Farina Objection to Proposed Class Action Settlement

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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
SOUTHERN DIVISION – SANTA ANA

Gary Guthrie, Stephanie Crain, Chad Hinton, Julio Zelaya, Anna Gilinets, Marcy Knysz, And Lester Woo, On Behalf Of Themselves And All Others Similarly Situated, Plaintiffs, vs. Mazda Motor of America, Inc., Defendant.	Case No.: 8:22-cv-01055-DOC-DFM Assigned to: Hon. David O. Carter **NOTICE OF OBJECTION TO PROPOSED CLASS ACTION SETTLEMENT (DOC. NO. 91) AND REQUEST FOR HEARING PRIOR TO FINAL APPROVAL**

TO THE COURT, ALL PARTIES, AND THEIR ATTORNEYS OF RECORD:

PLEASE TAKE NOTICE that, FRANCIS J. FARINA ("Farina") – Class Member to this action as well as Plaintiff and putative class representative in Farina v. Mazda Motor of America, et al., C.A. No.: 3:23-cv-00050-MOC-SC (W.D. N.C.) ("Farina Action"), by and through his undersigned counsel, OBJECTS to the preliminarily approved settlement in this *Guthrie v. Mazda Motor of America, Inc.*, Case No 22-cv-1055-DOC-DFM ("*Guthrie*") action (Doc. No's 91, 101, and 102), and requests an immediate Hearing on this Objection. In support thereof, Farina avers as follows:

I. SUMMARY OF OBJECTION

The Settlement Agreement filed in *Guthrie* sets forth the following settlement consideration:

a. Repair Program Benefit.
b. Warranty Extension Benefit.
c. Reimbursement for Out-of-Pocket Costs for Excessive Oil Consumption.

See Settlement Agreement, pp. 9-14. However, there is neither proposed relief for the damage to class members' emissions systems nor is there any relief for the Clean Air Act ("CAA") claim. Nonetheless, without any Notice of *Farina* or the claims therein, the Settlement Agreement has absent class members releasing these claims.

At the March 11, 2024, Preliminary Approval Hearing Guthrie's counsel explained why to the Court. Claiming that he "investigated" Farina's claims and found them to be meritless, he told the Court that he agreed to the Release thereof because *"Mazda isn't going to pay any more money and a bird in the hand is worth two in the bush."*

Meanwhile, clearly unbeknownst to Guthrie's counsel, and as the Declaration of Francis J. Farina In Support of Motion to Intervene ("Farina Dec.") outlines, in addition to setting aside reserves for warranty claims due to the defective valve stems, Mazda has set aside $102,925,000 for the "estimated costs of complying with environmental regulations:"

> *In addition to the Reserve for Warranty Expenses, Note 2 in the 2023 MAFS, Summary of Significant Accounting Policies states that a Provision Related to Environmental Regulations "provides for estimated costs of complying with environmental regulations*

> *at the end of the fiscal year." There is no discussion of this provision in Note 3, Significant Accounting Estimates footnote, nor did KPMG mention it as a Key Audit Risk.* ***However, the Provision related to environmental regulations amount of this <u>Reserve</u> set forth in the Selling, General and Administrative Expenses footnote is $102,925,000****. (2023 MAFS at 59.)*

See the Sponsoring Declaration of Joseph A. O'Keefe, Esq. ("O'Keefe Dec.") Exhibit 25 – Amended Farina Dec. ("Farina Dec."), Exhibit C at Para. 20 (emphasis added.)

This reserve is clearly intended only for the CAA fines, and not to benefit any class members whose emissions systems have been processing up to three (3) to four (4) times the carbon that they were strictly engineered to handle. Id. There is no accompanying disclosure or discussion of the reason for this reserve. This is clearly a material item to Mazda and there is no disclosure. In fact, the proposed *Guthrie* settlement is completely silent as to the environmental issues the defect caused and as to any remedying of overtaxed emissions components like the Catalytic Convertor in class vehicles, *see* O'Keefe Dec., Exhibits 1, 13.

Moreover, the subject reserve – ***which was made after the filing of the Farina Action Amended Complaint, and 30 days after the North Carolina Court stayed the Farina Action*** - is most plainly related to the CAA claim set forth in the Farina action. Indeed, the Settlement Agreement foreshadows voluntary notice to the NHTSA once, as Guthrie counsel admitted was intended, Farina has been reduced to a class of one. *See* Farina Dec., Para. 20.

In sum, Farina seeks to intervene because while Guthrie's counsel claims to have "investigated" Farina's claims and found them to be worthless, Mazda has publicly acknowledged (without adequate disclosure) CAA fines alone totaling **$102,925,000.** Moreover, counsel for Mazda and Guthrie have refused to provide ***<u>any</u>*** Notice to the putative class as to Farina's claims they will be waiving. And, unabashedly, they have acknowledged to the Court that the overly broad Release before the Court is plainly intended to make Farina a class of one, while omitting any disclosure that ***the Settlement's extended coverage*** of the Powertrain Warranty ***excludes the affected emissions components including, ironically, the valve stem itself***.

II. BACKGROUND

1. On June 28, 2023, the North Carolina Court ("N.C. Court") GRANTED Mazda's Stay Motion articulating:

> *There are three variations between the Farina FAC and the Guthrie complaint (and the Heinz complaint). First, the Farina FAC now alleges MMWA breach of warranty claims based on the vehicles' emissions warranties, rather than the general NVLW. (FAC ¶¶ 137). Second, the Farina FAC adds as an additional defendant Plaintiff Farina's dealer, Keffer Mazda, and seeks to certify a defendant-dealership class of all Mazda dealers nationwide. (FAC ¶ 107). Third, the Farina FAC asserts three additional bases for relief: "civil conspiracy," declaratory judgment, and claims under the Clean Air Act, 42 U.S.C. § 7401 et seq. (FAC 22–24). However, under every additional theory—as well as the claims under the MMWA—Plaintiff Farina's claims are based entirely on the same core underlying factual allegations as those presented in Guthrie (and Heinz): that (1) the Subject Vehicles "contain defective valve stem seals" that cause excessive engine oil consumption, which places the Class Vehicles at an increased risk of engine failure, and causes damage to the putative class vehicles; (2) MNAO has "long known" about the defect, but has purportedly refused to provide an adequate repair; and (3) MNAO concealed the alleged defect and its effects from class members both at the time of sale and repair and thereafter. (FAC ¶¶ 2, 5, 11).*
>
> *The Farina FAC only adds allegations with respect to the same underlying factual issues, e.g., that the defendant class of dealerships had "conspire[d]" to conceal the alleged defect at the behest of MNAO and has also refused to provide a repair in the Subject Vehicles, that the alleged defect violates additional warranties, or that MNAO has failed to report the alleged defect as required under the Clean Air A*ct. (FAC ¶¶ 11, 105, 122–35, 137, 144).

(*Farina* DE-42, Exhibit 25 to the O'Keefe Dec.

2. The N.C. Court further articulated:

> *Accordingly, the litigation of Plaintiff's claims necessarily requires substantial duplication of litigation of the same underlying facts and issues already underway in Guthrie.….*
>
> *Farina merely asserts additional causes of action based on the same underlying alleged defect, not any different or additional alleged defect. Allowing these two cases—which*

> *promise to involve duplicative and complex discovery, motions, and trial proceedings—to proceed separately "would be the 'epitome of judicial waste"….*

Id.

3. Most importantly, the N.C. Court specifically found that because it was preserving Farina's additional causes of action – including his putative, overlapping class claims and claims that cannot be brought by Guthrie -

> *… a stay does not risk depriving Plaintiff of his "day in court."*

Id.

4. However, because of the concerted effort of Guthrie counsel and defendant Mazda, Farina – and the putative class he seeks to represent for the additional causes of action asserted - will never see said day in court if the proposed settlement is finally approved.

5. On January 19, 2024, after numerous delays, the Guthrie parties filed a Joint Term Sheet for settlement - dated September 20, 2023, and signed by counsel for Mazda and Guthrie – that lists resolving *Farina* as a component. *See* O'Keefe Dec., Exhibits 1, 13.

6. In the Joint Term Sheet, at Section 8. Voluntary Dismissal, it states "Settlement would include the need for:

> *A classwide/court-approved dismissal of the pending Guthrie matter, and if possible (and depending whether they opt out) the Heinz and Farina matters; and no admission of liability by Mazda.*

See O'Keefe Dec. Exhibit 13, at pp. 34-36.

7. The Settlement Agreement filed in *Guthrie* sets forth the following settlement consideration:

a. Repair Program Benefit.
b. Powertrain Warranty Extension Benefit.
c. Reimbursement for Out-of-Pocket Costs for Excessive Oil Consumption.

See O'Keefe Dec. Exhibit 3, pp. 9-14.

8. There is no proposed relief for the damage to class members' emissions systems nor is there any relief for the Clean Air Act ("CAA") claim. Nonetheless, the Settlement Agreement sets forth the following definition of "Released Claims" or "Settled Claims," which clearly encompass the Farina claims.

N. "Released Claims" or "Settled Claims"

> *Released Claims" or "Settled Claims" means any and all claims, causes of action, demands, debts, suits, liabilities, obligations, damages, entitlements, losses, actions, rights of action and remedies of any kind, nature and description, whether known or unknown, asserted or unasserted, foreseen or unforeseen, regardless of any legal or equitable theory, existing now or arising in the future, by Plaintiffs and any and all Settlement Class Members (including their successors, heirs, assigns and representatives) which in any way relate to the defective valve stem seals of Class Vehicles (defined below), including but not limited to all matters that were or could have been asserted in the Action, and all claims, causes of action, demands, debts, suits, liabilities, obligations, damages, entitlements, losses, actions, rights of action and remedies of any kind, nature and description, arising under any state, federal or local statute, law, rule and/or regulation, under any federal, state, or local consumer protection, consumer fraud, unfair business practices or deceptive trade practices statutes or laws, under common law, and under any legal or equitable theories whatsoever including tort, contract, products liability, negligence, fraud, misrepresentation, concealment, consumer protection, restitution, quasi-contract, unjust enrichment, express and/or implied warranty, the Uniform Commercial Code and any federal, state or local derivations thereof, any state Lemon Laws, secret warranty and/or any other theory of liability and/or recovery, whether in law or in equity, and for any and all injuries, losses, damages, remedies, recoveries or entitlements of any kind, nature and description, in law or in equity, under statutory and/or common law, including but not limited to, compensatory damages, economic losses or damages, exemplary damages, punitive damages, statutory damages, statutory penalties or rights, restitution, unjust enrichment, and any other legal, declaratory and/or equitable relief. … .*

See O'Keefe Dec. Exhibit 3, pp. 6-8.

9. If there is any question whether the broad release language is intended to preclude Farina's class claims, paragraph 20 of the proposed Order itself resolves any such doubt:

> *20. Each and every Settlement Class Member, and any person actually or purportedly acting on behalf of any Settlement Class Member(s), is hereby permanently barred and*

> *enjoined from commencing, instituting, continuing, pursuing, maintaining, prosecuting, or enforcing any Released Claims (including, without limitation, in any individual, class or putative class, representative or other action or proceeding), directly or indirectly, in any judicial, administrative, arbitral, or other forum, against the Released Parties. This permanent bar and injunction is necessary to protect and effectuate the Agreement, this Final Judgment and Order, and this Court's authority to effectuate the Agreement, and is ordered in aid of this Court's jurisdiction and to protect its judgments. However, Settlement Class members are not precluded from addressing, contacting, dealing with, or complying with requests or inquiries from any governmental authorities relating to the issues raised in this Lawsuit or class action settlement.*

See O'Keefe Dec. Exhibit 3, pp. 42-43.

10. The only language in the proposed Class Notice (attached as Exhibit 4 to the Settlement Agreement) referencing in any way potential warranty emissions claims, such as Farina's warranty emissions claim, is an acknowledgment that the defect is on the "exhaust side" of the engine.

> *The Valve Stem Seal repair involves replacing the valve stem seals on the exhaust side of your engine with redesigned valve stem seals.*

See O'Keefe Dec. Exhibit 3, pp. 62.

11. This distinction is critical, because Mazda's emissions warranty specifically excludes valve stems, EGR and PCV valves, etc. after 24,000 miles. There is absolutely no consideration given in the proposed settlement for damage caused to the subject vehicles' emissions components due to the excessive oil burn.

See O'Keefe Dec. Exhibit 14, pg. 29.

12. Farina reached out multiple times over the last several months asking for information and/or a seat at the negotiating table. Instead of responding to these entreaties, or researching the claims asserted by Farina - *and in violation of the North Carolina Stay* - on November 14, 2023, Mazda stipulated in *Guthrie* to the addition of a North Carolina resident as

a named plaintiff, who has been promised a $2,200 incentive award if settlement in *Guthrie* is approved. O'Keefe Dec., Exhibits 5-7; see also, "Conferral Pursuant to Local Rule 7.1(b)."

13. Guthrie's North Carolina 'convenience plaintiff' clearly lacks standing to champion the claims asserted by Farina. This individual was plainly added to *Guthrie*, and stipulated to by Mazda, to provide facial cover for Guthrie and Mazda to bargain away Farina's claims with no compensation whatsoever and without providing fair notice to the absent class(es) of the claims they are asked to release in the proposed *Guthrie* settlement.

14. The Notice of Lodging of an Unredacted Copy of the Report of Susan K. Thompson and Brian S. Repucci sets forth an opinion concerning the value to the consumer (*i.e.,* economic benefit) that is provided to the class as a result of the Joint Term Sheet for Proposed Nationwide Class Settlement of *Guthrie*.

15. Although that value is estimated to be $109,895,680, it is clear from the detailed terms that <u>none of that value has anything to do with the claims asserted in Farina.</u> *See* O'Keefe Dec. Exhibit 13 at 2-19; 32-36; and 57-65.

16. Despite providing no consideration whatsoever for the claims asserted in Farina, the terms of the proposed settlement broadly define "Released Claims," "Settled Claims," "Class Vehicles," "Settlement Class Vehicles, "Settlement Class," "Settlement Class Members." *See* Exhibit 3, at pp. 7-9. Mazda and Guthrie counsel have contracted to get rid of Farina – *and all of the claims he asserts* - with absolutely no settlement relief in exchange, thus denying Farina *and the putative class* their day in Court.

17. As the Farina Dec. outlines, in addition to setting aside reserves for warranty claims due to the defective valve stems, Mazda has set aside $102,925,000 for the "estimated costs of complying with environmental regulations:"

> *In addition to the Reserve for Warranty Expenses, Note 2 in the 2023 MAFS, Summary of Significant Accounting Policies states that a Provision Related to Environmental Regulations "provides for estimated costs of complying with environmental regulations at the end of the fiscal year." There is no discussion of this provision in Note 3, Significant Accounting Estimates footnote, nor did KPMG mention it as a Key Audit Risk.* ***However, the Provision related to environmental regulations amount of this <u>Reserve</u> set forth in the Selling, General and Administrative Expenses footnote is $102,925,000****. (2023 MAFS at 59.)*

See Farina Dec., Exhibit C at Para. 28 (emphasis added.)

18. This reserve is clearly intended only for the CAA fines, and not to benefit any class members whose emissions systems have been processing up to three (3) to four (4) times the carbon that they were strictly engineered to handle. Id. There is no accompanying disclosure or discussion of the reason for this reserve. This is clearly a material item to Mazda and there is no disclosure.

19. In the same way, the proposed *Guthrie* settlement is completely silent as to the environmental issues the defect caused and as to any remedying of overtaxed emissions components like the Catalytic Convertor in class vehicles, *See* O'Keefe Dec., Exhibits 1, 13.

20. Although Mazda seems to have set aside hundreds of millions in 2021 and 2023 for warranty claims, there has not been any comparable provision for "costs of complying with environmental regulations" in any prior year. Thus, this reserve – ***which was made after the filing of the Farina Action Amended Complaint, and 30 days after the North Carolina Court stayed the Farina Action*** - is most plainly related to the CAA claim set forth in the Farina action. Indeed, the Settlement Agreement foreshadows voluntary notice to the NHTSA once Farina has been reduced to a class of one. *See* Farina Dec., Para. 28.

21. While Mazda has publicly acknowledged (without adequate disclosure) CAA fines alone totaling **$102,925,000,** counsel for Mazda and Guthrie are seeking to make Farina a class of one by obtaining releases from class members who will be blindly waiving their rights

to seek extended coverage of their emissions components including, ironically, the valve stem itself.

III. FARINA HAS TIMELY ACTED

22. The Farina Dec. sets forth the sequence of events leading up to the filing of the initial *Farina* complaint (Doc. 1) on January 28, 2023. This initial complaint asserted counts for civil conspiracy; breach of implied and express warranties under the Magnuson-Moss Warranty Act ("MMWA"); and declaratory relief/judgment.

23. The claims asserted under MMWA clearly implicate the CAA violations as the basis therefor. Thus, the initial complaint included a footnote on page 5 stating, "Plaintiff intends to amend this complaint to bring a claim under the Clean Air Act ("CAA") in accordance with 42 U.S. Code § 7604." On January 31, 2023, pursuant to 42 U.S. Code § 7604 (a)(1), Farina sent Notice to Federal and North Carolina State environmental agency administrators—as well as to Defendants—that he intended to bring such suit under the CAA.

24. On February 21, 2023, the NC Court entered an Order granting Defendants' motion to extend the time to answer the complaint to March 24, 2023.

25. Instead of answering the Farina complaint or pursuing a proper motion under Rule 12 of the FRCP, on March 24, 2023, Defendants filed a "Joint Motion to Dismiss, Stay or Transfer" the Farina case. (Doc. Nos. 20 and 21.)

26. On April 2, 2023, Farina's private right of action under the CAA ripened.

27. On April 7, 2023, Farina moved as of right to file an amended complaint that added two additional counts under the CAA. Farina also filed his response to the Motion to Stay.

28. On April 21, 2023, Defendants filed a voluminous and vitriolic joint opposition to the motion to amend, falsely claiming that the proposed amendment "smacks of bad faith, gamesmanship and improper and dishonest purpose."

29. As detailed in Farina's reply brief filed on Friday, April 28, 2023, Defendants also made numerous misstatements of fact in their opposition.

30. On May 2, 2023, the NC Court summarily granted leave to file the amended complaint "as a matter of course" pursuant to F. R. Civ. Proc 15 (a) (1). The NC Court also denied without prejudice Defendants' extant Joint Motion to Dismiss, Stay or Transfer (Doc. Nos. 20 and 21) as moot. *See* O'Keefe Declaration Exhibit 15. – a true and correct copy of the Farina Amended Complaint.

31. On May 16, 2023, Defendants renewed their Joint Motion to Dismiss, Stay, or Transfer the case, which the Court ultimately granted on June 28, 2023, staying the *Farina* case pending further proceedings in the *Guthrie* case. *See* O'Keefe Declaration Exhibit 20 - a true and correct copy of the Farina's Court's Stay Order.

32. Thereafter, Mazda and the Guthrie plaintiffs agreed to numerous stays. On November 14, 2023, Mazda consented to an amended complaint which differed little from the existing complaint except for the addition of a North Carolina resident who leased - and had already returned - an affected vehicle (Doc. No.'s 78, 84, 85.) The amended Guthrie complaint was promptly answered on December 5, 2023 (Doc. No. 86).

33. On January 19, 2024, the proposed settlement agreement was filed. (Doc. No. 91, 92).

34. In between, Farina reached out to Mazda's counsel not less than four (4) times variously seeking a seat at the table, agreement to transfer the Farina matter, Farina's intervention

in Guthrie, and lastly for consent to lift the stay in NC so that Farina could seek this Court's permission to intervene solely to contest the Notice and Release proffered herein.

35. After he was again given the back of the hand and threatened with sanctions by Mazda for "prejudicing" it before this Court, Farina filed a motion on February 1, 2024 with the NC Court seeking its permission to request this Court's permission to intervene in the Guthrie proceedings solely to (1) press for proper Notice of Farina's claims that the putative class is being asked to Release, and (2) challenge the proposed Release/Final Order as overbroad – particularly as it has the putative class Releasing claims they know nothing about and for no consideration.

36. On March 19, 2024, over opposition by defendants, the NC Court granted Farina's motion. O'Keefe Dec. Ex. 24.

IV. GUTHRIE COUNSEL HAS BARGAINED AWAY LEGITIMATE CLAIMS FOR ILLUSORY BENEFITS

37. On February 5, 2024, Farina filed Notice of his motion in the North Carolina action with this Court. (Doc. No. 98) Mazda filed a 'response' claiming that Farina's findings – derived directly from Mazda's own public findings - were incorrect, scandalous, impertinent, and "likely subject to Rule 11 sanctions."

38. Mazda further claimed that there is no "fund" while ignoring that the proper accounting term is "reserve", which is precisely what Farina states is disclosed in Mazda's own public filings:

> ***… the Provision related to environmental regulations amount of this <u>Reserve</u> set forth in the Selling, General and Administrative Expenses footnote is $102,925,000****. (2023 MAFS at 59.)*

See Farina Dec., Exhibit C at Para. 28 (emphasis added.)

39. Guthrie's counsel, for his part, claims to have "investigated" the Farina claims and bargained them away for nothing because he – evidently relying entirely on Mazda's baseless arguments of record - concluded they are unfounded:

> ***… and Mazda isn't going to pay any more money and a bird in the hand is worth two in the bush.***

40. Additionally, besides the lack of Notice to the putative class, the overly broad Release – which as Guthrie counsel has acknowledged aims to make Farina a class of one - the extension of the Powertrain warranty does nothing for the emissions claims.

41. Had Guthrie's counsel bothered to review Mazda's warranty terms and conditions, they would have recognized that *the subject defective component(s) – and the components that have necessarily been affected by this defect - are not part of the "Powertrain.*"

9. Powertrain Warranty Parts List

Below are the powertrain components covered under the Powertrain Limited Warranty:

■ **Engine**
- Cylinder Block, Cylinder Head, and All Internal Lubricated Parts (Piston engines)
- Timing gears
- Timing chain/belt and tensioner
- Timing chain/belt front cover and gaskets
- Flywheel
- Valve Covers and Gaskets
- Oil Pan
- Oil Pump
- Intake Manifold and Gaskets
- Exhaust Manifold and Gaskets
- Engine Mounts
- Turbocharger Housing and All Internal Parts
- Supercharger Housing and All Internal Parts
- Water Pump and Gaskets
- Thermostat and Gaskets
- Fuel Pump
- Seals and Gaskets

O'Keefe Declaration, Exhibit 14, pg. 19.

42. The subject Technical Service Bulletin ("TSB") itself identifies the repair plainly aligned with Mazda's warranty booklet. The subject components are emission components that are part of the Emissions Warranty and are excluded from coverage after 24,000 miles. Page 29 of Mazda's warranty manual (O'Keefe Declaration Exhibit 14, pg. 29) outlines what components are covered for how long, and those that are not. Plainly, the subject emissions components including the defective one(s) at issue herein are included in this warranty:

6. 24 months/24,000 miles Emission Warranty Parts List

■ **Air/Fuel Metering System**
- Closed loop system
  - Oxygen sensor
  - Air flow sensor (Air flow meter)
  - Fuel injectors
- Cold start enrichment system
  - Cold start injector
- Electronic idle speed control system
  - Idle air control valve (Idle speed control valve)
  - Air valve
- Deceleration controls
- Variable Valve Timing System
  - Sequential valve timing actuator
  - Oil control valve

■ **Ignition Spark Advance/Retard System**
- Certain spark advance/retard control components
  - High energy electronic ignition
  - Spark plugs*

■ **Fuel Evaporative System**
- Canister and associated control valve
  - Purge valve
  - Purge solenoid
  - Fuel filler cap

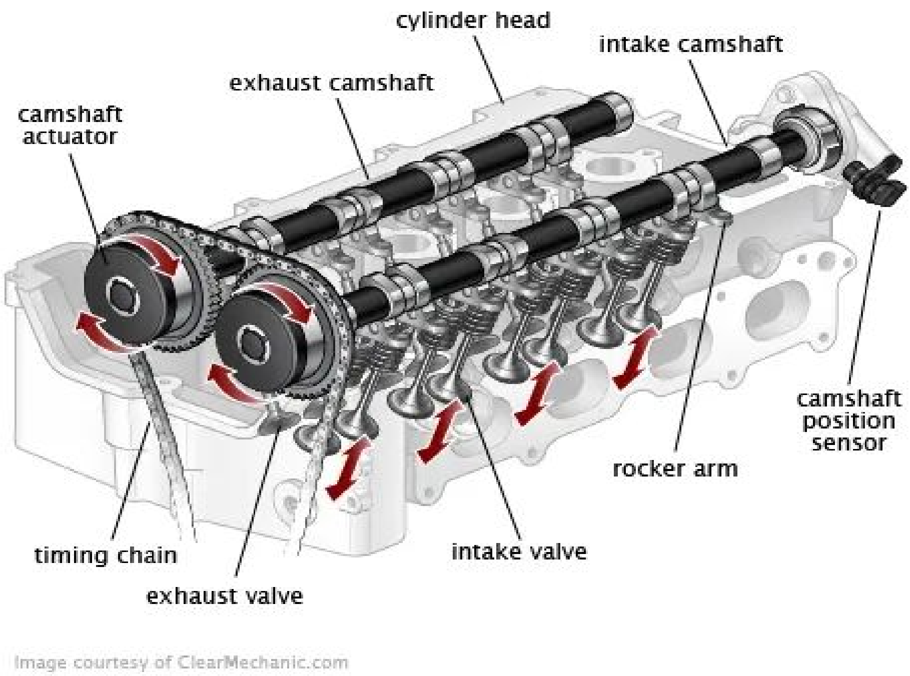
■ **Positive Crankcase Ventilation (PCV) System**
- PCV valve

■ **Exhaust Gas Recirculation (EGR) System**
- EGR function control valve (EGR control valve) and associated parts
  - EGR valve
  - EGR valve control solenoid

■ **Secondary Air Injection System**
- Air pump
- Air control valves and distribution pipes

■ **Miscellaneous Items Used in Above Systems**
- Hoses, clamps, fittings, gaskets, sealing materials, tubing, brackets and belts
- Exhaust pipe (between exhaust manifold and catalyst)
- Sensors, switches and valves

43. This is what Mazda's Variable Valve Timing System looks like:



It is the upper end of the engine. In no way could anyone who understands auto mechanics and these manufacturer warranties confuse this with a powertrain component.

44. Mazda also knows – *as Guthrie counsel should as well from their purported "investigation" into Farina's claim - that as a direct result of its defect(s),* not less than five *(5) other emissions components with the same limited warranty are also directly impacted – *all on the exhaust side or affecting same,* and including, but not limited to, the PCV valve, EGR components, and high energy spark plugs. (O'Keefe Declaration Exhibit 14, pg. 29).

45. Moreover, there are also several other emissions components necessarily affected, including but not limited to the Catalytic Convertor, which warranty coverage expires at 80,000 miles. Id.

46. Most concerningly, like the public filings Farina unearthed– which Mazda claims are irrelevant, impertinent and warrant Rule 11 sanctions - Mazda knows this and has known this.

47. Yet, contrary to its obligations to the Court and the putative class, and despite this knowledge, Mazda has made material representations to the contrary that – *to the palpable detriment of the class* - Guthrie's counsel was all too willing to accept at face value.

WHEREFORE, Francis J. Farina, on behalf of himself and all others similarly situated, hereby OBJECTS to the subject settlement and requests a hearing forthwith on the matters contained herein that form the basis of his objections prior to the final approval hearing as they are material thereto.

