

① **Web-Tuned Factory:** The Internet-based Web-Tuned Factory enables customers to create their own Roadster models by selecting the type of engine, transmission, and exterior and interior colors.

② **Tribute:** The Tribute, launched in Japan in November 2000, is Mazda's first SUV and the first car jointly developed with Ford.

③ **Titan Dash:** With its 1.0- to 1.5-ton cargo-hauling capacity and a high level of safety, the Titan Dash compact truck offers customers superior functionality.



Review of Operations

JAPAN



Against a backdrop of prolonged economic stagnation in Japan, domestic industry sales increased only 1.6% to approximately 5,973,000 units. In such a challenging business environment, Mazda achieved retail sales of 307,000 units, including micro-mini vehicles. Accordingly, Mazda's total market share in the domestic market was 5.1%.

Mazda strove to expand sales with the introduction of such models as the Mazda Tribute, an exciting new SUV and the first product developed jointly with Ford. In addition, full model changes of Titan and Titan Dash were also introduced, along with the freshened Millenia, Roadster and Familia models. Sales of the MPV increased 32.3% to 51,000 units; Titan rose 22.8% to 9,000 units; Roadster was up 16.8% to 5,000 units; and, Millenia registered a growth of 13.8% to 4,000 units.

We are working hard to introduce and extend e-commerce into our business. Mazda believes the Internet can serve as an effective two-way communication channel between the company and its dealers, customers and suppliers. As of July 2000, we implemented an aggressive sales and marketing program in which Mazda began to offer two new online services featuring price estimates for all passenger vehicle models as well as model searches for used models from a large database. Turning to supply chain management, in June 2000, we established the Mazda Supplier Network (MSN), an exclusive website for approximately 350 suppliers that aims to streamline purchasing processes

and reduce procurement costs through immediate and direct communication with suppliers globally. Further, our Purchasing Division conducted Internet auctions, which also achieved substantial cost reductions for the commodities involved. In September 2000, Mazda established the "e-Business Enabling Office," with the purpose of standardizing e-business usage on a company-wide basis and accelerating implementation of our overall e-strategy.

Mazda generated significant domestic sales momentum as Japan's first automaker to provide customers with e-mail trade-in inspection and credit authorization services for the dedicated web-tuned@DEMIO, Mazda's first Internet-edition product introduced in January 2000. Mazda also became the first Japanese automaker to launch an Internet-based "build-to-order" (BTO) system, introducing the Build-To-Order Web-Tuned Factory for Roadster and Familia S-Wagon in the domestic market in February 2001. The Web-Tuned Factory enables customers to create a model not available at dealerships, offering 4,160 different combinations of web-tuned@Roadster and 912 different combinations of web-tuned@S-WAGON by selecting available options such as the engine, transmission and exterior and interior colors, according to customer preferences.

The establishment of the Mazda Telematics Center in June 2000 strengthened the information services we provide to our customers in Japan. We have made concerted efforts to enhance our brand image and increase customer satisfaction through this insightful information service. Mazda Telematics provides news, weather forecasts and local area information to customers using the Internet, car navigation systems and home PCs. By incorporating compatible functions with the increasingly popular "i-mode" mobile phone service, customers can enjoy more information service options. Future plans include more advanced services such as e-mail notification of service dates and remote on-board diagnostics.

Strengthening domestic dealer networks remains a core initiative for Mazda in Japan. During the year, local wholesalers of Autozam Inc. were consolidated into a single new distributor, with the start of operations as Mazda Autozam Inc. in January 2001.

The "One Operation" program, initiated in April 1998, has helped to enhance the effectiveness of domestic dealers through the integration and sharing of management functions. In October 2000, a total of 10 consolidated dealers in designated areas were merged into five dealerships. In this way, we were able to centralize sales strategies and improve the efficiency of business operations.

Mazda also promoted a "New Sales Expansion Project" to strengthen the productivity and profitability of domestic dealers and introduced the innovative Mazda Excellent program to generate a best-in-industry

satisfaction performance for our customers through the buying and ownership experience. As a whole, our significant progress is evidenced by a solid performance during the fiscal term in which domestic dealers were profitable and generated strong positive cash flows.



