



## To Our Shareholders

# FOUNDATIONS FOR

Fiscal 2000, ending March 31, 2001, was a year of challenge and dramatic change. Although disappointing financially, the company took significant action for the immediate and mid-term future. We believe fiscal 2000 will prove to be a turning point in the company's history as we enter the new millennium. We signaled the start of our transformation in November 2000 by unveiling our Millennium Plan. This bold and comprehensive strategy addresses key areas of the business and is spearheaded by an aggressive new model plan. It is designed to build a stronger company that is differentiated in the marketplace and delivers sustainable, profitable growth in the future.

### Financial Results

On a consolidated basis, net sales for the year were ¥2,015.8 billion, a 6.7% decrease from the previous year, and we recorded a net loss of ¥155.2 billion. Operating loss was ¥14.9 billion.

The negative impact on sales was primarily due to the adverse effect of a strong yen and lower unit sales of vehicles, parts and components in an increasingly competitive environment. Other major factors that affected our profit performance were a one-time pension write-off of ¥154.6 billion for our transitional obligation for retirement benefits and ¥39.6 billion in restructuring costs under the Millennium Plan. The restructuring costs included closure of the Ujina Plant Number 2 and an Early Retirement Special Program in Japan.

On the up side, we achieved strong positive cash flow of ¥52.2 billion, enabling us to continue to reduce our net debt while funding our significant future product development plans. In addition, the majority of Mazda subsidiaries in Japan and abroad showed a profit along with positive cash flow. Japanese domestic dealers were profitable for the second consecutive year with strong positive cash flow.

For a more detailed analysis of our business performance and financial condition, please refer to pages 18-19 of this report.

### Marketing and Sales Highlights

During fiscal 2000, our new and freshened models were well received. The company implemented various programs to strengthen sales and boost market share and customer satisfaction.

In Japan, sales for the year decreased 5.2% due to slower sales of carryover models. Mazda's total market share declined 0.4 percentage points to 5.1%, and market share in the registered car market declined half a point to 6.5%. The Tribute, our new sports utility vehicle (SUV) and the first car jointly developed with Ford, was introduced in November 2000, following a highly successful launch earlier in the year in North America. The Mazda MPV, introduced in June 1999, recorded a 32% increase in unit sales over the previous year. The freshened Roadster, introduced in July 2000, increased 16% in unit sales. Freshened vehicles such as Millenia and Titan exceeded previous sales levels.

The introduction of Tribute in August 2000 led Mazda's growth in sales and market share in the United States. In Canada, total unit sales reached a record high, up 26.1%, making Mazda the No. 3 Japanese import brand. As of July 2001, Mazda has recorded year-on-year sales increases for 37 consecutive months.

In Europe, unit sales were down 12.6%, with Mazda's market share declining 0.1 percentage points to 1.2%, primarily because of the strong yen against local currencies. A series of management initiatives are strengthening European operations overall, including the assumption of direct control of distribution in designated markets in the region, such as Spain and Italy.

Unit sales were up 32% in Taiwan, up 52% in Thailand and up 16% in Israel. In addition, together with our local partner, First Auto Works (FAW) Hainan Motor, we initiated production and sales of Premacy in Hainan Province in China in May and June 2001, respectively, with plans to reach 20,000 units per year in the future.

### Mazda Millennium Plan

The Millennium Plan is an important strategy with clear mid-term objectives to help us compete successfully and profitably in an increasingly competitive environment. While the plan will evolve over time to meet changing conditions and operational requirements, its four core pillars will remain in place: Growing the Business, Restructuring and Reform, Creating Synergies with Ford, and Enabling Our People.

## Growing the Business

To grow our business, we are concentrating on promoting and implementing our brand strategy and on incorporating into our products Mazda's brand DNA, defined as "Stylish, Insightful and Spirited." We have developed one of the clearest brand-building plans in the industry. To build momentum, we will increase product development spending by 30% over the next five years (as compared with the previous five-year period). We are developing next-generation products that fully embody Mazda's Product DNA: that is Distinctive Design, Exceptional Functionality, Responsive Handling and Performance. Over the next three years, we will introduce 16 new models in Japan, 11 new models in North America and 9 new models in Europe.

We are also strengthening our sales and distribution networks in

distribution in several key markets. In fiscal 1999, we took over distribution in Spain and Italy. We have just completed acquisitions of distribution rights in France and the United Kingdom, and we are in negotiations in two other markets. We expect to achieve distribution control by the end of 2001 in markets that represent more than 70% of our sales in Europe.

## Restructuring and Reform

Mazda has made significant structural progress to restore the company to a position of strength.

We have further restructured our manufacturing capacities to adjust to a changing market environment worldwide. As part of the Millennium Plan, we announced the closure of the Ujina Plant Number 2 in Hiroshima, which will reduce domestic production

# OPTIMAL GROWTH

major markets around the world. In Japan, we will continue to focus on improving financial performance, showroom environments and sales processes at dealer outlets. We will upgrade facilities and implement the Mazda Excellent Program, which rewards dealers for customer satisfaction.