Dated: San Francisco, California
March 22, 2024

Respectfully submitted,

By: *___/s/ Lyn R. Agre___*
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CERTIFICATE OF SERVICE

I hereby certify that on March 22, 2024, a true and correct copy of the foregoing was electronically filed and served, pursuant to 28 U.S.C. § 1746, via CM/ECF, addressed to the following:

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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
SOUTHERN DIVISION – SANTA ANA

Gary Guthrie, Stephanie Crain, Chad Hinton, Julio Zelaya, Anna Gilinets, Marcy Knysz, Lester Woo, and Amy Bradshaw, On Behalf Of Themselves And All Others Similarly Situated, Plaintiffs, vs. Mazda Motor of America, Inc., Defendant.	Case No.: 8:22-cv-01055-DOC-DFM Assigned to: Hon. David O. Carter **NOTICE OF OBJECTION TO PLAINTIFFS' MOTION FOR ATTORNEYS' FEES AND EXPENSES AND SERVICE AWARDS TO THE PLAINTIFFS, AND SECOND REQUEST FOR HEARING PRIOR TO FINAL APPROVAL**

TO THE COURT, ALL PARTIES, AND THEIR ATTORNEYS OF RECORD: PLEASE TAKE NOTICE that, ***IN FULL COMPLIANCE WITH*** the Preliminary Approval Order (Doc. No. 101/102), FRANCIS J. FARINA ("Farina") – Class Member to this action as well as Plaintiff and putative class representative in Farina v. Mazda Motor of America, et al., C.A. No.: 3:23-cv-00050-MOC-SC (W.D. N.C.) ("Farina Action"), by and through his undersigned counsel, OBJECTS to Plaintiffs' Motion for Attorneys' Fees and Expenses and Service Awards to the Plaintiffs (Doc. No. 121) and the Stipulated Agreement Regarding Class Counsel's Fee and Cost Award, as well as to the settlement in this *Guthrie v. Mazda Motor of America, Inc.*, Case No 22-cv-1055-DOC-DFM ("*Guthrie*") action (Doc. No's 91, 101, and 102), and renews his requests for an immediate Hearing on this Objection. In support thereof, Farina avers as follows:

I. STANDING TO OBJECT[1]

1. **Case name:** *Guthrie et al. v. Mazda Motor of America, Inc.*, 8:22-cv-01055 (DOC) (DFM)

2. **Objector:** Francis J. Farina, C.P.A., C/O:
BAKER LAW GROUP, LLC
Joseph A. O'Keefe (pro hac vice forthcoming)
7035 Campus Drive, Suite 702
Colorado Springs, CO 80920
Phone Number: (303) 862-4564
joseph@bakerlawgroup.com

3. **Vehicle:** 2021 Mazda6,
VIN#: JM1GL1TY8M1605719
Purchased April 26, 2021 (Ex. 1 hereto)

4. **Objections/ Basis Therefore:** Infra (below), *See also* Document Nos. 104, 105, 106, 107, 112, 113, and 118, and all attachments thereto which are incorporated herein as though set forth in complete detail.

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[1] It is ironic – and telling – that Class Counsel and Mazda stipulated to a Third Amended Complaint adding a North Carolina resident as a plaintiff who herself cannot meet these requisites in that she (1) leased an affected vehicle and (2) turned same back prior to joining this suit.

5. **Certification:** Under penalty of perjury pursuant to 18 U.S. Code Sect. 1621, it is affirmed that ***neither Francis J. Farina nor Joseph A. O'Keefe, Esq. have ever objected to any class action settlement***, let alone within the last five (5) years.

6. **Intent to Appear:** Francis J. Farina intends to appear at the final approval hearing to present evidence and cross-examine witnesses and shall supplement this Notice timely according to the Court's determination(s) as to his outstanding Motions (*supra*).

II. SUMMARY OF OBJECTION

Farina objects to the award of any fees – and to the settlement itself – on the basis that class counsel has obtained nothing of value for the class. Instead, working with Mazda, they have deliberately chosen to give away the claims asserted in the Farina action for no value while failing to adequately inform class members of the existence of these claims. Concurrently, Guthrie counsel and Mazda have stipulated to payment of fees and expenses in the amount of $2,035,000, which bears no relationship to the $105 million value Guthrie counsel claims to have provided to the class (a value which Mazda has specifically stated it does not endorse or otherwise agree to.) Moreover, while Guthrie counsel claims to have 'investigated' Farina's claims and found them to be worthless, Mazda has publicly acknowledged (without adequate disclosure) an accounting reserve to pay regulatory fines of $102,925,000 for the emissions violations which caused damages to class members' exhaust systems. When the Court questioned Guthrie counsel about this circumstance, he stated (*...Mazda isn't going to pay any more money and a bird in the hand is worth two in the bush.*)

Farina has moved to intervene in this action pursuant to Federal Rule of Civil Procedure 24 because, as plainly outlined within Managing Class Action Litigation: A Pocket Guide for Judges, Barbara J. Rothstein & Thomas E. Willging, (3rd Ed., Fed. Jud. Cntr. 2010) ("Judicial Handbook"), the Settlement Terms themselves, (especially when combined with the stipulated addition to this matter of a North Carolina Resident who leased – and already returned - a class vehicle), are "Hot Button indicators" warranting strict scrutiny of the proposed settlement. (Id., Sect. IV.C.5,7; *see also* The Manual for Complex Litigation, Fourth Edition, *§§ 13.24 and 21.643*

The environmental regulation reserve is clearly intended only for paying the CAA fines, and not to benefit any class members whose emissions systems have been processing up to three (3) to four (4) times the carbon that they were strictly engineered to handle. The proposed *Guthrie* settlement is completely silent as to the environmental issues the defect caused and as to any remedying of overtaxed emissions components like the Catalytic Convertor in class vehicles. Further, Guthrie's valuation expert made no attempt to opine on this. *see* O'Keefe Dec. (Doc. No. 105-1), Exhibits 1, 13 thereto. The environmental reserve – ***which was made after the filing of the Farina Action Amended Complaint, and 30 days after the North Carolina Court stayed the Farina Action*** - is most plainly related to the CAA claim set forth in the Farina action. Indeed, the Settlement Agreement foreshadows voluntary notice to the NHTSA once, as Guthrie counsel admitted was intended, Farina has been reduced to a class of one. *See* Farina Dec., Para. 20.

Farina objects to the subject fee petition (and, the settlement itself – *see* Doc. Nos, 104, 105, 106, 107, 112, 113, and 118 and all attachments thereto - because while Guthrie's counsel claims to have "investigated" Farina's claims and found them to be worthless, Mazda has publicly acknowledged (without adequate disclosure) CAA fines alone totaling **$102,925,000,** counsel for Mazda and Guthrie have refused to provide ***any*** Notice to the putative class as to the Farina claims they will be waiving. Guthrie's counsel and Mazda both unabashedly acknowledged to the Court that the overly broad Release before the Court is plainly intended to make Farina a class of one, while omitting any disclosure that ***the Settlement's extended***

coverage of the Powertrain Warranty ***excludes the affected emissions components including, ironically, the valve stem itself***.

III. BACKGROUND

1. On June 28, 2023, the North Carolina Court ("N.C. Court") GRANTED Mazda's Stay Motion articulating:

> *There are three variations between the Farina FAC and the Guthrie complaint (and the Heinz complaint). First, the Farina FAC now alleges MMWA breach of warranty claims based on the vehicles' emissions warranties, rather than the general NVLW. (FAC ¶¶ 137). Second, the Farina FAC adds as an additional defendant Plaintiff Farina's dealer, Keffer Mazda, and seeks to certify a defendant-dealership class of all Mazda dealers nationwide. (FAC ¶ 107). Third, the Farina FAC asserts three additional bases for relief: "civil conspiracy," declaratory judgment, and claims under the Clean Air Act, 42 U.S.C. § 7401 et seq. (FAC 22–24). However, under every additional theory—as well as the claims under the MMWA—Plaintiff Farina's claims are based entirely on the same core underlying factual allegations as those presented in Guthrie (and Heinz): that (1) the Subject Vehicles "contain defective valve stem seals" that cause excessive engine oil consumption, which places the Class Vehicles at an increased risk of engine failure, and causes damage to the putative class vehicles; (2) MNAO has "long known" about the defect, but has purportedly refused to provide an adequate repair; and (3) MNAO concealed the alleged defect and its effects from class members both at the time of sale and repair and thereafter. (FAC ¶¶ 2, 5, 11).*

(*Farina* DE-42, Exhibit 25 to the O'Keefe Dec.

2. On January 19, 2024, after numerous delays, the Guthrie parties filed a Joint Term Sheet for settlement - dated September 20, 2023, and signed by counsel for Mazda and Guthrie – that lists resolving *Farina* as a component. *See* O'Keefe Dec., Exhibits 1, 13.

3. Section 8. Voluntary Dismissal states "Settlement would include the need for:

> *A classwide/court-approved dismissal of the pending Guthrie matter, and if possible (and depending on whether they opt out) the Heinz and Farina matters; and no admission of liability by Mazda.*

See O'Keefe Dec. Exhibit 13, at pp. 34-36.

4. The Settlement Agreement filed in *Guthrie* sets forth the following settlement consideration:

a. Repair Program Benefit.
b. Powertrain Warranty Extension Benefit.
c. Reimbursement for Out-of-Pocket Costs for Excessive Oil Consumption.

See O'Keefe Dec. Exhibit 3, pp. 9-14.

5. ***There is no proposed relief for the damage to class members' emissions systems*** nor is there any relief for the CAA claim. Nonetheless, the Settlement Agreement sets forth the following broad definition of "Released Claims" or "Settled Claims," which clearly encompasses the Farina claims.

N. "Released Claims" or "Settled Claims"

> *Released Claims" or "Settled Claims" means any and all claims, causes of action, demands, debts, suits, liabilities, obligations, damages, entitlements, losses, actions, rights of action and remedies of any kind, nature and description, whether known or unknown, asserted or unasserted, foreseen or unforeseen, regardless of any legal or equitable theory, existing now or arising in the future, by Plaintiffs and any and all Settlement Class Members (including their successors, heirs, assigns and representatives) which in any way relate to the defective valve stem seals of Class Vehicles (defined below), including but not limited to all matters that were or could have been asserted in the Action, and all claims, causes of action, demands, debts, suits, liabilities, obligations, damages, entitlements, losses, actions, rights of action and remedies of any kind, nature and description, arising under any state, federal or local statute, law, rule and/or regulation, under any federal, state, or local consumer protection, consumer fraud, unfair business practices or deceptive trade practices statutes or laws, under common law, and under any legal or equitable theories whatsoever including tort, contract, products liability, negligence, fraud, misrepresentation, concealment, consumer protection, restitution, quasi-contract, unjust enrichment, express and/or implied warranty, the Uniform Commercial Code and any federal, state or local derivations thereof, any state Lemon Laws, secret warranty and/or any other theory of liability and/or recovery, whether in law or in equity, and for any and all injuries, losses, damages, remedies, recoveries or entitlements of any kind, nature and description, in law or in equity, under statutory and/or common law, including but not limited to, compensatory damages, economic losses or damages, exemplary damages, punitive damages, statutory damages, statutory penalties or rights, restitution, unjust enrichment, and any other legal, declaratory and/or equitable relief. ... .*

See Doc No. 105-1 - O'Keefe Dec. Exhibit 3, pp. 6-8.

6. If there is any question whether this broad release language is intended to preclude Farina's class claims, paragraph 20 of the proposed Order itself resolves any such doubt:

> *20. Each and every Settlement Class Member, and any person actually or purportedly acting on behalf of any Settlement Class Member(s), is hereby permanently barred and enjoined from commencing, instituting, continuing, pursuing, maintaining, prosecuting, or enforcing any Released Claims (including, without limitation, in any individual, class or putative class, representative or other action or proceeding), directly or indirectly, in any judicial, administrative, arbitral, or other forum, against the Released Parties. This permanent bar and injunction is necessary to protect and effectuate the Agreement, this Final Judgment and Order, and this Court's authority to effectuate the Agreement, and is ordered in aid of this Court's jurisdiction and to protect its judgments. However, Settlement Class members are not precluded from addressing, contacting, dealing with, or complying with requests or inquiries from any governmental authorities relating to the issues raised in this Lawsuit or class action settlement.*

See O'Keefe Dec. Exhibit 3, pp. 42-43.

7. The only language in the proposed Class Notice referencing in any way potential warranty emissions claims such as Farina's warranty emissions claim is an acknowledgment that the defect is on the "exhaust side" of the engine.

> *The Valve Stem Seal repair involves replacing the valve stem seals on the exhaust side of your engine with redesigned valve stem seals.*

See O'Keefe Dec. Exhibit 3, pp. 62.

8. This distinction is critical, because Mazda's emissions warranty specifically excludes valve stems, EGR and PCV valves, etc. after 24,000 miles. There is absolutely no consideration given in the proposed settlement for damage caused to the subject vehicles' emissions components due to the excessive oil burn. See Doc. 105-1 -O'Keefe Dec., Exhibit 14, pg. 29.

9. Farina reached out multiple times over many months asking for information and/or a seat at the negotiating table. Instead of responding to these entreaties, or researching the claims asserted by Farina - *and in violation of the North Carolina Stay* - on November 14, 2023,

Mazda stipulated in *Guthrie* to the addition of North Carolina resident Amy Bradshaw as a named plaintiff, who has been promised a $2,200 incentive award if settlement in *Guthrie* is approved. O'Keefe Dec., Exhibits 5-7; *see also*, "Conferral Pursuant to Local Rule 7.1(b)."

10. North Carolina 'convenience plaintiff' Bradshaw clearly lacks standing to champion the claims asserted by Farina. This individual was plainly added to *Guthrie*, and stipulated to by Mazda, to provide facial cover for Guthrie and Mazda to bargain away Farina's claims with no compensation whatsoever and without providing fair notice to the absent class(es) of the claims they are asked to release in the proposed *Guthrie* settlement.

11. The Unredacted Copy of the Report of Susan K. Thompson and Brian S. Repucci (Doc. 92[2]) sets forth an opinion concerning the value to the consumer (*i.e.,* economic benefit) that is provided to the class as a result of the Joint Term Sheet for Proposed Nationwide Class Settlement of *Guthrie*.

12. Although that value is estimated to be $109,895,680, it is clear from the detailed terms that this benefit is plainly illusory. Since the components being replaced are part of, and covered, by the emissions warranty and not the powertrain, the value ascribed to the extended powertrain warranty is illusory. Similarly, the repairs, inspections and oil changes were covered by Mazda in its TSB long before the settlement was brokered and the value ascribed to this component was not a result of any investigation or discovery conducted by Guthrie counsel.

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[2] A severely redacted version of the expert report has been included on the class website, omitting Exhibit B (the term sheet); Exhibit E (Mazda counsel's letter providing estimates of costs associated with repairs, inspections, oil changes and Mazda's estimate or value of the extended warranty for the powertrain; and a complete copy of the transcript of the sole deposition taken by Guthrie counsel in this litigation.

Pertinently, none of that value has anything to do with the claims asserted in Farina or the emissions system and/or its components, at all. *See* O'Keefe Dec. Doc. No. 105-1, Exhibit 13 at 2-19; 32-36; and 57-65.

13. In sum, versus providing real relief to the Class, Mazda and Guthrie counsel have contracted to get rid of Farina – *and all of the claims he asserts* - with absolutely no settlement relief in exchange for a payday for Guthrie counsel negotiated by the Mediator which appears to have no relationship to the value obtained for the class, thus denying Farina *and the putative class* their day in Court. See, *Tuttle v. Audiophile Music Direct Inc.*, 2023 U.S. Dist. LEXIS 81327, *11-12 (W.D. Wash., 2023)(In a reverse auction, [t]he ineffectual lawyers are happy to sell out a class they anyway can't do much for in exchange for generous attorneys' fees, and the defendants are happy [*12] to pay generous attorneys' fees since all they care about is the bottom line—the sum of the settlement and the attorneys' fees… .).

IV. GUTHRIE COUNSEL HAS BARGAINED AWAY LEGITIMATE CLAIMS FOR ILLUSORY BENEFITS

14. Pursuant to Sect. 21.71 of the Judicial Handbook - Criteria for Approval, this Court must ensure that the counsel seeking compensation conferred an actual benefit on the class, citing RAND Class Action Report, supra note 955, at 490 (concluding that the "single most important action that judges can take to support the public goals of class action litigation is to reward class action attorneys only for lawsuits that actually accomplish something of value to class members and society") (emphasis omitted)).

15. On February 5, 2024, Farina filed in this Court Notice of his motion in the North Carolina action. (Doc. No. 98) Mazda filed a 'response' claiming that Farina's findings – derived

directly from Mazda's own public findings - were incorrect, salacious (sic.), impertinent, and "likely subject to Rule 11 sanctions."

16. Mazda further claimed that there is no "fund" while ignoring that the proper accounting term is "reserve", which is precisely what Farina states is disclosed in Mazda's own public filings:

> **…** *the Provision related to environmental regulations amount of this **<u>Reserve</u>** set forth in the Selling, General and Administrative Expenses footnote **<u>is $102,925,000</u>**. (2023 MAFS at 59.)*

See Farina Dec., Exhibit C at Para. 28 (emphasis added.)

17. Guthrie's counsel, for his part, claims to have "investigated" the Farina claims but yet bargained them away for nothing because he – evidently relying entirely on Mazda's baseless arguments of record and provision of 'value' associated with repairs being provided under Mazda's TSBs- concluded they are unfounded:

> *… and Mazda isn't going to pay any more money and a bird in the hand is worth two in the bush.*

18. In addition to the chicanery of the lack of Notice to the putative class and the overly broad Release – which as Guthrie counsel has acknowledged aims to make Farina a class of one - the agreement to extend the Powertrain warranty does nothing for the emissions claims.

19. Had Guthrie's counsel bothered to review Mazda's warranty terms and conditions, they would have recognized that the subject defective component(s) – and the components that have necessarily been affected by this defect - are not part of the "Powertrain!"

9. Powertrain Warranty Parts List

Below are the powertrain components covered under the Powertrain Limited Warranty:

Engine

- Cylinder Block, Cylinder Head, and All Internal Lubricated Parts (Piston engines)
- Timing gears
- Timing chain/belt and tensioner
- Timing chain/belt front cover and gaskets
- Flywheel
- Valve Covers and Gaskets
- Oil Pan
- Oil Pump
- Intake Manifold and Gaskets
- Exhaust Manifold and Gaskets
- Engine Mounts
- Turbocharger Housing and All Internal Parts
- Supercharger Housing and All Internal Parts
- Water Pump and Gaskets
- Thermostat and Gaskets
- Fuel Pump
- Seals and Gaskets

O'Keefe Declaration, Exhibit 14, pg. 19.

20. The relevant Technical Service Bulletin ("TSB") itself identifies the repair as plainly aligned with Mazda's warranty booklet. The subject components are emission components that are part of the Emissions Warranty and are excluded from coverage after 24,000 miles. Page 29 of Mazda's warranty manual (O'Keefe Declaration Exhibit 14, pg. 29) outlines what components are covered for how long, and those that are not. Plainly, the subject emissions components including the defective one(s) at issue herein are included in this warranty:

6. 24 months/24,000 miles Emission Warranty Parts List

- **Air/Fuel Metering System**
  - Closed loop system
    - Oxygen sensor
    - Air flow sensor (Air flow meter)
    - Fuel injectors
  - Cold start enrichment system
    - Cold start injector
  - Electronic idle speed control system
    - Idle air control valve (Idle speed control valve)
    - Air valve
  - Deceleration controls
  - Variable Valve Timing System
    - Sequential valve timing actuator
    - Oil control valve
- **Ignition Spark Advance/Retard System**
  - Certain spark advance/retard control components
    - High energy electronic ignition
    - Spark plugs*
- **Fuel Evaporative System**
  - Canister and associated control valve
    - Purge valve
    - Purge solenoid
    - Fuel filler cap
- **Positive Crankcase Ventilation (PCV) System**
  - PCV valve
- **Exhaust Gas Recirculation (EGR) System**
  - EGR function control valve (EGR control valve) and associated parts
    - EGR valve
    - EGR valve control solenoid
- **Secondary Air Injection System**
  - Air pump
  - Air control valves and distribution pipes
- **Miscellaneous Items Used in Above Systems**
  - Hoses, clamps, fittings, gaskets, sealing materials, tubing, brackets and belts
  - Exhaust pipe (between exhaust manifold and catalyst)
  - Sensors, switches and valves

21. This is what Mazda's Variable Valve Timing System looks like:

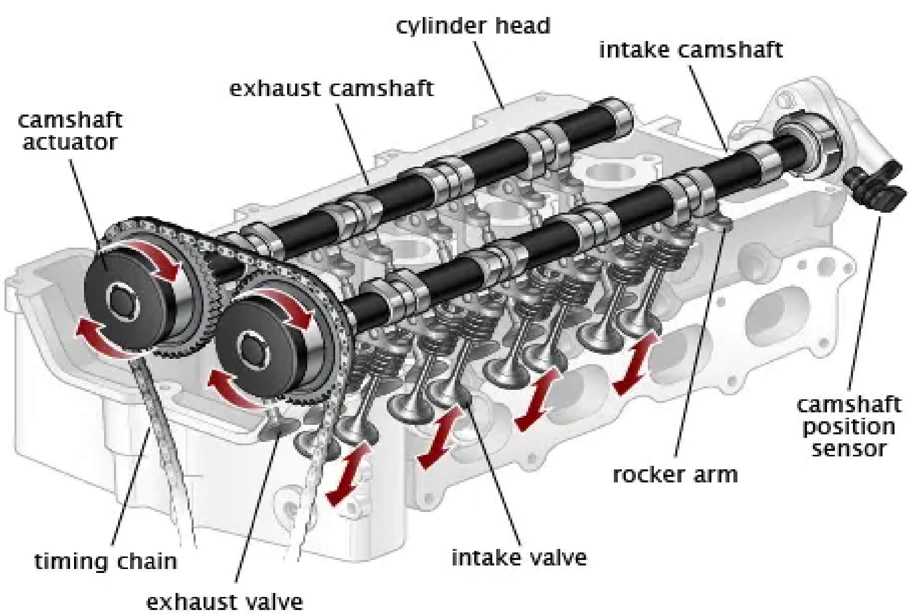

Image courtesy of ClearMechanic.com

It is the upper end of the engine. In no way could anyone who understands auto mechanics and a plain reading of these manufacturer warranties confuse this with a powertrain component.

22. Mazda also knows – *as Guthrie counsel should as well from their purported "investigation" into Farina's claim* - that as a direct result of its defect(s), not less than five *(5) other emissions components with the same limited warranty are also directly impacted – *all on the exhaust side or affecting same,* and including, but not limited to, the PCV valve, EGR components, and high energy spark plugs. (Doc. 105-`1, O'Keefe Declaration, Exhibit 14, pg. 29).

23. Moreover, there are also several other emissions components necessarily affected, including but not limited to the Catalytic Convertor, which warranty coverage expires at 80,000 miles. Id.

24. The extensive extended warranty literature attached as Exhibits to the valuation expert's report – including articles concerning Mazda's extended warranties – clearly demonstrate that no extended warranty is available for emissions systems. An extension of the emissions warranty would provide coverage for the damaged emissions components. However, Guthrie counsel and Mazda have negotiated a sham extension of the powertrain warranty which has absolutely no impact on the affected emissions components.

25. Most concerningly, like the public filings Farina unearthed– which Mazda claims are irrelevant, impertinent and warrant Rule 11 sanctions - Mazda knows this and has known this; and Guthrie counsel is either ignorant of this situation or deliberately misleading the class, to its own remunerative benefit.

26. Contrary to its obligations to the Court and the putative class - as plainly reflected within the fee petition itself – Guthrie Counsel could not be bothered to do anything but give the

subject claims away for free because Mazda's offer was a "a bird in hand," See, Rules 23(e)(2)(A) and 23(e)(2)(B)(requiring the court to evaluate whether "the class representatives and class counsel have adequately represented the class" and whether "the proposal was negotiated at arm's length." Fed. R. Civ. P. 23(e)(2)(A)-(B)), *Tuttle v. Audiophile Music Direct Inc.*, 2023 U.S. Dist. LEXIS 81327, *11-12 (W.D. Wash., 2023)

27. For plaintiffs to have brokered a fair settlement, "they must have been armed with sufficient information about the case to have been able to reasonably assessed its strengths and value. Similarly, for a court to approve a proposed settlement, [t]he parties must . . . have engaged in sufficient investigation of the facts to enable the court to 'intelligently make . . . an appraisal' of the settlement." *Acosta v. Trans Union, LLC*, 240 F.R.D. 564, 582-583, (C.D. Cali., 2007) citing *Polar Int'l Brokerage Corp. v.* [*583] *Reeve,* 187 F.R.D. 108, 114 (S.D.N.Y. 1999) (quoting *Plummer v. Chem. Bank,* 668 F.2d 654, 660 (2d Cir. 1982)); *see also, e.g., Carnegie v. Household Int'l, Inc.,* 371 F. Supp. 2d 954, 957 (N.D. Ill. 2005).

28. In considering a proposed settlement, a court therefore bears an obligation to evaluate the scope and effectiveness of the investigation plaintiffs' counsel conducted prior to reaching an agreement. *See In re Mego Fin. Corp. Sec. Litig.,* 213 F.3d 454, 459 (9th Cir. 2000). "No one can tell whether a compromise found to be 'fair' might not [**64] have been 'fairer' had the negotiating (attorney) possessed better information or been animated by undivided loyalty to the cause of the class." *In re GMC Engine,* 594 F.2d at 1125 n.24; *see also Reynolds v. Beneficial Nat'l Bank,* 260 F. Supp. 2d 680, 695 (N.D. Ill. 2003) ("Without adequate representation by plaintiffs' counsel, it is impossible to evaluate the chances of plaintiffs obtaining a greater recovery than under [the proposed] settlement . . . .").

29. Herein, Guthrie counsel's fee application confirms that they conducted next to no discovery before settling and demonstrates a 'reverse auction' occurred.

30. To wit, a recapitulation of the expense exhibit submitted by Lemberg Law is telling as to the chronology and the total lack of effort by class counsel to represent absent class members:

Valuation expert fees – Hemming Morse, LLP		$ 17,186.50
JAMS fees – original settlement session, May 2023 -	$6,475	
fee negotiation session May 2024 -	6,585	13,060.00
Travel expenses		4,436.85
Court fees		2,495.23
ATC of Florida (Darren Manzari – auto expert)		1,986.67
Deposition transcript		1,764.73
Miscellaneous out of pocket		107.03
Total expenses		$ 41,037.01

31. Very little travel was made – indeed, the dated travel expense entries coincide with four key dates, none of which involve discovery:

- .the initial October 2022 hearing before the Court, when attorney Lemberg announced that he had worked with Mazda counsel previously and that this would be a settlement class;
- travel to California for the May 2023 mediation session, which subsequently resulted in the JAMS mediator negotiating the term sheet to '***take care of Farina.***'
- travel to California for the March 11, 2024 preliminary approval hearing.
- travel to California for a second mediation concerning the fee/expenses deadlock, resulting in the mediator 'recommending' the $2,035,000 combined amount for fees and expenses.

There was no travel for discovery – the sole deposition in this litigation of a 30 (b) (6) witness was done remotely, with a $1,764.73 court reporter fee. In fact, the fee petition's only documented discovery expense is for a sole transcript.[3] The largest expense – payment to valuation expert Hemming Morse LLP – was to develop a value for the irrelevant powertrain warranty extension and the value of repairs. And Mazda specifically has stated that it does not endorse or agree to Plaintiff's valuation of the settlement. Finally, a minor amount ($ 1,986.67) was paid to a Florida based automotive consultant who Guthrie counsel has described to the court as an 'expert' he consulted but who has not provided any expert report.

