FINANCIAL REPORT 2023

YEAR ENDED MARCH 31, 2023

CONTENTS

MANAGEMENT POLICY, BUSINESS ENVIRONMENT, ISSUES TO BE ADDRESSED, ETC.

1. Basic Policy of Company Management

Mazda Motor Corporation (hereinafter "Mazda" or "the Company") has established the following Corporate Vision in an effort to earn the trust of customers and other stakeholders and to be a brand that they will continue to choose, and also to pursue business activities in a unified manner:

We love cars and want people to enjoy fulfilling lives through cars.
We envision cars existing sustainably with the earth and society,
and we will continue to tackle challenges with creative ideas.

1. Brighten people's lives through car ownership.
2. Offer cars that are sustainable with the earth and society to more people.
3. Embrace challenges and seek to master the Doh ("Way" or "Path") of creativity.

2. Business Environment and Issues to be Addressed

(1) Medium-term Management Plan (Fiscal year ended March 2020 through Fiscal year ending March 2026)

To guide Mazda through this key period of transformation, and achieve sustainable growth, the Company has formulated a Medium-term Management Plan in accordance with "Mazda's uniqueness of co-creating with others," our core policy, and is steadily implementing initiatives under this plan.

Medium-term Management Plan Key Initiatives

- ■ Invest in brand value improvement
  - Invest in unique products, technologies, production, and customer experience -
    - · Continued investment with further efficiency and leveling
    - · Staggered launch of new products/derivatives at planned intervals
    - · Continued product upgrades
- ■ Curb expenditure that depreciates brand value
- ■ Accelerate fixed cost/cost reductions to lower break-even volume
- ■ Invest in areas where we need to catch up and start investing in new areas
- ■ Enhance alliances (CASE*[1], new partnerships)

We will strive to achieve strong growth by leveraging the assets we have built to date and accelerate efforts to achieve a resilient management structure capable of withstanding major changes over time. With our sights set on 2030 to realize the Company's long-term vision for technology development, "Sustainable Zoom-Zoom 2030," we are now working on the transformation of our business structure, bearing in mind changes in the business environment due to the worldwide tightening and acceleration of environmental regulations and competition in new value creation in an era characterized by CASE.

Medium-term Management Plan Financial Metrics

Key financial metrics for the fiscal year ending March 2026, the final year of the Medium-term Management Plan are as follows.

Net sales	· About 4.5 trillion yen
Profit	· Operating return on sales (ROS) 5% or higher
	· Return on equity (ROE) 10% or higher
Investment for future	· Capex and R&D: 7-8% of revenue or less
	· Actions for electrification, IT and carbon neutrality
Financial structure	· Maintenance of a net cash position*2
Shareholder return	· Sustainable payout ratio of 30% or higher
Break-even volume	· About 1 million units (wholesales)

*1. CASE: General term for a group of new technologies that include Connected, Autonomous driving, Shared services, and Electric technologies

*2. The state of maintaining positive total cash amount after the deduction of interest-bearing debt from cash and cash equivalents

(2) Management Policy for 2030

Under our Medium-term Management Plan, we have been promoting initiatives to achieve our financial targets for the fiscal year ending in March 2026. In view of the increasing uncertainty of the business environment including the growing trend toward the introduction of environmental regulations in various countries, improvements in social infrastructure, changes in the power supply mix, and the diversification of customer values, in November 2022, we extended our outlook until the year 2030 and presented our new management policy and main initiatives based on world trends.

Basic Management Policy

1. Contribute to solving the social problem of global warming through electrification appropriate to regional characteristics and environmental needs
2. Contribute to realizing a safe and secure automotive society by promoting research for attaining a deep understanding of people and shedding light on the relationship between people and cars
3. Be the brand preferred by customers through brand value management that provides unique Mazda value

Dividing the period until 2030 into three phases, we will flexibly respond to uncertain changes in society.

Phase 1 (2022-2024): Strengthening of the business foundation using accumulated assets
Phase 2 (2025-2027): Transition to electrification
Phase 3 (2028-2030): Full-scale launch of BEVs

Initiatives for Opening the Future

1. Initiatives for achieving carbon neutrality

To achieve our goal of becoming carbon neutral (CN)*3 by the year 2050, we have established "achieving

CN in Mazda factories around the globe by 2035" as a medium-term goal and will promote initiatives under the three pillars of energy conservation, shift to renewable energies, and use of CN fuels. As measures for the supply chain*4 will also be necessary, we will also promote activities to reduce CO_2 emissions in stages in cooperation with transport companies and business partners. In Japan, we will make efforts to restructure our supply chain and expand the use of CN fuels.

2. Initiatives in electrification in each phase

During the period of transition to EVs, we believe a multi-solution approach whereby we provide a range of products such as EVs, plug-in hybrids, and hybrids to suit power generation conditions in each region will be effective. On the other hand, in view of electrification policies and the tightening of regulations in various countries, we expect Mazda's EV ratio in our global sales in 2030 to be 25 to 40%, and intend to promote electrification with partner companies in stages.

Phase 1 (2022-2024): Strengthening of the business foundation using accumulated assets
Making full use of our existing assets of multi-electrification technologies, we will launch attractive products while also meeting market regulations. While launching Large Products offering plug-in hybrids and diesel engines with mild hybrid system that achieve excellent environmental and driving performance, we will improve our profitability and step up the development of technologies for BEVs.

Phase 2 (2025-2027): Transition to electrification
In efforts to reduce CO_2 through improvements in fuel efficiency during the period of transition to electrification, we will further refine the multi-electrification technologies we have developed to date and introduce new hybrid systems. In addition to introducing pure battery EVs in the Chinese market where electrification is advanced, we will begin to introduce EVs globally. In consideration of the potential widespread use of renewable fuels, we will enhance to the utmost the performance of internal combustion engines through the application of technologies to further improve thermal efficiency.

Furthermore, for the sustainable development of local economies as electrification advances, Mazda has established a 4-way joint venture with Ondo Corporation, Hiroshima Aluminum Industry Co., Ltd. and HIROTEC Corporation to develop highly efficient production technology for electric drive units and establish production and supply systems for these. To enhance the driving experience and the sheer joy of driving, Mazda also entered into a joint development agreement with Imasen Electric Industrial Co., Ltd. and ROHM Co., Ltd. to develop inverters, which are a key component of electric drive systems, and established a joint venture with Imasen Electric. Mazda also concluded a joint development agreement with Fukuta Electric & Machinery Co., Ltd. to develop advanced motor technologies, while also establishing a joint venture company with Fukuta Electric & Machinery and Chuo Kaseihin Co., Inc.

During Phase 1 and Phase 2, Mazda will procure batteries from partner companies while continuing in-house research and development of advanced battery technology adopted by Green Innovation Fund Projects.*5 In addition to its purchasing arrangements with existing partner companies, Mazda also recently entered into an agreement with Envision AESC Japan to purchase batteries for EVs to be produced in Japan.

Phase 3 (2028-2030): Full-scale launch of BEVs

As we move forward with the full-fledged introduction of pure battery EV models, we will shift our focus to full-scale electrification and will also consider various options including investment in battery production, based on changes in the external environment and progress in strengthening our financial base.

3. Initiatives in value creation through co-creation between people and IT

In line with our "human-centered" philosophy, we will continue to invest in human research and draw out the full potential of people using our capability in model-based research and development.*[6] Furthermore, under Mazda Proactive Safety, our safety philosophy based on avoidance of risk itself rather than dealing with a risk event after it occurs, we will continue to develop advanced driver-assist technologies using IT technologies to make cars that provide safety and security for drivers, passengers and people in the vicinity of Mazda cars with the goal of completely eliminating by 2040 all fatal accidents caused by any new Mazda, which can be avoided through automotive technologies.

As part of our investment in people, we are promoting reforms together with Aidemy Inc. to ensure all indirect employees attain a certain level of competency in AI and IT by 2030.

Furthermore, by 2030, we will double productivity by developing work process models and we will allocate management resources we generate to work with higher added value.

4. Cost reduction and supply chain resilience

In cost reductions, we will broaden the current scope of costs of products and manufacturing to include the entire supply chain and value chain*[7] as a whole to gain a comprehensive view of costs and we will make changes that will allow us to structure our costs based on measures to eliminate inefficiency, inconsistency and waste.

In our supply chain, we will make efforts not only to make individual improvements in all processes from material procurement to delivery to customers, but also realize a "total optimization process" that facilitates the smooth uninterrupted flow of goods at maximum speed. In addition, we are working on innovative changes in our procurement system, which include fewer tiers in the procurement of materials and parts and bringing the production sites of variety of parts closer to our production facilities. We are also working to expand the use of general-purpose materials and semiconductors. In this way, we intend to minimize the impact of changes in the external environment including geopolitical risks, pandemics, and large-scale disasters such as earthquakes.

*3. A method and system of energy use whereby carbon emissions are offset through carbon absorption or removal to prevent any change in the total amount of carbon on the earth

*4. The series of processes until the product reaches the consumer including procurement, manufacturing, inventory management, delivery, sales, and consumption

*5. A fund of two trillion yen established by the Ministry of Economy, Trade and Industry (METI) under its Green Growth Strategy for Achieving Carbon Neutrality in 2050 and assigned to the New Energy and Industrial Technology Development Organization (NEDO) to create a virtuous cycle between the economy and the environment

*6. An efficient development technique that uses desk-top simulation as the main method of verification in development, thereby minimizing the number of prototypes and actual unit evaluations required

*7. A series of business activities for creating added value for products such as product planning, design, development, production engineering, manufacturing, sales, and services

Note: The forward-looking statements in this section are based on the judgments of the Group as of the issue date of this report. As such, the statements may differ from the actual results and their achievements are not guaranteed in any way.

APPROACHES TO AND INITIATIVES FOR SUSTAINABILITY

The Mazda Group's approaches to and initiatives for sustainability are as follows.
The forward-looking statements in this section are based on the judgments of the Group as of the issue date of this report.

1. Basic Policy on Sustainability

While striving to sincerely meet the needs and expectations of all stakeholders under our corporate vision, Mazda aims for sustainable growth as a company through our global business activities. We are determined to contribute to the sustainable development of society through efforts to resolve various social issues by making the most of our strengths.

2. Governance

In order to deliberate the sustainability activities that are expected of the Company from a global perspective, in consideration of changes in social environment, the Mazda Group has established the CSR Management Strategy Committee, which meets on a regular basis. The CSR Management Strategy Committee, which the Representative Director and President chairs, is composed of members of the Executive Committee, and reviews and identifies key issues (materiality) as well as discusses social needs and trends, external evaluation analysis results, etc. Each department carries out its operations based on goals and plans formulated with an understanding of the policies and guidelines determined by the CSR Management Strategy Committee, and in cooperation with other Group companies. Furthermore, the Board of Directors receives reports and holds discussions on issues concerning sustainability appropriately in a timely manner.

3. Strategy and Risk Management

The Mazda Group has reviewed and identified key issues, taking into account two perspectives. One is the impact on stakeholders in reference to the SDGs adopted by the United Nations and the details of surveys conducted by global ESG rating organizations, and the other is the impact on the Mazda Group (risks and opportunities), for instance, business initiatives toward realizing the Medium-term Management Plan. A specific action plan is currently being prepared to ensure steady implementation of the materiality themes identified and follow up on the progress. The materiality that Mazda recently identified and an action plan that will be formulated henceforth will be disclosed to stakeholders. By periodically evaluating and revising this materiality and plan, Mazda will develop the PDCA (plan-do-check-act) process.

Eight themes of materiality

"Earth"
- Endeavor for carbon neutrality by 2050
- Resource circulation

"People"
- Contribution to people's mental wellness
- Improving employee job satisfaction

"Society"
- Realizing a motorized society free from traffic accidents

- Creating a system that enriches people’s lives

Common to “Earth,” “People,” and “Society”

- Quality improvement
- Exploring partnerships for “co-creation with others”

For information on materiality review and identification process, please refer to the “MAZDA SUSTAINABILITY REPORT 2022” (page 10) published in December 2022.
(https://www.mazda.com/globalassets/en/assets/sustainability/download/2022/2022e_all.pdf)

4. Response to TCFD [*1]

Outline of the major initiatives in accordance with the TCFD recommendations [*2] is as follows. For more details, please refer to the website below.
(https://www.mazda.com/globalassets/en/assets/sustainability/download/disclosure/tcfd_20230614.pdf)

[Basic Views]

In May 2019, the Mazda Group declared its support for the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) and joined the TCFD Consortium,[*3] showing its commitment to strengthening its efforts to address climate change. In addition, in January 2021, the Company announced that it would endeavor to achieve carbon neutrality throughout the entire supply chain by 2050. Mazda’s major initiatives to address climate change in accordance with the TCFD recommendations are as follows.

(1) Governance

<Transition Risk>

Taking on the challenge of achieving carbon neutrality by 2050, we have assigned a director to oversee Mazda’s decarbonization strategy and executive officers to be in charge of carbon neutrality. In 2021, Mazda formed a specialized team (hereinafter referred to as Specialized Team) dedicated to carbon neutrality matters. At its head is the Corporate Strategy Office working closely with the Specialized Team composed of members involved in products, manufacturing, purchasing, logistics, sales and recycling. Under the supervision of the officers in charge of decarbonization, the Corporate Strategy Office has been leading the team, which formulated and promoted strategies from a Life Cycle Assessment (LCA) perspective for responding to risks and opportunities selected based on Intergovernmental Panel on Climate Change (IPCC) and International Energy Agency (IEA) scenarios and trends, while also considering the investment and expenses required for such initiatives and response schedules.

In April 2023, some of the functions of Corporate Strategy Office and Product Strategy Division were integrated to newly established Corporate Strategy Division, which has a new department to promote CN strategy. Under the leadership of this department, existing specialized team will formulate strategies in respective areas of expertise of its members and implement plans based on the strategies that have been formulated so far. In addition, in order to promote the execution of plans throughout the company, we have started the management to integrate CN into the existing ISO 14001 Environmental Management System (EMS). In the area of products and technologies, the newly established department in Corporate Strategy Division will promote planning consistent with company-wide strategies.

The CN strategies are deliberated[*4] over at the Executive Committee Meetings and the Board of Directors attended by the Representative Director and President. Also, issues concerning sustainability including the initiative for climate change are reported to the Board of Directors in a timely and appropriate manner.

<Physical Risk>

Torrential rain disaster response, which is an acute physical risk associated with climate change, has been managed as part of our Business Continuity Plan (BCP) under our emergency risk management structure.

In addition, in response to concerns about storm surges and water depletion, which are chronic physical risks, we are promoting reinforcement of seawall infrastructure and water resources conservation efforts in our operation led by the specialized departments.

(2) Strategy

Based on IPCC and IEA scenarios, policy and regulatory trends, and industry trends, Mazda formulated a scenario based on its own assumptions and recognized the following as the main risks and opportunities.

<Major Risks and Opportunities>

Transition Risks	Policy and Legal	・Stricter regulations on fuel economy and exhaust gas emissions, carbon pricing, including introduction of carbon tax
	Technology	・Increase in resources to develop electrification technologies, including electric drive system or batteries
	Market	・Rise in raw material prices for electrification and weight reduction and tight procurement of semiconductor components ・Energy price spikes and supply instability due to tight fossil fuel and renewable energy supplies caused by political conditions and market forces
	Reputation	・Implications on investment decisions considering ESG by investors
Physical Risks	Acute	・Damage by torrential rain, production halts caused by supply chain disruptions, Health hazards caused by heat waves
	Chronic	・Increasing impact of production halts due to severe and frequent natural disasters, Higher frequency of high tide caused by rising sea levels, Water resources depletion and rising water prices necessary for operations, Spread of tropical plagues

Opportunities	Resource Efficiency	・Efficient use of raw materials through thorough material recycling
	Energy Source	・Stable reception of carbon neutral electricity by promoting the expansion of demand and supply of electricity ・Diverse selection of renewable energy sources
	Products and Services, Markets	・Deployment of products that suit each region through building block concept and multi-solution ・Diversification of products that adapt to next-generation automobile fuels (alternative fuels such as biofuels, synthetic fuels, etc.) ・Expansion of market opportunities through deployment of product that suit each region and diversification of products

(3) Risk Management

<Transition Risk>

We have identified major risks and opportunities based on scenarios from the IPCC and the IEA, government policies, regulatory and industry trends. Sharing progress and issues of initiatives in a bi-weekly meeting, the Specialized Team works to identify risks and conduct assessment processes. Strategies discussed during the meeting are deliberated over at the Executive Committee Meetings and the board of Directors attended by the Representative Director and President.

In addition, Mazda regularly shares information on climate-related risks with suppliers through a shared platform.

<Physical Risk>

We have established a system for rapid response to torrential rain and other disasters, and have been managing them as part of our BCP in the context of an emergency risk management system. In addition to these efforts, as torrential rain disasters have become more severe and frequent in recent years, we are enhancing our ability to collect weather forecasts and making it possible to make quick disaster prevention decisions based on a predetermined time schedule. In addition, we review our response every heavy rain season to improve our response capabilities.

In response to concerns about storm surges and water resources depletion, we are promoting reinforcement of seawall infrastructure and water conservation efforts in the practice of specialized departments.

In response to the heat waves that have become more frequent in recent years, we regularly measure and evaluate the heat environment of each workplace as part of employee health management, which leads to the maintenance and management of appropriate air conditioning equipment. In addition, we use heat insulating materials and heat-insulating paints in our buildings as environmentally friendly measures.

As a measure against the spread of the epidemic, we developed a working rule to assume that employees and other families living with them become infected.

(4) Metrics and Targets

・GHG emissions of Scope 1, 2 and 3[*5]

For the fiscal year ended March 2022 results, please refer to the "MAZDA SUSTAINABILITY REPORT 2022" (page 113) published in December 2022.
(https://www.mazda.com/globalassets/en/assets/sustainability/download/2022/2022e_all.pdf)

・Water consumption

For the fiscal year ended March 2022 results, please refer to the "MAZDA SUSTAINABILITY REPORT 2022" (page 116) published in December 2022.
(https://www.mazda.com/globalassets/en/assets/sustainability/download/2022/2022e_all.pdf)

・Major Metrics and Targets

<Addressing Global Warming>

Products	Targets: Achieving carbon neutrality by 2050 Mid-term metrics in 2030: EV ratio (Expecting 100% of Mazda global sales vehicles will be electrified, and the EV ratio will be 25-40% in 2030.)
Manufacturing	Targets: Achieving carbon neutrality at Mazda's global factories by 2035 Metrics: Factory's decarbonization progress ratio

＜Conservation of Water Resources＞

Manufacturing	Targets: Reducing water intake by entire Mazda Group companies in Japan by 38% in 2030 compared with 2013 Metrics: Water intake reduction ratio

*1. TCFD：Task Force on Climate-related Financial Disclosures
A private sector organization set up by the Financial Stability Board (FSB), in response to the request from the G20 Finance Ministers and Central Bank Governors

*2. Source: https://tcfd-consortium.jp/en/about

*3. An organization established in Japan, aimed at holding discussions regarding climate change on effective corporate information disclosure and efforts for leading disclosed information to appropriate decision-making on investment by financial institutes and other entities. The Ministry of Economy, Trade and Industry, the Financial Services Agency, and the Ministry of the Environment participate in the consortium as observers.

*4. As of June 2023, reported and debated 4 times at the Board of Directors.

*5. Scope 1: Direct emissions from consumption of fuels and industrial processes. Scope 2: Emissions associated with consumption of purchased heat/electricity (indirect emissions from energy consumption).

Scope 3: Other indirect emissions excluding Scope 1 and 2

5. Initiatives for Human Capital (Including Diversity of Human Resources)

(1) Strategy

The Mazda Group believes that people are its most valuable management resource, and aims to be a company where all employees can play more active roles as individuals and demonstrate their greater potential. Recognizing the value of "co-creating with others," the Mazda Group respects the diversity of its employees. This includes diversity in race, nationality, creed, gender, social status, family origin, age, mental or physical disabilities, sexual orientation, and gender identity. The Mazda Group is also committed to promoting initiatives to improve the work styles, workplace environment and treatment of employees, and to enhance employee motivation and operational efficiency from the viewpoint of total optimization.

To encourage a virtuous cycle of growth, employment, and distribution, the Mazda Group will return the results of its growth to the stakeholders while maintaining employment, as well as sustainably provide returns to the employees.

Specifically, from the perspective of stabilizing employment, improving the quality of life, and developing human resources, the Group will flexibly provide returns to employees, including wage increases in consideration of the current situation of the company.

As one way of providing returns, the Group is planning and making investments in human resources including education in addition to improving working conditions. One example is that the Group has started investing in the development of "digital human resources." The Group will continue to make investments that lead to its growth, including support for employees' capacity development. By doing so, the Group will facilitate employees' performance and growth.

For the status of implementation of human resource development systems and improvement in the internal environment for these purposes, please refer to the "MAZDA SUSTAINABILITY REPORT 2022" (pages 42-63, and pages 119-123) published in December 2022.

(https://www.mazda.com/globalassets/en/assets/sustainability/download/2022/2022e_all.pdf)

(2) Indicators and Targets (Submitting Company)

As stated in (1) Strategy above, Mazda's policy is to appoint personnel based on their individual abilities and achievements regardless of employee attributes. Therefore, Mazda has set no voluntary and measurable targets other than targets for the number of female managers, and the number of male employees taking childcare leave.

