Accelerating Growth

Annual Report 2002 for the year ended March 31, 2003

mazda

Profile

Originally established in January 1920, Mazda started manufacturing tools in 1929 and soon branched out into production of trucks for commercial use. In the early 1960s, Mazda launched its first passenger car models and began developing rotary engines. Still headquartered in Hiroshima in western Japan, Mazda Motor Corporation today ranks as one of Japan's leading automakers.

Mazda has been exporting cars to the United States and Europe for over 30 years. Overseas sales account for more than half of total turnover. Mazda has two main production sites in Japan and 15 overseas facilities. Mazda's factory at Hiroshima is one of the largest single-site automobile plants in the world, with an annual production capacity of nearly 400,000 units. The plant located at Hofu has a similar capacity. Overseas sites include joint ventures based in Michigan, U.S.A, and in Thailand with Ford Motor Company, Mazda's largest shareholder.

Mazda boasts an illustrious history of engineering innovation, symbolized by the rotary engine. Although many leading firms attempted to adapt the concept, only Mazda persevered and succeeded in creating a commercial sports car engine. Today, Mazda is the only manufacturer in the world that makes gasoline, diesel and rotary internal combustion engines. The latest incarnation of the rotary engine powers the new Mazda RX-8, a car that truly embodies Mazda DNA.

Mazda's raison-d'etre is to make cars that are fun to drive—cars that enthuse but are also affordable. The brand message "Zoom-Zoom" aims to capture this feeling, expressing the passionate spirit of motoring enjoyment that drives Mazda forward.

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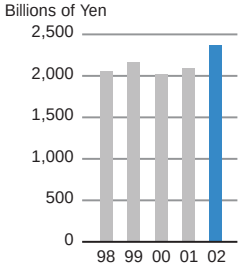
Financial Highlights

MAZDA MOTOR CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2003, 2002 and 2001

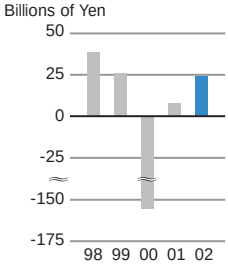
	Millions of yen			Thousands of U.S. dollars[1]
	2002 March 31, 2003	2001 March 31, 2002	2000 March 31, 2001	2002 March 31, 2003
For the year:				
Net sales	¥2,364,512	¥2,094,914	¥2,015,812	$19,704,267
Net income (loss)	24,134	8,830	(155,243)	201,117
At the year-end:				
Total assets	1,754,017	1,734,895	1,743,627	14,616,808
Shareholders' equity	194,071	172,837	158,872	1,617,258
	Yen			U.S. dollars
Amounts per share of common stock:				
Net income (loss)[2]	¥ 19.80	¥ 7.23	¥ (126.99)	$ 0.17
Cash dividends applicable to the year[3]	2.00	2.00	—	0.02

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, 2003, of ¥120 to US$1.
2. The computations of net income (loss) per share of common stock are based on the average number of shares outstanding during each fiscal year.
3. Cash dividends per share represent actual amounts applicable to the respective years.

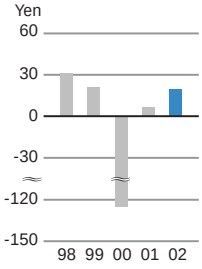
NET SALES



NET INCOME (LOSS)



NET INCOME (LOSS) PER SHARE



Resurgence

We feel confident we are now on a dynamic growth trajectory.

A critical mass of excitement created by our new products is generating sharply improved sales growth. As a company reborn, we are rededicated to creating the quality that will translate into greater customer satisfaction and higher profits.

Fiscal 2002, the year ended March 31, 2003, was a good year for us. In this same message last year, we stated that it would be the year in which we would "execute, deliver and grow." And indeed we have continued to promote the Millennium Plan centered on the four pillars of *Growth*, *Reform and Restructuring*, *Synergies with* Ford and *People Development*, delivering improved results and achieving solid growth. The key difference this year is that we now have all the new products to accelerate sales growth as we move forward.

Results

Mazda's total sales volume for fiscal 2002 increased 7.2% to 1,017,000 units. Sales growth was markedly faster in the second half with the launch of new models. Another positive indicator for the future was the strong growth that we registered in western Europe (volume up 11.5% year-on-year) and in China (up 123.2% to 23,000 units). We posted record sales in both Canada and Australia. In Japan, we increased sales and maintained market share. Sales were down slightly in the United States, but we maintained our market share. All these figures were achieved against the background of difficult economic and business conditions: the industry shrank in volume terms both in western Europe and the United States and achieved only meager growth in Japan during the year.

We posted double-digit growth in consolidated net sales, which advanced 12.9% to ¥2,364.5 billion. Operating income soared 77.4% to ¥50.6 billion. Volume growth and an improved mix contributed to higher profits. And these gains derived from cost reductions, which also helped to offset the cost of major ongoing investments in product enhancements. We also received a boost from yen depreciation, principally against the euro. Net income jumped 173.3% to ¥24.1 billion.

Increased free cash flow of ¥47.0 billion helped us make further progress in reducing the consolidated debt burden. As of the end of fiscal 2002, consolidated net debt stood at ¥403.5 billion. We cut the net debt-to-equity ratio to 208% (the ratio stood at 264% at the end of fiscal 2001). We are committed to improving this metric further, even as we invest heavily in product development. We also paid an annual cash dividend of ¥2.00 per share.

On a dynamic growth trajectory

In November 2000, Mazda set out to remake itself. We have since redesigned every facet of the business. We have created a clear focus for the brand and have developed products that fully express the scope of our brand DNA. The new model line-up—which includes the Atenza/Mazda6 midsize car, the Demio/Mazda2 compact, and the Mazda RX-8 sports car—refocuses our brand. Alongside the new Axela/Mazda3, which is due to be

Kazuhide Watanabe (left)
Lewis Booth (right)

June 2003

Stylish, insightful and spirited are the three essential qualities that infuse the Mazda brand.

released in all major markets later in 2003, these are the models that will deliver higher growth—accelerating growth.

There are two main reasons why we feel confident we are now on a dynamic growth trajectory. First, the roll-out of these four products is making existing and new customers excited about the difference that a new Mazda can make for them. This critical mass of excitement is generating sharply improved sales growth. Already, the Atenza/Mazda6, the Demio/Mazda2 and the RX-8 have been received extremely well in Japan. The Atenza/Mazda6 has received over 50 international media awards, including the prestigious 2003 RJC Car of the Year award in Japan. International accolades and strong global sales have made it the most successful launch in Mazda's history (our Hofu Plant in Japan continues to work at full capacity to meet demand). The rotary engine RENESIS that powers the RX-8 was named International Engine of the Year 2003.

Second, we have tackled all aspects of operations, from strengthening dealer networks to cost-reduction efforts focused on a range of commodity components to various moves aimed at improving corporate governance. As a company reborn, we are now rededicated to creating the quality that will translate into greater customer satisfaction and higher profits.

The difference that is Mazda

Our mission at Mazda is to make cars that are supremely enjoyable to drive and affordable for the majority of people. Even the Mazda RX-8, which for many might be a "dream car," comes with a realistic price tag. One obvious point of difference between Mazda and other automakers is that we are the only car manufacturer in the world that produces gasoline, diesel and rotary engines.

Essentially, however, we believe the key difference is in the character and spirit of the cars themselves, which, in turn, reflect the quality-oriented and passionate spirit of the people who design, develop, manufacture and sell them. Besides a powerful commitment to excellence in design, Mazda has a proud and innovative engineering heritage. As exemplified by the rotary engine, we have persevered and created things that others thought impossible such as a true sports car that can seat four adults (refer to the feature section of this report for more details about the RX-8).

Three words encapsulate the differences embodied in our new range of cars, differences that create a distinct brand identity with substantial appeal to mainstream consumers. First is *stylish*. Our vision of style encompasses not only sleek exterior profiles but also exquisitely crafted interiors that express a functional beauty. Second is *insightful*, which means we are driven by insight into the needs and desires of real customers. Third is *spirited*, which describes the signature dynamic performance and handling characteristics of our cars.

Stylish, insightful and spirited are the three essential qualities that infuse the Mazda brand, as already manifested in the Atenza/Mazda6, Demio/Mazda2, RX-8 and the upcoming Axela/Mazda3. The enthusiastic response that these models have elicited in markets around the world confirms that we are on the right track.

Quality and customer satisfaction

Quality is deeply ingrained in Mazda's corporate culture. A passion for quality lies at the heart of our strength. Here we are referring to quality in the broadest sense—the quality of each component, the design, the styling, the powertrain, as well as sales and customer service. Many customers already rate our quality as among the best in the industry: in Germany, Mazda has been ranked among the highest in terms of customer satisfaction, quality and reliability.

Recognizing, however, that for many consumers Mazda is just one of several Japanese car brands, we continue to take up the challenge of differentiating our product. The clear brand identity of all new-generation Mazda products leads the way in this respect, as we work to establish a stronger presence in key markets such as the United States.

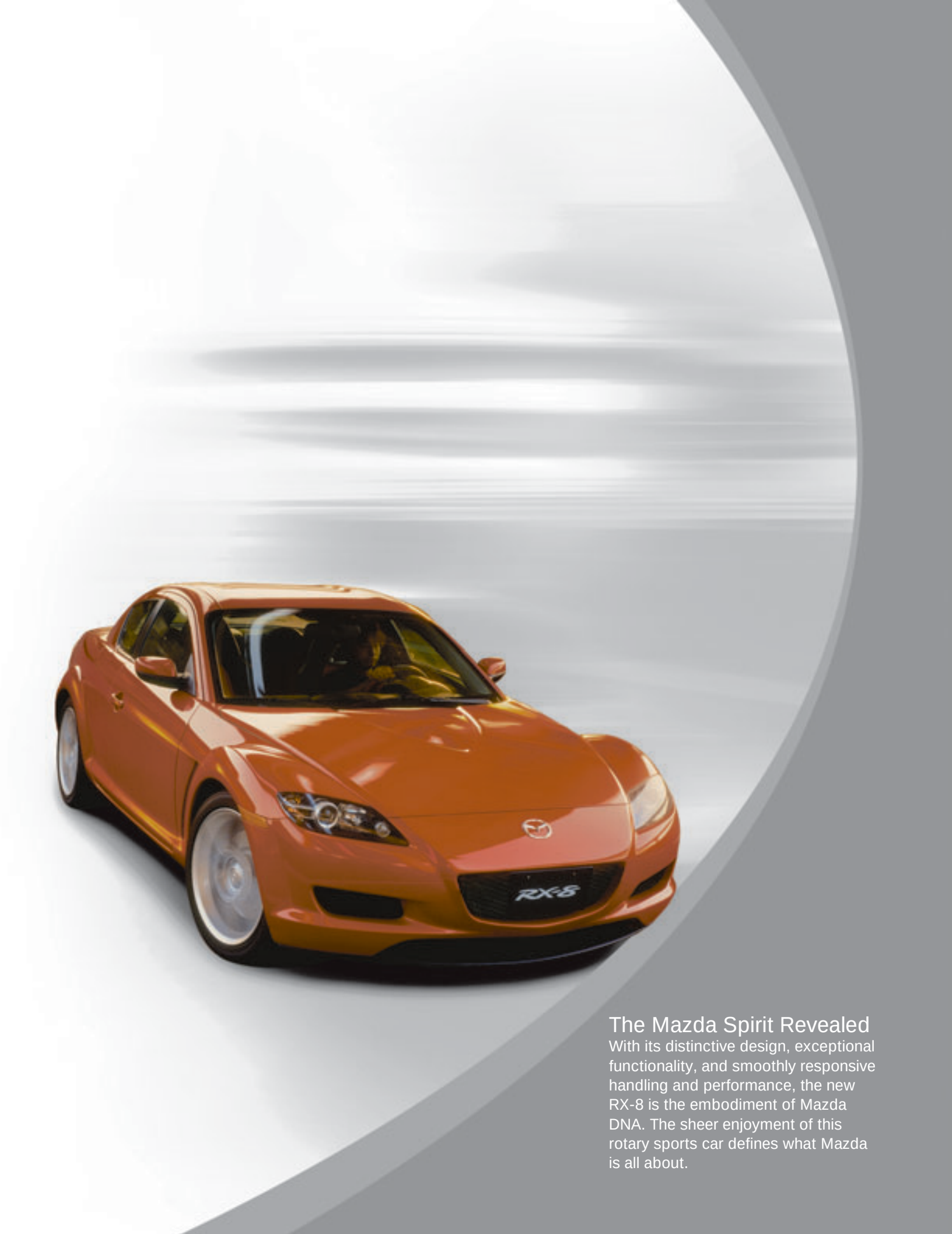
Our conviction is that our renewed quality will generate increased customer satisfaction, which in turn will produce accelerating growth. We now have all the elements in place to achieve such growth. The resurgence is underway.

July 2003

Kazuhide Watanabe
Representative Director and
Chairman of the Board

Lewis Booth
Representative Director,
President and CEO

Effective August 27, 2003, Hisakazu Imaki was appointed Representative Director, President and CEO. Mr. Imaki, who joined the Company in 1965, previously held the position of Representative Director, Executive Vice President and Chief Engineering & Manufacturing Officer and actively participated in formulating the Millennium Plan.



