REKINDLING THE SPARK

ANNUAL REPORT 2000

For the fiscal year 2000 ended March 31, 2001

CONTENTS

PROFILE

Mazda Motor Corporation, established in 1920 and headquartered in Hiroshima, has become one of the leading automobile manufacturers in Japan. Manufacturing operations encompass two production plants in Japan and 16 overseas production facilities. Mazda's vehicles are now available in over 150 countries and territories around the world.

In November 2000, Mazda launched the Millennium Plan, a set of strategic imperatives directed toward strengthening our competitiveness and profitability. We have begun implementing proactive measures that will accelerate the rate of change and transformation in empowering Mazda as a different company, centering on four major pillars: Growing the Business, Restructuring and Reform, Creating Synergies with Ford and Enabling Our People.

The Mazda "spark" is back in our future products. As visualized through our "Emotion in Motion" design philosophy, every Mazda car will embody a spirit of "Zoom-Zoom" and continue to build an emotional connection with Mazda customers.

Mazda's vision is to create new value, excite and delight our customers through the best automotive products and services. By continually striving for this goal and aggressively accelerating the products and strategies in place, Mazda will be a formidable automotive competitor into the 21st century.

FINANCIAL HIGHLIGHTS

Mazda Motor Corporation and consolidated subsidiaries
Years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars[1]
	2000 March 31, 2001	1999 March 31, 2000	1998 March 31, 1999	**2000 March 31, 2001**
For the year:				
Net sales	**¥ 2,015,812**	¥ 2,161,572	¥ 2,057,097	**$ 16,256,548**
Net income (loss)	**(155,243)**	26,155	38,707	**(1,251,960)**
At the year-end:				
Total assets	**1,743,627**	1,469,533	1,479,032	**14,061,508**
Shareholders' equity	**158,872**	245,709	377,916	**1,281,226**
	Yen			U.S. dollars
Amounts per share of common stock:				
Net income (loss)[2]	**¥ (126.99)**	¥ 21.39	¥ 31.66	**$ (1.024)**
Cash dividends applicable to the year[3]	**–**	2.00	4.00	**–**

Notes:
1. The translation of the Japanese yen amounts into U.S. dollars is presented solely for the convenience of readers, using the prevailing exchange rate at March 31, 2001, of ¥124 to US$1.
2. The computations of net income (loss) per share of common stock are based on the average number of shares outstanding during each fiscal year.
3. Cash dividends per share represent actual amounts applicable to the respective years.

To Our Shareholders

FOUNDATIONS FOR

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

Financial Results

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

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

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

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

Marketing and Sales Highlights

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

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

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

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

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

Mazda Millennium Plan

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

Growing the Business

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

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

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

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

In Europe, we are taking actions to reinforce sales and customer satisfaction, while starting to reposition the brand consistently across all European markets. One of our plans is to assume direct control of distribution in several key markets. In fiscal 1999, we took over distribution in Spain and Italy. We have just completed acquisitions of distribution rights in France and the United Kingdom, and we are in negotiations in two other markets. We expect to achieve distribution control by the end of 2001 in markets that represent more than 70% of our sales in Europe.

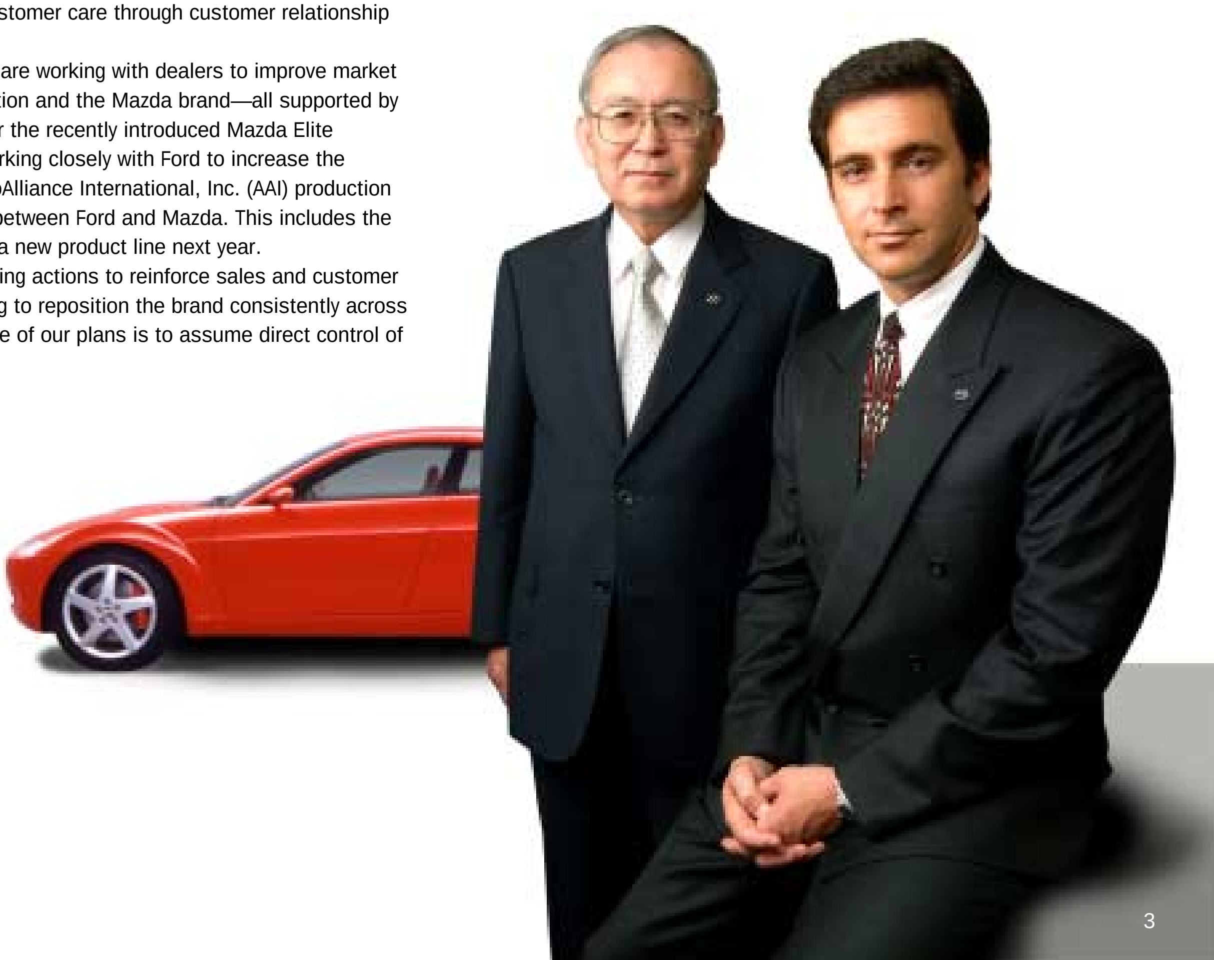
OPTIMAL GROWTH

Restructuring and Reform

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

We have further restructured our manufacturing capacities to adjust to a changing market environment worldwide. As part of the Millennium Plan, we announced the closure of the Ujina Plant Number 2 in Hiroshima, which will reduce domestic production capacity by 25%. This was a tough decision, but crucial to the future performance of the company. To meet European market needs and reduce our exposure to volatile foreign currency fluctuations, we will begin production of our next-generation small car in early 2003 at Ford of Europe's plant in Valencia, Spain.

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



IN TODAY'S MARKET

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

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

Creating Synergies with Ford

Mazda is a distinctive, global brand and a unique member of the Ford Motor Company Group. We possess world-class strengths in product engineering and manufacturing. To tap this expertise, Ford has designated Mazda as its "global center of excellence" for the development of large I4 engines and for front-wheel-drive, mid-size vehicle technologies and architectures.

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

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

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

Enabling Our People

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

In July 2000, we launched the Mazda Business Leader Development (MBLD) program, a systematic approach to raise employee awareness and understanding of the Mazda business: the challenges we face and the strategies in place to deal with them. Under the Millennium Plan, we will continue this education process to ensure employees throughout the Mazda organization understand and support the business policies, strategies and plans and commit quickly to achieve business objectives.

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

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

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

Forecast for 2001 and Beyond

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

Further operational commitments include:

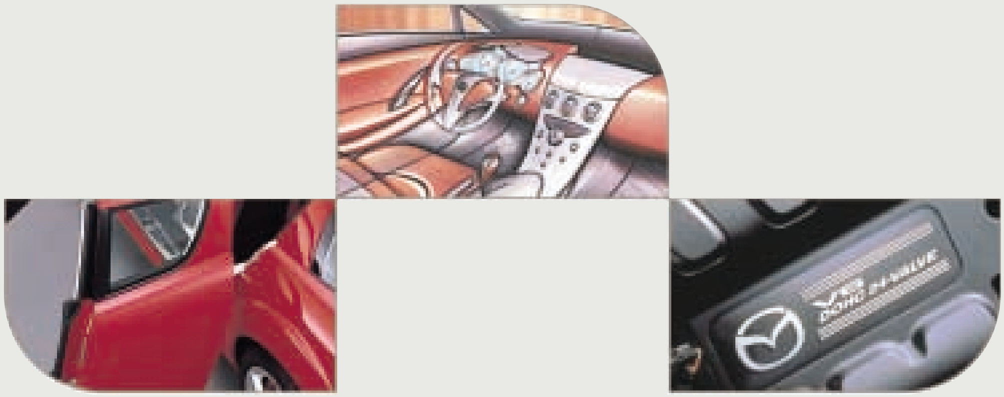
- Increasing customer satisfaction
- Executing product plans in line with targets
- Realizing solid advances in distribution
- Building on positive progress with domestic dealers
- Empowering Mazda people
- Further leveraging e-business tools

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

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

K. Watanabe Mark Fields

Kazuhide Watanabe · Chairman Mark Fields · President



INNOVATIVE FUN **STYLISH** TIMELESS
CLEAR **INSIGHTFUL** PURE DISTINCTIVE
RESPONSIVE BOLD **SPIRITED** INSPIRED

REKINDLING THE SPARK

Mazda has captured the hearts and souls of customers in a way only Mazda can. As we look to the future, Mazda is "Rekindling the Spark" to redefine and refocus applied innovation in everyday planning, sales and marketing as well as product design, development and engineering.

INNOVATIVE FUN

Mazda's proud 80-year history has been marked by applied innovation—a heritage of daring to be different. We have delivered not only unique products and technologies to the market but also been an innovator of "first-to-market" products.

To mention just a few, Cosmo Sport was not just the world's first rotary-powered sports car. Launched in 1967, it was a rear-wheel drive and brought distinctive, expressive styling to the market; Familia/323/Protegé 3-door hatchback introduced in the 1970s was the forerunner of the hatchback car, and featured an applied concept design that was also practical—a segment buster for its day.