<Increasing the employment and range of opportunities for female employees>

Mazda is working to create a workplace that is a comfortable working environment for women to work by improving work-life balance measures. In 2021, in accordance with the Act on Promotion of Women's Active Engagement in Professional Life and the Act on Advancement of Measures to Support Raising Next-Generation Children, Mazda submitted an employer's action plan with numerical targets for increasing the number of female managers to 80 by the end of the fiscal year ending March 2026 (approximately four-fold the number as of the end of the fiscal year ended March 2015) and increasing the number of male employees taking childcare leave[*6] to 80 per year by the fiscal year ending March 2026 (approximately twice the number in the fiscal year ended March 2021).

Steady progress is being achieved in realizing these targets. As of March 31, 2023, there were 65 female employees in managerial positions and 117 male employees taking childcare leave.[*6] In addition to formulating and promoting individual development plans for female employees who are candidates for promotion, Mazda will continue its efforts to further accelerate women's active engagement by launching company-wide notification, operational review, and awareness-raising activities for the child-rearing leave system, including that for male employees.

*6. These figures do not include the number of employees who took childcare paid leave under Mazda's own system and the number of employees who took "Childcare Leave at Birth" effective October 2022 under the amended Childcare and Family Care Leave Act.

BUSINESS RISKS

Significant risks that could affect the Mazda Group's business results and financial position include those listed below. This list, however, shows the main anticipated risks and does not represent a comprehensive list of all the risks to be faced by the Group. The forward-looking statements in this section are based on the judgments of the Group as of the issue date of this report.

Risks Related to the Markets and Business

1. Economic Conditions Impacting the Group

Selling its products in Japan and other parts of the world, including in North America, Europe, and Asia, the Group is greatly impacted by economic trends and fluctuations in demand in each of its markets. Therefore, the Group's business results and financial position could be adversely affected by, for example, an economic downturn, recession, changes in demand structure, declining demand, intensifying price competition in its main markets, and strengthened policies on export control, data protection, etc. in the United States and China as economic security, which would lead to costs incurred to support business activities such as production, development, purchasing, and sales.

2. Procurement of Materials and Components

The Group relies on numerous suppliers for the purchase of materials and components. Looking at the entire supply chain from a comprehensive viewpoint, the Group will make our supply chain resilient to changes in the environment through the measures to eliminate inefficiency, inconsistency and waste, including maximizing the speed of material procurement and bringing the production sites of variety of parts closer to its production facilities. During the fiscal year under review, production volume declined due to logistics disruption caused by the lockdown in Shanghai in the first quarter and constraints on components purchase due to unstable semiconductor supply. In future, the Group may also face difficulties in procuring the necessary level of materials and components for volume production, due to a semiconductor supply shortage; supply constraints or reduced logistics functions in the event of component suppliers being affected by a disaster; or tight supply balances or changes to or breaches of supply contracts. Should procured materials and components be of insufficient quality, the possibility exists of a deterioration in output. The abovementioned factors could adversely affect the Group's business results and financial position.

3. Alliances and Joint Ventures

The Group is performing or examining joint activities with other companies under technology alliances, joint ventures, and in other forms with respect to the development, production, and sales of products. These joint activities are designed to optimize resources, facilitate their prioritization, and generate synergies. However, in the event of a disagreement over management, financial, or other matters between the parties involved, or in the event that the expected results were not produced due to such factors as changes to or terminations of alliances and joint ventures, the Group's business results and financial position could be adversely affected. In addition, unintended changes to or terminations of alliances and joint ventures could have an adverse effect on the Group's business results and financial position.

4. Market Competitiveness

Automobile markets, in which the Group sells its products, are undergoing rapid changes in their industrial structures due to the expansion of new added-value businesses represented by connected technology, autonomous driving technology, shared services, and electrification technology, as well as a succession of new entrants from other industries, resulting in an increasingly competitive and diverse environment. Maintaining and enhancing the Group's ability to compete in these markets, which includes maintaining and developing the Mazda brand value, is crucial to ensuring growth. The Group is implementing a range of initiatives to boost its competitiveness in all areas, including product planning and development, manufacturing, and sales, in order to respond to these rapid changes. However, the Group's business results and financial position could be adversely affected, including declines in market share or product prices, in the event that the scope and speed of changes to the competitive environment exceed expectations or the Group fails to launch appealing products at opportune times as a result of issues related to technological capabilities and manufacturing. The same holds true if the Group fails to take effective steps to respond to changes in customer values and needs, which continue to rapidly diversify, through its dealership network or sales methods.

5. Protection of Intellectual Property

In order to maintain competitiveness, the Group is working to accumulate and protect technologies and expertise that help it to develop unique products. At the same time, the Group is taking steps to prevent the infringement of third-party intellectual property rights. Nonetheless, should differences in recognition or opinion lead to a disputed infringement of third-party intellectual property rights that results in the Group being forced to halt the production and sales of products, or needing to pay damages, this could also adversely affect the Group's business results and financial position. The Group's intellectual property is not subject to complete protection in certain regions. In the event that third parties use the Group's intellectual property rights on an unauthorized basis to produce similar products, the Group may have to pay substantial expenses for litigation, or experience a decline in sales due to an inability to offer unique products. This could adversely affect the Group's business results and financial position.

6. Product Quality

While striving to improve the quality of its products to meet the requirements of the market, the Group also does its utmost to ensure the safety of its products. However, in the event of a large-scale recall or other serious incidents, resulting from a defect in products due to unforeseen causes, including increased system complexity due to improved technologies and product functions, and software defects, the Group's business results and financial position could be adversely affected due to such factors as the incurring of significant costs, the Group's diminished brand image, and loss of market trust.

7. Dependence on Information Technology

In the course of various business activities such as development, production, and sales of products, the Group utilizes information technology, networks, and systems. The Group's products are also equipped with these technologies, including a driving support system, etc. Despite countermeasures implemented in information technology, networks, and systems to allow safe operations, such factors as failures in infrastructure, cyberattacks that outpace the Group's countermeasures, and infection by computer viruses may result in suspension of business activities, loss of data, leakage of confidential information, and deterioration in product functions. Should these events occur, the Group's business results and financial position could be adversely affected due to the incurring of costs associated with countermeasures, loss of product credibility, and damage to the brand image, etc.

8. Compliance and Reputation

In order to comply with laws and regulations in all business areas, the Group has taken preventive measures regarding compliance violations by educating its employees on laws and regulations related to their work and implementing activities for raising compliance awareness. In addition, in the event of a compliance-related incident being detected, the Group has a rapid response system in place to prevent any impact on the Group's social credibility and reputation. However, the Group cannot guarantee that there is no possibility of a legal violation occurring in the future. Should there be evidence of an illegal act or should the rapidity and content of the response prove insufficient, the Group's social credibility and reputation could be harmed, and the Group's business results and financial position could be adversely affected.

9. Climate Change

For information on risks that climate change poses to the Group's business, please refer to APPROACHES TO AND INITIATIVES FOR SUSTAINABILITY, 4. Response to TCFD stated in pages 7-10 of this report.

10. Securing and Development of Personnel

The Group believes that people are its most valuable management resource, and aims to be a company where all employees can play more active roles as individuals and demonstrate their greater potential. In order to meet the demand of the times as represented by CASE and carbon neutrality, the Group will proactively aim to secure human resources who can play active roles in highly specialized areas. At the same time, to enable employees with diverse values to play active roles to their fullest potential, the Group will also promote to strengthen personnel development based on the diversification of work styles and establish working conditions and an environment in which employees can work autonomously, and to foster a corporate culture and climate where they can decisively take on the challenge of creating new value.

However, should the Group be unable to hire personnel as planned due to intensified competition for recruitment, or should the Group's personnel leave the Group without being able to play active roles due to increased mobility of human resources or inadequate personnel development, environment, or corporate climate established by the Group, the Group's management and business activities could be affected over the medium and long term.

Risks Related to Finance and Economy

1. Fluctuations in Exchange Rates

The Group is engaged in business activities on a global scale. The Group not only exports products from Japan to other parts of the world but also exports products manufactured at overseas plants to other markets in the world. These transactions are conducted in various currencies, and consequently its business results and financial position are exposed to the effects of fluctuations in exchange rates. In addition, as overseas assets and liabilities denominated in local currencies are translated into yen, there could be an adverse effect on shareholders' equity through foreign currency translation adjustments due to exchange rate fluctuations. The

Group uses forward exchange contracts and other instruments to minimize the impact of short-term exchange rate risk. However, depending on the circumstances of fluctuations in exchange rates, loss of opportunity could be generated.

2. Increase in Material Prices

The Group relies on multiple suppliers for the purchase of materials and components. If the material prices and logistics expenses, as well as energy and labor costs required for suppliers to produce components rise due to the increased geopolitical risks and tight supply balances, and the Group is unable to absorb the effects of these—for example, by making internal efforts to boost productivity for reducing production costs or passing on the rises to product prices, the Group’s business results and financial position could be adversely affected.

3. Changes in Financing Procurement Environment and Interest Rate Fluctuations

In addition to loans from banks, the Group has been raising funds by issuing its shares and bonds. However, in the event of turmoil in financial markets, tax reforms or institutional changes being made to government-affiliated financial organizations, or the downgrading of the Group’s credit rating, the Group’s business results and financial position could be adversely affected due to such factors as the increased funding costs and the difficulties associated with raising money for the amount of funds required. Moreover, factoring in the effect of interest rate changes on the Group’s interest-bearing debt, were the costs of financing to increase due to a rise in interest rates, the Group’s business results and financial position could also be adversely affected. In the event that any deterioration in the Group’s financial standing were to infringe upon the financial covenants of some of the loans and lead to the forfeiture of the benefit of time, the Group’s business results and financial position could be adversely affected.

Risks Related to Politics, Regulations, Legal Procedures, Disasters, etc.

1. Statutory Regulations Covering the Environment

In addition to being subject to environmental regulations pertaining to fuel consumption and exhaust emissions, automobile safety, and the pollutant emission levels from manufacturing plants, the Group’s operations in each country where it does business are subject to various statutory regulations, such as labor regulations. In particular, the demand for carbon neutrality is accelerating around the world. In order to fulfill its responsibility to society as a company, the Group is working to reduce CO_2 emissions from a well-to-wheel (from fuel extraction to driving) perspective, as well as from a life cycle assessment (LCA) perspective, which covers from automobile production, to logistics, disposal, and recycling. We are working to resolve issues with multi-electrification solutions based on the electric power generating infrastructure and usage environment of each country, as well as the diversity of customers and their needs. However, going forward, the Group’s business results and financial position could be adversely affected by the increased costs associated with even more stringent statutory and political regulations in Europe, the United States, and other regions.

2. International Business Activities

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

- Adverse political and economic developments
- Impediments arising from changes in laws and regulations
- Import/export regulations, such as tariffs, detrimental taxes, and other regulations
- Tight product logistics due to more stringent quarantine and vessel shortages, etc.
- Difficulties in attracting and securing personnel
- Undeveloped infrastructure
- Strikes and other labor disputes
- Terrorist incidents, war, disease such as the novel coronavirus infections, and other factors leading to social disorder or restrictions

3. Natural Disasters and Accidents

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

MANAGEMENT'S ANALYSIS OF BUSINESS RESULTS, FINANCIAL POSITION, AND CASH FLOWS

1. Business Results

In the business environment surrounding the Mazda Group in the fiscal year ended March 31, 2023, economic activities gradually resumed following the lifting of COVID-19 restrictions around the world. During this time, the Japanese government also made progress in easing restrictions on movement. Although economic activities are beginning to return to their pre-pandemic level, the outlook remains uncertain due to factors such as the prolonged Russia and Ukraine crisis, surges in resource prices, turmoil in the supply chain, and fluctuations in the financial market.

Under these conditions, despite a deterioration in the external environment marked by surges in material prices and logistics costs, the lockdown in Shanghai, and a decline in production and shipment volumes due mainly to shortages in semiconductors and transport vessels, the Mazda Group steadily improved its profit base by implementing group-wide initiatives to improve per-unit profit, curb costs, reduce marketing expenses, improve fixed cost efficiency, and redesign components to expand the use of general-purpose semiconductors as a means of mitigating semiconductor shortages. Furthermore, during the first year of the period of strong growth earmarked in its Medium-term Management Plan, the Mazda Group worked to bring business on a growth trajectory and strengthen the financial base by capitalizing on assets developed during the foundation building period (fiscal year ended March 2020 through fiscal year ended March 2022) such as its U.S. plant, multi-electrification technologies, and Large Product lineup.

In April last year in North America, Mazda began sales of the Mazda CX-50, a new crossover SUV, and introduced the Mazda CX-60, an all-new crossover SUV, which is the first of Mazda's new generation Large Products, in Europe in August and in Japan in September last year. The CX-60 delivers smooth, powerful driving achieved through a newly developed longitudinal platform and a high-output powertrain, and the CX-60 is the first model equipped with Driver Emergency Assist, which uses advanced technology to automatically slow down and stop the car when it determines the driver is unable to continue driving due to loss of consciousness, and to make emergency calls. The CX-60 also has a "driver personalization system" with functions such as an automatic driving position guide. These technologies have been highly acclaimed and were selected for the 2022-2023 Japan Automotive Hall of Fame Car Technology of the Year.

Following on from the CX-60, in April 2023 in the U.S., Mazda introduced the Mazda CX-90, a new mid-sized crossover SUV and the second of the new generation Large Products. Mazda also plans to introduce two Large Products, the Mazda CX-70 and Mazda CX-80, in 2023. By expanding the SUV lineup to meet the characteristics of each market and customer needs, we will aim for further growth in our business and brand.

Global Sales

Global sales volume for the fiscal year ended March 31, 2023 was 1,110,000 units, down 11.3% year on year, as sales declined in all key markets except Japan, mainly due to reductions in production stemming from semiconductor supply shortages in the first half of the fiscal year and a shortage of car transport vessels.

Sales volumes in individual markets were as follows.

<Japan>

In Japan, thanks to the introduction of the CX-60 in September 2022 and an increase in sales of the updated Mazda CX-5 and the Mazda Roadster (MX-5), sales rose to 165,000 units, up 10.8% year on year.

<North America>

In the U.S., sales declined 9.3% year on year to 301,000 units, mainly due to the impact of reductions in production in the first half of the fiscal year. However, in addition to the CX-50, which went on sale in April 2022, the Mazda CX-30 and other SUV product lineups contributed to the increase in sales, resulting in the fourth quarter sales volume rising 7.4% year on year to 88,000 units. Sales in North America as a whole declined 7.4% year on year to 407,000 units, while sales of the Mazda2 and the CX-5 in Mexico increased.

<Europe>

Sales in Europe decreased 15.5% year on year to 160,000 units due to a decline in sales in Russia and Ukraine, as well as the impact of reductions in production in the first half of the fiscal year. As for the fourth quarter of the fiscal year, sales increased 20.9% year on year to 52,000 units, mainly due to an increase in sales of the Mazda2 Hybrid and the CX-60 plug-in hybrid model.

<China>

In China, completion of a round of key model cycles and intensifying price competition resulted in a 50.4% year-on-year fall in sales to 84,000 units.

<Other Markets>

In Australia, another key market, sales declined 11.7% year on year to 91,000 units due to delays in logistics stemming from stricter quarantine control at unloading ports. Sales in other markets as a whole fell 3.1% year on year to 294,000 units, mainly due to the ASEAN market being at the same level as the previous year, while sales in some countries like Vietnam increased.

Business Results

Financial performance on a consolidated basis for the fiscal year ended March 31, 2023 was as follows.

<Net Sales>

Net sales for the fiscal year ended March 31, 2023 totaled ¥3,826.8 billion, an increase of ¥706.5 billion, or 22.6% year on year, reflecting the increase in wholesales volume and the improvement of unit prices.

By region, domestic sales amounted to ¥622.9 billion, an increase of ¥53.4 billion, or 9.4% year on year, due to a rise in sales. Overseas sales amounted to ¥3,203.9 billion, an increase of ¥653.0 billion, or 25.6% year on year, mainly due to an increase in wholesales volume in the North American market.

By product, vehicle sales increased by ¥674.3 billion, or 26.1% year on year, to ¥3,255.5 billion thanks to the growth in wholesales volume, introduction of new SUV models and weaker yen, while sales of knock-down parts for overseas production declined by ¥25.0 billion, or 60.7% year on year, to ¥16.2 billion. Sales of parts increased by ¥58.0 billion, or 22.1% year on year, to ¥320.4 billion. Other sales fell ¥1.0 billion, or 0.4% year on year, to ¥234.7 billion.

<Operating Income>

In addition to an increase in net sales, improvement in sales quality and the effect of a weaker yen worked to offset the impact of surging raw material prices, resulting in an operating income of ¥142.0 billion, an increase of ¥37.8 billion, or 36.2% year on year, and a consolidated operating income ratio of 3.7%, an increase of 0.4 percentage points year on year.

The main causes of changes in operating income were as follows.

	Full year
	(Billion yen)
Volume and mix	+103.4
Foreign exchange	+119.2
Cost improvement	(132.0)
Fixed costs and others	(43.9)
Transfer to extraordinary loss in the previous fiscal year	(8.9)
Total	+37.8

<Net Income Attributable to Owners of the Parent>

Net income attributable to owners of the parent was ¥142.8 billion, an increase of ¥61.2 billion, or 75.1% year on year, due to factors such as the recording of loss on liquidation of subsidiaries and affiliates of ¥11.0 billion resulting from sale of equity held in an affiliate in Russia and tax expenses of ¥25.7 billion, despite the recording of foreign exchange gain of ¥26.0 billion and a ¥15.8 billion gain from equity in net income of affiliated companies.

2. Financial Position

As of March 31, 2023, total assets increased ¥291.1 billion from the end of the previous fiscal year to ¥3,259.3 billion. Total liabilities increased ¥151.0 billion from the end of the previous fiscal year to ¥1,802.5 billion.

Net assets increased ¥140.1 billion from the end of the previous fiscal year to ¥1,456.8 billion, reflecting net income attributable to owners of the parent of ¥142.8 billion and others. Equity ratio increased 0.4 percentage points from the end of the previous fiscal year to 44.2% (Percentage after consideration of the equity credit attributes of the subordinated loan was 45.2%).

3. Cash Flows

Cash and cash equivalent as of March 31, 2023 decreased ¥23.3 billion from the end of the previous fiscal year to ¥717.1 billion. Interest-bearing debt decreased ¥65.3 billion from the end of previous fiscal year to ¥615.5 billion. As a result, we are in a net cash position of ¥101.6 billion.

Cash flows for the fiscal year ended March 31, 2023 were as follows.

Cash flows from operating activities

Net cash provided by operating activities was ¥137.4 billion, mainly reflecting income before income taxes of ¥170.0 billion, offset by an increase in inventories, etc. (For the previous fiscal year, net cash provided by operating activities was ¥189.2 billion.)

Cash flows from investing activities

Net cash used in investing activities was ¥99.4 billion, mainly reflecting capital expenditure for the purchase of property, plant and equipment of ¥79.8 billion. (For the previous fiscal year, net cash used in investing activities was ¥136.2 billion.)

As a result, consolidated free cash flow (net of operating and investing activities) was positive ¥38.0 billion. (For the previous fiscal year, consolidated free cash flow was positive ¥52.9 billion.)

Cash flows from financing activities

Net cash used in financing activities was ¥89.9 billion, mainly reflecting the repayments of long-term loans payable. (For the previous fiscal year, net cash used in financing activities was ¥86.4 billion.)

4. Source of Funds and Liquidity

In order for the Group to reliably secure the funds needed for business activities, the Group is striving to create cash flows. Furthermore, the Group is procuring the necessary funds through bank borrowing and the issuance of bonds for the purpose of allocating the capital expenditures necessary for manufacturing and selling automobiles and parts.

The liquidity risks of the Group are managed mainly through the preparation and update of the cash schedule on a timely basis, and the Group maintains a certain level of liquidity at hand in order to respond to sudden changes in the external environment. The Company also has systems and procedures in place that allow us to respond flexibly to liquidity risks through managing the funds of the Group and intercompany loans within the Group. In addition, the Company ensures sufficient liquidity by entering into commitment line agreements with domestic financial institutions.

At the end of the fiscal year ended March 31, 2023, liquidity, comprising cash and cash equivalents of ¥717.1 billion, in addition to unused commitment credit lines of ¥200.0 billion, amounted to ¥917.1 billion, which is equivalent to 2.9 months of monthly sales.

With regard to shareholder returns, the Company strives to pay a stable dividend with steady increases under a basic policy of determining the dividend amount by comprehensively taking into account the Company’s financial results for the fiscal year, the business environment, and the Company’s financial position.

5. Research and Development Activities

The Mazda Group will advance development of new technologies and products towards 2030 based on its long-term vision for technology development, “Sustainable Zoom-Zoom 2030.” The Company has set a goal of electrifying all the vehicles to be produced in 2030 and has been working together with various partner companies on a range of electrification related research projects that are also designed to stimulate the local economy and contribute to the development of local industry and innovation. One of these projects is the joint development and production of electric drive units. Mazda has agreed to work together with a number of companies in possession of related expertise, signing a collaborative agreement with Imasen Electric Industrial Co., Ltd., Ondo Corporation, Chuo Kaseihin Co., Inc., Hiroshima Aluminum Industry Co., Ltd., HIROTEC Corporation, Fukuta Electric & Machinery Co., Ltd. and ROHM Co., Ltd. Through such initiatives, the Company aims to make solid progress towards the goal of achieving carbon neutrality across its entire supply chain by 2050, helping to preserve the global environment and create a sustainable future.

Looking at research and development system by segment, the Japan segment is engaged in the planning, design, engineering, and testing and research works for new products as well as advanced research into new technologies at Head Office R&D Divisions and the Mazda R&D Center Yokohama. Outside of Japan, the Company works with R&D divisions of Mazda Motor of America, Inc. in the U.S. for the North America segment, Mazda Motor Europe GmbH in Germany for the Europe segment, and Mazda Motor (China) Co., Ltd. in China for Other segment to conduct research and development of products that meet the specific features of each market.