The Mazda Spirit Revealed

With its distinctive design, exceptional functionality, and smoothly responsive handling and performance, the new RX-8 is the embodiment of Mazda DNA. The sheer enjoyment of this rotary sports car defines what Mazda is all about.

Soul

Truly in a class of its own

A sports car whose every inch looks and feels the part.
A sports car that fits four adults comfortably, no special agility required.
A sports car that boasts emissions-compliance and respectable fuel economy.
All in a single package. The Mazda RX-8: a sports car like no other.

Imagine a sports car. Imagine one that is affordable, stylish, practical, functional, exquisitely crafted inside and out and enjoyable for car enthusiasts and families alike. This description might seem inherently contradictory. But not for Mazda, which has maximized the advantages of the rotary engine to create just such a car.

For Mazda, the RX-8 is the car to fulfill the dreams of sports car fans which want to experience the thrill of a great drive without the steep price tag. Acceleration, smooth handling, taut cornering, perfect balance: the RX-8 delivers on every performance criterion. But it will also appeal to families still wanting to look cool on the road.

Traditionally, sports cars provided room for a driver and passenger, plus some token room in the back. The RX-8 smashes such preconceptions. Innovative design and engineering approaches have enabled Mazda to create a passenger cabin that can easily accommodate four adults, with space for a deep trunk. And the RX-8 dose not skimp on comfort; every detail of the interior fittings and styling has been honed to delight. The RX-8 is set to become the epitome of stylish, affordable sports car driving. It is truly in a class of its own.

And what evokes the soul of this vehicle? The RX-8 inspires different emotions in people. Engineers get excited about the rotary engine's simplicity, balance, compactness and greater output pound for pound relative to a piston engine. Designers admire the flowing, dynamic tension of its sculpted lines. Sports car lovers rave about its responsive feel, excellent road grip and seductive sounds. Parents appreciate the ease of fitting a child seat. But perhaps the only sure way to communicate with the soul of the RX-8 is to take a test drive.

"The Mazda RX-8 should light up the sports car community with its handling. That is the thing about the RX-8 I am most proud of."

Noboru Katabuchi, RX-8 Program Manager

Heart

The latest generation of a proud heritage

At the heart of the RX-8 lies RENESIS, the latest incarnation of the Mazda rotary engine. A two-rotor engine that produces an ideal balance of power, torque and smoothness, RENESIS also conforms to low-emission performance standards and boasts surprisingly good fuel economy. It is the pinnacle of rotary engine technology.

Rotors, not pistons, power the heart of the RX-8. Rotary engines have many advantages over other internal-combustion engines: perfectly balanced, they are compact, lighter and less complex than a piston engine of equal power, and a smoother mechanism creates far less noise and vibration, making them less prone to component stress. Yet only Mazda has persevered with the development of this technology. Now the sole manufacturer of rotary auto engines worldwide, Mazda remains the guardian of a proud engineering heritage.

Dr. Felix Wankel, a German, originally invented the rotary engine. Together with NSU, a motorcycle manufacturer, he created the first prototype and licensed the technology in the early 1960s to many engine manufacturers around the world. Former chairman Kenichi Yamamoto led the first development program at Mazda, resulting in the 1967 launch of the Cosmo Sport coupe. Mazda has cleared a number of major technical hurdles in four decades of rotary engine development. We have refined our own advanced production technology, including techniques for rotor precision casting. It has also constructed the world's only rotary engine plant, located in Hiroshima.

The key advance of RENESIS is a side exhaust port configuration that promotes more stable combustion and improved fuel economy. The engine is also remarkably light and compact, which facilitates a lower, more central location for the vehicle. This produces a more uniform weight distribution, resulting in exceptional stability and improved cornering. With innovative suspension (double wishbone in the front, long-arm multi-link in the rear), the RX-8 delivers superior handling characteristics and gives a supremely comfortable ride for a sports car.

The RX-8 marks the renaissance of the rotary-engine sports car. The latest in an illustrious line-up, from the Cosmo Sport to the RX-7 sports car, the RX-8 fulfills the modern promise of the rotary engine.

"The RENESIS is not an engine solely for engineers; we refined it further to give the kind of performance that most drivers could feel immediately. It revs sensuously, delivers all the exhilaration and speed you demand of a sports car, and also matches the needs of everyday driving."

Seiji Tashima, Staff Manager, RE Engineering Group

Body

The world's first true four-door, four-seater sports car

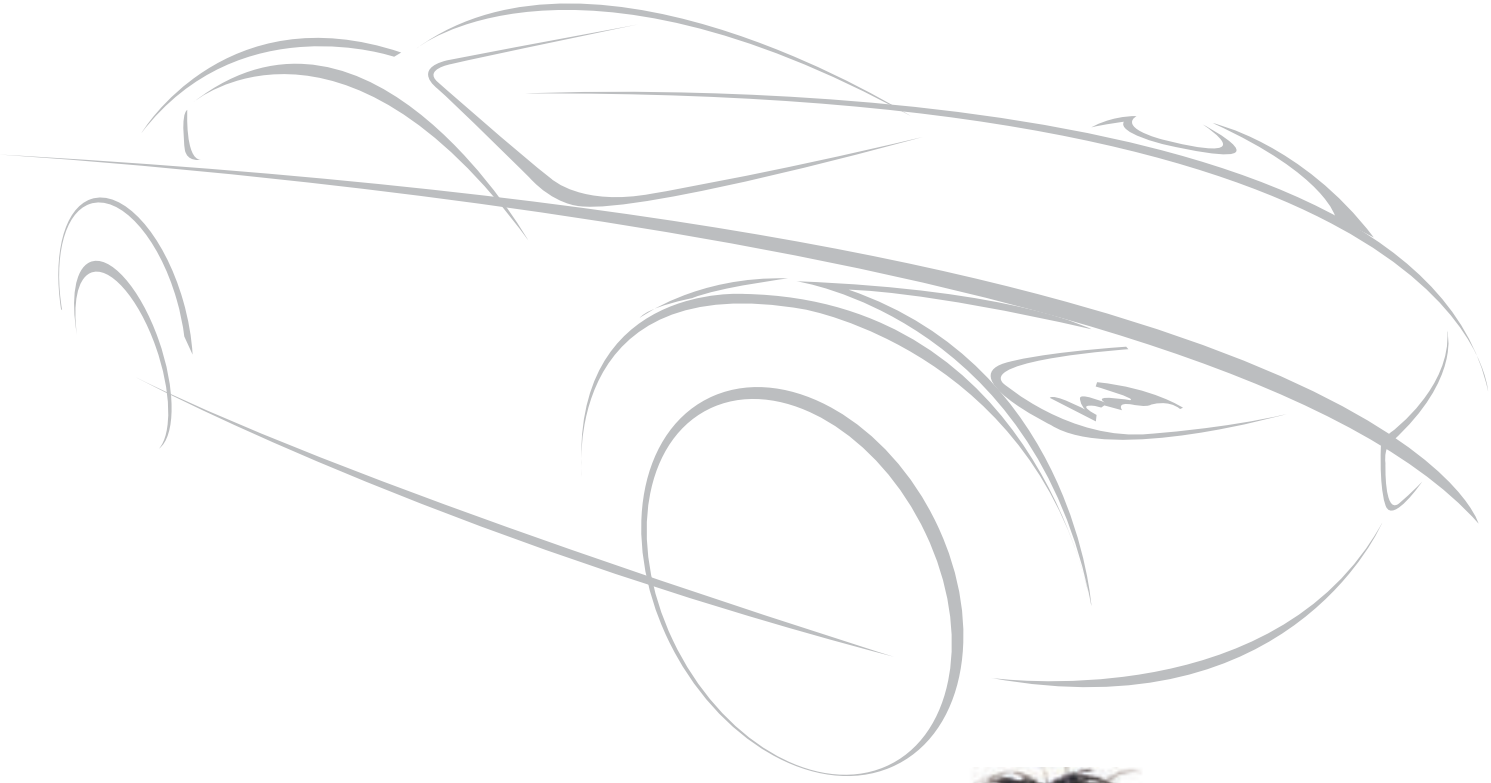
The RX-8 breaks new ground in sports car driving excitement. But driver and passengers alike will appreciate the well-appointed comfort and functional elegance of the interior. Mazda has redefined the pleasure of driving a sports car; now it can also be shared with family and friends.

The initial RX-8 concept envisioned a new class of vehicle: an unabashed sports car in every respect, but one with four doors and capable of seating four adults.

This is achieved by the positioning of the compact engine and powertrain low, largely behind the front axle. This "advanced front mid-ship layout" improves handling and generates more cabin space up front. Virtual pillars in flush rear doors combined with a center-opening door system facilitate the removal of the usual central B-pillar, ingeniously creating space for four adults while allowing effortless rear entry and exit. A high-mount backbone frame plus reinforced side panels and under-frame impart high body rigidity, ensuring first-class side-impact protection.

Scrupulous attention to detail throughout reduces weight and creates space without compromising safety or ride characteristics. For example, minimized front seatback thickness combined with shape-optimized seats provides comfort and extra knee clearance in the rear. Mazda engineers even consulted biomechanics experts to find the ideal position and inclination for the rear-door grab bars to minimize the effort required to close doors from inside. Ergonomically, the RX-8 is well tested and finely tuned.

Exterior and interior styling is also meticulous. As befits a true sports car, the flowing lines of the exterior convey emotion, vitality and stability. The poised dynamism of the sleek form eloquently expresses the exterior design theme of "athletic tension." Like a sprinter on starter's orders, the RX-8 oozes lean but muscular confidence. Inside, the RX-8 has a refined, "comfortably snug" interior. Designers took advantage of the continuity of the pillar-less structure to create a flowing, modern look, complete with many functionally elegant touches, such as sculpted bucket seats all-round and rotor-shaped aluminum front-seat bezel motifs. Superior craftsmanship was a prime objective: outside, every effort was made to narrow gaps to achieve the most precise fit; inside, all materials were carefully chosen to produce a high-quality feel and full sensory delight.



"You can feel, as well as see, the care and attention we put into every single aspect of the car, from its overall styling to every detail of the build. It is the perfect embodiment of our ideas. It's what we call a genuine sports car."

Ikuo Maeda, Chief Designer

Demio Cozy

Total demand for passenger cars and commercial vehicles in Japan rose to nearly 5.9 million units in the year ended March 2003, a year-on-year increase of 0.8%. Mazda's sales volume edged up 0.6% to 270,000 units, resulting in a 0.1 point decline in Mazda's share of the registered vehicle market to 5.6%. Including mini-vehicles, Mazda's share of the total Japanese market remained unchanged at 4.6%.

Despite the severe sales performance of existing models, the new Atenza and Demio models, released in May and August 2002, respectively, contributed strongly in the second half of the year as promotional campaigns gathered steam. Volume sales in the second half were sharply higher than in the equivalent period of fiscal 2001. Monthly average sales of the Atenza in 2002 rose above 2,500 units, which Mazda originally forecasted, while the Demio ranked as one of the ten best-selling cars in Japan during the latter half of the year.

The Atenza gained a wealth of critical acclaim and a slew of automobile and design awards. These included the 2002 Good Design Award and the 2003 RJC Car of the Year award. It was also named among the 10 Best models at the Japan Car of the Year awards.

Besides the various new model introductions, further progress was made during the year on a variety of fronts. All Mazda sales outlets underwent remodeling and renewal in line with the integrated branding strategy. The successful Zoom-Zoom media campaign continued. Market research confirmed that it has been highly effective in raising favorable consumer impressions of the Mazda brand and corporate image. Within the domestic dealer network, Mazda implemented a further series of measures designed to boost growth, efficiency and profitability. The dealer network as a whole recorded its fourth successive year of profits, confirming that the reform program has been effective.

In fiscal 2003, Mazda expects the retail momentum generated by the Atenza and Demio to be augmented by the introduction of two further models, the RX-8 (launched in April 2003) and the Axela /Mazda3, which is scheduled for global release in autumn 2003. The refreshed and enhanced model line-up is projected to deliver gains in both sales and volume market share in Japan.

Mazda's customer satisfaction index ratings remained on a par with the previous year. One of the key objectives for fiscal 2003 is to generate higher growth and enhanced customer satisfaction by means of the continuation of the integrated brand strategy and improvements to the dealer network through the ongoing Mazda Excellent Program, which evaluates dealers based on the results of independent and customer surveys.

Atenza Sport Wagon

Commencement ceremony for Mazda RX-8

Mazda6 sedan

Although the U.S. economy began to recover in the year ended March 2003 after the recession of the previous year, vehicle demand remained sluggish, reflecting reduced consumer confidence. Total U.S. vehicle sales in 2002 declined 1.7% to 16.5 million units, with the market being propped up substantially by strong incentives. Despite an improvement in economic conditions projected for the second half of 2003, the intense pricing pressure is unlikely to diminish appreciably, and the U.S. auto market is expected to remain exceptionally competitive.

Mazda recorded total U.S. sales of 255,000 units, a year-on-year decline of 1.1%. This was primarily attributable to the phase-out of the 626 and Millenia models. Futhermore, the Mazda6 was not introduced until December 2002 and thus was unable to make a full-year contribution to sales. U.S. production of this model began in October 2002 at AutoAlliance International, Inc. (AAI), a Mazda-Ford joint venture based in Flat Rock, Michigan. Sales of the Mazda MPV and sporty Protegé line were especially strong. The addition of the MAZDASPEED Protegé during the second half of 2002 further strengthened the product lineup.