Today, the Roadster/MX-5/MX-5 Miata keeps the spirit alive. Its "fun to drive" feature has proven so popular, it was recently named the world's top-selling, 2-seater open sports car by Guinness World Records. The RX-8, a 4-door, 4-seater, rotary-powered sports car that will be launched in a few years takes over the heritage from one generation to the next and will carry Mazda into the future. To ensure sustainable advantage in the marketplace, our approach is simple: deliver innovation; allow our engineers to do the "Mazda thing;" and work with people who understand the "Mazda Way." In other words, be true to our roots. This is the secret of the success of our RX models and the reason they retain global popularity as a Mazda icon of the past, present and future.

In coming years, we will introduce products with strong strategic ties to the needs and expectations of our customers in an extremely competitive marketplace. We will make efforts to increase "share of mind" and "share of voice," as well as entice people to come and drive a Mazda product. With a clear vision for success in product planning, design and engineering, we will embody Mazda's dynamic DNA—responsive handling and performance and product excellence in all our products to build customer satisfaction.

Our ultimate goal is to build a "no compromise car" throughout the stages of product planning, packaging and design—a car which provides the ultimate, fun-to-drive experience. In this way, we will create a next-generation look and reposition Mazda in customers' minds and enhance credibility through earned success.

STYLISH TIMELESS

“Our ultimate goal is to build a ‘no compromise car’ styled in the Mazda Way that does it right by providing the ultimate driving experience while making it fun to drive.”

CLEAR INSIGHTFUL

"Our products are built from the soul. They translate the purity of design, the mark of applied innovation and the joy of motion that are distinctively Mazda."

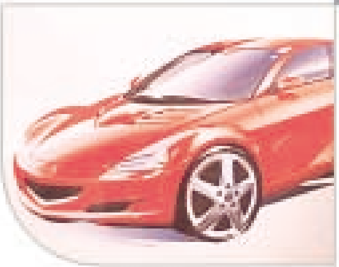
PURE DISTINCTIVE

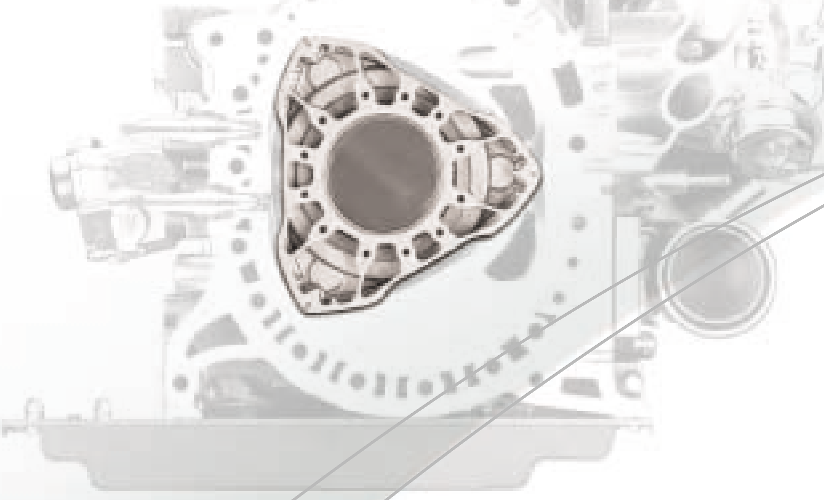
Differentiating Mazda in the marketplace with products customers can recognize for their superiority is one of our main objectives. We consider car design to be the first, crucial contact with customers.

The history of Mazda design is an unbroken succession of revolution and innovation. Mazda started with our "Inspired Sensations" design theme and has continuously developed to lead our future products with "Emotion in Motion" through our concept of "Contrast in Harmony." "Emotion in Motion" is a phrase that captures the essence of Mazda design. It communicates our Brand-driven Product Philosophy visually. Every car we will introduce is to have a spirit of "Zoom-Zoom." "Zoom-Zoom" announces our intention to continue developing and building vehicles that deliver exciting and exhilarating driving experiences to our customers—people who remember the joy of motion as a child. The athletic tension in the design reflects the "Zoom-Zoom" spirit—a progressive design with a distinctively Mazda look. These design themes and philosophy are not separate, but rather integral in the evolution of Mazda design, in capturing our spirit and soul in a form suited to the environment and modern lifestyles.

Under the Millennium Plan, we are accelerating our design evolution. We are creating and implementing more aggressive styling and advancing a next-generation look inside and out.

We regard the Mazda design team members as the translators of the Mazda brand, rendering it in a physical form that people can see and touch. In addition to the overall exterior form and interior design of a car, these individuals are incorporating the Mazda spirit into minor parts and components. From the most eye-catching to the minutest detail, Mazda is aggressively creating our next-generation look vehicles which will be introduced into the market over the next three years. The designs of upcoming products are global in scope, yet unquestionably the embodiment of Mazda spirit and soul for the 21st century.





RESPONSIVE BOLD

Mazda is defining clear objectives and focusing resources as the "global center of excellence" within the Ford Group for large I4 engines and front-wheel-drive, mid-size architectures development. We are applying world-class product engineering in the distinctive Mazda Way. These architectures are equipped with powertrains that are distinctive to Mazda or calibrated to realize Mazda dynamic DNA, exemplified by responsive handling and performance. The technologies we are developing in these areas will be made available to members of the Ford Group.

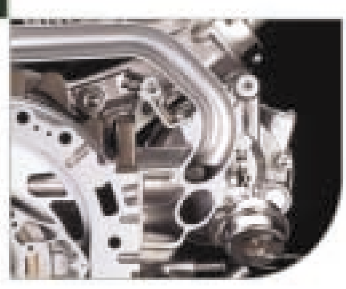
The RX-8 will be equipped with the newly developed compact RENESIS rotary engine, building on Mazda's long-standing and unique rotary engine technology. Naturally aspirated, the RENESIS engine produces 250PS. The engine rounds off Mazda's leading sports car package: rear-wheel-drive, 50-50 front-rear weight distribution, 4-door/4-seat and lightweight materials. Moreover, the engine meets U.S. stringent LEV (low emission vehicle) standards.

In the field of gasoline engines, we are engineering a new range of large I4 engines. These lightweight I4 engines possess such features as high-rigidity, high-torque in the low and medium engine speed ranges and high durability. They will be produced at four Ford Group plants in Japan, Mexico, the United States and Spain, with a targeted annual production volume of two million units worldwide, which will be the highest production volume of any single engine family manufactured in the world.

We are also making significant progress in the area of diesel engine development. Mazda is developing 2-liter, direct-injection diesel engines with an advanced common-rail system. This will be a world-class diesel engine in terms of power, quietness and low emissions.

In line with developing new, state-of-the-art powertrains and other intrinsic assets of product engineering, we will deliver fun-to-drive performance, better fuel economy and cleaner emissions, along with the highest levels of customer satisfaction.

The Mazda "spark" is back in our future products. The models and engines seen in future showrooms will fully embody the Mazda brand and product philosophies. In providing a vision for success in development, design and engineering, we will aggressively accelerate the products and strategies in place to become a stronger, more profitable global competitor.



SPIRITED INSPIRED

“Mazda’s engineering heritage is based not only on 40 years of experience in creating the rotary engine but also our passion and capability in developing state-of-the-art powertrains and delivering first-to-market technologies.”

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

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

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

Review of Operations

JAPAN

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

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

We are working hard to introduce and extend e-commerce into our business. Mazda believes the Internet can serve as an effective two-way communication channel between the company and its dealers, customers and suppliers. As of July 2000, we implemented an aggressive sales and marketing program in which Mazda began to offer two new online services featuring price estimates for all passenger vehicle models as well as model searches for used models from a large database. Turning to supply chain management, in June 2000, we established the Mazda Supplier Network (MSN), an exclusive website for approximately 350 suppliers that aims to streamline purchasing processes and reduce procurement costs through immediate and direct communication with suppliers globally. Further, our Purchasing Division conducted Internet auctions, which also achieved substantial cost reductions for the commodities involved. In September 2000, Mazda established the "e-Business Enabling Office," with the purpose of standardizing e-business usage on a company-wide basis and accelerating implementation of our overall e-strategy.

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

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

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

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

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

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

NORTH AMERICA

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

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

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

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

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

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

In Canada, sales were up 26.1% year-on-year, driven by increases in MPV, up 96.7%, Protegé, up 22.1%, and the introduction of the Tribute at the end of August. This record-high retail performance of 52,070 units pushed Mazda to the No. 3 Japanese import brand for the year in Canada. Moreover, the Tribute received the Best New Compact Sport Utility Award by the Automobile Journalists Association in December 2000.

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

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

Review of Operations

EUROPE

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

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

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

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

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

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

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

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

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

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

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

OTHER REGIONS

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

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

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

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

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

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

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

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

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

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

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

TECHNOLOGICAL

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

Entering MDI Phase III

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

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

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

Environmental Issues

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

Developing Environment-Friendly Vehicles

Mazda has taken steps to reduce CO_2 emissions through programs targeting the reduction of exhaust gas and improvements in fuel consumption, R&D efforts involving alternative fuel and clean energy vehicles, and the promotion of various recycling initiatives.

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

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

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

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

ADVANCES

Mazda Actions for the Environment

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

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

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

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

New Models

Tribute

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

The Tribute was introduced into the North American market in August 2000 and has established a high reputation for its outstanding features. Introduction into the domestic market took place in November 2000, followed by Australia in early 2001 and European markets in summer 2001.

Titan and Titan Dash

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

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

Millenia

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

Roadster (MX-5, Miata)

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

Consolidated Financial Review

Fiscal year 2000, ended March 31, 2001, was notable for the major restructuring actions taken in the year associated with the launch of Mazda's mid-term Millennium Plan. Financial highlights included:

* Consolidated operating loss of ¥14.9 billion compared with an operating profit of ¥25.1 billion in fiscal 1999.

* Consolidated net loss of ¥155.2 billion, compared with net income of ¥26.1 billion in fiscal 1999. The loss included restructuring initiatives totaling ¥39.6 billion and full write-off of a transitional pension shortfall of ¥154.6 billion.

* Revaluation of unconsolidated land holdings, improving net worth after tax by ¥124.5 billion (no impact on profits).

* Strongly positive consolidated cash flow (operating and investing) of ¥52.2 billion and a reduction in net debt to ¥484.6 billion.

