and Spain, and we achieved record sales in Portugal. In addition to achieving these strong results, Mazda established subsidiary operations to manage distribution in the four markets of Russia, Ireland, the Czech Republic and Slovakia, raising to 19 the number of European countries in which we operate distributors directly.

Unit Sales (Europe)

(Retail sales basis)



China

In fiscal 2006, industry sales in China surged 23%, but many new vehicle launches and concurrent price cuts on models already on the market by competing carmakers created a challenging sales environment. In this severely competitive environment, Mazda's unit sales slipped 0.7%, to 129,000 units, and our market share edged down 0.4 percentage point, to 1.7%.

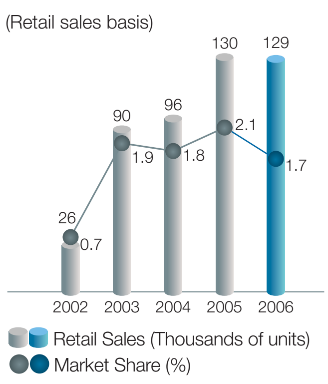
By model, sales of the Mazda6 fell 11%, to 47,000 units, reflecting stringent market competition. Mazda 323 sales rose 1%, to 62,000 units, and sales of the Mazda5 fell 8%, to 14,000 units. We resumed sales of the Mazda3 in mid-January 2007. After that time, sales increased in line with our expectations, selling 6,000 units during the period to the end of March. The Mazda3 is produced by Changan Ford Mazda Automobile Co., Ltd., at its main plant in Chongqing, a joint venture between the Changan Automotive Group, Ford Motor Company and Mazda.

Mazda6 production has continued at FAW Car Company at the Changchun plant for four years. We added two new Mazda6 body types, a five-door hatchback and a wagon. Leveraging its novelty as the only vehicle in its class available in three body types, our marketing efforts succeeded in attracting a new customer segment.

During the year, FAW Mazda Motor Sales Co., Ltd., added nine new dealerships, raising its total to 104.

Moving forward, we will work to further increase customer satisfaction in this market, and are introducing various measures to reinforce our sales network and continue deepening the penetration of the Mazda brand in China.

Unit Sales (China)



Other Markets

Mazda's sales in other markets in fiscal 2006 rose 1.5% year-on-year, to 231,000 units.

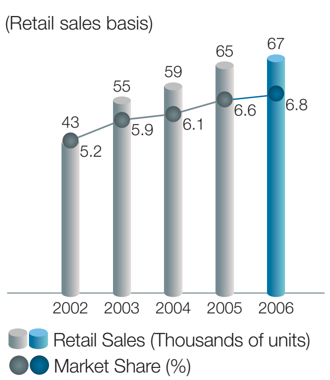
Sales in Australia were up 2.7%, to 67,000 units, representing our fifth consecutive year of record sales. Mazda's market share also edged up 0.2 percentage point, to 6.8%, primarily reflecting strong sales of the Mazda3 and successful launches of the Mazda BT-50 and Mazda CX-7 models. In this market, Mazda also won the best ranking in a sales satisfaction survey for the third consecutive year and topped a service satisfaction survey of one-year owners.

In Israel, sales of 22,000 units and a market share of 14.3% made Mazda the country's top-selling brand for the 11th consecutive year. We sustained strong sales on all product lines, including the Mazda5, which was named *Auto Magazine*'s Mini Van of the Year.

Sales in Thailand came to 17,000 units, down 1.1%, mainly due to an 8.0% shrinking in the overall market, caused by sharply higher oil prices and political unrest. Mazda's market share therefore rose 0.2 percentage point, to 2.6%. At the Thailand Car of the Year Awards 2007, held in April, Mazda won awards in three categories. The Mazda3 won a best car award for the third consecutive year, this year in the Best Sedan under 1,600 cc category. The Mazda MX-5 was named Best Roadster for the second year in a row, making the MX-5 the winner of this award in four out of the past five years. Also, the Mazda BT-50, which was introduced into the market in March 2006, won in the Best High-Lifted Pickup in the 2,500 cc category.

Sales were robust in other countries, with sales volumes rising 39.5% in Ecuador, 28.6% in Venezuela, 28.1% in Chile, 26.5% in Colombia, 19.5% in South Africa and 4.5% in New Zealand. In Ecuador, Venezuela and New Zealand, Mazda posted record sales levels. In Indonesia, Mazda established a wholly owned subsidiary, PT Mazda Motor Indonesia, to commence sales in that country.

Unit Sales (Australia)



Corporate Social Responsibility (CSR) Initiatives

Corporate Governance

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

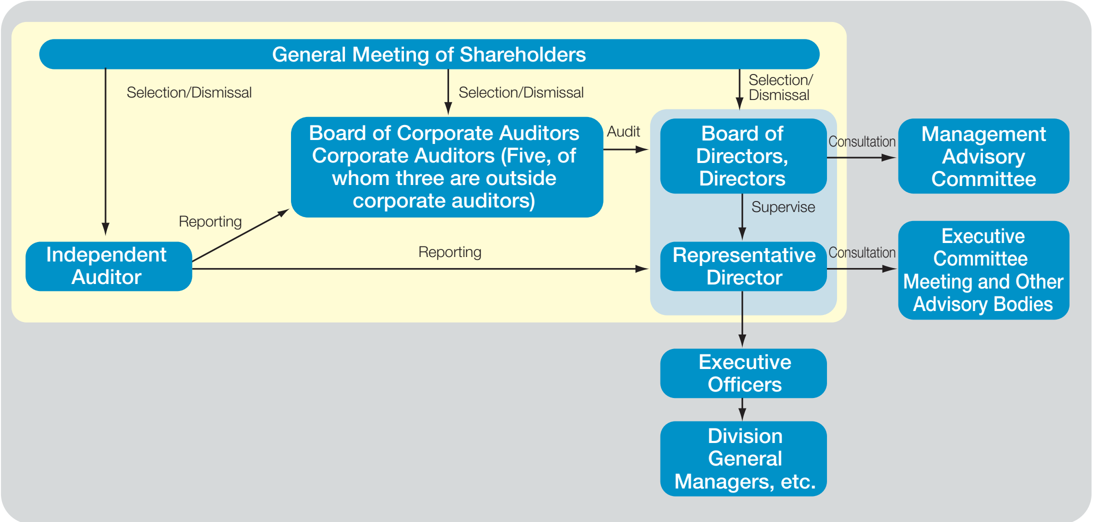
Mazda has introduced the executive officer system to promote the separation of executive and management functions. This has augmented the effectiveness of the Board of Directors as a supervisory body. These and other steps are helping to improve management efficiency at Mazda, resulting in faster decision making through enhanced discussion, delegation of authority to executive officers and other initiatives. As of June 30, 2007, Mazda had a total of 34 executive officers and nine directors, some of whom are also executive officers.

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

Supervisory Framework

Mazda's Board of Corporate Auditors is composed of five members, including three outside corporate auditors. Each corporate auditor is responsible for auditing business execution by directors in accordance with the Board of Corporate Auditors' annual audit plan. There are no business relationships or other conflicts of interest between Mazda and its outside corporate auditors. Meanwhile, the Global Auditing

Business Execution and Supervisory Framework



Department (with a staff of 20), which performs internal audits, contributes to sound and efficient management by checking the appropriateness of operations at Mazda and its affiliates with reference to management's objectives, policies and plans, as well as all relevant laws and regulations. Independent audits are conducted under contract by KPMG AZSA & Co. The corporate auditors, both independently and collectively as the Board of Corporate Auditors, the Internal Auditing Division, and the independent auditor cooperate through meetings.

Cooperation between corporate auditors and the independent auditor

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

Cooperation between corporate auditors and the Internal Auditing Division

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

Main activities of outside corporate auditors

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

Corporate auditor support system

Mazda has established an Audit Office to support the activities of the corporate auditors. The Audit Office is an independent body, and its staff is selected and evaluated by the personnel department after prior consultation with the full-time corporate auditors. Meanwhile, the full-time corporate auditors brief outside corporate auditors prior to meetings of the Board of Directors or during meetings of the Board of

Corporate Auditors to keep them informed of the latest developments. Information and related findings gleaned from attendance at important meetings such as that of the Executive Committee and other audit activities are provided to the outside corporate auditors.

Reporting crucial information to corporate auditors

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

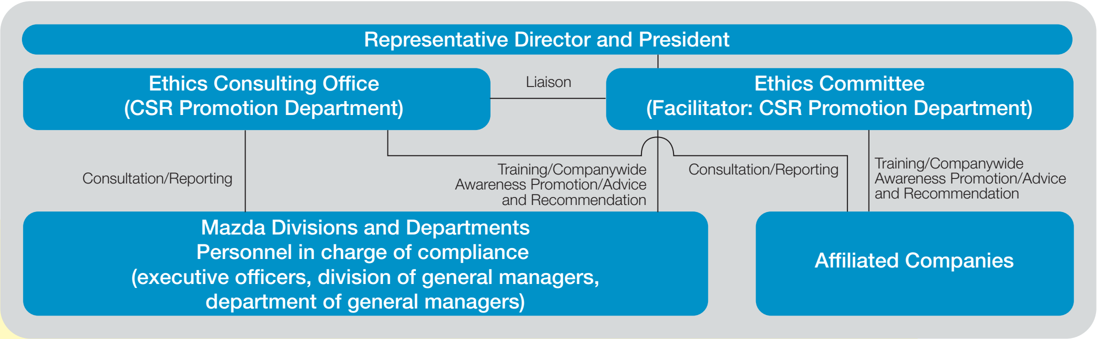
Risk Management

In line with its corporate action guidelines, Mazda endeavors to manage risk through the unified actions of all executives and employees. To ensure operational continuity and stable development, Mazda works to appropriately manage various internal and external risks. During the year, the Company commenced earthquake-resistant construction repairs on its factory and office wings to reduce damage in the event of a major earthquake.

Compliance

Business practices that are ethical and comply with legal requirements are a key prerequisite to our operations. In 1997, Mazda established the Ethics Committee as the core entity to foster Companywide compliance in accordance with the Corporate Ethics Code of Conduct by formulating guidelines and providing employee training. In 2005, we distributed compliance cards to all executives and employees. The cards spell out the Mazda Corporate Ethics Code of Conduct, including the Five Principles of Honest Behavior and our Action Guidelines. Mazda also brings in outside instructors to teach at the annual Compliance Course and Human Rights Seminar. These courses develop Companywide awareness of compliance, underscore the importance of corporate ethics and stress the need to conduct business accordingly. Executives and employees are encouraged to report swiftly any known illegal activity to the Ethics Consulting Office, and any retaliation against or prejudice toward whistleblowers is prohibited.