NORTH AMERICA



④MPV: The introduction of a new MPV minivan in late 1999 significantly contributed to positive sales results in the United States and Canada. The MPV received rave reviews as the "Truck Interior of the Year" and "Best Buy for 2000" from *Auto Interior* magazine and *Consumers' Digest*, respectively.

⑤Millenia: The new Millenia is a sporty sedan that features flowing and dynamic styling, functional and luxurious interior space and agile driving performance. Since its introduction in North America in August 2000, the new and improved version has contributed to increased sales throughout the region.

⑥Tribute: The Tribute, introduced into the North American market in August 2000, features eye-catching styling, a spacious interior and exceptional handling with excellent maneuverability both on and off the road.

In the United States, the economy started to decline during the fourth quarter of fiscal 2000 amid signs of a slowdown in such areas as facility investment and corporate profits. Despite this downturn late in the year, total industry sales rose 2.7% to a record high of 17.35 million units. Mazda's sales were bolstered in fiscal 2000 by the introduction of a new MPV minivan late in 1999 and the company's first SUV in six years, the Tribute. The Tribute began arriving in Mazda dealerships in August 2000 and was followed shortly thereafter by the new MX-5 Miata. Mazda's sales in the United States grew 4.8% to 255,526 units, marking a five-year high and the third consecutive year-on-year sales increase.

Underlying the Tribute's sales success—21,048 units were sold in the last five months of 2000—are its style, nimble handling, strong performance and packaging. Mazda developed a new and tremendously successful advertising campaign called "Zoom-Zoom" to promote the Mazda brand and launch the Tribute. The campaign, which positioned the Tribute as having "the soul of a sports car," drove higher than anticipated showroom traffic and demand that exceeded production capacity.

Other models also continued to be well received by customers and the industry. MPV was selected as the "Truck Interior of the Year" by *Auto Interior* magazine and as the "Best Buy for 2000" by *Consumers' Digest*. MX-5 Miata received a multitude of recognition, including "Best Inexpensive Sports Car" in U.S. *Automobile* magazine's All-Star Awards, the "Top Pick for Driving Fun" in U.S. *Consumer Report*, as well as *Car and Driver* magazine's "10 Best" cars. *Car and Driver* also picked the Protégé sedan as the best small car in a 13-car comparison test.

In Canada, sales were up 26.1% year-on-year, driven by increases in MPV, up 96.7%, Protégé, up 22.1%, and the introduction of the Tribute

at the end of August. This record-high retail performance of 52,070 units pushed Mazda to the No. 3 Japanese import brand for the year in Canada. Moreover, the Tribute received the Best New Compact Sport Utility Award by the Automobile Journalists Association in December 2000.

In fiscal 2001, sales in North America are expected to comprise 36% of Mazda's total sales, thus playing a significant role in our overall performance. Under the new management team of Mazda North American Operations (MNAO), three key objectives were defined: create greater demand for Mazda products; improve dealer profitability; and, improve cash flow.

Under these initiatives, MNAO has shifted from an individual product marketing strategy to one focused on building awareness for the Mazda brand and what it stands for. The organization is also in the early stages of developing a brand-differentiating retail strategy aimed at blending the disparate worlds of e-business and the physical retail environment. MNAO has a dedicated team working with select suppliers and its best dealers to develop a retail experience that will enable Internet car shoppers to make a seamless transition from online information gathering to an in-dealership purchase.



Review of Operations

EUROPE



⑦ **323F:** The new 323F, featuring the maneuverability of a compact sedan and the versatility of a station wagon, has been well received in the European market.

⑧ **Demio:** Since the introduction of this practical, yet sporty compact wagon in Europe in 1998, Demio has received wide customer acclaim as evidenced by positive sales.

⑨ **626:** The 626 wagon, designed to suit the practical needs of European customers, has been noted for its quality and value.

The regional economy in Europe grew as a whole, sustained by the stable global economy and expanding exports due to the weakening Euro. Total industry sales for the year, however, declined 1.7% to 17.8 million units. Among Mazda's five major markets, Italy, the United Kingdom and France registered increases in total industry sales of 4.5%, 1.3% and 0.8%, respectively. In Germany, our largest market in Europe, industry sales dropped 10.4% to 3,697,000 units, affected by a sharp rise in oil prices.