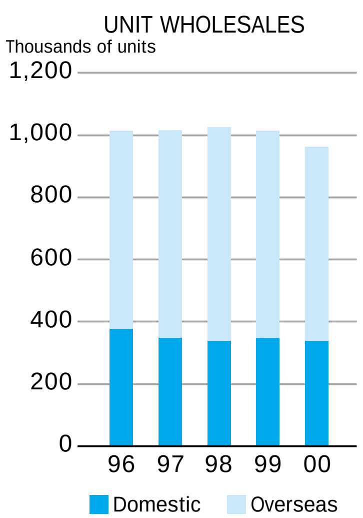
Business Conditions

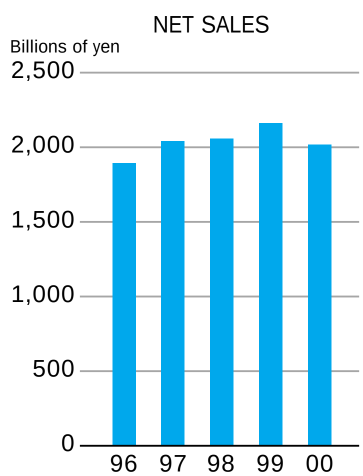
Business conditions worldwide were mixed, with continued weakness in the Japanese economy and growth in most major overseas markets. The U.S. economy, however, began to show signs of a slowdown near the end of the period.

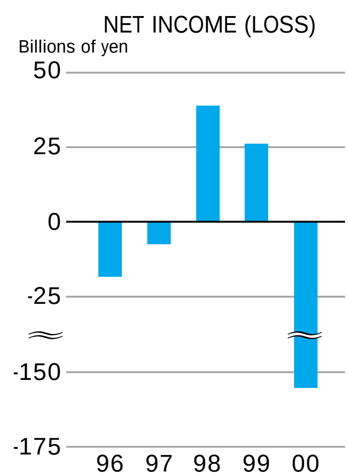
Automotive sales in Japan increased for the second consecutive year to 5.97 million units, up 1.6% from the previous year despite a 2.5% reduction in sales of micro-mini vehicles. Mazda's market share was 5.1%, down 0.4 points from the prior year, reflecting slower sales of carryover models.

Industry sales were at a record level in the United States and continued to be strong in Canada. Mazda's market share in the United States was 1.5%, reflecting the strong start for the new Tribute SUV. Sales in Canada were up 26.1%, and share was 3.3%, up 0.6 points. This was Mazda's best performance since 1994 and reflected continued success of the Protegé, new MPV, and introduction of Tribute. In Western Europe, industry sales were strong, although down slightly from the prior year. Mazda's share was 1.2%, down 0.1 points from the prior year reflecting difficult competitive conditions exacerbated by a strong yen.

Automotive sales increased in Asia and Australia as economic conditions improved. In Australia, Mazda market share was 3.5%, up 0.1 points from the prior year. In South America, results for the major markets were mixed.







Consolidated Financial Results

Mazda's consolidated net loss of ¥155.2 billion reflected deterioration of ¥132.7 billion at the parent company and ¥48.6 billion at subsidiaries and in consolidation adjustments. Mazda's results included 113 subsidiaries and affiliates compared with 166 the year before.

The decline in net income reflected mainly the one-time pension write-off plus restructuring measures, particularly reserves for an early retirement special program in Japan. Results also were unfavorably impacted by the continued strength of the yen, especially against European currencies, as well as lower wholesale sales in most major markets. Partial offsets were a continued success in reducing costs and improved results at our subsidiaries in Thailand and Colombia. Our domestic dealers were profitable for the second consecutive year and generated strong positive cash flow, demonstrating the continued progress of our restructuring initiatives to strengthen distribution in Japan.

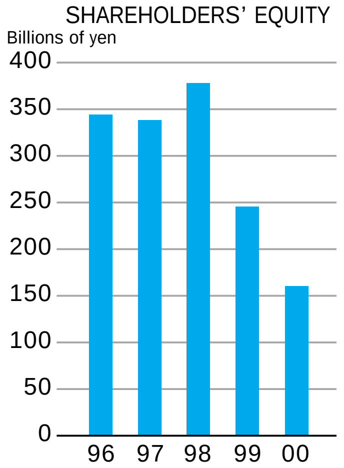
On a geographic basis, net income declined for all regions except Rest of World. The declines were generally attributable to lower sales and, in the case of North American and European subsidiaries, the strong yen.

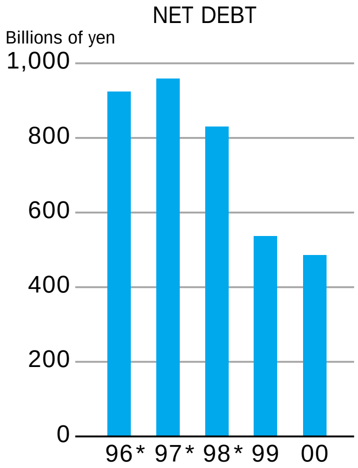
	Billions of yen		
	2000	1999	Change from
	March 31, 2001	March 31, 2000	Prior Year
Japan	**¥ (149.6)**	¥ 26.9	¥ (176.5)
North America	**(3.1)**	7.3	(10.4)
Europe	**(4.2)**	0.1	(4.3)
Rest of World	**1.7**	(8.2)	9.9
Total	**¥ (155.2)**	¥ 26.1	¥ (181.3)

Consolidated Financial Position and Liquidity

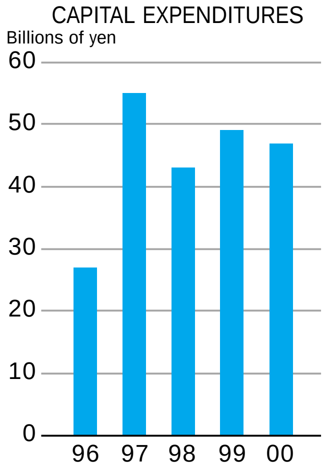
Mazda's consolidated net debt stood at ¥484.6 billion, down ¥52.4 billion or 9.7% from the prior period end and down over 50% since fiscal 1995 at comparable consolidated reporting standards. Consolidated cash flow was ¥52.2 billion, comprised of ¥84.3 billion from operating activities and ¥32.1 billion used in investing activities. Management continues to maintain an intense focus on cash flow to further improve the company's financial structure and balance sheet.

	Billions of yen		
	2000	1999	Change from
	March 31, 2001	March 31, 2000	Prior Year
Cash and cash equivalents	**¥ 292.6**	¥ 233.6	¥ 59.0
Total debt	**777.2**	770.6	6.6
Net debt	**¥ 484.6**	¥ 537.0	¥ (52.4)
Net debt-to-equity ratio	**305.1%**	218.6%	86.5pts





*Comparable accounting standard



Consolidated Balance Sheets

MAZDA MOTOR CORPORATION AND CONSOLIDATED SUBSIDIARIES
March 31, 2001 and 2000

Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	**2000**
As of	**March 31, 2001**	March 31, 2000	**March 31, 2001**
Current assets:			
Cash and cash equivalents	**¥ 292,615**	¥ 233,593	**$ 2,359,799**
Short-term investments	**2,283**	22,816	**18,411**
Trade notes and accounts receivable	**125,724**	160,044	**1,013,903**
Inventories (Note 5)	**207,098**	179,982	**1,670,145**
Deferred taxes (Note 13)	**42,785**	35,520	**345,040**
Other current assets	**42,457**	42,843	**342,395**
Allowance for doubtful receivables	**(4,877)**	(8,546)	**(39,330)**
Total current assets	**708,085**	666,252	**5,710,363**
Property, plant and equipment:			
Land (Note 6)	**443,874**	233,324	**3,579,629**
Buildings and structures	**396,401**	406,046	**3,196,782**
Machinery and equipment	**798,641**	815,443	**6,440,653**
Tools, furniture, fixtures and other	**318,812**	337,281	**2,571,065**
Construction in progress	**36,092**	27,119	**291,065**
	1,993,820	1,819,213	**16,079,194**
Accumulated depreciation	**(1,178,601)**	(1,202,904)	**(9,504,847)**
Net property, plant and equipment	**815,219**	616,309	**6,574,347**
Intangible assets	**14,088**	11,196	**113,613**
Investments and other assets:			
Investment securities:			
Unconsolidated subsidiaries and affiliated companies	**31,974**	31,465	**257,855**
Other	**18,937**	19,189	**152,718**
Long-term loans receivable	**25,795**	27,080	**208,024**
Deferred taxes (Note 13)	**121,294**	33,747	**978,177**
Other investments and other assets	**27,806**	30,649	**224,242**
Allowance for doubtful receivables	**(18,441)**	(23,515)	**(148,718)**
Investment valuation allowance	**(1,130)**	(4,827)	**(9,113)**
Total investments and other assets	**206,235**	113,788	**1,663,185**
Foreign currency translation adjustments (Note 2)	**–**	61,988	**–**
Total assets	**¥ 1,743,627**	¥ 1,469,533	**$ 14,061,508**

See accompanying notes.

Liabilities and Shareholders' Equity

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	**2000**
As of	**March 31, 2001**	March 31, 2000	**March 31, 2001**
Current liabilities:			
Short-term debt (Note 7)	**¥ 344,804**	¥ 376,597	**$ 2,780,678**
Long-term debt due within one year (Note 7)	**65,465**	83,808	**527,944**
Trade notes and accounts payable	**206,399**	195,835	**1,664,508**
Accrued expenses	**176,374**	71,187	**1,422,371**
Reserve for warranty expenses (Note 3)	**15,298**	19,968	**123,371**
Reserve for loss on restructuring of subsidiaries and affiliates	**4,545**	–	**36,653**
Reserve for loss on guarantees of loans	**2,140**	–	**17,258**
Reserve for loss on business restructuring	**3,011**	–	**24,282**
Other	**109,373**	100,650	**882,040**
Total current liabilities	**927,409**	848,045	**7,479,105**
Long-term debt due after one year (Note 7)	**367,023**	310,205	**2,959,863**
Deferred tax liability related to land revaluation (Note 6)	**93,429**	–	**753,459**
Employees' severance and retirement benefits (Notes 2 & 8)	**173,209**	33,353	**1,396,847**
Liabilities from application of equity method	**8,133**	13,122	**65,589**
Other long-term liabilities	**8,301**	7,437	**66,943**
Minority interests in consolidated subsidiaries	**7,251**	11,662	**58,476**
Contingent liabilities (Note 9)			
Shareholders' equity:			
Common stock, par value ¥50 per share:			
Authorized: 3,000,000,000 shares			
Issued: 1,222,496,655 shares in 2000 and 1999 (Note 10)	**120,078**	120,078	**968,371**
Capital surplus (Note 10)	**104,216**	104,216	**840,451**
Land revaluation (Note 6)	**124,570**	–	**1,004,597**
Retained earnings (deficit)	**(136,639)**	21,415	**(1,101,927)**
Foreign currency translation adjustments (Note 2)	**(53,353)**	–	**(430,266)**
Total shareholders' equity	**158,872**	245,709	**1,281,226**
Total liabilities and shareholders' equity	**¥ 1,743,627**	¥ 1,469,533	**$ 14,061,508**