Compliance Structure



Mazda Global Environmental Charter

> **"Mazda Group aims to promote environmental protection and contribute to a better society, while maintaining harmony with nature in our business activities all over the world."**

Environmental Activities

In the 1990s, Mazda began developing hydrogen-powered vehicles, which emit practically none of the CO_2 gases that contribute to global warming. Many years of research later, in February 2006, we began leasing the Mazda RX-8 Hydrogen RE, a vehicle with a dual-fuel system for operation on either hydrogen or gasoline. We delivered the world's first vehicles of this type to government offices and private-sector companies. We also took advantage of a well-attended event at the National Museum of Emerging Science and Innovation, one lessor of the Mazda RX-8 Hydrogen RE, to promote awareness of a future environmentally friendly, hydrogen energy society. Outside Japan, in August 2006, we demonstrated the vehicle at an event in Norway, verifying its ability to operate in other countries' environments. Going forward, we plan to promote aggressively the development of environmentally friendly hydrogen automobiles.

In fiscal 2006, more than 90% of Mazda passenger cars produced were certified as four-star Super Ultra-Low Emissions Vehicles (SU-LEVs) by Japan's Ministry of Land, Infrastructure and Transport for their low emissions levels. This percentage is the highest level among automakers. Mazda will continue to pursue reduced CO_2 emissions through the development of environmental and safety technologies toward the realization of a sustainable automotive society.

Implementing Organizational Reform to Encourage Further CSR Activities Companywide

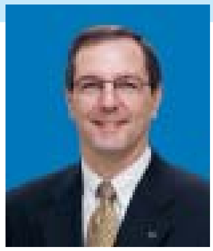
In June 2007, Mazda created the CSR Promotion Department to enhance the integration and uniformity of its corporate governance, risk management, environmental protection, compliance, human rights awareness and social contribution activities. The CSR Committee, which serves as the department's review board, will promote specific activities at the Group level in six domains: compliance, respect for human rights, customer satisfaction, environmental preservation, social contribution and information disclosure.

Board of Directors, Auditors and Executive Officers

(As of June 28, 2007)

DIRECTORS

Hisakazu Imaki
Representative Director and Chairman of the Board



Robert J. Graziano
Representative Director

Takashi Yamanouchi
Representative Director

David E. Friedman
Representative Director

Daniel T. Morris
Director

Ryoichi Hasegawa
Director

Kiyoshi Ozaki
Director

Seita Kanai
Director

Masaharu Yamaki
Director

AUDITORS

Corporate Auditor (Full time)

Junichi Yamamoto

Shigeki Wakamatsu

Corporate Auditor

Kenichi Komatsu

Ichiro Sakai

Isao Akaoka

EXECUTIVE OFFICERS

*President and CEO

Hisakazu Imaki

*Executive Vice President

Robert J. Graziano

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

Takashi Yamanouchi

Assistant to President; In charge of Corporate Liaison, Purchasing, Administration, Secretariat, Human Resources and Internal Auditing

*Senior Managing Executive Officer and CFO

David E. Friedman

In charge of Corporate Planning

*Senior Managing Executive Officer

Daniel T. Morris

In charge of Marketing, Sales and Customer Service

Ryoichi Hasegawa

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

Kiyoshi Ozaki

In charge of China Business

Seita Kanai

In charge of R&D; President, Mazda Engineering & Technology Co., Ltd.

Masaharu Yamaki

In charge of Production and Business Logistics

Managing Executive Officer

Masazumi Wakayama

In charge of Domestic Business

Nobuhiro Hayama

In charge of R&D Quality and Powertrain Development

James J. O'Sullivan

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

Akira Marumoto

In charge of Product Planning and Program Management; General Manager, Product Planning & Business Strategy Div.

Keishi Egawa

In charge of Corporate Planning and Financial Services

Toru Oka

In charge of Purchasing

Malcolm D. Gough

In charge of Overseas Sales and Customer Service

James M. Muir

President and CEO, Mazda Motor Europe GmbH

Nobuhide Inamoto

In charge of Quality Assurance and Environment

Yasuto Tatsuta

General Manager, Production Engineering Div. and President, Toyo Advanced Technologies Co., Ltd.

Executive Officer

Satoshi Tachikake

President and CEO, Mazda Motor (China) Co., Ltd. and General Manager, China Business Div.

Hirotaka Kanazawa

In charge of Vehicle Development and Technical Research Center

Masamichi Kogai

President, AutoAlliance (Thailand) Co.,Ltd.

Koji Kurosawa

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

Shiro Mikami

General Manager, Domestic Business Div. and President, Mazda Autozam Inc.

Kozo Kawakami

General Manager, Customer Service Div.

Noriaki Yamada

COO, Mazda Motor (China) Co., Ltd.

Toshinori Kusuhashi

General Manager, Hiroshima Plant

Yuji Nakamine

General Manager, Overseas Sales Div. and President, Mazda South East Asia Ltd.

A. Kumar Galhotra

General Manager, Program Management Div.

Hiroshi Yamamoto

Sales & Field Operations, Domestic Business Div. and President, Mazda Chuhan Co.,Ltd.

Tatsuji Ikeda

General Manager, Quality Div.

Minoru Mitsuda

General Manager, Human Resources Div.

Masafumi Nakano

General Manager, Hofu Plant

Kazuki Imai

General Manager, Purchasing Div.

* stands for the Executive Officers who also hold the post of Director.

FINANCIAL SECTION

Contents

Six-Year Summary of Consolidated Financial Statements

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2007, 2006, 2005, 2004, 2003 and 2002

	2006 March 31, 2007	Increase (decrease) 2006/2005	2005 March 31, 2006	Increase (decrease) 2005/2004
For the year*2:				
Net sales	3,247,485	11.2 %	¥2,919,823	8.3 %
Domestic	887,327	(0.0)%	887,662	5.0 %
Overseas	2,360,158	16.1 %	2,032,161	9.8 %
North America	1,017,874	20.6 %	843,988	10.8 %
Europe	789,135	18.0 %	668,941	5.5 %
Other areas	553,149	6.5 %	519,232	14.4 %
Cost of sales	2,322,644	10.0 %	2,110,934	7.0 %
Selling, general and administrative expenses	766,309	11.8 %	685,454	7.1 %
Operating income (loss)	158,532	28.4 %	123,435	48.8 %
Income (loss) before income taxes	118,450	0.8 %	117,468	59.1 %
Net income (loss)	73,744	10.5 %	66,711	45.7 %
Capital expenditures*3	79,641	10.5 %	72,070	6.2 %
Depreciation and amortization	47,045	2.7 %	45,805	14.4 %
Research and development costs	107,553	12.4 %	95,730	5.4 %
Cash flows*4	20,995	(37.5)%	33,611	(6.4)%
At the year-end:				
Total assets	1,907,752	6.7 %	1,788,659	1.2 %
Equity*5	479,882	17.8 %	407,208	47.6 %
Financial debt	474,684	4.2 %	455,409	(13.8)%
Net financial debt	232,179	(5.9)%	246,751	(21.3)%
Average number of shares outstanding (in thousands)	1,402,315	8.3 %	1,294,534	6.4 %
Number of employees	38,004	3.8 %	36,626	2.7 %

Amounts per share of common stock:				
Net income (loss)*6	¥ 52.59	2.1 %	¥ 51.53	36.9 %
Cash dividends applicable to the year*7	6.00	20.0 %	5.00	66.7 %
Equity*8	336.45	18.4 %	284.28	29.1 %

Operating income ratio	4.9%	4.2%
Return on equity (ROE)	16.9%	20.0%
Equity ratio	24.8%	22.3%

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, 2007 of ¥118 to US$1.
2. The consolidated operating results for the year ended March 31, 2004 consist of 15 months of operations for the major overseas subsidiaries that changed their fiscal year-ends.
3. Capital expenditures are calculated on an accrual basis.
4. Cash flows represent net cash flows from operating activities and from investing activities.
5. Prior-year amounts have been reclassified to conform to current year presentation to include minority interests.
6. The computations of net income (loss) per share of common stock are based on the average number of shares outstanding during each fiscal year.
7. Cash dividends per share represent actual amounts applicable to the respective years.
8. The amounts of equity used in the calculation of equity per share exclude minority interests (and, for current year, stock acquisition rights).

Millions of Yen							Thousands of U.S. dollars*1
2004 March 31, 2005	Increase (decrease) 2004/2003	2003 March 31, 2004	Increase (decrease) 2003/2002	2002 March 31, 2003	Increase (decrease) 2002/2001	2001 March 31, 2002	2006 March 31, 2007
¥2,695,564	(7.6)%	¥2,916,130	23.3 %	¥2,364,512	12.9 %	¥2,094,914	$27,521,059
845,620	(0.1)%	846,231	3.4 %	818,271	0.9 %	811,050	7,519,720
1,849,944	(10.6)%	2,069,899	33.9 %	1,546,241	20.4 %	1,283,864	20,001,339
761,684	(18.7)%	936,718	10.8 %	845,241	8.8 %	776,889	8,626,051
634,233	(3.9)%	659,813	79.3 %	368,045	61.3 %	228,120	6,687,585
454,027	(4.1)%	473,368	42.2 %	332,955	19.4 %	278,855	4,687,703
1,972,574	(8.9)%	2,165,160	25.5 %	1,725,058	11.2 %	1,551,410	19,683,424
640,043	(6.0)%	680,796	15.6 %	588,798	14.3 %	514,951	6,494,144
82,947	18.2 %	70,174	38.5 %	50,656	77.4 %	28,553	1,343,492
73,847	36.6 %	54,072	92.2 %	28,134	81.4 %	15,508	1,003,814
45,772	35.0 %	33,901	40.5 %	24,134	173.3 %	8,830	624,949
67,881	48.7 %	45,644	3.5 %	44,080	(22.2)%	56,641	674,924
40,036	5.6 %	37,900	2.5 %	36,989	(17.6)%	44,890	398,686
90,841	3.5 %	87,807	0.0 %	87,800	(7.5)%	94,964	911,466
35,900	(26.9)%	49,128	4.4 %	47,054	53.7 %	30,623	177,924
1,767,846	(1.5)%	1,795,573	2.4 %	1,754,017	1.1 %	1,734,895	16,167,390
275,841	19.4 %	230,937	15.2 %	200,546	10.9 %	180,892	4,066,797
528,145	(16.2)%	630,360	(7.1)%	678,205	(1.2)%	686,318	4,022,746
313,506	(12.5)%	358,129	(11.2)%	403,483	(11.7)%	456,874	1,967,619
1,216,245	(0.1)%	1,217,692	(0.1)%	1,219,050	(0.2)%	1,221,750	
35,680	0.1 %	35,627	(1.5)%	36,184	(4.3)%	37,824	
Yen							U.S. dollars*1
¥ 37.63	35.2 %	¥ 27.84	40.6 %	¥ 19.80	173.9 %	¥ 7.23	$0.45
3.00	50.0 %	2.00	0.0 %	2.00	0.0 %	2.00	0.05
220.22	20.4 %	182.91	14.9 %	159.22	12.5 %	141.52	2.85
%							
3.1%		2.4%		2.1%		1.4%	
18.7%		16.3%		13.2%		5.3%	
15.1%		12.4%		11.1%		10.0%	

Management's Discussion and Analysis

FISCAL 2006 HIGHLIGHTS

- Operating income rose 28.4%, to ¥158.5 billion, and net income expanded 10.5%, to ¥73.7 billion. All income categories reached new historic highs, and sales and income expanded for the sixth consecutive year.
- The net debt-to-equity ratio improved 13 percentage points, to 49%.
- Dividend per share increased ¥1.0 from the fiscal 2005 level, to ¥6.0.