32. No time sheets have been provided to the Court substantiating the hours set forth by each individual attorney and the categorization of that time. However, based on the case docket, the description of the time spent with class members and the lack of discovery expense, it seems clear that little effort was put into researching the facts concerning the claims asserted – *and as Guthrie counsel has admitted* - no effort was made in researching the facts underlying the claims asserted in Farina

33. Moreover, the parties appear to have failed to properly inform the mediator or the valuation expert (1) of Farina's actual claims, (2) his objections hereto, (3) why, and (4) as to what was disclosed in Mazda's own public filings as reviewed and certified by its external auditor, KPMG.

34. Farina is certain of this because (1) he has repeatedly asked for what information about his claims was provided to the mediator without success[4]; (2) Guthrie counsel has

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[3] Only portions of the transcript of the sole deposition have been submitted to the Court, provided to the valuation expert, and posted on the class website. Plaintiff has requested, and been denied, a complete copy of that transcript and copies of exhibits used at that deposition.

[4] Farina has an outstanding request for permission to serve discovery (Doc. No. 112, 112-1) that he intends to renew since the information sought goes directly to Fairness and Adequacy of

steadfastly refused to provide clear Notice to the class as to what rights they are expected to release; and (3) Guthrie, in his response to Farina's Motion to Intervene, has attached and relied upon Farina's first complaint, rather than the noticed, operative Amended Complaint which contains "unique" claims that the class is expected to release for nothing. But which cannot be brought by Guthrie,

V. GUTHRIE COUNSEL HAS REPEATEDLY REFUSED TO PROVIDE NOTICE TO THE CLASS OF THE FARINA CLAIMS THEY ARE RELEASING

35. Farina notes that he is before this Court because Guthrie counsel – *unilaterally determining Farina's claims were worthless and, working with Mazda to find a North Carolina resident who had leased and already turned in, a class vehicle* - stipulated to a release of all said claims without Notice to the absent class thereof, admittedly intending to render Farina a class of one. Farina sought an amendment to the Notice which would advise absent class members of the rights they were waiving unless they opted out. This request morphed because – *in response to claims Guthrie and Mazda have made to this Court* – Farina dared to ask for the backup that shows why his "unique" claims are to be released without any consideration or notice to the absent class.

36. On March 11, 2024, upon GRANTING Preliminary Approval, the Court took at face value the settling parties' representations that one of Farina's options was having his filings

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Representation. In this process, a reviewing court must evaluate "whether a proposed settlement is fundamentally fair, adequate, and reasonable." *Staton,* 327 F.3d at 952 (internal quotation marks and citations omitted). *Acosta* @ 564, 573 objecting to the Settlement, seeking to intervene and discovery surrounding its terms releasing his claims would be posted on the settlement website.

37. On May 16, 2024, Farina emailed the Settlement Administrator requesting same be posted on the settlement website:

> Settlement Administrator/Counsel:
>
> Pursuant to the terms of the Preliminary Approval Order – as confirmed at hearing before the Court at the Preliminary Approval Hearing held March 11, 2024 (see, Transcript of March 11, 2024 Preliminary Approval Hearing at pp. 20-21), attached please find Francis. J. Farina's (1) Motion to Intervene and (2) Objections – with all attachments, and (3) a copy of the Docket as of May 16, 2024 – all of which we expect will be uploaded to Important Documents | Guthrie et al. v. Mazda Motor of America, Inc. (mazdavalvestemsealsettlement.com) not later than noon Friday, May 17, 2024.
>
> All of the subject documents are available via this drop box link for sixty (60) days here from. https://www.dropbox.com/scl/fo/z8ai5fgikzexls5o69mao/AIXnE3ZvjGSgSfrTjUNuof0?rlkey=utgqu9kes7rejwuar0qieu341&dl=0
>
> Should you have any further questions, please do not hesitate to contact me directly.

38. In response, "the Parties" conferred and determined that they would only post Doc. No. 107 – despite its reference and incorporation of the remaining, integrated filings – and refused to post any other documents (including the Declarations of Francis J. Farina or Joseph A. O'Keefe, Esq., which contents are cited extensively throughout Doc. 107).

39. As noted in *Chavez v. PVH Corp.*, 2015 U.S. Dist. LEXIS 17511, *13-14 (N.D. Cali., 2015), notice to class members must notify the class members that they may be releasing claims based on facts not alleged in the operative complaint, or alert class members to the existence of the related actions, or the settlement notice is inadequate sufficient enough to deny final approval of the settlement.

40. Herein, "the Parties" have acknowledged that they collaborated to limit the postings regarding the settlement to select self-serving documents.

41. This is particularly disturbing as the subject fee petition demonstrates little to no effort was put into actual investigation of the class's actual claims as there was essentially no discovery conducted.

42. Federal courts are to be "inherently skeptical of pre-certification settlements, precisely because such settlements tend to be reached quickly before the plaintiffs' counsel has had the benefit of the discovery necessary to make an informed evaluation of the case and, accordingly, to strike a fair and adequate settlement." *In re GMC Pick-Up,* 55 F.3d 788; *Weinberger v. Kendrick,* 698 F.2d 61, 73 (2d Cir. 1982); *Polar Int'l Brokerage Corp.,* 187 F.R.D. 108, 113 (S.D.N.Y. 1999) ("An early settlement will find the court and class counsel less informed than if substantial discovery had occurred. As a result, the court will find it more difficult to access the strengths and weaknesses of the parties' claims and defenses, determine the appropriate membership of the class, and consider [**69] how class members will benefit from settlement.") (quoting Manual for Complex Litigation 2d § 30.45 (3d Ed. 1995)).

43. This case exemplifies the need for such skepticism particularly as counsel is seeking a significant fee for essentially doing nothing to investigate the claims yet negotiating away Farina's "unique" claims without any consideration or compensation and without proper Notice to the class or basis, therefore.

44. The Court in *Chavez* found the settlement was not adequate because the notice packets sent to class members did not provide them with sufficient notice of the scope of released claims and under Ninth Circuit precedent, potential members of a settling class must receive the "'best notice that is practicable under the circumstances'" of the settlement. *Chavez v. PVH Corp.*, 2015 U.S. Dist. LEXIS 17511, *19-20, citing, *Shaffer v. Cont'l Cas. Co*., 362 F. App'x 627, 631 (9th Cir. 2010) (quoting Fed. R. Civ. P. 23(c)(2)(B)). "Notice is satisfactory if it 'generally

describes the terms of the settlement in sufficient detail to alert those with adverse viewpoints to investigate and to come [*20] forward and be heard.'" *Churchill Vill., L.L.C. v. Gen. Elec*., 361 F.3d 566, 575 (9th Cir. 2004) (quoting *Mendoza v. United States*, 623 F.2d 1338, 1352 (9th Cir. 1980)).

45. Notice is not adequate if it misleads potential class members. Id. citing *Molski v. Gleich*, 318 F.3d 937, 952 (9th Cir. 2003), *overruled on other grounds by Dukes v. Wal-Mart Stores, Inc*., 603 F.3d 571 (9th Cir. 2010).

46. Herein the silence as to Farina's claims is deafening. This is particularly troubling as <u>Guthrie counsel agreed to a release</u> thereof <u>without proper discovery or investigation, for no consideration,</u> <u>and, instead, bargained for an extended warranty that specifically excludes the acknowledged defective part as well as the actual affected systems</u>. *Reynolds v. Beneficial Nat'l Bank,* 260 F. Supp. 2d 680, 695 (N.D. Ill. 2003) ("Without adequate representation by plaintiffs' counsel, it is impossible to evaluate the chances of plaintiffs obtaining a greater recovery than under [the proposed] settlement . . . ."), *See also, MCL 4th § 21.61, text at n.952 and sources cited therein; Figueroa v. Sharper Image Corp.,* 517 F. Supp. 2d 1292, 1321 (S.D. Fla. 2007)(Rejecting a "Third Amended Settlement Agreement" in part because the defendant "selected counsel confronted with a most precarious position . . . and then proceeded to offer and convince Class Counsel to accept highly undesirable terms to settle the case." It was further held

that determining whether a reverse auction might have occurred requires information about all litigation dealing with the subject of the dispute).[5]

WHEREFORE, Francis J. Farina, on behalf of himself and all others similarly situated, hereby OBJECTS to the requested fee and subject settlement and requests a hearing forthwith on the matters contained herein that form the basis of his objections prior to the final approval hearing.

Dated: San Francisco, California
May 22, 2024

Respectfully submitted,

By: *s/ Lyn R. Agre*
Lyn R. Agre (SBN 178218)
44 Montgomery Street, Suite 2410
San Francisco, CA 94104
Tel.: (415) 599-0880
lagre@glennagre.com

THE DIGUISEPPE LAW FIRM, P.C.
Raymond M. DiGuiseppe (SBN 228457)
116 N. Howe Street, Suite A
Southport, NC 28461
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BAKER LAW GROUP, LLC
Joseph A. O'Keefe (pro hac vice forthcoming)
7035 Campus Drive, Suite 702
Colorado Springs, CO 80920
Phone Number: (303) 862-4564
joseph@bakerlawgroup.com

[5] Hence, coming full circle, why Farina has asked for permission to serve Discovery (Doc. No. 112, 112-1) and intends to renew his request for a hearing on same prior to the final approval hearing date.

CERTIFICATE OF SERVICE

I hereby certify that on May 22, 2024, a true and correct copy of the foregoing was electronically filed and served, pursuant to 28 U.S.C. § 1746, via CM/ECF, addressed to the following:

Jahmy Stanford Graham
Priscilla Szeto
Amber Hendrick
Nelson Mullins Riley and Scarborough LLP
19191 South Vermont Avenue Suite 900
Torrance, CA 90502
424-221-7400
Fax: 424-221-7499
jahmy.graham@nelsonmullins.com
priscilla.szeto@nelsonmullins.com
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Of Attorneys for Plaintiffs

By: *s/ Lyn R. Agre*
Lyn R. Agre (SBN 178218)

EXHIBIT 1

LAW 553-NC-eps 10/19

RETAIL INSTALLMENT SALE CONTRACT
SIMPLE FINANCE CHARGE
THIS IS A CONSUMER CREDIT DOCUMENT

Buyer Name and Address (Including County and Zip Code)	Co-Buyer Name and Address (Including County and Zip Code)	Seller-Creditor (Name and Address)
FRANCIS JOSEPH FARINA 203 HOBBS ST DAVIDSON, NC 28036 MECKLENBURG	N/A	KEFFER MAZDA 13307 Statesville Rd Huntersville, NC 28078

You, the Buyer (and Co-Buyer, if any), may buy the vehicle below for cash or on credit. By signing this contract, you choose to buy the vehicle on credit under the agreements in this contract. You agree to pay the Seller - Creditor (sometimes "we" or "us" in this contract) the Amount Financed and Finance Charge in U.S. funds according to the payment schedule below. We will figure your finance charge on a daily basis. The Truth-In-Lending Disclosures below are part of this contract.

New/Used	Year	Make and Model	Vehicle Identification Number	Primary Use For Which Purchased
NEW	2021	MAZDA MAZDA6	JM1GL1TY8M1605719	Personal, family, or household unless otherwise indicated below ☐ business ☐ agricultural ☐ N/A

FEDERAL TRUTH-IN-LENDING DISCLOSURES

ANNUAL PERCENTAGE RATE The cost of your credit as a yearly rate.	FINANCE CHARGE The dollar amount the credit will cost you.	Amount Financed The amount of credit provided to you or on your behalf.	Total of Payments The amount you will have paid after you have made all payments as scheduled.	Total Sale Price The total cost of your purchase on credit, including your down payment of $ 2,808.04 is
0.00 %	$ 0.00	$ 30,000.00	$ 30,000.00	$ 32,808.04

Your Payment Schedule Will Be: (e) means an estimate

Number of Payments	Amount of Payments	When Payments Are Due
60	$ 500.00	MONTHLY beginning 06/10/2021
N/A	$ N/A	N/A
	N/A	

Late Charge. If payment is not received in full within 10 days after it is due, you will pay a late charge of $ 15.00 .

Prepayment. If you pay early, you will not have to pay a penalty.

Security Interest. You are giving a security interest in the vehicle being purchased.

Additional Information: See this contract for more information including information about nonpayment, default, any required repayment in full before the scheduled date and security interest.

NOTICE: ANY HOLDER OF THIS CONSUMER CREDIT CONTRACT IS SUBJECT TO ALL CLAIMS AND DEFENSES WHICH THE DEBTOR COULD ASSERT AGAINST THE SELLER OF GOODS OR SERVICES OBTAINED PURSUANT HERETO OR WITH THE PROCEEDS HEREOF. RECOVERY HEREUNDER BY THE DEBTOR SHALL NOT EXCEED AMOUNTS PAID BY THE DEBTOR HEREUNDER.

The preceding NOTICE applies only to goods or services obtained primarily for personal, family, or household use. In all other cases, Buyer will not assert against any subsequent holder or assignee of this contract any claims or defenses the Buyer (debtor) may have against the Seller, or against the manufacturer of the vehicle or equipment obtained under this contract.

Returned Check Charge: You agree to pay a charge of $ 35.00 if any check you give us is dishonored.

☐ VENDOR'S SINGLE INTEREST INSURANCE (VSI insurance): If the preceding box is checked, the Creditor requires VSI insurance for the initial term of the contract to protect the Creditor for loss or damage to the vehicle (collision, fire, theft, concealment, skip). VSI insurance is for the Creditor's sole protection. This insurance does not protect your interest in the vehicle. **You may choose the insurance company through which the VSI insurance is obtained.** If you elect to purchase VSI insurance through the Creditor, **the cost of this insurance is $** N/A and is also shown in item 4B of the Itemization of Amount Financed. The coverage is for the initial term of the contract.

OPTIONAL GAP CONTRACT. A gap contract (debt cancellation contract) is not required to obtain credit and will not be provided unless you sign below and agree to pay the extra charge. If you choose to buy a gap contract, the charge is shown in Item 4D of the Itemization of Amount Financed. See your gap contract for details on the terms and conditions it provides. It is a part of this contract.

Term N/A Mos. N/A
Name of Gap Contract

I want to buy a gap contract.

Buyer Signs X N/A

Buyer Signs X [signature] Co-Buyer Signs X N/A

Customer Copy

ITEMIZATION OF AMOUNT FINANCED

1 Cash Price (including $ 952.79 sales tax) $ 31,922.79 (1)

2 Total Downpayment =

Trade-in N/A
(Year) (Make) (Model)

Gross Trade-In Allowance	$ N/A	
Less Pay Off Made By Seller to N/A	$ N/A	
Equals Net Trade In	$ N/A	
+ Cash	$ 2,808.04	
+ Other N/A	$ N/A	
+ Other N/A	$ N/A	
+ Other N/A	$ N/A	
(If total downpayment is negative, enter "0" and see 4I below)		$ 2,808.04 (2)

3 Unpaid Balance of Cash Price (1 minus 2) $ 29,114.75 (3)

4 Other Charges Including Amounts Paid to Others on Your Behalf (Seller may keep part of these amounts):

A	Cost of Optional Credit Insurance Paid to Insurance Company or Companies. Life $ N/A		
	Disability $ N/A	$ N/A	
B	Vendor's Single Interest Insurance Paid to Insurance Company	$ N/A	
C	Other Optional Insurance Paid to Insurance Company or Companies	$ N/A	
D	Optional Gap Contract	$ N/A	
E	Official Fees Paid to Government Agencies N/A	$ N/A	
F	Government Taxes Not Included in Cash Price N/A	$ N/A	
G	Government License and/or Registration Fees N/A		
	LICENSE AND/OR REGISTRATION FEES	$ 39.75	
H	Government Certificate of Title Fees	$ 56.00	
I	Other Charges (Seller must identify who is paid and describe purpose)		
	to N/A for Prior Credit or Lease Balance	$ N/A	
	to KEFFER MAZDA for DEALER ADMIN FEE	$ 789.50	
	to N/A for N/A	$ N/A	
	to N/A for N/A	$ N/A	
	to N/A for N/A	$ N/A	
	to N/A for N/A	$ N/A	
	to N/A for N/A	$ N/A	
	to N/A for N/A	$ N/A	
	to N/A for N/A	$ N/A	
	to N/A for N/A	$ N/A	
	to N/A for N/A	$ N/A	
	to N/A for N/A	$ N/A	
	to N/A for N/A	$ N/A	
	Total Other Charges and Amounts Paid to Others on Your Behalf		$ 885.25 (4)

5 Amount Financed (3 + 4) $ 30,000.00 (5)

OPTION: ☐ You pay no finance charge if the Amount Financed, item 5, is paid in full on or before N/A , Year N/A . SELLER'S INITIALS N/A

Insurance. You may buy the physical damage insurance this contract requires from anyone you choose or you may provide the required insurance through an existing policy owned or controlled by you. Insurance you provide must be acceptable to us. You are not required to buy any other insurance to obtain credit unless the box indicating Vendor's Single Interest Insurance is required is checked below.

If any insurance is checked below, policies or certificates from the named insurance companies will describe the terms and conditions.

Check the insurance you want and sign below:

Optional Credit Insurance

☐ Credit Life: ☐ Buyer ☐ Co-Buyer ☐ Both

☐ Credit Disability: ☐ Buyer ☐ Co-Buyer ☐ Both

Premium:

Credit Life $ N/A

Credit Disability $ N/A

Insurance Company Name N/A
N/A

Home Office Address N/A
N/A

Credit life insurance and credit disability insurance are not required to obtain credit. Your decision to buy or not to buy credit life insurance and credit disability insurance will not be a factor in the credit approval process. They will not be provided unless you sign and agree to pay the extra cost. If you choose this insurance, the cost is shown in Item 4A of the Itemization of Amount Financed. Credit life insurance is based on your original payment schedule. This insurance may not pay all you owe on this contract if you make late payments. Credit disability insurance does not cover any increase in your payment or in the number of payments. Coverage for credit life insurance and credit disability insurance ends on the original due date for the last payment unless a different term for the insurance is shown below.

Other Optional Insurance

☐ N/A (Type of Insurance) N/A (Term)

Premium $ N/A

Insurance Company Name N/A
N/A

Home Office Address N/A
N/A

☐ N/A (Type of Insurance) N/A (Term)

Premium $ N/A

Insurance Company Name N/A
N/A

Home Office Address N/A
N/A

Other optional insurance is not required to obtain credit. Your decision to buy or not buy other optional insurance will not be a factor in the credit approval process. It will not be provided unless you sign and agree to pay the extra cost.

I want the insurance checked above.

X N/A — Buyer Signature — N/A Date

X N/A — Co-Buyer Signature — N/A Date

THIS INSURANCE DOES NOT INCLUDE INSURANCE ON YOUR LIABILITY FOR BODILY INJURY OR PROPERTY DAMAGE CAUSED TO OTHERS. WITHOUT SUCH INSURANCE YOU MAY NOT OPERATE THIS VEHICLE ON PUBLIC HIGHWAYS.

Buyer Signs X ______ Co-Buyer Signs X N/A

Customer Copy

1. **FINANCE CHARGE AND PAYMENTS**

a. **How we will figure Finance Charge.** We will figure the Finance Charge on a daily basis at the Annual Percentage Rate on the unpaid part of the Amount Financed.

b. **How we will apply payments.** We may apply each payment to the earned and unpaid part of the Finance Charge, to the unpaid part of the Amount Financed and to other amounts you owe under this contract in any order we choose as the law allows.

c. **How late payments or early payments change what you must pay.** We based the Finance Charge, Total of Payments, and Total Sale Price shown on page 1 of this contract on the assumption that you will make every payment on the day it is due. Your Finance Charge, Total of Payments, and Total Sale Price will be more if you pay late and less if you pay early. Changes may take the form of a larger or smaller final payment or, at our option, more or fewer payments of the same amount as your scheduled payment with a smaller final payment. We will send you a notice telling you about these changes before the final scheduled payment is due.

d. **You may prepay.** You may prepay all or part of the unpaid part of the Amount Financed at any time without penalty. If you do so, you must pay the earned and unpaid part of the Finance Charge and all other amounts due up to the date of your payment.

2. **YOUR OTHER PROMISES TO US**

a. **If the vehicle is damaged, destroyed, or missing.** You agree to pay us all you owe under this contract even if the vehicle is damaged, destroyed, or missing.

b. **Using the vehicle.** You agree not to remove the vehicle from the U.S. or Canada, or to sell, rent, lease, or transfer any interest in the vehicle or this contract without our written permission. You agree not to expose the vehicle to misuse, seizure, confiscation, or involuntary transfer. If we pay any repair bills, storage bills, taxes, fines, or charges on the vehicle, you agree to repay the amount when we ask for it.

c. **Security Interest.**
You give us a security interest in:

- The vehicle and all parts or goods installed in it;
- All money or goods received (proceeds) for the vehicle;
- All insurance, maintenance, service or other contracts we finance for you; and
- All proceeds from insurance, maintenance, service or other contracts we finance for you. This includes any refunds of premiums or charges from the contracts.

This secures payment of all you owe on this contract. It also secures your other agreements in this contract. You will make sure the title shows our security interest (lien) in the vehicle. You will not allow any other security interest to be placed on the title without our written permission.

d. **Insurance you must have on the vehicle.**
You agree to have physical damage insurance covering loss of or damage to the vehicle for the term of this contract. The insurance must cover our interest in the vehicle. You agree to name us on your insurance policy as an additional insured and as loss payee. If you do not have this insurance, we may, if we choose, buy physical damage insurance. If we decide to buy physical damage insurance, we may either buy insurance that covers your interest and our interest in the vehicle, or buy insurance that covers only our interest. If we buy either type of insurance, we will tell you which type and charge you must pay. The charge will be the premium for the insurance and a finance charge computed at the Annual Percentage Rate shown on page 1 of this contract.
If the vehicle is lost or damaged, you agree that we may use any insurance settlement to reduce what you owe or repair the vehicle.

e. **What happens to returned insurance, maintenance, service, or other contract charges.** If we obtain a refund of insurance, maintenance, service, or other contract charges, you agree that we may subtract the refund from what you owe.

3. **IF YOU PAY LATE OR BREAK YOUR OTHER PROMISES**

a. **You may owe late charges.** You will pay a late charge on each late payment as shown on page 1 of this contract. Acceptance of a late payment or late charge does not excuse your late payment or mean that you may keep making late payments. If you pay late, we may also take the steps described below.

b. **You may have to pay all you owe at once.** If you break your promises (default), we may demand that you pay all you owe on this contract at once. Default means:

- You do not pay any payment on time;
- You give false, incomplete, or misleading information during credit application;
- You start a proceeding in bankruptcy or one is started against you or your property; or
- You break any agreements in this contract.

The amount you will owe will be the unpaid part of the Amount Financed plus the earned and unpaid part of the Finance Charge, any late charges, and any amounts due because you defaulted.

c. **You may have to pay collection costs.** If we hire an attorney to collect what you owe, you will pay attorney's fees and court costs, as the law allows. The maximum attorney's fee you will pay will be 15% of the amount you owe.

d. **We may take the vehicle from you.** If you default, we may take (repossess) the vehicle from you if we do so peacefully and the law allows it. If your vehicle has an electronic tracking device (such as GPS), you agree that we may use the device to find the vehicle. If we take the vehicle, any accessories, equipment, and replacement parts will stay with the vehicle. If any personal items are in the vehicle, we may store them for you. If you do not ask for these items back, we may dispose of them as the law allows.

e. **How you can get the vehicle back if we take it.** If we repossess the vehicle, you may pay to get it back (redeem). We will tell you how much to pay to redeem. Your right to redeem ends when we sell the vehicle.

f. **We will sell the vehicle if you do not get it back.** If you do not redeem, we will sell the vehicle. We will send you a written notice of sale before selling the vehicle.
We will apply the money from the sale, less allowed expenses, to the amount you owe. Allowed expenses are expenses we pay as a direct result of taking the vehicle, holding it, preparing it for sale, and selling it. Attorney fees and court costs the law permits are also allowed expenses. If any money is left (surplus), we will pay it to you unless the law requires us to pay it to someone else. If money from the sale is not enough to pay the amount you owe, you must pay the rest to us. If you do not pay this amount when we ask, we may charge you interest at a rate not exceeding the highest lawful rate until you pay.

Buyer Signs X [signature] Co-Buyer Signs X N/A

Customer Copy

g. **What we may do about optional insurance, maintenance, service, or other contracts.** This contract may contain charges for optional insurance, maintenance, service, or other contracts. If we demand that you pay all you owe at once or we repossess the vehicle, we may claim benefits under these contracts and cancel them to obtain refunds of unearned charges to reduce what you owe or repair the vehicle. If the vehicle is a total loss because it is confiscated, damaged, or stolen, we may claim benefits under these contracts and cancel them to obtain refunds of unearned charges to reduce what you owe.

4. **WARRANTIES SELLER DISCLAIMS**
Unless the Seller makes an express warranty, or enters into a service contract within 90 days from the date of this contract, the Seller makes no warranties on the vehicle, and there will be no implied warranties of merchantability or of fitness for a particular purpose.
This provision does not affect any warranties covering the vehicle that the vehicle manufacturer may provide.

5. **Used Car Buyers Guide. The information you see on the window form for this vehicle is part of this contract. Information on the window form overrides any contrary provisions in the contract of sale.**
Spanish Translation: Guía para compradores de vehículos usados. La información que ve en el formulario de la ventanilla para este vehículo forma parte del presente contrato. La información del formulario de la ventanilla deja sin efecto toda disposición en contrario contenida en el contrato de venta.

6. **SERVICING AND COLLECTION CONTACTS**
You agree that we may try to contact you in writing, by e-mail, or using prerecorded/artificial voice messages, text messages, and automatic telephone dialing systems, as the law allows. You also agree that we may try to contact you in these and other ways at any address or telephone number you provide us, even if the telephone number is a cell phone number or the contact results in a charge to you.

7. **APPLICABLE LAW**
Federal law and the law of the state of North Carolina apply to this contract.

NO COOLING OFF PERIOD

State law does not provide for a "cooling off" or cancellation period for this sale. After you sign this contract, you may only cancel it if the seller agrees or for legal cause. You cannot cancel this contract simply because you change your mind. This notice does not apply to home solicitation sales.

The Annual Percentage Rate may be negotiable with the Seller. The Seller may assign this contract and retain its right to receive a part of the Finance Charge.

HOW THIS CONTRACT CAN BE CHANGED. This contract contains the entire agreement between you and us relating to this contract. Any change to this contract must be in writing and we must sign it. No oral changes are binding. Buyer Signs X ________ Co-Buyer Signs X N/A
If any part of this contract is not valid, all other parts stay valid. We may delay or refrain from enforcing any of our rights under this contract without losing them. For example, we may extend the time for making some payments without extending the time for making others.
See the rest of this contract for other important agreements.

NOTICE TO RETAIL BUYER: Do not sign this contract in blank. You are entitled to a copy of the contract at the time you sign. Keep it to protect your legal rights.

You agree to the terms of this contract. You confirm that before you signed this contract, we gave it to you, and you were free to take it and review it. You confirm that you received a completely filled-in copy when you signed it.

Buyer Signs X ________ Date 04/26/2021 Co-Buyer Signs X N/A Date N/A
Buyer Printed Name FRANCIS JOSEPH FARINA Co-Buyer Printed Name ________
If the "business" use box is checked in "Primary Use for Which Purchased": Print Name N/A Title N/A

Co-Buyers and Other Owners — A co-buyer is a person who is responsible for paying the entire debt. An other owner is a person whose name is on the title to the vehicle but does not have to pay the debt. The other owner agrees to the security interest in the vehicle given to us in this contract.