Consolidated Statements of Operations

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

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2000	1999	1998	**2000**
For the years ended	**March 31, 2001**	March 31, 2000	March 31, 1999	**March 31, 2001**
Net sales	**¥ 2,015,812**	¥ 2,161,572	¥ 2,057,097	**$ 16,256,548**
Cost and expenses:				
Cost of sales	**1,555,130**	1,628,814	1,554,517	**12,541,371**
Selling, general and administrative expenses	**475,619**	507,647	440,070	**3,835,637**
	2,030,749	2,136,461	1,994,587	**16,377,008**
Operating income (loss)	**(14,937)**	25,111	62,510	**(120,460)**
Other income (expenses):				
Interest and dividend income	**3,176**	3,994	7,049	**25,613**
Interest expense	**(25,457)**	(28,698)	(27,363)	**(205,298)**
Equity in net income (loss) of unconsolidated subsidiaries and affiliated companies	**2,356**	2,016	(140)	**19,000**
Other, net (Note 11)	**(207,580)**	20,255	(18,553)	**(1,674,032)**
	(227,505)	(2,433)	(39,007)	**(1,834,717)**
Income (loss) before income taxes	**(242,442)**	22,678	23,503	**(1,955,177)**
Income taxes: (Note 13)				
Current	**6,089**	9,888	2,049	**49,105**
Deferred	**(92,552)**	(12,453)	(18,294)	**(746,387)**
	(86,463)	(2,565)	(16,245)	**(697,282)**
Income (loss) before minority interests	**(155,979)**	25,243	39,748	**(1,257,895)**
Minority interests of consolidated subsidiaries	**736**	912	(1,041)	**5,935**
Net income (loss)	**¥ (155,243)**	¥ 26,155	¥ 38,707	**$ (1,251,960)**

	Yen			U.S. dollars (Note 1)
Amounts per share of common stock:				
Net income (loss):				
Basic	**¥ (126.99)**	¥ 21.39	¥ 31.66	**$ (1.024)**
Diluted	**–**	21.39	31.66	**–**
Cash dividends applicable to the year	**–**	2.00	4.00	**–**

See accompanying notes.

Consolidated Statements of Shareholders' Equity

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

		Millions of yen				
	Shares of common stock	Common stock	Capital surplus	Land revaluation	Retained earnings (deficit)	Foreign currency translation adjustments
Balance at March 31, 1998	1,222,273,377	¥ 120,026	¥ 104,163	¥ –	¥ 114,385	¥ –
Net income	–	–	–	–	38,707	–
Bonuses to directors and corporate auditors	–	–	–	–	(11)	–
Increase due to merger of a consolidated subsidiary and a company accounted for by the equity method	–	–	–	–	542	–
Common stock issued upon conversion of convertible bonds	223,278	52	52	–	–	–
Balance at March 31, 1999	1,222,496,655	120,078	104,215	–	153,623	–
Cumulative effect of adopting deferred tax accounting	–	–	–	–	25,174	–
Net income	–	–	–	–	26,155	–
Increase due to merger with a consolidated subsidiary	–	–	1	–	–	–
Cash dividends paid	–	–	–	–	(4,889)	–
Bonuses to directors and corporate auditors	–	–	–	–	(8)	–
Decrease due to newly consolidated subsidiaries and companies newly accounted for by the equity method	–	–	–	–	(178,640)	–
Balance at March 31, 2000	**1,222,496,655**	**120,078**	**104,216**	**–**	**21,415**	**–**
Net loss	**–**	**–**	**–**	**–**	**(155,243)**	**–**
Cash dividends paid	**–**	**–**	**–**	**–**	**(2,444)**	**–**
Bonuses to directors and corporate auditors	**–**	**–**	**–**	**–**	**(3)**	**–**
Decrease due to newly consolidated subsidiaries and companies newly accounted for by the equity method	**–**	**–**	**–**	**–**	**(364)**	**–**
Land revaluation	**–**	**–**	**–**	**124,570**	**–**	**–**
Adjustments from translation of foreign currency financial statements	**–**	**–**	**–**	**–**	**–**	**(53,353)**
Balance at March 31, 2001	**1,222,496,655**	**¥ 120,078**	**¥ 104,216**	**¥ 124,570**	**¥ (136,639)**	**¥ (53,353)**

	Thousands of U.S. dollars (Note 1)				
	Common stock	Capital surplus	Land revaluation	Retained earnings (deficit)	Foreign currency translation adjustments
Balance at March 31, 2000	**$ 968,371**	**$ 840,451**	**$ –**	**$ 172,702**	**$ –**
Net loss	**–**	**–**	**–**	**(1,251,960)**	**–**
Cash dividends paid	**–**	**–**	**–**	**(19,710)**	**–**
Bonuses to directors and corporate auditors	**–**	**–**	**–**	**(24)**	**–**
Decrease due to newly consolidated subsidiaries and companies newly accounted for by the equity method	**–**	**–**	**–**	**(2,935)**	**–**
Land revaluation	**–**	**–**	**1,004,597**	**–**	**–**
Adjustments from translation of foreign currency financial statements	**–**	**–**	**–**	**–**	**(430,266)**
Balance at March 31, 2001	**$ 968,371**	**$ 840,451**	**$ 1,004,597**	**$ (1,101,927)**	**$ (430,266)**

See accompanying notes.

Consolidated Statements of Cash Flows

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

	Millions of yen			Thousands of U.S. dollars (Note 1)
For the years ended	**2000** **March 31, 2001**	1999 March 31, 2000	1998 March 31, 1999	**2000** **March 31, 2001**
Cash flows from operating activities:				
Income (loss) before income taxes	**¥ (242,442)**	¥ 22,678	¥ 23,503	**$ (1,955,177)**
Adjustments to reconcile income (loss) before income taxes to net cash provided by operating activities:				
Depreciation and amortization	**49,531**	51,800	48,503	**399,444**
Allowance for doubtful receivables	**(9,176)**	6,986	9,470	**(74,000)**
Investment valuation allowance	**(3,697)**	657	–	**(29,815)**
Reserve for warranty expenses	**(4,670)**	15,013	(591)	**(37,661)**
Reserve for loss on guarantees of loans	**2,140**	–	–	**17,258**
Reserve for loss on business restructuring	**3,011**	–	–	**24,282**
Employees' severance and retirement benefits	**139,810**	(35)	180	**1,127,500**
Interest and dividend income	**(3,176)**	(3,994)	(7,049)	**(25,613)**
Interest expense	**25,457**	28,698	27,363	**205,298**
Equity in net loss (income) of unconsolidated subsidiaries and affiliated companies	**(2,356)**	(2,016)	140	**(19,000)**
Loss (gain) on sale of property, plant and equipment, net	**6,038**	(23,303)	(1,362)	**48,694**
Valuation loss on short-term investments	**–**	–	12,552	**–**
Gain on sales of investment securities, net	**(608)**	(8,794)	(7,212)	**(4,903)**
Loss on liquidation of affiliated companies	**5,335**	6,523	7,432	**43,024**
Decrease in trade notes and accounts receivable	**25,526**	17,037	45,756	**205,855**
Decrease (increase) in inventories	**(9,244)**	(15,782)	25,883	**(74,548)**
Increase (decrease) in trade notes and accounts payable	**13,942**	11,779	(10,367)	**112,435**
Accrued severance pay for early retirement	**45,232**	–	–	**364,774**
Increase in other current liabilities	**57,259**	5,249	15,508	**461,766**
Other	**14,358**	30,776	4,355	**115,790**
Subtotal	**112,270**	143,272	194,064	**905,403**
Interest and dividends received	**4,028**	5,326	7,025	**32,484**
Interest paid	**(25,767)**	(29,010)	(26,906)	**(207,798)**
Income taxes paid	**(6,180)**	(1,629)	(437)	**(49,839)**
Net cash provided by operating activities	**84,351**	117,959	173,746	**680,250**
Cash flows from investing activities:				
Sale of short-term investments	**1,312**	21,268	8,674	**10,580**
Purchase of investment securities	**(2,082)**	(17,073)	(9,159)	**(16,790)**
Sale of investment securities	**13,327**	19,024	14,110	**107,476**
Sale of investment in subsidiaries affecting scope of consolidation	**228**	(11,245)	–	**1,839**
Acquisition of distribution rights	**(7,190)**	–	–	**(57,984)**
Additions to property, plant and equipment	**(45,060)**	(52,109)	(48,517)	**(363,387)**
Proceeds from sale of property, plant and equipment	**16,303**	67,299	17,967	**131,476**
Decrease (increase) in short-term loans receivable	**1,427**	(2,568)	(6,305)	**11,508**
Long-term loans made	**(9,613)**	(12,393)	(150,010)	**(77,524)**
Collections of long-term loans receivable	**1,203**	5,253	799	**9,701**
Other	**(1,949)**	(8,777)	(7,461)	**(15,718)**
Net cash provided by (used in) investing activities	**(32,094)**	8,679	(179,902)	**(258,823)**
Cash flows from financing activities:				
Increase (decrease) in short-term debt	**(37,044)**	(162,772)	80,519	**(298,742)**
Proceeds from long-term debt	**146,828**	202,379	57,803	**1,184,097**
Repayment of long-term debt	**(104,172)**	(135,674)	(133,134)	**(840,097)**
Cash dividends paid	**(2,444)**	(4,889)	–	**(19,710)**
Other	**(197)**	(482)	(89)	**(1,588)**
Net cash provided by (used in) financing activities	**2,971**	(101,438)	5,099	**23,960**
Effect of exchange rate fluctuations on cash and cash equivalents	**511**	(1,870)	(1,522)	**4,121**
Net increase (decrease) in cash and cash equivalents	**55,739**	23,330	(2,579)	**449,508**
Cash and cash equivalents at beginning of the year	**233,593**	152,761	155,340	**1,883,815**
Increases in cash and cash equivalents due to newly consolidated subsidiaries	**1,200**	57,502	–	**9,678**
Increases in cash and cash equivalents due to mergers	**2,083**	–	–	**16,798**
Cash and cash equivalents at end of the year	**¥ 292,615**	¥ 233,593	¥ 152,761	**$ 2,359,799**

See accompanying notes.