OVERVIEW OF THE MAZDA GROUP

The consolidated financial statements for fiscal 2006, ended March 31, 2007, include the accounts of Mazda Motor Corporation, 58 consolidated subsidiaries (22 overseas and 36 in Japan) and 13 equity-method affiliates (five overseas and eight in Japan).

BUSINESS CONDITIONS

During fiscal 2006, the Japanese economy progressed along a gradual growth trajectory, but consumer spending lacked vigor, and a decline in the number of registered vehicles caused concern in the automotive industry. In addition, home mortgage issues generated uncertainty in the United States economy.

Geopolitical risks, exacerbated by political instability in Asia and the Middle East, and hypersensitivity in the financial markets contributed to making fiscal 2006 a year of cataclysmic changes for the global economy. Furthermore, crude oil and other raw material prices remained high, compounding an overall sense of economic precariousness.

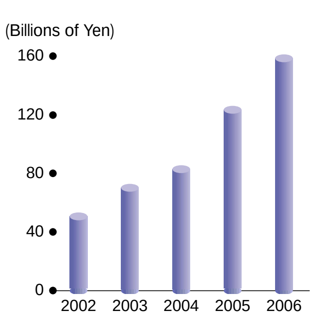
In the automobile manufacturing industry, Japanese demand for mini vehicles increased, contrasting with a major slump in demand for registered vehicles, causing overall demand to fall 4% during the year, to 5.62 million units. Total U.S. demand declined 3%, to 16.51 million units, whereas demand in Europe, including Russia, edged up 2%, to 18.77 million units. Demand in China, meanwhile, surged 29%, to 4.53 million units (passenger vehicles only).

CONSOLIDATED FINANCIAL RESULTS

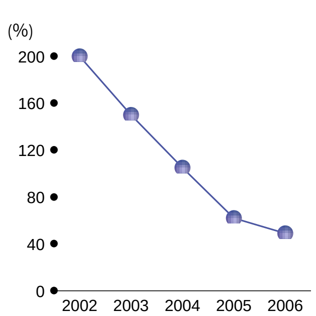
Net sales

During the year under review, Japanese demand for registered vehicles fell to its lowest level since 1977. As a result, Mazda retail sales in the Japanese market declined 8.6% year on year, to 261,000 units. In North America, Mazda retail sales expanded 8.0%, to 380,000 units, with

Operating Income



Net Debt-to-Equity Ratio



the introduction of the all-new Mazda Tribute in addition to the Mazda CX-7 and the Mazda CX-9, contributing to performance in the light truck segment. Mazda retail sales in Europe grew 6.7%, to 301,000 units. Chalking up particularly strong sales in this market were Mazda5 and Mazda6 models mounted with all-new diesel engines, and the Mazda MX-5 with a new power retractable hardtop. In China, rapid-fire new car launches and fierce competition for sales of pre-existing models resulted in a slight drop in Mazda retail sales in this market, to 129,000 units. In other markets, sales of the Mazda BT-50 pickup encouraged a 1.5% rise, to 231,000 units. As a result of these factors, Mazda's global retail volume expanded 2.0%, to 1,302,000 units.

Consolidated wholesales in fiscal 2006 totaled 1,177,000 units, up 28,000 units, or 2.4%, led by higher sales of all-new crossover sport-utility vehicles (SUVs) in the North American market. Consolidated net sales increased 11.2%, or ¥327.7 billion, to ¥3,247.5 billion. Of this increase, higher unit sales and an improved product mix accounted for 7.2 percentage points, and the effect of yen depreciation for the remaining 4.0 points. Of consolidated net sales, overseas sales rose 16.1%, or ¥328.1 billion, to ¥2,360.2 billion, whereas domestic sales dipped to ¥887.3 billion.

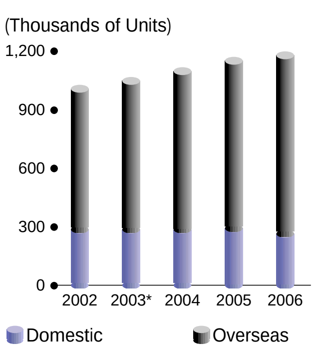
Operating income

Operating income increased 28.4% year on year, or ¥35.1 billion, to a new record high of ¥158.5 billion. The main causes of this rise included higher unit sales and an improved model mix due to the launch of the Mazda CX-7 and the Mazda CX-9, which together had a ¥31.1 billion positive effect. The weaker yen generated a ¥40.0 billion positive foreign currency translation effect for the Company. Cost-cutting efforts outpaced higher raw materials costs by ¥12.1 billion, but the cost of regulatory compliance and product enhancements had a ¥18.7 billion negative effect on operating income, and costs related to product quality assurance, R&D, depreciation and other factors came to ¥29.5 billion. As the percentage increase in operating income outpaced the rate of growth in net sales, the operating income ratio improved 0.7 percentage point, to 4.9%.

Net income

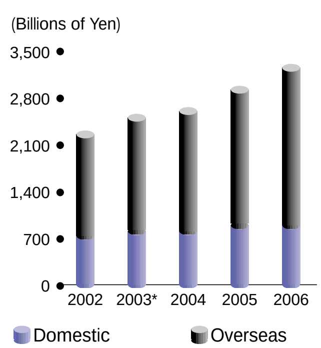
Net other expenses rose ¥34.1 billion, to ¥40.1 billion. Of this rise, higher overseas interest rates caused interest expenses to rise ¥4.6 billion, and equity in income of unconsolidated subsidiaries and affiliated income decreased ¥2.8 billion. In addition, the temporary gain on the

Consolidated Wholesales



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

Net Sales



*Excluding the effect of a change in fiscal years at overseas subsidiaries transfer to the government of the substitutional portion of employee pension fund liabilities, which was present in the preceding year, was absent in fiscal 2006. This factor and the difference in impairment of fixed assets had a ¥23.0 billion combined negative effect. Income before income taxes, which includes operating income and net other expenses, improved ¥1.0 billion, to ¥118.5 billion.

Income taxes decreased ¥6.1 billion, to ¥43.0 billion, while minority interests in consolidated subsidiaries remained essentially unchanged, at ¥1.7 billion. Consequently, consolidated net income grew ¥7.0 billion, or 10.5%, to ¥73.7 billion. This figure takes into account the effects of the transfer to the government of the substitutional portion of employee pension fund liabilities and the impairment of fixed assets. Had these two factors been absent, net income would have improved 26.2%. In fiscal 2006, the Company posted record levels of income in all categories and posted year-on-year increases in sales and income for the sixth consecutive term. Net income per share of common stock increased ¥1.06, from ¥51.53 in fiscal 2005 to ¥52.59 in fiscal 2006.

At the general meeting of shareholders on June 26, 2007, cash dividends applicable to the year of ¥6.0 per share were approved. Mazda seeks to steadily increase its dividend payment to shareholders while taking into account operating performance in each period, the business environment and other factors. Retained earnings are used to raise competitiveness through capital investment, spending on R&D and other areas.

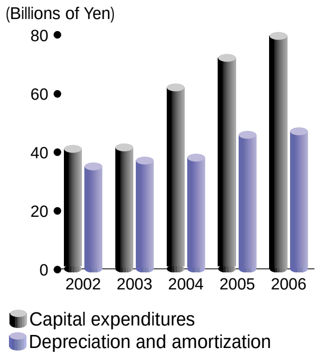
CAPITAL EXPENDITURES

Capital expenditures during year came to ¥79.6 billion, up ¥7.5 billion. Most of this spending was earmarked for new product launches and capacity increases.

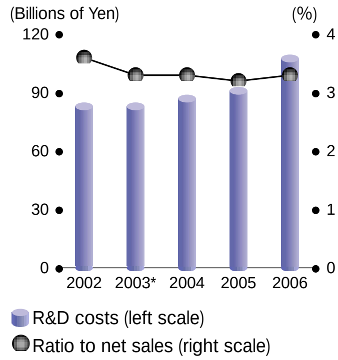
Mazda reinforced its production framework in line with ongoing efforts to drive product-led growth. In October 2006, we raised production capacity of the MZR engine and automatic transmission, and in the same month we commenced production of the Mazda CX-9, a seven-passenger crossover SUV.

Mazda, Ford Motor Company and the Changan Automotive Group jointly established an engine manufacturing company, Changan Ford Mazda Engine Co., Ltd., in Nanjing, China, which began producing BZ series engines in April 2007. Changan Ford Mazda Automobile Co., Ltd., an automobile assembly plant located next to the engine plant, is moving steadily toward production, which is slated to begin by the end of 2007.

Capital Expenditures/ Depreciation and Amortization



R&D Costs/Ratio to Net Sales



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

Going forward, Mazda will continue to seek the most effective balance between maximizing the efficiency of its manufacturing facilities in Japan and expanding capacity at overseas plants, taking into consideration both market demand and the resources available for allocation.

RESEARCH AND DEVELOPMENT

Research and development costs came to ¥107.6 billion during the year, up ¥11.9 billion. This spending supports a variety of R&D approaches—underscoring our “Zoom-Zoom” brand message; ensuring a driving experience that strikes a balance between the joy of driving, environmental factors and safety; and sustaining innovation.

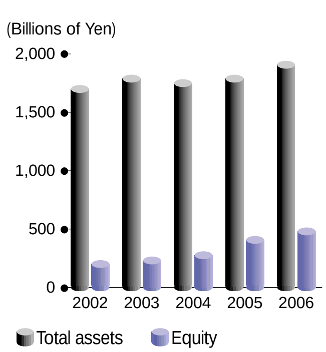
In May 2006, as part of an industry-academia-government collaboration project Mazda succeeded in developing the world’s first bioplastic that has sufficient strength and heat resistance for injection molding and the necessary surface quality for use in automotive interior parts. We plan to begin using this bioplastic in certain parts from fiscal 2007.

Mazda’s R&D framework in Japan is based on collaboration between head office R&D divisions and the Mazda R&D Center Yokohama in Japan, which plan, design, test and conduct cutting-edge research on emerging technologies of new models. Mazda also cooperates with overseas facilities, including the R&D departments of U.S.-based Mazda Motor of America, Inc., and Mazda Motor Europe GmbH in Germany, as well as an R&D division established within Mazda Motor (Shanghai) Business Management & Consulting Co., Ltd. Joint research projects are also conducted with Ford Motor Company. In all cases, product development is tailored to the unique characteristics of each market and aims to enhance the Mazda brand and cement Mazda brand loyalty.