In Canada, total industry sales increased 4.9% year-on-year to a record 1.71 million units. Mazda's sales advanced 0.5% to 70,500 units, a record high.

Mazda recorded year-on-year sales growth in Canada every month in the 52-month period from August 1998 to November 2002. As a key component of success, almost all of Canada's 150 Mazda dealers are exclusive. The Protegé line continues to be extremely popular in Canada, where small cars comprise the largest market segment. The Protegé was the third best-selling passenger car in Canada during the year and the seventh best selling vehicle overall.

Mazda vehicles continued to receive strong recognition for their styling, performance and features. Mazda6 won *Car and Driver magazine's* 10 Best, *Automobile Magazine's* All-Star. The 2003 Protegé5 captured the Best Buy Award from *Carguide* magazine. Mazda Miata and Mazda B-Series pickup truck ranked highest in their respective segments in the J.D. Power and Associates 2003 U.S. Initial Quality Study℠. In addition, the Automobile Journalists Association of Canada judged the 2003 MAZDASPEED Protegé to be the Best New Sports Sedan Under $35,000.

With the debut of the RX-8 in July 2003, the four- and five-door versions of the new Mazda3 subcompact in late autumn 2003 and the Mazda6 sport wagon and five-door in the first quarter of 2004, Mazda is poised to grow substantially in North America.

Mazda MPV

Mazda Tribute

Mazda Miata

Mazda3

Mazda's sales volume in Europe soared 22.1% year-on-year to 194,700 units even as total demand shrank 2.6%. The main reason for this good result was the high popularity of the new Mazda6 among European consumers. The car gained a variety of awards, most notably ranking second in the 2002 European Car of the Year and gaining second place in the European Auto1 Awards published in March 2003 by Germany's *Autobild* magazine. It also ranked highly in driver surveys conducted in the U.K., Austria, Sweden, Belgium, the Czech Republic, Lithuania, Croatia, and Slovenia. Other models also contributed to the strong performance in Europe, with the new MPV registering sales of 6,700 units, a gain of 145.7%, and the MX-5 posting a 16.2% increase in sales to 19,100 units.

Mazda's recent policy in Europe has been to acquire direct control of distribution and sales in each country. Aside from Germany and Portugal, all these moves have occurred since February 2000. Mazda now exerts direct control in Germany, France, the U.K., Italy, Spain, Portugal, Denmark, Austria, Switzerland, and several Eastern European countries. With this set of countries accounting for over 80% of the total European market, the region is expected to continue to deliver strong growth for Mazda. Combined with new customer service initiatives at the point-of-sale and increased cooperation with Mazda Bank, this initiative effected not only higher retail sales but also a more consistent brand management in these key areas.

As a result, the company achieved double-digit sales growth in nearly all of the aforementioned nations during the year. In Germany, the company's largest market, year-on-year sales climbed 19.6%, with market share up 0.4 points to 2.1 percent. In the United Kingdom, in the NSC's first full year in direct control of operation, sales jumped 76.5%, while market share rose 0.5 points to 1.1%. Mazda in France (36.2%), Italy (9.7%), Spain (23.8%) and Austria (16.1%) also recorded significant growth, with the results in Italy and Spain representing all- time highs. In the markets still managed by Independent Distributors Mazda, sales volume increased by 12.5%.

Local production of the Mazda2 commenced in January 2003 at the Ford plant located in Valencia, Spain. The car debuted in April 2003, and the initial annual production target is 40,000 units. This model is expected to contribute to growth in fiscal 2003.

Although the sedan, five-door hatchback and estate versions of the Mazda6 did not make full-year contributions to sales due to staggered market launches in the midst of the fiscal year, these models are now set to do so, along with the new Mazda3. In addition, interest in Europe in the new RX-8 is also high. Overall, sales prospects for the year to March 2004 are extremely good.

Mazda6 five-door hatchback

Commencement ceremony for Mazda2 in Valencia, Spain

B-Series pickup truck manufactured at AAT

Other regions for Mazda are split into three geographic regions: Asia/Oceania, Middle East/Africa, and Central/South America. The introduction of the Mazda6 and the development of regional Zoom-Zoom marketing campaigns helped to promote increased sales in each of these areas during the year. The total sales in these regions increased 23.9% over the previous year to 239,000 units.

Sales growth in fiscal 2002 was most striking in the Asia/Oceania region. Supported by continued good sales performance of B-Series pickup trucks and the 323, total sales in this region received an extra boost from growth in China.

China

Over the past few years, Mazda has begun producing several models at three factories in China on a knockdown basis. Following the Premacy in 2001 and the 323 in 2002, the Mazda6 entered local production in 2003. Manufacturing start-up and quality control have proceeded smoothly, and the company has also been taking measures to extend and improve the local dealer network. In a market that expanded 67.7% year-on-year in fiscal 2002, Mazda's sales in China soared 151.4% to just under 30,800 units. Market share in the passenger car segment increased 0.7 points to 2.1%.

Oceania

Mazda's sales in Australia grew 24.5% to 43,200 units amid a 6.7% expansion in the local market. Sales also grew satisfactorily in New Zealand. The new Mazda6 was the main contributor to growth. The model won Best Mid-Size Car Over $25,000 in Australia's Best Car Awards held in November 2002 and was named Car of the Year by the *National Business Review*, an Australian weekly newspaper. In New Zealand, the Mazda6 also attained the New Zealand Car of the Year from the *National Business Review*.

Rest of Asia

Mazda's sales expanded briskly throughout Asia. Sales rose 41.0% year-on-year to 18,400 units in Taiwan, and 45.3% to nearly 8,800 units in Thailand. Growth in Taiwan was mainly attributable to market expansion and enhanced sales efficiency due to improvements in the dealer network. In Thailand, Mazda continues to expand the dealer network beyond the Bangkok area where it is concentrated. Besides ongoing changes in distribution, Mazda also expects to derive increased growth in fiscal 2003 following the launch of the upgraded B-Series pickup truck in late 2002, which is manufactured locally at AAT, a joint venture with Ford. Elsewhere, the Mazda6 proved popular in Singapore. In October 2002, *The Straits Times* named it Best Medium Family Sedan/Hatchback.

Middle East/Africa

Total vehicle demand in Israel, which is Mazda's single largest market in this region, fell 18.9% as the Palestinian conflict continued to depress consumer spending. Mazda's sales increased 11.7% to 17,100 units, supported by favorable sales of the 323 series and the new Mazda6. This performance helped the company's market share rise to 14.6%, reinforcing Mazda's position as market leader for the seventh year running.

Mazda Premacy manufactured locally in China

Mazda dealer in China

Despite the negative impact of regional conflicts, Mazda's sales in the Gulf Cooperation Council (GCC) states received a boost from the launch of the Mazda6, and overall sales grew satisfactorily. Mazda expects regional demand to recover as greater political stability is realized in fiscal 2003.

Central/South America

At 34,000 units, Mazda's regional sales were flat relative to the previous year (33,000 units). Growth in Colombia, where sales advanced 63.3% to 13,000 units to give Mazda a local market share of 13.8%, helped to offset the negative impact of economic breakdown in Venezuela, Mazda's leading market in the region. Sales also grew in Puerto Rico, reaching 5,300 units.

Innovative Approaches, Unique Solutions

Development work at Mazda in technological and environmental fields is usually characterized by the application of novel, innovative approaches. From the rotary engine RENESIS to a new method for welding aluminum, Mazda is adept at producing radically new solutions to provide cleaner, greener and better ways of doing things.

Mazda Digital Innovation (MDI) Phase III completed

Initiated in 1996, the MDI project aims to revolutionize the entire development process at Mazda using state-of-the-art digital technology. Investment in the third phase was completed during fiscal 2002, bringing cumulative project investment to ¥41 billion. Installation of the latest CAD/CAM, testing facilities and CAE systems has substantially boosted efficiency and now enables Mazda to develop new models in a virtual environment. The end-result is a much shorter and less expensive development process and more attractive products.

Development of the RX-8, Atenza/Mazda6 and Demio/Mazda2 models are supported by MDI and have received a favorable response from the worldwide market. The next stage of this project starting fiscal 2003 involves elimination of the use of prototypes.

RENESIS: latest generation in a unique tradition

At the heart of the new RX-8 is RENESIS, the latest incarnation of the rotary engine. Inside its cocoon-shaped combustion chamber, two triangular rotors spin at high speed as the engine intakes, compresses, burns and exhausts fuel.

Compared with a conventional reciprocating piston engine of equal displacement, RENESIS is lighter and more compact, generates less noise and vibration and produces a flatter torque profile, to give exceptionally smooth acceleration. The engine also demonstrates significantly improved fuel economy and reduced emissions. A panel of 50 international automotive journalists recognized the many technical innovations embodied in RENESIS when, by 44 votes to 6, they voted it International Engine of the Year 2003. The award is a fitting tribute to the ingenuity and enthusiasm of Mazda's engineering and development teams.

New RX-8 hood augments pedestrian safety

The aluminum hood on the RX-8 features a completely redesigned impact-absorbing structure based on "shock cones." These shock cones in the inner panel provide more uniform impact absorption across the hood surface than traditional framed inner panels, which inevitably have some harder points. Tests confirm that the improved structure reduces the degree of head injury to pedestrians in a collision by around 50%. The new structural design also enables a 20% reduction in the thickness of the inner panel, despite boosting torsional rigidity by 50%. This results in a reduced gap between hood and engine, contributing to the sportily low front styling on the RX-8. The new hood is thus lighter, stronger, more stylish, and an advance in pedestrian safety.

Shock cone aluminum hood

New joining technology realizes quantum eco-improvements

Mazda has perfected a novel way of joining aluminum panels that is far more eco-friendly than conventional approaches. The new method works on the basis of frictional heat generated by applying force to a spinning welding tool that holds the parts together. The heat softens the aluminum and creates a spot join.

Compared with conventional resistance welding, which relies on specialized equipment to create a weld by passing large electric currents through metal panels, the new method reduces the amount of energy previously used by 99% and the capital investment involved significantly. The absence of weld spatter provides an additional benefit in terms of a safer working environment. The method is already being applied in mass production of the RX-8. This technical breakthrough promises to enable greater use of lighter aluminum in car bodywork, for considerable environmental gains.

New models make eco-friendly driving a stylish reality

The new Atenza/Mazda6 and Demio/Mazda2 passenger car models boast improved eco-friendly profiles, particularly in exhaust emissions. Both models are ULEV-certified in Japan. The reduction in emissions stems from two main sources: a newly developed

Mazda's aluminum joining technology using friction heat

RX-8 rear door

range of MZR engines, which combine high output with excellent fuel efficiency and low emissions using technologies such as reversed intake/exhaust layout and tumble swirl control valves (TSCV); and all aluminum engine, which substantially lowers weight. Decreased use of lead, greater use of recyclable components (boosting total vehicle recyclability to 90%), and a new air conditioning system that utilizes far less coolant also enhance the eco-friendly profiles of these models. Mazda's goal is to raise the percentage of ULEV-certified models in its passenger car range to 90% by the end of 2005.

Mazda MZR 1.3/1.5-liter engine

Hybrid truck raises the bar with clean diesel technology

Originally showcased as a concept model at the 2002 Tokyo Motor Show, the Titan Dash is a clean diesel hybrid truck that maximizes the advantages of Mazda's direct-injection common-rail diesel engine technology. Its MZR-CD diesel engine uses high-pressure injection to ensure complete combustion, thereby raising fuel efficiency. It also features a continuously renewable diesel particulate filter, EGR cooler and oxidation catalyst to reduce emissions. The hybrid truck combines this diesel engine with an electric motor, which helps to cut emissions further while boosting fuel economy. Using an electric motor, the hybrid truck is about 50% more fuel efficient, emits 65% less NOx and 85% less particulate matter than the same model powered by a conventional diesel engine.

Zero-waste goal achieved a year ahead of target

Conservation of energy and resources is a key focus of environmental protection activities at Mazda. As part of this drive, Mazda has been striving to eliminate all waste sent to landfill at its manufacturing sites in Japan (including technical, development and administrative functions).

In fiscal 2002, one year ahead of the initial target date, Mazda achieved the goal of zero waste, defined as a reduction of more than 95% in waste sent to landfill relative to fiscal 1990 levels. In absolute terms, this represents a reduction of about 60,000 tons of waste per year. Slag and waste whetstone previously accounted for the bulk of waste sent to landfill. Economic recycling methods for these materials have now been developed. Work continues to improve such methods and to reduce the quantities of waste generated by manufacturing processes.

Used bumper recycling process perfected

Using optical separation technology developed in conjunction with a local machinery maker, Mazda has succeeded in raising the quality of the paint-stripping process applied to used bumpers to the level required to facilitate full recycling. Optical sensors detect the small proportion of bumpers that still have paint attached so they can be separated.

Other process improvements have also reduced the total time required for paint-stripping and separation by one third. Mazda's new bumper-recycling technology enables a paint removal rate of 99.9% for used bumpers, allowing them to be re-used commercially. Mazda plans to introduce the technology in 2004, with the aim being to boost the percentage of recycled materials in the production of recycled bumpers (roughly 30% of total bumpers) to between 20% and 30%.