Notes to Consolidated Financial Statements

MAZDA MOTOR CORPORATION AND CONSOLIDATED SUBSIDIARIES

1. Basis of Presenting Consolidated Financial Statements

Mazda Motor Corporation (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with Japanese GAAP and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of cash flows for the year ended March 31, 1999 and statements of shareholders' equity for the three years ended March 31, 2001, 2000 and 1999 have been prepared for the purpose of inclusion in the accompanying consolidated financial statements, although such statements were not required for domestic purposes and were not filed with the regulatory authorities.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the readers, using the prevailing exchange rate at March 31, 2001, which was ¥124 to US$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Significant Accounting Policies

Principles of consolidation

The Company prepared the consolidated financial statements for the years ended March 31, 2001 and 2000 in accordance with the revised Accounting Principles for Consolidated Financial Statements effective from the year ended March 31, 2000.

The accompanying consolidated financial statements for the years ended March 31, 2001 and 2000 include the accounts of the Company and significant companies, over which the Company has power of control through majority voting right or existence of certain conditions evidencing control by the Company. Investments in non-consolidated subsidiaries and affiliates, over which the Company has the ability to exercise significant influence over operating and financial policies of the investees, are accounted for on the equity method.

The consolidated financial statements include the accounts of the Company and 82 (95 in the year ended March 31, 2000 and 17 in the year ended March 31, 1999) subsidiaries. In addition, 31 non-consolidated subsidiaries and affiliates (71 in the year ended March 31, 2000 and 25 in the year ended March 31, 1999) are accounted for on the equity method.

Foreign currency translation

Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. Prior to April 1, 2000, long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Company and its consolidated subsidiaries (the "Companies") adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation", issued by the Business Accounting Deliberation Council on October 22, 1999 (the "Revised Accounting Standard"). Under the Revised Accounting Standard, long-term receivables and payables denominated in foreign currencies are also translated into Japanese yen at the year-end rate.

The effect on the consolidated statement of operations of adopting the Revised Accounting Standard was immaterial.

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

Due to the adoption of the Revised Accounting Standard, the Company and its domestic subsidiaries report foreign currency translation adjustments in shareholders' equity (and minority interests). The prior year's amount, which is included in assets, has not been reclassified.

Cash and cash equivalents

The Company considers all highly liquid investments with maturities of three months or less at the time of acquisition to be cash equivalents.

Securities

Prior to April 1, 2000, securities of the Companies were mainly stated at moving-average cost.

Effective April 1, 2000, the Companies adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

Upon applying the new accounting standard, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Under the new accounting standard, trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are to be stated at fair market value. Unrealized gains and unrealized losses on these securities are to be reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost. As of March 31, 2001, the Companies had no trading and held-to-maturity debt securities. Also, the adoption of the standard for stating available-for-sale securities at fair value will start in the fiscal year ending March 31, 2002.

In accordance with the Ministerial Ordiance No. 9-3, fair value information on available-for-sale securities is provided as follows. As of March 31, 2001, the aggregate amount of available-for-sale securities, for which fair market values were available, on the balance sheet was ¥4,187 million ($33,766 thousand) while the estimated fair value of those securities was ¥4,515 million ($36,411 thousand). Also, the amounts equivalent to net unrealized gains, deferred tax liabilities and minority interests were ¥193 million ($1,556 thousand), ¥137 million ($1,105 thousand) and negative ¥2 million ($16 thousand), respectively.

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

As a result of adopting the new accounting standard for financial instruments, loss before income taxes increased by ¥654 million ($5,274 thousand). Also, based on the examination of the intent of holding each security upon application of the new accounting standard on April 1, 2000, available-for-sale securities maturing within one year from the balance sheet date are included in current assets, and other securities are included in investments and other assets. As a result, at April 1, 2000, securities in current assets decreased by ¥17,982 million and investment securities increased by the same amount compared with what would have been reported under the previous accounting policy.

Inventories

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

Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation is computed principally using the declining balance method over the useful lives of the assets. For tools and buildings acquired after March 31, 1998, however, the straight-line method is used.

Intangible fixed assets

Intangible fixed assets are amortized principally on a straight-line method.

Allowance for doubtful receivables

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

Investment valuation allowance

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

Reserve for loss on restructuring of subsidiaries and affiliates

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

Reserve for loss on guarantees of loans

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

Reserve for loss on business restructuring

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

Employees' severance and retirement benefits

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

At March 31, 2000, the Company and its consolidated domestic subsidiaries accrued liabilities for the lump-sum payment plans equal to 40% of the amount required had all eligible employees voluntarily terminated their employment at the balance sheet date. The Company and its consolidated domestic subsidiaries recognized pension expense when, and to the extent, payments were made to the pension plans.

Effective April 1, 2000, the Companies adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits", issued by the Business Accounting Deliberation Council on June 16, 1998 (the "New Accounting Standard").

Under the New Accounting Standard, the liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Companies provided for employees' severance and retirement benefits at March 31, 2001 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥154,608 million ($1,246,839 thousand). The net transition obligation is fully recognized in other expenses in the current fiscal year. Prior service costs are recognized in expenses in equal amounts over the average of the estimated remaining service periods of employees (mainly over 12 years), and actuarial gains and losses are recognized in expenses using a straight-line basis over the average of the estimated remaining service periods (mainly over 13 years) commencing with the following period.

As a result of the adoption of the new accounting standard, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥144,639 million ($1,166,444 thousand) and loss before income taxes increased by ¥144,808 million ($1,167,806 thousand) compared with what would have been recorded under the previous accounting standard.

For the first half of the year ended March 31, 2001, the recognition of the net transition obligation was deferred on a straight-line basis over 15 years. Accordingly, the amount estimated to be incurred as of the end of the first-half period was recognized in non-operating expense. For the full-year period, however, the entire net transition obligation was recognized in other expenses (Note 11).

Out of the employees of the Company that were on the payroll as of the beginning of the year ended March 31, 2001, a large number of employees (2,210 employees) terminated their employment with the Company through its Early Retirement Special Program in the second-half period. In light of this, the Company elected to immediately recognize the entire net transition obligation.

The results of operations for the first half of this fiscal year would have been different if the net transition obligation had been immediately recognized in the first half in the same manner as at the year end. Considering what the results of operations for the first half would have been if the net transition obligation had been immediately recognized, severance and retirement benefit expenses were reported smaller by ¥147,386 million and loss before income taxes smaller by ¥147,386 million.

Income taxes

Through the year ended March 31, 1999, deferred income taxes were recognized only for temporary differences resulting from the elimination of intercompany profits and other consolidation entries and by subsidiaries and affiliates in North America. Commencing in the year ended March 31, 2000, however, accounting for deferred income taxes has been fully adopted in accordance with changes in Japanese accounting standards. The effect of this change was to increase net income for the year ended March 31, 2000 by ¥9,055 million and the ending balance of consolidated retained earnings at March 31, 2000 by ¥32,054 million. Also, deferred tax assets (short-term) increased by ¥13,673 million, deferred tax assets (long-term) increased by ¥19,912 million, and deferred tax liabilities (long-term) increased by ¥141 million.

Research and development costs

Through the year ended March 31, 1999, research and development costs were included in manufacturing costs when incurred. However, commencing with the year ended March 31, 2000, these costs have been included in selling, general and administrative expenses in accordance with the changes in Japanese accounting standards that became effective as of April 1, 1999. For the years ended March 31, 2001 and 2000, the research and development costs of ¥83,617 million ($674,331 thousand) and ¥76,126 million, respectively, were incurred and expensed. As for research and development costs that were included in the manufacturing costs of ending inventory as of March 31, 1999, no adjustment is required under the transitional provisions of the new standard.

Derivatives and hedge accounting

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

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

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

Leases

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

Amounts per share of common stock

The computations of net income (loss) per share of common stock are based on the average number of shares outstanding during each fiscal year. Diluted net income per share of common stock is computed based on the average number of shares outstanding during each fiscal year after giving effect to the diluting potential of common shares to be issued upon the conversion of convertible bonds. Diluted net loss per share for the year ended March 31, 2001 is not presented as a loss was recorded.

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

Reclassifications

Certain amounts in the March 31, 2000 and 1999 consolidated financial statements have been reclassified to conform with the March 31, 2001 presentation.

3. Accounting Change – Reserve for Warranty Expenses

With regard to the reserve for warranty expenses, in principle, the maximum amount (at the prescribed rate) permitted by Japanese tax law was recognized by the Company through the year ended March 31, 1999. Commencing in the year ended March 31, 2000, however, an amount estimated based on product warranty provisions and actual costs incurred in the past, taking future prospects into consideration, has been recognized. In addition, through the year ended March 31, 1999, North American sales subsidiaries expensed, as incurred, those warranty costs exceeding the liability of the manufacturer. Commencing in the year ended March 31, 2000, however, an amount estimated based on future prospects has been recognized. These changes have been made as a result of an improvement in the estimation method of future warranty expenses that can now be more rationally estimated to match the recognition of after-sales expenses to product (vehicle) sales revenues. The effects of these changes for the year ended March 31, 2000 were to increase selling, general and administrative expenses by ¥17,152 million and to decrease operating income and income before income taxes by the same amount.

4. Securities

The Companies have no trading or held-to-maturity debt securities with available fair values at March 31, 2001. Fair value information for available-for-sale securities is disclosed in Note 2.

Available-for-sale securities with no available fair values as of March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
	Book value	Book value
Non-listed equity securities	¥ 8,999	$ 72,573

Available-for-sale securities with maturities mature as follows:

	Millions of yen			Thousands of U.S. dollars		
	Within one year	Over one year but within five years	Over five years but within ten years	Within one year	Over one year but within five years	Over five years but within ten years
Available-for-sale securities:						
Bonds	¥ 10	¥ 10	¥ 4	$ 81	$ 81	$ 32
Others	9	45	27	72	363	218
	¥ 19	¥ 55	¥ 31	$ 153	$ 444	$ 250

Total sales of available-for-sale securities sold in the year ended March 31, 2001 amounted to ¥10,209 million ($82,331 thousand) and the related gains and losses amounted to ¥214 million ($1,726 thousand) and ¥3,798 million ($30,629 thousand), respectively.

At March 31, 2000, book values, market values and net unrealized gains (losses) of marketable securities were as follows:

	Millions of yen		
	Book value	Market value	Unrealized gains (losses)
Short-term investments:			
Shares	¥ 17,946	¥ 13,644	¥ (4,302)
Other	37	25	(12)
	17,983	13,669	(4,314)
Investment securities:			
Shares	1,136	1,085	(51)
Other	25	25	–
	1,161	1,110	(51)
	¥ 19,144	¥ 14,779	¥ (4,365)

5. Inventories

Inventories at March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
As of	**March 31, 2001**	March 31, 2000	**March 31, 2001**
Finished products	**¥ 169,788**	¥ 149,805	**$ 1,369,258**
Work in process	**30,642**	23,656	**247,113**
Raw materials and supplies	**6,668**	6,521	**53,774**
	¥ 207,098	¥ 179,982	**$ 1,670,145**

6. Land Revaluation

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

	Millions of yen	Thousands of U.S. dollars
Book value of land for business use before revaluation	¥ 76,886	$ 620,048
Book value of land for business use after revaluation	294,886	2,378,113

The fair value of land is determined based on official notice prices that are assessed and published by the Commissioner of the National Tax Administration, as stipulated in Article 2-4 of the Ordinance Implementing the Law Concerning Land Revaluation (Article 119 of 1998 Cabinet Order, promulgated on March 31, 1998). Reasonable adjustments, including those for the timing of assessment, are made to the official notice prices.