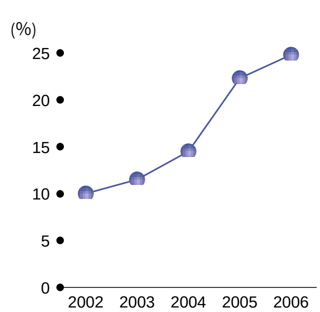
CONSOLIDATED FINANCIAL POSITION

Total assets as of March 31, 2007, were ¥1,907.8 billion, up ¥119.1 billion from one year earlier. Cash and cash equivalents increased ¥33.8 billion, to ¥242.5 billion. Inventories expanded ¥25.8 billion to ¥282.4 billion, in line with efforts to cultivate new markets and the effects of exchange rates on the value of inventories at overseas subsidiaries. Net property, plant and equipment rose ¥26.7 billion, to ¥857.2 billion, as capital expenditures outpaced depreciation. Investments in unconsolidated subsidiaries and affiliated companies rose ¥11.1 billion, to ¥98.8 billion, owing to increased investment in an equity-method affiliate in China.

Total Assets/Equity



Equity Ratio*



* The amounts of equity used in the calculation of equity ratio exclude minority interests (and, for the current year, stock acquisition rights).

Current liabilities expanded ¥28.4 billion, to ¥865.2 billion, as accrued expenses grew in line with higher unit sales in North America. Long-term liabilities rose ¥18.0 billion, to ¥562.6 billion, chiefly owing to bond issuance and increases in long-term debt. Interest-bearing debt—the sum of short- and long-term debt—was ¥474.7 billion at the end of the term, up ¥19.3 billion from one year earlier. Net financial debt, or financial debt less the ¥242.5 billion in cash and cash equivalents at the end of the year, was ¥232.2 billion, a ¥14.6 billion improvement. Accordingly, the net debt-to-equity ratio improved 13 percentage points, to 49%.

Equity at the end of the year totaled ¥479.9 billion, up ¥72.3 billion from one year earlier, chiefly because of ¥73.7 billion in net income during the term. Equity per share rose 18.4%, from ¥284.28 to ¥336.45. Equity ratio on March 31, 2007, was 24.8%, up 2.5 percentage points from one year earlier. Equity used in the calculation of equity per share and equity ratio exclude minority interests (and, for the current year, stock acquisition rights), which amounted to ¥473.4 billion as of March 31, 2007.

CASH FLOWS

Cash and cash equivalents as of March 31, 2007, totaled ¥242.5 billion, ¥33.8 billion more than a year earlier. This improvement reflected ¥116.4 billion in net cash provided by operating activities, ¥95.4 billion of net cash used in investing activities and ¥9.3 billion in net cash provided by financing activities.

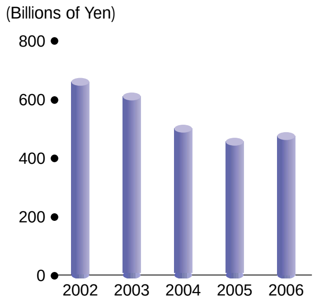
Cash Flows from Operating Activities

Operating activities during the year provided net cash of ¥116.4 billion. Principal factors were ¥118.5 billion in income before income taxes, depreciation and amortization of ¥47.0 billion and income taxes paid of ¥42.2 billion.

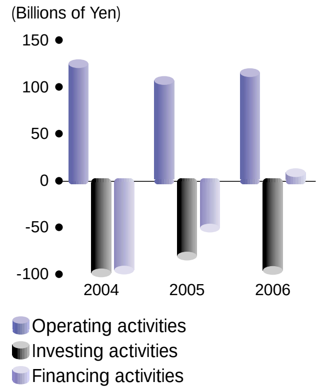
Cash Flows from Investing Activities

Investing activities used net cash of ¥95.4 billion. The chief factor was ¥77.1 billion in acquisitions of property, plant and equipment related to investment in manufacturing facilities.

Financial Debt



Cash Flows



Cash Flows from Financing Activities

Financing activities provided net cash of ¥9.3 billion. This amount principally reflected repayments of long-term debt of ¥62.1 billion, although the Company raised ¥95 billion during the year, including the issuance of ¥40.0 billion in corporate bonds.

During the year, free cash flow, the sum of cash flows from operating and investing activities, totaled ¥21.0 billion.

FISCAL 2007 OUTLOOK

Fiscal 2007 marks the start of the Mazda Advancement Plan, the new medium-term management plan for the Mazda Group. During the year, we will work to accelerate business structural reforms centering on Monotsukuri Innovation. Substantially boosting R&D investment and capital expenditures in the upcoming term will create a spike in fixed costs, but we expect Mazda Group operating performance to overcome these expenses and rise to the levels outlined below.

- Global retail sales 1.35 million units (up 3.7% from fiscal 2006)
- Net sales ¥3,320 billion (up 2.2% from fiscal 2006)
- Operating income ¥160 billion (up 0.9% from fiscal 2006)
- Net income ¥85 billion (up 15.3% from fiscal 2006)

BUSINESS RISKS

Significant risks that could affect the Company's business results and financial position include those listed below. This, however, does not represent a comprehensive list of all the risks faced by the Mazda Group at the current time.

1. Economic Conditions Impacting the Mazda Group

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

2. Exchange Rates

The Mazda Group 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 the Mazda Group's profitability and ability to compete on price.

Mazda uses forward-exchange contracts and other instruments in some of its transactions to minimize the impact of short-term exchange rate risk. However, a weakening of the yen could result in a loss of contingent gains.

3. Alliances and Mergers

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

4. Laws and Regulations

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

5. Market Competitiveness

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

6. Procurements of Materials and Parts

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

7. International Business Activities

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

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

8. Protection of Intellectual Property

In order to maintain competitiveness, the Mazda Group is working to accumulate and protect technologies and expertise that help it to develop unique products. At the same time, the Group is taking steps to prevent the infringement of third-party intellectual property rights.

Nonetheless, in the event of a disputed infringement of third-party intellectual property rights by the Mazda Group, the Mazda Group may be subject to substantial damages claims or be forced to halt the production and sale of products. This could also adversely affect the Mazda Group's business results and financial position.

The Mazda Group's intellectual property is not subject to complete protection in certain regions. In the event that third parties use the Group's intellectual property on an unauthorized basis to produce similar products, the Group may have to pay substantial expenses for litigation, or experience a decline in sales due to an inability to offer unique products. This could adversely affect the Mazda Group's business results and financial position.

9. Defective Products

While striving to improve the quality of its products to meet the requirements of the market, the Mazda Group also does its utmost to ensure the safety of its products. However, the Group cannot guarantee that large-scale product recalls or other issues will not occur due to product defects arising from unforeseen circumstances. Such events may lead to significant costs or a loss of trust in the Group, which could adversely affect Mazda's business results and financial position.

10. Natural Disasters and Accidents

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

Consolidated Balance Sheets

Mazda Motor Corporation and Consolidated Subsidiaries
March 31, 2007 and 2006

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
As of	2006 March 31, 2007	2005 March 31, 2006	2006 March 31, 2007
Current assets:			
Cash and cash equivalents	¥ 242,505	¥ 208,658	$ 2,055,127
Short-term investments	5,064	110	42,915
Trade notes and accounts receivable	172,958	164,220	1,465,746
Inventories (Note 5)	282,432	256,652	2,393,492
Deferred taxes (Note 13)	97,184	94,685	823,593
Other current assets	58,595	58,059	496,567
Allowance for doubtful receivables	(2,816)	(6,739)	(23,864)
Total current assets	855,922	775,645	7,253,576
Property, plant and equipment:			
Land (Note 6)	442,901	445,562	3,753,398
Buildings and structures	420,916	412,414	3,567,085
Machinery and equipment	779,645	757,441	6,607,161
Tools, furniture, fixtures and other	212,208	229,337	1,798,373
Construction in progress	46,630	26,622	395,169
	1,902,300	1,871,376	16,121,186
Accumulated depreciation	(1,045,146)	(1,040,875)	(8,857,169)
Net property, plant and equipment (Note 7)	857,154	830,501	7,264,017
Intangible assets	28,871	24,792	244,670
Investments and other assets:			
Investment securities:			
Unconsolidated subsidiaries and affiliated companies	79,028	64,796	669,729
Other	19,726	22,845	167,169
Long-term loans receivable	6,063	6,265	51,381
Deferred taxes (Note 13)	48,449	51,296	410,585
Other investments and other assets	16,418	20,311	139,136
Allowance for doubtful receivables	(3,271)	(7,163)	(27,720)
Investment valuation allowance	(608)	(629)	(5,153)
Total investments and other assets	165,805	157,721	1,405,127
Total assets	¥1,907,752	¥1,788,659	$16,167,390

See accompanying notes.

LIABILITIES AND EQUITY	As of	Millions of yen 2006 March 31, 2007	Millions of yen 2005 March 31, 2006	Thousands of U.S. dollars (Note 1) 2006 March 31, 2007
Current liabilities:				
Short-term debt (Note 8)		¥ 70,340	¥ 82,134	$ 596,102
Long-term debt due within one year (Note 8)		63,495	62,573	538,093
Trade notes and accounts payable		300,577	307,217	2,547,263
Accrued expenses		343,491	319,496	2,910,941
Reserve for warranty expenses		42,555	29,088	360,636
Other		44,778	36,355	379,473
Total current liabilities		865,236	836,863	7,332,508
Long-term liabilities:				
Long-term debt due after one year (Note 8)		340,849	310,702	2,888,551
Deferred tax liability related to land revaluation (Note 6)		93,773	93,713	794,686
Employees' severance and retirement benefits (Note 9)		111,565	125,004	945,466
Directors' and corporate auditors' retirement benefits		1,460	1,590	12,373
Liabilities from application of equity method		—	787	—
Other long-term liabilities		14,987	12,792	127,009
Total long-term liabilities		562,634	544,588	4,768,085
Contingent liabilities (Note 10)				
Equity:				
Paid-in capital and retained earnings:				
Common stock:				
Authorized: 3,000,000,000 shares				
Issued: 1,414,878,813 shares in 2006				
and 1,407,342,954 shares in 2005 (Note 11)		149,513	148,360	1,267,059
Capital surplus (Note 11)		133,393	132,385	1,130,449
Retained earnings		90,024	24,005	762,915
Treasury stock				
(7,845,934 shares in 2006 and 7,248,917 shares in 2005)		(3,338)	(2,311)	(28,287)
Total paid-in capital and retained earnings		369,592	302,439	3,132,136
Valuation and translation adjustments:				
Net unrealized gains on available-for-sale securities		1,034	1,285	8,763
Net loss on derivative instruments		(865)	—	(7,331)
Land revaluation (Note 6)		136,097	135,372	1,153,364
Foreign currency translation adjustments		(31,528)	(41,072)	(267,186)
Pension adjustments recognized				
by an overseas consolidated subsidiary		(927)	—	(7,856)
Total valuation and translation adjustments		103,811	95,585	879,754
Stock acquisition rights		67	—	568
Equity attributable to shareholders				
of Mazda Motor Corporation		473,470	398,024	4,012,458
Minority interests in consolidated subsidiaries		6,412	9,184	54,339
Total equity		479,882	407,208	4,066,797
Total liabilities and equity		¥1,907,752	¥1,788,659	$16,167,390