Other owner signs here X N/A Address N/A
Seller signs KEFFER MAZDA Date 04/26/2021 By X ________ Title ________

Seller assigns its interest in this contract to TOYOTA MOTOR CREDIT CORPORATION (Assignee) under the terms of Seller's agreement(s) with Assignee.
☐ Assigned with recourse ☒ Assigned without recourse ☐ Assigned with limited recourse
Seller KEFFER MAZDA
By X ________ Title

Customer Copy

keffer mazda

VEHICLE PURCHASE AGREEMENT

BUYER'S NAME FRANCIS JOSEPH FARINA DATE 04/26/2021

CO-BUYER'S NAME

ADDRESS 203 HOBBS ST CITY/STATE DAVIDSON , NC ZIP 28036 PHONE (704)997-5215

EMAIL TUBALAW@AOL.COM SALESPERSON(S) DAVID BOEHM

VEHICLE INFORMATION

PLEASE ENTER MY ORDER FOR THE FOLLOWING: ☒ NEW ☐ USED ☐ DEMONSTRATOR	VIN	STOCK NO.
	JM1GL1TY8M1605719	M16039X

YEAR	MAKE	MODEL	TYPE	COLOR	MILEAGE	TRUCK GVW
2021	MAZDA	MAZDA6	GRAND TOURING A	BLUE	337	N/A

TRADE-IN INFORMATION

YEAR	MAKE	MODEL	
N/A	N/A	N/A	
VIN			
N/A			
BODY	TAG NO.	VALID NO.	EXP. DATE
N/A			

PAYOFF INFORMATION

PAYOFF TO		
N/A		
STREET ADDRESS		
N/A		
CITY/STATE	ZIP	ACCOUNT NO.
,	N/A	N/A
TITLE IN NAME OF	PAYOFF AMOUNT	
	N/A	
PAY OFF AMOUNT	GOOD UNTIL	2 LIENS
N/A	N/A	

LIEN INFORMATION

LIEN HOLDER	
TOYOTA MOTOR CREDIT CORPORATION	
STREET ADDRESS	
PO BOX 105386	
CITY/STATE	ZIP
ATLANTA , GA	30348

INSURANCE INFORMATION

LIAB. / COMPANY	POLICY NO.
STATE FARM	1932160C2833E
COLL. / COMPANY	POLICY NO.
STATE FARM	1932160C2833E
AGENT NAME	AGENT ADDRESS
ROGER OCONNELL	452 S MAIN STREET STE 100

LIABILITY INSURANCE COVERAGE FOR BODILY INJURY AND PROPERTY DAMAGE CAUSED TO OTHERS IS NOT INCLUDED

CASH SALES PRICE		30,970.00
N/A		N/A
N/A		N/A
SUBTOTAL		30,970.00
SERVICE AGREEMENT TAX		N/A
HIGHWAY USE TAX		952.79
1. CASH PRICE INCLUDING SALES TAX		31,922.79
DOWN PAYMENT SECTION		
GROSS TRADE ALLOWANCE	N/A	
LESS PAY OFF MADE BY SELLER	N/A	
EQUALS NET TRADE IN	N/A	
+ CASH DOWN PAYMENT	2,808.04	
+ CUSTOMER REBATE	N/A	
2. (IF TOTAL DOWN PAYMENT IS NEGATIVE, ENTER "O" SEE BELOW 6)		2,808.04
3. UNPAID BALANCE OF CASH PRICE (1 MINUS 2)		29,114.75
4. ADMINISTRATIVE FEE		789.50
5. OTHER OFFICIAL FEES PAID TO GOVERNMENT AGENCIES		95.75
6. AMOUNT PAID TO (FOR NEGATIVE EQUITY/LEASE BALANCE)		N/A
OTHER CHARGES INCL. AMOUNTS PAID TO OTHERS ON YOUR BEHALF (SELLER MAY KEEP PART OF THESE AMOUNTS)		
FOR CREDIT LIFE		N/A
FOR CREDIT DISABILITY		N/A
TO N/A FOR SERVICE CONTRACT		N/A
TO N/A FOR MAINTENANCE		N/A
TO N/A FOR GAP		N/A
TO FOR		N/A
7. TOTAL OTHER CHARGES & AMOUNTS PAID TO OTHERS ON YOUR BEHALF		885.25
8. TOTAL UNPAID AMOUNT FINANCED (3+4+5+8+7)		30,000.00

PURCHASER(S) HAS READ THE TERMS AND CONDITIONS ABOVE, ON THE REVERSE SIDE HEREOF AND IN ALL ASSOCIATED DOCUMENTS SIGNED BY PURCHASER(S) AND IT IS UNDERSTOOD AND AGREED THAT ALL SUCH TERMS AND CONDITIONS ARE MADE A PART OF THIS PURCHASE/LEASE AGREEMENT WITH THE SAME EFFECT AS IF THEY WERE PRINTED ABOVE THE PURCHASER'S SIGNATURE.

BUYER'S SIGNATURE ______________________ **DATE** 04/26/2021

COBUYER'S SIGNATURE ______________________ **DATE** N/A

ACCEPTED BY KEFFER KIA

BY ______________________ **DATE** 04/26/2021

 KEFF-KE5BO (9/2020)

Customer Copy

AGREEMENT TO ARBITRATE DISPUTES

The following Agreement to Arbitrate Disputes can significantly affect your rights in any dispute with us. Please read it carefully before signing this Contract.

1. EITHER YOU OR WE MAY CHOOSE TO HAVE ANY DISPUTE BETWEEN US DECIDED BY ARBITRATION AND NOT IN COURT OR BY JURY TRIAL.
2. IF A DISPUTE IS ARBITRATED, YOU WILL GIVE UP YOUR RIGHT TO PARTICIPATE AS A CLASS REPRESENTATIVE OR A CLASS MEMBER ON ANY CLASS CLAIM YOU MAY HAVE AGAINST US INCLUDING ANY RIGHT TO CLASS ARBITRATION OR ANY CONSOLIDATION OF INDIVIDUAL ARBITRATIONS.
3. DISCOVERY AND RIGHTS TO APPEAL IN ARBITRATION ARE GENERALLY MORE LIMITED THAN IN A LAWSUIT, AND OTHER RIGHTS THAT YOU AND WE WOULD HAVE IN COURT MAY NOT BE AVAILABLE IN ARBITRATION

Any and all claims or disputes of any kind, whether in contract, tort, statute or otherwise (including the interpretation and scope of this clause, and the arbitrability of the claim or dispute), between you and us or our employees or agents which arise out of or relate to any advertisement, representation or warranty, or your credit application, this contract or any resulting transaction or relationship shall, at your or our election, be resolved by neutral, binding arbitration and not by a court action, unless otherwise provided herein. This Agreement to Arbitrate Disputes shall not apply to any claims you may have against a lender who accepts assignment of your retail installment sales contract. Any claim or dispute is to be arbitrated by a single arbitrator on an individual basis and not as a class action. You expressly waive any right you may have to arbitrate a class action or to proceed as a private attorney general. You or we may choose one of the following arbitration organizations and its applicable rules: the American Arbitration Association (www.adr.org), the National Arbitration Forum (www.arb-forum.com), JAMS (www.jamsadr.com) or any other widely recognized arbitration organization. You may obtain a copy of the rules of these organizations by contacting the arbitration organization or visiting its website.

Arbitrators shall be attorneys or retired judges and shall be selected pursuant to the applicable rules. The arbitrator shall apply governing substantive law in making an award. The arbitration hearing shall be conducted in the federal district in which you reside. We will pay your filing, service or case management fee and your arbitrator or hearing fee up to a maximum of $1,500. We shall also pay any additional amount of such fees that the arbitrator determines we must pay in order to make this Agreement to Arbitrate Disputes enforceable. Each party shall be responsible for its own attorney, expert, and other fees, unless awarded by the arbitrator under applicable law. The arbitrator's award shall be final and binding on all parties, except that the losing party may request a new arbitration under the rules of the arbitration organization by a three-party panel if allowed by such rules. If any provision under this Agreement to Arbitrate Disputes, other than waivers of class action rights, is deemed or found to be unenforceable for any reason, the remainder shall remain enforceable. This Agreement to Arbitrate Disputes, and any arbitration conducted hereunder, shall be governed by the Federal Arbitration Act (9 U.S.C. § 1, et seq.) Any court having jurisdiction may enter judgment on the arbitrator's award. You and we retain any rights to self-help remedies including, but not limited to, repossession, involuntary bankruptcy petitions, the right of set-off, resale, acceleration and cure. You and we further retain the right to seek individual remedies in court for individual claims or disputes only (as opposed to a class claim) so long as the amount in controversy is $4000.00 or less.

Customer initials acknowledging this Agreement contains an agreement to arbitrate disputes. ______________________

DEALER MAY CHARGE AN ADMINISTRATIVE/PROCESSING FEE IN THE AMOUNT SET FORTH ON THIS PURCHASE/LEASE AGREEMENT.

DEALER MAY RECEIVE A FEE, COMMISSION, OR OTHER COMPENSATION FOR PROVIDING, PROCURING, OR ARRANGING FINANCING FOR THE RETAIL LEASE OR PURCHASE OF A MOTOR VEHICLE, FOR WHICH THE CUSTOMER MAY BE RESPONSIBLE.

NOTICE TO PURCHASER(S): DO NOT SIGN THIS AGREEMENT UNTIL YOU READ IT. YOU ARE ENTITLED TO A COPY OF ALL AGREEMENTS AND/OR DOCUMENTS THAT YOU SIGN. YOU ACKNOWLEDGE RECEIPT OF A COMPLETE COPY OF THIS AGREEMENT PRIOR TO CONTRACTING. THIS AGREEMENT IS NOT BINDING UNLESS SIGNED BY AN OFFICER OR MANAGER OF THE SELLER AND BY PURCHASER(S). YOU AGREE THAT THE ADDITIONAL TERMS AND CONDITIONS PRINTED ON THE BACK OF THIS DOCUMENT ARE A PART OF THIS AGREEMENT. INCLUDING PARAGRAPH 12 REFERRING TO NO WARRANTIES OF MERCHANTABILITY OR FITNESS. THE FRONT AND BACK OF THIS RETAIL PURCHASE/ LEASE AGREEMENT CONTAINS THE ENTIRE AGREEMENT RELATED TO THIS PURCHASE AND NO OTHER AGREEMENTS, UNDERSTANDINGS OR PROMISES WILL BE RECOGNIZED UNLESS OTHERWISE AGREED TO IN WRITING BY BOTH PURCHASER(S) AND SELLER

ORAL PROMISES ARE NOT VALID. ANY PROMISES OR UNDERSTANDINGS NOT SPECIFIED IN WRITING IN THIS AGREEMENT ARE NOT VALID AND SHALL NOT BE CONSIDERED A PART OF THIS AGREEMENT UNLESS INCORPORATED HEREIN BY REFERENCE.

ADDITIONAL DOCUMENTS - YOU AGREE TO EXECUTE ADDITIONAL FORMS, CONTRACTS OR OTHER DOCUMENTS PREPARED IN CONNECTION WITH THE PURCHASE, THOSE REQUIRED BY THE VARIOUS PURCHASE DOCUMENTS, ANY RETAIL INSTALLMENT OR CONSUMER CREDIT SALE OR LEASE CONTRACT OR THOSE REQUIRED BY FEDERAL AND/OR STATE LAW, RULE OR REQUIREMENT. THESE DOCUMENTS ARE INCORPORATED HEREIN BY REFERENCE

AGE - BY EXECUTION OFTHIS AGREEMENT, YOU CERTIFY THAT YOU ARE 18 YEARS OF AGE OR OLDER.

CONDITIONAL DELIVERY - IF THIS IS A CONDITIONAL RETAIL PURCHASE/LEASE AND SELLER IS ASSISTING WITH FINANCE SOURCING, YOU ACKNOWLEDGE THAT THE SALE OF THE ABOVE DESCRIBED VEHICLE IS NOT FINAL UNTIL YOUR LOAN APPLICATION HAS BEEN APPROVED BY A THIRD PARTY FINANCE SOURCE ACCEPTABLE TO SELLER, AND A RETAIL INSTALLMENT OR CONSUMER CREDIT SALE OR LEASE CONTRACT HAS BEEN FULLY EXECUTED WITH RESPECT TO THIS TRANSACTION AND WE HAVE RECEIVED FUNDS FOR THE UNPAID BALANCE FROM THE LENDER. IF A FINANCE SOURCE APPROVES YOUR LOAN, IT MAY REQUIRE ADDITIONAL DOWN PAYMENT OR A CHANGE IN THE TERMS ORNUMBER OF PAYMENTS. IF CHANGES ARE REQUIRED, YOU AGREE TO RETURN TO SELLER'S PREMISES TO EXECUTE REVISED DOCUMENTS WITHIN THREE (3) WORKING DAYS OF NOTIFICATION. CHANGES REQUIRED BY THE FINANCE SOURCE MUST BE ACCEPTABLE TO YOU AND US. YOU UNDERSTAND THAT WE DO NOT REPRESENT OR IMPLY THAT YOUR LOAN APPLICATION HAS BEEN APPROVED OR WILL BE APPROVED BY EXECUTING THIS AGREEMENT OR PERMITTING YOU TO REMOVE THE VEHICLE FROM THE PREMISES.

IF THE FINANCE SOURCE DECLINES YOUR LOAN APPLICATION ON THE TERMS AS SUBMITTED, PARAGRAPH Z(a), PRINTED ON THE BACK OF THIS DOCUMENT SHALL APPLY. THE ADDITIONAL TERMS AND CONDITIONS RELATED TO THE CONDITIONAL DELIVERY OF THE ABOVE IDENTIFIED VEHICLE AS SET FORTH IN PARAGRAPH 2(a) ON THE REVERSE SIDE HEREOF AND, IF APPLICABLE, FINANCE SOURCE IN THE SEPARATE CONDITIONAL DELIVERY AGREEMENT AND POWER OF ATTORNEY YOU HAVE EXECUTED ARE INCORPORATED HEREIN BY REFERENCE.

ADDITIONAL TERMS AND CONDITIONS

1. As used in this Agreement the terms (a) "Seller" and "Dealer" shall mean the authorized Dealer to whom this Agreement is addressed; (b) "Purchaser" shall mean the party executing this Agreement as such on the face hereof; (c) "Subject Vehicle" refers to the vehicle listed on the face of this Agreement which Purchaser has agreed to purchase or lease from Dealer, (d) "Finance Source" refers to one or more lending institutions to which Dealer has or will forward Purchaser's application for credit to finance or lease the Subject Vehicle, and (e) "Manufacturer" shall mean the Corporation that manufactured the vehicle or chassis. Purchaser understands and agrees that Seller is in no respect the agent of Manufacturer, that Seller and Purchaser are the sole parties to this Agreement and that reference to Manufacturer herein is for the purpose of explaining generally certain contractual relationships between Seller and Manufacturer or certain obligations that may be owed to Purchaser by Manufacturer with respect to the vehicle.

Customer Copy

2(a). In the event Finance Source notifies Dealer that Finance Source is, for any reason, refusing to finance Purchaser's purchase or lease of the Subject Vehicle on the terms as submitted Dealer shall notify Purchaser who shall be required to immediately return the Subject Vehicle to the dealership. In the event Purchaser refuses or otherwise fails to either pay in cash or its equivalent, or to immediately return the Subject Vehicle to the dealership after Dealer has provided notice, Purchaser hereby agrees that Dealer shall at any time thereafter have the right to repossess the Subject Vehicle without the Purchaser's knowledge or consent by any lawful means, and Purchaser shall thereupon be liable to Dealer for any and all costs incurred by Dealer in accomplishing such repossession, including but not limited to Dealer's reasonable attorney's fees. Purchaser shall also be liable to Dealer for the cost of repairing all damages to the Subject Vehicle which occurred while in the Purchaser's possession. Purchaser and Seller further acknowledge and agree that if Purchaser(s) in as executed a conditional delivery agreement and power of attorney, such agreement is incorporated by reference into this Agreement and into any applicable retail installment sale or lease contract ("RISC"), notwithstanding order of execution or the existence of a integration clause or any other term in the RISC to the contrary.

2(b) Security Interest If Not Paid in Full - If you do not make payment in full for the vehicle in cash, trade-in or funds from a finance source, or any combination thereof, you hereby agree this document grants us a security interest in the vehicle being purchased and any accessories, equipment, and replacement parts installed in the vehicle. As a result of the security interest, we shall have a lien on the vehicle and all rights of a secured party under the laws of North Carolina and the Uniform Commercial Code, including all rights of repossession as more described below, until we have been paid in full. This security interest is separate and apart from, but subordinate to, any interest granted to a third-party finance source if the vehicle is purchased on credit.

2(c). There are additional terms, conditions and disclosures applicable to the purchase of the subject vehicle that are contained in separate documents, including but not limited to, the conditional delivery agreement and power of attorney. Purchaser(s) acknowledge that all such additional agreements are incorporated herein by reference. Purchaser(s) also accepts the terms and conditions set forth in these additional documents, which customer has signed or initialed, indicating agreement to the terms thereof.

2(d). If the Finance Source Declines Your Loan Application - You agree, upon notification, either to return the vehicle within 24 hours to Dealer or within 24 hours pay the unpaid balance of the cash selling price in cash or with alternate funds acceptable to Dealer such as money order, bank cashier's check or draft. Your failure to do so shall constitute a breach of this agreement. Upon return of the vehicle to us, your down payment, and/or trade-in will be returned to you; provided you will be responsible for any damage or unusual wear and tear to the vehicle while in your possession, plus (i) mileage at the current Internal Revenue Service rate; and (ii) any retrieval costs incurred.

2(e). Payoff of Trade-In Balance Owed - You represent there is no other extension of credit to you in connection with your trade-in except as set forth on the face of this Agreement, and agree to pay us any shortage between the pay-off quoted to us by your lienholder as the remaining amount of the balance on your trade-in and the actual pay-off required from us to satisfy its lien or to satisfy any other encumbrance on the trade-in. In order to satisfy the amount of any shortage remaining on the balance of your trade-in, or if the finance source declines your application for financing the vehicle described in this Agreement after we have paid off the remaining amount of the balance on your trade-in, you shall immediately, upon notification, pay us such amount(s) in cash or with alternate funds acceptable to us such as money order, bank cashiers check or draft.

3. It is the sole responsibility of Purchaser to obtain insurance coverage on Subject Vehicle. Dealership personnel may request insurance information from Purchaser for the purpose of registering Subject Vehicle with the Division of Motor Vehicles (DMV) or for verifying insurance coverage as may be required by Finance Source or the DMV. Dealer's request for insurance information does not constitute an agreement to transfer or obtain insurance coverage on Subject Vehicle. Dealer shall not be liable for Purchaser's failure to obtain insurance coverage on Subject Vehicle.

4. Manufacturer has reserved the right to change the price to Dealer of new motor vehicles without notice. In the event the price to Dealer of new motor vehicles of the series and body type, ordered hereunder is changed by Manufacturer prior to delivery of the new motor vehicle ordered hereunder to Purchaser, Dealer reserves the right to change the cash delivery price of such motor vehicle to Purchaser accordingly. If such cash delivery price is increased by Dealer, Purchaser may, if dissatisfied therewith, cancel this Agreement, in which event if a motor vehicle has been traded in as part of consideration for such new motor vehicle, such used motor vehicle shall be returned to Purchaser upon payment of a reasonable charge for storage and repairs (if any) or, if such used motor vehicle has been previously sold by Dealer, the amount received therefor, less a selling commission of 15% and any expense incurred in storing, insuring, reconditioning or advertising said used vehicle for sale, shall be returned to Purchaser.

5. If the used motor vehicle which has been traded in as part of the consideration for the motor vehicle ordered hereunder is not to be delivered to Dealer until delivery to Purchaser of seen motor vehicle, the used motor vehicle shall be reappraised at that time and such reappraised value shall determine the allowance made for such used motor vehicle. If such reappraised value is lower than the original allowance thereof shown on the front of this Agreement, Purchaser may, if dissatisfied therewith, cancel this Agreement, provided, however, that such right to cancel is exercised prior to delivery of the motor vehicle ordered hereunder to the Purchaser and surrender of the used motor vehicle to Dealer.

6. Purchaser agrees to deliver to Dealer satisfactory evidence of title to any used motor vehicle traded in as part of the consideration for the motor vehicle ordered hereunder at the time of delivery of such motor vehicle to Dealer. Purchaser warrants any such used vehicle to be his property free and clear of all liens and encumbrances except as otherwise noted on the face of this Agreement. You also represent that neither you nor anyone else has altered the odometer of your trade-in vehicle(s) or has tampered with or removed any safety or emissions control equipment from the trade-in vehicle(s).

7. Manufacturer has reserved the right to change the design of any new motor vehicle, chassis, accessories or parts thereof at any time without notice and without obligation to make the same or similar changes to any motor vehicle, chassis, accessories or parts thereof previously purchased by or shipped to Dealer or being manufactured or sold in accordance with Dealer's orders. Correspondingly, in the event of any such change by Manufacturer, Dealer shall have no obligation to Purchaser to make the same or any similar change in any motor vehicle, chassis, accessories, or parts thereof covered by this Agreement either before or subsequent to delivery thereof to Purchaser.

8. Dealer shall not be liable for failure to deliver or delay in delivering the motor vehicle covered by this Agreement where such failure or delay is due, in whole or in part, to any cause beyond the control or without the fault or negligence of Dealer.

9. Purchaser assumes and agrees to pay, unless prohibited by law, any such sales, highway use or occupational taxes imposed on or applicable to the transaction covered by this Agreement, regardless of which party might otherwise have primary tax liability therefor.

ANY WARRANTIES ON THE ITEM/ITEMS SOLD OR LEASED HEREBY ARE THOSE MADE BY THE MANUFACTURER. THE SELLER HEREBY EXPRESSLY DISCLAIMS ALL WARRANTIES, EITHER EXPRESSED OR IMPLIED, INCLUDING ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, AND SELLER NEITHER ASSUMES NOR AUTHORIZES ANY OTHER PERSON TO ASSUME FOR IT ANY LIABILITY IN CONNECTION WITH THE SALE OR LEASE OF THIS ITEM/ITEMS. FURTHERMORE, PURCHASER UNDERSTANDS THAT AFTERMARKET PAINT AND INTERIOR PROTECTANT PRODUCTS, NONMANUFACTURER EXTENDED SERVICE MAINTENANCE CONTRACTS, GAP AGREEMENTS, OR ANY OTHER PRODUCTS AND SERVICES ARE WARRANTED BY SEPARATE SUPPLIERS AND NOT BY SELLER.

10. Any used motor vehicle sold or leased to Purchaser by Dealer under this Agreement is sold or leased at the time of delivery by Dealer without any guarantee or warranty, expressed or implied, including any implied warranty of merchantability or fitness for a particular purpose, as to its condition or the condition of any part thereof except as may be otherwise specifically provided in writing on the face of this Agreement or in separate writing furnished to Purchaser by Dealer.

11. The Purchaser, before or at the time of delivery of the motor vehicle covered by this Agreement, will execute such other forms of agreement of documentation as may be required by the terms and conditions of payment indicated on the front of this Agreement. All such documentation is incorporated herein by reference. In the event of a conflict between the terms of this Agreement and the RISC, the parties agree that the terms of this Agreement shall control notwithstanding the presence of an integration clause in the RISC.

THE INFORMATION YOU SEE ON THE WINDOW FORM (BUYER'S GUIDE) FOR THIS VEHICLE IS PART OF THIS CONTRACT. INFORMATION ON THE WINDOW FORM OVERRIDES ANY CONTRARY PROVISIONS IN THE CONTRACT OF SALE.

LA INFORMACÍON QUE VE EN EL FORMULARIO DE LA VENTANILLA PARA ESTE VEHÍCULO FORMA PARTE DEL PRESENTE CONTRATO. LA INFORMACÍON DEL FORMULARIO DE LA VENTANILLA DEJA SIN EFECTO TODA DISPOSICÍON EN CONTRARIO CONTENIDA EN EL CONTRATO DE VENTA.

KEFFER MAZDA
13307 Statesville Rd
Huntersville, NC 28078

CONDITIONAL DELIVERY AGREEMENT AND POWER OF ATTORNEY (ADDENDUM TO RETAIL INSTALLMENT CONTRACT)

As used in this Addendum:

"PURCHASER" refers to FRANCIS JOSEPH FARINA and __________, jointly and severally;

"DEALER" refers to Keffer Mazda.

"SUBJECT VEHICLE" refers to the 2021 MAZDA MAZDA6 Automobile VIN # JM1GL1TY8M1605719 which PURCHASER has agreed to purchase / lease from DEALER; and

"FINANCE SOURCE" refers to one or more third-party finance source(s) to which DEALER has or will forward PURCHASER'S application for credit to finance/ lease the SUBJECT VEHICLE.

IN CONSIDERATION OF the willingness on the part of DEALER to allow PURCHASER to take possession of the SUBJECT VEHICLE prior to FINANCE SOURCE's approval of PURCHASER's application for credit, PURCHASER and DEALER hereby agree as follows:

1. DEALER's obligations to sell the SUBJECT VEHICLE to PURCHASER and execute and deliver the manufacturer's certificate of origin or certificate of title to the SUBJECT VEHICLE are expressly conditioned on FINANCE SOURCE's approval of PURCHASER's application for credit as submitted AND dealer being paid in full by FINANCE SOURCE. Under no circumstances shall DEALER directly finance PURCHAER's purchase of the SUBJECT VEHICLE. In DEALER's sole discretion, DEALER may submit PURCHASER's application for credit to one or more additional finance sources of DEALER's own selection if FINANCE SOURCE declines to finance / lease the purchase. Nothing contained in this paragraph, however, shall be deemed to require that DEALER submit PURCHASER's application for credit to any lending institution subsequent to the first such institution to whom PURCHASER's application for credit was submitted or that PURCHASER agree to recontract the purchase.

2. In the event FINANCE SOURCE notifies DEALER that FINANCE SOURCE is, for any reason, refusing to finance / lease PURCHASER's purchase of the SUBJECT VEHICLE on the terms submitted, DEALER may notify PURCHASER to immediately return the SUBJECT VEHICLE to the DEALER at the dealership. Such notice to PURCHASER shall be deemed sufficient if given by telephone, in person, or if it is deposited in the custody of the U.S. Postal Service, first class postage prepaid, addressed to PURCHASER's last known address. Any misrepresentation of information provided to DEALER or FINANCE SOURCE by PURCHASER shall constitute grounds for DEALER, in its discretion, to require PURCHASER to immediately return the SUBJECT VEHICLE to DEALER. In such instances, PURCHASER shall be liable to DEALER for all damages resulting from the misrepresentation, including by not limited to DEALER's reasonable attorney's fees. In the event PURCHASER refuses or otherwise fails to immediately return the SUBJECT VEHICLE to the dealership after DEALER has provided notice as provided in this paragraph, PURCHASER hereby agrees that DEALER shall at any time thereafter have the right to repossess the SUBJECT VEHICLE without PURCHASER's knowledge or consent by any lawful means, and PURCHASER shall thereupon be liable to DEALER for any and all costs incurred by DEALER in accomplishing such repossession, including but not limited to DEALER 's reasonable attorney's fees.