7. Short-Term Debt and Long-Term Debt

Short-term debt at March 31, 2001, consisted of loans, principally from banks of ¥344,804 million ($2,780,678 thousand). The annual interest rates applicable to short-term debt outstanding at March 31, 2001 and 2000, averaged 2.8% and 2.6%, respectively.

Long-term debt at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
As of	**March 31, 2001**	March 31, 2000	**March 31, 2001**
Domestic unsecured bonds due serially 2001 through 2005 at rates of 1.9% to 3.0% per annum	**¥ 120,000**	¥ 75,000	**$ 967,742**
Euroyen bonds due serially 2000 through 2002 at rates of 4.05% to 5.5% per annum	**30,000**	70,000	**241,936**
Floating rate Euroyen notes due 2000	**–**	10,000	**–**
French franc mortgage bonds due 2003 at a rate of 5.875% per annum	**11,900**	11,900	**95,968**
Loans principally from banks and insurance companies:			
Secured loans, maturing through 2022	**240,498**	194,257	**1,939,500**
Unsecured loans, maturing through 2007	**30,090**	32,856	**242,661**
	432,488	394,013	**3,487,807**
Amount due within one year	**(65,465)**	(83,808)	**(527,944)**
	¥ 367,023	¥ 310,205	**$ 2,959,863**

The annual interest rates applicable to secured loans and unsecured loans outstanding averaged 2.1% and 2.5%, respectively, at March 31, 2001, and 2.2% and 2.7%, respectively, at March 31, 2000.

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

The annual maturities of long-term debt at March 31, 2001 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2002	¥ 65,465	$ 527,944
2003	63,439	511,605
2004	95,392	769,290
2005	108,828	877,645
2006	62,239	501,928
Thereafter	37,125	299,395
	¥ 432,488	$ 3,487,807

The assets pledged as collateral for short-term debt of ¥120,880 million ($974,839 thousand) and long-term debt of ¥240,498 million ($1,939,500 thousand) at March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, at net book value	¥ 466,711	$ 3,763,798
Other	8,027	64,734
	¥ 474,738	$ 3,828,532

8. Employees' Severance and Retirement Benefits

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

The liability for severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2001 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	¥ 481,087	$ 3,879,734
Unrecognized prior service costs	(4,490)	(36,210)
Unrecognized actuarial differences	(42,567)	(343,282)
Less fair value of pension assets	(260,877)	(2,103,847)
Prepaid pension cost	56	452
Liability for severance and retirement benefits	¥ 173,209	$ 1,396,847

Severance and retirement benefit expenses included in the consolidated statement of operations for the year ended March 31, 2001 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Service costs–benefits earned during the year	¥ 15,592	$ 125,742
Interest cost on projected benefit obligation	15,696	126,581
Expected return on plan assets	(15,171)	(122,347)
Net transition obligation	154,608	1,246,839
Amortization of prior service costs	391	3,153
Severance and retirement benefit expenses	¥ 171,116	$ 1,379,968

The discount rate and the rate of expected return on plan assets used by the Companies are primarily 3.5% and 5.5%, respectively. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years.

9. Contingent Liabilities

Contingent liabilities at March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
Discounted trade notes receivable	¥ 2,782	$ 22,435
Endorsed notes receivable	13	105
Factoring of receivables with recourse	10,666	86,016
Guarantees of loans	8,487	68,444
Letters of awareness and letters of undertaking to provide guarantees	13,976	112,710
Letters of undertaking to provide guarantees for leases for factory facilities	36,484	294,226

10. Common Stock

In accordance with the Commercial Code of Japan, certain issues of shares of common stock, including conversion of convertible bonds, are required to be credited to common stock to the extent of the greater of par value or 50% of the proceeds by resolution of the Board of Directors. The remaining amounts are credited to capital surplus.

The Company had no convertible bonds outstanding at March 31, 2001.

11. Other Income (Expenses)

The components of "Other, net" in Other income (expenses) in the statements of operations for the years ended March 31, 2001, 2000 and 1999 were comprised as follows:

	Millions of yen			Thousands of U.S. dollars
For the years ended	**2000** **March 31, 2001**	1999 March 31, 2000	1998 March 31, 1999	**2000** **March 31, 2001**
Valuation loss on short-term investments	**¥ –**	¥ –	¥ (12,552)	**$ –**
Gain on sale of short-term investments	**–**	1,518	1,506	**–**
Valuation loss on investment securities	**(2,250)**	(696)	(8,948)	**(18,145)**
Gain on sale of investment securities, net	**608**	8,794	7,212	**4,903**
Gain (loss) on sale of property, plant and equipment, net	**(6,038)**	23,303	1,362	**(48,693)**
Rental income	**5,979**	6,166	6,090	**48,218**
Past service costs of the pension plan	**–**	(3,064)	(3,101)	**–**
Restructuring of subsidiaries and affiliates	**(5,335)**	(6,523)	(7,432)	**(43,024)**
Investment valuation allowance	**(351)**	(657)	–	**(2,831)**
Foreign exchange gain (loss)	**1,476**	(5,011)	(1,412)	**11,903**
Provision for loss on guarantees of loans	**(2,140)**	–	–	**(17,258)**
Net transition obligation of new accounting standard for severance and retirement benefits	**(154,608)**	–	–	**(1,246,839)**
Severance pay for early retirement	**(36,608)**	–	–	**(295,226)**
Loss on business restructuring	**(3,011)**	–	–	**(24,282)**
Other	**(5,302)**	(3,575)	(1,278)	**(42,758)**
	¥ (207,580)	¥ 20,255	¥ (18,553)	**$ (1,674,032)**

12. Real Estate Trust Contract

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

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

In addition, the Company entered a "*Tokumei Kumiai*" agreement with, and made an investment in the transferee. The investment was included in other investments in the consolidated balance sheets as of March 31, 2001 and 2000. The balances of the investment at March 31, 2001 and 2000 were ¥4,808 million ($38,774 thousand) and ¥5,169 million, respectively. The above investment is subordinate to other financial obligations of the transferee.

The term of lease is for five years and one month. The present values of the lease payment obligations unaccrued as of March 31, 2001, including an amount equivalent to the prescribed penalties for non-renewal, etc., are included in future minimum lease payments under operating leases as lessee in Note 15.

13. Income Taxes

The Company and its domestic subsidiaries are subject to a number of taxes based on income, which in the aggregate resulted in a statutory tax rate of approximately 41.7% for the years ended March 31, 2001 and 2000. Foreign subsidiaries are subject to income taxes applicable in the countries of domicile.

The effective tax rates reflected in the consolidated statements of operations for the years ended March 31, 2001 and 2000 differ from statutory tax rate for the following reasons:

For the years ended	**2000** **March 31, 2001**	1999 March 31, 2000
Statutory tax rate	**41.7%**	41.7%
Equity in net income of unconsolidated subsidiaries and affiliated companies	**0.4**	(3.7)
Deferred taxes on net operating losses of consolidated subsidiaries and equity method companies	**(7.4)**	(52.2)
Taxes on retained earnings of subsidiaries in which investments were sold during this period	**–**	11.3
Valuation allowances	**7.0**	(13.1)
Reversal of unrealized profits from intercompany transactions	**(3.7)**	–
Effect of tax rate changes	**–**	5.4
Other	**(2.3)**	(0.7)
Effective tax rate	**35.7%**	(11.3)%

Deferred tax assets and liabilities reflect the estimated tax effects of accumulated temporary differences between assets and liabilities for financial accounting purposes and those for tax purposes. The significant components of deferred tax assets and liabilities at March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of	**2000** **March 31, 2001**	1999 March 31, 2000	**2000** **March 31, 2001**
Deferred tax assets:			
Allowance for doubtful receivables	**¥ 7,183**	¥ 11,110	**$ 57,927**
Employees' severance and retirement benefits	**66,017**	–	**532,395**
Accrued bonuses and other reserves	**16,786**	13,352	**135,371**
Inventory valuation	**3,482**	11,903	**28,081**
Investment valuation allowance	**–**	17,915	**–**
Net operating loss carryforwards	**65,129**	38,580	**525,234**
Other	**52,974**	41,525	**427,210**
Total gross deferred tax assets	**211,571**	134,385	**1,706,218**
Less valuation allowance	**(33,280)**	(40,985)	**(268,387)**
Net deferred tax assets	**178,291**	93,400	**1,437,831**
Deferred tax liabilities:			
Reserves under Special Taxation Measures Law	**(8,417)**	(13,066)	**(67,879)**
Other	**(5,922)**	(11,208)	**(47,758)**
Deferred tax liabilities	**(14,339)**	(24,274)	**(115,637)**
Net deferred tax assets	**¥ 163,952**	¥ 69,126	**$ 1,322,194**

For the fiscal year ended March 31, 2000, the statutory tax rate used to calculate deferred tax assets and deferred tax liabilities changed from the prior year's 47.4% to 41.7%. The effect of this change in the statutory tax rate was to decrease deferred tax assets (net of deferred tax liabilities) by ¥1,223 million and increase income tax expense for the year ended March 31, 2000 by the same amount.

14. Derivative Financial Instruments and Hedging Transactions

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

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

The policies for derivative transactions of the Companies are determined by the Company's president or chief financial officer. Derivative contracts are concluded under the directions of the Company's Financial Services Division in accordance with the established rules of the Company. Derivative transactions are executed and the balances are managed by each individual company; the president of each company is responsible for the inspection. Also, the Company's Financial Services Division is responsible for overall management on a group-wide basis.