In view of this challenging environment, coupled with the negative effects of a strong yen, Mazda's retail sales in Europe declined 12.6% to 210,677 units, which resulted in a decline of Mazda's share in the European market by 0.1 percentage points to 1.2%. By country, Mazda's retail sales increased in Croatia by 25.2% to 3,232 units; expanded in Ireland by 3.6% to 7,352 units; and were up 1.1% in Austria to 15,589 units. In Austria, Mazda maintained the No. 1 position in terms of Japanese import brands. Conversely, Mazda sales declined in Germany by 11.6% to 79,605 units; fell 14.1% to 22,476 units in the United Kingdom; dropped 33.0% to 7,076 units in France; and, registered a 20.6% decline to 16,000 units in the Netherlands.

Among the models sold in Europe, the new MPV and B-series and E-series pickup trucks increased by 158.1%, 18.7% and 2.8%, respectively. Other models showed decreases in sales compared to the previous fiscal year. The Tribute was launched in spring 2001 in Germany, the United Kingdom and Switzerland.

Strengthening our marketing and sales operations in Europe remains a core initiative, essential to our future growth. Presently, Mazda maintains a 90% equity ownership of its operations in Germany and Portugal. Mazda started operation of wholly owned sales subsidiaries in Italy and Spain in early 2000, followed by France in April 2001 and the United Kingdom in August 2001. In December 2000, we also initiated sales in Russia by establishing new dealerships in Moscow and Ekaterinburg, in addition to an existing dealership in St. Petersburg. We are also in discussions with other distributors with regard to acquiring an equity interest.

Another significant step taken during the year was our decision to produce small cars for the European market at Ford's Valencia Vehicle Operations Plant in Almussafes, Spain. By later this year, we will also determine the production site in Europe for our compact cars. This decision will enable us to reduce the risk of exposure to foreign exchange fluctuations and supply more competitive products in local markets. Production of small cars is planned to commence in early 2003 and is expected initially to reach approximately 40,000 units annually for the European market. The total production of small cars and compact cars will be 100,000 units annually.

⑩ **323:** The 323 contributed to sales in respective Asian regions. Model vehicles produced at AAT were well received in the local market, while sales of 323 cars exported to Taiwan from Japan marked a record high during the year.

⑪ **B-series:** The cumulative production of B-series pickup trucks at AAT exceeded 100,000 units in August 2000. AAT is now exporting this model to more than 80 countries, excluding North America and Japan.

⑫ **Premacy:** Local production and sales of Premacy, featuring a compact body, spacious interior and superb handling performance, started in Hainan Province in China in May and June 2001.



OTHER REGIONS



In Asia, Mazda's retail sales increased 30% to 36,404 units. Among Mazda's major markets in the region, sales increased by 87.7% to 7,245 units in Thailand—a recovery exceeding the industry average in the country.

AutoAlliance (Thailand) Company Limited (AAT), a joint venture with Ford, performed well during the year. The quality of B-series pickup trucks produced at AAT was well recognized in 2000, especially in Thailand and Europe, resulting in an increase in production units. In August, cumulative orders for AAT pickup trucks reached 100,000 units. AAT's production volume, including 323 and Ford vehicles, in May, July and August 2000, ranked top among all auto manufacturers in Thailand.

In Taiwan, Mazda recorded its highest sales ever. Retail sales reached 9,744 units, a 54.7% increase over the previous year, attributable mainly to the growth of 323 sales, which totaled 6,328 units, up from 3,421 units in 1999.

In China, Mazda was granted a license to produce Premacy in Hainan Province and distribute this model nationwide. Production and sales operations at FAW Hainan Motor, a subsidiary of China First Automobile Group Corporation, started in May 2001. Mazda plans to produce 3,000 units for the first year, aiming to reach 20,000 units in 2004-2005. Correspondingly, a new dealer network will be established across China to realize solid sales and high customer satisfaction.

In the recovering Asian market, and in cooperation with Ford, Mazda is reorganizing sales networks in designated countries, including Indonesia and the Philippines, as well as taking measures directed toward future growth.