As a step towards realizing the long-term vision, in the fiscal year ended March 31, 2023, the Company launched the Mazda CX-60, a new crossover SUV and the first of its new generation Large Product lineup models. The CX-60 offers not only smooth and powerful driving achieved through longitudinal platform and a high-output powertrain but also interior and exterior design rooted in the Japanese sensibilities and aesthetics and the latest environmental and safety performance that offers peace of mind at the highest level. The CX-60 offers a choice of engine options between the e-Skyactiv PHEV, which is Mazda's first plug-in hybrid system featuring a 2.5-liter gasoline engine and an electric motor, and the e-Skyactiv D, which combines Skyactiv-D 3.3, a straight six-cylinder diesel engine that features both an increased power output from larger displacement and a cleaner emissions performance, with M Hybrid Boost (48V mild hybrid system), an electrification technology. Equipped with a new torque converter-less 8-speed AT, the CX-60 offers an excellent environmental performance and exciting driving experience. The car comes in newly-introduced body colors, Rhodium White Premium and Artisan Red Premium, the special paints created using Mazda's unique Takuminuri[*1] painting technology.

In North America, the Company unveiled the Mazda CX-90, a new mid-size crossover SUV. Following the CX-60 released earlier, the CX-90 is the second model in Mazda's Large Product lineup and offers a significant evolution in environmental and safety performance and greater joy of driving. This wide-body three-row SUV offers greater comfort and functionality, making travel with several friends and family more pleasant. Developed with the needs of North American customers in mind, the CX-90 is available with a powertrain featuring e-Skyactiv G, a combination of new turbocharged 3.3-liter straight six-cylinder gasoline engine and M Hybrid Boost (48V mild hybrid system).

In Europe, the Company unveiled the Mazda MX-30 e-Skyactiv R-EV, a series plug-in hybrid that continues to deliver the same customer value as the original battery EV MX-30 while positioning a newly-developed rotary engine that works as a generator[*2] on the same axis as a high-output motor and a generator in the motor room and paring this unit with a 17.8 kWh lithium ion battery and a 50-liter gas tank. The MX-30 e-Skyactiv R-EV supports customers with an active lifestyle by offering features including the three drive modes drivers can choose from to suit different driving situations: EV, Normal, and Charge modes.

R&D costs in the fiscal year ended March 31, 2023 totaled ¥128.0 billion, a segment-wise breakdown of which was ¥122.7 billion for Japan, ¥2.3 billion for North America, ¥2.3 billion for Europe, and ¥0.7 billion for Other areas. The Company's segments are regional segments based on production and sales management systems. Since most of the R&D activities are conducted by the Japan segment, segment-wise reports on R&D activities are omitted.

*1. Takuminuri, which translates as "Artisan coloring," is Mazda's painting technology that reproduces a precise, high-quality paint finish as if applied by the hands of a skilled craftsman along the automobile mass production line.

*2. The engine type is 8C.

6. Capital Expenditures

Capital expenditures (including intangible assets) for the fiscal year ended March 31, 2023 totaled ¥94.1 billion as a result of efficient investments for future growth such as those in new-generation products, environmental and safety technologies, IT, and the reinforcement of the global production system.

By segment, capital expenditures totaled ¥80.1 billion in Japan and were mainly focused on new-generation products, environmental and safety technologies, IT, and the increase in production capacity at the Hiroshima and Hofu Plants. In North America, ¥10.4 billion was invested in projects such as a new plant in the United States. Capital expenditures in Europe totaled ¥1.2 billion, and totaled ¥2.4 billion in other regions. Additionally, Mazda did not implement the disposal or sale of any major facilities in any segment.

7. Dividend Policy

Mazda strives to pay a stable dividend with steady increases under a basic policy of determining the dividend amount by comprehensively taking into account the Company's financial results for the fiscal year, the business environment, and the Company's financial position.

The Company basically pays dividends twice a year; an interim dividend and a year-end dividend. The decision-making body for year-end dividends is a general meeting of shareholders, while that for interim dividends is the Board of Directors. Additionally, the Company's Articles of Incorporation provide that the Company may, with a resolution of the Board of Directors, distribute an interim dividend to shareholders and registered pledgees of shares who are on the register as of September 30 each year.

Based on the above policy, a full-year dividend of ¥45 per share was paid for the fiscal year ended March 31, 2023, a sum of the year-end dividend of ¥25 per share and the interim dividend (¥20 per share).

(Note) Dividends from surplus with the cut-off date within the fiscal year ended March 31, 2023 are as shown below.

Resolution	Total amount of dividends paid (Millions of yen)	Amount of dividend per share (Yen)
Board of Directors meeting held on November 10, 2022	12,599	20.00
Ordinary General Meeting of Shareholders held on June 27, 2023	15,749	25.00

CORPORATE GOVERNANCE

1. Overview of Corporate Governance

(1) Corporate Vision

The Company has established the following Corporate Vision in an effort to earn the trust of customers and other stakeholders and to be a brand that they will continue to choose, and also to pursue business activities in a unified manner:

We love cars and want people to enjoy fulfilling lives through cars.
We envision cars existing sustainably with the earth and society,
and we will continue to tackle challenges with creative ideas.

1. Brighten people's lives through car ownership.
2. Offer cars that are sustainable with the earth and society to more people.
3. Embrace challenges and seek to master the Doh ("Way" or "Path") of creativity.

(2) Basic Views on Corporate Governance

While working to build a good relationship with its stakeholders, including shareholders, customers, suppliers, the local community and its employees, the Company will strive to sustain growth and enhance its corporate value over the medium and long term through transparent, fair, prompt and decisive decision-making and to continue to enhance its corporate governance in line with the following basic philosophy.

1) The Company will ensure that the rights of shareholders are effectively secured, create an environment in which their rights can be properly exercised, and ensure shareholder equality.
2) The Company will foster a corporate culture and climate that respect stakeholders' rights and status and sound business ethics, and engage in dialogue and collaborate with stakeholders appropriately.
3) The Company will disclose information appropriately based on laws and regulations, and will also take initiative to provide information other than disclosure mandated by laws and regulations.
4) Based on its fiduciary responsibility and accountability to shareholders, the Company's board of directors will lay out a broad direction for corporate strategy, establish an environment that will support appropriate risk-taking, and exercise highly effective supervision over management from an independent and objective stance.
5) The Company will engage in constructive dialogue with shareholders, take a reasonable interest in their interests and concerns, and endeavor to explain the Company's management policies in a clear manner to gain shareholders' understanding.

(3) Corporate Governance System

1) Overview of corporate governance system and reasons for adopting the system

The Company's surrounding business environment is undergoing rapid changes. To enable faster business decision-making, further enhance discussions of management strategies and strengthen supervisory functions of Board of Directors meetings, the Company transitioned to a company with an audit and supervisory committee.

In addition to bodies designated by law such as the General Meeting of Shareholders, Board of Directors, and the Audit & Supervisory Committee, the Company established Executive Committee Meetings to deliberate important company-wide policies and initiatives and to report on information needed for corporate management.

<Board of Directors>

The Company's Board of Directors deliberates and makes decisions on the execution of important business, such as management strategy and basic management policies, and supervises the execution of individual directors' duties. In addition, the Company provides in its Articles of Incorporation that all or part of decision-making for the execution of important business matters may be delegated to directors, so as to facilitate quick and flexible decision-making.

The Board is made up of 15 directors, six of whom are highly independent outside directors.

<Audit & Supervisory Committee>

The Company's Audit & Supervisory Committee audits and supervises the Board of Directors' decision-making process and business execution through the exercise of voting rights at Board of Directors meetings and the execution of its right to state opinions on the personnel changes and remuneration of directors (excluding directors who are Audit & Supervisory Committee members) at the General Meeting of Shareholders.

The Audit & Supervisory Committee is made up of five members, four of whom are highly independent outside directors.

<Executive officer system>

The Company has also introduced an executive officer system. By separating execution and management, the effectiveness of the oversight of the Board of Directors is enhanced, and decision-making is speeded up through expanded debate by the Board of Directors and by delegating authority to executive officers. In this way, the Company is working to further managerial efficiency.

<Officer Lineup & Remuneration Advisory Committee>

To further enhance the transparency, fairness and objectivity of the process for nominating, appointing and dismissing executive officers and candidates for directors, as well as for determining their remuneration, the Company established an Officer Lineup & Remuneration Advisory Committee, comprised of nine directors including six outside directors.

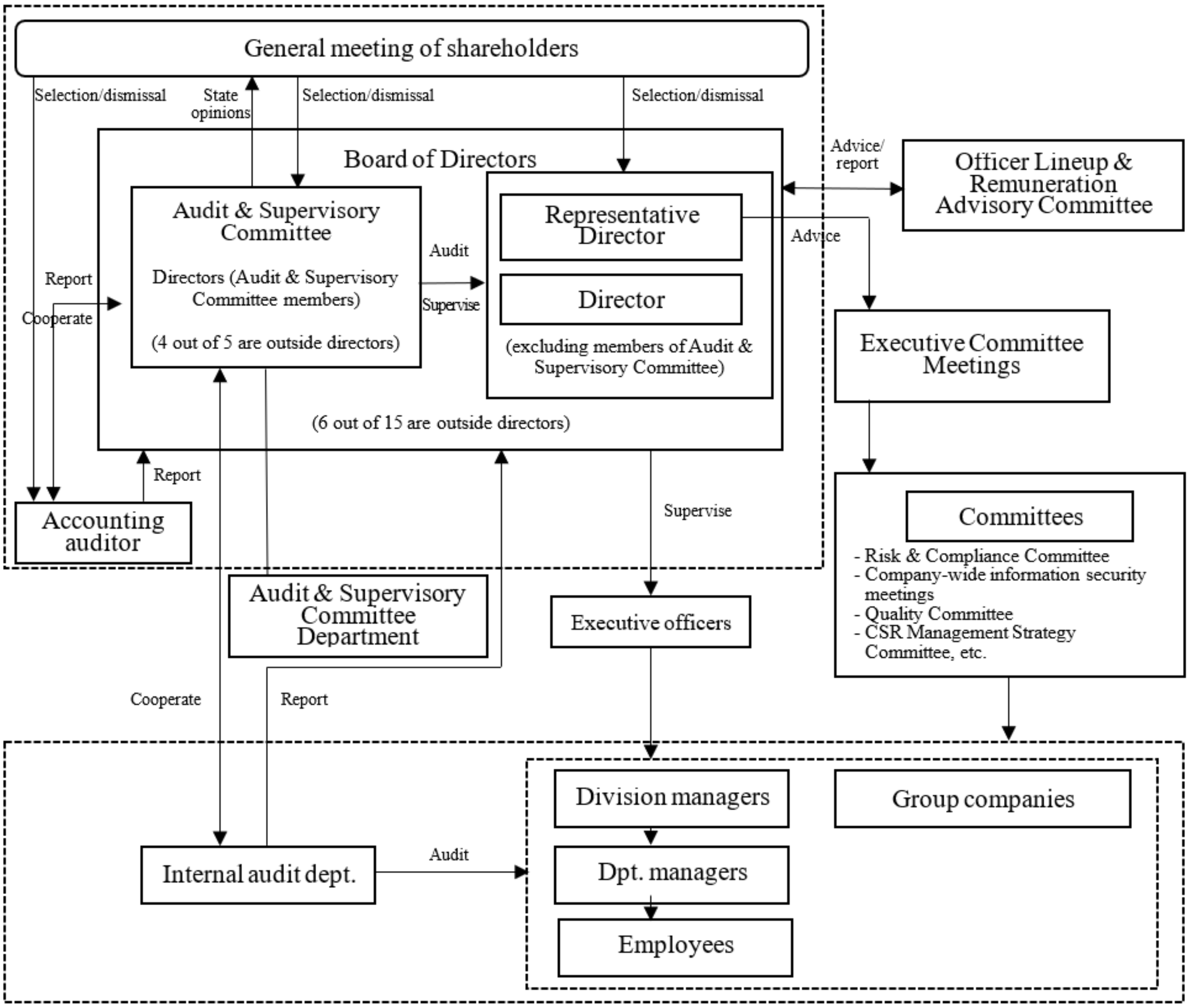
As an advisory body to the Board of Directors, the committee deliberates matters such as officer lineup and policies regarding the selection and training of candidates, as well as remuneration payment policies and the remuneration system and process based on those policies, which contribute to the Company's sustainable growth and raising of corporate value in the medium and long term. The committee is chaired by the Representative Director and Chairman of the Board.

The composition of each meeting body is as shown below. (Board/committee chairs are marked with ◎)

Job title	Name	Outside	Board of Directors	Audit & Supervisory Committee	Officer Lineup & Remuneration Advisory Committee
Representative Director and Chairman of the Board	Kiyotaka Shobuda		◎		◎
Representative Director, President and CEO	Masahiro Moro		○		○
Representative Director, Senior Managing Executive Officer and CFO	Jeffrey H. Guyton		○		○
Director and Senior Managing Executive Officer	Mitsuru Ono		○		
Director and Senior Managing Executive Officer	Yasuhiro Aoyama		○		
Director, Senior Managing Executive Officer and CTO	Ichiro Hirose		○		
Director and Senior Managing Executive Officer	Takeshi Mukai		○		
Director, Senior Managing Executive Officer and CSO	Takeji Kojima		○		
Director	Kiyoshi Sato	○	○		○
Director	Michiko Ogawa	○	○		○
Director, Audit & Supervisory Committee Member (Full time)	Nobuhiko Watabe		○	◎	
Director, Audit & Supervisory Committee Member	Akira Kitamura	○	○	○	○
Director, Audit & Supervisory Committee Member	Hiroko Shibasaki	○	○	○	○
Director, Audit & Supervisory Committee Member	Masato Sugimori	○	○	○	○
Director, Audit & Supervisory Committee Member	Hiroshi Inoue	○	○	○	○

With this structure in place, the Company is working to clearly define authorities and responsibilities for business execution, facilitate quick and adequate decision-making, and to improve the transparency and efficiency of management.

The Company's structure for business operation and supervision is as shown below.



2) Outline of the resolutions of the Board of Directors related to the establishment of a system to ensure that directors execute their duties in conformance with laws and regulations and the Articles of Incorporation, and other systems to ensure the appropriateness of operations of the corporate group

a. System for the preservation and management of information related to directors' execution of duties

・Minutes for the meetings of shareholders, the board of directors and other information related to the execution of directors' duties will be properly stored and managed in accordance with laws and regulations, the Articles of Incorporation and all other related internal regulations, and the Audit & Supervisory Committee Members will be allowed to review this information upon request.

b. Regulations and other systems related to the risk of loss

・Individual business risks will be managed by the relevant divisions, and company-level risks will be managed by the divisions in charge in accordance with basic risk management policy and other related internal regulations.

・In the event of serious management situations or emergencies such as disasters, appropriate measures such as establishing an emergency headquarters will be taken in accordance with internal regulations as necessary.

・The officer and department in charge of the promotion of risk management throughout the Company will be stipulated, and risk management will be further strengthened and enhanced by activities such as setting an agenda of priority issues for the Risk & Compliance Committee and checking and evaluating the risk management in each department.

- The Internal Auditing Department will check and evaluate risk management in all departments through conducting internal audits, and it will regularly report to the board of directors and Audit & Supervisory Committee.

c. System to ensure that directors execute their duties efficiently

- To meet business plan targets, activities will be carried out in each area of operations in accordance with the medium- and long-term management plan and the annual fiscal year business plan.
- All items related to operations that must be submitted to the board as set forth in the Board of Directors Regulations will be submitted at a board of directors meeting.
- Daily operations will be carried out efficiently in accordance with the division of duties among executive officers based on the Administrative Authority Regulations, Work Allocation Regulations and any other related internal regulations or by delegating authority to the executive officers.

d. System to ensure that directors and employees execute their duties in conformance with laws and regulations and the Articles of Incorporation

- To further strengthen the oversight function of the board of directors and achieve greater management transparency, independent outside directors will be appointed.
- The execution of duties by directors and other corporate officers and employees will be carried out so as to ensure compliance with laws and regulations and the Articles of Incorporation in accordance with the compliance system in which an officer in charge of compliance will be appointed and a division in charge of compliance will be set up, and each divisional manager will be responsible for the promotion of compliance under the Mazda Corporate Ethics Code of Conduct.
- The promotion of compliance will be based on company-wide promotion policies deliberated on by the Risk & Compliance Committee and administered by the division that administers compliance throughout the company.
- The Mazda Global Hotline (hereinafter "hotline") will be set up to receive reports when there has been improper behavior in the context of laws and regulations or of the Mazda Corporate Ethics Code of Conduct or when such behavior is suspected. The hotline will accept anonymous reports, and a channel for receiving reports will be set up at an independent organization (a lawyer).

e. System to ensure the appropriateness of operations of the corporate group consisting of the Company and its subsidiaries

- Subsidiaries will be requested to make advance reports to the Company on specific matters and on the resolution of important operational issues in accordance with relevant internal regulations or to seek the Company's approval of them.
- Subsidiaries will be given guidance and support so as to carry out appropriate risk management in accordance with basic risk management policies and relevant internal regulations.
- Subsidiaries will be given guidance and support so as to introduce the corporate group's medium-, long-term and annual business plans and other initiatives and policies of the Company and to conduct their business in accordance with them. Subsidiaries will also be given guidance and support as needed to resolve important business issued that arise.
- The Mazda Corporate Ethics Code of Conduct will be introduced to subsidiaries, and they will be given guidance and support in carrying out their business in accordance with the code. The Audit & Supervisory Committee and the internal auditing department will, as proper, conduct audits of group companies' compliance with laws, regulations and the Articles of Incorporation and the status of their risk management.

f. Items related to the directors and employees to assist the Audit & Supervisory Committee in its work

- An organization to assist the Audit & Supervisory Committee with its work will be set up, and employees (hereafter referred to as "Audit & Supervisory Committee staff") who are not subject to the guidance or directives of directors (excluding directors who are Audit & Supervisory Committee Members) will be assigned to the organization.

g. Items related to the independence of the aforementioned employees from directors and director-employees (excluding directors who are Audit & Supervisory Committee Members) and ensuring the effectiveness of instructions to these director-employees

- The transfer and evaluation of Audit & Supervisory Committee staff will be carried out by the Human Resources Division after prior discussion with the full-time Audit & Supervisory Committee Members.
- Audit & Supervisory Committee staff will not be concurrently employed by any other department and must report solely to the Audit & Supervisory Committee.

h. Systems for reports to the Audit & Supervisory Committee by directors (excluding directors who are Audit & Supervisory Committee Members) and employees of the Company and its subsidiaries, for other reports to the Audit & Supervisory Committee and to ensure that those who make reports will not be subject to unfavorable treatment on account of making the report

- When directors (excluding directors who are Audit & Supervisory Committee Members; all following references to directors are the same) or executive officers discover facts that may result in significant harm to the Company, they will report such facts to the Audit & Supervisory Committee immediately.
- Directors and executive officers will report to the Audit & Supervisory Committee on serious lawsuits and disputes, changes in accounting policy, major accidents, administrative punishment by the authorities or other items that are to be discussed by the Audit & Supervisory Committee with the directors or executive officers even if they are not facts that may result in significant harm to the Company.
- Directors and executive officers will seek reports from subsidiaries' directors, executive officers, auditors or employees engaged in internal audits of subsidiaries on facts that may lead to a significant loss to the Company or its subsidiaries and on other matters that the Audit & Supervisory Committee will decide on after discussions with the directors or executive officers. These reports will be reported to the Audit & Supervisory Committee.
- The Internal Auditing Department will make regular reports to the Audit & Supervisory Committee on the results of its internal audits of the corporate group.
- Reports from employees of the Company or its major subsidiaries via the hotline will be received and the status of such reports will be regularly reported to the Audit & Supervisory Committee.
- It will be made clear to the officers and employees of the corporate group that those who make reports to the hotline or who cooperate in an investigation or who make reports to the Audit & Supervisory Committee under the provisions of the preceding paragraph will not be subject to retaliation or unfavorable treatment.

i. Matters related to procedures for the advance payment or reimbursement of costs incurred in conjunction with the execution of their duties by Audit & Supervisory Committee Members and policies concerning the handling of other costs or claims incurred in the execution of their duties

- The Audit & Supervisory Committee will prepare a budget in advance for costs deemed to be necessary to the execution of duties. Requests for reimbursement for costs incurred in an emergency or on an impromptu basis may be made after the fact.

j. Other systems to ensure that Audit & Supervisory Committee can conduct its audits effectively

- The Audit & Supervisory Committee will audit directors' (excluding directors who are Audit & Supervisory Committee Members; all following references to directors are the same) execution of duties in accordance with its annual plan.
- The full-time Audit & Supervisory Committee Members will attend important meetings such as meetings of the Executive Committee.
- Close cooperation will be maintained between the Audit & Supervisory Committee and the Internal Auditing Department and the accounting auditors, such as by holding regular meetings, etc.
- The Audit & Supervisory Committee will communicate with the directors, executive officers and the

general managers of major departments through meetings and hearings on the execution of duties.

・Cooperation will be maintained by holding meetings regularly with the full-time Audit & Supervisory Committee Members and full-time corporate auditors of the major companies in the Mazda Group and by sharing information with them.

k. Basic Views on Eliminating Anti-Social Forces

・The Mazda Group will have no connection with anti-social forces or groups nor carry out any acts to facilitate the activities of such forces or groups. In the event of unreasonable demands from anti-social forces or groups, these will be dealt with firmly, including systematic efforts in cooperation with external bodies such as the police or lawyers as necessary.