Recycled material and bumper reinforcement parts

Consolidated Financial Review

Fiscal Year 2002, ended March 31, 2003, was a year of product-led growth, highlighted by the successful introduction of the new Atenza/Mazda6 and the new Demio. Financial highlights included:

- **Consolidated operating income of ¥50.6 billion compared with an operating income of ¥28.5 billion in fiscal 2001. This was a year-over-year improvement of 77.4%.**
- **Consolidated net income of ¥24.1 billion, compared with a net income of ¥8.8 billion in fiscal 2001. This was a year-over-year improvement of 173.3%.**
- **Positive consolidated cash flow (operating and investing) of ¥47 billion and a reduction in net debt to ¥403.5 billion.**
- **Year-end dividend of ¥2.00 per share for this fiscal year.**

Business Conditions

During fiscal 2002, the Japanese economy continued to stagnate with little domestic growth. The global economic outlook remained uncertain.

In Japan, automotive sales, including micro-mini vehicles, totaled 5.86 million units, up 0.8% from the previous fiscal term. In the U.S., industry sales during calendar year 2002 were 16.62 million units, down 1.8% from the previous year, while industry sales in Western Europe during the same period were 16.52 million units, down 3.2%.

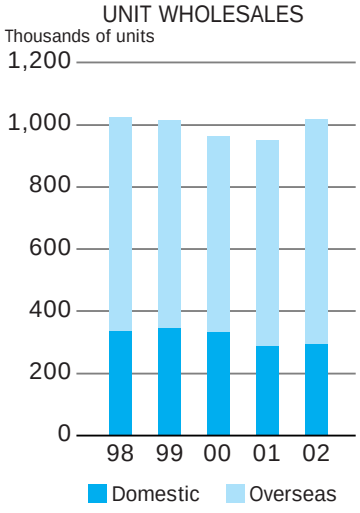
Turning to Mazda's performance in the fiscal year, our retail sales in the Japanese market totaled 270,000 units, up 0.6% compared with the last fiscal year, reflecting the successful introduction of new models offset by lower sales of certain existing models. Registered vehicle share in the domestic market was 5.6%, down 0.1% from the prior fiscal year. Total share, including micro-mini vehicles, was 4.6%, unchanged from the prior fiscal year.

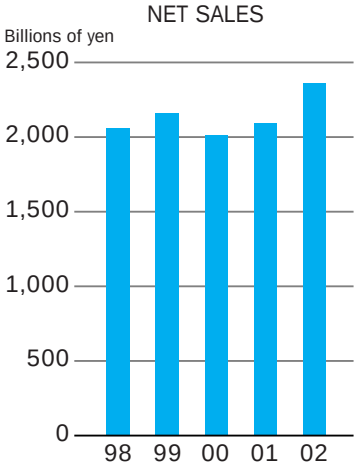
Mazda's retail sales and market shares in major overseas markets on a calendar-year basis were mixed. In the United States, Mazda's retail sales were down 4.2% to 258,000 units compared to the last year. Market share was 1.6%, unchanged from the prior year. In Western Europe, retail sales were up 11.5% to 170,000 units and market share was up 0.1 points to 1.0%.

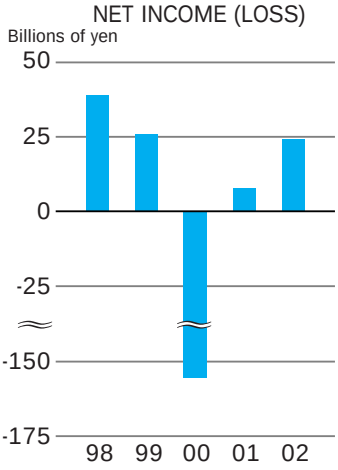
Consolidated wholesales in the fiscal year totaled 1,017,000 units, up 69,000 units or 7.2% from the last fiscal year.

Consolidated Financial Results

Turning to financial results, consolidated sales revenue was ¥2,364.5 billion, up ¥269.6 billion or 12.9% from the previous fiscal term. Operating income was ¥50.6 billion, up ¥22.1 billion or 77.4%. This improved performance reflected higher sales revenue from new models, cost reductions and a weaker yen against the euro, partially offset by product enhancement costs and higher marketing expenses. Net income was ¥24.1







billion, up ¥15.3 billion and 2.7 times higher than a year ago.

Details of our results of operations on a geographic basis are shown below:

Net Sales by Geographic Area

	Billions of yen		
	2002 **March 31, 2003**	2001 March 31, 2002	Better/(Worse) than Prior Year
Japan	**¥1,745.8**	¥1,618.8	¥127.0
North America	**841.6**	768.4	73.2
Europe	**321.6**	191.2	130.4
Rest of World	**114.5**	92.6	21.9

Operating Income by Geographic Area

	Billions of yen		
	2002 **March 31, 2003**	2001 March 31, 2002	Better/(Worse) than Prior Year
Japan	**¥39.9**	¥24.5	¥15.4
North America	**6.5**	8.2	(1.7)
Europe	**5.5**	1.0	4.5
Rest of World	**4.3**	3.3	1.0

In Japan, net sales totaled ¥1,745.8 billion, up ¥127 billion or 7.8% from the prior fiscal year. Volumes of domestic unit sales and exports to Europe increased due to the successful introduction of the new Atenza and the new Demio. Operating income increased by ¥15.4 billion or 62.6% to ¥39.9 billion from the prior fiscal year. In addition to the increased sales, cost reductions and a favorable yen-to-euro exchange rate contributed to the increased operating income.

In North America, net sales increased by ¥73.2 billion or 9.5% to ¥841.6 billion. Operating income decreased by ¥1.7 billion or 20.9% to ¥6.5 billion primarily due to increased sales incentives.

In Europe, net sales totaled ¥321.6 billion, an increase of ¥130.4 billion or 68.2% compared to the last fiscal year. The successful introduction of the new Mazda6 as well as strong distribution network in Europe contributed to higher unit sales volume. Operating income was ¥5.5 billion, ¥4.5 billion or 5.6 times higher than the previous fiscal year.

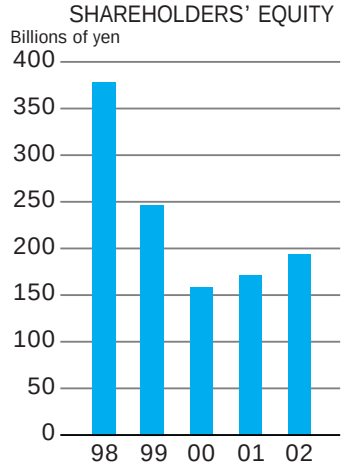
In the rest of the world, net sales increased by ¥21.9 billion or 23.7% to ¥114.5 billion. In Australia, Mazda recorded its highest unit sales volume in 20 years. Operating income was ¥4.3 billion, up ¥1 billion or 31.5%.

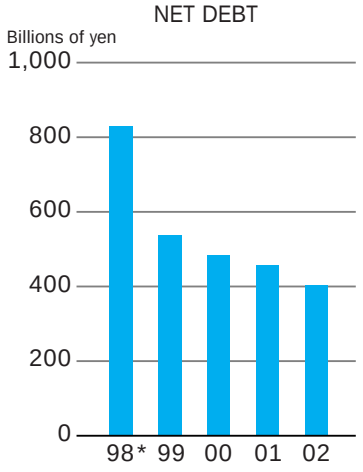
Consolidated Financial Position and Liquidity

Mazda's consolidated net debt stood at ¥403.5 billion, down ¥53.4 billion or 11.7% from the prior period end. As of the end of this fiscal year, the balance of cash and cash equivalents on a consolidated basis was ¥274.7 billion, up ¥45.3 billion or 19.7%. This increase in cash and cash equivalents was primarily due to the fact that net cash provided by operating activities was ¥89.6 billion, including income before income taxes of ¥28.1 billion, while net cash used in investing activities was ¥42.6 billion. Management continues to maintain an intense focus on cash flow to further improve the company's financial structure and balance sheet.

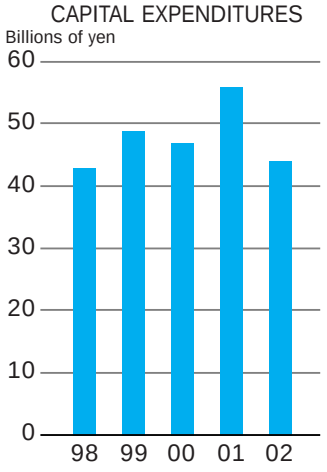
	Billions of yen		
	2002 **March 31, 2003**	2001 March 31, 2002	Better/(Worse) than Prior Year
Cash and cash equivalents	**¥274.7**	¥229.4	¥45.3
Total debt	**678.2**	686.3	8.1
Net debt	**¥403.5**	¥456.9	¥53.4
Net debt-to-equity ratio	**208%**	264%	56 pts.

Mazda declared a year-end dividend of ¥2.00 per share for fiscal 2002.





**Comparable accounting standard*



Consolidated Balance Sheets

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

Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
As of	**March 31, 2003**	March 31, 2002	**March 31, 2003**
Current assets:			
Cash and cash equivalents	**¥ 274,722**	¥ 229,444	**$ 2,289,350**
Short-term investments	**5,246**	618	**43,717**
Trade notes and accounts receivable	**132,443**	113,199	**1,103,692**
Inventories (Note 5)	**237,663**	257,073	**1,980,525**
Deferred taxes (Note 13)	**54,398**	80,403	**453,317**
Other current assets	**47,725**	49,302	**397,707**
Allowance for doubtful receivables	**(6,448)**	(4,896)	**(53,733)**
Total current assets	**745,749**	725,143	**6,214,575**
Property, plant and equipment:			
Land (Note 6)	**437,335**	441,150	**3,644,458**
Buildings and structures	**396,830**	399,592	**3,306,917**
Machinery and equipment	**787,719**	790,428	**6,564,325**
Tools, furniture, fixtures and other	**257,540**	305,088	**2,146,166**
Construction in progress	**20,387**	30,781	**169,892**
	1,899,811	1,967,039	**15,831,758**
Accumulated depreciation	**(1,106,313)**	(1,149,750)	**(9,219,275)**
Net property, plant and equipment	**793,498**	817,289	**6,612,483**
Intangible assets	**18,835**	17,985	**156,958**
Investments and other assets:			
Investment securities:			
Unconsolidated subsidiaries and affiliated companies	**33,810**	35,107	**281,750**
Other	**15,243**	16,452	**127,025**
Long-term loans receivable	**23,073**	28,009	**192,275**
Deferred taxes (Note 13)	**121,310**	92,983	**1,010,917**
Other investments and other assets	**25,248**	26,963	**210,400**
Allowance for doubtful receivables	**(21,937)**	(23,484)	**(182,808)**
Investment valuation allowance	**(812)**	(1,552)	**(6,767)**
Total investments and other assets	**195,935**	174,478	**1,632,792**
Total assets	**¥1,754,017**	¥1,734,895	**$14,616,808**

See accompanying notes.

Liabilities, Minority Interests and Shareholders' Equity

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
As of	**March 31, 2003**	March 31, 2002	**March 31, 2003**
Current liabilities:			
Short-term debt (Note 7)	**¥ 214,637**	¥ 271,926	**$ 1,788,642**
Long-term debt due within one year (Note 7)	**106,458**	65,099	**887,150**
Trade notes and accounts payable	**241,097**	257,510	**2,009,142**
Accrued expenses	**282,830**	259,328	**2,356,917**
Reserve for warranty expenses	**18,361**	15,364	**153,008**
Reserve for loss on restructuring of subsidiaries and affiliates	**1,695**	4,272	**14,125**
Reserve for loss on business restructuring	**2,695**	—	**22,458**
Other	**42,892**	46,547	**357,433**
Total current liabilities	**910,665**	920,046	**7,588,875**
Long-term debt due after one year (Note 7)	**357,110**	349,293	**2,975,917**
Deferred tax liability related to land revaluation (Note 6)	**90,832**	93,971	**756,933**
Employees' severance and retirement benefits (Note 8)	**182,900**	174,630	**1,524,167**
Directors' and corporate auditors' retirement benefits (Note 3)	**1,275**	1,482	**10,625**
Liabilities from application of equity method	**1,529**	5,550	**12,742**
Other long-term liabilities	**9,160**	9,031	**76,333**
Contingent liabilities (Note 9)			
Minority interests in consolidated subsidiaries	**6,475**	8,055	**53,958**
Shareholders' equity:			
Common stock:			
Authorized: 3,000,000,000 shares			
Issued: 1,222,496,655 shares in 2002 and 2001 (Note 10)	**120,078**	120,078	**1,000,650**
Capital surplus (Note 10)	**104,216**	104,216	**868,467**
Land revaluation (Note 6)	**129,938**	125,326	**1,082,817**
Retained earnings (deficit)	**(107,742)**	(128,565)	**(897,850)**
Net unrealized losses on available-for-sale securities (Note 2)	**(193)**	(28)	**(1,608)**
Foreign currency translation adjustments (Note 2)	**(51,314)**	(47,878)	**(427,618)**
Treasury stock (3,647,708 shares in 2002 and 1,230,226 shares in 2001)	**(912)**	(312)	**(7,600)**
Total shareholders' equity	**194,071**	172,837	**1,617,258**
Total liabilities, minority interests and shareholders' equity	**¥1,754,017**	¥1,734,895	**$14,616,808**

Consolidated Statements of Operations

MAZDA MOTOR CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2002	2001	2000	**2002**
For the years ended	**March 31, 2003**	March 31, 2002	March 31, 2001	**March 31, 2003**
Net sales	**¥2,364,512**	¥2,094,914	¥2,015,812	**$19,704,267**
Cost and expenses:				
Cost of sales	**1,725,058**	1,551,410	1,555,130	**14,375,483**
Selling, general and administrative expenses	**588,798**	514,951	475,619	**4,906,651**
	2,313,856	2,066,361	2,030,749	**19,282,134**
Operating income (loss)	**50,656**	28,553	(14,937)	**422,133**
Other income (expenses):				
Interest and dividend income	**1,907**	2,601	3,176	**15,892**
Interest expense	**(16,927)**	(22,678)	(25,457)	**(141,058)**
Equity in net income of unconsolidated subsidiaries and affiliated companies	**7,674**	6,303	2,356	**63,950**
Other, net (Note 11)	**(15,176)**	729	(207,580)	**(126,467)**
	(22,522)	(13,045)	(227,505)	**(187,683)**
Income (loss) before income taxes	**28,134**	15,508	(242,442)	**234,450**
Income taxes: (Note 13)				
Current	**7,450**	9,048	6,089	**62,083**
Deferred	**(4,364)**	(5,016)	(92,552)	**(36,367)**
	3,086	4,032	(86,463)	**25,716**
Income (loss) before minority interests	**25,048**	11,476	(155,979)	**208,734**
Minority interests of consolidated subsidiaries	**(914)**	(2,646)	736	**(7,617)**
Net income (loss)	**¥ 24,134**	¥ 8,830	¥ (155,243)	**$ 201,117**

	Yen			U.S. dollars (Note 1)
Amounts per share of common stock:				
Net income (loss):				
Basic	**¥ 19.80**	¥ 7.23	¥ (126.99)	**$ 0.17**
Diluted	**18.37**	7.23	—	**0.15**
Cash dividends applicable to the year	**2.00**	2.00	—	**0.02**

See accompanying notes.