In Oceania, Mazda's retail sales increased by 3.9% to 31,543 units. This increase is due to steady performance in Australia, up 3.1% to 27,505 units, and in New Zealand, up 24.8% to 3,160 units.

In the Middle East, total retail sales increased 22.3% to 38,423 units. In Israel, Mazda set an all-time sales record of 25,136 units, representing a 21.9% increase over the previous year. Mazda remained the market leader for the fifth consecutive year. In Israel, MPV was awarded "Best Minivan 2000," and 323 was selected as the "Best Car of 2000" by *Auto Magazine*.

In Africa, Mazda's retail sales increased 14.0% to 48,964 units. In South Africa, as a result of government measures to stimulate the economy, total market demand during the year increased 14.8%, while Mazda's retail sales increased 13.0% to 42,293 units.

In Latin America, although economic strength varies from market to market, overall demand in the region grew during fiscal 2000. In Colombia and Venezuela, we improved the efficiency of manufacturing and distribution operations for Mazda and Ford brand vehicles.

Mazda also appointed new distributors in Argentina, Peru and the Dominican Republic during the year as a means to strengthen overall sales operations.



①. ②Mazda has developed the Premacy FC-EV, a new fuel cell electric prototype that will be used for Japan's first test run of fuel cell vehicles on public roads with the support of the Ministry of Economy, Trade and Industry. Using the Premacy FC-EV, Mazda is participating in a joint project with DaimlerChrysler Japan Holding, Ltd. and Nippon Mitsubishi Oil Co.

TECHNOLOGICAL

Mazda is dedicated to developing vehicles that are distinctive and innovative using the most advanced technologies to satisfy the diverse needs of motorists worldwide. We are building on our proven strengths in product design and engineering using the latest information tools and processes to develop cars with passion, at lower cost, faster speed and, above all, the highest level of customer satisfaction.

Entering MDI Phase III

Mazda Digital Innovation (MDI) is a cutting-edge enabler that allows Mazda product and manufacturing engineers to design vehicles more efficiently and to simulate manufacturing processes in three dimensions.

This fiscal year marked the implementation of MDI Phase III. We have taken actions to reduce vehicle development time and improve vehicle quality by using 20 additional state-of-the-art testing facilities and advanced virtual testing simulation. Another key objective is to improve the data-banking of information for joint vehicle development with the Ford Group. Specifically, Mazda aims to reduce vehicle development time after styling freeze by 4 months to 14 months for brand new models, while contributing to further reduction of development costs through increased efficiency. This accelerated time-to-market means Mazda can quickly offer products that reflect customer needs and wants.

Mazda plans to invest an additional ¥17.5 billion in Phase III, bringing the total investment to ¥41.0 billion since 1996.

Environmental Issues

Mazda is also furthering its commitment to R&D from an environmental standpoint to achieve greater harmony among cars, society and nature. This commitment is evident in the wide array of environmentally responsible technologies and processes in manufacturing, recycling, fuel economy, vehicle emissions and alternative fuels.

Developing Environment-Friendly Vehicles

Mazda has taken steps to reduce CO₂ emissions through programs targeting the reduction of exhaust gas and improvements in fuel consumption, R&D efforts involving



alternative fuel and clean energy vehicles, and the promotion of various recycling initiatives.

Mazda is making substantial improvements to existing engines and marketing the Miller-cycle and the D-burn (diluted burn) engines, in addition to introducing natural-gas-powered Demio and Titan models in June and November 2000 and Titan Dash in April 2001 for the domestic market. Mazda has also been participating in an alliance with Ford, DaimlerChrysler and Ballard Power Systems for the development of fuel cell technology since April 1998. In other developments during fiscal 2000, in February, Mazda began public road testing for the first time in Japan of the "Premacy FC-EV," a new fuel cell electric prototype vehicle based on the Premacy. The Premacy FC-EV is powered by a methanol reformer fuel cell system and electric motor and provides interior space for up to five adults without major structural modifications of the base model.