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

Hedging instruments:	Hedged items:
Forward foreign exchange and option contracts	Foreign currency trade receivables and trade payables
Currency swap contracts	Foreign currency bonds
Interest rate swap contracts	Interest on borrowings

The following table summarizes market value information as of March 31, 2001 of derivative transactions for which hedge accounting has not been applied:

	Millions of yen			Thousands of U.S. dollars		
	Contract amount	Estimated fair value	Recognized gain (loss)	Contract amount	Estimated fair value	Recognized gain (loss)
Forward foreign exchange contracts:						
Sell:						
U.S. dollars	¥ 6,508	¥ 7,516	¥ (1,008)	$ 52,484	$ 60,613	$ (8,129)
Canadian dollars	770	784	(14)	6,210	6,323	(113)
Australian dollars	1,466	1,368	98	11,822	11,032	790
Euro	2,701	2,708	(7)	21,782	21,838	(56)
	¥ 11,445	¥ 12,376	¥ (931)	$ 92,298	$ 99,806	$ (7,508)

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

At March 31, 2000, the Companies had outstanding forward exchange contracts to sell foreign currencies for amounts of ¥12,177 million for U.S. dollars, ¥13,476 million for Canadian dollars and ¥108 million for Australian dollars and to buy foreign currencies for amounts of ¥387 million for Deutsche marks and ¥132 million for Australian dollars. The unrealized gain on these contracts was ¥849 million, using the prevailing forward exchange rates on that date.

In addition, at March 31, 2000, the Companies had outstanding interest rate swaps (receive/floating and pay/fixed) for a notional amount of ¥400 million. The unrealized gain on these contracts was ¥3 million on that date.

15. Leases

(a) As lessee

Lease payments under non-capitalized finance leases amounted to ¥25,357 million ($204,492 thousand), ¥27,244 million and ¥23,994 million for the years ended March 31, 2001, 2000 and 1999, respectively.

The present values of future minimum lease payments under non-capitalized finance leases and future minimum lease payments under operating leases as of March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
	Finance leases			Operating leases		
	2000	1999	**2000**	**2000**	1999	**2000**
As of	**March 31, 2001**	March 31, 2000	**March 31, 2001**	**March 31, 2001**	March 31, 2000	**March 31, 2001**
Current portion	**¥ 21,741**	¥ 22,837	**$ 175,331**	**¥ 5,535**	¥ 3,209	**$ 44,637**
Non-current portion	**57,947**	68,426	**467,314**	**42,964**	34,158	**346,484**
	¥ 79,688	¥ 91,263	**$ 642,645**	**¥ 48,499**	¥ 37,367	**$ 391,121**

(b) As lessor

Lease payments received under finance leases, accounted for as operating leases, amounted to ¥1,130 million ($9,113 thousand), ¥1,528 million and ¥1,323 million for the years ended March 31, 2001, 2000 and 1999, respectively.

The present values of future minimum lease payments to be received under finance leases and payments to be received under operating leases as of March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
	Finance leases			Operating leases		
	2000	1999	**2000**	**2000**	1999	**2000**
As of	**March 31, 2001**	March 31, 2000	**March 31, 2001**	**March 31, 2001**	March 31, 2000	**March 31, 2001**
Current portion	**¥ 794**	¥ 964	**$ 6,403**	**¥ 4,517**	¥ 4,830	**$ 36,427**
Non-current portion	**1,788**	1,534	**14,419**	**5,623**	5,755	**45,347**
	¥ 2,582	¥ 2,498	**$ 20,822**	**¥ 10,140**	¥ 10,585	**$ 81,774**

16. Segment Information

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

Net sales, operating income (loss) and identifiable assets by geographic area for the years ended March 31, 2001, 2000 and 1999 were as follows:

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

1999 For the year ended March 31, 2000	Millions of yen						
	Japan	North America	Europe	Other areas	Total	Elimination or corporate	Consolidated
Net sales:							
Outside customers	¥ 1,311,253	¥ 564,985	¥ 216,073	¥ 69,261	¥ 2,161,572	¥ –	¥ 2,161,572
Inter-area	447,940	13,127	55	12	461,134	(461,134)	–
Total	1,759,193	578,112	216,128	69,273	2,622,706	(461,134)	2,161,572
Costs and expenses	1,742,274	577,468	212,831	69,783	2,602,356	(465,895)	2,136,461
Operating income (loss)	¥ 16,919	¥ 644	¥ 3,297	¥ (510)	¥ 20,350	¥ 4,761	¥ 25,111
Total identifiable assets	¥ 1,293,509	¥ 126,111	¥ 70,275	¥ 27,675	¥ 1,517,570	¥ (48,037)	¥ 1,469,533

1998 For the year ended March 31, 1999	Millions of yen						
	Japan	North America	Europe	Other areas	Total	Elimination or corporate	Consolidated
Net sales:							
Outside customers	¥ 1,114,891	¥ 616,610	¥ 238,139	¥ 87,457	¥ 2,057,097	¥ –	¥ 2,057,097
Inter-area	413,310	15,129	86	–	428,525	(428,525)	–
Total	1,528,201	631,739	238,225	87,457	2,485,622	(428,525)	2,057,097
Costs and expenses	1,467,711	628,614	232,821	88,081	2,417,227	(422,640)	1,994,587
Operating income (loss)	¥ 60,490	¥ 3,125	¥ 5,404	¥ (624)	¥ 68,395	¥ (5,885)	¥ 62,510
Total identifiable assets	¥ 1,259,690	¥ 140,813	¥ 92,375	¥ 29,740	¥ 1,522,618	¥ (43,586)	¥ 1,479,032

2000 **For the year ended March 31, 2001**	Thousands of U.S. dollars						
	Japan	North America	Europe	Other areas	Total	Elimination or corporate	Consolidated
Net sales:							
Outside customers	**$ 9,642,008**	**$4,683,605**	**$1,362,556**	**$ 568,379**	**$ 16,256,548**	**$ –**	**$ 16,256,548**
Inter-area	**3,175,669**	**83,234**	**5,847**	**105**	**3,264,855**	**(3,264,855)**	**–**
Total	**12,817,677**	**4,766,839**	**1,368,403**	**568,484**	**19,521,403**	**(3,264,855)**	**16,256,548**
Costs and expenses	**12,927,806**	**4,799,839**	**1,376,234**	**562,169**	**19,666,048**	**(3,289,040)**	**16,377,008**
Operating income (loss)	**$ (110,129)**	**$ (33,000)**	**$ (7,831)**	**$ 6,315**	**$ (144,645)**	**$ 24,185**	**$ (120,460)**
Total identifiable assets	**$ 13,017,250**	**$1,225,282**	**$ 530,694**	**$ 199,242**	**$ 14,972,468**	**$ (910,960)**	**$ 14,061,508**

Included in the elimination or corporate column under assets are foreign currency translation adjustments of ¥61,988 million and ¥51,769 million at March 31, 2000 and 1999, respectively. As discussed in Note 2, starting in the year ended March 31, 2001, the Companies adopted the Revised Accounting Standard for foreign currency translation. As a result, foreign currency translation adjustments are included in the shareholders' equity section.

As discussed in Note 2, the Companies adopted the New Accounting Standard for employees' severance and retirement benefits effective the beginning of the year ended March 31, 2001. The effect of this change was to decrease operating expenses of the Japan segment by ¥7,449 million ($60,073 thousand) and to decrease the operating loss of this segment by the same amount.

Also, as discussed in Note 3, the method to estimate warranty expenses was changed effective the beginning of the year ended March 31, 2000. The effect of this change on the results of operations for the year ended March 31, 2000 was to increase the operating expenses of the Japan segment by ¥15,131 million and that of the North American segment by ¥2,021 million and to decrease the operating incomes of these two segments by the same amounts, respectively.

International sales of the Companies for the years ended March 31, 2001, 2000 and 1999 were as follows:

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

1999	Millions of yen			
For the year ended March 31, 2000	North America	Europe	Other areas	Total
International sales	¥ 627,371	¥ 341,386	¥ 237,355	¥ 1,206,112
Percentage of consolidated net sales	29.0%	15.8%	11.0%	55.8%

1998	Millions of yen			
For the year ended March 31, 1999	North America	Europe	Other areas	Total
International sales	¥ 698,160	¥ 415,470	¥ 273,213	¥ 1,386,843
Percentage of consolidated net sales	33.9%	20.2%	13.3%	67.4%

2000	Thousands of U.S. dollars			
For the year ended March 31, 2001	North America	Europe	Other areas	Total
International sales	**$ 4,984,484**	**$1,905,839**	**$2,011,645**	**$ 8,901,968**

International sales include exports by the Company and its domestic consolidated subsidiaries as well as sales of overseas consolidated subsidiaries outside Japan.

17. Related Party Transactions

The Company issued letters of undertaking to provide guarantees to certain creditors of AutoAlliance International, Inc. (“AAI”), an affiliate which is accounted for by the equity basis. As of March 31, 2001, the letters of undertaking, included in contingent liabilities, covered ¥41,867 million ($337,637 thousand) of AAI’s obligations.

In addition, the Company transferred (sold) receivables to Primus Financial Services, Inc., a subsidiary of Ford Motor Company. For the year ended March 31, 2001, the transactions amounted to ¥171,712 million ($1,384,774 thousand) in the aggregate. As of March 31, 2001, the ending balance of accounts receivable related to the transactions was ¥6,187 million ($49,895 thousand). The terms of the transactions are determined on an arm’s length basis.

18. Subsequent Event

The Board of Directors of the Company resolved on April 27, 2001 to issue notes and bonds of up to ¥70,000 million from May to July 2001. The Company issued domestic unsecured bonds of ¥30,000 million bearing interest of 1.7% on June 25, 2001. The bonds will mature in 2005.

Report of Independent Certified Public Accountants

ARTHUR ANDERSEN

Asahi & Co

Hiroshima Office
Hiroshima Kogin Building
1-22 Kamiya-cho 2-chome
Naka-ku Hiroshima 730-0031
Japan

Tel 082 248 2932
Fax 082 246 2936

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

We have audited the accompanying consolidated balance sheets of Mazda Motor Corporation (a Japanese corporation) and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2001, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Mazda Motor Corporation and subsidiaries as of March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2001 in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except for the new accounting policies and change in accounting policy, with which we concur, as noted in the following paragraphs.

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

As explained in Note 2, in the year ended March 31, 2000, Mazda Motor Corporation and subsidiaries prospectively adopted new Japanese accounting standards for consolidation and equity method accounting, income taxes and research and development costs. Also, Mazda Motor Corporation and subsidiaries changed the methods of accounting for the reserve for warranty expenses, effective April 1, 1999, as referred to in Note 3.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Hiroshima, Japan
June 26, 2001

Asahi & Co.