3. In the event DEALER provides notice to PURCHASER that the SUBJECT VEHICLE must be returned to the dealership as provided in PARAGRAPH 2 above, PURCHASER may at that time pay DEALER in full. Otherwise, the purchase / lease agreement, purchase money security agreement, contract of sale, buyer's order or purchase order for the SUBJECT VEHICLE shall be rescinded and thus void and of no effect, and except as expressly provided in this instrument and otherwise required by law, neither party to this agreement shall have any further obligation to the other except as set forth herein. Nothing herein shall prevent DEALER and PURCHASER from recontracting on different terms if FINANCE SOURCE declines to finance the purchase/lease on the SUBJECT VEHICLE on the terms initially submitted to FINANCE SOURCE.

4. Upon PURCHASER's return of the SUBJECT VEHICLE to DEALER, DEALER shall return to PURCHASER any deposit and/or trade-in given by PURCHASER toward the purchase price of the SUBJECT VEHICLE, less the cost to the DEALER of repairing any damage to the SUBJECT VEHICLE which occurred while in the PURCHASER's possession, normal wear and tear excepted, and less all costs of repossession incurred by DEALER, if any. PURCHASER shall additionally be liable to DEALER for the cost of repairing any damage to the SUBJECT VEHICLE which occurred while in the PURCHASER's possession above the amount of any deposit which PURCHASER may have given to DEALER.

5. In the event PURCHASER is notified by DEALER that FINANCE SOURCE has agreed to finance / lease PURCHASER's purchase of the SUBJECT VEHICLE, if applicable, PURCHASER agrees to immediately return the SUBJECT VEHICLE to the dealership so that the DEALER's license tag can be removed and replaced with either the PURCHASER's tag or a temporary marker, and at that time any 96-hour permit or renewal previously given to PURCHASER shall be rescinded.

6. In the event of any inconsistency or ambiguity between any of the terms or provisions of this instrument and those of any purchase/lease agreement, retail installment agreement, contract of sale, buyer's order, purchase agreement or other instrument executed prior to or contemporaneously with this instrument, the terms and provisions of this Addendum shall be controlling.

7. The undersigned PURCHASER hereby appoints DEALER as my/our attorney-in-fact for me/us to act in my/our name in any way which I/we could act for myself/ ourselves, pursuant to Chapter 32A of the North Carolina General Statutes, as if personally present for the limited purpose of executing such documents as may be necessary to void any transaction between me/us and DEALER in the event that FINANCE SOURCE declines to approve PURCHASER's application for credit or for any other purpose necessary to void the subject transaction if required by the circumstances.

WITNESS OUR HANDS AND SEALS on the date(s) written below.

PURCHASER'S SIGNATURE __________ **DATE** 04/26/2021

PURCHASER'S SIGNATURE __________ **DATE** N/A

DEALERSHIP AUTHORIZED REPRESENTATIVE __________ **DATE** 04/26/2021

I, __________, a Notary Public do hereby certify that the above personally appeared before me this day and acknowledged their due execution of the foregoing instrument for the purposes therein expressed.

Witness my hand and official seal this the ______ day of ______, 20___.

NOTARY PUBLIC __________ **(SEAL)**

MY COMMISSION EXPIRES:

KEFF5-CDA (3/2021)

Customer Copy

CUSTOMER NOTICE: All Items Due You Or To Be Repaired In Connection With Your Vehicle Purchase Are To Be Listed Below. This Notice Must Be Presented To Service Dept. At Time Work Is Performed.

WE OWE

NAME FRANCIS JOSEPH FARINA STK.NO. M16039X NEW X USED N/A

ADDRESS 203 HOBBS ST YEAR 2021 MAKE MAZDA

CITY DAVIDSON NC ZIP 28036 MODEL MAZDA6

PHONE (704)997-5215 SERIAL NO. JM1GL1TY8M1605719

SALESMAN DAVID BOEHM DEL.DATE 04/26/2021

QTY	NAME OF ITEM	PART	LABOR

No verbal promises or representations have been made except__________.
I hereby accept the WE OWE with the understanding that it is valid for only (30) THIRTY DAYS FROM DATE OF ISSUANCE, and that I must take an ADVANCE APPOINTMENT WITH THE SERVICE DEPARTMENT before the above work can be performed.

(FOR APPOINTMENT CALL SERVICE DEPT.)

YOU OWE

YOU OWE	DATE	TIME	YOU OWE	DATE	TIME
1) Title to Trade In Vehicle			4) Other		
2) All Monies			5) Other		
3) Valid Insurance Card			6) Other		

I hereby agree to provide such items in a timely manner

DATE 04/26/2021

CUSTOMER [signature] APPROVED [signature]

Customer Copy

EXHIBIT 2

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
SOUTHERN DIVISION – SANTA ANA

Gary Guthrie, Stephanie Crain, Chad Hinton, Julio Zelaya, Anna Gilinets, Marcy Knysz, and Lester Woo, on behalf of themselves and all others others similarly situated,	)	
Plaintiffs,	)	C.A. No.: 3:23-cv-00050-MOC-SCR
v.	)	
Mazda Motor of America, Inc.,	)	
Defendant.	)	

DECLARATION OF FRANCIS J. FARINA IN SUPPORT OF MOTION TO INTERVENE

I, Francis J. Farina, upon personal knowledge, information, and belief, and under penalty of perjury, declare as follows:

1. I am a Certified Public Accountant ("CPA".) I obtained my CPA license upon examination in January 1977 from the Commonwealth of Virginia, and subsequently received reciprocal CPA licenses from the Commonwealth of Pennsylvania (1987) and the State of North Carolina (2013.) All of my CPA licenses are current and in good standing. I am presently a fulltime member of the accounting faculty at Susquehanna University in Selinsgrove, Pennsylvania. I also hold licenses to practice law obtained by examination in the State of New York (1986) and in the Commonwealth of Pennsylvania (1988), both of which are current and in good standing. I am also the named class representative plaintiff in Farina v. Mazda Motor of America, Inc., et al., C.A. No.: 3:23-cv-00050-MOC-SR (the "Farina Action.")

2. Since January 2015, my permanent residence has been 203 Hobbs Street, Davidson, North Carolina. My wife and I are part-owners of a house located at 2400 Middle Ridge Road,

Newport, Pennsylvania ("Newport House.") The Newport House has been owned by her family since the mid-1960s.

3. In April 2021, I was offered a fulltime accounting faculty position at Susquehanna University. The distance between our Davidson home and the Newport House is 465 miles; and the roundtrip commute between the Newport House and Selinsgrove is 65 miles. Thus, I determined that I needed to replace my 2001 Acura MDX with a new automobile. On April 26, 2021, I purchased a new 2021 Mazda6, VIN No. JM1GL1TY8M1605719 from Keffer Mazda ("Keffer"), which dealership is located 7.4 miles from my Davidson home.

Basis and Background for Filing of the Farina Action

4. On November 10, 2022, in anticipation of driving from Pennsylvania to North Carolina for Thanksgiving Break (during which time I planned to have a regular oil maintenance performed on my car), I checked the oil in the Mazda6 and noted that it was down one (1) quart of oil. I added a quart of oil. The loss of oil had not caused illumination of any warning light in my car. At that date, the odometer reading was 21,579.

5. On November 21, I took the Mazda6 to Keffer for scheduled service. I told the Keffer service representative that I had added a quart of oil the previous week and voiced my concern that a car less than two years old had consumed a quart of oil between services. The oil change was performed, the service representative told me that this was not unusual and that there was no leak. He otherwise said nothing about the oil consumption, nor did he inform me of any outstanding Technical Service Bulletins or other facts concerning an oil issue in certain 2021 Mazda cars (including mine.)

6. I subsequently brought this situation to the attention of my attorney, Joseph A. O'Keefe. After some research, we determined that other Mazda owners had experienced similar

issues; that the excess oil consumption put vehicle emissions systems at risk; and that the facts of the situation seemed similar to those in the Volkswagen diesel-gate litigation. Although there was a class action already pending in California concerning the oil issue, that action did not address emissions issues nor did it assert any claim concerning violation of the Clean Air Act ("CAA".) On January 28, 2023, a complaint was filed in North Carolina against Mazda Motor of America, Inc. ("Mazda") and Keffer (individually, and as a representative of other Mazda dealerships) on behalf of me and similarly situated Mazda owners. Venue was entirely appropriate in North Carolina pursuant to 28 U.S.C. § 1391(b)(2) because I live there, I bought the car there, and I have the car serviced there. Because the CAA required a statutory sixty (60) day notice to the defendants, the Environmental Protection Agency, and the North Carolina Department of Environmental Quality, the CAA claim was not asserted at that time. However, a footnote was set forth in the complaint stating that it was my intention to amend the complaint to add the CAA claim.

7. On April 7, 2023, after the 60 day notice period expired, leave was sought to file a First Amended Complaint ("Farina FAC") to include the CAA claim. Defendants opposed that amendment, but the North Carolina promptly granted the motion to amend.

8. I affirmatively state that I have never objected to a class action settlement, within the past five (5) years or otherwise.

9. Contrary to direct representations and insinuations made to this Court and to the North Carolina Court, I affirmatively deny that I purchased my 2001 Mazda6 with knowledge of any defect causing excessive oil usage, or with the intention of suing Mazda or Keffer.

Pertinence of Mazda's Publicly Filed Annual Reports To The Farina Claims

10. Attached to this Declaration and described in greater detail herein are the following:

Exhibit A - Annual Report 2021 of Mazda Motor Corporation for the fiscal year ended March 31, 2021.

Exhibit B – Financial Report 2022 of Mazda Motor Corporation for the fiscal year ended March 31, 2022.
Exhibit C – Financial Report 2023 of Mazda Motor Corporation for the fiscal year ended March 31, 2023.

These documents will be referred to herein individually or collectively as the "Mazda Audited Financial Statements" or "MAFS."

11. Each of these MAFS was downloaded by me by accessing the website of Mazda USA, specifically http://www.mazdausa.com/resource-center and clicking on the 'Global' link, which directed me to https://mazda.com/en/investors/library/f-report.

12. Each of these MAFS contains the consolidated financial statements of Mazda Motor Corporation ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group" and includes Mazda Motor of North America ("MMNA" or "Mazda USA") for the respective year ended March 31, and are each comprised of a consolidated balance sheet as of the year ended March 31; the consolidated statements of operations, comprehensive income, changes in net assets and cash flows for the year ended March 31; and Notes to the Consolidated Financial Statements ("Notes"), comprising a summary of significant accounting policies and other explanatory information.

13. The Notes in each of the MAFS for 2021 through 2023 state that the consolidated financial statements include the Company and the companies over which the Company has power of control. See Exhibit A at p. 25; Exhibit B at 20; Exhibit C at 42. The Notes also set forth Segment Information, noting that MMNA is a Reportable Segment for which separate financial statements are available. See 2023 MAFS at 66-67; 2022 MAFS at 43-44; 2021 MAFS at 47-48.

14. Each of the MAFS include the Independent Auditor's Report of KPMG AZSA LLC ("KPMG.") As stated in each of KPMG's Independent Auditor's Reports:

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

See Exhibit A at 55; Exhibit B at 49; Exhibit C at 71.

15. In each of its Independent Auditor's Reports for the years 2021, 2022 and 2023, KPMG includes paragraphs describing its responsibilities for the audit of the consolidated financial statements; the basis for the opinion it is issuing; and its Opinion. In each of the three years, KPMG concluded that the Company's "consolidated financial statements present fairly, in all material respects, the consolidated position of the Group as of March 31, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan. See Exhibit A at 52; Exhibit B at 47; Exhibit C at 71.

16. Each of KPMG's Independent Auditor's Reports is dated. This "sign-off" date is not the 'as of' date of each MAFS, but instead is the date on which KPMG 'substantially completed' its work on the respective March 31 yearend audit. That is, the balances set forth in the MAFS are as of the year ended March 31, even though the final numbers may have been subject of analysis and adjustment up until the completion of the respective audit. These sign-off/completion dates are as follows:

2021 MAFS - August 5, 2021	See Exhibit A at 57.
2022 MAFS – August 10, 2022	See Exhibit B at 55.
2023 MAFS – July 28, 2023	See Exhibit C at 73.

17. In each of its Independent Auditor's Reports for the years 2012, 2022 and 2023, KPMG describes "Key Audit Matters:"

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

18. One of the Key Audit Matters addressed by KPMG in its audit of the 2021 MAFS was "Assessment of the appropriateness of management's estimation of the expected reimbursement rate used to calculate a reserve for warranty expenses related to recall-related repair costs at Mazda Motor Corporation." See 2021 MAFS at 54-55, Exhibit A hereto. Specifically, the key audit matter is the Group's recognition of a reserve for warranty expenses of Y80,504 million ($ 725,261,000.) KPMG sets forth the extensive procedures it conducted to assess the appropriateness of management's expected reimbursement from suppliers. Id.

19. One of the Key Audit Matters addressed by KPMG in the 2023 MAFS was "Reasonableness of management's estimates of the reserve for warranty expenses related to recall and other repair costs at the Company." See 2023 MAFS at 69-70, Exhibit C hereto. Specifically, the key audit matter is a reserve for warranty expenses of Y85,647 million ($ 639,157,000) recorded in the Group's consolidated balance sheet as of March 31, 2023, which included expenses expected to be incurred in the future related to recalls and other repairs. KPMG sets forth the extensive procedures it conducted to assess the appropriateness of management's estimated reserve for warranty expense, including those over the assumptions of the numbers of vehicles covered under the warranty and the repair cost per vehicle. KPMG further stated that its "assessment of the reasonableness of the estimates of the reserve for warranty expenses related to recall and other

repair costs **was of most significance in our audit of the consolidated financial statements for the current fiscal year,** and accordingly, a key audit matter." 2023 MAFS at 70. (emphasis added.)

20. Under generally accepted accounting principles ("GAAP") in Japan, the USA, and everywhere else, accrual accounting is employed to 'match' periodic revenue and expenses. That is, revenues and expenses are not recognized on a cash basis, but instead are recognized by using accruals and deferrals so as to match expenses incurred (but not necessarily paid) with sales/revenues associated with the vehicles needing repair in the period in which the sales are made. For purposes of this Declaration, and specifically in the context of the vehicle warranty obligations which are at issue in this litigation, the GAAP objective is to match all anticipated warranty claims for vehicles sold to the revenues recognized in the same year in which the vehicles are actually sold, or in a subsequent year when it is possible to estimate the costs of such claims.

21. The warranty expense amount goes to the current income statement as expense; and a current liability account entitled Reserve for Warranty Expenses is credited (increased) by the same amount. When warranty claims are actually incurred and paid on vehicles under a warranty, the payments are not charged to current expense but instead are debited against the previously estimated warranty liability account (reducing it, since liabilities are credit balances.) Since estimates aren't perfect and in light of new data, adjustments may be needed if the original estimates are too low. This is one reason why auditors always look closely at the way in which management arrives at warranty expense estimates (as KPMG did in 2021 and again in 2023.)

22. The Company sets forth its Reserve for Warranty Expense in the Selling, General and Administrative Expenses footnote in its audited financial statements, as follows (in US dollars):

2020:	472,661,000	2021 MAFS at 41.
2021:	299,369,000	2021 MAFS at 41.
2022:	216,918,000	2022 MAFS at 37.
2023:	428,724,000	2023 MAFS at 59.

23. At the same time, the Company's balance sheet sets forth the yearend liability Reserve for Warranty Expenses as follows (in US dollars):

2020:	799,706,000	2021 MAFS at 19.
2021:	725,261,000	2021 MAFS at 19.
2022:	543,123,000	2022 MAFS at 14.
2023:	639,157,000	2023 MAFS at 36.

24. In the 2021 MAFS, a disclosure was made in Note 3, Significant Accounting Estimates, of the way in which the Company computed the Reserve for Warranty Estimate:

> Other information that assists readers of consolidated financial statements in understanding the nature of the estimates: For after-sales service expenses of products, the Group estimates future repair costs to be incurred in accordance with the warranty booklet ("general warranty") and with the related laws and regulations such as recalls and service campaigns ("recall-related repair costs"), and records them in the reserve for product warranty expenses. The estimation also reflects the expected reimbursement amounts to be recovered from the supplier.
>
> Of the above, the reserve for general warranty is estimated by calculating the repair cost per vehicle for each major market based on historical data, and multiplying it by the number of vehicles covered under the warranty. The reserve for recall-related repair costs is estimated for each recall and service campaign. It is estimated by calculating the repair cost per vehicle, which includes parts costs and labor costs, and multiplying it by the estimated number of vehicles subject to each recall and service campaign. With regard to the expected reimbursement amounts to be recovered from the supplier, based upon the analysis of the cause of defects, the expected reimbursement rate is determined considering technical responsibility, the suppliers' payment ability, and the status of negotiations with suppliers. Therefore, if the actual reimbursement rate in the future is different from the reimbursement rate used for the estimation, additional recognition or reversal for warranty expenses may be required. 2021 MAFS at 29.

As noted in paragraph 18 above, this 2021 disclosure coincided with a determination by KPMG that "*Assessment of the appropriateness of management's estimation of the expected reimbursement rate to calculate a reserve for warranty expenses related to recall-related repair costs at Mazda Motor Corporation*" was a so-called Key Audit Matter.

25. In the 2022 MAFS, the following disclosure was made in Note 2

RESERVE FOR WARRANTY EXPENSES

Reserve for warranty expenses provides for the after-sales expenses of products (vehicles). In accordance with the coverage of the warranty booklet and relevant laws and regulations, the amount is estimated per product warranty provisions and actual costs incurred in the past, taking future prospects and expected reimbursements into consideration. 2022 MAFS at 22.

26. In the 2023 MAFS, the following disclosure was made in Note 3, Significant Accounting Estimates:

RESERVE FOR WARRANTY EXPENSES

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

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

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

2023 MAFS at 45.

27. As noted in paragraph 19 above, this 2023 disclosure coincided with a determination by KPMG that "assessment of the reasonableness of the estimates of the reserve for warranty expenses related to recall and other repair costs **was of most significance in our audit of the consolidated financial statements for the current fiscal year,** and accordingly, a key audit matter." 2023 MAFS at 70. (**emphasis added**.)

28. In addition to the Reserve for Warranty Expenses, Note 2 in the 2023 MAFS, Summary of Significant Accounting Policies states that a Provision Related to Environmental Regulations "provides for estimated costs of complying with environmental regulations at the end of the fiscal year." There is no discussion of this provision in Note 3, Significant Accounting Estimates footnote, nor did KPMG mention it as a Key Audit Risk. **However, the Provision related to environmental regulations amount of this Reserve set forth in the Selling, General and Administrative Expenses footnote is $102,925,000**. (2023 MAFS at 59.) There was no comparable provision in any prior year, indicating that this reserve – which was made after the filing of the Farina Action Amended Complaint, and 30 days after the North Carolina Court stayed the Farina Action - is most likely related to the Clean Air Act claim set forth in the Farina Action.

I declare under penalty of perjury pursuant to 28 U.S. Code § 1746 that the foregoing is true and correct.

Executed at Selinsgrove, Pennsylvania this 20th day of March 2024.

Francis J. Farina, Esq., CPA

EXHIBIT A

To the

DECLARATION OF FRANCIS J. FARINA

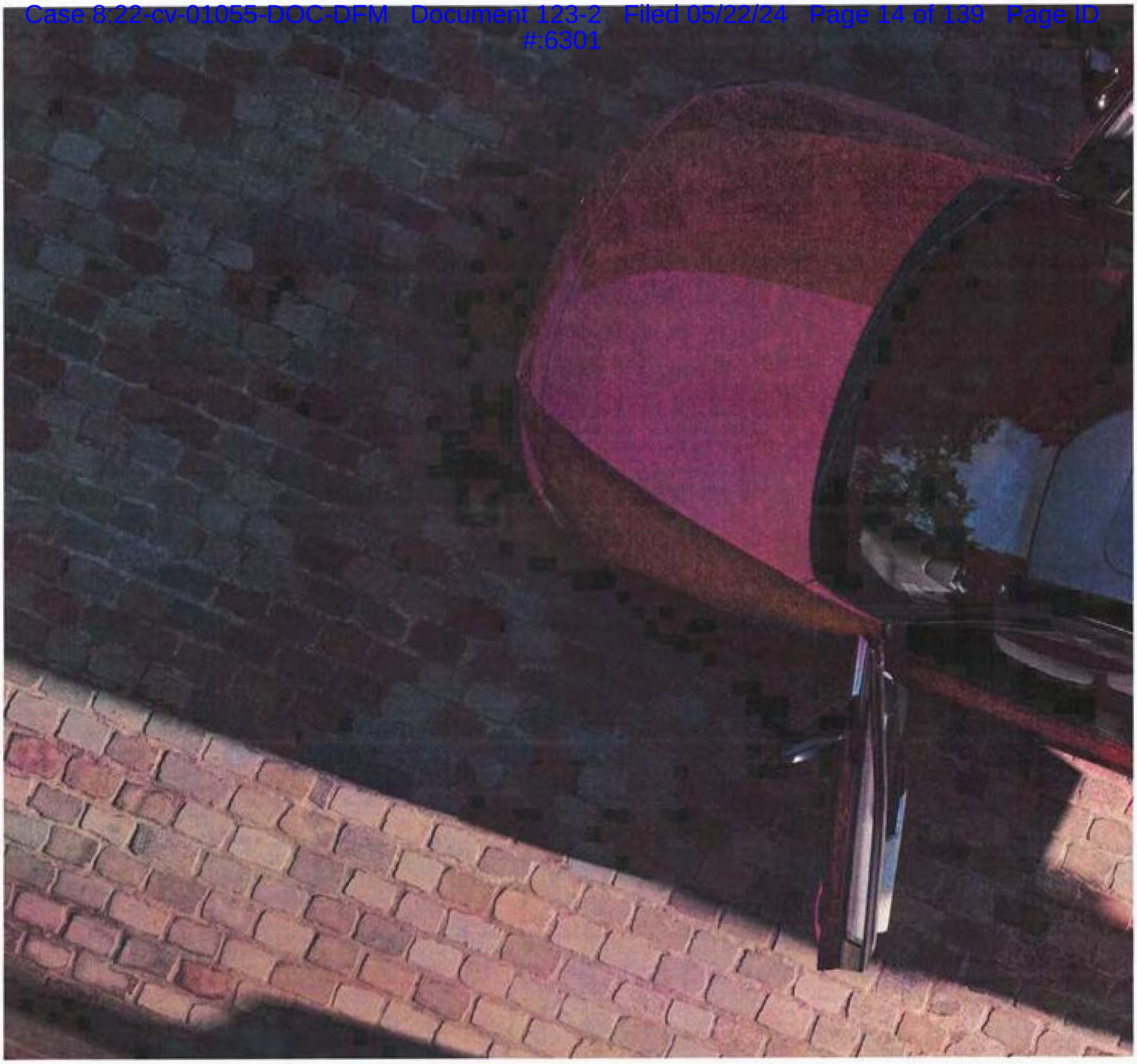
IN SUPPORT OF MOTION TO INTERVENE

MAZDA ANNUAL REPORT 2021

YEAR ENDED MARCH 31, 2021

ANNUAL REPORT 2021

YEAR ENDED MARCH 31, 2021



CORPORATE VISION

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

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

CONTENTS

MESSAGE FROM THE PRESIDENT AND CEO

Akira Marumoto
Representative Director, President and CEO

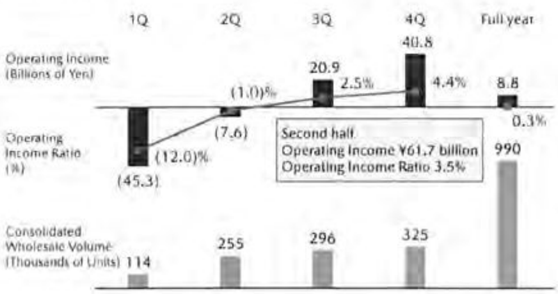
Coexistence of Earth, Society, and People through Cars

As set out in our Corporate Vision, Mazda aims for the coexistence of earth, society, and people through cars. We aspire to protect our beautiful planet, create a society that offers safety and peace of mind, and through cars provide social value to all in the form of health, convenience, and vibrant daily lives. To achieve this goal, we will continue taking on the challenge of creating value unique to Mazda, with a focus on "co-creation of uniqueness with others."

1 Fiscal Year Ended March 2021 Initiatives

Reinforcement of Business Structure by Accelerating Structural Reforms and Steadily Making Improvements

Fiscal Year Ended March 2021 Performance by Quarter



In the fiscal year ended March 2021, the business environment was uncertain due to the unprecedented spread of COVID-19. As such, we were unable to formulate full-year targets at the beginning of the fiscal year and announced our full-year forecast as an operating loss of ¥40.0 billion in July 2020.

To overcome this crisis, we further accelerated the cross-functional structural reforms that we have been promoting thus far, and will continue to do so. In all regions and all domains, we have been endeavoring to increase work efficiency and optimize our fixed costs through measures against structural issues that extend beyond individual divisions. In addition, by improving variable profits through initiatives including continuous control of sales incentives, we have striven to lower the break-even volume.

Consequently, results for the fiscal year ended March 2021 vastly exceeded our forecast announced in July, and we were able to achieve ¥8.8 billion in operating income. In terms of quarterly trends, operating income recovered to ¥61.7 billion and the operating income ratio rose to 3.5% in the second half. The operating income ratio increased to 4.4% in the fourth quarter as the company's earning power has improved.

While securing liquidity on hand due to emergency procurement of funds during the crisis, free cash flow, which was negative during the previous fiscal year, recovered to a positive ¥41.2 billion. Furthermore, the equity ratio stood at 41% thanks to a strengthened balance sheet.

2 Forecast for Fiscal Year Ending March 2022

Bolstering of Initiatives to Maximize Profits

In the fiscal year ending March 2022, operating income is expected to reach ¥65.0 billion and net income attributable to owners of the parent is predicted to come to ¥35.0 billion. Due to factors such as the emergence of the Delta variant, COVID-19 is yet to be brought under control around the world and infections are spreading in emerging nations, such as in Southeast Asia. The outlook also remains uncertain in regard to the shortage of semiconductors as well as increasing raw material prices.

Based on these issues, while taking into account assumed risks, we set our target for operating income at ¥65.0 billion. To ensure we achieve this target, we are enacting various responses group-wide with the aim of minimizing the potential impact of said risks. As production is expected to be unstable due to a shortage in the supply of semiconductors, we are carrying out rapid and flexible production and efficiently utilizing global inventories while monitoring the production, sales, and inventory levels in key countries of operation on a weekly basis. For example, Mazda is striving to maximize sales volume and profit by prioritizing the supply of products to markets experiencing strong demand due to economic recovery, such as the U.S. We will also continue to improve variable profit through efforts to reduce costs and optimize fixed costs, with a view to continue lowering the break-even volume.

For the fiscal year ended March 2021, we forwent a dividend payout after giving full consideration to the company's financial results for the fiscal year and its financial position. For the fiscal year ending March 2022, we plan to pay a full-year dividend of ¥15 per share.

3 Medium-Term Management Plan Revision

Partial Revision of Policies and Initiatives as a Response to Changes in the Business Environment

We are promoting our Medium-Term Management Plan, which places "co-creation of uniqueness with others" in our Management Policy. In view of the changes in the business environment due to factors such as the impact of the COVID-19 crisis, the tightening and acceleration of environmental regulations, and the race to create new value in the CASE* era, we have extended the plan by one year, to the fiscal year ending March 2026, while maintaining key management targets. In addition, we have set a new target to lower our break-even volume to under one million units with the aim of transitioning to a lean management structure capable of overcoming crises.

* CASE: an acronym used to designate the new technologies of Connected technology, Autonomous driving technology, Shared services, and Electrification technology.

In response to the major changes of the era, we will begin to invest in new domains, especially in response to CASE, particularly regarding the acceleration and expansion of electrification and the transition to carbon neutrality.