Consolidated Statements of Income

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2007, 2006 and 2005

For the years ended	Millions of yen 2006 March 31, 2007	2005 March 31, 2006	2004 March 31, 2005	Thousands of U.S. dollars (Note 1) 2006 March 31, 2007
Net sales	¥3,247,485	¥2,919,823	¥2,695,564	$27,521,059
Cost and expenses:				
Cost of sales	2,322,644	2,110,934	1,972,574	19,683,423
Selling, general and administrative expenses	766,309	685,454	640,043	6,494,144
	3,088,953	2,796,388	2,612,617	26,177,567
Operating income	158,532	123,435	82,947	1,343,492
Other income (expenses):				
Interest and dividend income	2,877	2,359	2,416	24,381
Interest expense	(16,254)	(11,662)	(13,786)	(137,746)
Equity in net income of unconsolidated subsidiaries and affiliated companies	6,151	8,976	9,963	52,127
Other, net (Note 12)	(32,856)	(5,640)	(7,693)	(278,440)
	(40,082)	(5,967)	(9,100)	(339,678)
Income before income taxes	118,450	117,468	73,847	1,003,814
Income taxes: (Notes 13 and 14)				
Current	36,776	26,439	12,343	311,662
Prior year	3,229	10,201	—	27,364
Deferred	2,973	12,454	14,315	25,195
	42,978	49,094	26,658	364,221
Income before minority interests	75,472	68,374	47,189	639,593
Minority interests of consolidated subsidiaries	(1,728)	(1,663)	(1,417)	(14,644)
Net income	¥ 73,744	¥ 66,711	¥ 45,772	$ 624,949

	Yen			U.S. dollars (Note 1)
Amounts per share of common stock:				
Net income:				
Basic	¥52.59	¥51.53	¥37.63	$0.45
Diluted	52.19	47.25	32.41	0.44
Cash dividends applicable to the year	6.00	5.00	3.00	0.05

See accompanying notes.

Consolidated Statements of Equity

Mazda Motor Corporation and Consolidated Subsidiaries
For the Years Ended March 31, 2007, 2006, and 2005

Millions of yen

	Shares of common stock in thousands	Common stock	Capital surplus	Retained earnings	Treasury stock	Valuation and translation adjustments	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total equity
		Equity attributable to shareholders of Mazda Motor Corporation — Paid-in capital and retained earnings							
Balance at March 31, 2004	1,222,496	¥120,078	¥104,217	¥(78,220)	¥(1,455)	¥77,985	¥ —	¥8,332	¥230,937
Exercise of stock acquisition rights (convertible bonds)	1,415	217	216	—	—	—	—	—	433
Net income	—	—	—	45,772	—	—	—	—	45,772
Treasury stock	—	—	2	—	(742)	—	—	—	(740)
Cash dividends paid	—	—	—	(2,434)	—	—	—	—	(2,434)
Exclusion of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	(30)	—	—	—	—	(30)
Net unrealized losses on available-for-sale securities	—	—	—	—	—	(6)	—	—	(6)
Land revaluation	—	—	—	331	—	(575)	—	—	(244)
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	2,459	—	—	2,459
Minority interests in consolidated subsidiaries	—	—	—	—	—	—	—	(306)	(306)
Balance at March 31, 2005	1,223,911	¥120,295	¥104,435	¥(34,581)	¥(2,197)	¥79,863	¥ —	¥8,026	¥275,841
Exercise of stock acquisition rights (convertible bonds)	183,431	28,065	28,065	—	—	—	—	—	56,130
Net income	—	—	—	66,711	—	—	—	—	66,711
Treasury stock	—	—	(115)	—	(114)	—	—	—	(229)
Cash dividends paid	—	—	—	(3,648)	—	—	—	—	(3,648)
Net unrealized gains on available-for-sale securities	—	—	—	—	—	863	—	—	863
Land revaluation	—	—	—	(4,477)	—	4,477	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	10,382	—	—	10,382
Minority interests in consolidated subsidiaries	—	—	—	—	—	—	—	1,158	1,158
Balance at March 31, 2006	1,407,342	¥148,360	¥132,385	¥24,005	¥(2,311)	¥95,585	¥ —	¥9,184	¥407,208
Exercise of stock acquisition rights (convertible bonds)	7,536	1,153	1,153	—	—	—	—	—	2,306
Net income	—	—	—	73,744	—	—	—	—	73,744
Treasury stock	—	—	(145)	—	(1,027)	—	—	—	(1,172)
Cash dividends paid	—	—	—	(7,001)	—	—	—	—	(7,001)
Net unrealized losses on available-for-sale securities	—	—	—	—	—	(251)	—	—	(251)
Net losses on derivative instruments	—	—	—	—	—	(865)	—	—	(865)
Land revaluation	—	—	—	(724)	—	725	—	—	1
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	9,544	—	—	9,544
Pension adjustments recognized by an overseas subsidiary	—	—	—	—	—	(927)	—	—	(927)
Stock acquisition rights from granting of share-based payment	—	—	—	—	—	—	67	—	67
Minority interests in consolidated subsidiaries	—	—	—	—	—	—	—	(2,772)	(2,772)
Balance at March 31, 2007	1,414,878	¥149,513	¥133,393	¥90,024	¥(3,338)	¥103,811	¥67	¥6,412	¥479,882

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock	Valuation and translation adjustments	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total equity
	Equity attributable to shareholders of Mazda Motor Corporation — Paid-in capital and retained earnings							
Balance at March 31, 2006	$1,257,288	$1,121,907	$203,432	$(19,585)	$810,042	$ —	$77,831	$3,450,915
Exercise of stock acquisition rights (convertible bonds)	9,771	9,771	—	—	—	—	—	19,542
Net income	—	—	624,949	—	—	—	—	624,949
Treasury stock	—	(1,229)	—	(8,702)	—	—	—	(9,931)
Cash dividends paid	—	—	(59,331)	—	—	—	—	(59,331)
Net unrealized losses on available-for-sale securities	—	—	—	—	(2,127)	—	—	(2,127)
Net losses on derivative instruments	—	—	—	—	(7,331)	—	—	(7,331)
Land revaluation	—	—	(6,135)	—	6,145	—	—	10
Adjustments from translation of foreign currency financial statements	—	—	—	—	80,881	—	—	80,881
Pension adjustments recognized by an overseas subsidiary	—	—	—	—	(7,856)	—	—	(7,856)
Stock acquisition rights from granting of share-based payment	—	—	—	—	—	568	—	568
Minority interests in consolidated subsidiaries	—	—	—	—	—	—	(23,492)	(23,492)
Balance at March 31, 2007	$1,267,059	$1,130,449	$762,915	$(28,287)	$879,754	$568	$54,339	$4,066,797

See accompanying notes.

Consolidated Statements of Cash Flows

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
For the years ended	2006 March 31, 2007	2005 March 31, 2006	2004 March 31, 2005	2006 March 31, 2007
Cash flows from operating activities:				
Income before income taxes	¥118,450	¥117,468	¥ 73,847	$1,003,814
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	47,045	45,805	40,036	398,686
Loss on impairment of fixed assets	3,356	36,650	—	28,441
Allowance for doubtful receivables	(981)	(206)	1,462	(8,314)
Investment valuation allowance	(21)	(115)	371	(178)
Reserve for warranty expenses	13,281	4,734	1,539	112,551
Employees' severance and retirement benefits	(13,479)	(71,087)	(2,361)	(114,229)
Interest and dividend income	(2,877)	(2,359)	(2,416)	(24,381)
Interest expense	16,254	11,662	13,786	137,746
Equity in net income of unconsolidated subsidiaries and affiliated companies	(6,151)	(8,976)	(9,963)	(52,127)
Loss on sale/disposition of property, plant and equipment, net	3,380	5,961	8,714	28,644
Loss (gain) on sale of investment securities, net	16	(1,407)	425	136
Insurance claim income	—	(996)	(27,942)	—
Decrease (increase) in trade notes and accounts receivable	(3,061)	(17,577)	6,212	(25,941)
Decrease (increase) in inventories	(14,741)	10,332	23,246	(124,924)
Increase (decrease) in trade notes and accounts payable	(16,654)	10,974	(275)	(141,136)
Increase (decrease) in other current liabilities	22,313	(15,989)	14,079	189,093
Other	3,323	(243)	3,170	28,162
Subtotal	169,453	124,631	143,930	1,436,043
Interest and dividends received	5,445	2,838	2,710	46,144
Interest paid	(16,358)	(11,292)	(13,912)	(138,627)
Insurance proceeds received	—	15,554	13,383	—
Income taxes paid	(42,182)	(17,133)	(12,376)	(357,475)
Net cash provided by operating activities	116,358	114,598	133,735	986,085
Cash flows from investing activities:				
Purchase of investment securities	(5,876)	(8,875)	(5,611)	(49,797)
Sale of investment securities	92	2,823	95	780
Purchase of investments in subsidiaries affecting scope of consolidation	—	31	—	—
Sale of investments in subsidiaries affecting scope of consolidation	—	—	(595)	—
Additions to property, plant and equipment	(77,131)	(75,548)	(93,481)	(653,653)
Proceeds from sale of property, plant and equipment	5,031	3,949	5,052	42,636
Decrease (increase) in short-term loans receivable	(1,280)	228	874	(10,847)
Long-term loans receivable made	(60)	(110)	(204)	(508)
Collections of long-term loans receivable	317	162	3,490	2,686
Other	(16,456)	(3,647)	(7,455)	(139,458)
Net cash used in investing activities	(95,363)	(80,987)	(97,835)	(808,161)
Cash flows from financing activities:				
Decrease in short-term debt	(11,689)	(8,845)	(56,746)	(99,059)
Proceeds from long-term debt	95,091	92,102	107,142	805,856
Repayment of long-term debt	(62,133)	(119,502)	(145,583)	(526,551)
Cash dividends paid	(7,000)	(3,930)	(2,434)	(59,322)
Cash dividends paid to the minority interests of consolidated subsidiaries	(4,452)	(282)	(299)	(37,729)
Other	(471)	(2,995)	1,796	(3,992)
Net cash provided by (used in) financing activities	9,346	(43,452)	(96,124)	79,203
Effect of exchange rate fluctuations on cash and cash equivalents	3,506	3,860	2,632	29,712
Net decrease in cash and cash equivalents	33,847	(5,981)	(57,592)	286,839
Cash and cash equivalents at beginning of the year	208,658	214,639	272,231	1,768,288
Cash and cash equivalents at end of the year	¥242,505	¥208,658	¥214,639	$2,055,127

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 from the consolidated financial statements of Mazda Motor Corporation (the “Company”) prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2007, which was ¥118 to U.S. $1.00. 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 58 subsidiaries (58 in the year ended March 31, 2006 and 53 in the year ended March 31, 2005). In addition, 13 affiliates (14 in the year ended March 31, 2006 and 12 in the year ended March 31, 2005) are accounted for by the equity method.

The consolidated year-end balance sheet date is March 31. Among the consolidated subsidiaries, 8 companies (7 at March 31, 2006 and 4 at March 31, 2005) have a year-end balance sheet date of December 31, which is different from the consolidated balance sheet date. In preparing the consolidated financial statements, for 5 of the 8 companies, the financial statements of these companies with the December 31 year-end balance sheet date are used. However, adjustments necessary in consolidation are made for material transactions that have occurred between the balance sheet date of these subsidiaries and the consolidated year-end balance sheet date. For the other 3 companies, special purpose financial statements that are prepared for consolidation as of the consolidated balance sheet date are used to supplement the companies’ statutory financial statements.