Consolidated Statements of Shareholders' Equity

MAZDA MOTOR CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2003, 2002 and 2001

		Millions of yen						
	Shares of common stock	Common stock	Capital surplus	Land revaluation	Retained earnings (deficit)	Net unrealized losses on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2000	1,222,496,655	¥120,078	¥104,216	¥ —	¥ 21,415	¥ —	¥ —	¥ —
Net loss	—	—	—	—	(155,243)	—	—	—
Cash dividends paid	—	—	—	—	(2,444)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	—	(3)	—	—	—
Decrease due to newly consolidated subsidiaries and companies newly accounted for by the equity method	—	—	—	—	(364)	—	—	—
Land revaluation	—	—	—	124,570	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	(53,353)	—
Balance at March 31, 2001	1,222,496,655	120,078	104,216	124,570	(136,639)	—	(53,353)	—
Net income	—	—	—	—	8,830	—	—	—
Land revaluation	—	—	—	756	(756)	—	—	—
Net unrealized loss on available-for-sale securities	—	—	—	—	—	(28)	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	5,475	—
Treasury stock	—	—	—	—	—	—	—	(312)
Balance at March 31, 2002	**1,222,496,655**	**120,078**	**104,216**	**125,326**	**(128,565)**	**(28)**	**(47,878)**	**(312)**
Net income	**—**	**—**	**—**	**—**	**24,134**	**—**	**—**	**—**
Cash dividends paid	**—**	**—**	**—**	**—**	**(2,442)**	**—**	**—**	**—**
Land revaluation	**—**	**—**	**—**	**4,612**	**(858)**	**—**	**—**	**—**
Net unrealized loss on available-for-sale securities	**—**	**—**	**—**	**—**	**—**	**(165)**	**—**	**—**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**—**	**(3,436)**	**—**
Exclusion of consolidated subsidiaries and companies accounted for by the equity method	**—**	**—**	**(52)**	**—**	**(11)**	**—**	**—**	**—**
Treasury stock	**—**	**—**	**52**	**—**	**—**	**—**	**—**	**(600)**
Balance at March 31, 2003	**1,222,496,655**	**¥120,078**	**¥104,216**	**¥129,938**	**¥(107,742)**	**¥(193)**	**¥(51,314)**	**¥(912)**

	Thousands of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Land revaluation	Retained earnings (deficit)	Net unrealized losses on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2002	**$1,000,650**	**$868,467**	**$1,044,383**	**$(1,071,375)**	**$ (233)**	**$(398,984)**	**$(2,600)**
Net income	**—**	**—**	**—**	**201,117**	**—**	**—**	**—**
Cash dividends paid	**—**	**—**	**—**	**(20,350)**	**—**	**—**	**—**
Land revaluation	**—**	**—**	**38,434**	**(7,150)**	**—**	**—**	**—**
Net unrealized loss on available-for-sale securities	**—**	**—**	**—**	**—**	**(1,375)**	**—**	**—**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**(28,634)**	**—**
Exclusion of consolidated subsidiaries and companies accounted for by the equity method	**—**	**(433)**	**—**	**(92)**	**—**	**—**	**—**
Treasury stock	**—**	**433**	**—**	**—**	**—**	**—**	**(5,000)**
Balance at March 31, 2003	**$1,000,650**	**$868,467**	**$1,082,817**	**$ (897,850)**	**$(1,608)**	**$(427,618)**	**$(7,600)**

See accompanying notes.

Consolidated Statements of Cash Flows

MAZDA MOTOR CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2002	2001	2000	**2002**
For the years ended	**March 31, 2003**	March 31, 2002	March 31, 2001	**March 31, 2003**
Cash flows from operating activities:				
Income (loss) before income taxes	**¥ 28,134**	¥ 15,508	¥(242,442)	**$ 234,450**
Adjustments to reconcile income (loss) before income taxes to net cash provided by operating activities:				
Depreciation and amortization	**36,989**	44,890	49,531	**308,242**
Allowance for doubtful receivables	**3,117**	3,064	(9,176)	**25,975**
Investment valuation allowance	**(10)**	996	(3,697)	**(83)**
Reserve for warranty expenses	**3,032**	30	(4,670)	**25,267**
Reserve for loss on guarantees of loans	**—**	—	2,140	**—**
Reserve for loss on business restructuring	**2,695**	—	3,011	**22,458**
Employees' severance and retirement benefits	**8,600**	1,681	139,810	**71,667**
Interest and dividend income	**(1,907)**	(2,601)	(3,176)	**(15,892)**
Interest expense	**16,927**	22,678	25,457	**141,058**
Equity in net income of unconsolidated subsidiaries and affiliated companies	**(7,674)**	(6,303)	(2,356)	**(63,950)**
Loss on sale of property, plant and equipment, net	**4,961**	2,972	6,038	**41,342**
Gain on sale of investment securities, net	**(1,712)**	(2,296)	(608)	**(14,267)**
Loss on liquidation of affiliated companies	**683**	1,495	5,335	**5,692**
Decrease (increase) in trade notes and accounts receivable	**(17,437)**	14,462	25,526	**(145,308)**
Decrease (increase) in inventories	**11,896**	28,779	(9,244)	**99,133**
Increase (decrease) in trade notes and accounts payable	**(14,903)**	13,031	13,942	**(124,192)**
Accrued severance pay for early retirement	**—**	—	45,232	**—**
Increase in other current liabilities	**28,112**	12,836	57,259	**234,267**
Other	**9,814**	12,834	14,358	**81,783**
Subtotal	**111,317**	164,056	112,270	**927,642**
Interest and dividends received	**2,463**	3,945	4,028	**20,525**
Interest paid	**(16,781)**	(22,983)	(25,767)	**(139,842)**
Severance pay for early retirement paid	**—**	(45,232)	—	**—**
Income taxes paid	**(7,331)**	(8,274)	(6,180)	**(61,092)**
Net cash provided by operating activities	**89,668**	91,512	84,351	**747,233**
Cash flows from investing activities:				
Sale of short-term investments	**—**	—	1,312	**—**
Purchase of investment securities	**(3,254)**	(1,557)	(2,082)	**(27,117)**
Sale of investment securities	**2,325**	3,978	13,327	**19,375**
Purchase of investments in subsidiaries affecting scope of consolidation	**—**	(1,075)	—	**—**
Sale of investments in subsidiaries affecting scope of consolidation	**5,790**	(110)	228	**48,250**
Acquisition of distribution rights	**—**	—	(7,190)	**—**
Additions to property, plant and equipment	**(62,431)**	(71,712)	(45,060)	**(520,258)**
Proceeds from sale of property, plant and equipment	**25,696**	15,875	16,303	**214,133**
Decrease in short-term loans receivable	**80**	—	1,427	**667**
Long-term loans receivable made	**(122)**	(4,181)	(9,613)	**(1,017)**
Collections of long-term loans receivable	**1,150**	1,030	1,203	**9,583**
Other	**(11,848)**	(3,137)	(1,949)	**(98,733)**
Net cash provided by (used in) investing activities	**(42,614)**	(60,889)	(32,094)	**(355,117)**
Cash flows from financing activities:				
Decrease in short-term debt	**(50,815)**	(80,584)	(37,044)	**(423,458)**
Proceeds from long-term debt	**130,923**	50,984	146,828	**1,091,025**
Repayment of long-term debt	**(78,651)**	(67,111)	(104,172)	**(655,425)**
Cash dividends paid	**(2,442)**	—	(2,444)	**(20,350)**
Other	**(1,089)**	(918)	(197)	**(9,075)**
Net cash provided by (used in) financing activities	**(2,074)**	(97,629)	2,971	**(17,283)**
Effect of exchange rate fluctuations on cash and cash equivalents	**298**	2,411	511	**2,484**
Net increase (decrease) in cash and cash equivalents	**45,278**	(64,595)	55,739	**377,317**
Cash and cash equivalents at beginning of the year	**229,444**	292,615	233,593	**1,912,033**
Increases in cash and cash equivalents due to newly consolidated subsidiaries	**—**	1,424	1,200	**—**
Increases in cash and cash equivalents due to mergers	**—**	—	2,083	**—**
Cash and cash equivalents at end of the year	**¥274,722**	¥229,444	¥ 292,615	**$2,289,350**

See accompanying notes.

Notes to Consolidated Financial Statements

MAZDA MOTOR CORPORATION AND CONSOLIDATED SUBSIDIARIES

1. Basis of Presenting Consolidated Financial Statements

Mazda Motor Corporation (the "Company") and its consolidated domestic subsidiaries (together the "Domestic Companies") maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Commercial Code and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of statements of shareholders' equity) from the consolidated financial statements of 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, using the prevailing exchange rate at March 31, 2003, which was ¥120 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 on the equity method.

The consolidated financial statements include the accounts of the Company and 65 (83 in the year ended March 31, 2002 and 82 in the year ended March 31, 2001) subsidiaries. In addition, 15 non-consolidated subsidiaries and affiliates (16 in the year ended March 31, 2002 and 31 in the year ended March 31, 2001) are accounted for on the equity method.

The consolidated year-end balance sheet date is March 31. Among the consolidated subsidiaries, 15 companies have a year-end balance sheet date of December 31, which is different from the consolidated balance sheet date. In preparing the consolidated financial statements, the financial statements of these companies with the December 31 year-end balance sheet dates are used. However, adjustments necessary in consolidation are made for material transactions that have occurred between the balance sheet date of these subsidiaries and the consolidated year-end balance sheet date.

Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at year-end rates except for shareholders' equity accounts, which are translated at the historical rates. Income statements of consolidated overseas subsidiaries are translated at average rates of the year.

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

Effective April 1, 2000, the Domestic Companies adopted the new Japanese accounting standard for financial instruments.

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").

Under the new accounting standard, trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-tomaturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost. As of March 31, 2003 and 2002, the Domestic Companies had no trading or held-to-maturity debt securities. Also, the adoption of

the standard for stating available-for-sale securities at fair value commenced in the fiscal year ended March 31, 2002. As a result, net unrealized losses on available-for-sale securities were recognized in shareholders' equity in the amounts of ¥193 million ($1,608 thousand) and ¥28 million as of March 31, 2003 and 2002, respectively.

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

As a result of adopting the new accounting standard for financial instruments, loss before income taxes increased by ¥654 million for the year ended March 31, 2001.

Inventories

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

Property, plant and equipment

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

Intangible fixed assets

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

Allowance for doubtful receivables

At March 31, 2000, the allowance for doubtful receivables was determined by aggregating the uncollectible amounts individually estimated for doubtful receivables in addition to the maximum amount deductible under income tax laws. Effective April 1, 2000, the Domestic Companies adopted the new accounting standard for financial instruments and provide for doubtful accounts principally at an amount computed based on past experience plus estimated uncollectible amounts based on the analysis of certain individual doubtful accounts.

Investment valuation allowance

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

Reserve for warranty expenses

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

Reserve for loss on restructuring of subsidiaries and affiliates

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

Reserve for loss on guarantees of loans

Reserve for loss on guarantees of loans provides for losses related to guarantees of loans. The amount is estimated in light of the financial positions and other conditions of the guaranteed companies.

Reserve for loss on business restructuring

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

Employees' severance and retirement benefits

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

Effective April 1, 2000, the Domestic Companies adopted the new accounting standard for employees' severance and pension benefits.

Under the New Accounting Standard, 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.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥154,608 million. The net transition obligation was fully recognized in other expenses in the year ended March 31, 2001. Prior service costs are recognized in expenses in equal amounts within the average of the estimated remaining service periods of employees (mainly over 12 years), and actuarial gains and losses are recognized in expenses using the straight-line basis within the average of the estimated remaining service periods (mainly over 13 years) 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 a result of the adoption of the new accounting standard, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥144,639 million and loss before income taxes increased by ¥144,808 million compared with what would have been recorded under the previous accounting standard.