Medium-Term Management Plan Revision —Policies and Initiatives

(Underlined parts represent revisions or enhanced initiatives)

1. Investment for raising brand value
   — Investment in unique product, technology, production, and customer experience—
   - Continue investment with further efficiency and leveling
   - Staggered launch of new products/derivatives
   - Continued product upgrades
2. Curbing of expenses that depreciate brand value
3. Acceleration of fixed cost/cost reductions to lower break-even volume
4. Investment in areas where we need to catch up and commencement of investment in new areas
5. Strengthening of alliances (CASE, new partnerships)

4 Initiatives for Carbon Neutrality

Endeavor to Achieve Carbon Neutrality by 2050

To protect the environment by preventing global warming, countries around the world have declared their intentions to achieve carbon neutrality by 2050. Mazda has done the same, announcing its endeavor to achieve carbon neutrality by 2050 in order to protect our beautiful planet. In countries around the world, the supply of renewable energy and electrification will be promoted in stages. Mazda provides multiple solutions, namely, offering various power unit choices that adapt to the power supply situation of each country and meet the needs of our customers. We are also striving to promote renewable liquid fuels and to transition to green factories and offices.

Since Mazda announced "Sustainable Zoom-Zoom," its long-term vision for technology development in 2007, the company has continued to carry out business activities with the aim of realizing a sustainable society. Since then, we have come to believe that what is essential for global environmental conservation is not only reducing CO_2 emissions from individual automobiles, but also doing so from both a well-to-wheel perspective, including fuel extraction, and from a life-cycle assessment (LCA) perspective, which includes the manufacturing, logistics, disposal, and recycling of vehicles. Toward 2050, we believe that, in order to conserve the global environment, it is essential to reduce CO_2 emissions by expanding our business perspective to include the entire life cycle of a vehicle and the entire supply chain. To this end, we will strive to collaborate and co-create with all of our stakeholders and related business partners to find the right solution for each region of operation and carry out the phased implementation thereof.

5 New Technology and Product Development Policy towards 2030

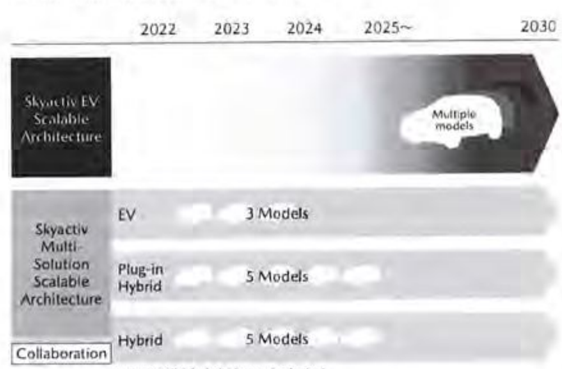
(1) Accumulation of technological assets in line with our Building Block Strategy and highly efficient manufacturing

The realization of a carbon-neutral society will be accompanied by the gradual proliferation of social infrastructure, including renewable energy supply and charging facilities, as environmental regulations tighten around the world.

Based on the timeline of this proliferation, Mazda has continued to consistently promote its Building Block Strategy by building up technological assets to meet the needs of its customers. We are currently at the stage of further enhancing our internal combustion engines and expanding electrification technologies. Going forward, we will introduce the "Skyactiv Multi-solution Scalable Architecture" products equipped with various electrification technologies. Based on the state of electric power generation infrastructure in our countries of operation, we will deliver multiple solutions, including electric vehicles (EVs), plug-in hybrids, and hybrids, to meet the various needs of our customers. In addition, Mazda will introduce its unique EV platform "Skyactiv EV Scalable Architecture" in 2025 and onwards suitable for EVs of various sizes and body types.

As a small player, Mazda is capable of responding with multiple solutions because it builds up processes as our assets that can efficiently develop and manufacture various products and technologies in a short-term period and with small investments through *Monotsukuri* Innovation, consisting of Bundled Planning, Common Architecture, and flexible production. Going forward we will continue to expand Model-Based Development, utilize AI, and promote the shift to digital transformation (DX) to evolve *Monotsukuri* Innovation. Together with our business partners and suppliers, we plan to steadily accumulate technological assets for the full-scale electrification era while promoting efficient manufacturing.

Future Plan for Electrified Products



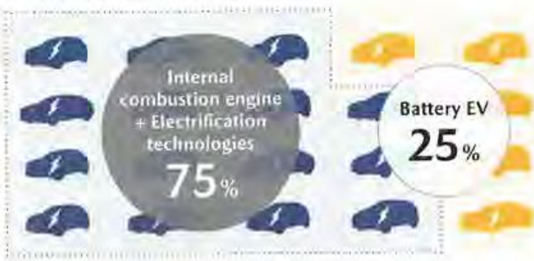
Note: Mild-hybrid is not included

(2) Promotion of electrification and introduction of products—Multi-solution strategy

The "Skyactiv Multi-solution Scalable Architecture" electrification products to be introduced mainly in Japan, Europe, the U.S., China, and the ASEAN region between 2022 and 2025 will consist of five hybrid models,[*1] five plug-in hybrid models, and three EV models. In addition, several products with "Skyactiv EV Scalable Architecture" will be introduced between 2025 and 2030.

Based on this product launch plan, Mazda assumes that all of its products will have some level of electrification, and its ratio of EVs will be 25% by 2030. Going forward, we will flexibly respond to various factors, including the tightening of environmental regulations around the world, the characteristics of each market, and the needs of our customers.

Globally 100% electrification in 2030
25% of total production consists of BEVs



(3) Promotion of human-oriented safety technologies to create an accident-free society

Under Mazda's unique safety philosophy, we contribute to reducing traffic accidents while gradually upgrading technology that supports drivers and provides a safe and secure driving environment in order to fully unlock people's driving potential.

The newly introduced advanced driving support technology Mazda Co-Pilot uses sensors to monitor the driver's condition at all times, detecting and alerting the driver to the most common causes of accidents, such as drowsiness and not keeping one's eyes on the road. Furthermore, in the case that a driver becomes unable to operate their vehicle, the system switches to autonomous driving, bringing the car to a safe place, stopping the car while alerting others, and then placing an emergency call in order to prevent a major traffic accident. We plan to introduce Mazda Co-Pilot 1.0, as a first step, starting from our Large Products from 2022.

(4) Development of technologies for connected services and software technologies as a foundation for next-generation mobility services

Mazda intends to fortify its development initiatives regarding fundamental software technologies in order to accommodate for next-generation mobility as a service (MaaS) and to update vehicle functions via over-the-air (OTA)[*2] programming. Five Japanese OEM companies,[*3] including Mazda, will jointly develop standard engineering specifications for next-generation, in-vehicle communication devices to bring forward the realization of a standardized communication system, in order to provide safer and stress-free connected services as soon as possible. Furthermore, we will move ahead with the development of next-generation electric/electronic architecture (EEA), which will enable the advanced processing of data from inside and outside vehicles.

*1 Excluding mild hybrid models, but including models equipped with Toyota Hybrid System (THS), supplied by Toyota

*2 The updating of software via wireless communication

*3 Mazda Motor Corporation, Suzuki Motor Corporation, Subaru Corporation, Daihatsu Motor Co., Ltd., and Toyota Motor Corporation

Furthermore, we plan to announce revisions to our Medium-Term Management Plan and a longer-term framework, including our business plan for realizing carbon neutrality at an appropriate time in the future.

Our lives and society have been drastically changed due to the COVID-19 crisis. No matter the era, Mazda will continue to be a company that aspires to protect our beautiful planet, create a society that offers safety and peace of mind, and through cars provide social value to all in the form of health, convenience, and vibrant daily lives. For this reason, we will continue to take on the challenge of enhancing long-term corporate value and striving for sustainable growth, while strengthening co-creation with all those connected to the company with a focus on co-creating our uniqueness with others.

With that in mind, I would like to ask our shareholders and investors for their continued support.

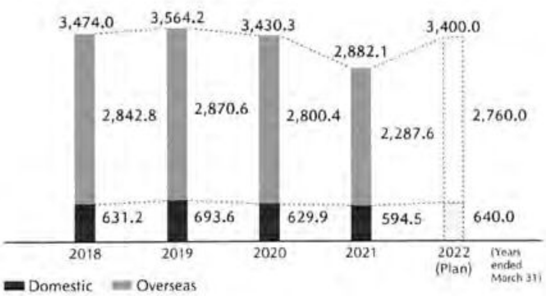
September 2021

A. Marumoto

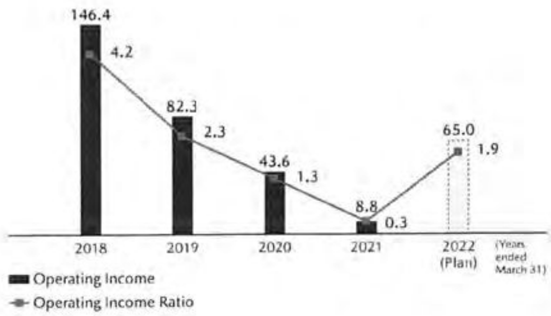
Akira Marumoto
Representative Director, President and CEO

FINANCIAL HIGHLIGHTS

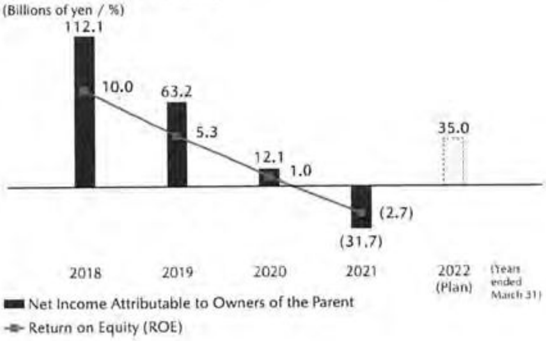
Net Sales
(Billions of yen)



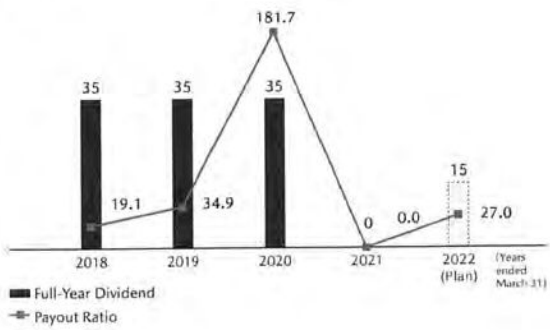
Operating Income / Operating Income Ratio
(Billions of yen / %)



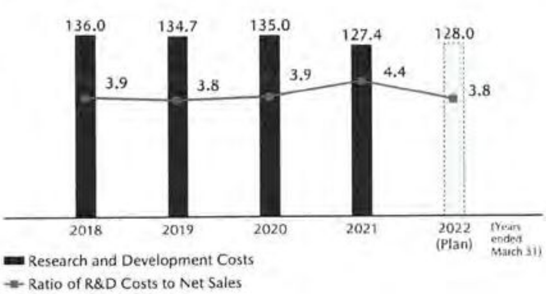
Net Income Attributable to Owners of the Parent / Return on Equity (ROE)
(Billions of yen / %)



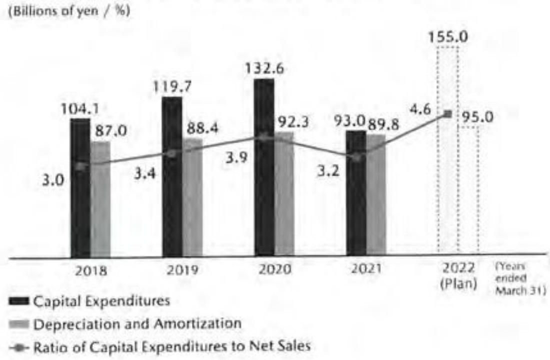
Full-Year Dividend / Payout Ratio
(Yen / %)



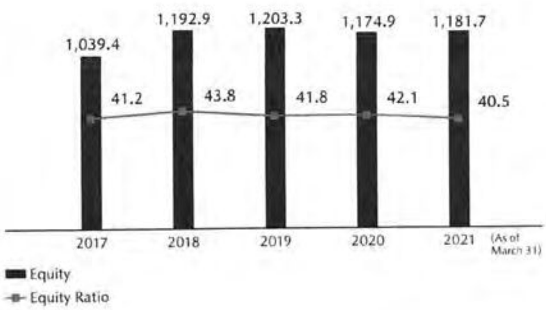
Research and Development Costs / Ratio of R&D Costs to Net Sales
(Billions of yen / %)



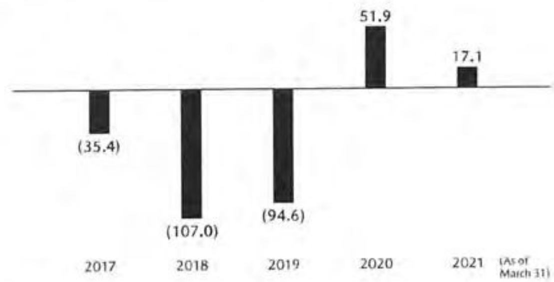
Capital Expenditures / Depreciation and Amortization / Ratio of Capital Expenditures to Net Sales
(Billions of yen / %)



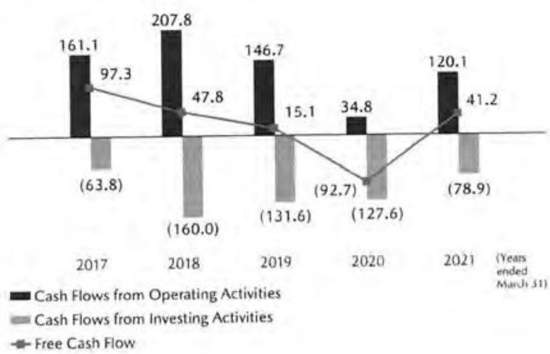
Equity / Equity Ratio
(Billions of yen / %)



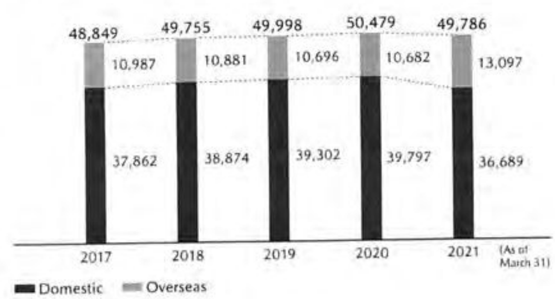
Net Interest-Bearing Debt
(Billions of yen)



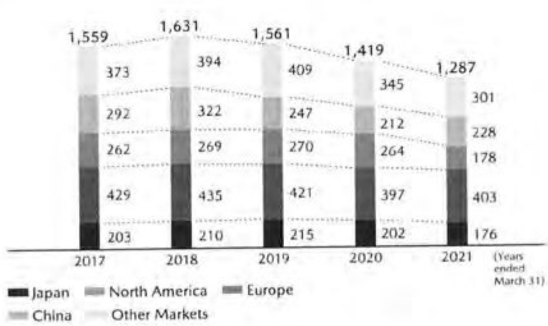
Cash Flows
(Billions of yen)



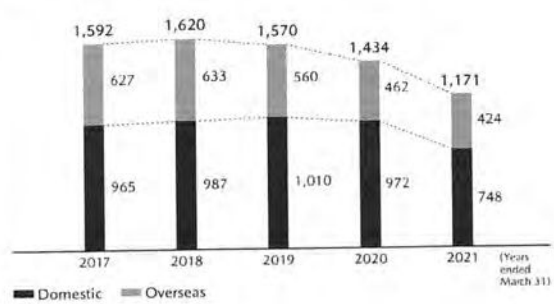
Number of employees
(People)



Global Sales Volume
(Thousands of units)



Global Production Volume
(Thousands of units)



ELEVEN-YEAR SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31

	2011	2012	2013	2014	2015
Business results*2 (Millions of yen):					
Net sales*3	¥2,325,689	¥2,033,058	¥2,205,270	¥2,692,238	¥3,033,899
Domestic	541,490	560,216	588,042	655,716	617,397
Overseas	1,784,199	1,472,842	1,617,228	2,036,522	2,416,502
Cost of sales	1,863,678	1,662,592	1,729,296	1,993,643	2,247,720
Selling, general and administrative expenses	438,176	409,184	422,038	516,474	583,291
Operating income/(loss)	23,835	(38,718)	53,936	182,121	202,888
Income/(loss) before income taxes	16,081	(55,262)	39,101	97,409	209,335
Net income/(loss) attributable to owners of the parent	(60,042)	(107,733)	34,304	135,699	158,808
Capital expenditures*4	44,722	78,040	77,190	133,216	131,010
Depreciation and amortization	71,576	68,791	59,954	57,656	68,872
Research and development costs	90,961	91,716	89,930	99,363	108,378
Cash flows:					
Operating cash flows	15,344	(9,098)	49,033	136,379	204,459
Investing cash flows	(13,717)	(70,317)	(40,287)	(120,057)	(95,548)
Free cash flow*5	1,627	(79,415)	8,746	16,322	108,911
Financing cash flows	(14,360)	236,462	(57,181)	10,483	(62,776)
Financial position (Millions of yen):					
Total assets	¥1,771,767	¥1,915,943	¥1,978,567	¥2,246,036	¥2,473,287
Net assets	430,539	474,429	513,226	676,837	891,326
Interest-bearing debt	693,000	778,085	718,983	742,735	701,019
Net interest-bearing debt	370,151	300,778	274,108	262,981	171,871
Amounts per share of common stock (Yen):					
Net income/(loss)*6	¥ (33.92)	¥ (57.80)	¥ 11.48	¥ 226.99*10	¥ 265.64*10
Cash dividends applicable to the year*7	—	—	—	1.00	10.00
Net assets*8	242.24	156.85	166.04	1,105.21*10	1,454.61*10
Financial indicators (%):					
Operating income ratio	1.0%	(1.9)%	2.4%	6.8%	6.7%
Return on equity (ROE)*9	(12.8)	(24.0)	7.1	23.5	20.8
Equity ratio*9	24.2	24.5	25.1	29.4	35.2
Average number of shares outstanding (in thousands)	1,770,198	1,863,949	2,989,171	597,829*10	597,823*10
Number of employees (people)	38,117	37,617	37,745	40,892	44,035

* 1 The translation of Japanese yen into U.S. dollars is presented solely for the convenience of readers outside of Japan, using the prevailing exchange rate on March 31, 2021, of ¥111 to US$1.
2 Results information for the fiscal year March 2011 includes 15-month results for certain overseas subsidiaries that changed their fiscal year-end.
3 Net sales are categorized by the regions based on the customers' locations.
4 Capital expenditures are calculated on an accrual basis.
5 Free cash flow represents the sum of net cash flows from operating activities and investing activities.
6 The calculations of net income/(loss) per share of common stock are based on the average number of shares outstanding during each fiscal year.
7 Cash dividends per share represent actual amounts applicable to each fiscal year.
8 The amounts of net assets used in the calculation of net assets per share exclude non-controlling interests (and, from the fiscal year March 2011 to the fiscal year March 2013 and from the fiscal year March 2017 to the fiscal year March 2021, stock acquisition rights).

2016	2017	2018	2019[12]	2020	2021	2021
						Thousands of U.S. dollars[1]
¥3,406,603	¥3,214,363	¥3,474,024	¥3,564,172	¥3,430,285	**¥2,882,066**	**$25,964,559**
660,935	587,025	631,229	693,581	629,911	**594,490**	**5,355,766**
2,745,668	2,627,338	2,842,795	2,870,591	2,800,374	**2,287,576**	**20,608,793**
2,567,465	2,448,184	2,653,600	2,772,184	2,683,647	**2,268,422**	**20,436,234**
612,363	640,492	674,003	709,681	703,035	**604,824**	**5,448,865**
226,775	125,687	146,421	82,307	43,603	**8,820**	**79,459**
166,986	128,413	157,484	107,567	49,282	**2,202**	**19,838**
134,419	93,780	112,057	63,155	12,131	**(31,651)**	**(285,144)**
89,214	94,399	104,129	119,734	132,578	**92,972**	**837,586**
78,972	82,416	86,954	88,443	92,269	**89,765**	**808,694**
116,610	126,915	136,009	134,660	135,009	**127,432**	**1,148,036**
262,770	161,097	207,795	146,690	34,834	**120,058**	**1,081,603**
(108,092)	(63,751)	(159,989)	(131,611)	(127,578)	**(78,862)**	**(710,468)**
154,678	97,346	47,806	15,079	(92,744)	**41,196**	**371,135**
(94,062)	(149,898)	30,461	83,411	(24,274)	**99,348**	**895,027**
¥2,548,401	¥2,524,552	¥2,724,092[11]	¥2,877,613	¥2,787,640	**¥2,917,414**	**$26,283,009**
976,723	1,064,038	1,219,470	1,233,441	1,205,846	**1,195,830**	**10,773,243**
617,132	491,434	497,893	607,051	619,868	**755,928**	**6,810,162**
48,418	(35,430)	(106,961)	(94,573)	51,874	**17,135**	**154,369**
						U.S. dollars[1]
¥ 224.85	¥ 156.87	¥ 182.93	¥ 100.28	¥ 19.26	**¥ (50.26)**	**$ (0.45)**
30.00	35.00	35.00	35.00	35.00	**—**	**—**
1,595.83	1,738.70	1,894.29	1,910.67	1,865.63	**1,876.40**	**16.90**
6.7%	3.9%	4.2%	2.3%	1.3%	**0.3%**	
14.7	9.4	10.0	5.3	1.0	**(2.7)**	
37.4	41.2	43.8[11]	41.8	42.1	**40.5[13]**	
597,819	597,816	612,554	629,757	629,781	**629,786**	
46,398	48,849	49,755	49,998	50,479	**49,786**	

9 The amounts of equity exclude non-controlling interests (and, from the fiscal year March 2011 to the fiscal year March 2013 and from the fiscal year March 2017 to the fiscal year March 2021, stock acquisition rights).

10 A share consolidation was implemented on common stock with a ratio of five shares to one share on August 1, 2014. Average number of shares outstanding, net income per share, and net assets per share are calculated based on the assumption that consolidation of shares had been carried out at the beginning of the fiscal year March 2014.

11 The Company has adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" from the beginning of the fiscal year March 2019. The figures for the fiscal year March 2018 were adjusted retrospectively in accordance with this change.

12 The consolidated foreign subsidiaries that apply U.S. GAAP adopted ASU 2014-09 from the beginning of the fiscal year March 2020. The figures for the fiscal year March 2019 were adjusted retrospectively in accordance with this change.

13 Percentage after consideration of the equity credit attributes of the subordinated loan is 41.7%.

BUSINESS ENVIRONMENT AND ISSUES TO BE ADDRESSED

Medium-Term Management Plan Revision
(From Fiscal Year March 2020 to Fiscal Year March 2026)

The automobile industry is experiencing a once-in-a-century transformation. Therefore, it is imperative for the industry to undergo a transformation in various business areas such as product planning, development, manufacturing, sales, and customer care, including after-sales service, to enable it to respond to the era's requirements in the areas of CASE (Connected technology, Autonomous driving technology, Shared services, and Electrification technology). It is also imperative that we proceed with this transformation on a global scale and all at once. To make it through this transformation period and achieve sustainable growth, we must focus on Mazda's unique value of "co-creating with others." Based on this core policy of "co-creating with others," in November 2019, the Company announced its Medium-Term Management Plan, setting out the following three areas as management themes to be promoted.

- Investment in unique products and customer experience: investment for brand value improvement
- Curbing of expenses that depreciate brand value
- Investment in areas where we need to catch up: investment in infrastructure, partnerships, environment and, safety

Due to the global COVID-19 pandemic, various risks have materialized and the business environment has changed significantly since February 2020. Taking into account lessons learned during the conditions of the pandemic, the worldwide strengthening and acceleration of environmental regulations, and competition in new value creation in an era characterized by CASE, the Company made a partial revision to the Medium-Term Management Plan's policy and initiatives in November 2020.
For Mazda to remain sustainable in the future, capitalizing on our unique value of "co-creating with others" is essential. We remain committed to investing in future growth as well as in initiatives to respond to CASE by strengthening our alliances and investing in unique value.

Medium-Term Management Plan: Key Initiatives
The Company made revisions to its policy and initiatives in the following five areas.
(Underlined parts represent revisions or enhanced initiatives.)

- Investment for raising brand value
  —Investment in unique product, technology, production, and customer experience—
  - Continue investment with further efficiency and leveling
  - Staggered launch of new products/derivatives
  - Continued product upgrades
- Curbing of expenses that depreciate brand value
- Acceleration of fixed cost/cost reductions to lower break-even volume
- Investment in areas where we need to catch up and commencement of investment in new areas
- Strengthening of alliances (CASE, new partnerships)

In the two years of the foundation-building period of the Medium-Term Management Plan, we will complete preparations in all areas to enable significant growth in the future. These preparations include basic hardware development in technology and product areas, flexible and mixed-model production facilities to efficiently produce a wide range of products and technologies, the opening of new-generation stores in various markets, and the enhancement of sales finance as well as the establishment of an efficient supply chain.
Our priority initiatives in 2022 and onward are as follows.

Priority Initiatives from 2022 Onward

1. Invest for raising brand value —Investment in unique products, technology and customer experience—

Products/ technology	Efficient development, enhanced actions to meet environmental regulations and new value creation engineering
Production	Efficient production, decarbonization, and new value creation in all plants
Japan	Pursue stable business growth while maintaining quantity and improving quality
U.S.	As the most important market, aim to build a robust profit base
Europe	Continue to enhance "chosen for its uniqueness" brand value and achieve qualitative growth
China	Aim to make China our most important market

2. Curb expenses that depreciate brand value

Variable marketing expenses	Increase customer base by enhancing the current value-based sales
Supply chain	Achieve cash flow and revenue growth by improving inventory volume and turnover
Quality	Based on continuous improvement activities, accelerate quality initiatives of new vehicles with high complexity and integrated control

3. Accelerate fixed cost/cost reductions to lower break-even volume

Overseas plants	Maximum utilization of assets for more flexible production structure
Advertising expenses	Shift to marketing appropriate for the times, more local approach for new customers
Cost reduction	Process innovation for CASE technology development/ procurement and higher cost competitiveness in overseas plants

4. Invest in areas where we need to catch up and start investing in new areas

IT	Investment for IT and decarbonized society for CASE era
Work environment	Support both diversified work styles and efficiency and invest in work environment/people/social contribution

5. Strengthen alliances (CASE, new partnership)

Alliances	Balance between "selection and focus" and "unique business and partnership" to increase brand value and expand business

While striving to realize strong growth by capitalizing on the assets we build during the foundation-building period, we will shift the quality of our investments to enhance electrification, make our plants and offices carbon neutral, focus IT investment in CASE technologies, and invest in people to maximize employee performance.

Medium-Term Management Plan: Financial Metrics

Based on revisions due to the impact of the pandemic, the Company decided to postpone the time line for achieving the Medium-Term Management Plan targets by one year to fiscal year March 2026. Key financial metrics are as follows. The break-even volume was added at the time of revision and is set at one million units of consolidated wholesale volume. The Company is currently moving ahead with initiatives to achieve its targets.

Net sales	• About ¥4.5 trillion
Profitability	• Operating income ratio: 5% or higher • Return on equity: 10% or higher
Investment for the future	• Capital investment and R&D investment: 7%–8% of net sales or lower • Actions for electrification, IT, and carbon neutrality
Financial structure	• Maintenance of net cash position
Shareholder returns	• Sustainable payout ratio at 30% or higher
Sales volume	• About 1.8 million units
Break-even volume	• About 1 million units (wholesale)

Initiatives for Achieving Carbon Neutrality

We are directing our efforts toward initiatives for achieving carbon neutrality as our most important challenge for achieving the targets of our Medium-Term Management Plan and fulfilling our social responsibilities.