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

Foreign currency translation

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

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

Cash and cash equivalents

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

Securities

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

The Company and its consolidated subsidiaries do not have trading securities or held-to-maturity debt securities. 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 valuation and translation adjustments of equity. Realized gains and losses on sale of such securities are computed using moving-average cost. Available-for-sale securities without available fair market values are stated mainly at moving average cost.

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

Inventories

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

Property, plant and equipment

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

Intangible fixed assets

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

Allowance for doubtful receivables

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

Investment valuation allowance

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

Reserve for warranty expenses

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

Employees' severance and retirement benefits

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

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

The Domestic Companies provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets. Prior service costs are recognized in expenses in equal amounts mainly over 12 years, which is within the average of the estimated remaining service periods of employees, and actuarial gains and losses are recognized in expenses using the straight-line basis mainly over 13 years, which is within the average of the estimated remaining service periods, commencing with the following period. For executive officers, the liability is provided for the amount that would be required if all the executive officers retired at the balance sheet date.

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

Directors' and corporate auditors' retirement benefits

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

Income taxes

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

Research and development costs

Research and development costs are charged to income when incurred. For the years ended March 31, 2007, 2006 and 2005, research and development costs were ¥107,553 million ($911,466 thousand), ¥95,730 million and ¥90,841 million, respectively.

Derivatives and hedge accounting

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

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

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

Leases

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

Amounts per share of common stock

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

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

3. Adoption of New Accounting Standards

Adoption of new accounting standard for impairment of fixed assets

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

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

The effect of adopting the new accounting standard on the consolidated statement of income for the year ended March 31, 2007 and 2006 was to decrease income before income taxes by ¥3,356 million ($28,441 thousand) and ¥21,891 million. (See Note 7)

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

Accounting for share-based payment

Commencing in the year ended March 31, 2007, the Domestic Companies adopted the ASBJ Statement No. 8, Accounting Standard for Share-based Payment, issued by the ASBJ on December 27, 2005 and the ASBJ Guidance No. 11 (revised 2006), Guidance on Accounting Standard for Share-based Payment, last revised by the ASBJ on May 31, 2006.

The effect of adopting the new standard for the year ended March 31, 2007 was to decrease operating income, ordinary income and income before taxes by ¥67 million. The effects of adopting the new standards on the segment information are discussed in the applicable section of the notes to the consolidated financial statements.

Accounting standard for presentation of equity in the balance sheet

Effective from the year ended March 31, 2007, the Domestic Companies adopted the new accounting standard, “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Statement No. 5 issued by the Accounting Standard Board of Japan on December 9, 2005), and the “Implementation Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet” (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, “the New Accounting Standards”). Under the New Accounting Standards, the following items are presented differently at March 31, 2007 compared to March 31, 2006. The equity section includes net gain/loss on derivative instruments, net of taxes. Under the previous presentation rules, gain/loss on derivative instruments were included in the assets or liabilities section without considering the related income tax effects. Stock acquisition rights and minority interests are included in the equity section at March 31, 2007. Under the previous presentation rules, companies were required to present minority interests in between the long-term liabilities and the shareholders’ equity sections.

The adoption of the New Accounting Standards had no impacts on the consolidated statement of income for the year ended March 31, 2007. In the calculation of the equity ratio and the equity per share, the stock acquisition rights and the minority interests are excluded from the equity. Also, in order to more easily compare with equity in 2005 and 2006, minority interests in 2005 are reclassified in conformity with current year presentation.

4. Securities

The Company and its consolidated subsidiaries had no trading or held-to-maturity debt securities with available fair values at March 31, 2007 and 2006.

Available-for-sale securities that have available market values as of March 31, 2007 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition costs	Carrying values	Unrealized gains	Acquisition costs	Carrying values	Unrealized gains
Stocks	¥562	¥2,253	¥1,691	$4,763	$19,093	$14,330
Other	306	306	–	2,593	2,593	–
	¥868	¥2,559	¥1,691	$7,356	$21,686	$14,330

Available-for-sale securities with no available fair values as of March 31, 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars
	Book value	Book value
Non-listed equity securities	¥17,100	$144,915

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

	Millions of yen		
	Acquisition costs	Carrying values	Unrealized gains
Stocks	¥563	¥2,684	¥2,121
Other	277	277	–
	¥840	¥2,961	¥2,121

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

	Millions of yen
	Book value
Non-listed equity securities	¥19,801

5. Inventories

Inventories at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of	2006 March 31, 2007	2005 March 31, 2006	2006 March 31, 2007
Finished products	¥236,222	¥215,103	$2,001,881
Work in process	32,683	30,336	276,975
Raw materials and supplies	13,527	11,213	114,636
	¥282,432	¥256,652	$2,393,492

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 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, 2007 from that at the time of revaluation, as stipulated in Article 10 of the Land Revaluation Law, is ¥84,197 million ($713,534 thousand).

7. Impairment of Fixed Assets

As discussed in Note 3, the Domestic Companies adopted the new accounting standard for impairment of fixed assets and reviewed their fixed assets for impairment as of the year ended March 31, 2006. Assets are generally grouped by company; however, idle assets and assets for rent are individually reviewed for impairment.

As a result, an impairment loss of ¥21,891 million ($187,103 thousand) was recognized on certain idle assets without a future business plan, including distribution centers and production equipment, by reducing the carrying amount to the amount recoverable. The reduction in the carrying amount was recognized as an impairment loss.

The impairment loss on idle production equipment included tooling to be held for an extended period of time for the production of parts to be individually shipped; the impairment loss on such tooling amounted to ¥471 million ($3,992 thousand). The recoverable amount of an idle asset is measured based on the net selling amount. For land, the net selling amount is estimated based on a third-party appraisal; for other idle assets, the net selling amount is nominal.

In addition, a consolidated subsidiary in the United States recognized an impairment loss of ¥1,030 million ($8,729 thousand) on certain assets held for use in accordance with the accounting principles generally accepted in the United States.

The loss on impairment of fixed assets of ¥3,356 million ($28,441 thousand) recognized in other income (expenses) (see Note 12) in the consolidated statement of income for the year ended March 31, 2007 consisted of the following:

Use	Location	Type	Millions of yen	Thousands of U.S. dollars
Idle assets	Hokkaido	Buildings and structures	¥ 197	$ 1,669
(sales equipment)		Land	528	4,475
		Other	4	34
		Subtotal	729	6,178
Idle assets	Hiroshima	Machinery and vehicles	157	1,331
(production equipment)		Tools, furniture and fixtures	471	3,991
		Subtotal	628	5,322
Assets held for use (sales equipment)	Okayama	Land	969	8,212
Assets held for use (production equipment)	U.S.A.	Tools, furniture and fixtures	1,030	8,729
Total consolidated			¥3,356	$28,441

8. Short-Term Debt and Long-Term Debt

Short-term debt at March 31, 2007 and 2006 consisted of loans, principally from banks with interest at March 31, 2007 and 2006 averaging 1.0% for both the years.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

As of	Millions of yen 2006 March 31, 2007	Millions of yen 2005 March 31, 2006	Thousands of U.S. dollars 2006 March 31, 2007
Domestic unsecured bonds due serially 2006 through 2013 at rates of 0.51% to 1.65% per annum	¥105,200	¥ 65,400	$ 891,525
Domestic unsecured convertible bonds with stock acquisition rights due 2007 with no interest	1,131	3,437	9,585
Loans principally from banks and insurance companies:			
Secured loans, maturing through 2020	44,932	57,932	380,780
Unsecured loans, maturing through 2017	253,081	246,506	2,144,755
	404,344	373,275	3,426,644
Amount due within one year	(63,495)	(62,573)	(538,093)
	¥340,849	¥310,702	$2,888,551

The annual interest rates applicable to long-term loans outstanding averaged 2.3% for loan due within one year and 1.7% for loan due after one year at March 31, 2007. And 2.4% for loan due within one year and 1.6% for loans due after one year at March 31, 2006.

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

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

The annual maturities of long-term debt at March 31, 2007 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 63,495	$ 538,093
2009	53,440	452,881
2010	19,662	166,627
2011	38,379	325,246
2012	45,332	384,169
Thereafter	184,036	1,559,628
	¥404,344	$3,426,644

The assets pledged as collateral for short-term debt of ¥42,588 million ($360,915 thousand) and long-term debt of ¥44,932 million ($380,780 thousand) at March 31, 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, at net book value	¥463,082	$3,924,424
Other	60	508
	¥463,142	$3,924,932

9. Employees' Severance and Retirement Benefits

The liabilities for severance and retirement benefits included in the liability sections of the consolidated balance sheets as of March 31, 2007 and 2006 consisted of the following:

As of	Millions of yen 2006 March 31, 2007	2005 March 31, 2006	Thousands of U.S. dollars 2006 March 31, 2007
Projected benefit obligation	¥ 322,377	¥ 322,108	$ 2,732,008
Unrecognized prior service costs	23,920	25,347	202,712
Unrecognized actuarial differences	(55,911)	(60,662)	(473,822)
Less fair value of pension assets	(181,514)	(164,224)	(1,538,254)
Prepaid pension cost	2,693	2,435	22,822
Liability for severance and retirement benefits	¥ 111,565	¥ 125,004	$ 945,466

Severance and retirement benefit expenses included in the consolidated statements of income for the years ended March 31, 2007, 2006 and 2005 consisted of the following:

For the years ended	Millions of yen 2006 March 31, 2007	2005 March 31, 2006	2004 March 31, 2005	Thousands of U.S. dollars 2006 March 31, 2007
Service costs–benefits earned during the year	¥11,048	¥ 8,630	¥10,454	$ 93,627
Interest cost on projected benefit obligation	6,543	10,809	15,369	55,449
Expected return on plan assets	(5,333)	(4,365)	(8,081)	(45,195)
Amortization of prior service costs	(2,126)	(2,302)	(2,134)	(18,017)
Amortization of actuarial differences	6,456	5,195	9,774	54,712
Severance and retirement benefit expenses	¥16,588	¥17,967	¥25,382	$140,576

The discount rates and the rates of expected return on plan assets used by the Domestic Companies are primarily 2.0% and 3.0%, respectively, for the year ended March 31, 2007, and 2.0% and 3.0%, respectively, for the year ended March 31, 2006. The estimated amount of all retirement benefits to be paid at the future retirement dates is allocated equally to each service year using the estimated number of total service years.

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

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

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

On March 31, 2004, estimated plan assets to be returned to the government were ¥144,871 million. If the transitional provision had been adopted in the year ended March 31, 2004, based on the estimated plan assets at March 31, 2004, the effect of the adoption on the consolidated statement of income for the year ended March 31, 2004 would have been to increase other income by ¥47,517 million.

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

Other than defined benefit plan, defined contribution plan has been adopted. Accrued pension cost of defined contribution plan was included in consolidated statement of income by ¥1,949 million.