(Member Firm of Andersen Worldwide SC)

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying consolidated financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

Five-Year Summary

MAZDA MOTOR CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2001, 2000, 1999, 1998 and 1997

Consolidated

	Millions of yen					Thousands of U.S. dollars[1]
	2000	1999	1998	1997	1996	**2000**
	March 31, 2001	March 31, 2000	March 31, 1999	March 31, 1998	March 31, 1997	**March 31, 2001**
Net sales	**¥ 2,015,812**	¥ 2,161,572	¥ 2,057,097	¥ 2,041,428	¥ 1,894,200	**$ 16,256,548**
Domestic	**911,968**	955,460	670,254	703,758	749,908	**7,354,580**
Overseas	**1,103,844**	1,206,112	1,386,843	1,337,670	1,144,292	**8,901,968**
Net income (loss)	**(155,243)**	26,155	38,707	(6,801)	(17,548)	**(1,251,960)**
Total assets	**1,743,627**	1,469,533	1,479,032	1,456,368	1,417,407	**14,061,508**
Shareholders' equity	**158,872**	245,709	377,916	338,574	344,479	**1,281,226**
Capital expenditures[2]	**47,285**	48,867	43,485	55,156	27,298	**381,331**
Depreciation and amortization	**49,531**	51,800	48,503	46,530	50,948	**399,444**
Financial debts	**777,292**	770,610	728,718	735,555	699,497	**6,268,484**
Cash flows[3]	**52,257**	126,638	(6,156)	482	27,571	**421,427**
Number of employees	**39,601**	43,818	31,851	31,665	32,919	

	Yen					U.S. dollars
Amounts per share of common stock:						
Net income (loss)[4]	**¥ (126.99)**	¥ 21.39	¥ 31.66	¥ (5.56)	¥ (14.62)	**$ (1.024)**
Cash dividends[5]	**–**	2.00	4.00	–	–	**–**

	Thousands of shares				
Shares outstanding at year-end	**1,222,497**	1,222,497	1,222,497	1,222,273	1,222,273

	Thousands of units				
Unit sales					
Domestic	**334**	345	337	345	377
Overseas	**630**	668	688	670	638
	964	1,013	1,025	1,015	1,015

Non-Consolidated

	Millions of yen					Thousands of U.S. dollars[1]
	2000	1999	1998	1997	1996	**2000**
	March 31, 2001	March 31, 2000	March 31, 1999	March 31, 1998	March 31, 1997	**March 31, 2001**
Net sales	**¥ 1,322,741**	¥ 1,466,146	¥ 1,454,018	¥ 1,512,397	¥ 1,426,803	**$ 10,667,266**
Domestic	**639,690**	651,453	603,435	631,191	673,675	**5,158,790**
Export	**683,051**	814,693	850,583	881,206	753,128	**5,508,476**
Net income (loss)	**(127,590)**	5,139	30,529	11,513	6,111	**(1,028,952)**
Total assets	**1,428,364**	1,104,609	1,074,946	1,014,868	997,094	**11,519,065**
Shareholders' equity	**434,513**	439,978	416,367	385,733	374,220	**3,504,137**
Capital expenditures[2]	**39,940**	41,526	37,446	34,156	21,555	**322,097**
Depreciation and amortization	**35,038**	36,356	37,308	38,002	43,452	**282,565**
Financial debts	**456,241**	401,177	423,357	394,162	398,003	**3,679,363**
Number of employees[6]	**20,705**	23,549	24,076	23,873	24,891	

	Yen					U.S. dollars
Amounts per share of common stock:						
Net income (loss)[4]	**¥ (104.36)**	¥ 4.20	¥ 24.97	¥ 9.42	¥ 5.09	**$ (0.842)**
Cash dividends[5]	**–**	2.00	4.00	–	–	**–**

Notes:
1. The translation of the Japanese yen amounts into U.S. dollars is presented solely for the convenience of readers, using the prevailing exchange rate at March 31, 2001, of ¥124 to US$1.
2. Capital expenditures are calculated on an accrual basis.
3. Cash flows represent net of cash flows from operating activities and those from investing activities.
4. The computations of net income (loss) per share of common stock are based on the average number of shares outstanding during each fiscal year.
5. Cash dividends per share represent actual amounts applicable to the respective years.
6. The number of employees includes those employees who are being dispatched to subsidiaries, affiliates, and other organizations.

Board of Directors

(As of September 1, 2001)

Representative Director and Chairman of the Board
Kazuhide Watanabe (1)

Representative Director and President
Mark Fields (2)

Representative Director, Senior Managing Director and Chief Financial Officer
Robert L. Shanks (3)
Subsidiary & Affiliated Companies

Senior Managing Directors
David G. Thomas (4)
Marketing, Sales and Customer Service

Mutsumi Fujiwara (5)
Purchasing

Hisakazu Imaki (6)
Production Engineering, Manufacturing and Business Logistics

Takashi Yamanouchi (7)
Secretariat, Personnel & Human Development, Internal Auditing and Mazda Hospital

Kei Kado (8)
R&D, Quality Assurance and Six Sigma

Ryoichi Hasegawa (9)
IT Solution, e-Business, General Affairs, Legal Affairs and Osaka Branch; Assistant to the CFO

Managing Directors
Gideon Wolthers (10)
Corporate Planning and Cost Planning; General Manager, Corporate Planning Div.

Tsuneo Matsubara (11)
Overseas Sales

Philip R. Martens (12)
Product Strategy, Design and Product Development

Kenichi Yamamoto (13)
Domestic Marketing, Domestic Sales and Domestic Customer Service

Hitoshi Inoue (14)
Assistant to officer in charge of Product Development and Quality Assurance

Fumiaki Inami (15)
Corporate Benchmarking; General Manager, Product Planning & Business Strategy Div.

Directors
Shigeharu Hiraiwa
Corporate Communications & Liaison; General Manager, Corporate Communications & Liaison Div.

Paul R. Stokes
General Manager, Purchasing Div.

Masaharu Yamaki
General Manager, Production Engineering Div.

Masazumi Wakayama
General Manager, Domestic Marketing Div.

Jan Brentebraten
European Operations

Akira Marumoto
European R&D and Production Operations

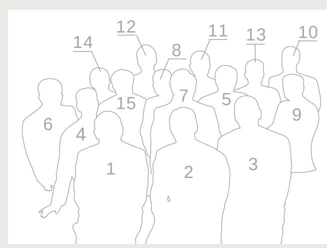
Keishi Egawa
General Manager, General Affairs Dept.

Masaki Kanda
General Manager, Personnel & Human Development Div.

Hiroshi Hosaka
General Manager, Domestic Sales Div.

Nobuhide Inamoto
General Manager, Business Logistics Div.

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



Senior Advisor
Charles R. Hughes
North American Operations

Corporate Auditors (Full time)
Yukizo Otani
Toshiki Sakata
Teruhiro Shimono

Corporate Auditors
Takaharu Dohi
Takao Yoshiki

Corporate Data

(As of March 31, 2001)

FOUNDED	1920
COMMON STOCK	
Par Value:	¥50
Authorized:	3,000,000,000 shares
Issued:	1,222,496,655 shares
Capital:	¥120,078 million
Number of Shareholders:	61,167
Listings:	Tokyo, Osaka, Nagoya, Fukuoka, and Sapporo stock exchanges
Transfer Agent:	The Sumitomo Trust & Banking Co., Ltd. 5-33, Kitahama 4-chome, Chuo-ku Osaka 540-8639, Japan
Independent Certified Public Accountants:	Asahi & Co. A member firm of Andersen Worldwide SC
NUMBER OF EMPLOYEES	20,705

OFFICES

Head Office:	3-1 Shinchi, Fuchu-cho, Aki-gun Hiroshima 730-8670, Japan Phone: +81 (82) 282-1111 Fax: +81 (82) 287-5190 +81 (82) 287-5192
Tokyo Office:	1-1-7 Uchisaiwai-cho, Chiyoda-ku Tokyo 100-0011, Japan Phone: +81 (3) 3508-5055
Osaka Branch:	Umeda Sky Building, Tower East 1-1-88-800, Oyodonaka, Kita-ku Osaka 531-6008, Japan Phone: +81 (6) 6440-5811

PRINCIPAL SUBSIDIARIES AND AFFILIATES

Mazda Motor of America, Inc.
Mazda Motors (Deutchland) GmbH
Mazda Canada Inc.
Mazda Australia Pty. Ltd.
Mazda Motor Logistics Europe N.V.
Mazda Motor Europe GmbH
Mazda Autozam Inc.
Tokai Mazda Hanbai Co., Ltd.
Mazda Enfini Tokyo Co., Ltd.
Mazda Enfini Kanto Co., Ltd.
Mazda Parts Kanto Co., Ltd.
Mazda Chuhan Co., Ltd.
Mazda Rental & Leasing System Corporation
Kurashiki Kako Co., Ltd.
Malox Co., Ltd.
Toyo Advanced Technologies Co., Ltd.
AutoAlliance International, Inc.*
AutoAlliance (Thailand) Company Limited*
*Affiliated

SALES AND SERVICE NETWORK

Domestic: Approximately 430 dealers and 1,310 sales and service outlets
Overseas: Approximately 150 distributors and 4,840 sales and service outlets in more than 150 destinations

PLANTS

	Land area (m²)	Products
Hiroshima	2,178,000	Passenger cars and commercial vehicles
Hofu		
Nishinoura	792,000	Passenger cars
Nakanoseki	537,000	Transmissions
Miyoshi	1,667,000	Diesel engines

PRINCIPAL OVERSEAS ASSEMBLY OPERATIONS

(As of March 31, 2001)*

Country	Assembler	Mazda vehicles assembled
U.S.A.	AutoAlliance International, Inc.	626
Thailand	AutoAlliance (Thailand) Company Limited	323, B-Series
South Africa	Ford Motor Company of Southern Africa	323, B-Series, E-Series
Colombia	Compañía Colombiana Automotriz S.A.	323, 626, B-Series, T-Series
Zimbabwe	Willowvale Mazda Motor Industries (PVT) Ltd.	323, 626, B-Series, T-Series

*Overseas assembly operations are located in 16 countries.

FOR FURTHER INFORMATION

Japan
PR Planning Department
Corporate Communications & Liaison Division
Mazda Motor Corporation

Hiroshima: 3-1 Shinchi, Fuchu-cho, Aki-gun
Hiroshima 730-8670, Japan
Phone: +81 (82) 282-5253
Fax: +81 (82) 287-5225

Tokyo: 1-1-7 Uchisaiwai-cho
Chiyoda-ku, Tokyo 100-0011, Japan
Phone: +81 (3) 3508-5056
Fax: +81 (3) 3508-5094

North America
Mazda Information Bureau
10 Corporate Park Suite 200 Irvine, CA 92606, U.S.A.
Phone: +1 (949) 223-2300
Fax: +1 (949) 752-2130

Europe
Mazda Motor Europe GmbH
Hitdorferstrasse 73 D-51371 Leverkusen Germany
Phone: +49/ 2173-943-854
Fax: +49/ 2173-943-853

Australia
National Public Relations Department
Mazda Australia Pty. Ltd.
37 Lorimer Street, Southbank, Victoria 3006, Australia
Phone: +61 (3) 9698-5910
Fax: +61 (3) 9699-7223

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

Mazda Motor Corporation

Printed in Japan
using recycled paper