At the technical briefing held in October 2018, we stated that it was important to offer multiple solutions for electrification*1 to reduce CO_2 from a well-to-wheel (from fuel extraction to driving) perspective in line with each country's power supply conditions, usage environment, and customer diversity and demands. With this viewpoint in mind, we announced our intentions to develop electrification technologies in stages under our Building Block Strategy*2 and to electrify all vehicles Mazda produces by 2030. Following our plans to roll out electrification technologies, we introduced the Mazda MX-30 mild hybrid and EV (electric vehicle) models into the market in 2020.

In the revision of our Medium-Term Management Plan in November 2020, we announced that we would shift the quality of our investments to compete in value creation in the CASE era. To achieve net-zero CO_2 emissions during manufacturing processes, we will promote investments to make production plants and offices carbon neutral, and we will shift investments to the development of EV-exclusive platforms. Through such initiatives, we aim to achieve carbon neutrality from a perspective of the entire life cycle of our products.

Based on the revision of our Medium-Term Management Plan, we announced in February 2021 that we will endeavor to achieve carbon neutrality by 2050. Achieving automotive-related carbon neutrality requires efforts not only on the part of car makers but also across the entire supply chain. We will make efforts to promote carbon neutrality throughout the supply chain as we gain support for energy policies and the development, production, and spread of electrification.

We announced our Medium-Term Technology and Product Policy in June 2021. Based on the accumulation of technological assets in line with our Building Block Strategy and their utilization for highly efficient manufacturing, we continuously enhance our internal combustion engines and electrification technologies. By utilizing a platform that is compatible with various electrification technologies, we will introduce five hybrid models*3, five plug-in hybrid models, and three EV models, mainly into Japan, Europe, the U.S., China, and ASEAN by 2025. Furthermore, we are continuing to develop Mazda's unique EV platform for EVs with various vehicle sizes and body types, and plan to introduce several models between 2025 and 2030. Through these initiatives, we assume that 100% of our products will have some level of electrification, and our EV ratio will be 25% by 2030.

*1 A strategy to develop internal combustion engines and electrification technology in the right places, taking into account CO_2 reductions under real-world conditions, the suitability of power sources for vehicles, and each region's energy situation and power generation mix.

*2 Mazda's technology strategy to provide multiple solutions by first improving base technologies that provide vehicles' basic performance, such as the engine, transmission, body, and chassis (Skyactiv Technology), and then adding electric devices such as an idling stop system, regenerative braking system, and hybrid system.

*3 Excluding mild hybrid models, but including models equipped with the Toyota Hybrid System (THS) supplied from Toyota Motor Corporation.

BUSINESS RESULTS, FINANCIAL POSITION, AND CASH FLOWS

Review of Operations for Fiscal Year March 2021

Operating Environment

With regard to the operating environment surrounding the Mazda Group in fiscal year March 2021, we continued to face challenging situations, such as various countries implementing lockdowns and declaring states of emergencies, and the rapid worsening of the global economy due to the COVID-19 pandemic. Meanwhile, in the second half of the fiscal year, due to factors including the resumption of economic activities and economic stimulus programs by the governments of various countries, there were also signs of recovery in some countries, such as recovery in demand, particularly in the U.S.

Review of Operations

Under such an environment, we announced our Medium-Term Management Plan Revision in November 2020 in response to the significant changes in the business environment due to the spread of COVID-19. Based on what we have learned and reexamined during the COVID-19 pandemic and the tightening and acceleration of global environmental regulations, as well as the competition to create new value in the era of CASE, we have officially announced specific initiatives aimed at addressing structural issues. In the two-year period of creating a solid foundation leading up to fiscal year March 2022, we will complete preparations in all areas for the next stage of strong growth. Following this, we will move forward with our Medium-Term Management Plan to promote a shift in the quality of investment toward realizing electrification, improved IT, and carbon neutrality.

We introduced an EV model of our new compact SUV, the Mazda MX-30, to the European market in September 2020 as our third new-generation product. In the Japanese market, we launched sales of the mild hybrid model in October 2020, followed by the EV model in January 2021. The EV model of the MX-30 is Mazda's first mass-production EV, which was designed to help realize carbon neutrality by 2050. Additionally, with regard to our other products, we implemented updates to our flagship models, including the Mazda CX-3, Mazda3, Mazda CX-5, and the Mazda CX-8. With increased engine power and the introduction of the new-generation Mazda Connect system, these models offer advanced driving pleasure through enhanced driving performance and safety. Mazda aims to become a brand that creates special bonds with customers by inspiring people and to realize a beautiful planet and enrich people's lives as well as society through the joy of driving, the pure essence of cars.

Mazda's global sales were 1,287,000 units, down 9.3% year on year, due to a decline in sales in Japan, Europe, ASEAN, and other countries following the impact of the COVID-19 outbreak. Meanwhile, in markets where there were strong sales, such as the U.S. and Australia, sales overtook the recovery in demand and the sales volume was greater than that of the previous fiscal year.

Consolidated wholesale volumes decreased 19.7% from the previous fiscal year, to 990,000 units.

Review by Market

Japan

- Total demand in Japan decreased 8% year on year, to 4.66 million units, mainly due to the impact of COVID-19.
- Mazda's sales volume was down 13%, to 176,000 units, due to factors including the decline in total demand and intensifying competition caused by the launch of crossover SUVs by other companies. The market share also fell to 3.8%.
- Amid this harsh sales environment, there was steady improvement in the second half of the fiscal year due to favorable sales of Mazda's flagship crossover SUVs, the CX-5 and the CX-8, which received an update in December 2020.

North America

- Total demand in the United States declined 9% compared with the previous fiscal year, to 14.99 million units. In Canada, total demand was down 13%, to 1.59 million units, while total demand in Mexico fell 30%, to 0.91 million units.
- Mazda's sales volume in the North American market rose 2%, to 403,000 units. This was mainly due to favorable sales in the United States.
- Sales volume in the United States was up 7%, to 295,000. The market share rose 0.3 point, to 2.0%. There was a year-on-year increase in sales driven by the crossover SUVs, including the CX-5 and Mazda CX-9, as well as the newly-introduced Mazda CX-30, despite total demand falling compared with the previous fiscal year. In addition to high product appeal, the results of sales reforms that have been implemented over the years, including the optimization of trading areas, training of employees, and innovation of dealerships, have begun to show results.
- Sales volume in Canada fell 4%, to 62,000 units. Sales volume in Mexico fell 19%, to 46,000 units.

Europe

- Total demand in Europe decreased 15% year on year, to 16.05 million units. One of the reasons for this decrease was prolonged lockdowns following the spread of COVID-19.
- Mazda's sales volume was down 32%, to 178,000 units. The market share fell 0.3 point, to 1.1%. In addition to the impact of shrinking demand due to the COVID-19 pandemic, the shift in demand to EVs and plug-in hybrid cars, mainly in Germany, was another reason for the fall in sales.
- Amid this harsh sales environment, Mazda's first mass-production EV, the MX-30, launched in September 2020 and has steadily improved its recognition, with sales for the full year exceeding 10,000 units as planned. This contributed to a reduction in corporate average CO_2 emissions in Europe.

China

- Total demand in China increased 22% year on year, to 28.10 million units, due to a rapid recovery from the impact of COVID-19. Demand also recovered drastically in the SUV segment, which has been the growth driver in the passenger vehicle market, increasing by 26%.
- Mazda's sales volume rose 8% from the previous fiscal year, to 228,000 units. The market share fell slightly to 0.8%. Despite an increasingly harsh and competitive environment, including an increase in incentives by other companies, sales of crossover SUVs, such as the Mazda CX-4 and CX-5, as well as the CX-30, which was launched full scale in June 2020, achieved a year-on-year increase. The Mazda3 also maintained favorable sales.
- Additionally, Mazda is launching the EV model of the CX-30 exclusively to the Chinese market from fall 2021 in response to the tightening of environmental regulations in China.

Other Markets

- Mazda's sales volume in other markets, which include Australia and ASEAN, fell by 13% year on year, to 301,000 units.
- Mazda's sales volume in Australia experienced a slump in the first half of the fiscal year due to COVID-19, but made a recovery in the second half with a year-on-year increase of 3% to 93,000 units. The market share rose 1.0 point, to 9.8%. In particular, the newly-introduced CX-30 and CX-8 2.5L model contributed to this increase in sales.
- In the ASEAN market, total demand shrunk due to factors including the renewed spread of COVID-19 and restricted economic activities. Total sales volume for the ASEAN market fell 15% year on year to 87,000 units.
  - Mazda's sales volume for the full year in Thailand fell 23%, to 40,000 units, and the market share fell 0.4 points, to 5.1%. Sales in the second half of the fiscal year increased by 8% year on year, led by compact SUVs including the CX-30, but this increase was not enough to offset the decline in sales in the first half.
  - Mazda's sales volume for the full year in Vietnam rose 1% from the previous fiscal year, to 26,000 units. By proactively leveraging government economic stimulus measures, sales in the second half of the fiscal year increased by 34% year on year. This increase contributed to business growth for the full year, offsetting lower sales in the first half of the fiscal year.

Global Sales Volume (Thousands of units)	Fiscal Year March 2021			YoY		
	First half	Second half	Full year	First half	Second half	Full year
Japan	74	103	176	(25.0)%	(1.4)%	(12.9)%
North America	185	219	403	(8.8)%	+12.5 %	+1.6 %
Europe	82	97	178	(39.9)%	(24.1)%	(32.3)%
China	117	111	228	+7.0 %	+8.6 %	+7.8 %
Other Markets	121	180	301	(34.3)%	+12.1 %	(12.7)%
Total	578	709	1,287	(20.8)%	+3.0 %	(9.3)%

BUSINESS RESULTS, FINANCIAL POSITION, AND CASH FLOWS

Net Sales

Net sales totaled ¥2,882.1 billion, a decrease of ¥548.2 billion, or 16.0%, reflecting the decrease in wholesale volume during the first half of the fiscal year. By region, domestic sales amounted to ¥594.5 billion, a decrease of ¥35.4 billion, or 5.6% year on year, due to a drop in sales as a result of intensifying competition from other companies. Overseas sales saw a decline of ¥512.8 billion, or 18.3%, to ¥2,287.6 billion, mainly due to the decrease in wholesale volume in the European and ASEAN markets.

By product, vehicle sales were down ¥498.9 billion, or 17.6%, to ¥2,340.2 billion, mainly due to a fall in wholesales resulting from the impact of the COVID-19 pandemic, and sales of knock-down parts for overseas production declined by ¥14.7 billion, or 17.7%, to ¥68.1 billion. Sales of parts shrunk by ¥33.4 billion, or 12.7%, to ¥229.0 billion. Other sales fell ¥1.2 billion, or 0.5%, to ¥244.8 billion.

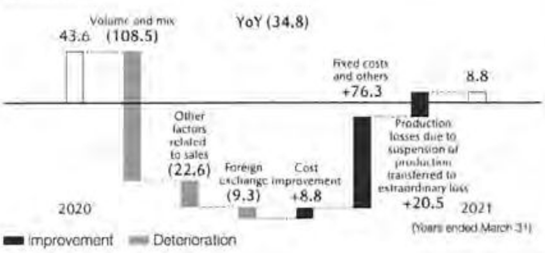
Operating Income

In the first half of the fiscal year, operating income declined ¥78.7 billion year on year, to a loss of ¥52.9 billion. This decline was mainly due to a fall in wholesales associated with the global outbreak of COVID-19. Meanwhile, as a result of Companywide focused and continuous efforts to lower the break-even sales volume through sales recovery, fixed cost control, and improvement of variable profit, we achieved a significant improvement in operating income in the second half of the fiscal year, which increased ¥43.9 billion year on year to ¥61.7 billion.

As a result, the operating income for the full year decreased by ¥34.8 billion, or 79.8%, to ¥8.8 billion, and the consolidated operating income ratio declined 1.0 percentage point, to 0.3%. Furthermore, regarding the lowering of break-even sales volume, we achieved just under 500,000 units in the second half of the fiscal year, making steady progress toward achieving our goal of one million units, as set out in our Medium-Term Management Plan.

Operating Income Change

(Billions of yen)



Ordinary Income and Net Income Attributable to Owners of the Parent

Ordinary income fell ¥24.8 billion, or 46.8%, to ¥28.3 billion, owing principally to the recording of ¥16.1 billion of foreign exchange gains and a ¥6.6 billion gain from equity in net income of affiliated companies. Net loss attributable to owners of the parent was ¥31.7 billion, compared with net income attributable to owners of the parent of ¥12.1 billion in the previous fiscal year, as a result of factors such as the recording of ¥20.5 billion in fixed and other costs during the suspension of production due to the impact of the COVID-19 pandemic as an extraordinary loss and tax expenses of ¥34.3 billion.

Capital Expenditures and R&D Costs

Capital expenditures (including intangible assets) totaled ¥93.0 billion. This included investments for future growth such as capital expenditures in new-generation products, environmental and safety technologies, and the reinforcement of the global production system.

By segment, capital expenditures totaled ¥64.2 billion in Japan and were mainly focused on new-generation products, environmental and safety technologies, and increased production capacity at the Hiroshima and Hofu plants. In North America, ¥24.9 billion was invested in projects such as the construction of a new plant in the United States. Capital expenditures in Europe totaled ¥2.1 billion, and totaled ¥1.8 billion in other regions. Additionally, Mazda is not implementing the disposal or sale of any major facilities in any segment.

R&D costs totaled ¥127.4 billion, for the research and development of new-generation products and environmental and safety technologies.

Financial Position

Total assets as of March 31, 2021 came to ¥2,917.4 billion, up ¥129.8 billion from the end of the previous fiscal year. This was due to factors such as increases in cash and cash equivalents (total amount of cash and deposits, as well as securities). Total liabilities amounted to ¥1,721.6 billion, an increase of ¥139.8 billion from the end of the previous fiscal year, owing to the procurement of funds in preparation for the business fund risks associated with the global outbreak of COVID-19. Interest-bearing debt amounted to ¥755.9 billion, owing to such factors as an increase in long-term loans.

Net assets amounted to ¥1,195.8 billion, a decrease of ¥10.0 billion, reflecting a net loss attributable to owners of the parent of ¥31.7 billion and cash dividends paid of ¥12.6 billion due to factors such as an increase in accumulated other comprehensive income associated with a rise in share prices. The equity ratio decreased 1.6 percentage points from the end of the previous fiscal year to 40.5% (the percentage after consideration of the equity credit attributes of the subordinated loan was 41.7%).

Consolidated Earnings (Billions of yen)	Fiscal Year March 2021			YoY			
	First half	Second half	Full year	First half	Second half	Full year	
Net sales	1,115.8	1,766.3	2,882.1	(590.8)	+42.6	(548.2)	(16.0)%
Operating income/(loss)	(52.9)	61.7	8.8	(78.7)	+43.9	(34.8)	(79.8)%
Ordinary income/(loss)	(53.3)	81.6	28.3	(87.3)	+62.5	(24.8)	(46.8)%
Net income/(loss) attributable to owners of the parent	(93.0)	61.3	(31.7)	(109.6)	+65.8	(43.8)	—

Cash Flows

As of March 31, 2021, cash and cash equivalents increased ¥170.8 billion from the end of the previous fiscal year, to ¥738.8 billion. Interest-bearing debt grew ¥136.1 billion from the end of the previous fiscal year to ¥755.9 billion. As a result, after subtracting cash and cash equivalents from interest-bearing debt, net interest-bearing debt amounted to ¥17.1 billion.

Net cash provided by operating activities increased to ¥120.1 billion, compared with ¥34.8 billion in the previous fiscal year, mainly reflecting income before income taxes of ¥2.2 billion and a decrease in inventories.

Net cash used in investing activities was ¥78.9 billion, compared with ¥127.6 billion in the previous fiscal year, mainly reflecting capital expenditure for the acquisition of property, plant and equipment of ¥71.8 billion.

As a result of this, consolidated free cash flow (net of cash flow from operating activities and investment activities) was positive ¥41.2 billion, compared with the previous fiscal year's negative free cash flow of ¥92.7 billion.

Net cash provided by financing activities was ¥99.3 billion, compared with net cash used in financing activities of ¥24.3 billion in the previous fiscal year, reflecting the procurement of funds in preparation for the business fund risks associated with the global outbreak of COVID-19.

(Billions of yen)	Fiscal Year March 2020 Full year	Fiscal Year March 2021 Full year	YoY
Cash Flows			
Operating cash flows	34.8	120.1	—
Investing cash flows	(127.6)	(78.9)	—
Free cash flow	(92.7)	41.2	—
Cash and cash equivalents	568.0	738.8	+170.8
Interest-bearing debt	619.9	755.9	+136.1
Net interest-bearing debt	51.9	17.1	(34.8)
Total assets	2,787.6	2,917.4	+129.8
Equity	1,174.9	1,181.7	+6.8
Equity Ratio	42%	41%	(2) points

Liquidity and Source of Funds

In order for the Mazda Group to reliably secure the funds needed for business activities, the Company is striving to create cash flows. Furthermore, the Company is procuring the necessary funds through bank borrowing and the issuance of bonds for the purpose of allocating the capital expenditures necessary for manufacturing and selling automobiles and parts. The liquidity risks of the Group are managed mainly through the preparation and update of the cash schedule on a timely basis, and the Company maintains a certain level of liquidity at hand in order to respond to sudden changes in the external environment.

The Company also has systems and procedures in place that allow us to respond flexibly to liquidity risks through managing the funds of the Group and intercompany loans within the Group. In addition, the Company ensures sufficient liquidity by entering into commitment line agreements with domestic financial institutions. At the end of fiscal year March 2021, liquidity, comprising cash and cash equivalents of ¥738.8 billion, in addition to unused commitment credit lines of ¥200.0 billion, amounted to ¥938.8 billion, which is equivalent to 3.9 months of monthly sales.

Basic Dividend Policy, Dividends for Fiscal Years March 2021 and March 2022

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

For fiscal year March 2021, we forwent a dividend payout after giving full consideration to the Company's financial results for the fiscal year and financial position. For fiscal year March 2022, we plan to pay a full-year dividend of ¥15 per share, consisting of a ¥0 per share interim dividend and a ¥15 per share year-end dividend.

Forecast for Fiscal Year March 2022

In fiscal year March 2022, the business environment is expected to remain uncertain due to the current shortage in supply of semiconductors and the increase in cost of precious metals and other raw materials. In terms of sales, however, we aim to increase sales volume, particularly in markets where there have been strong sales, such as the U.S. and Australia, as well as recover sales volume to the level before the COVID-19 pandemic in each region. Regarding the consolidated financial forecast, by improving the global volume and mix, as well as continuing to make fixed costs, including marketing expenses and advertising costs, more efficient, we will strive to maximize profit.

The forecast for consolidated earnings and global sales volume are as follows.

Consolidated Earnings (Billions of yen)		Fiscal Year March 2022	YoY
Net sales		3,400.0	+18.0%
Operating income		65.0	+637.0%
Ordinary income		55.0	+94.7%
Net income attributable to owners of the parent		35.0	
Foreign exchange rates (Yen)	U.S. dollars	109	+3
	Euro	129	+5

Global Sales Volume (Thousands of units)	Fiscal Year March 2022	YoY
Japan	195	+10.5%
North America	414	+2.8%
Europe	225	+25.9%
China	260	+14.0%
Other Markets	316	+4.9%
Total	1,410	+9.5%

BUSINESS RISKS

Significant risks that could affect the Mazda Group's business results and financial position include those listed below. This list, however, shows the main risks anticipated at the end of fiscal year March 2021 and does not represent a comprehensive list of all the risks faced by the Group. The forward-looking statements in this section are based on the judgments of the Group as of the end of fiscal year March 2021.

Risks Associated with the External Environment

1 Economic Conditions Impacting the Mazda Group

Selling its products in Japan and other parts of the world, including in North America, Europe, and Asia, the Group is greatly impacted by economic trends and fluctuations in demand in each of its markets. Therefore, the Group's business results and financial position could be adversely affected by, for example, an economic downturn, recession, changes in demand structure, declining demand, and intensifying price competition in its main markets.

2 Fluctuations in Exchange Rates

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

3 Statutory Regulations Covering the Environment

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

4 Procurement of Materials and Components

The Group relies on numerous suppliers outside the Group for the procurement of materials and components. For that reason, the Group may face difficulties in procuring the necessary level of materials and components for volume production, due to supply constraints or reduced logistics functions in the event of these suppliers being affected by a disaster, due to tight supply balances, or due to changes to and breaches of supply contracts. Should the Group be unable to absorb the effects of any increases in the prices of the materials being procured by the Company—for example, by making internal efforts to boost productivity or passing on price rises to customers—or should procured materials and components be of insufficient quality, the possibility exists of a deterioration in output or higher costs, which could adversely affect the Group's business results and financial position.

5 International Business Activities

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

- Adverse political and economic developments
- Impediments arising from changes in laws and regulations
- Import/export regulations, such as tariffs, detrimental taxes, and other regulations
- Difficulties in attracting and securing personnel
- Undeveloped infrastructure
- Strikes and other labor disputes
- Terrorist incidents, war, disease, and other factors leading to social disorder

Furthermore, the Group's business results and financial position could be adversely affected by changes in circumstances including the global spread of COVID-19 in the future.

6 Natural Disasters and Accidents

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

7 Changes in Financing Procurement Environment and Interest Rate Fluctuations

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

Risks Associated with Business Activities

8 Alliances and Joint Ventures

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

9 Market Competitiveness

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

10 Protection of Intellectual Property

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

11 Product Quality

While striving to improve the quality of its products to meet the requirements of the market, the Group also does its utmost to ensure the safety of its products. However, should a defect develop in a product due to unforeseen circumstances or a large-scale recall occur, this could adversely affect the Group's business results and financial position due to such factors as the incurring of significant costs, the Group's diminished brand image, and loss of market trust.

12 Dependence on Information Technology

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

13 Compliance and Reputation

Commencing with information security efforts to protect personal information and confidential information, the Group has taken preventive measures regarding compliance, such as compliance with the law. In addition, in the event of a compliance-related incident being detected, the Group has a rapid response system in place to prevent any impact on the Group's social credibility and reputation. However, the Group cannot guarantee that there is no possibility of a legal violation occurring in the future. Should there be evidence of an illegal act or should the rapidity and content of the response prove insufficient, the Group's social credibility and reputation could be harmed, and the Group's business results and financial position could be adversely affected.

14 Forecasts

In November 2020, the Group announced its Medium-Term Management Plan Revision (from fiscal year March 2020 through to fiscal year March 2026). If the execution of the various measures does not realize the expected benefits, owing to such factors as substantial changes in the operating environment and slower progress with the plan than projected, the Group's business results and financial position could be adversely affected.

CONSOLIDATED BALANCE SHEETS

Mazda Motor Corporation and Consolidated Subsidiaries
As of March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2020	2021	2021
Current assets:			
Cash and cash equivalents	¥ 567,994	¥ 738,793	$ 6,655,793
Trade notes and accounts receivable (Note 5)	169,007	167,533	1,509,306
Inventories (Notes 8 and 10)	441,305	433,049	3,901,342
Other current assets	137,276	152,023	1,369,577
Allowance for doubtful receivables	(970)	(1,803)	(16,243)
Total current assets	1,314,612	1,489,595	13,419,775
Property, plant and equipment:			
Land (Note 9)	418,104	417,027	3,757,000
Buildings and structures	538,522	549,059	4,946,477
Machinery, equipment and vehicles	912,946	893,991	8,053,973
Tools, furniture and fixtures	276,761	281,970	2,540,270
Leased assets	27,632	31,100	280,180
Construction in progress	78,357	113,733	1,024,622
	2,252,322	2,286,880	20,602,522
Accumulated depreciation	(1,179,808)	(1,211,712)	(10,916,324)
Net property, plant and equipment (Notes 10 and 18)	1,072,514	1,075,168	9,686,198
Intangible assets (Note 18)	40,097	42,914	386,613
Investments and other assets:			
Investment securities (Note 5):			
Affiliated companies	152,011	123,173	1,109,667
Other	61,989	80,259	723,054
Long-term loans receivable (Note 5)	6,807	1,861	16,766
Asset for retirement benefits (Note 20)	3,736	6,660	60,000
Deferred tax assets (Note 21)	91,829	61,120	550,631
Other investments and other assets	44,438	37,009	333,413
Allowance for doubtful receivables	(393)	(345)	(3,108)
Total investments and other assets	360,417	309,737	2,790,423
Total assets	¥ 2,787,640	¥ 2,917,414	$ 26,283,009

LIABILITIES AND NET ASSETS	Millions of yen 2020	Millions of yen 2021	Thousands of U.S. dollars (Note 1) 2021
Current liabilities:			
Short-term debt (Notes 5 and 10)	¥ 121,364	¥ 1,608	$ 14,486
Long-term debt due within one year (Notes 5 and 10)	41,614	15,805	142,387
Trade notes and accounts payable (Note 5)	364,784	363,679	3,276,387
Income taxes payable	16,022	5,336	48,072
Accrued expenses (Note 5)	257,492	286,061	2,577,126
Reserve for warranty expenses	87,168	80,504	725,261
Other current liabilities (Note 21)	44,499	54,657	492,407
Total current liabilities	932,943	807,650	7,276,126
Non-current liabilities:			
Long-term debt due after one year (Notes 5 and 10)	456,890	738,515	6,653,288
Deferred tax liability related to land revaluation (Note 9)	64,553	64,537	581,414
Liability for retirement benefits (Note 20)	75,874	50,039	450,802
Other non-current liabilities (Note 21)	51,534	60,843	548,136
Total non-current liabilities	648,851	913,934	8,233,640
Total liabilities	1,581,794	1,721,584	15,509,766
Contingent liabilities (Note 11)			
Net assets:			
Capital and retained earnings (Note 13):			
Common stock	283,957	283,957	2,558,171
Authorized: 1,200,000,000 shares			
Issued: 631,803,979 shares in 2020 and 2021			
Capital surplus	264,917	263,028	2,369,622
Retained earnings	552,993	508,784	4,583,640
Treasury stock (2,017,360 shares in 2020 and 2,018,122 shares in 2021)	(2,186)	(2,187)	(19,703)
Total capital and retained earnings	1,099,681	1,053,582	9,491,730
Accumulated other comprehensive income/(loss):			
Net unrealized gain/(loss) on available-for-sale securities	2,231	16,002	144,162
Deferred gains/(losses) on hedges	321	(312)	(2,811)
Land revaluation (Note 9)	145,574	145,536	1,311,135
Foreign currency translation adjustment	(48,256)	(30,897)	(278,351)
Accumulated adjustments for retirement benefits	(24,604)	(2,181)	(19,649)
Total accumulated other comprehensive income	75,266	128,148	1,154,486
Stock acquisition rights (Note 14)	290	382	3,441
Non-controlling interests	30,609	13,718	123,588
Total net assets	1,205,846	1,195,830	10,773,243
Total liabilities and net assets	¥2,787,640	¥2,917,414	$26,283,009