10. Contingent Liabilities

Contingent liabilities at March 31, 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars
Discounted trade notes receivable	¥ 348	$ 2,949
Factoring of receivables with recourse	24,471	207,381
Guarantees of loans and similar agreements	9,096	77,085
Letters of undertaking to provide guarantees for leases for factory facilities	21,339	180,839

11. Equity

The Corporate Law (“the Law”) became effective on May 1, 2006, replacing the Commercial Code (“the Code”). Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve, must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Under the Code, companies were required to set aside an amount equal to at least 10% of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders’ meeting. Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, additional paid-in capital and legal earnings reserve could be transferred to retained earnings by the resolution of the shareholders’ meeting as long as the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of the common stock balance. Under the Law, all additional paid-in capital and legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law. Cash dividends charged to retained earnings during the fiscal year were year-end cash dividends for the preceding fiscal year and interim cash dividends for the current fiscal year.

The appropriations are not accrued in the consolidated financial statements for the corresponding period, but are recorded in the subsequent accounting period after shareholders' approval has been obtained.Retained earnings at March 31, 2007 include amounts representing year-end cash dividends of ¥8,442 million ($71,542 thousand), which were approved at the shareholders' meeting held on June 26, 2007.

Pension adjustments recognized by an overseas consolidated subsidiary
Commencing in the year ended March 31, 2007, the consolidated subsidiary in the United States adopted the Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. The amount (net of tax) that the consolidated subsidiary recognized, in the balance sheet, as a component of the other accumulated comprehensive income in the shareholders' equity is recognized, in the consolidated balance sheet, as "pension adjustments recognized by an overseas consolidated subsidiary" as a separate component of the valuation and translation adjustments of the equity.

12. Other Income (Expenses)

The components of "Other, net" in Other income (expenses) in the statements of income for the years ended March 31, 2007, 2006 and 2005 were comprised as follows:

	Millions of yen			Thousands of U.S. dollars
For the years ended	2006 March 31, 2007	2005 March 31, 2006	2004 March 31, 2005	2006 March 31, 2007
Gain (loss) on sale of investment securities, net	¥ (16)	¥ 1,407	¥ (425)	$ (136)
Loss on sale of property, plant and equipment, net	(3,380)	(6,433)	(10,638)	(28,644)
Rental income	1,764	1,926	1,961	14,949
Gain on the transfer to the government of the substitutional portion of employee pension fund liabilities	–	59,611	–	–
Loss on impairment of fixed assets	(3,356)	(36,650)	–	(28,441)
Foreign exchange loss	(19,914)	(19,088)	(7,443)	(168,763)
Compensation received for the exercise of eminent domain	–	472	1,924	–
Loss on liquidation of a *Tokumei Kumiai*	–	–	(2,226)	–
Insurance claim income	–	996	27,942	–
Inventory valuation loss related to car-carrying vessel accident	(1,979)	–	(14,831)	(16,771)
Other	(5,975)	(7,881)	(3,957)	(50,635)
	¥(32,856)	¥ (5,640)	¥ (7,693)	$(278,441)

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

13. Income Taxes

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

For the years ended	2006 March 31, 2007	2005 March 31, 2006	2004 March 31, 2005
Statutory tax rate	40.4%	40.4%	40.4%
Equity in net income of unconsolidated subsidiaries and affiliated companies	(2.1)	(3.1)	(5.5)
Valuation allowances	(2.1)	1.0	9.0
Unrealized profits from intercompany transactions	–	(6.6)	(5.7)
Prior year income taxes	2.8	8.7	–
Tax credit	(3.8)	–	–
Other	1.1	1.4	(2.1)
Effective tax rate	36.3%	41.8%	36.1%

Deferred tax assets and liabilities reflect the estimated tax effects of loss carryforwards and accumulated temporary differences between assets and liabilities for financial accounting purposes and those for tax purposes. The significant components of deferred tax assets and liabilities at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of	2006 March 31, 2007	2005 March 31, 2006	2006 March 31, 2007
Deferred tax assets:			
Allowance for doubtful receivables	¥ 1,721	¥ 3,936	$ 14,585
Employees' severance and retirement benefits	44,517	50,389	377,263
Loss on impairment of fixed assets	8,046	9,146	68,186
Accrued bonuses and other reserves	29,893	23,987	253,331
Inventory valuation	5,019	4,504	42,534
Valuation loss on investment securities, etc.	1,438	1,364	12,186
Net operating loss carryforwards	14,126	10,174	119,712
Other	76,037	75,591	644,381
Total gross deferred tax assets	180,797	179,091	1,532,178
Less valuation allowance	(23,911)	(22,103)	(202,636)
Total deferred tax assets	156,886	156,988	1,329,542
Deferred tax liabilities:			
Reserves under Special Taxation Measures Law	(7,756)	(8,198)	(65,729)
Other	(3,643)	(2,955)	(30,872)
Total deferred tax liabilities	(11,399)	(11,153)	(96,601)
Net deferred tax assets	¥145,487	¥145,835	$1,232,941

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	2006 March 31, 2007	2005 March 31, 2006	2006 March 31, 2007
Current assets—Deferred taxes	¥ 97,184	¥ 94,685	$ 823,593
Investments and other assets—Deferred taxes	48,449	51,296	410,585
Current liabilities—Other	(1)	(1)	(8)
Other long-term liabilities	(145)	(145)	(1,229)
Net deferred tax assets	¥145,487	¥145,835	$1,232,941

14. Prior Year Income Taxes

Prior year income taxes recorded in the year ended March 31, 2007 are primarily for the taxes that the Company expects to pay on transactions between the Company and its domestic dealerships. The Company bears part of the expenses that its dealerships incur for sales and promotional activities. Recent internal investigation has unveiled transactions that are not deductible for the purpose of income tax filing due to inappropriate documentation for invoices and payments as well as unclear grounds for the determination of the amounts to be borne by the Company. As a result, the Company has recognized the estimated additional taxes for the prior three years of ¥3,229 million ($27,364 thousand), as prior year income taxes in the consolidated statement of income for the year ended March 31, 2007. The estimated amount of ¥3,229 million ($27,364 thousand) is net of deferred taxes of ¥293 million ($2,483 thousand) on those portions of prefectural taxes that are deductible in the future federal income tax filings.

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

15. 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 and swap contracts are subject to risks of foreign exchange rate changes. Interest rate swap contracts are subject to risks of interest rate changes.

The policies for derivative transactions of the Company and its consolidated subsidiaries are determined by the Company's president or chief financial officer. Derivative contracts are concluded under the directions of the Company's Financial Services Division in accordance with the established rules of the Company. Derivative transactions are executed and the balances are managed by each individual company; the president of each company is responsible for the inspection. Also, the

Company's Financial Services Division is responsible for overall management on a group-wide basis.

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

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

The following tables summarize market value information as of March 31, 2007 and 2006 of derivative transactions for which hedge accounting has not been applied:

	Millions of yen			Thousands of U.S. dollars		
2006 As of March 31, 2007	Contract amount	Estimated fair value	Unrealized gain (loss)	Contract amount	Estimated fair value	Unrealized gain (loss)
Forward foreign exchange contracts:						
Sell:						
U.S. dollar	¥32,051	¥31,980	¥ 71	$271,619	$271,017	$ 602
Canadian dollar	2,384	2,404	(20)	20,203	20,373	(170)
Australian dollar	2,393	2,518	(125)	20,279	21,340	(1,061)
Euro	20,420	21,097	(677)	173,051	178,788	(5,737)
Sterling pound	5,402	5,475	(73)	45,780	46,398	(618)
Swiss franc	291	291	–	2,466	2,466	–
Buy:						
Thai baht	8,595	9,314	719	72,839	78,932	6,093
Australian dollar	3,671	3,661	(10)	31,110	31,025	(85)
	¥75,207	¥76,740	¥(115)	$637,347	$650,339	$ (976)

	Millions of yen		
2005 As of March 31, 2006	Contract amount	Estimated fair value	Unrealized gain (loss)
Forward foreign exchange contracts:			
Sell:			
U.S. dollar	¥18,494	¥18,872	¥ (378)
Canadian dollar	4,780	4,992	(212)
Australian dollar	920	914	6
Euro	23,770	24,647	(877)
Sterling pound	3,798	3,856	(58)
Swiss franc	173	174	(1)
Buy:			
Australian dollar	3,739	3,745	6
	¥55,674	¥57,200	¥(1,514)

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

16. Leases

As lessee, the equivalents of the acquisition costs, accumulated depreciation and net book values of finance leases accounted for as operating leases as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of	2006 March 31, 2007	2005 March 31, 2006	2006 March 31, 2007
Acquisition costs for machinery, tools and equipment	¥72,040	¥76,910	$610,508
Accumulated depreciation	36,782	37,285	311,711
Net book value	¥35,258	¥39,625	$298,797

Lease payments under non-capitalized finance leases amounted to ¥13,866 million ($117,508 thousand), ¥14,514 million and ¥17,957 million for the years ended March 31, 2007, 2006 and 2005, respectively. The equivalents of the related depreciation and interest expenses amounted to ¥12,651 million ($107,212 thousand) and ¥1,105 million ($9,364 thousand) for the year ended March 31, 2007, ¥12,878 million and ¥1,248 million for the year ended March 31, 2006, and ¥15,035 million and ¥1,637 million for the year ended March 31, 2005, 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, 2007 and 2006 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	2006 March 31, 2007	2005 March 31, 2006	2006 March 31, 2007	2006 March 31, 2007	2005 March 31, 2006	2006 March 31, 2007
Current portion	¥12,455	¥13,301	$105,551	¥ 2,748	¥ 5,860	$23,288
Non-current portion	23,941	28,295	202,890	8,833	9,607	74,856
	¥36,396	¥41,596	$308,441	¥11,581	¥15,467	$98,144

17. 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 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, 2007, 2006 and 2005 were as follows:

	Millions of yen						
2006 For the year ended March 31, 2007	Japan	North America	Europe	Other areas	Total	Elimination or corporate	Consolidated
Net sales:							
Outside customers	¥1,226,988	¥991,192	¥774,837	¥254,468	¥3,247,485	¥ –	¥3,247,485
Inter-area	1,347,406	7,074	19,899	1,638	1,376,017	(1,376,017)	–
Total	2,574,394	998,266	794,736	256,106	4,623,502	(1,376,017)	3,247,485
Costs and expenses	2,451,263	982,810	779,242	246,517	4,459,832	(1,370,879)	3,088,953
Operating income (loss)	¥ 123,131	¥ 15,456	¥ 15,494	¥ 9,589	¥ 163,670	¥ (5,138)	¥ 158,532
Total identifiable assets	¥1,663,264	¥219,947	¥166,276	¥ 56,074	¥2,105,561	¥ (197,809)	¥1,907,752

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

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

2006 For the year ended March 31, 2007	Japan	North America	Europe	Other areas	Total	Elimination or corporate	Consolidated
	Thousands of U.S. dollars						
Net sales:							
Outside customers	$10,398,203	$8,399,932	$6,566,415	$2,156,509	$27,521,059	$ –	$27,521,059
Inter-area	11,418,695	59,949	168,636	13,881	11,661,161	(11,661,161)	–
Total	21,816,898	8,459,881	6,735,051	2,170,390	39,182,220	(11,661,161)	27,521,059
Costs and expenses	20,773,415	8,328,898	6,603,746	2,089,127	37,795,186	(11,617,619)	26,177,567
Operating income (loss)	$ 1,043,483	$ 130,983	$ 131,305	$ 81,263	$ 1,387,034	$ (43,542)	$ 1,343,492
Total identifiable assets	$14,095,458	$1,863,958	$1,409,118	$ 475,203	$17,843,737	$ (1,676,347)	$16,167,390

Notes: 1) Method of segmentation and principal counties or regions belonging to each segment

a) Method: Segmentation by geographic adjacency

b) Principal countries or regions belonging to each segment

North America: U.S.A. and Canada

Europe: Germany, Belgium and U.K.