3) Other matters related to corporate governance

<Liability exemption for directors>

To allow directors to play their expected roles to the fullest in their execution of duties, the Company provides in its Articles of Incorporation that, in accordance with the provisions of Article 426, Paragraph 1 of the Companies Act, the Company may, within the limit of laws and regulations, exempt directors who have neglected their duties (including former directors) from liability for damages by a resolution of the Board of Directors.

<Outline of the terms of liability limitation agreement>

The Company has concluded liability limitation agreements with outside directors to limit their liabilities under Article 423, Paragraph 1 of the Companies Act, to the minimum liability amount stipulated in Article 425, Paragraph 1 of the same, based on the provisions of Article 427, Paragraph 1 of the same.

<Outline of the terms of liability insurance agreement for officers, etc.>

The Company has entered into a liability insurance agreement for officers, etc. with an insurance company as stipulated in Article 430-3, Paragraph 1 of the Companies Act, whereby legal damages and litigation costs incurred due to a claim for damages against any insured person under the agreement will be covered by the insurance agreement. However, the agreement contains certain exclusions, such as that damage caused by illegal acts that were knowingly committed by the insured will not be covered, as a means to prevent any impairment to proper execution of duties by the officers. This agreement covers the Company's directors, executive officers and fellows, all of whose premiums are fully borne by the Company.

<Number of Directors on the Board>

The Company's Articles of Incorporation provide that the number of directors shall be not more than 12, and the number of directors who are members of the Company's Audit & Supervisory Committee shall be not more than eight.

<Resolution requirements for the election of directors>

The Company provides in its Articles of Incorporation that its directors shall be elected by a majority of the voting rights at a General Meeting of Shareholders at which shareholders holding not less than one-third of the total shareholders' voting rights are present and exercise their right to vote, and that cumulative voting shall not be adopted for the purpose of electing the directors.

<Purchase of treasury shares>

The Company provides in its Articles of Incorporation that it may acquire its own shares by resolution of the Board of Directors in accordance with Article 165, Paragraph 2 of the Companies Act, so that it may respond flexibly to any future changes in business environment.

<Decision-making body regarding dividends from surplus>

The Company's Articles of Incorporation provide that the Company may, with a resolution of the Board of Directors, distribute an interim dividend to shareholders and registered pledgees of shares who are on the register as of September 30 each year, so that it can provide stable returns of profit to shareholders.

4) Activities of the Board of Directors

The Board of Directors holds meetings once a month in principle and also as and when necessary. In the fiscal year ended March 31, 2023, the board held a total of 17 meetings. Attendance of each director is as shown below.

As of March 31, 2023

Job title	Name	Attendance at the Board of Directors meetings
Representative Director and Chairman of the Board	Kiyotaka Shobuda	17 out of 17 meetings (100%)
Representative Director, President and CEO	Akira Marumoto	17 out of 17 meetings (100%)
Director and Senior Managing Executive Officer	Mitsuru Ono	16 out of 17 meetings (94%)
Director and Senior Managing Executive Officer	Akira Koga	17 out of 17 meetings (100%)
Director and Senior Managing Executive Officer	Masahiro Moro	17 out of 17 meetings (100%)
Director and Senior Managing Executive Officer	Yasuhiro Aoyama	17 out of 17 meetings (100%)
Director and Senior Managing Executive Officer	Ichiro Hirose	14 out of 14 meetings (100%)
Director and Senior Managing Executive Officer	Takeshi Mukai	14 out of 14 meetings (100%)
Director	Kiyoshi Sato	17 out of 17 meetings (100%)
Director	Michiko Ogawa	17 out of 17 meetings (100%)
Director, Audit & Supervisory Committee Member (Full time)	Masatoshi Maruyama	17 out of 17 meetings (100%)
Director, Audit & Supervisory Committee Member (Full time)	Nobuhiko Watabe	17 out of 17 meetings (100%)
Director, Audit & Supervisory Committee Member	Ichiro Sakai	17 out of 17 meetings (100%)
Director, Audit & Supervisory Committee Member	Akira Kitamura	16 out of 17 meetings (94%)
Director, Audit & Supervisory Committee Member	Hiroko Shibasaki	17 out of 17 meetings (100%)
Director, Audit & Supervisory Committee Member	Masato Sugimori	17 out of 17 meetings (100%)

(Notes)
1. The Board of Directors is chaired by Mr. Kiyotaka Shobuda.
2. Directors Mr. Kiyoshi Sato, Ms. Michiko Ogawa, Mr. Ichiro Sakai, Mr. Akira Kitamura, Ms. Hiroko Shibasaki and Mr. Masato Sugimori are outside directors.
3. The attendance of Directors Mr. Ichiro Hirose and Mr. Takeshi Mukai are for the meetings held since they took office on June 24, 2022.
4. The attendance of Mr. Kiyoshi Fujiwara, who retired from his position as director on June 24, 2022, at the Board of Directors meetings held in fiscal year ended March 31, 2023 is as shown below.

Job title at the time of retirement	Name	Attendance
Representative Director, Executive Vice President and COO	Kiyoshi Fujiwara	1 out of 3 meetings (33%)

<Specific matters discussed by the Board of Directors>

The Board of Directors deliberates and makes decisions on matters related to the execution of important business, such as basic management policies and strategy, and supervises the execution of individual directors' duties. The Company also holds Executive Committee Meetings, where matters such as important company-wide policies, strategies and plans and important actions are proposed, deliberated and approved, and information needed for corporate management is reported. Items deliberated at Executive Committee Meetings are reported to the Board of Directors, thus allowing the Board of Directors to supervise the execution of duties by the management team.

Below are the key topics among the matters discussed at the Board of Directors meetings held during the fiscal year ended March 31, 2023.

a. Medium-term Management Plan update and management policy up to 2030 (announced in November 2022)
b. Energy conservation, shift to renewable energies, and use of carbon neutral fuels for making Mazda factories carbon neutral worldwide by 2035 (announced in June 2022)
c. New partnerships for the development and production of electric drive units (announced in November 2022), phased approach electrification scenarios based on trends and situation in different markets
d. Status of operation of systems for internal control and risk management

5) Activities of the Officer Lineup & Remuneration Advisory Committee

The Company's Officer Lineup & Remuneration Advisory Committee held a total of five meetings in the fiscal year ended March 31, 2023. Attendance of each member is as shown below.

As of March 31, 2023

Job title	Name	Attendance at the Officer Lineup & Remuneration Advisory Committee meetings
Representative Director and Chairman of the Board	Kiyotaka Shobuda	5 out of 5 meetings (100%)
Representative Director, President and CEO	Akira Marumoto	5 out of 5 meetings (100%)
Director	Kiyoshi Sato	5 out of 5 meetings (100%)
Director	Michiko Ogawa	5 out of 5 meetings (100%)
Director, Audit & Supervisory Committee Member	Ichiro Sakai	5 out of 5 meetings (100%)
Director, Audit & Supervisory Committee Member	Akira Kitamura	5 out of 5 meetings (100%)
Director, Audit & Supervisory Committee Member	Hiroko Shibasaki	5 out of 5 meetings (100%)
Director, Audit & Supervisory Committee Member	Masato Sugimori	5 out of 5 meetings (100%)

(Notes) 1. The Officer Lineup & Remuneration Advisory Committee is chaired by Mr. Kiyotaka Shobuda.

2. Directors Mr. Kiyoshi Sato, Ms. Michiko Ogawa, Mr. Ichiro Sakai, Mr. Akira Kitamura, Ms. Hiroko Shibasaki and Mr. Masato Sugimori are outside directors.

3. The attendance of Mr. Kiyoshi Fujiwara, who retired from his position as director on June 24, 2022, at the Officer Lineup & Remuneration Advisory Committee meetings held in fiscal year ended March 31, 2023 is as shown below.

Job title at the time of retirement	Name	Attendance
Representative Director, Executive Vice President and COO	Kiyoshi Fujiwara	0 out of 2 meetings (0%)

<Specific matters discussed by the Officer Lineup & Remuneration Advisory Committee>

The Officer Lineup & Remuneration Advisory Committee is an advisory body to the Board of Directors established to further enhance transparency, fairness and objectivity of the process for nominating, appointing and dismissing executive officers and candidates for directors as well as for determining their remuneration. The committee deliberates matters such as officer lineup and policies regarding the selection and training of candidates, as well as remuneration payment policies and the remuneration system and process based on those policies, which contribute to the Company's sustainable growth and raising of corporate value in the medium and long term, and reports the outcome to the Board of Directors.

Below are the key topics among the matters discussed at the Officer Lineup & Remuneration Advisory Committee meetings held during the fiscal year ended March 31, 2023.

a. Appropriateness of the composition of directors and executive officers (ensuring the diversity and skills mix required to achieve management policy goals) (executive personnel changes effective April 1, 2023, and executive personnel changes effective June 27, 2023)
b. Appropriateness of remuneration amount for directors and executive officers (ensuring conformity with the policies on determining details of individual remuneration for directors (excluding directors who are Audit & Supervisory Committee members) and comparison with the remuneration levels of the benchmark companies whose size and line of business are similar to those of the Company, etc.)
c. Draft proposal on the revision of the remuneration amount for directors (excluding directors who are Audit & Supervisory Committee members) (placed on the agenda of the General Meeting of Shareholders held on June 27, 2023)

2. Shareholdings

(1) Criteria and Approach to the Classification of Investment Shares

According to the Company's criteria, shares held for pure investment purpose are the shares it holds solely for the purpose of gaining profit resulting from changes in share prices or dividends from shares, while investment shares are the shares it holds for purposes other than pure investment.

(2) Investment Shares Held for Purposes Other than Pure Investment

a. Holding policy, methods for verifying the rationality of holdings, and verification of appropriateness of holding for individual issues by the Board of Directors, etc.

Taking into overall consideration and verifying the business strategy, the necessity of business activities such as maintaining and strengthening business dealings, and the comparison of benefits and risks of cross-shareholding with the cost of capital, the Company will have cross-shareholdings when it will lead to the enhancement of corporate value over the medium and long terms. If the purpose of cross-shareholdings is judged to have diminished, the Company will aim to reduce cross-shareholdings, including the selling of shares based on the relevant company's circumstances, etc.

Every year at a Board of Directors meeting, the Company individually verifies the appropriateness of its major cross-shareholdings according to the above policy.

b. Number of issues and book value on balance sheet

	Number of issues (Issues)	Total book value on balance sheet (Millions of yen)
Unlisted shares	25	959
Shares other than unlisted shares	3	81,074

(Issues for which the number of shares held increased in the fiscal year ended March 31, 2023)

	Number of issues (Issues)	Total acquisition cost concerning increase in the number of shares (Millions of yen)	Reasons for the increase in the number of shares
Unlisted shares	—	—	—
Shares other than unlisted shares	—	—	—

(Issues for which the number of shares held decreased in the fiscal year ended March 31, 2023)

	Number of issues (Issues)	Total sale value concerning decrease in the number of shares (Millions of yen)
Unlisted shares	—	—
Shares other than unlisted shares	—	—

c. Number of shares and book value on balance sheet, etc. per issue of the specified investment shares and deemed holdings of shares

Specified investment shares

<table>
<tr><th rowspan="3">Issues</th><th>Fiscal year ended March 31, 2023</th><th>Fiscal year ended March 31, 2022</th><th rowspan="3">Purpose of holding, outline of business alliance, etc., quantitative effect of holding (Note 2), and reasons for the increase in the number of shares held</th><th rowspan="3">Shares of the Company owned</th></tr>
<tr><th>Number of shares (shares)</th><th>Number of shares (shares)</th></tr>
<tr><th>Book value on balance sheet (Millions of yen)</th><th>Book value on balance sheet (Millions of yen)</th></tr>
<tr><td rowspan="2">Toyota Motor Corporation</td><td>41,466,500</td><td>41,466,500</td><td rowspan="2">To maintain and strengthen alliance in automobile business</td><td rowspan="2">Yes</td></tr>
<tr><td>77,957</td><td>92,159</td></tr>
<tr><td rowspan="2">DaikyoNishikawa Corporation</td><td>3,541,800</td><td>3,541,800</td><td rowspan="2">To maintain and strengthen relationship of vehicle parts transactions</td><td rowspan="2">Yes</td></tr>
<tr><td>2,284</td><td>1,913</td></tr>
<tr><td rowspan="2">Sumitomo Mitsui Financial Group, Inc.</td><td>157,100</td><td>157,100</td><td rowspan="2">To facilitate financial transactions</td><td rowspan="2">No</td></tr>
<tr><td>832</td><td>614</td></tr>
</table>

Notes 1. All issues that fall under specified investment shares are listed, including DaikyoNishikawa Corporation and Sumitomo Mitsui Financial Group, Inc., whose book values on balance sheet

are less than 1 percent of capital stock.

2. Although it is difficult to describe the quantitative effects of holding, the Company verifies the rationality of holding by taking into overall consideration the business strategy, the necessity for business activities such as maintaining and strengthening business dealings, while also weighing the benefits and risks of holding and capital costs.
3. Sumitomo Mitsui Financial Group, Inc., does not own shares of the Company, but its subsidiary, the Sumitomo Mitsui Banking Corporation, holds the Company’s shares.

CONSOLIDATED BALANCE SHEETS

Mazda Motor Corporation and Consolidated Subsidiaries
As of March 31, 2022 and 2023

ASSETS	Millions of yen 2022	Millions of yen 2023	Thousands of U.S. dollars (Note 1) 2023
Current assets:			
Cash and cash equivalents (Note 5)	¥ 740,385	¥ **717,093**	$ **5,351,440**
Trade notes and accounts receivable (Notes 5 and 15)	146,136	**166,921**	**1,245,679**
Inventories (Notes 8 and 10)	399,923	**670,904**	**5,006,746**
Other current assets	173,182	**170,819**	**1,274,770**
Allowance for doubtful receivables	(1,813)	**(1,573)**	**(11,739)**
Total current assets	1,457,813	**1,724,164**	**12,866,896**
Property, plant and equipment:			
Land (Note 9)	418,454	**419,419**	**3,129,993**
Buildings and structures	568,740	**585,380**	**4,368,507**
Machinery, equipment and vehicles	974,510	**1,019,989**	**7,611,858**
Tools, furniture and fixtures	337,082	**350,775**	**2,617,724**
Leased assets	33,622	**40,085**	**299,142**
Construction in progress	82,949	**61,947**	**462,291**
	2,415,357	**2,477,595**	**18,489,515**
Accumulated depreciation	(1,268,641)	**(1,312,989)**	**(9,798,425)**
Net property, plant and equipment (Notes 10 and 19)	1,146,716	**1,164,606**	**8,691,090**
Intangible assets (Note 19)	48,358	**54,614**	**407,567**
Investments and other assets:			
Investment securities (Note 5):			
Affiliated companies	122,050	**125,653**	**937,709**
Other	100,142	**89,242**	**665,985**
Asset for retirement benefits (Note 21)	7,912	**12,289**	**91,709**
Deferred tax assets (Note 22)	37,256	**51,011**	**380,679**
Other investments and other assets	52,964	**37,955**	**283,246**
Allowance for doubtful receivables	(5,063)	**(283)**	**(2,112)**
Total investments and other assets	315,261	**315,867**	**2,357,216**
Total assets	¥ 2,968,148	¥ **3,259,251**	$ **24,322,769**

LIABILITIES AND NET ASSETS	Millions of yen 2022	Millions of yen 2023	Thousands of U.S. dollars (Note 1) 2023
Current liabilities:			
Short-term debt (Notes 5 and 10)	¥ 1,526	¥ **1,460**	$ **10,896**
Long-term debt due within one year (Notes 5 and 10)	66,831	**206,426**	**1,540,493**
Trade notes and accounts payable	345,443	**480,975**	**3,589,366**
Income taxes payable	6,621	**18,212**	**135,910**
Accrued expenses	287,268	**344,778**	**2,572,970**
Reserve for warranty expenses	66,261	**85,647**	**639,157**
Provision for loss on compensation for damage	11,500	**400**	**2,985**
Other current liabilities (Notes 5, 15 and 22)	113,483	**123,322**	**920,314**
Total current liabilities	898,933	**1,261,220**	**9,412,091**
Non-current liabilities:			
Long-term debt due after one year (Notes 5 and 10)	609,098	**416,209**	**3,106,037**
Deferred tax liability related to land revaluation (Note 9)	64,537	**64,434**	**480,851**
Liability for retirement benefits (Note 21)	33,433	**18,238**	**136,104**
Provision related to environmental regulations	-	**14,533**	**108,455**
Other non-current liabilities (Notes 5 and 22)	45,450	**27,816**	**207,583**
Total non-current liabilities	752,518	**541,230**	**4,039,030**
Total liabilities	1,651,451	**1,802,450**	**13,451,120**
Contingent liabilities (Note 11)			
Net assets:			
Capital and retained earnings (Notes 13):			
Common stock	283,957	**283,957**	**2,119,082**
Authorized: 1,200,000,000 shares			
Issued: 631,803,979 shares in 2023 and 2022			
Capital surplus	263,003	**263,035**	**1,962,948**
Retained earnings	581,458	**699,231**	**5,218,142**
Treasury stock	(2,100)	**(1,995)**	**(14,888)**
(1,841,110 shares in 2023 and 1,938,951 shares in 2022)			
Total capital and retained earnings	1,126,318	**1,244,228**	**9,285,284**
Accumulated other comprehensive income/(loss):			
Net unrealized gain/(loss) on available-for-sale securities	29,707	**20,243**	**151,067**
Deferred gains/(losses) on hedges	(1,314)	**(68)**	**(507)**
Land revaluation (Note 9)	145,536	**145,302**	**1,084,343**
Foreign currency translation adjustment	(6,162)	**14,184**	**105,851**
Accumulated adjustments for retirement benefits	7,055	**15,709**	**117,231**
Total accumulated other comprehensive income	174,822	**195,370**	**1,457,985**
Stock acquisition rights (Note 14)	440	**475**	**3,545**
Non-controlling interests	15,117	**16,728**	**124,835**
Total net assets	1,316,697	**1,456,801**	**10,871,649**
Total liabilities and net assets	¥ 2,968,148	¥ **3,259,251**	$ **24,322,769**

CONSOLIDATED STATEMENTS
OF OPERATIONS AND COMPREHENSIVE INCOME

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2022 and 2023

Consolidated Statements of Operations

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2023	2023
Net sales (Note 15)	¥ 3,120,349	¥ **3,826,752**	$ **28,557,851**
Cost and expenses:			
Cost of sales	2,432,645	**3,025,230**	**22,576,343**
Selling, general and administrative expenses (Note 16)	583,477	**659,553**	**4,922,038**
	3,016,122	**3,684,783**	**27,498,381**
Operating income	104,227	**141,969**	**1,059,470**
Other income/(expenses):			
Interest and dividend income	5,795	**13,169**	**98,276**
Interest expense	(6,782)	**(8,483)**	**(63,306)**
Equity in net income/(loss) of affiliated companies	(4,074)	**15,777**	**117,739**
Other, net (Note 18)	13,233	**7,540**	**56,269**
	8,172	**28,003**	**208,978**
Income before income taxes	112,399	**169,972**	**1,268,448**
Income taxes (Note 22):			
Current	11,219	**44,523**	**332,261**
Deferred	18,833	**(18,790)**	**(140,223)**
	30,052	**25,733**	**192,038**
Net income	82,347	**144,239**	**1,076,410**
Net income attributable to non-controlling interests	790	**1,425**	**10,634**
Net income attributable to owners of the parent	¥ 81,557	¥ **142,814**	$ **1,065,776**

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income:			
Basic	¥ 129.49	¥ **226.71**	$ **1.69**
Diluted	129.38	**226.52**	**1.69**
Cash dividends applicable to the year	20.00	**45.00**	**0.34**
Net assets	2,065.74	**2,285.21**	**17.05**

Consolidated Statements of Comprehensive Income

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2022		**2023**		**2023**	
Net income	¥	82,347	**¥**	**144,239**	**$**	**1,076,410**
Other comprehensive income/(loss):						
Net unrealized gain/(loss) on available-for-sale securities		13,709		**(9,466)**		**(70,642)**
Deferred gains/(losses) on hedges		(1,141)		**1,241**		**9,261**
Foreign currency translation adjustment		20,909		**14,371**		**107,246**
Adjustments for retirement benefits		8,807		**8,639**		**64,470**
Share of other comprehensive income/(loss) of affiliates accounted for using equity method		5,192		**6,441**		**48,068**
Total other comprehensive income/(loss)		47,476		**21,226**		**158,403**
Comprehensive income	¥	129,823	**¥**	**165,465**	**$**	**1,234,813**
Comprehensive income/(loss) attributable to:						
Owners of the parent		128,231		**163,596**		**1,220,865**
Non-controlling interests		1,592		**1,869**		**13,948**