Mazda's Build-to-Order (BTO) website for Familia S-Wagon and Roadster is a successful example of the innovative ways in which we are using e-business. Mazda is the first Japanese automobile manufacturer to introduce such a system. BTO provides customers with the ability to personalize their order, and as such, it is a great value-add. In the future, we aim to promote e-business further and realize true one-to-one customer care through customer relationship management.

In North America, we are working with dealers to improve market share, customer satisfaction and the Mazda brand—all supported by incentives available under the recently introduced Mazda Elite Program. Also, we are working closely with Ford to increase the operation rate at the AutoAlliance International, Inc. (AAI) production facility, a joint operation between Ford and Mazda. This includes the introduction by Mazda of a new product line next year.

In Europe, we are taking actions to reinforce sales and customer satisfaction, while starting to reposition the brand consistently across all European markets. One of our plans is to assume direct control of

capacity by 25%. This was a tough decision, but crucial to the future performance of the company. To meet European market needs and reduce our exposure to volatile foreign currency fluctuations, we will begin production of our next-generation small car in early 2003 at Ford of Europe's plant in Valencia, Spain.

We have also begun to implement measures to optimize our workforce. During the year, we implemented an Early Retirement Special Program in Japan for which 2,210 indirect employees applied and retired effective March 30, 2001. This had an adverse impact on



profits in fiscal 2000, but it will enable the company to move forward in the future with a more efficient cost structure and a flatter, more nimble organization.

We are instituting policies to eliminate bureaucracy and drive decision-making authority, accountability and responsibility to all levels of the organization. We are also using intranet technology to streamline approval processes. This will enable our people to work smarter and faster.

### Creating Synergies with Ford

Mazda is a distinctive, global brand and a unique member of the Ford Motor Company Group. We possess world-class strengths in product engineering and manufacturing. To tap this expertise, Ford has

them. Under the Millennium Plan, we will continue this education process to ensure employees throughout the Mazda organization understand and support the business policies, strategies and plans and commit quickly to achieve business objectives.

To improve employee motivation and morale, we have introduced a significant change in the compensation system for management grades. Remuneration is now linked not only to financial goals, but also to quantitative improvements in customer satisfaction. From the current fiscal year, we will implement appraisal systems that define business objective-aligned conduct that Mazda expects every middle manager to demonstrate.

In 2001, we introduced a stock-option plan to align management actions with shareholder expectations. This measure acts as an

# IN TODAY'S MARKET

designated Mazda as its "global center of excellence" for the development of large I4 engines and for front-wheel-drive, mid-size vehicle technologies and architectures.

Eventually, Mazda and Ford will manufacture more than two million large I4 engines annually at four production facilities around the world and distribute them to Ford Group companies for installation in cars and trucks.

We are optimizing the use of both Mazda and Ford resources to maximize synergies throughout our business and around the world. On the manufacturing side, left-hand drive Mazda Tribute and Ford Escape/Maverick are being produced at Ford's Kansas City Assembly Plant, while right-hand drive Tribute and Escape/Maverick are being produced at Mazda's Hofu Plant.

Production of our new small cars will take place at Ford's facility in Europe. In addition, we will continue to pursue distribution, logistics, e-business and human resource development synergies among Ford Group members. Benefits are already being felt in North America, Europe, Taiwan, New Zealand, Thailand, Australia, Italy, Argentina, Russia and the Andina markets in South America. Our strong partnership with Ford will enable Mazda to focus resources and deliver economy-of-scale benefits that would otherwise be impossible.

### Enabling Our People

At Mazda, we recognize the intricate link between our business success and the leadership skills of all our employees around the world. Accordingly, we are working to create leaders at all levels.

In July 2000, we launched the Mazda Business Leader Development (MBLD) program, a systematic approach to raise employee awareness and understanding of the Mazda business: the challenges we face and the strategies in place to deal with

incentive to management to target shareholder value improvements.

We are upgrading training programs across-the-board. We are also continuing to enhance opportunities for women in the workplace, along with developing a proactive, future-oriented corporate culture, stressing diversity and career planning to produce the next generation of leaders.

### Forecast for 2001 and Beyond

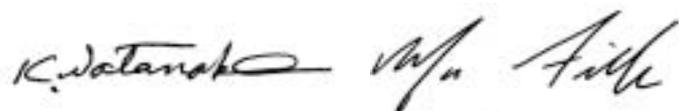
Fiscal 2001 will be a year of transition. It will also be a year in which we continue to invest in future products that will enter the marketplace in 2002 and beyond. It is the year in which we must deliver on operational and financial commitments, including net breakeven and positive cash flow.

Further operational commitments include:

- Increasing customer satisfaction
- Executing product plans in line with targets
- Realizing solid advances in distribution
- Building on positive progress with domestic dealers
- Empowering Mazda people
- Further leveraging e-business tools

We have identified fiscal 2001 as a year of "Mastering Execution and Delivering on Our Commitments." We recognize the urgent need for change and have corrective measures in place under the Millennium Plan. We will continue to build a "track record" focusing on execution, decisiveness, simplifying the organization for speed, and upholding our commitment to our customers, dealers and shareholders.

Mazda has a strong heritage as an innovative global company and we have set out to recapture the energy, the spirit and the competitiveness—the spark—necessary to succeed in the future.



Kazuhide Watanabe - Chairman

Mark Fields - President