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, 2003, 2002 and 2001, research and development costs of ¥87,800 million ($731,667 thousand), ¥94,964 million and ¥83,617 million, respectively, were incurred and expensed.

Derivatives and hedge accounting

The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

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

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

Leases

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

Treasury stock and reversal of statutory reserves

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

Amounts per share of common stock

The computations of net income (loss) 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. Dilution information per share for the year ended March 31, 2001 is not presented as a loss was recorded.

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002). Under the prior accounting standard, net income per share of common stock for the year ended March 31, 2003 would have been as follows: basic ¥19.78 ($0.16) and diluted ¥18.35 ($0.15).

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

Reclassifications

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

3. Accounting Changes

Depreciation of property, plant and equipment

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

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

The effects of this change for the year ended March 31, 2003 were to decrease depreciation expense by ¥12,856 million ($107,133 thousand), to increase operating income by ¥11,014 million ($91,783 thousand), and to increase income before income taxes by ¥11,114 million ($92,617 thousand).

Directors' and corporate auditors' retirement benefits

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

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

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

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

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

4. Securities

The Company and its consolidated subsidiaries had no trading or held-to-maturity debt securities with available fair values at March 31, 2003 and 2002.

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

	Millions of yen			Thousands of U.S. dollars		
	Acquisition costs	Carrying values	Unrealized gains (losses)	Acquisition costs	Carrying values	Unrealized gains (losses)
Stocks	¥ 966	¥ 862	¥(104)	$ 8,050	$ 7,183	$(867)
Bonds	12	14	2	100	117	17
Others	1,929	1,929	—	16,075	16,075	—
	¥2,907	¥2,805	¥(102)	$24,225	$23,375	$(850)

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

	Millions of yen	Thousands of U.S. dollars
	Book value	Book value
Non-listed equity securities	¥12,490	$104,083

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

	Millions of yen		Thousands of U.S. dollars	
	Within one year	Over one year but within five years	Within one year	Over one year but within five years
Bonds	¥—	¥ —	$ —	$ —
Others	4	76	33	633
	¥ 4	¥76	$33	$633

Total sales of available-for-sales securities in the year ended March 31, 2003 amounted to ¥1,738 million ($14,483 thousand) and the related gains and losses amounted to ¥37 million ($308 thousand) and ¥608 million ($5,067 thousand), respectively.

Available-for-sale securities that have available market values as of March 31, 2002 were as follows:

	Millions of yen		
	Acquisition costs	Carrying values	Unrealized gains (losses)
Stocks	¥2,024	¥2,116	¥92
Bonds			
Corporate bonds	1	1	—
Others	14	16	2
Others	1,366	1,366	—
	¥3,405	¥3,499	¥94

Available-for-sale securities with no available fair values as of March 31, 2002 were as follows:

	Millions of yen
	Book value
Non-listed equity securities	¥9,027

At March 31, 2002, available-for-sale securities with maturities mature as follows:

	Millions of yen	
	Within one year	Over one year but within five years
Bonds	¥ —	¥ 1
Others	17	120
	¥17	¥121

Total sales of available-for-sales securities in the year ended March 31, 2002 and 2001 amounted to ¥1,435 million and ¥10,209 million, respectively. Also, the related gains and losses amounted to ¥868 million and ¥3 million in the year ended March 31, 2002 and ¥214 million and ¥3,798 million in the year ended March 31, 2001, respectively.

5. Inventories

Inventories at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
As of	**March 31, 2003**	March 31, 2002	**March 31, 2003**
Finished products	**¥198,783**	¥220,147	**$1,656,525**
Work in process	**32,116**	29,172	**267,633**
Raw materials and supplies	**6,764**	7,754	**56,367**
	¥237,663	¥257,073	**$1,980,525**

6. Land Revaluation

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

	Millions of yen
Book value of land for business use before revaluation	¥ 76,886
Book value of land for business use after revaluation	294,886

The fair value of land is 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, 2003 from that at the time of revaluation, as stipulated in Article 10 of the Land Revaluation Law, is ¥37,454 million ($312,117 thousand).

Also, as discussed in Note 13, the statutory tax rate used to calculate deferred taxes was changed due to an enacted change in tax laws. As a result, as of March 31, 2003, deferred tax liability related to land revaluation decreased by ¥2,930 million ($24,417 thousand) and land revaluation increased by the same amount due to the change in the statutory tax rate.

7. Short-Term Debt and Long-Term Debt

Short-term debt at March 31, 2003, consisted of loans, principally from banks of ¥214,637 million ($1,788,642 thousand). The annual interest rates applicable to short-term debt outstanding at March 31, 2003 and 2002 both averaged 1.9%.

Long-term debt at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
As of	**March 31, 2003**	March 31, 2002	**March 31, 2003**
Domestic unsecured bonds due serially 2002 through 2006 at rates of 0.3% to 3.0% per annum	**¥123,546**	¥150,000	**$1,029,550**
Domestic unsecured convertible bonds with stock acquisition rights due 2007 with no interest	**60,000**	—	**500,000**
French franc notes due 2003 at a rate of 5.875% per annum	**11,900**	11,900	**99,167**
Loans principally from banks and insurance companies:			
Secured loans, maturing through 2022	**205,957**	235,063	**1,716,308**
Unsecured loans, maturing through 2008	**62,165**	17,429	**518,042**
	463,568	414,392	**3,863,067**
Amount due within one year	**(106,458)**	(65,099)	**(887,150)**
	¥357,110	¥349,293	**$2,975,917**

The annual interest rates applicable to secured loans and unsecured loans outstanding averaged 2.0% and 1.7%, respectively, at March 31, 2003, and 2.0% and 2.1%, respectively, at March 31, 2002.

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

The annual maturities of long-term debt at March 31, 2003 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥106,458	$ 887,150
2005	122,793	1,023,275
2006	108,201	901,675
2007	41,202	343,350
2008	71,133	592,775
Thereafter	13,781	114,842
	¥463,568	$3,863,067

The assets pledged as collateral for short-term debt of ¥103,366 million ($861,383 thousand) and long-term debt of ¥205,957 million ($1,716,308 thousand) at March 31, 2003 were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, at net book value	¥483,807	$4,031,725
Other	5,093	42,442
	¥488,900	$4,074,167

8. Employees' Severance and Retirement Benefits

As explained in Note 2, Significant Accounting Policies, effective April 1, 2000, the Domestic Companies adopted the new accounting standard for employees' severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for severance and retirement benefits included in the liability sections of the consolidated balance sheets as of March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
As of	**March 31, 2003**	March 31, 2002	**March 31, 2003**
Projected benefit obligation	**¥544,579**	¥530,731	**$4,538,159**
Unrecognized prior service costs	**(2,624)**	(2,683)	**(21,867)**
Unrecognized actuarial differences	**(143,870)**	(103,717)	**(1,198,917)**
Less fair value of pension assets	**(215,202)**	(249,765)	**(1,793,350)**
Prepaid pension cost	**17**	64	**142**
Liability for severance and retirement benefits	**¥182,900**	¥174,630	**$1,524,167**

Severance and retirement benefit expenses included in the consolidated statements of operations for the years ended March 31, 2003, 2002 and 2001 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2002	2001	2000	**2002**
For the years ended	**March 31, 2003**	March 31, 2002	March 31, 2001	**March 31, 2003**
Service costs—benefits earned during the year	**¥17,042**	¥15,087	¥ 15,592	**$142,016**
Interest cost on projected benefit obligation	**15,129**	15,767	15,696	**126,075**
Expected return on plan assets	**(9,556)**	(13,541)	(15,171)	**(79,633)**
Net transition obligation	**—**	—	154,608	**—**
Amortization of prior service costs	**270**	333	391	**2,250**
Amortization of actuarial differences	**8,472**	3,355	—	**70,600**
Severance and retirement benefit expenses	**¥31,357**	¥21,001	¥171,116	**$261,308**

The discount rates and the rates of expected return on plan assets used by the Domestic Companies are primarily 3.0% and 4.0% for the year ended March 31, 2003 and 3.0% and 5.5% for the year ended March 31, 2002, respectively. The estimated amount of all retirement benefits to be paid at the future retirement dates is allocated equally to each service year using the estimated number of total service years.

9. Contingent Liabilities

Contingent liabilities at March 31, 2003 were as follows:

	Millions of yen	Thousands of U.S. dollars
Discounted trade notes receivable	¥ 893	$ 7,442
Factoring of receivables with recourse	6,322	52,683
Guarantees of loans and similar agreements	27,499	229,158
Letters of undertaking to provide guarantees for leases for factory facilities	29,794	248,283

10. Shareholders' Equity

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

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

olution of shareholders' meeting. Legal reserve is included in retained earnings in the accompanying financial statements.

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

11. Other Income (Expenses)

The components of "Other, net" in Other income (expenses) in the statements of operations for the years ended March 31, 2003, 2002 and 2001 were comprised as follows:

	Millions of yen			Thousands of U.S. dollars
	2002	2001	2000	**2002**
For the years ended	**March 31, 2003**	March 31, 2002	March 31, 2001	**March 31, 2003**
Valuation loss on investment securities	**¥ (3,160)**	¥(1,685)	¥ (2,250)	**$ (26,333)**
Gain on sale of investment securities, net	**1,712**	2,296	608	**14,267**
Gain (loss) on sale of property, plant and equipment, net	**(4,961)**	(2,972)	(6,038)	**(41,342)**
Rental income	**2,194**	5,584	5,979	**18,283**
Restructuring of subsidiaries and affiliates	**(683)**	(215)	(5,335)	**(5,692)**
Investment valuation allowance	**(50)**	(514)	(351)	**(417)**
Foreign exchange gain	**1,038**	2,285	1,476	**8,650**
Provision for loss on guarantees of loans	**—**	—	(2,140)	**—**
Net transition obligation of new accounting standard for severance and retirement benefits	**—**	—	(154,608)	**—**
Severance pay for early retirement	**—**	—	(36,608)	**—**
Loss on business restructuring	**(2,695)**	—	(3,011)	**(22,458)**
Directors' and corporate auditors' severance and retirement benefits for prior periods (Note 3)	**—**	(572)	—	**—**
Other	**(8,571)**	(3,478)	(5,302)	**(71,425)**
	¥(15,176)	¥ 729	¥(207,580)	**$(126,467)**

12. Real Estate Trust Contract

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

The real estate includes an educational facility, a research and development facility, distribution centers, and stores of domestic dealers. The gain on the beneficial ownership transfer of ¥22,799 million was included in other income in the consolidated statement of operations for the year ended March 31, 2000. The cash received from the transfer of ¥38,171 million was included in proceeds from sale of property, plant and equipment in the consolidated statement of cash flows for the year ended March 31, 2000.

In addition, the Company entered a *"Tokumei Kumiai"* agreement with, and made an investment in the transferee. The investment was included in other investments in the consolidated balance sheets as of March 31, 2003 and 2002. The balances of the investment at March 31, 2003 and 2002 were ¥1,162 million ($9,683 thousand) and ¥4,504 million, respectively. The above investment is subordinate to other financial obligations of the transferee.

The term of lease is for five years and one month. The present values of the lease payment obligations unaccrued as of March 31, 2003 and 2002, including an amount equivalent to the prescribed penalties for non-renewal, etc., are included in future minimum lease payments under operating leases as lessee in Note 15.

13. Income Taxes

For the years ended March 31, 2002 and 2001, the statutory tax rate used by the Domestic Companies to calculate deferred tax assets and deferred tax liabilities was 41.7%. For the year ended March 31, 2003, however, the statutory tax rate was changed due to an enacted change in tax laws. As a result, for those temporary differences expected to reverse on or before March 31, 2004, the statutory tax rate applied remained at 41.7%; however, for those temporary differences expected to reverse on or after April 1, 2004, the statutory tax rate was changed from 41.7% to 40.4%. The effect of this change in the statutory tax rate was to decrease deferred tax assets (net of deferred tax liabilities) by ¥2,456 million ($20,467 thousand) as of March 31, 2003 and to increase income tax expense for the year ended March 31, 2003 by the same amount. Foreign subsidiaries are subject to income taxes applicable in the countries of domicile.