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2022 and 2023

	Millions of yen				
	Capital and retained earnings				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total
April 1, 2021	¥ 283,957	¥ 263,028	¥ 508,784	¥ (2,187)	¥ 1,053,582
Cumulative effects of changes in accounting policies	-	-	(8,883)	-	(8,883)
Restated balance	283,957	263,028	499,901	(2,187)	1,044,699
Increase/(decrease)					
Dividends paid	-	-	-	-	-
Net income attributable to owners of the parent	-	-	81,557	-	81,557
Purchase of treasury stock	-	-	-	(1)	(1)
Sale of treasury stock	-	(25)	-	88	63
Changes in scope of consolidation	-	-	-	-	-
Reversal for land revaluation	-	-	-	-	-
Change in ownership interest of parent arising from transactions with non-controlling shareholders	-	-	-	-	-
Changes in items other than capital and retained earnings, net	-	-	-	-	-
Total changes during the fiscal year	-	(25)	81,557	87	81,619
April 1, 2022	¥ 283,957	¥ 263,003	¥ 581,458	¥ (2,100)	¥ 1,126,318
Cumulative effects of changes in accounting policies	-	-	-	-	-
Restated balance	**283,957**	**263,003**	**581,458**	**(2,100)**	**1,126,318**
Increase/(decrease)					
Dividends paid	-	-	**(25,197)**	-	**(25,197)**
Net income attributable to owners of the parent	-	-	**142,814**	-	**142,814**
Purchase of treasury stock	-	-	-	**(2)**	**(2)**
Sale of treasury stock	-	**(29)**	-	**107**	**78**
Changes in scope of consolidation	-	-	**(78)**	-	**(78)**
Reversal for land revaluation	-	-	**234**	-	**234**
Change in ownership interest of parent arising from transactions with non-controlling shareholders	-	**61**	-	-	**61**
Changes in items other than capital and retained earnings, net	-	-	-	-	-
Total changes during the fiscal year	-	**32**	**117,773**	**105**	**117,910**
March 31, 2023	**¥ 283,957**	**¥ 263,035**	**¥ 699,231**	**¥ (1,995)**	**¥ 1,244,228**

	Millions of yen								
	Accumulated other comprehensive income/(loss)								
	Net unrealized gain/(loss) on available-for-sale securities	Deferred gains/(losses) on hedges	Land revaluation	Foreign currency translation adjustment	Accumulated adjustments for retirement benefits	Total	Stock acquisition rights	Non-controlling interests	Total net assets
April 1, 2021	¥ 16,002	¥ (312)	¥ 145,536	¥ (30,897)	¥ (2,181)	¥ 128,148	¥ 382	¥ 13,718	¥ 1,195,830
Cumulative effects of changes in accounting policies	-	-	-	-	-	-	-	-	(8,883)
Restated balance	16,002	(312)	145,536	(30,897)	(2,181)	128,148	382	13,718	1,186,947
Increase/(decrease)									
Dividends paid	-	-	-	-	-	-	-	-	-
Net income attributable to owners of the parent	-	-	-	-	-	-	-	-	81,557
Purchase of treasury stock	-	-	-	-	-	-	-	-	(1)
Sale of treasury stock	-	-	-	-	-	-	-	-	63
Changes in scope of consolidation	-	-	-	-	-	-	-	-	-
Reversal for land revaluation	-	-	-	-	-	-	-	-	-
Change in ownership interest of parent arising from transactions with non-controlling shareholders	-	-	-	-	-	-	-	-	-
Changes in items other than capital and retained earnings, net	13,705	(1,002)	-	24,735	9,236	46,674	58	1,399	48,131
Total changes during the fiscal year	13,705	(1,002)	-	24,735	9,236	46,674	58	1,399	129,750
April 1, 2022	¥ 29,707	¥ (1,314)	¥ 145,536	¥ (6,162)	¥ 7,055	¥ 174,822	¥ 440	¥ 15,117	¥ 1,316,697
Cumulative effects of changes in accounting policies	-	-	-	-	-	-	-	-	-
Restated balance	**29,707**	**(1,314)**	**145,536**	**(6,162)**	**7,055**	**174,822**	**440**	**15,117**	**1,316,697**
Increase/(decrease)									
Dividends paid	-	-	-	-	-	-	-	-	**(25,197)**
Net income attributable to owners of the parent	-	-	-	-	-	-	-	-	**142,814**
Purchase of treasury stock	-	-	-	-	-	-	-	-	**(2)**
Sale of treasury stock	-	-	-	-	-	-	-	-	**78**
Changes in scope of consolidation	-	-	-	-	-	-	-	-	**(78)**
Reversal for land revaluation	-	-	-	-	-	-	-	-	**234**
Change in ownership interest of parent arising from transactions with non-controlling shareholders	-	-	-	-	-	-	-	-	**61**
Changes in items other than capital and retained earnings, net	**(9,464)**	**1,246**	**(234)**	**20,346**	**8,654**	**20,548**	**35**	**1,611**	**22,194**
Total changes during the fiscal year	**(9,464)**	**1,246**	**(234)**	**20,346**	**8,654**	**20,548**	**35**	**1,611**	**140,104**
March 31, 2023	**¥ 20,243**	**¥ (68)**	**¥ 145,302**	**¥ 14,184**	**¥ 15,709**	**¥ 195,370**	**¥ 475**	**¥ 16,728**	**¥ 1,456,801**

	Thousands of U.S. dollars (Note 1)				
	Capital and retained earnings				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total
April 1, 2022	$2,119,082	$1,962,709	$ 4,339,239	$ (15,672)	$ 8,405,358
Cumulative effects of changes in accounting policies	-	-	-	-	-
Restated balance	**2,119,082**	**1,962,709**	**4,339,239**	**(15,672)**	**8,405,358**
Increase/(decrease)	-	-	-	-	-
Dividends paid	-	-	**(188,037)**	-	**(188,037)**
Net income attributable to owners of the parent	-	-	**1,065,776**	-	**1,065,776**
Purchase of treasury stock	-	-	-	**(15)**	**(15)**
Sale of treasury stock	-	**(216)**	-	**799**	**583**
Changes in scope of consolidation	-	-	**(582)**	-	**(582)**
Reversal for land revaluation	-	-	**1,746**	-	**1,746**
Change in ownership interest of parent arising from transactions with non-controlling shareholders	-	**455**	-	-	**455**
Changes in items other than capital and retained earnings, net	-	-	-	-	-
Total changes during the fiscal year	**-**	**239**	**878,903**	**784**	**879,926**
March 31, 2023	**$2,119,082**	**$1,962,948**	**$ 5,218,142**	**$ (14,888)**	**$ 9,285,284**

	Thousands of U.S. dollars (Note 1)								
	Accumulated other comprehensive income/(loss)								
	Net unrealized gain/(loss) on available-for-sale securities	Deferred gains/(losses) on hedges	Land revaluation	Foreign currency translation adjustment	Accumulated adjustments for retirement benefits	Total	Stock acquisition rights	Non-controlling interests	Total net assets
April 1, 2022	$ 221,694	$ (9,806)	$1,086,090	$ (45,985)	$ 52,649	$1,304,642	$ 3,284	$ 112,813	$ 9,826,097
Cumulative effects of changes in accounting policies	-	-	-	-	-	-	-	-	-
Restated balance	**221,694**	**(9,806)**	**1,086,090**	**(45,985)**	**52,649**	**1,304,642**	**3,284**	**112,813**	**9,826,097**
Increase/(decrease)	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	**(188,037)**
Net income attributable to owners of the parent	-	-	-	-	-	-	-	-	**1,065,776**
Purchase of treasury stock	-	-	-	-	-	-	-	-	**(15)**
Sale of treasury stock	-	-	-	-	-	-	-	-	**583**
Changes in scope of consolidation	-	-	-	-	-	-	-	-	**(582)**
Reversal for land revaluation	-	-	-	-	-	-	-	-	**1,746**
Change in ownership interest of parent arising from transactions with non-controlling shareholders	-	-	-	-	-	-	-	-	**455**
Changes in items other than capital and retained earnings, net	**(70,627)**	**9,299**	**(1,747)**	**151,836**	**64,582**	**153,343**	**261**	**12,022**	**165,626**
Total changes during the fiscal year	**(70,627)**	**9,299**	**(1,747)**	**151,836**	**64,582**	**153,343**	**261**	**12,022**	**1,045,552**
March 31, 2023	**$ 151,067**	**$ (507)**	**$1,084,343**	**$ 105,851**	**$ 117,231**	**$1,457,985**	**$ 3,545**	**$ 124,835**	**$ 10,871,649**

CONSOLIDATED STATEMENTS OF CASH FLOWS

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	**2023**	**2023**
Cash flows from operating activities:			
Income before income taxes	¥ 112,399	¥ **169,972**	**$ 1,268,448**
Adjustments to reconcile income before income taxes to net cash provided by/(used in) operating activities:			
Depreciation and amortization	90,281	**105,950**	**790,672**
Impairment loss	691	**296**	**2,209**
Increase/(decrease) in allowance for doubtful receivables	4,625	**(4,688)**	**(34,985)**
Increase/(decrease) in reserve for warranty expenses	(14,243)	**19,386**	**144,672**
Increase /(decrease) in provision for loss on compensation for damage	11,500	**(11,100)**	**(82,836)**
Increase/(decrease) in provision related to environmental regulations	-	**14,533**	**108,455**
Increase/(decrease) in liability for retirement benefits	(5,169)	**(7,251)**	**(54,112)**
Interest and dividend income	(5,795)	**(13,169)**	**(98,276)**
Interest expense	6,782	**8,483**	**63,306**
Equity in net loss/(income) of affiliated companies	4,074	**(15,777)**	**(117,739)**
Loss/(gain) on change in equity	(4,047)	**-**	**-**
Loss/(gain) on sale and retirement of property, plant and equipment, net	4,597	**4,687**	**34,978**
Loss on liquidation of subsidiaries and affiliates	-	**10,953**	**81,739**
Decrease/(increase) in trade notes and accounts receivable	(17,929)	**(17,509)**	**(130,664)**
Decrease/(increase) in inventories	77,411	**(258,052)**	**(1,925,761)**
Decrease/(increase) in other current assets	(24,064)	**(5,222)**	**(38,970)**
Increase/(decrease) in trade notes and accounts payable	(22,963)	**127,833**	**953,978**
Increase/(decrease) in other current liabilities	11,043	**56,210**	**419,478**
Other	(52,763)	**(41,028)**	**(306,182)**
Subtotal	176,430	**144,507**	**1,078,410**
Interest and dividends received	36,743	**20,755**	**154,888**
Interest paid	(9,176)	**(8,112)**	**(60,537)**
Proceeds from insurance income	1,009	**-**	**-**
Income taxes refunded/(paid)	(18,250)	**(19,726)**	**(147,209)**
Refund of income taxes for prior periods	2,456	**-**	**-**
Other	(57)	**-**	**-**
Net cash provided by/(used in) operating activities	189,155	**137,424**	**1,025,552**
Cash flows from investing activities:			
Net decrease/(increase) in time deposits	203	**-**	**-**
Purchase of investment securities	(389)	**(3,124)**	**(23,313)**
Proceeds from sales and redemption of investment securities	323	**433**	**3,231**
Purchase of property, plant and equipment	(121,946)	**(79,787)**	**(595,425)**
Proceeds from sale of property, plant and equipment	709	**822**	**6,134**
Purchase of intangible assets	(17,405)	**(19,341)**	**(144,336)**
Net decrease/(increase) in short-term loans receivable	598	**(2)**	**(15)**
Payments of long-term loans receivable	(145)	**(19)**	**(142)**
Collections of long-term loans receivable	1,480	**98**	**731**
Other	335	**1,493**	**11,142**
Net cash provided by/(used in) investing activities	(136,237)	**(99,427)**	**(741,993)**
Cash flows from financing activities:			
Net increase/(decrease) in short-term debt	(92)	**(74)**	**(552)**
Proceeds from long-term debt	70,709	**4,947**	**36,918**
Repayments of long-term debt	(156,891)	**(69,418)**	**(518,045)**
Cash dividends paid	-	**(25,197)**	**(188,037)**
Cash dividends paid to non-controlling interests	(193)	**(197)**	**(1,470)**
Net decrease/(increase) in treasury stock	62	**76**	**567**
Net cash provided by/(used in) financing activities	(86,405)	**(89,863)**	**(670,618)**
Effect of exchange rate fluctuations on cash and cash equivalents	35,079	**28,884**	**215,552**
Net increase/(decrease) in cash and cash equivalents	1,592	**(22,982)**	**(171,507)**
Cash and cash equivalents at beginning of the period	738,793	**740,385**	**5,525,260**
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	**-**	**(310)**	**(2,313)**
Cash and cash equivalents at end of the period	¥ 740,385	¥ **717,093**	**$ 5,351,440**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mazda Motor Corporation and Consolidated Subsidiaries

1 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Mazda Motor Corporation (the "Company") and its consolidated subsidiaries (together, the "Group") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards ("IFRS").

For the convenience of readers outside Japan, the accompanying consolidated financial statements have been reformatted and translated into English from the consolidated financial statements of the Group prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law of Japan. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The conversion of the Japanese yen into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2023, which was ¥134 to U.S. $1.00. The conversions should not be construed as representations that the Japanese yen 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

The consolidated financial statements include the Company and 70 subsidiaries (71 in the year ended March 31, 2022). In addition, 20 affiliates (18 in the year ended March 31, 2022) are accounted for under the equity method.

The consolidated balance sheet date is March 31. Among the consolidated subsidiaries, 21 companies have fiscal year-ends for their statutory financial statements that are different from the consolidated balance sheet date, most of which are December 31. In preparing the consolidated financial statements, for 7 of the 21 companies, provisional settlement of accounts that are prepared for consolidation are used to supplement the companies' statutory financial statements. For the other 14 companies, in preparing the consolidated financial statements, financial statements of these companies with different 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 balance sheet date.

FOREIGN CURRENCY CONVERSION

Receivables and payables denominated in foreign currencies are converted into Japanese yen at the exchange rate at the year-end; gains and losses in foreign currency conversion are included in the income for the current period.

Balance sheet accounts of consolidated foreign subsidiaries are converted into Japanese yen at the rates on the subsidiaries' balance sheet dates except for net assets accounts, which are converted at the historical rates. Income statement accounts of consolidated foreign subsidiaries are converted into Japanese yen at the average rates during the subsidiaries' accounting periods, with the conversion differences prorated and included in the net assets as a foreign currency conversion adjustment and non-controlling interests in the consolidated subsidiaries.

CASH AND CASH EQUIVALENTS

The Group considers all highly liquid short-term investments with a minimum risk of price fluctuation, whose maturity date comes within three months from the time of purchase, to be cash equivalents.

SECURITIES

Securities are classified 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 the unconsolidated subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

The Group does not have trading securities. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by unconsolidated subsidiaries and affiliated companies that, based on the applicable materiality provisions of Japanese GAAP, are not accounted for under 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 accumulated other comprehensive income within net assets. Realized gains and losses on the sale of such securities are computed using moving-average cost. Available-for-sale securities without available fair market values are stated mainly at moving-average cost.

If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method and of 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 and of available-for-sale securities is not readily available and the net asset value declines significantly, such securities shall be written down to net asset value with a corresponding charge to income. 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 fiscal year.

DERIVATIVES AND HEDGE ACCOUNTING

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

If derivative financial instruments are used as hedges and meet certain hedging criteria, recognition of gains or losses resulting from changes in the fair value of derivative financial instruments is deferred 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.

INVENTORIES

Inventories are stated at the lower of cost (determined principally by the weighted average method), or net realizable value.

PROPERTY, PLANT AND EQUIPMENT (EXCEPT FOR LEASED ASSETS)

Property, plant and equipment are stated principally at cost. Depreciation is computed mainly using the straight-line method over the estimated useful lives of the assets with a residual value at the end of useful lives to be a memorandum value.

INTANGIBLE ASSETS (EXCEPT FOR LEASED ASSETS)

Intangible assets are amortized using the straight-line method over the estimated useful lives of the assets.
Software for internal use is amortized on a straight-line basis over the period of internal use, i.e. 5 years.

AMORTIZATION OF GOODWILL

The difference between the consideration transferred and the fair value of net assets acquired is shown as goodwill, and amortized on a straight-line basis over a period (primarily 5 years) during which each investment is expected to generate benefits.

LEASED ASSETS

FINANCE LEASES IN WHICH OWNERSHIP IS NOT TRANSFERRED TO THE LESSEE

Contents of leased assets are as follows. Property, plant and equipment are mainly sales administration facilities, parts of automobile manufacturing equipment and molds, and electronic calculators. Intangible assets are software.

Finance leases are capitalized on the consolidated balance sheet. Depreciation or amortization expense is recognized on a straight-line basis over the lease period.

For leases with a guaranteed minimum residual value, the contracted residual value is considered to be the residual value for financial accounting purposes. For other leases, the residual value is zero.

The consolidated foreign subsidiaries that apply IFRS or Generally Accepted Accounting Principles in the U.S. (“US GAAP”) have adopted IFRS 16 “Leases” (“IFRS 16”) or Accounting Standards Update (“ASU”) 2016-02 "Leases." In accordance with these accounting standards, the lessee recognizes in principle all of the lease assets and lease liabilities on the balance sheet. For lease assets, depreciation or amortization expense is recognized on a straight-line basis over the lease period.

ALLOWANCE FOR DOUBTFUL RECEIVABLES

Allowance for doubtful receivables provides for losses from bad debts. The amount estimated to be uncollectible is recorded. For receivables at an ordinary risk, the amount is based on the past default ratio, and for receivables at a high risk, the amount is calculated in consideration of the collectibility of individual receivables.

RESERVE FOR WARRANTY EXPENSES

Reserve for warranty expenses provides for after-sales expenses of products (vehicles). In accordance with the coverage of the warranty booklet and relevant laws and regulations, the amount is estimated per product warranty provisions and actual costs incurred in the past, taking future prospects and expected reimbursements into consideration.

PROVISION FOR LOSS ON COMPENSATION FOR DAMAGE

Provision for loss on compensation for damage provides for expected loss from compensation for damages in the future when the loss is probable and the amount is reasonably estimable.

PROVISION RELATED TO ENVIRONMENTAL REGULATIONS

Provision related to environmental regulations provides for the estimated costs of complying with environmental regulations at the end of the fiscal year.

REVENUES

The main business of the Group is the manufacturing and sale of automobiles and their components, as well as maintenance services. For product sales, the revenue is recognized when control over the products is transferred to the customer and the performance obligation is satisfied. This transfer generally takes place when the product is delivered at a location agreed with the customer. Maintenance services, etc. are treated as a separate performance obligation from the delivery of the product. For non-recurring services such as maintenance, the performance obligation is satisfied and the revenue is recognized when the service is completed and delivered to the customer. For recurring services such as Connected Services, the performance obligation is satisfied and the revenue is recognized over the period the service is provided.

Revenue is measured based on the consideration specified in the contract with the customer and excludes amounts collected on behalf of third parties. The total consideration of the contract is allocated to performance obligations based on their standalone selling prices. These standalone selling prices are determined with reference to the selling prices of similar products or services, or other reasonably available information.

The Group provides dealers with sales incentives calculated based on sales promotion programs, which generally represent discount from the Group to dealers. This sales incentive is deducted from the revenue recognized when the applicable product is delivered to the dealers.

The consideration for the product is usually collected from customers within 30 days from the time when revenue is recognized, and the consideration for the service is collected from customers within 30 days from the time when the service is provided, and there are no significant payment terms.

EMPLOYEES' RETIREMENT BENEFITS

The Group provides various types of post-employment benefit plans, including lump-sum plans, defined benefit pension plans, and defined contribution 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.

In calculating the retirement benefit obligations, the method of attributing expected benefit to the accounting period is based mainly on a benefit formula basis.

The recognition of actuarial differences is deferred on the straight-line basis over a period equal to or less than the average remaining service period of employees at the time such gains or losses are realized (mainly 13 years). The amortization of net gains or losses starts from the year immediately following the year in which such gains or losses arise.

The recognition of past service costs is deferred on a straight-line basis over a period equal to or less than the average remaining service period of employees at the time such cost is incurred (mainly 12 years).

INCOME TAXES

Income taxes comprise corporation, enterprise, and inhabitants taxes. Deferred tax assets and liabilities are recognized to reflect the estimated tax effects attributable to temporary differences and tax loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates that are expected to apply when the temporary differences are expected to reverse. The measurement of deferred tax assets is reduced by a valuation allowance, if necessary, by the amount of any tax benefits that are not expected to be realized.

AMOUNTS PER SHARE OF COMMON STOCK

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

Cash dividends per share represent amounts applicable for the respective years on an accrual basis.

PRESENTATION OF OPERATING LEASE ASSETS UNDER US GAAP

Operating lease assets under US GAAP are included in leased assets under property, plant and equipment.

RECLASSIFICATION

Certain comparative figures have been reclassified to conform with the current period's presentation.

3 SIGNIFICANT ACCOUNTING ESTIMATES

Accounting estimates are calculated based on the information available at the time of the preparation of the consolidated financial statements. Accounting estimates that are recorded in the consolidated financial statements for the current fiscal year and have a risk of a material effect on consolidated financial statements for the next fiscal year are as follows:

RESERVE FOR WARRANTY EXPENSES

1) Amounts reported in the consolidated financial statements are as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2022	**2023**	**2023**
Reserve for warranty expenses	¥ 66,261	**¥ 85,647**	**$ 639,157**

2) Other information that assists readers of consolidated financial statements in understanding the nature of the estimates:

For after-sales service expenses of products, the Group estimates future repair costs to be incurred in accordance with the coverage of the warranty booklet ("general warranty") and with the related laws and regulations such as recalls and service campaigns ("recall-related repair costs"), and records them in the reserve for product warranty expenses. The estimation also reflects the expected reimbursement amounts to be recovered from the supplier.

Of the above, the reserve for general warranty is estimated by calculating the repair cost per vehicle for each major market based on historical data, and multiplying it by the number of vehicles covered under the warranty. The reserve for recall-related repair costs is estimated for each recall and service campaign. It is estimated by calculating the repair cost per vehicle, which includes parts costs and labor costs, and multiplying it by the estimated number of vehicles subject to each recall and service campaign. With regard to the expected reimbursement amounts to be recovered from the supplier, based upon the analysis of the causes of defects, the expected reimbursement rate is determined by considering technical responsibility, the suppliers' payment ability, and the status of negotiations with suppliers. It is then incorporated into the calculation of the reserve.