Mazda also revealed the MX SPORT TOURER at the Geneva Motor show held in early 2001. This concept model not only provides insight into Mazda's future direction but also reflects our spirit and commitment to bringing to market environment-friendly technology. The MX SPORT TOURER features a new hybrid four-wheel-system consisting of a lightweight, high-power, front-wheel-drive, 2.0-liter Sequential Valve Timing (S-VT) direct-injection gasoline engine and an electrically controlled, rear-wheel-drive electric motor.



③ MX SPORT TOURER exemplifies Mazda innovation, including the latest automotive technologies, ranging from a unique hybrid drive system to a toroidal Continuously Variable Transmission (CVT). This concept model reflects Mazda's spirit and commitment to environment-friendly product development.

④ Mazda produces recycled materials for bumper reinforcement parts by mechanically removing the paint layer of replaced bumpers. This new method enables Mazda to produce material with the same level of mechanical strength as the original bumper at about two-thirds of the cost compared to existing chemical-removing technologies.



ADVANCES

Mazda Actions for the Environment

All of Mazda's facilities in the Hiroshima area, including our Head Office, Hiroshima Plant and Miyoshi Plant were awarded ISO 14001 certification in June 2000. This globally recognized Environmental Management System follows the same certification previously awarded to the Hofu Plant and AAT in Thailand.

Recycling is another issue being addressed through Mazda's concerted environmental actions. As one example, the recycling project for bumpers, already in place in some regions, has been expanded to Kanto and Koshin Districts since October 1998, followed by nationwide expansion completed in November 1999. During fiscal 2000, Mazda recovered 2,000 bumpers per month. Mazda has started to use recycled materials made from replaced bumpers, collected at dealerships nationwide, for bumper reinforcement parts of Mazda Familia/323 from February 2001.

Mazda has also made significant progress in recycling and use of flammable and non-flammable waste from manufacturing and other processes. Plant waste reclamation was reduced from the fiscal 1990 level by 66% at the end of fiscal 1999, and further waste reclamation reductions were implemented in 2000.

In another new initiative in April 2000, Mazda production employees started wearing uniforms made of fabric recycled from PET bottles (plastic bottles).

New Models

Tribute

The Tribute is Mazda's first 5-seater SUV. It features elegant, yet powerful styling, which gives the vehicle an outstanding look both in the urban jungle and on mountainous roads. The Tribute features a spacious interior and exceptional handling resulting from highly efficient packaging: either a powerful 3.0-liter V6 engine or a smooth 2.0-liter inline four-cylinder engine; and a four-wheel-drive system facilitated with Rotary Blade Coupling together with a lock-up-function system.

The Tribute was introduced into the North American market in August 2000 and has established a high reputation for its outstanding features. Introduction into the domestic market took

place in November 2000, followed by Australia in early 2001 and European markets in summer 2001.

Titan and Titan Dash

In June 2000, Mazda introduced the all-new Titan cab-over truck into the domestic market. Based on extensive customer research, the new Titan has a number of significant improvements, including a spacious and comfortable cabin, enlarged cargo space, functional and easy-to-use interior and instrument panel, superb handling and stability, and enhanced ride comfort.

In October 2000, the Titan Dash was introduced into the domestic market. It boasts a spacious and comfortable cabin, the same as the one-class higher Titan model. This large cabin provides easy access and excellent usability. With its 1.0- to 1.5-ton cargo-hauling capacity and a high level of safety, Titan Dash offers customers "superior functionality."

Millenia

In July 2000, Mazda introduced the enhanced Millenia into the domestic market, with introduction worldwide in the following month. Millenia is a luxurious sporty sedan that has received high praise in Japan and overseas. The new version features improvements that truly echo the voice of the customer, while incorporating Mazda brand attributes. The exterior is sportier with a new hood, fenders and headlight configuration. The body and suspension have all been upgraded to provide a new level of driving pleasure.

Roadster (MX-5, Miata)

The best just got better with the introduction of the new Roadster in Japan in July 2000. In May 2000, Guinness World Records named it the best-selling 2-seater open sports car. Well received worldwide, the new Roadster was introduced into the North American market in September 2000 and later in Europe and other regions. Incorporating a series of major improvements, including a sportier exterior design, the new Roadster is equipped with a new 1.8-liter engine and increased rigidity for superb driving performance—the realization of Mazda DNA.