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

For the years ended	**2002** **March 31, 2003**	2001 March 31, 2002	2000 March 31, 2001
Statutory tax rate	**41.7%**	41.7%	41.7%
Equity in net income of unconsolidated subsidiaries and affiliated companies	**(11.4)**	(17.0)	0.4
Deferred taxes on net operating losses of consolidated subsidiaries and equity method companies	**(32.7)**	—	(7.4)
Taxes on retained earnings of subsidiaries in which investments were sold during this period	**(2.2)**	6.8	—
Valuation allowances	**(3.6)**	(34.3)	7.0
Reversal of unrealized profits from intercompany transactions	**9.9**	19.4	(3.7)
Effect of tax rate change	**8.7**	—	—
Elimination of dividend income from overseas consolidated subsidiaries	**0.9**	7.1	—
Other	**(0.3)**	2.3	(2.3)
Effective tax rate	**11.0%**	26.0%	35.7%

Deferred tax assets and liabilities reflect the estimated tax effects of accumulated temporary differences between assets and liabilities for financial accounting purposes and those for tax purposes. The significant components of deferred tax assets and liabilities at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of	**2002** **March 31, 2003**	2001 March 31, 2002	**2002** **March 31, 2003**
Deferred tax assets			
Allowance for doubtful receivables	**¥ 9,095**	¥ 9,056	**$ 75,792**
Employees' severance and retirement benefits	**69,443**	67,153	**578,692**
Accrued bonuses and other reserves	**19,882**	17,362	**165,683**
Inventory valuation	**2,998**	3,477	**24,983**
Valuation loss on investment securities, etc.	**2,180**	642	**18,167**
Recognition of deferred taxes on net operating losses of consolidated subsidiaries and equity method companies	**9,205**	—	**76,708**
Net operating loss carryforwards	**23,438**	50,590	**195,317**
Other	**64,646**	62,436	**538,717**
Total gross deferred tax assets	**200,887**	210,716	**1,674,059**
Less valuation allowance	**(14,532)**	(24,530)	**(121,100)**
Total deferred tax assets	**186,355**	186,186	**1,552,959**
Deferred tax liabilities			
Reserves under Special Taxation Measures Law	**(6,253)**	(6,940)	**(52,108)**
Other	**(4,396)**	(5,977)	**(36,634)**
Total deferred tax liabilities	**(10,649)**	(12,917)	**(88,742)**
Net deferred tax assets	**¥175,706**	¥173,269	**$1,464,217**

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	**2002** **March 31, 2003**	2001 March 31, 2002	**2002** **March 31, 2003**
Current assets—Deferred taxes	**¥ 54,398**	¥80,403	**$ 453,317**
Investments and other assets—Deferred taxes	**121,310**	92,983	**1,010,917**
Current liabilities—Other	**(2)**	(23)	**(17)**
Other long-term liabilities	**—**	(94)	**—**

14. Derivative Financial Instruments and Hedging Transactions

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

Forward foreign currency and currency 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 and option contracts	Foreign currency trade receivables and trade payables
	Future transactions
Currency swap contracts	Foreign currency borrowings
Interest rate swap contracts	Interest on borrowings

The following tables summarize market value information as of March 31, 2003 and 2002 of derivative transactions for which hedge accounting has not been applied:

	Millions of yen			Thousands of U.S. dollars		
2002 **As of March 31, 2003**	Contract amount	Estimated fair value	Unrealized gain (loss)	Contract amount	Estimated fair value	Unrealized gain (loss)
Forward foreign exchange contracts:						
Sell:						
U.S. dollars	**¥ 1,160**	**¥ 1,134**	**¥ 26**	**$ 9,667**	**$ 9,450**	**$ 217**
Canadian dollars	**620**	**656**	**(36)**	**5,167**	**5,467**	**(300)**
Australian dollars	**1,695**	**1,797**	**(102)**	**14,125**	**14,975**	**(850)**
Euro	**3,641**	**3,844**	**(203)**	**30,341**	**32,033**	**(1,692)**
Sterling pound	**4,222**	**4,190**	**32**	**35,183**	**34,916**	**267**
Swiss franc	**1,428**	**1,520**	**(92)**	**11,900**	**12,667**	**(767)**
Buy:						
Australian dollars	**3,002**	**2,864**	**(138)**	**25,017**	**23,867**	**(1,150)**
	¥15,768	**¥16,005**	**¥(513)**	**$131,400**	**$133,375**	**$(4,275)**

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

	Millions of yen		
2001 As of March 31, 2002	Contract amount	Estimated fair value	Unrealized gain (loss)
Forward foreign exchange contracts:			
Sell:			
U.S. dollars	¥ 756	¥ 763	¥ (7)
Canadian dollars	649	653	(4)
Australian dollars	1,003	1,035	(32)
Euro	3,735	3,755	(20)
Other	779	802	(23)
	¥6,922	¥7,008	¥(86)

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

Interest rate swap contracts:			
Receive floating and pay fixed	¥300	¥(5)	¥(5)

Fair values at year end are estimated based on information provided by financial institutions engaged in the contracts and/or other sources.

15. Leases

(a) As lessee

The equivalents of the acquisition costs, accumulated depreciation and net book values of finance leases accounted for as operating leases as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
As of	**March 31, 2003**	March 31, 2002	**March 31, 2003**
Acquisition costs for machinery, tools and equipment	**¥143,471**	¥141,399	**$1,195,592**
Accumulated depreciation	**81,921**	77,127	**682,675**
Net book value	**¥ 61,550**	¥ 64,272	**$ 512,917**

Lease payments under non-capitalized finance leases amounted to ¥22,342 million ($186,183 thousand), ¥23,733 million and ¥25,357 million for the years ended March 31, 2003, 2002 and 2001, respectively.

The equivalents of the related depreciation and interest expenses amounted to ¥18,638 million ($155,317 thousand) and ¥2,671 million ($22,258 thousand) for the year ended March 31, 2003, ¥19,388 million and ¥3,070 million for the year ended March 31, 2002, and ¥21,276 million and ¥3,838 million for the year ended March 31, 2001, 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, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
	Finance leases			Operating leases		
	2002	2001	**2002**	**2002**	2001	**2002**
As of	**March 31, 2003**	March 31, 2002	**March 31, 2003**	**March 31, 2003**	March 31, 2002	**March 31, 2003**
Current portion	**¥20,301**	¥19,953	**$169,175**	**¥ 6,888**	¥ 6,420	**$ 57,400**
Non-current portion	**45,000**	49,177	**375,000**	**41,137**	44,040	**342,808**
	¥65,301	¥69,130	**$544,175**	**¥48,025**	¥50,460	**$400,208**

(b) As lessor

The acquisition costs, accumulated depreciation and net book values of assets leased under finance leases accounted for as operating leases as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
As of	**March 31, 2003**	March 31, 2002	**March 31, 2003**
Acquisition costs for tools, furniture and fixtures	**¥ —**	¥5,945	**$ —**
Accumulated depreciation	**—**	4,199	**—**
Net book value	**¥ —**	¥1,746	**$ —**

Lease payments received under finance leases, accounted for as operating leases, amounted to ¥489 million ($4,075 thousand), ¥1,193 million and ¥1,130 million for the years ended March 31, 2003, 2002 and 2001, respectively.

The related depreciation and the equivalent of interest income were insignificant for the year ended March 31, 2003, ¥601 million and ¥86 million for the year ended March 31, 2002, and ¥566 million and ¥86 million for the year ended March 31, 2001, respectively.

The present values of future minimum lease payments to be received under finance leases and payments to be received under operating leases as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
	Finance leases			Operating leases		
	2002	2001	**2002**	**2002**	2001	**2002**
As of	**March 31, 2003**	March 31, 2002	**March 31, 2003**	**March 31, 2003**	March 31, 2002	**March 31, 2003**
Current portion	**¥ —**	¥ 975	**$ —**	**¥13**	¥ 4,414	**$108**
Non-current portion	**—**	1,468	**—**	**33**	5,592	**275**
	¥ —	¥2,443	**$ —**	**¥46**	¥10,006	**$383**

16. Segment Information

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

Net sales, operating income (loss) and identifiable assets by geographic area for the years ended March 31, 2003, 2002 and 2001 were as follows:

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

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

	Millions of yen						
2000 For the year ended March 31, 2001	Japan	North America	Europe	Other areas	Total	Elimination or corporate	Consolidated
Net sales:							
Outside customers	¥ 1,195,609	¥ 580,767	¥ 168,957	¥ 70,479	¥ 2,015,812	¥ —	¥ 2,015,812
Inter-area	393,783	10,321	725	13	404,842	(404,842)	—
Total	1,589,392	591,088	169,682	70,492	2,420,654	(404,842)	2,015,812
Costs and expenses	1,603,048	595,180	170,653	69,709	2,438,590	(407,841)	2,030,749
Operating income (loss)	¥ (13,656)	¥ (4,092)	¥ (971)	¥ 783	¥ (17,936)	¥ 2,999	¥ (14,937)
Total identifiable assets	¥ 1,614,139	¥ 151,935	¥ 65,806	¥ 24,706	¥ 1,856,586	¥ (112,959)	¥ 1,743,627

	Thousands of U.S. dollars						
2002 **For the year ended March 31, 2003**	Japan	North America	Europe	Other areas	Total	Elimination or corporate	Consolidated
Net sales:							
Outside customers	**$ 9,256,633**	**$6,879,742**	**$2,615,358**	**$952,534**	**$19,704,267**	**$ —**	**$19,704,267**
Inter-area	**5,291,617**	**133,433**	**64,875**	**1,917**	**5,491,842**	**(5,491,842)**	**—**
Total	**14,548,250**	**7,013,175**	**2,680,233**	**954,451**	**25,196,109**	**(5,491,842)**	**19,704,267**
Costs and expenses	**14,215,292**	**6,959,367**	**2,634,500**	**918,058**	**24,727,217**	**(5,445,083)**	**19,282,134**
Operating income (loss)	**$ 332,958**	**$ 53,808**	**$ 45,733**	**$ 36,393**	**$ 468,892**	**$ (46,759)**	**$ 422,133**
Total identifiable assets	**$12,969,217**	**$1,589,333**	**$ 983,700**	**$220,308**	**$15,762,558**	**$(1,145,750)**	**$14,616,808**

As discussed in Note 2, the Domestic Companies adopted the new accounting standard for employees' severance and retirement benefits effective the beginning of the year ended March 31, 2001. The effect of this change was to decrease operating expenses of the Japan area by ¥7,449 million and to decrease the operating loss of this area by the same amount.

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

Furthermore, as discussed in Note 3, the Company changed its depreciation method of property, plant and equipment as of the beginning of the year ended March 31, 2003. The effect of this change was to decrease the costs and expenses of the Japan area by ¥11,014 million ($91,783 thousand) and to increase the operating income by the same amount.

The principal countries included in North America, Europe, and Other areas are the United States and Canada, Germany and Belgium, and Australia and Colombia, respectively. Also, for the year ended March 31, 2003, England became an additional principal country in Europe.

International sales for the years ended March 31, 2003, 2002 and 2001 were as follows:

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

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

	Millions of yen			
2000 For the year ended March 31, 2001	North America	Europe	Other areas	Total
International sales	¥618,076	¥236,324	¥249,444	¥1,103,844
Percentage of consolidated net sales	30.7%	11.7%	12.4%	54.8%

	Thousands of U.S. dollars			
2002 **For the year ended March 31, 2003**	North America	Europe	Other areas	Total
International sales	**$7,043,675**	**$3,067,042**	**$2,774,625**	**$12,885,342**

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

The principal countries included in North America, Europe, and Other areas are the United States and Canada, Germany and England, and Australia, Thailand and Colombia, respectively.

17. Related Party Transactions

The Company issued guarantees of loans and letters of undertaking to provide guarantees to certain creditors of AutoAlliance International, Inc. ("AAI"), an affiliate which is accounted for by the equity basis. As of March 31, 2003 and 2002, guarantees of loans and letters of undertaking, included in contingent liabilities, covered ¥44,857 million ($373,808 thousand) and ¥48,405 million, respectively, of AAI's obligations.

In addition, the Company transferred (sold) receivables to Primus Financial Services, Inc., a subsidiary of Ford Motor Company. For the years ended March 31, 2003 and 2002, the transactions amounted to ¥310,739 million ($2,589,492 thousand) and ¥123,825 million, respectively, in the aggregate. As of March 31, 2003 and 2002, the ending balances of accounts receivable related to the transactions were ¥3,850 million ($32,083 thousand) and ¥3,279 million, respectively. The terms of the transactions are determined on an arm's length basis.

Also, in the year ended March 31, 2003, the Company issued ¥60,000 million ($500,000 thousand) of convertible bonds with stock acquisition rights. Of the bonds, the Company sold ¥20,000 million ($166,667 thousand) to FLP Canada, a subsidiary of Ford Motor Company. As of March 31, 2003, the ending balance of the bonds with stock acquisition rights held by FLP Canada was ¥20,000 million ($166,667 thousand).

18. Subsequent Events

The Board of Directors of the Company resolved on March 31, 2003 to issue notes and bonds of up to ¥60,000 million ($500,000 thousand) from April to June 2003. The Company issued domestic unsecured bonds of ¥20,000 million ($166,667 thousand) on June 11, 2003. The bonds will mature in 2007.

In addition, the following appropriation of retained earnings was approved at a shareholders' meeting held on June 24, 2003:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends: ¥2.00 ($0.02) per share	¥2,438	$20,317

Report of Independent Certified Public Accountants

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Mazda Motor Corporation (a Japanese corporation) and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2003, expressed in Japanese yen. These consolidated financial statements are the responsibility of Mazda Motor Corporation's management. Our responsibility is to 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, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

Without qualifying our opinion, we draw attention to the following.
(1) As referred to in Note 3, Mazda Motor Corporation changed its method of accounting for the depreciation of property, plant and equipment in the year ended March 31, 2003. As referred to in Note 18, Mazda Motor Corporation issued domestic unsecured bonds on June 11, 2003.

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

(3) As explained in Note 2, in the year ended March 31, 2001, Mazda Motor Corporation and domestic subsidiaries prospectively adopted new Japanese accounting standards for financial instruments and employees' severance and retirement benefits.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Hiroshima, Japan
June 25, 2003

Asahi & Co.