The assumptions used in the estimates of the recall-related repair costs per vehicle and the number of vehicles covered under the warranty involve management's judgment and future uncertainty. Therefore, if there is a significant change in these assumptions, additional recognition or reversal of reserve for warranty expenses may be required.

4 ACCOUNTING CHANGES

CHANGES IN ACCOUNTING POLICIES

-APPLICATION OF ACCOUNTING STANDARD FOR FAIR VALUE MEASUREMENT

The Group has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021) from the beginning of the fiscal year ended March 31, 2023, and has prospectively applied the new accounting policies under ASBJ Guidance No. 31 in accordance with the transitional provision set out in paragraph 27-2 of ASBJ Guidance No. 31. This has no impact on the consolidated financial statements.

Within Note 5, "Financial Instruments", where disclosure is made by level of fair values of financial instruments, information on investment funds relevant to the year ended March 31, 2022 is not provided in accordance with paragraph 27-3 of the ASBJ Guidance No. 31.

-APPLICATION OF ASU 2016-02 "LEASES"

The consolidated foreign subsidiaries that apply US GAAP have adopted ASU 2016-02 "Leases" from the year ended March 31, 2023. In accordance with this adoption, the lessee recognized substantially all lease assets and lease liabilities on the balance sheet. The consolidated foreign subsidiaries have adopted the transitional treatment, by which the cumulative effect of applying this standard was recognized at the date of initial application.

As a result, at the beginning of the fiscal year ended March 31, 2023, leased assets (net) included in property, plant and equipment increased by ¥9,378 million ($69,985 thousand), lease obligations (the total amount of Current and Non-current) increased by ¥10,220 million ($76,269 thousand), and other current liabilities decreased by ¥842 million ($6,284 thousand).

NEW ACCOUNTING STANDARDS NOT YET APPLIED

-"Accounting Standard for Current Income Taxes"(ASBJ Statement No. 27, October 28, 2022)
-"Accounting Standard for Presentation of Comprehensive Income"(ASBJ Statement No. 25, October 28, 2022)
-"Guidance on Accounting Standard for Tax Effect Accounting"(ASBJ Guidance No. 28, October 28, 2022)

1) Summary
These standards prescribe the categories in which income tax expense should be recorded when other comprehensive income is taxed and the treatment of tax effects associated with sales of shares of subsidiaries, etc. when the group taxation regime is applied.
2) Effective date
Effective from the beginning of the fiscal year ending March 31, 2025.
3) Effects of the application of the standards
The impact is yet to be determined at this time.

5 FINANCIAL INSTRUMENTS

QUALITATIVE INFORMATION ON FINANCIAL INSTRUMENTS

POLICIES FOR USING FINANCIAL INSTRUMENTS

The Group finances cash mainly through bank loans and the issuance of bonds for the purpose of planned capital investment. Temporary surplus funds are managed through investments in low-risk assets. Short-term operating funds are financed mainly through bank loans. Derivative instruments are used to hedge risks, as discussed below, and not to conduct speculative transactions.

DETAILS OF FINANCIAL INSTRUMENTS AND THE EXPOSURES TO RISK

Trade notes and accounts receivable, while due within one year, are subject to customers' credit risks. Accounts receivable denominated in foreign currencies are subject to the risk of fluctuations in foreign currency exchange rates; such risk is hedged, in principle, by netting the foreign-currency-denominated accounts receivable against accounts payable and applying foreign exchange forward contracts on the resulting net position.

Short-term investments consist mainly of certificates of deposit and other highly-liquid short-term investments. Investment securities consist mainly of stocks of our business partner companies and are subject to the risk of market price fluctuations and other factors. Long-term loans receivable are provided mainly to our business partner companies.

Trade notes and accounts payable, as well as other accounts payable, are due within one year. Of these payables, those denominated in foreign currencies are subject to the risk of fluctuations in foreign currency exchange rates. However, for the most part, the balance of such payables is constantly less than that of the accounts receivable denominated in the same foreign currency. For other parts, such payables are hedged, as necessary, through foreign exchange forward contracts, considering the transaction amounts and the degree of risk of foreign exchange rate fluctuation.

Loans payable, bonds payable, and lease obligations are mainly used to finance cash required for capital investment. The longest time to maturity of these liabilities is 58 years and 4 months from March 31, 2023 (59 years and 4 month in the year ended March 31, 2022).

Derivative instruments consist of foreign exchange forward contracts. For details on derivative instruments, refer to "Derivatives and Hedge Accounting" under Note 2, "Summary of Significant Accounting Policies," and Note 7, "Derivatives."

POLICIES AND PROCESSES FOR MANAGING RISK

MANAGEMENT OF CREDIT RISKS (I.E. RISKS ASSOCIATED WITH THE DEFAULT OF COUNTERPARTIES)

The Group manages credit risks in compliance with internal control rules and procedures.

The due dates and the balances of trade notes, accounts receivable, and loans receivable from major counterparties are monitored and managed in order to detect early and mitigate the risk of doubtful receivables.

Short-term investments and derivative transactions are executed only with banks with high credit ratings. As such, the credit risks of these short-term investments and derivative transactions are considered to be minimal. The credit risks of counterparty financial institutions are reviewed on a quarterly basis.

The amount of maximum risk as of March 31, 2023 is represented by the balance sheet amount of financial assets exposed to credit risks.

MANAGEMENT OF MARKET RISKS (I.E. RISKS ASSOCIATED WITH FLUCTUATIONS IN FOREIGN EXCHANGE RATES AND INTEREST RATES)

The Group hedges the risk of foreign exchange rate fluctuation on foreign-currency-denominated receivables and payables, using foreign exchange forward contracts, on a monthly and individual currency basis. Foreign exchange forward contracts are executed as necessary, up to 6 months ahead, on foreign-currency-denominated receivables and payables that are expected to arise with certainty as a result of forecasted export and import transactions.

The Company and some of its consolidated subsidiaries use interest rate swaps, as necessary, in order to reduce the risk of interest rate fluctuation on loans payable.

For details on management of derivative transactions, refer to Note 7, "Derivatives".

With regard to short-term investments and investment securities, their fair values as well as the financial standing of their issuing entities are monitored on a regular basis. Ownership of available-for-sale securities are reviewed on a continuous basis.

MANAGEMENT OF LIQUIDITY RISKS RELATED TO FINANCING (I.E. RISKS OF NON-PERFORMANCE OF PAYMENTS ON THEIR DUE DATES)

The liquidity risks of the Group are managed mainly through the preparation and update of the cash schedule on a timely basis, and the Company maintains a certain level of liquidity at hand in order to respond to sudden changes in external environment. The Company also has systems and procedures in place that allow us to respond flexibly to liquidity risks through managing the funds of the Group and intercompany loans within the Group. In addition, the Company ensures sufficient liquidity by entering into commitment line agreements with domestic financial institutions.

SUPPLEMENTARY EXPLANATION ON FAIR VALUES OF FINANCIAL INSTRUMENTS

Since variable factors are incorporated when calculating the fair values of financial instruments, such values may vary depending on the assumptions and variables used in the calculation.

FAIR VALUES OF FINANCIAL INSTRUMENTS

As of March 31, 2022 and 2023, the carrying values on the consolidated balance sheet, the fair values, and the differences between these amounts, respectively, of financial instruments were as follows. Financial instruments without observable market data are excluded from the following table. Cash and cash equivalents (except for Securities), Trade notes and accounts receivable, Trade notes and accounts payable, Other accounts payable, Short-term debt are also excluded since the carrying values approximate fair values.

	Millions of yen		
As of March 31, 2022	Carrying values	Fair values	Difference
Assets:			
1) Securities (*1)			
Available-for-sale securities	¥ 71,000	¥ 71,000	¥ -
2) Investment securities			
Held-to-maturity debt securities	60	60	-
Available-for-sale securities	98,693	98,693	-
Total	¥ 169,753	¥ 169,753	¥ -
Liabilities:			
1) Bonds	¥ 50,000	¥ 49,616	¥ (384)
2) Long-term loans	602,520	604,713	2,193
3) Lease obligations	23,409	23,429	20
Total	¥ 675,929	¥ 677,758	¥ 1,829
Derivative instruments:(*2)			
1) Hedge accounting not applied	¥ (3,436)	¥ (3,436)	¥ -
2) Hedge accounting applied	(1,986)	(1,986)	-
Total	¥ (5,422)	¥ (5,422)	¥ -

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2023	Carrying values	Fair values	Difference	Carrying values	Fair values	Difference
Assets:						
1) Securities (*1)						
Available-for-sale securities	**¥ 89,000**	**¥ 89,000**	**¥ -**	**$ 664,179**	**$ 664,179**	**$ -**
2) Investment securities						
Held-to-maturity debt securities	**60**	**60**	**-**	**448**	**448**	**-**
Available-for-sale securities	**87,774**	**87,774**	**-**	**655,030**	**655,030**	**-**
Total	**¥ 176,834**	**¥ 176,834**	**¥ -**	**$1,319,657**	**$1,319,657**	**$ -**
Liabilities:						
1) Bonds	**¥ 50,000**	**¥ 49,678**	**¥ (322)**	**$ 373,134**	**$ 370,731**	**$ (2,403)**
2) Long-term loans	**544,919**	**546,775**	**1,856**	**4,066,560**	**4,080,410**	**13,851**
3) Lease obligations	**27,716**	**27,331**	**(385)**	**206,836**	**203,963**	**(2,873)**
Total	**¥ 622,635**	**¥ 623,784**	**¥ 1,149**	**$4,646,530**	**$4,655,104**	**$ 8,575**
Derivative instruments:(*2)						
1) Hedge accounting not applied	**¥ (281)**	**¥ (281)**	**¥ -**	**$ (2,097)**	**$ (2,097)**	**$ -**
2) Hedge accounting applied	**(201)**	**(201)**	**-**	**(1,500)**	**(1,500)**	**-**
Total	**¥ (482)**	**¥ (482)**	**¥ -**	**$ (3,597)**	**$ (3,597)**	**$ -**

(*1) Securities are included in “Cash and cash equivalents” in the consolidated balance sheets.

(*2) Receivables and payables resulting from derivative transactions are offset against each other and presented on a net basis; when a net liability results, the net amount is shown in ( ).

The financial instruments in the following table are excluded from "Assets: 2) Investment securities" in the above tables.

	Millions of yen		Thousands of U.S. dollars
	Carrying values		Carrying values
As of March 31	2022	**2023**	**2023**
Available-for-sale securities:			
Non-listed equity securities	¥ 1,389	¥ **1,408**	$ **10,507**
Investment securities of affiliated companies	122,050	**125,653**	**937,709**
Total	¥ 123,439	¥ **127,061**	$ **948,216**

FAIR VALUE OF FINANCIAL INSTRUMENTS AND HIERARCHY

The fair values of financial instruments are classified into the following three levels depending on the observability and significance of the input used in the fair value measurement.

Level 1: Fair value determined based on the (unadjusted) quoted prices in active markets for identical assets or liabilities

Level 2: Fair value determined based on directly or indirectly observable inputs other than Level 1 inputs

Level 3: Fair value determined based on significant unobservable inputs

If multiple inputs with a significant impact are used for the fair value measurement, the financial instrument is classified to the lowest level of the fair value hierarchy.

1) Financial assets and financial liabilities that are recorded on the consolidated balance sheet at fair value are as follows:

	Millions of yen			
	Fair values			
As of March 31, 2022	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities				
Available-for-sale securities				
Stocks	¥ 97,446	¥ -	¥ -	¥ 97,446
Other	1,247	-	-	1,247
Total	¥ 98,693	¥ -	¥ -	¥ 98,693
Derivative instruments:(*1)				
Currency related	-	(5,422)	-	(5,422)
Total	¥ -	¥ (5,422)	¥ -	¥ (5,422)

	Millions of yen				Thousands of U.S. dollars			
	Fair values				Fair values			
As of March 31, 2023	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Investment securities								
Available-for-sale securities								
Stocks	¥ **83,793**	¥ **-**	¥ **-**	¥ **83,793**	$ **625,321**	$ **-**	$ **-**	$ **625,321**
Bonds	**-**	**-**	**2,839**	**2,839**	**-**	**-**	**21,187**	**21,187**
Other	**1,142**	**-**	**-**	**1,142**	**8,522**	**-**	**-**	**8,522**
Total	¥ **84,935**	¥ **-**	¥ **2,839**	¥ **87,774**	$ **633,843**	$ **-**	$ **21,187**	$ **655,030**
Derivative instruments:(*1)								
Currency related	**-**	**(482)**	**-**	**(482)**	**-**	**(3,597)**	**-**	**(3,597)**
Total	¥ **-**	¥ **(482)**	¥ **-**	¥ **(482)**	$ **-**	$ **(3,597)**	$ **-**	$ **(3,597)**

(*1) Receivables and payables resulting from derivative transactions are offset against each other and presented on a net basis; when a net liability results, the net amount is shown in ( ).

2) Financial assets and financial liabilities that are not recorded on the consolidated balance sheet at fair value are as follows:

	Millions of yen			
	Fair values			
As of March 31, 2022	Level 1	Level 2	Level 3	Total
Assets:				
Securities				
Available-for-sale securities (other)	¥ -	¥ 71,000	¥ -	¥ 71,000
Investment securities				
Held-to-maturity debt securities (bonds)	-	60	-	60
Total	¥ -	¥ 71,060	¥ -	¥ 71,060
Liabilities:				
Bonds	¥ -	¥ 49,616	¥ -	¥ 49,616
Long-term loans	-	604,713	-	604,713
Lease obligations	-	23,429	-	23,429
Total	¥ -	¥ 677,758	¥ -	¥ 677,758

	Millions of yen				Thousands of U.S. dollars			
	Fair values				Fair values			
As of March 31, 2023	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Securities								
Available-for-sale securities (other)	**¥ -**	**¥ 89,000**	**¥ -**	**¥ 89,000**	**$ -**	**$ 664,179**	**$ -**	**$ 664,179**
Investment securities								
Held-to-maturity debt securities (bonds)	**-**	**60**	**-**	**60**	**-**	**448**	**-**	**448**
Total	**¥ -**	**¥ 89,060**	**¥ -**	**¥ 89,060**	**$ -**	**$ 664,627**	**$ -**	**$ 664,627**
Liabilities:								
Bonds	**¥ -**	**¥ 49,678**	**¥ -**	**¥ 49,678**	**$ -**	**$ 370,731**	**$ -**	**$ 370,731**
Long-term loans	**-**	**546,775**	**-**	**546,775**	**-**	**4,080,410**	**-**	**4,080,410**
Lease obligations	**-**	**27,331**	**-**	**27,331**	**-**	**203,963**	**-**	**203,963**
Total	**¥ -**	**¥ 623,784**	**¥ -**	**¥ 623,784**	**$ -**	**$4,655,104**	**$ -**	**$4,655,104**

DESCRIPTION OF THE VALUATION TECHNIQUES AND INPUTS USED TO MEASURE FAIR VALUE

INVESTMENT SECURITIES

Investments in publically traded equity securities are actively traded and valued based on their market prices, and their fair values are mainly classified as Level 1 assets. On the other hand, the fair value of the convertible bonds with stock acquisition rights is classified as Level 3 assets, and is calculated by applying valuation techniques based on a binomial model with significant unobservable inputs, such as discount rates, using a price obtained from an external valuation expert.

SECURITIES

Securities consist mainly of certificates of deposits of creditworthy financial institutions and are settled within short periods of time, and their carrying amounts approximate their fair values. Accordingly, their fair value is classified as Level 2 assets, and carrying amounts are used as the fair values of these securities.

DERIVATIVE INSTRUMENTS

The fair value of foreign exchange forward contracts is calculated based on the price presented by financial institutions and is classified as Level 2 assets.

LONG-TERM DEBT

Bonds payable

The fair value of bonds issued by the Group is calculated based on the market price (JSDA "Reference Statistical Prices [Yields] for OTC Bond Transactions") and classified as Level 2 assets.

Long-term loans payable and Finance lease obligations
The fair value of these liabilities is calculated by discounting the principal and interest payments to present value, using the imputed interest rate that would be applied for similar new borrowings or leases. Accordingly, their fair value is classified as Level 2 assets.

SCHEDULE OF REPAYMENTS OF RECEIVABLE
Schedule of repayments of receivable were as follows:

	Millions of yen			
As of March 31, 2022	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Trade notes and accounts receivable (*1)	¥ 146,136	¥ -	¥ -	¥ -

(*1) Trade notes and accounts receivable do not include ¥7,707 million for doubtful accounts receivables, such that payments are not expected.

	Millions of yen				Thousands of U.S. dollars			
As of March 31, 2023	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Trade notes and accounts receivable	**¥ 166,921**	**¥ -**	**¥ -**	**¥ -**	**$1,245,679**	**$ -**	**$ -**	**$ -**

For the schedule of repayment of long-term debt after the consolidated balance sheet date, refer to Note 10, "Short-Term Debt and Long-Term Debt."

6 SECURITIES

The carrying values and the fair values of held-to-maturity debt securities and the acquisition costs and the carrying values of available-for-sale securities as of March 31, 2022 and 2023 were as follows:

	Millions of yen		
As of March 31, 2022	Carrying values	Fair values	Difference
Held-to-maturity debt securities:			
Bonds	¥ 60	¥ 60	¥ -

	Millions of yen		
As of March 31, 2022	Acquisition costs	Carrying values	Difference
Available-for-sale securities:			
Stocks	¥ 54,666	¥ 97,446	¥ 42,780
Other	72,187	72,247	60
Total	¥ 126,853	¥ 169,693	¥ 42,840

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2023	Carrying values	Fair values	Difference	Carrying values	Fair values	Difference
Held-to-maturity debt securities:						
Bonds	**¥ 60**	**¥ 60**	**¥ -**	**$ 448**	**$ 448**	**$ -**

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2023	Acquisition costs	Carrying values	Difference	Acquisition costs	Carrying values	Difference
Available-for-sale securities:						
Stocks	**¥ 54,672**	**¥ 83,793**	**¥ 29,121**	**$ 408,000**	**$ 625,321**	**$ 217,321**
Bonds	**2,800**	**2,839**	**39**	**20,896**	**21,187**	**291**
Other	**90,145**	**90,142**	**(3)**	**672,724**	**672,701**	**(23)**
Total	**¥ 147,617**	**¥ 176,774**	**¥ 29,157**	**$1,101,620**	**$1,319,209**	**$ 217,589**

7 DERIVATIVES

The Group uses derivative financial instruments to reduce foreign exchange risk and interest rate risk and to determine cash flows.

The Group uses forward foreign exchange contracts for the purpose of mitigating future risks of fluctuations in foreign currency exchange. Also, for the purpose of mitigating future risks of fluctuations in interest rates with respect to borrowings, the Group uses interest rate swap contracts, as necessary. The Group does not engage in speculative transactions as a matter of policy, limiting the transaction amount to actual demand.

Forward foreign exchange contracts are subject to risks of foreign exchange rate changes. Also, interest rate swap contracts are subject to risks of interest rate changes.

Use of derivatives to manage these risks could result in the risk of a counterparty defaulting on a derivative contract. However, the Company believes that the risk of a counterparty defaulting is minimal since the Group uses only highly credible financial institutions as counterparties.

Derivative transactions are conducted in compliance with internal control rules and procedures that prescribe transaction authority. The policies for derivative transactions of the Group are approved by the Company's President or Financial Officer. Transactions are approved in advance by either the Company's Financial Services Division General Manager or Treasury Department General Manager. Based on these approvals, the Treasury Department conducts and books the transactions as well as confirms the balance between the counterparty of the derivatives contract.

The operation of the transaction is segregated from its clerical administration, in order to maintain internal check within the Treasury Department, and is audited periodically by the Global Auditing Department. Derivative transactions are reported, upon execution, to the Company's Financial Officer, Financial Services Division General Manager, and Treasury Department General Manager. The consolidated subsidiaries also follow internal control rules and procedures pursuant to those of the Company, obtain an approval of the Company, and conduct and manage the transactions according to the approval.

As the important conditions concerning the hedging instrument and the hedged item are the same, it is expected that the effects of currency and interest rate fluctuations will be canceled or restricted to a certain extent at the beginning of the hedge and continuing thereafter. Therefore, judgment on the effectiveness of hedging is omitted.

The following summarizes hedging derivative financial instruments used by the Group and items hedged:

Hedging instruments	Hedged items
Forward foreign exchange contracts	Foreign currency-denominated transactions planned in the future
Interest rate swap contracts	Long-term loans payable

The following tables summarize fair value information as of March 31, 2022 and 2023 of derivative transactions for which hedge accounting has not been applied:

The amount in the contract itself does not indicate the market risk related to derivative transactions.

1) Currency related

	Millions of yen			
As of March 31, 2022	Contract amount	Thereof due after 1 year	Estimated fair value	Valuation gain(loss)
Forward foreign exchange contracts:				
Sell:				
U.S. dollar	¥ 40,557	¥ -	¥ (2,269)	¥ (2,269)
Euro	-	-	-	-
Canadian dollar	9,177	-	(614)	(614)
Australian dollar	8,093	-	(638)	(638)
Buy:				
Thai baht	1,758	-	85	85
Total	¥ 59,585	¥ -	¥ (3,436)	¥ (3,436)

As of March 31, 2023	Millions of yen Contract amount	Thereof due after 1 year	Estimated fair value	Valuation gain(loss)	Thousands of U.S. dollars Contract amount	Thereof due after 1 year	Estimated fair value	Valuation gain(loss)
Forward foreign exchange contracts:								
Sell:								
U.S. dollar	¥ 19,339	¥ -	¥ 8	¥ 8	$ 144,321	$ -	$ 60	$ 60
Euro	17,107	-	(357)	(357)	127,664	-	(2,664)	(2,664)
Canadian dollar	10,775	-	(70)	(70)	80,410	-	(522)	(522)
Australian dollar	7,177	-	11	11	53,560	-	82	82
Buy:						-		
Thai baht	7,698	-	127	127	57,448	-	948	948
Total	¥ 62,096	¥ -	¥ (281)	¥ (281)	$ 463,403	$ -	$ (2,097)	$ (2,097)

2) Interest rate related
Not applicable.