Other areas: Australia and Colombia

2) As discussed in the accounting for share-based payment section of the adoption of new accounting standards, commencing in the year ended March 31, 2007, the Domestic Companies adopted the ASBJ Statement No. 8, Accounting Standard for Share-based Payment, issued by the ASBJ on December 27, 2005 and the ASBJ Guidance No. 11 (revised 2006), Guidance on Accounting for Share-based Payment, last revised by the ASBJ on May 31, 2006. The effects of adopting the new standard on the consolidated statement of income for the year ended March 31, 2007 were to increase the operating expenses and to decrease the operating income in the Japan segment by ¥67 million.

International sales for the years ended March 31, 2007, 2006 and 2005 were as follows:

2006	Millions of yen			
For the year ended March 31, 2007	North America	Europe	Other areas	Total
International sales	¥1,017,874	¥789,135	¥553,149	¥2,360,158
Percentage of consolidated net sales	31.3%	24.4%	17.0%	72.7%

2005	Millions of yen			
For the year ended March 31, 2006	North America	Europe	Other areas	Total
International sales	¥843,988	¥668,941	¥519,232	¥2,032,161
Percentage of consolidated net sales	28.9%	22.9%	17.8%	69.6%

2004	Millions of yen			
For the year ended March 31, 2005	North America	Europe	Other areas	Total
International sales	¥761,684	¥634,233	¥454,027	¥1,849,944
Percentage of consolidated net sales	28.3%	23.5%	16.8%	68.6%

2006	Thousands of U.S. dollars			
For the year ended March 31, 2007	North America	Europe	Other areas	Total
International sales	$8,626,051	$6,687,585	$4,687,703	$20,001,339

Notes: 1) Overseas sales include exports by Mazda Motor Corporation and its domestic consolidated subsidiaries as well as sales (other than exports to Japan) by overseas consolidated subsidiaries.

2) Method of segmentation and principal countries or regions belonging to each segment

a) Method: Segmentation by geographic adjacency

b) Principal countries or regions belonging to each segment

North America: U.S.A. and Canada
Europe: Germany and U.K.
Other areas: Australia, Thailand and China

18. 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, 2007 and 2006, guarantees of loans and letters of undertaking, included in contingent liabilities, covered ¥22,789 million ($193,127 thousand) and ¥25,790 million, respectively, of AAI’s obligations.

19. Supplementary Cash Flow Information

For the years ended March 31, 2007 and 2006, exercise of bonds with stock acquisition rights increased common stock by ¥1,153 million ($9,771 thousand) and ¥28,065 million, respectively, and increased capital surplus by ¥1,153 million ($9,771 thousand) and ¥28,065 million, respectively, and decreased bonds with stock acquisition rights by ¥2,306 million ($19,542 thousand) and ¥56,130 million, respectively.

20. Subsequent Events

The following appropriation of retained earnings was approved at a shareholders’ meeting held on June 26, 2007:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends: ¥6.00 ($0.05) per share	¥8,442	$71,542

Assurance by Key Management

June 26, 2007

To the best of our knowledge, after due inquiry, the financial statements and other financial information included in the Company's annual report for the year ended March 31, 2007 are presented fairly, in all material respects, in conformity with generally accepted accounting principles in Japan.

President and
Chief Executive Officer

Hisakazu Imaki

Senior Managing Executive Officer and
Chief Financial Officer

David E. Friedman

Report of Independent Certified Public Accountants

KPMG

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

We have audited the accompanying consolidated balance sheets of Mazda Motor Corporation and consolidated subsidiaries as of March 31, 2007 and 2006, the related consolidated statements of income, equity and cash flows for each of the three years in the period ended March 31, 2007, 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31,2007, in conformity with accounting principles generally accepted in Japan.

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

(1) As discussed in Note 3 to the consolidated financial statements, effective April 1, 2006, Mazda Motor Corporation and consolidated domestic subsidiaries adopted new accounting standard for presentation of equity in the balance sheet.

(2) As referred to in Note 3 to the consolidated financial statements, effective April 1, 2006, Mazda Motor Corporation and domestic subsidiaries adopted new accounting standard for share-based payment.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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 26, 2007

Directory

(As of March 31, 2007)

RESEARCH AND DEVELOPMENT SITES:

Hiroshima Head Office, Miyoshi, Mazda R&D Center Yokohama, Mazda Motor of America (U.S.), Mazda Motor Europe (Germany), China Engineering Support Center

MANUFACTURING SITES:

Japan

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

Overseas

U.S.A., China, Taiwan, Thailand, Malaysia, Philippines, Iran, Spain, Zimbabwe, South Africa, Ecuador, Colombia

PRINCIPAL SUBSIDIARIES AND AFFILIATES

Company	Capital	Holding (%)
Mazda Motor of America, Inc.	$240,000,000	92.6
Mazda Motors (Deutschland) GmbH	Euro 17,895,000	100.0*
Mazda Canada Inc.	C$66,200,000	60.0
Mazda Australia Pty., Ltd.	A$31,000,000	100.0
Mazda Motor Logistics Europe N.V.	Euro 71,950,000	100.0
Mazda Motor Europe GmbH	Euro 26,000	100.0*
Mazda Motors UK Ltd.	£4,000,000	100.0*
Mazda Autozam Inc.	¥1,725,000,000	100.0
Kanto Mazda Co., Ltd.	¥3,022,000,000	100.0
Tokai Mazda Hanbai Co., Ltd.	¥2,110,000,000	100.0
Kansai Mazda Co., Ltd.	¥950,000,000	100.0
Kyushu Mazda Co., Ltd.	¥826,000,000	100.0
Mazda Parts Kanto Co., Ltd.	¥501,000,000	97.0
Mazda Chuhan Co., Ltd.	¥1,500,000,000	100.0
Kurashiki Kako Co., Ltd.	¥310,000,000	75.0
Malox Co., Ltd.	¥490,000,000	99.6
Toyo Advanced Technologies Co., Ltd.	¥3,000,000,000	100.0
AutoAlliance International, Inc.	$760,000,000	50.0
AutoAlliance (Thailand) Co., Ltd.	Bt 5,000,000,000	50.0*

Note: *Including voting rights held by subsidiaries.

Corporate Data

(As of March 31, 2007)

Name: Mazda Motor Corporation
Founded: January 1920
Capital: ¥149,510 million
Number of Employees: 38,004

OFFICES

Head Office:

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Kita-ku, Osaka 531-6008, Japan
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MAZDA WEB SITE ADDRESS

Additional information is available on Mazda's global Web site.
URL: http://www.mazda.com
For investors:
URL: http://www.mazda.com/investors/

FOR REQUESTS AND INQUIRIES

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Victoria 3149, Australia
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Fax: +61 (3) 8540-1920

Stock Information

(As of March 31, 2007)

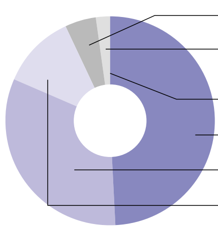
Authorized:	3,000,000,000 shares
Issued:	1,414,878,813 shares
Number of Shareholders:	62,205
Listing:	Tokyo Stock Exchange, First Section
Code:	7261
Fiscal Year-End:	March 31
Transfer Agent:	The Sumitomo Trust & Banking Co., Ltd. 5-33, Kitahama 4-chome, Chuo-ku, Osaka 540-8639, Japan

MAJOR SHAREHOLDERS

Shareholder	No. of Shares Owned (Thousands)	Ownership (%)
Ford Motor Company	473,535	33.7
Japan Trustee Services Bank, Ltd. (Trust Account)	75,001	5.3
The Master Trust Bank of Japan, Ltd. (Trust Account)	64,258	4.6
Tokio Marine & Nichido Fire Insurance Co., Ltd.	40,410	2.9
Sumitomo Mitsui Banking Corp.	37,624	2.7
Mitsui Sumitomo Insurance Co., Ltd.	32,483	2.3
Japan Trustee Services Bank, Ltd. (Trust Account 4)	25,717	1.8
Sompo Japan Insurance Inc.	20,210	1.4
The Sumitomo Trust & Banking (Trust Account B)	16,435	1.2
Nippon Life Insurance Company	15,553	1.1

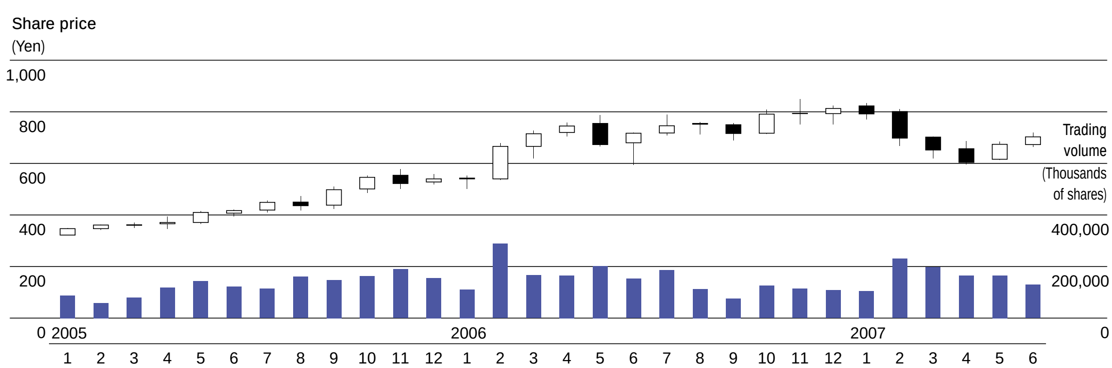
Notes: 1. Ownership does not take into account Mazda's 7,812,016 shares of treasury stock
2. All shares formerly held by its wholly owned subsidiaries Ford Automotive International Holdings S.L. and FLP Canada have been transferred to the Ford Motor Company.

BREAKDOWN OF SHAREHOLDERS



	No. of Shares Owned	Ratio (%)
Other Japanese corporations	67,883,771	4.8
Japanese securities companies	31,315,352	2.2
Japanese government and municipal corporations	43,000	0.0
Foreign institutions and others	696,125,983	49.2
Japanese financial institutions	457,229,658	32.3
Japanese individuals and others	162,281,049	11.5

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



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