Five-Year Summary (Consolidated)

MAZDA MOTOR CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2003, 2002, 2001, 2000 and 1999

	Millions of yen					Thousands of U.S. dollars[1]
	2002	2001	2000	1999	1998	**2002**
	March 31, 2003	March 31, 2002	March 31, 2001	March 31, 2000	March 31, 1999	**March 31, 2003**
Net sales	**¥2,364,512**	¥2,094,914	¥2,015,812	¥2,161,572	¥2,057,097	**$19,704,267**
Domestic	**818,271**	811,050	911,968	955,460	670,254	**6,818,925**
Overseas	**1,546,241**	1,283,864	1,103,844	1,206,112	1,386,843	**12,885,342**
Net income (loss)	**24,134**	8,830	(155,243)	26,155	38,707	**201,117**
Total assets	**1,754,017**	1,734,895	1,743,627	1,469,533	1,479,032	**14,616,808**
Shareholders' equity	**194,071**	172,837	158,872	245,709	377,916	**1,617,258**
Capital expenditures[2]	**44,080**	56,641	47,285	48,867	43,485	**367,333**
Depreciation and amortization	**36,989**	44,890	49,531	51,800	48,503	**308,242**
Financial debts	**678,205**	686,318	777,292	770,610	728,718	**5,651,708**
Cash flows[3]	**47,054**	30,623	52,257	126,638	(6,156)	**392,117**
Number of employees	**36,184**	37,824	39,601	43,818	31,851	

	Yen					U.S. dollars[1]
Amounts per share of common stock:						
Net income (loss)[4]	**¥19.80**	¥7.23	¥(126.99)	¥21.39	¥31.66	**$0.17**
Cash dividends[5]	**2.00**	2.00	—	2.00	4.00	**0.02**

	Thousands of shares				
Average number of shares outstanding	**1,219,050**	1,221,750	1,222,495	1,222,494	1,222,422

	Thousands of units				
Unit sales					
Domestic	**294**	288	334	345	337
Overseas	**723**	660	630	668	688
	1,017	948	964	1,013	1,025

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, 2003, of ¥120 to US$1.
2. Capital expenditures are calculated on an accrual basis.
3. Cash flows represent net cash flows from operating activities and those from investing activities.
4. The computations of net income (loss) per share of common stock are based on the average number of shares outstanding during each fiscal year.
5. Cash dividends per share represent actual amounts applicable to the respective years.

Board of Directors, Auditors and Executive Officers

(As of June 24, 2003)

Front row, from left: Hisakazu Imaki, Lewis Booth, Kazuhide Watanabe, Gideon Wolthers (standing)
Back row, from left: Tsuneo Matsubara, Takashi Yamanouchi, Stephen T. Odell, Mutsumi Fujiwara, Ryoichi Hasegawa

DIRECTORS AND AUDITORS

REPRESENTATIVE DIRECTOR AND CHAIRMAN OF THE BOARD

Kazuhide Watanabe

REPRESENTATIVE DIRECTORS

Lewis Booth (Director)
Hisakazu Imaki
Gideon Wolthers

DIRECTORS

Stephen T. Odell
Mutsumi Fujiwara
Takashi Yamanouchi
Ryoichi Hasegawa
Tsuneo Matsubara

CORPORATE AUDITORS (FULL TIME)

Toshiki Sakata
Teruhiro Shimono
Kazumi Ikeda

CORPORATE AUDITORS

Takaharu Dohi
Kenichi Komatsu

EXECUTIVE OFFICERS

PRESIDENT AND CEO

Lewis Booth* (Director)

EXECUTIVE VICE PRESIDENT AND CHIEF ENGINEERING & MANUFACTURING OFFICER

Hisakazu Imaki* (President and CEO)
R&D, Production, Quality Assurance and Business Logistics

SENIOR MANAGING EXECUTIVE OFFICER AND CFO

Gideon Wolthers*
Corporate Strategy and Subsidiary & Affiliated Companies

SENIOR MANAGING EXECUTIVE OFFICERS

Stephen T. Odell*
Marketing, Sales and Customer Service

Mutsumi Fujiwara*
Purchasing

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

Ryoichi Hasegawa*
IT Solution, e-Business, General Affairs, Legal Affairs, Risk Management and Osaka Branch; Assistant to the CFO

Tsuneo Matsubara*
China and Overseas Sales

MANAGING EXECUTIVE OFFICERS

M. Greg Gollaher
Corporate Planning and Cost Planning; General Manager, Corporate Planning Div.

Hitoshi Inoue
Quality Assurance, Six Sigma and Technical Affairs

Joseph Bakaj
Design, Product Development and Strategic Cost Innovation

Kiyoshi Ozaki
Financial Services and Domestic Dealer Financial Administration; General Manager, Financial Services Div.

Masao Furuta
Domestic Marketing, Domestic Sales and Domestic Customer Service

EXECUTIVE OFFICERS

Masaharu Yamaki (Managing Executive Officer)
Manufacturing and Business Logistics

Masazumi Wakayama
Corporate Communications & Liaison; General Manager, Corporate Communications & Liaison Div.

Akira Marumoto
General Manager, Platform & Program Management Div. and Platform General Manager, Platform & Program Management Office No. 1

Keishi Egawa
General Manager, General Affairs Dept.

Masaki Kanda
General Manager, Personnel & Human Development Div.

Hiroshi Hosaka
General Manager, Domestic Sales Div.

Nobuhide Inamoto
General Manager, Quality Div. and General Manager, Quality Audit Dept.

Hiroshi Kamiya
General Manager, Hiroshima Plant

Kazuhiko Tanaka
General Manager, Purchasing Div.

Toru Oka
Executive Vice President, AutoAlliance International, Inc.

Nobuhiro Hayama
General Manager, Powertrain Development Div.

Satoshi Tachikake
General Manager, Hofu Plant

Jeffrey H. Guyton
Strategic Review Project

Terry L. Moore
General Manager, Customer Service Div.

Yasuto Tatsuta
General Manager, Production Engineering Div.

Seita Kanai
General Manager, Vehicle Engineering Div. Assistant to Product Development Officer

Hirotaka Kanazawa
Product Planning & Business Strategy and Technical Research Center

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

Daniel T. Morris
President and CEO, Mazda Motor Europe GmbH

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

( ) represents personnel changes made as of August 27, 2003. John G. Parker was newly appointed as Executive Vice President, Assistant to President.

Fumiaki Inami, Managing Executive Officer of Product Strategy and Cost Innovation Strategy, passed away on April 3, 2003. We would like to express our sincerest gratitude for his tireless efforts in the promotion of new products.

Corporate Data

(As of March 31, 2003)

FOUNDED 1920

COMMON STOCK

Par Value:	¥50
Authorized:	3,000,000,000 shares
Issued:	1,222,496,655 shares
Capital:	¥120,078 million
Number of Shareholders:	58,650
Listings:	Tokyo, Osaka, Nagoya, Fukuoka and Sapporo stock exchanges
Transfer Agent:	The Sumitomo Trust & Banking Co., Ltd. 5-33, Kitahama 4-chome, Chuo-ku Osaka 540-8639, Japan
Independent Certified Public Accountants:	Asahi & Co.

NUMBER OF EMPLOYEES 19,290

OFFICES

Head Office:	3-1 Shinchi, Fuchu-cho, Aki-gun Hiroshima 730-8670, Japan Phone: +81 (82) 282-1111
Tokyo Office:	1-1-7 Uchisaiwai-cho, Chiyoda-ku Tokyo 100-0011, Japan Phone: +81 (3) 3508-5031
Osaka Branch:	Umeda Sky Building Tower East 1-1-88-800 Oyodonaka Kita-ku, Osaka 531-6008, Japan Phone: +81 (6) 6440-5811

PRINCIPAL SUBSIDIARIES AND AFFILIATES (As of April 1, 2003)

Mazda Motor of America, Inc.
Mazda Motors (Deutschland) GmbH
Mazda Canada Inc.
Mazda Australia Pty., Ltd.
Mazda Motor Logistics Europe N.V.
Mazda Motor Europe GmbH
Mazda Autozam Inc.
Tokai Mazda Hanbai Co., Ltd.
Kanto Mazda Co., Ltd.
Kansai Mazda Co., Ltd.
Kyushu Mazda Co., Ltd.
Mazda Parts Kanto Co., Ltd.
Mazda Chuhan Co., Ltd.
Mazda Car Rental Corporation
Kurashiki Kako Co., Ltd.
Malox Co., Ltd.
Toyo Advanced Technologies Co., Ltd.
AutoAlliance International, Inc.*
AutoAlliance (Thailand) Co., Ltd.*

*Equity Method-Applied Company

SALES AND SERVICE NETWORK (As of December 31, 2002)

Domestic:	Approximately 410 dealers and 1,250 sales and service outlets
Overseas:	Approximately 150 distributors and 5,000 sales and service outlets in more than 150 destinations

PLANTS

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

PRINCIPAL OVERSEAS ASSEMBLY OPERATIONS

Country	Assembler	Mazda vehicles assembled
U.S.A.	AutoAlliance International, Inc.	Mazda6
Thailand	AutoAlliance (Thailand) Co., Ltd.	B-Series
China	FAW Car Co., Ltd. (FCC) FAW Hainan Motor Co., Ltd. (FHC)	Mazda6 Premary, 323
South Africa	Ford Motor Company of Southern Africa (Pty) Ltd.	323, B-Series, E-Series
Colombia	Compañía Colombiana Automotriz S.A.	323, 626, B-Series

*Overseas assembly operations are located in 15 countries.

FOR FURTHER INFORMATION

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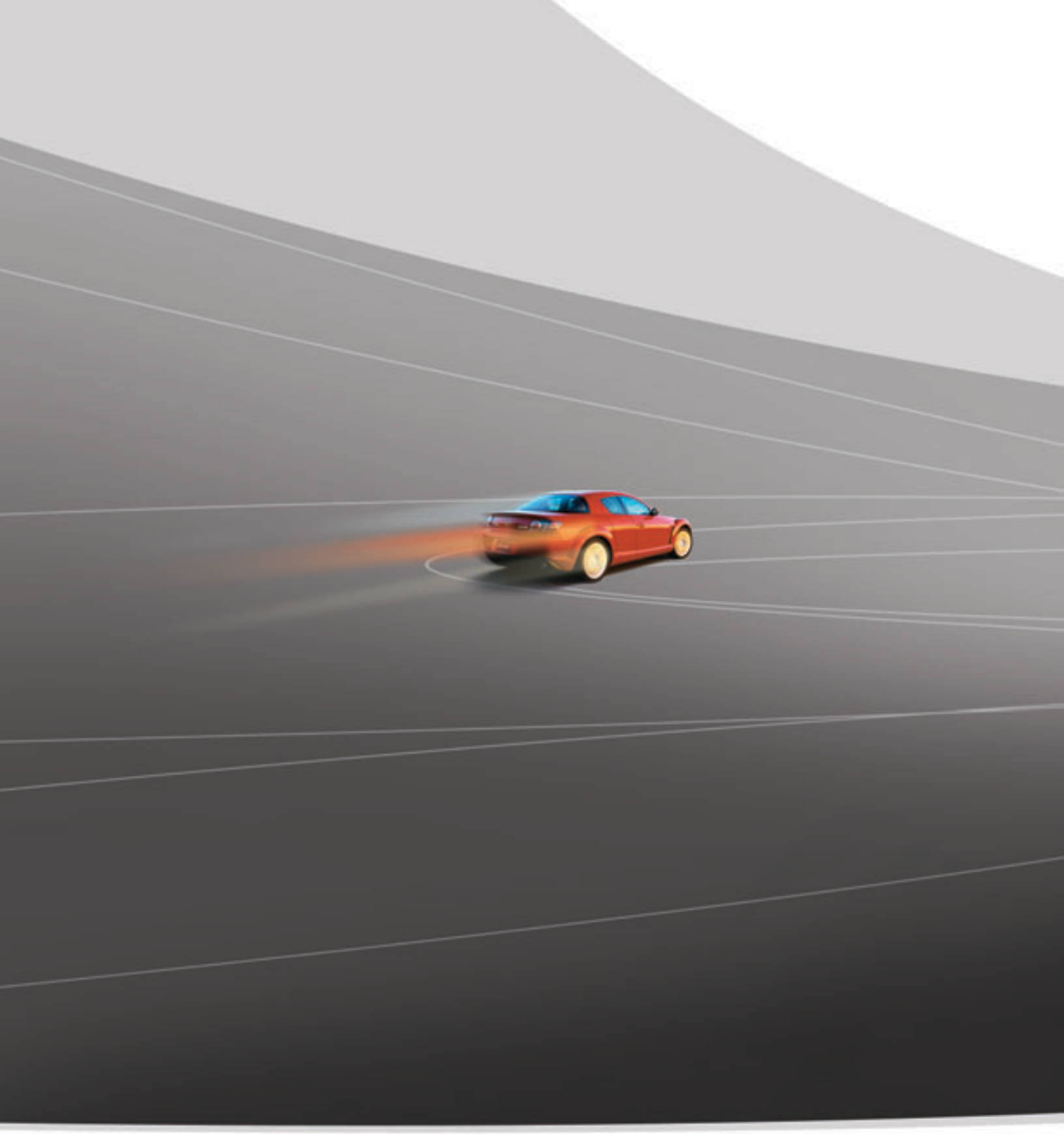
E-mail: pr@mazda.com.au

Mazda Web Site Address
http://www.mazda.co.jp



Mazda Motor Corporation

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