The following tables summarize fair value information as of March 31, 2022 and 2023 of derivative transactions for which hedge accounting has been applied:
The amount in the contract itself does not indicate the market risk related to derivative transactions.

1) Currency related
The hedged items are mainly accounts receivable and accounts payable, and hedge accounting is based on the principal treatment method.

As of March 31, 2022	Millions of yen Contract amount	Thereof due after 1 year	Estimated fair value
Forward foreign exchange contracts:			
Sell:			
U.S. dollar	¥ 2,322	¥ -	¥ (122)
Euro	9,237	-	(346)
Canadian dollar	11,926	-	(793)
Australian dollar	9,751	-	(814)
Buy:			
Thai baht	1,752	-	89
Total	¥ 34,988	¥ -	¥ (1,986)

As of March 31, 2023	Millions of yen Contract amount	Thereof due after 1 year	Estimated fair value	Thousands of U.S. dollars Contract amount	Thereof due after 1 year	Estimated fair value
Forward foreign exchange contracts:						
Sell:						
U.S. dollar	¥ 5,283	¥ -	¥ (27)	$ 39,425	$ -	$ (201)
Euro	2,843	-	(60)	21,216	-	(448)
Canadian dollar	2,867	-	(79)	21,396	-	(590)
Australian dollar	3,522	-	(50)	26,284	-	(373)
Buy:						
Thai baht	1,939	-	15	14,470	-	112
Total	¥ 16,454	¥ -	¥ (201)	$ 122,791	$ -	$ (1,500)

2) Interest rate related
Not applicable.

8 INVENTORIES

Inventories as of March 31, 2022 and 2023 were as follows:

As of March 31	Millions of yen 2022	Millions of yen 2023	Thousands of U.S. dollars 2023
Merchandise and finished products	¥ 234,324	¥ **450,327**	$ **3,360,649**
Work in process	134,851	**190,853**	**1,424,276**
Raw materials and supplies	30,748	**29,724**	**221,821**
Total	¥ 399,923	¥ **670,904**	$ **5,006,746**

9 LAND REVALUATION

In accordance with the Partial Revision of the Act on Revaluation of Land (Act No.19, enacted on March 31, 2001) (“Act”), land owned by the Company for business use was revalued. The unrealized gains on the revaluation are included in net assets as “Land revaluation,” net of deferred taxes. The deferred taxes on the unrealized gains are included in liabilities as “Deferred tax liability related to land revaluation.”

The fair value of land was determined based on official notice prices that were assessed and published by the Commissioner of the National Tax Administration, as stipulated in Article 2-4 of the Order for Enforcement of the Act on Revaluation of Land (Cabinet Order No. 119 promulgated on March 31, 1998). Reasonable adjustments, including those for the timing of assessment, were made to the official notice prices.

The amounts of decrease in the aggregate fair value of the revalued land as of March 31, 2022 and 2023 from that at the time of revaluation, as stipulated in Article 10 of the Act, were ¥72,056 million and ¥68,223 million ($509,127 thousand), respectively.

10 SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt as of March 31, 2022 and 2023 consisted of loans, principally from banks with interest rates averaging 1.02% and 1.05% for the respective years.

Long-term debt as of March 31, 2022 and 2023 consisted of the following:

As of March 31	Millions of yen 2022	Millions of yen 2023	Thousands of U.S. dollars 2023
Domestic unsecured bonds due serially through 2024 to 2027 at rate of 0.30% to 0.42% per annum	¥ 50,000	¥ **50,000**	$ **373,134**
Loans principally from banks, maturing through 2081:			
Secured loans	3,230	**2,960**	**22,090**
Unsecured loans	599,290	**541,959**	**4,044,470**
Lease obligations, maturing through 2039 (*1)	23,409	**16,090**	**120,075**
Other interest-bearing debt, maturing through 2026 (*2)	3,352	**3,033**	**22,634**
Subtotal	679,281	**614,042**	**4,582,403**
Amount due within one year	(67,605)	**(204,844)**	**(1,528,687)**
Total	¥ 611,676	¥ **409,198**	$ **3,053,716**

(*1) The consolidated foreign subsidiaries that apply US GAAP have adopted ASU 2016-02 “Leases” and lease obligations corresponding to operating leases of these foreign subsidiaries are not included.

(*2) As of March 31, 2022, other interest-bearing debt are recorded as accrued expense and other non-current liabilities of ¥774 million and ¥ 2,578 million, respectively, in the consolidated balance sheets. As of March 31, 2023, other interest-bearing debt are recorded as accrued expense and other non-current liabilities of ¥1,075 million ($8,022 thousand) and ¥1,958 million ($14,612 thousand) , respectively, in the consolidated balance sheets.

The annual interest rates applicable to long-term loans and lease obligations outstanding averaged 0.72% and 2.16%, respectively, for obligations due within one year and 0.67% and 3.01%, respectively, for obligations due after one year at March 31, 2022.

The annual interest rates applicable to long-term loans and lease obligations outstanding averaged 0.29% and 3.02%, respectively, for obligations due within one year and 0.59% and 3.34%, respectively, for obligations due after one year at March 31, 2023.

The annual maturities of long-term debt at March 31, 2023 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2024	¥ **204,844**	$ **1,528,687**
2025	**118,543**	**884,649**
2026	**114,936**	**857,731**
2027	**147,334**	**1,099,507**
2028	**25,504**	**190,328**
Thereafter	**2,881**	**21,501**
Total	¥ **614,042**	$ **4,582,403**

The assets pledged as collateral for short-term debt of ¥190 million and ¥190 million ($1,418 thousand) , and long-term debt of ¥3,230 million and ¥2,770 million ($20,672 thousand) at March 31, 2022 and 2023, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2022	**2023**	**2023**
Property, plant and equipment, at net book value	¥ 531,553	¥ **551,998**	$ **4,119,388**
Inventories	74,018	**123,933**	**924,873**
Other	66,322	**86,937**	**648,784**
Total	¥ 671,893	¥ **762,868**	$ **5,693,045**

11 CONTINGENT LIABILITIES

Contingent liabilities for guarantees of loans and similar agreements as of March 31, 2022 and 2023 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2022	**2023**	**2023**
Guarantees of loans and similar agreements	¥ 15,192	¥ **17,766**	$ **132,582**

12 OPERATING LEASES

The amounts of future minimum lease payments under non-cancellable operating leases as of March 31, 2022 and 2023 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2022	**2023**	**2023**
Current portion	¥ 3,301	¥ **528**	$ **3,940**
Non-current portion	8,921	**1,105**	**8,246**
Total	¥ 12,222	¥ **1,633**	$ **12,187**

Note: As described in Note 4, “Accounting Changes,” the consolidated foreign subsidiaries that apply US GAAP have adopted ASU 2016-02 “Leases” from the year ended March 31, 2023. As a result, future minimum lease payments under non-cancellable operating leases have decreased.

13 NET ASSETS

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Corporate Law ("the Law"), in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit or could be capitalized by a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

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

Cash dividends charged to retained earnings during the year are year-end cash dividends for the previous year and interim cash dividends for the current year.

Stock acquisition rights as stock options are included in net assets as stock acquisition rights.

Dividends

1) Dividends paid to shareholders

Resolution	Amount (Millions of yen) (Thousands of U.S. dollars)	Amount per share	Shareholders' cut-off date	Effective date
Annual general meeting of shareholders held on June 24, 2022	¥12,597 $94,007	¥20.00 $0.15	March 31, 2022	June 27, 2022
Board of Directors meeting held on November 10, 2022	¥12,599 $94,022	¥20.00 $0.15	September 30, 2022	December 2, 2022

2) Dividends with the cut-off date within the current fiscal year, but the effective date falls within the subsequent fiscal year

Resolution	Amount (Millions of yen) (Thousands of U.S. dollars)	Amount per share	Shareholders' cut-off date	Effective date
Annual general meeting of shareholders held on June 27, 2023	¥15,749 $117,530	¥25.00 $0.19	March 31, 2023	June 28, 2023

14 STOCK OPTIONS

The stock options outstanding as of March 31, 2023 were as follows:

Stock Options	Persons Granted	Number of Options Granted	Date of Grant	Exercise Period
2016 Stock Acquisition Rights	**8 Directors(*1) 18 Executive Officers**	**Common stock 68,200 shares(*3)**	**August 22, 2016**	**From August 23, 2016 to August 22, 2046**
2017 Stock Acquisition Rights	**8 Directors(*1) 21 Executive Officers**	**Common stock 72,200 shares(*3)**	**August 21, 2017**	**From August 22, 2017 to August 21, 2047**
2018 Stock Acquisition Rights	**8 Directors(*1) 20 Executive Officers**	**Common stock 89,700 shares(*3)**	**August 20, 2018**	**From August 21, 2018 to August 20, 2048**
2019 Stock Acquisition Rights	**6 Directors(*2) 19 Executive Officers and Fellow**	**Common stock 104,700 shares(*3)**	**August 20, 2019**	**From August 21, 2019 to August 20, 2049**
2020 Stock Acquisition Rights	**6 Directors(*2) 21 Executive Officers and Fellow**	**Common stock 223,300 shares(*3)**	**August 18, 2020**	**From August 19, 2020 to August 18, 2050**
2021 Stock Acquisition Rights	**7 Directors(*2) 19 Executive Officers and Fellow**	**Common stock 124,000 shares(*3)**	**August 17, 2021**	**From August 18, 2021 to August 17, 2051**
2022 Stock Acquisition Rights	**8 Directors(*2) 19 Executive Officers and Fellow**	**Common stock 102,900 shares(*3)**	**August 22, 2022**	**From August 23, 2022 to August 22, 2052**

(*1) Except for outside directors
(*2) Except for directors who are the Audit and Supervisory Committee members and outside directors
(*3) Converted into number of shares

The stock options activities for the year ended March 31, 2023 were as follows:

For the year ended March 31, 2023	2016 Stock Acquisition Rights (Shares)	2017 Stock Acquisition Rights (Shares)	2018 Stock Acquisition Rights (Shares)	2019 Stock Acquisition Rights (Shares)	2020 Stock Acquisition Rights (Shares)	2021 Stock Acquisition Rights (Shares)	2022 Stock Acquisition Rights (Shares)
Non-vested:							
March 31, 2022 - Outstanding	-	-	-	-	-	-	-
Granted	-	-	-	-	-	-	**102,900**
Forfeited	-	-	-	-	-	-	-
Vested	-	-	-	-	-	-	**102,900**
March 31, 2023 - Outstanding	-	-	-	-	-	-	-
Vested:							
March 31, 2022 - Outstanding	**38,800**	**47,300**	**66,800**	**88,600**	**190,800**	**124,000**	-
Vested	-	-	-	-	-	-	**102,900**
Exercised	**9,200**	**9,300**	**12,700**	**17,600**	**35,500**	**14,800**	-
Canceled	-	-	-	-	-	-	-
March 31, 2023 - Outstanding	**29,600**	**38,000**	**54,100**	**71,000**	**155,300**	**109,200**	**102,900**
Price of Stock Options:							
Exercise price	**¥ 1**	**¥ 1**	**¥ 1**	**¥ 1**	**¥ 1**	**¥ 1**	**¥ 1**
	$ 0.01	**$ 0.01**	**$ 0.01**	**$ 0.01**	**$ 0.01**	**$ 0.01**	**$ 0.01**
Weighted average stock price at exercise	**¥ 1,079.8**	**¥ 1,079.8**	**¥ 1,079.8**	**¥ 1,079.8**	**¥ 1,079.8**	**¥ 1,079.8**	**¥ -**
	$ 8.1	**$ 8.1**	**$ 8.1**	**$ 8.1**	**$ 8.1**	**$ 8.1**	**$ -**
Fair value price at grant date	**¥ 1,327**	**¥ 1,336**	**¥ 1,027**	**¥ 650**	**¥ 415**	**¥ 968**	**¥ 1,099**
	$ 9.90	**$ 9.97**	**$ 7.66**	**$ 4.85**	**$ 3.10**	**$ 7.22**	**$ 8.20**

The assumptions used to measure the fair value of 2022 Stock Acquisition Rights

Estimate method:	**Black-Scholes option pricing model**
Volatility of stock price:	**37.552 %**
Estimated remaining outstanding period:	**8 years**
Estimated dividend:	**¥ 20.00 per share**
Risk-free interest rate:	**0.714 %**

15 REVENUE RECOGNITION

BREAKDOWN OF REVENUE

The Group's revenues consist primarily of revenues recognized from contracts with customers, and revenues generated from sources other than contracts with customers are insignificant. Accordingly, in the consolidated statements of operations, net sales are not presented separately from revenues recognized from contracts with customers and revenues generated from sources other than contracts with customers. The following table shows revenues recognized at a point in time, such as product sales or maintenance services, and revenues recognized over time based on contract period, for each of reportable segments.

	Millions of yen				
	Reportable Segments				
As of and for the year ended March 31, 2022	Japan	North America	Europe	Other areas	Total
Time of revenue recognition:					
Revenue recognized at one point in time	¥ 815,893	¥ 1,196,822	¥ 538,025	¥ 557,254	¥ 3,107,994
Revenue recognized over a period of time	464	9,845	1,374	672	12,355
Total	¥ 816,357	¥ 1,206,667	¥ 539,399	¥ 557,926	¥ 3,120,349

	Millions of yen				
	Reportable Segments				
For the year ended March 31, 2023	Japan	North America	Europe	Other areas	Total
Timing of revenue recognition:					
Revenue recognized at a point in time	**¥ 953,145**	**¥ 1,622,571**	**¥ 634,214**	**¥ 600,907**	**¥ 3,810,837**
Revenue recognized over time	**784**	**13,452**	**1,135**	**544**	**15,915**
Total	**¥ 953,929**	**¥ 1,636,023**	**¥ 635,349**	**¥ 601,451**	**¥ 3,826,752**

	Thousands of U.S. dollars				
	Reportable Segments				
For the year ended March 31, 2023	Japan	North America	Europe	Other areas	Total
Timing of revenue recognition:					
Revenue recognized at a point in time	**$ 7,113,022**	**$ 12,108,739**	**$ 4,732,940**	**$ 4,484,381**	**$ 28,439,082**
Revenue recognized over time	**5,851**	**100,388**	**8,470**	**4,060**	**118,769**
Total	**$ 7,118,873**	**$ 12,209,127**	**$ 4,741,410**	**$ 4,488,441**	**$ 28,557,851**

BASIC INFORMATION FOR UNDERSTANDING REVENUE

For details on Basic information for understanding revenue, refer to “Revenues” under Note 2, “Summary of Significant Accounting Policies.”

INFORMATION FOR UNDERSTANDING THE AMOUNT OF REVENUE FOR THE CURRENT AND SUBSEQUENT PERIODS

1) Contract Balances

Receivables from contracts with customers and contract liabilities as of March 31, 2022 and 2023 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2022	**2023**	**2023**
Receivables from contracts with customers:			
Trade notes	¥ 2,893	**¥ 3,017**	**$22,515**
Accounts receivable	143,243	**163,904**	**1,223,164**
Contract liabilities:			
Other current liabilities	83,710	**99,027**	**739,007**

(*1) Contract liabilities consist mainly of advances received related to product sales and deferred revenue related to Connected Services.

(*2) Of the amount recognized as revenue for the year ended March31, 2022, the amount included in the contract liabilities balance at the beginning of the year was ¥24,913 million.

(*3) Of the amount recognized as revenue for the year ended March31, 2023, the amount included in the contract liabilities balance at the beginning of the year was ¥49,913 million ($372,485 thousand).

2) Transaction price allocated to remaining performance obligations

The total transaction price allocated to unsatisfied (or partially unsatisfied) performance obligations and its breakdown by period in which revenue is expected to be recognized as of March 31, 2022 and 2023 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2022	**2023**	**2023**
Within 1 year	¥ 22,775	¥ **23,603**	$ **176,142**
Over 1 year	28,380	**37,548**	**280,209**
Total	¥ 51,155	¥ **61,151**	$ **456,351**

Please note that the above amounts do not include information on remaining performance obligations that have original expected duration of one year or less, applying the practical expedient. There are no material amounts not included in the transaction price in the consideration arising from contracts with customers.

16 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major items and amounts included in “Selling, general and administrative expenses” in the consolidated statements of operations for the years ended March 31, 2022 and 2023 were as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2022	**2023**	**2023**
Advertising expenses	¥ 79,308	¥ **105,106**	$ **784,373**
Freight and packing expenses	55,763	**88,626**	**661,388**
Reserve for warranty expenses	26,464	**57,449**	**428,724**
Salaries and wages	121,133	**127,814**	**953,836**
Retirement benefit expenses	3,888	**3,352**	**25,015**
Research and development costs	134,622	**127,990**	**955,149**
Provision related to environmental regulations	-	**13,792**	**102,925**

17 RESEARCH AND DEVELOPMENT COSTS

All research and development costs are included in selling, general and administrative expenses. The research and development costs for the years ended March 31, 2022 and 2023 were as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2022	**2023**	**2023**
Research and development costs	¥ 134,622	¥ **127,990**	$ **955,149**

18 OTHER INCOME /(EXPENSES)

The components of "Other, net" in Other income/(expenses) in the consolidated statements of operations for the years ended March 31, 2022 and 2023 were as follows:

For the years ended March 31	Millions of yen 2022	Millions of yen 2023	Thousands of U.S. dollars 2023
Rental income	¥ 1,634	¥ **1,701**	$ **12,694**
Loss on sale of receivables	(932)	**(2,349)**	**(17,530)**
Foreign exchange gain/(loss)	30,288	**25,952**	**193,672**
Burden charge payment	-	**(2,106)**	**(15,716)**
Loss on sales and retirement of property, plant and equipment, net	(4,600)	**(4,958)**	**(37,000)**
Impairment loss (Note 19)	(691)	**(296)**	**(2,209)**
Loss on disaster	(1,563)	**-**	**-**
Loss on production suspension and others due to the novel coronavirus (*1)	(8,861)	**-**	**-**
Loss on liquidation of subsidiaries and affiliates (*2)	-	**(10,953)**	**(81,739)**
Insurance claim income	1,009	**-**	**-**
Gain on change in equity (*3)	4,047	**-**	**-**
Compensation for the exercise of eminent domain	3	**271**	**2,022**
Reversal of provision for environmental measures	23	**54**	**403**
Other	(7,124)	**224**	**1,672**
Total	¥ 13,233	¥ **7,540**	$ **56,269**

(*1) Loss on production suspension and others due to the novel coronavirus for the years ended March 31, 2022 represents the fixed cost during the reduction of production due to the impact of the pandemic. This extraordinary loss was caused by shortages in the supply of parts associated with the outbreak of the pandemic in Southeast Asia, where suppliers restricted their operations at the request of governments.

(*2) Loss on liquidation of subsidiaries and affiliates represents the transfer-related costs incurred in connection with the transfer of the entire equity interest in MAZDA SOLLERS Manufacturing Rus LLC, which was accounted for using the equity method, to the joint venture partner SOLLERS PJSC in December 2022. The transfer agreement includes a right for the Company to repurchase its interest, but in view of the current situation in Ukraine and other factors, the Company has no plan to exercise this right at this time.

(*3) Gain on change in equity represents the profit from the change in equity resulting from the capital increase of Changan Mazda Automobile Co., Ltd. (CMA), affiliated company accounted for using equity method.

As China FAW Corporation Limited (FAW) participated in and won the bid for a capital increase project implemented by CMA in August 2021, CMA has become a joint venture company (new CMA) that are owned by the Company, Chongqing Changan Automobile Co., Ltd. (CA), and FAW. The Company and CA each own 47.5 percent of new CMA's shares while FAW owns 5 percent.

19 IMPAIRMENT LOSS

Details of impairment losses for the years ended March 31, 2022 and 2023 were as follows:

For the year ended March 31, 2022

Purpose of use	Location	Type of assets	Millions of yen
Idle assets (Sales facilities)	Fukuoka Prefecture, Japan, etc.	Buildings and structures, Machinery, equipment and vehicles	¥ 204
Idle assets (Production facilities)	Hiroshima Prefecture, Japan, etc.	Buildings and structures, Machinery, equipment and vehicles, etc.	487
Total			¥ 691

For the year ended March 31, 2023

Purpose of use	Location	Type of assets	Millions of yen	Thousands of U.S. dollars
Idle assets (Sales facilities)	Osaka Prefecture, Japan	Buildings and structures	¥ **35**	$ **261**
Idle assets (Production facilities)	Hiroshima Prefecture, Japan, etc.	Machinery, equipment and vehicles, etc.	**217**	**1,620**
Assets held for sales	Oita Prefecture, Japan, etc.	Buildings and structures, Land, etc.	**44**	**328**
Total			¥ **296**	$ **2,209**

The Group principally groups its long-lived assets at each operating company level and assesses whether indicators of impairment exist. Idle assets, assets held for leasing, and assets held for sale, however, are assessed individually.

The recoverable amounts of these assets were measured at their net realizable value.

20 OTHER COMPREHENSIVE INCOME/(LOSS)

The following table presents reclassification and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2022 and 2023.

For the years ended March 31	Millions of yen 2022	Millions of yen 2023	Thousands of U.S. dollars 2023
Net unrealized gain/(loss) on available-for-sale securities			
Amounts arising during the fiscal year	¥ 19,759	¥ **(13,583)**	$ **(101,366)**
Reclassification adjustments	-	**-**	**-**
Subtotal before tax	19,759	**(13,583)**	**(101,366)**
Tax effect	(6,050)	**4,117**	**30,724**
Balance at end of period	13,709	**(9,466)**	**(70,642)**
Deferred gains/(losses) on hedges			
Amounts arising during the fiscal year	(5,084)	**(3,783)**	**(28,231)**
Reclassification adjustments	3,443	**5,567**	**41,545**
Subtotal before tax	(1,641)	**1,784**	**13,313**
Tax effect	500	**(543)**	**(4,052)**
Balance at end of period	(1,141)	**1,241**	**9,261**
Foreign currency translation adjustment			
Amounts arising during the fiscal year	20,909	**14,371**	**107,246**
Adjustments for retirement benefits			
Amounts arising during the fiscal year	14,235	**18,104**	**135,104**
Reclassification adjustments	(1,382)	**(5,683)**	**(42,410)**
Subtotal before tax	12,853	**12,421**	**92,694**
Tax effect	(4,046)	**(3,782)**	**(28,224)**
Balance at end of period	8,807	**8,639**	**64,470**
Share of other comprehensive income/(loss) of affiliates accounted for using equity method			
Amounts arising during the fiscal year	5,111	**7,346**	**54,821**
Reclassification adjustments	81	**(905)**	**(6,754)**
Balance at the end of period	5,192	**6,441**	**48,067**
Total other comprehensive income/(loss)	¥ 47,476	¥ **21,226**	$ **158,403**

21 EMPLOYEES' RETIREMENT BENEFITS

The Group has contributory defined contribution and defined benefit plans, and non-contributory defined benefit plans.

For the accounting policies for retirement benefits, refer to “Employees’ Retirement Benefits” under Note 2, “Summary of Significant Accounting Policies”.

Reconciliations of beginning and ending balances of the retirement benefit obligations and the plan assets for the years ended March 31, 2022 and 2023 were as follows:

For the years ended March 31	Millions of yen 2022	Millions of yen 2023	Thousands of U.S. dollars 2023
Movements in retirement benefit obligations:			
Balance at beginning of year	¥ 356,441	¥ **338,639**	$ **2,527,157**
Service cost	13,253	**12,090**	**90,224**
Interest cost	2,949	**3,726**	**27,806**
Actuarial differences	(11,163)	**(26,800)**	**(200,000)**
Benefits paid	(20,252)	**(16,479)**	**(122,978)**
Past service costs	(6,733)	**(1,084)**	**(8,090)**
Other	4,144	**3,693**	**27,561**
Balance at end of year	¥ 338,639	¥ **313,785**	$ **2,341,680**

For the years ended March 31	Millions of yen 2022	Millions of yen 2023	Thousands of U.S. dollars 2023
Movements in plan assets:			
Balance at beginning of year	¥ 313,062	¥ **313,118**	$ **2,336,701**
Expected return on plan assets	5,911	**6,168**	**46,030**
Actuarial differences	(3,066)	**(9,208)**	**(68,716)**
Contributions paid by the employer	7,858	**7,918**	**59,090**
Benefits paid	(14,466)	**(12,874)**	**(96,075)**
Other	3,819	**2,714**	**20,254**
Balance at end of year	¥ 313,118	¥ **307,836**	$ **2,297,284**

The reconciliation of the retirement benefit obligations and plan assets to the liability and asset for retirement benefits recognized in the consolidated balance sheets as of March 31, 2022 and 2023 was as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2022	**2023**	**2023**
Funded retirement benefit obligations	¥ 322,887	¥ **298,775**	$ **2,229,664**
Plan assets	(313,118)	**(307,836)**	**(2,297,284)**
Subtotal	9,769	**(9,061)**	**(67,620)**
Unfunded retirement benefit obligations	15,752	**15,010**	**112,015**
Total net liability (asset) for retirement benefits recognized in consolidated balance sheets	25,521	**5,949**	**44,395**
Liability for retirement benefits	33,433	**18,238**	**136,104**
Asset for retirement benefits	(7,912)	**(12,289)**	**(91,709)**
Total net liability (asset) for retirement benefits recognized in consolidated balance sheets	¥ 25,521	¥ **5,949**	$ **44,396**

The profits and losses related to retirement benefits for the years ended March 31, 2022 and 2023 were as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2022	**2023**	**2023**
Service cost	¥ 13,253	¥ **12,090**	$ **90,224**
Interest cost	2,949	**3,726**	**27,806**
Expected return on plan assets	(5,911)	**(6,168)**	**(46,030)**
Actuarial differences amortization	(786)	**(4,514)**	**(33,686)**
Past service costs amortization	(596)	**(1,169)**	**(8,724)**
Other	100	**159**	**1,186**
Severance and retirement benefit expenses	¥ 9,009	¥ **4,124**	$ **30,776**

Note: For the years ended March 31, 2022 and 2023, accrued pension costs related to defined contribution plans were charged to income as ¥ 3,412 million and ¥3,677 million ($27,440 thousand), respectively. This cost is not included in the above.

The breakdown of items of adjustments for retirement benefit (before tax) recognized in other comprehensive income for the years ended March 31, 2022 and 2023 was as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2022	**2023**	**2023**
Past service costs	¥ 6,137	¥ **(85)**	$ **(634)**
Actuarial differences	6,716	**12,506**	**93,328**
Total	¥ 12,853	¥ **12,421**	$ **92,694**

The breakdown of items of accumulated adjustments for retirement benefits (before tax) recognized in accumulated other comprehensive income as of March 31, 2022 and 2023 was as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2022	**2023**	**2023**
Past service costs that are yet to be recognized	¥ 8,849	¥ **8,764**	$ **65,403**
Actuarial differences that are yet to be recognized	3,217	**15,723**	**117,336**
Total	¥ 12,066	¥ **24,487**	$ **182,739**

The breakdown of plan assets by major category as of March 31, 2022 and 2023 was as follows:

As of March 31	2022	**2023**
Bonds	42%	**42%**
Equity securities	29%	**23%**
General accounts of the life insurance companies	16%	**16%**
Other	13%	**19%**
Total	100%	**100%**

The major items of actuarial assumptions for the years ended March 31, 2022 and 2023 were as follows:

For the years ended March 31	2022	**2023**
Discount rate	Primarily 0.9%	**Primarily 1.4%**
Long-term expected rate of return	Primarily 1.5%	**Primarily 1.5%**

To determine the long-term expected rate of return on plan assets, the Company considers current and expected allocation of the plan assets, as well as current and expected future long-term returns on various assets constituting the plan assets.

22 INCOME TAXES

The effective tax rate reflected in the consolidated statements of operations for the years ended March 31, 2022 and 2023 differs from the statutory tax rate for the following reasons.

For the years ended March 31	2022	2023
Statutory tax rate	30.5 %	**30.5 %**
Retained earnings in subsidiaries and affiliates	0.3 %	**1.0 %**
Foreign withholding tax	5.2 %	**0.8 %**
Tax credit	(0.1)%	**(2.0)%**
Equity in net income of affiliated companies	(0.5)%	**(2.6)%**
Unrecognized tax effect on unrealized gains	0.8 %	**(3.7)%**
Valuation allowance	(8.5)%	**(10.6)%**
Other	(1.0)%	**1.7 %**
Effective tax rate	26.7 %	**15.1 %**

Deferred tax assets and liabilities reflect the estimated tax effects of loss carryforwards and accumulated temporary differences between assets and liabilities for financial accounting purposes and those for tax purposes.

The significant components of deferred tax assets and liabilities as of March 31, 2022 and 2023 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2022	2023	2023
Deferred tax assets:			
Accrued bonuses and other reserves	¥ 51,329	**¥ 59,302**	**$ 442,552**
Inventory, etc.	12,664	**12,838**	**95,806**
Unrealized profit on inventories	148	**8,769**	**65,440**
Liability for retirement benefits	10,329	**6,427**	**47,963**
Accrued sales incentives	2,903	**5,289**	**39,470**
Provision related to environmental regulations	-	**4,201**	**31,351**
Excess of depreciation	3,931	**3,998**	**29,836**
Asset retirement obligations	1,628	**1,596**	**11,910**
Tax loss carryforwards (*2)	15,449	**1,222**	**9,119**
Tax credit carry forward	553	**1,130**	**8,433**
Impairment loss	1,345	**981**	**7,321**
Accrued business tax	1,164	**919**	**6,858**
Valuation loss on investment securities, etc.	425	**443**	**3,306**
Allowance for doubtful receivables	1,617	**202**	**1,507**
Provision for loss on compensation for damage	3,503	**122**	**910**
Other	46,218	**50,774**	**378,912**
Total	153,206	**158,213**	**1,180,694**
Valuation allowance for tax loss carryforwards (*2)	(12,815)	**(530)**	**(3,955)**
Valuation allowance for deductible temporary differences, etc.	(63,401)	**(52,709)**	**(393,351)**
Total valuation allowance (*1)	(76,216)	**(53,239)**	**(397,306)**
Total deferred tax assets	76,990	**104,974**	**783,388**
Deferred tax liabilities:			
Effect of exchange rate fluctuations on foreign subsidiaries	(8,940)	**(4,426)**	**(33,030)**
Net unrealized gain on available-for-sale securities	(13,120)	**(9,005)**	**(67,201)**
Asset for retirement benefits	(3,025)	**(10,562)**	**(78,821)**
Retained earnings in subsidiaries and affiliates	(13,846)	**(15,575)**	**(116,231)**
Other	(7,761)	**(15,654)**	**(116,821)**
Total deferred tax liabilities	(46,692)	**(55,222)**	**(412,104)**
Net deferred tax assets	¥ 30,298	**¥ 49,752**	**$ 371,284**

(*1) Valuation allowance decreased by ¥22,977 million ($171,470 thousand). This decrease was mainly resulted from the decrease in tax loss carryforward on the Company and its associated valuation allowance.

(*2) Tax loss carryforwards and their deferred tax assets by expiration periods are as follows:

	Millions of yen		
As of March 31, 2022	Tax loss carryforwards (a)	Valuation allowance	Deferred tax assets
2023	¥ -	¥ -	¥ -
2024	-	-	-
2025	-	-	-
2026	-	-	-
2027	-	-	-
Thereafter	15,449	(12,815)	2,634
Total	¥ 15,449	¥ (12,815)	¥ 2,634 (b)

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2023	Tax loss carryforwards (a)	Valuation allowance	Deferred tax assets	Tax loss carryforwards (a)	Valuation allowance	Deferred tax assets
2024	¥ -	¥ -	¥ -	$ -	$ -	$ -
2025	-	-	-	-	-	-
2026	-	-	-	-	-	-
2027	-	-	-	-	-	-
2028	-	-	-	-	-	-
Thereafter	**1,222**	**(530)**	**692**	**9,119**	**(3,955)**	**5,164**
Total	**¥ 1,222**	**¥ (530)**	**¥ 692** (c)	**$ 9,119**	**$ (3,955)**	**$ 5,164** (c)

(a) Tax loss carryforwards are after multiplying the statutory tax rate.

(b) Deferred tax assets of ¥2,634 million were recognized for tax loss carryforwards of ¥15,449 million. No valuation allowance was recognized for the tax loss carryforwards, which were determined to be recoverable based on expected future taxable income.

(c) Deferred tax assets of ¥692 million ($5,164 thousand) were recognized for tax loss carryforwards of ¥1,222 million (amount multiplied by the statutory tax rate; $9,119 thousand). No valuation allowance was recognized for the tax loss carryforwards, which were determined to be recoverable based on expected future taxable income.

The Company and some of its domestic consolidated subsidiaries have adopted the group tax sharing system from the year ended March 31, 2023. In addition, corporation tax and local corporation tax, as well as their tax effects, are accounted for and disclosed under Practical Solution on the Accounting and Disclosure under the Group Tax Sharing System (Practical Issues Task Force No.42, August 12, 2021).

23 SEGMENT INFORMATION

SEGMENT INFORMATION

OVERVIEW OF REPORTABLE SEGMENTS

The reportable segments of the Group consist of business components for which separate financial statements are available. The reportable segments are subject to periodical review by Board of Directors meetings for the purpose of making decisions on the distribution of corporate resources and evaluating business performance.

The Group is primarily engaged in the manufacturing and sale of passenger and commercial vehicles. Businesses in Japan are managed by the Company. Businesses in North America are managed by Mazda Motor of America, Inc. and the Company, while businesses in Europe are managed by Mazda Motor Europe GmbH and the Company. Areas other than Japan, North America, and Europe are defined as Other areas. Business deployment in countries in Other areas are managed in an integrated manner by the Company as one management unit. Accordingly, the Group consists of regional segments based on a system of managing production and sale. As such, Japan, North America, Europe, and Other areas are designated as 4 reportable segments.

CALCULATION METHODS USED FOR NET SALES, INCOME OR LOSS, ASSETS, AND OTHER ITEMS ON EACH REPORTABLE SEGMENTS

Accounting policies of the reportable segments are the same as those noted in Note 2, " Summary of Significant Accounting Policies".

Inter-segment sales and transfers are based on market prices.

NET SALES, INCOME OR LOSS, AND ASSETS BY REPORTABLE SEGMENTS

Net sales, income or loss, and assets by reportable segment for the years ended March 31, 2022 and 2023 were as follows:

	Millions of yen						
	Reportable Segments						
As of and for the year ended March 31, 2022	Japan	North America	Europe	Other areas	Total	Adjustment (*1)	Consolidated (*2)
Net sales:							
Sales to external customers	¥ 816,357	¥ 1,206,667	¥ 539,399	¥ 557,926	¥ 3,120,349	¥ -	¥ 3,120,349
Inter-segment sales and transfers	1,728,336	235,361	20,935	54,123	2,038,755	(2,038,755)	-
Total	2,544,693	1,442,028	560,334	612,049	5,159,104	(2,038,755)	3,120,349
Segment income/(loss) :	85,700	(9,485)	14,888	16,542	107,645	(3,418)	104,227
Segment assets:	2,395,667	525,662	185,391	363,852	3,470,572	(502,424)	2,968,148
Other items:							
Depreciation and amortization	56,664	22,101	5,098	6,418	90,281	-	90,281
Impairment losses	627	64	1	(1)	691	-	691
Investments in affiliated companies on the equity method	33,424	-	2,414	86,101	121,939	-	121,939
Increase in property, plant and equipment and intangible assets	92,763	46,287	1,369	3,913	144,332	-	144,332

As of and for the year ended March 31, 2023	Millions of yen						
	Reportable Segments						
	Japan	North America	Europe	Other areas	Total	Adjustment (*1)	Consolidated (*2)
Net sales:							
Sales to external customers	¥ 953,929	¥ 1,636,023	¥ 635,349	¥ 601,451	¥ 3,826,752	¥ -	¥ 3,826,752
Inter-segment sales and transfers	2,240,913	408,020	30,571	54,639	2,734,143	(2,734,143)	-
Total	3,194,842	2,044,043	665,920	656,090	6,560,895	(2,734,143)	3,826,752
Segment income/(loss) :	71,331	38,061	14,920	26,728	151,040	(9,071)	141,969
Segment assets:	2,552,277	671,464	267,657	372,176	3,863,574	(604,323)	3,259,251
Other items:							
Depreciation and amortization	59,784	34,846	4,808	6,512	105,950	-	105,950
Impairment losses	292	-	-	4	296	-	296
Investments in affiliated companies on the equity method	33,558	-	-	91,769	125,327	-	125,327
Increase in property, plant and equipment and intangible assets	80,141	10,375	1,195	2,428	94,139	-	94,139

As of and for the year ended March 31, 2023	Thousands of U.S. dollars						
	Reportable Segments						
	Japan	North America	Europe	Other areas	Total	Adjustment (*1)	Consolidated (*2)
Net sales:							
Sales to external customers	$ 7,118,873	$12,209,128	$ 4,741,410	$ 4,488,440	$28,557,851	$ -	$ 28,557,851
Inter-segment sales and transfers	16,723,231	3,044,925	228,142	407,754	20,404,052	(20,404,052)	-
Total	23,842,104	15,254,053	4,969,552	4,896,194	48,961,903	(20,404,052)	28,557,851
Segment income/(loss) :	532,321	284,037	111,343	199,463	1,127,164	(67,694)	1,059,470
Segment assets:	19,046,843	5,010,925	1,997,440	2,777,433	28,832,641	(4,509,872)	24,322,769
Other items:							
Depreciation and amortization	446,149	260,045	35,881	48,597	790,672	-	790,672
Impairment losses	2,179	-	-	30	2,209	-	2,209
Investments in affiliated companies on the equity method	250,433	-	-	684,843	935,276	-	935,276
Increase in property, plant and equipment and intangible assets	598,069	77,425	8,918	18,118	702,530	-	702,530

(*1) Notes on adjustment:
(1) The adjustment on segment income/(loss) is eliminations of inter-segment transactions.
(2) The adjustment on segment assets is mainly eliminations of inter-segment receivables and payables.

(*2) The segment income/(loss) is reconciled with the operating income in the consolidated statements of operations for the years ended March 31, 2022 and 2023.
The segment assets are reconciled with the total assets in the consolidated balance sheets as of March 31, 2022 and 2023.

ASSOCIATED INFORMATION

INFORMATION BY GEOGRAPHIC AREA

The sales information by geographic area for the years ended March 31, 2022 and 2023 was as follows:

For the years ended March 31	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Japan	¥ 569,568	¥ 622,949	$ 4,648,873
U.S.A	977,816	1,307,219	9,755,367
North America (Excluding U.S.A)	229,224	330,637	2,467,440
Europe	540,550	639,321	4,771,052
Other areas	803,191	926,626	6,915,119
Total	¥ 3,120,349	¥ 3,826,752	$28,557,851

Sales are categorized by the countries or regions based on the customers' locations.

The property, plant and equipment information by geographic area as of March 31, 2022 and 2023 was as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2022	**2023**	**2023**
Japan	¥ 890,152	¥ **908,404**	$ **6,779,135**
Mexico	89,655	**82,962**	**619,119**
North America (Excluding Mexico)	92,545	**103,899**	**775,366**
Europe	18,811	**21,178**	**158,045**
Other areas	55,553	**48,163**	**359,425**
Total	¥ 1,146,716	¥ **1,164,606**	$ **8,691,090**

24 RELATED PARTY TRANSACTIONS

There were no transactions with related parties to be disclosed during the years ended March 31, 2022 and 2023.
There were no important affiliates to be disclosed for the year ended March 31, 2023.

25 SIGNIFICANT SUBSEQUENT EVENTS

No items to disclose.

Independent auditor's report

To the Board of Directors of Mazda Motor Corporation:

Opinion

We have audited the accompanying consolidated financial statements of Mazda Motor Corporation ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheet as at March 31, 2023, the consolidated statements of operations, comprehensive income, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Reasonableness of management's estimates of the reserve for warranty expenses related to recall and other repair costs at the Company

The key audit matter	How the matter was addressed in our audit
As described in Note 3, "Significant Accounting Estimates" under "Reserve for Warranty Expenses" to the consolidated financial statements, a reserve for warranty expenses of ¥85,647 million was recorded in the Group's consolidated balance sheet as of March 31, 2023, which included the expenses expected to be	The primary procedures we performed to assess the reasonableness of the estimates of the reserve for warranty expenses included the following: (1) Internal control testing We tested the design and operating effectiveness of certain of the Company's internal controls over the

incurred in the future related to recalls and other repairs. The estimated future repair cost is calculated by multiplying the number of vehicles covered under the warranty and the repair cost per vehicle estimated based on the past repair records and other information. Since the estimation of the number of vehicles covered under the warranty and the repair cost per vehicle is subject to significant management judgment, its evaluation required a high level of judgment in the audit. We, therefore, determined that our assessment of the reasonableness of the estimates of the reserve for warranty expenses related to recall and other repair costs was of most significance in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	estimates of the reserve for warranty expenses, including those over the assumptions of the number of vehicles covered under the warranty and the repair cost per vehicle. (2) Assessment of the reasonableness of the estimates of the reserve for warranty expenses We assessed the appropriateness of the assumptions used in the estimates of the reserve for warranty expenses related to recall and other repair costs, and the completeness and accuracy of the underlying data by performing the following procedures: ● inquired of relevant departments' personnel about the methods used to estimate the number of vehicles covered under the warranty and the repair cost per vehicle and inspected the minutes and the supporting documents; ● agreed underlying data used for estimating the number of vehicles covered under the warranty and the repair cost per vehicle with the supporting documents; ● evaluated the process of recording recall and other repair costs by comparing the assumptions used in the prior year estimates to the actual results; ● assessed the completeness and accuracy of the repair costs based on the events, including recalls identified, after the end of the current fiscal year through the auditor's report date; and ● assessed whether any revisions to the assumptions used to estimate the future repair costs were necessary by performing data analytics of comparing actual repair costs of each case to the respective reserve balance.

Other Information

The other information comprises the information included in the FINANCIAL REPORT 2023, but does not include the consolidated financial statements, the financial statements, and our auditor's reports thereon. Management is responsible for the preparation and presentation of the other information. The audit and supervisory committee is responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the reporting process for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit and supervisory committee is responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If

we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit and supervisory committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit and supervisory committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit and supervisory committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2023 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

/S/ Hiroshi Tawara
Designated Engagement Partner
Certified Public Accountant

/S/ Koji Yoshida
Designated Engagement Partner
Certified Public Accountant

/S/ Takuya Morishima
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Hiroshima Office, Japan
July 28, 2023

<u>Notes to the Reader of Independent Auditor’s Report</u>:
This is a copy of the Independent Auditor’s Report and the original copies are kept separately by the Company and KPMG AZSA LLC.