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2020 and 2021

Consolidated Statements of Operations

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2021	2021
Net sales	¥3,430,285	¥2,882,066	$25,964,559
Cost and expenses:			
Cost of sales	2,683,647	2,268,422	20,436,234
Selling, general and administrative expenses (Note 15)	703,035	604,824	5,448,865
	3,386,682	2,873,246	25,885,099
Operating income	43,603	8,820	79,459
Other income/(expenses):			
Interest and dividend income	7,449	5,173	46,604
Interest expense	(6,132)	(8,034)	(72,378)
Equity in net income of affiliated companies	19,714	6,622	59,658
Other, net (Note 17)	(15,352)	(10,379)	(93,506)
	5,679	(6,618)	(59,622)
Income before income taxes	49,282	2,202	19,838
Income taxes (Note 21):			
Current	27,539	17,400	156,757
Refund of income taxes for prior periods	(11,766)	—	—
Deferred	19,404	16,856	151,856
	35,177	34,256	308,613
Net income/(loss)	14,105	(32,054)	(288,775)
Net income/(loss) attributable to non-controlling interests	1,974	(403)	(3,631)
Net income/(loss) attributable to owners of the parent	¥ 12,131	¥ (31,651)	$ (285,144)
	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income/(loss):			
Basic	¥19.26	¥(50.26)	$(0.45)
Diluted	19.25	—	—
Cash dividends applicable to the year	35.00	—	—

Consolidated Statements of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2021	2021
Net income/(loss)	¥ 14,105	**¥(32,054)**	**$(288,775)**
Other comprehensive income/(loss):			
Net unrealized gain/(loss) on available-for-sale securities	(1,765)	**13,754**	**123,910**
Deferred gains/(losses) on hedges	(530)	**(545)**	**(4,910)**
Foreign currency translation adjustment	(15,855)	**19,698**	**177,459**
Adjustments for retirement benefits	(2,641)	**22,384**	**201,658**
Share of other comprehensive income/(loss) of affiliates accounted for using equity method	1,618	**(2,780)**	**(25,045)**
Total other comprehensive income/(loss)	(19,173)	**52,511**	**473,072**
Comprehensive income	¥ (5,068)	**¥ 20,457**	**$ 184,297**
Comprehensive income/(loss) attributable to:			
Owners of the parent	(6,306)	**21,269**	**191,612**
Non-controlling interests	1,238	**(812)**	**(7,315)**

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2020 and 2021

	Millions of yen				
	Capital and retained earnings				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
April 1, 2019	¥ 283,957	¥ 264,913	¥ 562,904	¥ (2,215)	¥ 1,109,559
Increase/(decrease)					
Dividends paid	–	–	(22,042)	–	(22,042)
Net income/(loss) attributable to owners of the parent	–	–	12,131	–	12,131
Purchase of treasury stock	–	–	–	(1)	(1)
Sale of treasury stock	–	3	–	30	33
Reversal for land revaluation	–	–	–	–	–
Change in ownership interest of parent arising from transactions with non-controlling shareholders	–	–	–	–	–
Changes in items other than capital and retained earnings, net	–	–	–	–	–
Total changes during the fiscal year	–	3	(9,911)	29	(9,878)
April 1, 2020	¥283,957	¥264,917	¥552,993	¥(2,186)	¥1,099,681
Increase/(decrease)					
Dividends paid	**–**	**–**	**(12,596)**	**–**	**(12,596)**
Net income/(loss) attributable to owners of the parent	**–**	**–**	**(31,651)**	**–**	**(31,651)**
Purchase of treasury stock	**–**	**–**	**–**	**(1)**	**(1)**
Sale of treasury stock	**–**	**–**	**–**	**–**	**–**
Reversal for land revaluation	**–**	**–**	**38**	**–**	**38**
Change in ownership interest of parent arising from transactions with non-controlling shareholders	**–**	**(1,889)**	**–**	**–**	**(1,889)**
Changes in items other than capital and retained earnings, net	**–**	**–**	**–**	**–**	**–**
Total changes during the fiscal year	**–**	**(1,889)**	**(44,209)**	**(1)**	**(46,099)**
March 31, 2021	**¥283,957**	**¥263,028**	**¥508,784**	**¥(2,187)**	**¥1,053,582**

	Millions of yen								
	Accumulated other comprehensive income/(loss)								
	Net unrealized gain/(loss) on available-for-sale securities	Deferred gains/(losses) on hedges	Land revaluation	Foreign currency translation adjustment	Accumulated adjustments for retirement benefits	Total	Stock acquisition rights	Non-controlling interests	Total net assets
April 1, 2019	¥ 4,008	¥ 804	¥ 145,574	¥ (34,762)	¥(21,921)	¥ 93,703	¥ 255	¥ 29,924	¥1,233,441
Increase/(decrease)									
Dividends paid	–	–	–	–	–	–	–	–	(22,042)
Net income/(loss) attributable to owners of the parent	–	–	–	–	–	–	–	–	12,131
Purchase of treasury stock	–	–	–	–	–	–	–	–	(1)
Sale of treasury stock	–	–	–	–	–	–	–	–	33
Reversal for land revaluation	–	–	–	–	–	–	–	–	–
Change in ownership interest of parent arising from transactions with non-controlling shareholders	–	–	–	–	–	–	–	–	–
Changes in items other than capital and retained earnings, net	(1,777)	(483)	–	(13,494)	(2,683)	(18,437)	35	685	(17,716)
Total changes during the fiscal year	(1,777)	(483)	–	(13,494)	(2,683)	(18,437)	35	685	(27,595)
April 1, 2020	¥ 2,231	¥ 321	¥ 145,574	¥ (48,256)	¥(24,604)	¥ 75,266	¥ 290	¥ 30,609	¥1,205,846
Increase/(decrease)									
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,596)**
Net income/(loss) attributable to owners of the parent	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(31,651)**
Purchase of treasury stock	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**
Sale of treasury stock	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Reversal for land revaluation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**38**
Change in ownership interest of parent arising from transactions with non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,889)**
Changes in items other than capital and retained earnings, net	**13,771**	**(633)**	**(38)**	**17,359**	**22,423**	**52,882**	**92**	**(16,891)**	**36,083**
Total changes during the fiscal year	**13,771**	**(633)**	**(38)**	**17,359**	**22,423**	**52,882**	**92**	**(16,891)**	**(10,016)**
March 31, 2021	**¥16,002**	**¥(312)**	**¥145,536**	**¥(30,897)**	**¥ (2,181)**	**¥128,148**	**¥382**	**¥ 13,718**	**¥1,195,830**

	Thousands of U.S. dollars (Note 1)				
	Capital and retained earnings				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
April 1, 2020	$ 2,558,171	$ 2,386,640	$ 4,981,919	$ (19,694)	$ 9,907,036
Increase/(decrease)					
Dividends paid	–	–	(113,477)	–	(113,477)
Net income/(loss) attributable to owners of the parent	–	–	(285,144)	–	(285,144)
Purchase of treasury stock	–	–	–	(9)	(9)
Sale of treasury stock	–	–	–	–	–
Reversal for land revaluation	–	–	342	–	342
Change in ownership interest of parent arising from transactions with non-controlling shareholders	–	(17,018)	–	–	(17,018)
Changes in items other than capital and retained earnings, net	–	–	–	–	–
Total changes during the fiscal year	–	(17,018)	(398,279)	(9)	(415,306)
March 31, 2021	$2,558,171	$2,369,622	$4,583,640	$(19,703)	$9,491,730

	Thousands of U.S. dollars (Note 1)								
	Accumulated other comprehensive income/(loss)								
	Net unrealized gain/(loss) on available-for-sale securities	Deferred gains/(losses) on hedges	Land revaluation	Foreign currency translation adjustment	Accumulated adjustments for retirement benefits	Total	Stock acquisition rights	Non-controlling interests	Total net assets
April 1, 2020	$ 20,099	$ 2,892	$ 1,311,477	$ (434,739)	$(221,658)	$ 678,071	$ 2,613	$ 275,757	$ 10,863,477
Increase/(decrease)									
Dividends paid	–	–	–	–	–	–	–	–	(113,477)
Net income/(loss) attributable to owners of the parent	–	–	–	–	–	–	–	–	(285,144)
Purchase of treasury stock	–	–	–	–	–	–	–	–	(9)
Sale of treasury stock	–	–	–	–	–	–	–	–	–
Reversal for land revaluation	–	–	–	–	–	–	–	–	342
Change in ownership interest of parent arising from transactions with non-controlling shareholders	–	–	–	–	–	–	–	–	(17,018)
Changes in items other than capital and retained earnings, net	124,063	(5,703)	(342)	156,388	202,009	476,415	828	(152,169)	325,072
Total changes during the fiscal year	124,063	(5,703)	(342)	156,388	202,009	476,415	828	(152,169)	(90,234)
March 31, 2021	$144,162	$(2,811)	$1,311,135	$(278,351)	$ (19,649)	$1,154,486	$3,441	$ 123,588	$10,773,243

CONSOLIDATED STATEMENTS OF CASH FLOWS

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2021	2021
Cash flows from operating activities:			
Income before income taxes	¥ 49,282	¥ 2,202	$ 19,838
Adjustments to reconcile income before income taxes to net cash provided by/(used in) operating activities:			
Depreciation and amortization	92,269	89,765	808,694
Impairment loss	797	1,355	12,207
Increase/(decrease) in allowance for doubtful receivables	(62)	847	7,631
Increase/(decrease) in reserve for warranty expenses	(11,099)	(6,664)	(60,036)
Increase/(decrease) in liability for retirement benefits	2,669	2,796	25,189
Interest and dividend income	(7,449)	(5,173)	(46,604)
Interest expense	6,132	8,034	72,378
Equity in net loss/(income) of affiliated companies	(19,714)	(6,622)	(59,658)
Loss/(gain) on sale and retirement of property, plant and equipment, net	3,536	4,383	39,486
Loss/(gain) on sale of investment securities, net	(413)	(120)	(1,081)
Decrease/(increase) in trade notes and accounts receivable	18,334	5,785	52,117
Decrease/(increase) in inventories	(50,871)	30,051	270,730
Decrease/(increase) in other current assets	14,403	(6,113)	(55,072)
Increase/(decrease) in trade notes and accounts payable	(61,553)	(6,864)	(61,838)
Increase/(decrease) in other current liabilities	(4,130)	19,591	176,495
Other	(2,750)	(4,467)	(40,242)
Subtotal	29,381	128,786	1,160,234
Interest and dividends received	30,766	23,452	211,279
Interest paid	(6,226)	(7,730)	(69,640)
Income taxes refunded/(paid)	(28,078)	(30,004)	(270,306)
Refund of income taxes for prior periods	8,991	5,554	50,036
Net cash provided by/(used in) operating activities	34,834	120,058	1,081,603
Cash flows from investing activities:			
Net decrease/(increase) in time deposits	60	759	6,838
Purchase of investment securities	(5,620)	(255)	(2,297)
Proceeds from sales and redemption of investment securities	1,063	1,785	16,081
Purchase of property, plant and equipment	(107,549)	(71,776)	(646,631)
Proceeds from sale of property, plant and equipment	1,476	1,462	13,171
Purchase of intangible assets	(14,809)	(14,263)	(128,495)
Net decrease/(increase) in short-term loans receivable	274	263	2,369
Payments of long-term loans receivable	(2,748)	(587)	(5,288)
Collections of long-term loans receivable	239	3,848	34,667
Other	36	(98)	(883)
Net cash provided by/(used in) investing activities	(127,578)	(78,862)	(710,468)
Cash flows from financing activities:			
Net increase/(decrease) in short-term debt	(15)	(120,121)	(1,082,172)
Proceeds from long-term debt	51,160	291,575	2,626,802
Repayments of long-term debt	(52,857)	(41,541)	(374,243)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	–	(17,831)	(160,640)
Cash dividends paid	(22,042)	(12,596)	(113,477)
Cash dividends paid to non-controlling interests	(552)	(137)	(1,234)
Net decrease/(increase) in treasury stock	32	(1)	(9)
Net cash provided by/(used in) financing activities	(24,274)	99,348	895,027
Effect of exchange rate fluctuations on cash and cash equivalents	(16,612)	30,255	272,568
Net increase/(decrease) in cash and cash equivalents	(133,630)	170,799	1,538,730
Cash and cash equivalents at beginning of the period	701,624	567,994	5,117,063
Cash and cash equivalents at end of the period	¥ 567,994	¥ 738,793	$ 6,655,793

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mazda Motor Corporation and Consolidated Subsidiaries

1 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

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

The conversion of the Japanese yen into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2021, which was ¥111 to U.S. $1.00. The conversions should not be construed as representations that the Japanese yen have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

The consolidated financial statements include the Company and 70 subsidiaries (69 in the year ended March 31, 2020). In addition, 18 affiliates (18 in the year ended March 31, 2020) are accounted for under the equity method.

The consolidated balance sheet date is March 31. Among the consolidated subsidiaries, 23 companies have fiscal year-ends for their statutory financial statements that are different from the consolidated balance sheet date, most of which are December 31. In preparing the consolidated financial statements, for 9 of the 23 companies, provisional settlement of accounts that are prepared for consolidation are used to supplement the companies' statutory financial statements. For the other 14 companies, in preparing the consolidated financial statements, financial statements of these companies with different balance sheet dates are used. However, adjustments necessary in consolidation are made for material transactions that have occurred between the balance sheet date of these subsidiaries and the consolidated balance sheet date.

FOREIGN CURRENCY CONVERSION

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

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

CASH AND CASH EQUIVALENTS

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

SECURITIES

Securities are classified as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by the unconsolidated subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

The Group does not have trading securities or held-to-maturity debt securities. Equity securities issued by unconsolidated subsidiaries and affiliated companies that, based on the applicable materiality provisions of Japanese GAAP, are not accounted for under the equity method are stated at moving-average cost.

Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of accumulated other comprehensive income within net assets. Realized gains and losses on the sale of such securities are computed using moving-average cost. Available-for-sale securities without available fair market values are stated mainly at moving-average cost.

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

DERIVATIVES AND HEDGE ACCOUNTING

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

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

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

INVENTORIES

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

PROPERTY, PLANT AND EQUIPMENT (EXCEPT FOR LEASED ASSETS)

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

INTANGIBLE ASSETS (EXCEPT FOR LEASED ASSETS)

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

AMORTIZATION OF GOODWILL

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

LEASED ASSETS

FINANCE LEASES IN WHICH OWNERSHIP IS NOT TRANSFERRED TO THE LESSEE

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

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

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

The consolidated foreign subsidiaries that apply IFRS adopted IFRS 16 "Leases" ("IFRS 16"). In accordance with IFRS 16, the lessee recognizes substantially all of the lease assets and lease liabilities on the balance sheet. For lease assets, depreciation or amortization expense is recognized on a straight-line basis over the lease period.

ALLOWANCE FOR DOUBTFUL RECEIVABLES

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

RESERVE FOR WARRANTY EXPENSES

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

EMPLOYEES' RETIREMENT BENEFITS

The Group provides various types of post-employment benefit plans, including lump-sum plans, defined benefit pension plans, and defined contribution pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service, and certain other factors.

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

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

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

INCOME TAXES

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

The Company and its wholly owned domestic subsidiaries elect to file a consolidated corporate tax return as a consolidation group.

For items amended in relation to the introduction of the group tax sharing system under the "Act on Partial Revision of the Income Tax Act, etc.," the Company and some of its consolidated domestic subsidiaries recognize deferred tax assets and deferred tax liabilities based on the provisions of pre-amended tax laws instead of applying paragraph 44 of the "Implementation Guidance on Tax Effect Accounting," according to paragraph 3 of the "Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System."

AMOUNTS PER SHARE OF COMMON STOCK

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

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

ADDITIONAL INFORMATION

ACCOUNTING ESTIMATES REGARDING THE IMPACT OF NOVEL CORONAVIRUS

As the impact of the novel coronavirus pandemic is still unpredictable, the Company has assessed the recoverability of deferred tax assets assuming the limited impact will continue in the fiscal year ending March 31, 2022.

It should be noted that the changes in the assumptions including the global spread of the novel coronavirus in the future may affect the Company's consolidated financial results.

3 SIGNIFICANT ACCOUNTING ESTIMATES

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

IMPAIRMENT OF LONG-LIVED ASSETS

1) Amounts reported in the consolidated financial statements for the fiscal year ended March 31, 2021

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment and intangible assets	¥1,118,082	$10,072,811
Of which, the balance of the Company's property, plant and equipment and intangible assets	¥ 708,860	$ 6,386,126

2) Other information that assists readers of consolidated financial statements in understanding the nature of the estimates:
In applying the Accounting Standard for Impairment of Fixed Assets, the Group principally groups its long-lived assets at each operating company level and assesses whether indicators of impairment exist. Idle assets, assets held for leasing, and assets held for sale, however, are assessed individually. When there is an indicator of impairment, the Group estimates the future cash flows of each asset group and determines if an impairment loss shall be recognized.

While the Company recorded net losses from operations for the fiscal years ended March 31, 2020 and 2021, the Company expects net income from operations for the fiscal year ending March 31, 2022. Since there were no other events or circumstances that might indicate impairment, the Company determined that there was no impairment indicator for its operating assets.

On the other hand, the next year's budget, which was the basis for the forecasts of profit or loss from operations for the following fiscal year, included significant assumptions involving estimation uncertainty, such as the prospects for consolidated wholesales volume assuming a certain business environment that incorporated the effects of the shortage of semiconductors, etc., the results of manufacturing cost improvement measures, the impact of rising raw material prices, including precious metals, as well as transaction prices between the Company and its subsidiaries, which required management judgment. Therefore, if changes in the market environment, etc. cause significant changes to these assumptions, it may be necessary to record an impairment loss on long-lived assets.

RECOVERRABILITY OF DEFERRED TAX ASSETS

1) Amounts reported in the consolidated financial statements for the fiscal year ended March 31, 2021

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets	¥61,120	$550,631
Of which, the balance of the Company's deferred tax assets	¥37,208	$335,207

2) Other information that assists readers of consolidated financial statements in understanding the nature of the estimates:
Based on the estimated future taxable income, deferred tax assets are recognized for tax loss carryforwards and deductible temporary differences to the extent that they are expected to reduce the amount of future tax payments.

The estimated future taxable income, which was used to assess the recoverability of deferred tax assets, was based on the next year's budget prepared by management. Accordingly, it included significant assumptions involving estimation uncertainty, such as the prospects for consolidated wholesales volume assuming a certain business environment that incorporated the effect of the shortage of semiconductors, etc., the results of manufacturing cost improvement measures, the impact of rising raw material prices, including precious metal, as well as transaction prices between the Company and its subsidiaries, which required management judgment. Therefore, if changes in the market environment, etc. cause significant changes to these assumptions and reduce the estimated future taxable income, the amount of deferred tax assets may be reduced and additional tax costs may be incurred.

RESERVE FOR WARRANTY EXPENSES

1) Amounts reported in the consolidated financial statements for the fiscal year ended March 31, 2021

	Millions of yen	Thousands of U.S. dollars
Reserve for warranty expenses	**¥80,504**	**$725,261**

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

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

The expected reimbursement rate included management's assessment of technical responsibility, involved uncertainty, and was dependent upon future negotiations with suppliers. Therefore, if the actual reimbursement rate in the future is different from the reimbursement rate used for the estimation, additional recognition or reversal of reserve for warranty expenses may be required.

4 ACCOUNTING CHANGES

NEW ACCOUNTING STANDARDS NOT YET APPLIED

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 26, 2021)

1) Summary
The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") have jointly developed comprehensive principles for revenue recognition and issued "Revenue from Contracts with Customers" (IFRS 15 by the IASB and ASU 2014-09 by the FASB) in May 2014. Based on the application of IFRS 15 from the year beginning on or after January 1, 2018 and ASU 2014-09 from the year beginning after December 15, 2017, the Accounting Standards Board of Japan ("ASBJ") developed comprehensive principles for revenue recognition and issued the above standard and guidance.

From the viewpoint of comparability, ASBJ started developing the new revenue recognition standard in incorporating the basic principle of IFRS 15, and added some sections in considering the Japanese practice to the extent that they do not impair comparability with other accounting standards.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2) Effective date
Effective from the beginning of the fiscal year ending March 31, 2022.
3) Effects of the application of the standards
The Company is to adjust the cumulative effect of applying these new standards by decreasing the beginning retained earnings of the year ending March 31, 2022, and this will decrease the retained earnings by approximately ¥9,000 million ($81,081 thousand).

- ASU 2016-02 "Leases"
1) Summary
Under this accounting standard, a lessee is required to recognize assets and liabilities for almost all of the assets on a balance sheet.
2) Effective date
Effective from the year ending March 31, 2023.
3) Effects of the application of the standards
The impact is yet to be determined at this time.

- "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019)
- "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2019)
- "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 4, 2019)
- "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019)
- "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020)

1) Summary
In order to enhance comparability with internationally recognized accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (together, "Fair Value Accounting Standards") were developed, and guidance on methods measuring fair value was issued. Fair Value Accounting Standards are applicable to the fair value measurement of the following items:
Financial instruments in "Accounting Standard for Financial Instruments"
Inventories held for trading purposes in "Accounting Standard for Measurement of Inventories"
Additionally, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" was revised to establish notes including a breakdown by the market value level of financial instruments.
2) Effective date
Effective from the beginning of the fiscal year ending March 31, 2022.
3) Effects of the application of the standards
The application of this accounting standard does not have a material impact on the consolidated financial statements.

CHANGES IN PRESENTATION

APPLICATION OF "ACCOUNTING STANDARD FOR DISCLOSURE OF ACCOUNTING ESTIMATES"

The "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) has been applied in the fiscal year ended March 31, 2021, and notes regarding significant accounting estimates are included in the consolidated financial statements.

However, information for the previous fiscal year is not described in the notes in accordance with the transitional treatment prescribed in the proviso of paragraph 11 of this accounting standard.

5 FINANCIAL INSTRUMENTS

QUALITATIVE INFORMATION ON FINANCIAL INSTRUMENTS

POLICIES FOR USING FINANCIAL INSTRUMENTS

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

DETAILS OF FINANCIAL INSTRUMENTS AND THE EXPOSURES TO RISK

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

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

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

Loans payable, bonds payable, and lease obligations are mainly used to finance cash required for capital investment. The longest time to maturity of these liabilities is 55 years and 4 months from March 31, 2021 (56 years and 4 month in the year ended March 31, 2020).

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

POLICIES AND PROCESSES FOR MANAGING RISK

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

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

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

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

The amount of maximum risk as of March 31, 2021 is represented by the balance sheet amount of financial assets exposed to credit risks.

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

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

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

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

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

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

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

FAIR VALUES OF FINANCIAL INSTRUMENTS

As of March 31, 2020 and 2021, the carrying values on the consolidated balance sheet, the fair values, and the differences between these amounts, respectively, of financial instruments were as follows. Financial instruments for which fair value is deemed highly difficult to measure are excluded from the following table. Cash and cash equivalents and Short-term investments are also excluded since the carrying values approximate fair values.

	Millions of yen		
As of March 31, 2020	Carrying values	Fair values	Difference
Assets:			
1) Trade notes and accounts receivable	¥ 169,007		
Allowance for doubtful receivables (*1)	(129)		
Trade notes and accounts receivable, net	¥ 168,878	¥ 168,878	¥ —
2) Investment securities			
Available-for-sale securities	60,508	60,508	—
3) Long-term loans receivable (*2)	7,053		
Allowance for doubtful receivables (*3)	(133)		
Long-term loans receivable, net	6,920	6,920	—
Total	¥ 236,306	¥ 236,306	¥ —
Liabilities:			
1) Trade notes and accounts payable	¥ 364,784	¥ 364,784	¥ —
2) Other accounts payable (*4)	32,265	32,265	—
3) Short-term debt	121,364	121,364	—
4) Long-term debt	498,504	499,074	570
Total	¥1,016,917	¥1,017,487	¥570
Derivative instruments: (*5)			
1) Hedge accounting not applied	¥ 970	¥ 970	¥ —
2) Hedge accounting applied	438	438	—
Total	¥ 1,408	¥ 1,408	¥ —

As of March 31, 2021	Millions of yen			Thousands of U.S. dollars		
	Carrying values	Fair values	Difference	Carrying values	Fair values	Difference
Assets:						
1) Trade notes and accounts receivable	¥ 167,533			$ 1,509,306		
Allowance for doubtful receivables (*1)	(172)			(1,549)		
Trade notes and accounts receivable, net	167,361	¥ 167,361	¥ —	$ 1,507,757	$ 1,507,757	$ —
2) Investment securities						
Available-for-sale securities	78,888	78,888	—	710,703	710,703	—
3) Long-term loans receivable (*2)	3,768			33,946		
Allowance for doubtful receivables (*3)	(18)			(162)		
Long-term loans receivable, net	3,750	3,750	—	33,784	33,784	—
Total	¥ 249,999	¥ 249,999	¥ —	$ 2,252,244	$ 2,252,244	$ —
Liabilities:						
1) Trade notes and accounts payable	¥ 363,679	¥ 363,679	¥ —	$ 3,276,387	$ 3,276,387	$ —
2) Other accounts payable (*4)	47,962	47,962	—	432,090	432,090	—
3) Short-term debt	1,608	1,608	—	14,486	14,486	—
4) Long-term debt	754,320	759,709	5,389	6,795,675	6,844,225	48,550
Total	¥1,167,569	¥1,172,958	¥5,389	$10,518,638	$10,567,188	$48,550
Derivative instruments: (*5)						
1) Hedge accounting not applied	¥ (1,377)	¥ (1,377)	¥ —	$ (12,405)	$ (12,405)	$ —
2) Hedge accounting applied	(346)	(346)	—	(3,117)	(3,117)	—
Total	¥ (1,723)	¥ (1,723)	¥ —	$ (15,522)	$ (15,522)	$ —

(*1) Allowance for doubtful receivables, which is recognized on the basis of each individual accounts receivable, is excluded.
(*2) Long-term loans receivable include those due within one year, which are included in "other current assets" on the consolidated balance sheets.
(*3) Allowance for doubtful receivables, which is recognized on the basis of each individual long-term loans receivable, is excluded.
(*4) Other accounts payable is included in accrued expenses in the consolidated balance sheets.
(*5) Receivables and payables resulting from derivative transactions are offset against each other and presented on a net basis; when a net liability results, the net amount is shown in ( ).

The financial instruments in the following table are excluded from "Assets: 2) Investment securities" in the above tables because measuring the fair value of these instruments is deemed highly difficult; market prices of these instruments are not available and future cash flows from these instruments are not contracted.

As of March 31	Millions of yen		Thousands of U.S. dollars
	Carrying values		Carrying values
	2020	2021	2021
Available-for-sale securities:			
Non-listed equity securities	¥ 1,481	¥ 1,371	$ 12,351
Investment securities of affiliated companies	152,011	123,173	1,109,667
Total	¥153,492	¥124,544	$1,122,018

BASIS OF MEASURING FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of some financial instruments are based on market prices. When market prices are unavailable, the fair values are based on reasonably estimated values. The estimated values may vary depending on the assumptions and variables used in the estimation.

ASSETS

1) Trade notes and accounts receivable

Trade notes and accounts receivable with short maturities are stated at carrying value as it approximates fair value.

2) Investment securities

For listed stocks included in investment securities, their quoted prices on the stock exchange are used as their fair values.

For notes on securities by classification, refer to "Securities" under Note 2, "Summary of Significant Accounting Policies," and Note 6, "Securities."

3) Long-term loans receivable
Long-term loans receivable consist of variable interest loans. As such, the interest rates on these loans reflect the market rates of interest within short periods of time. Also, the credit standings of borrowers of these loans have not changed significantly since the execution of these loans. Accordingly, the carrying values are used as the fair values of these loans receivable. For loans receivable at a high risk, the fair value is calculated mainly based on amounts estimated to be collectible through collateral and guarantees.

LIABILITIES

1) Trade notes and accounts payable, 2) Other accounts payable, and 3) Short-term debt
These payables are settled within short periods of time. Hence, their carrying values approximate their fair values. Accordingly, carrying values are used as the fair values of these payables.

4) Long-term debt

a) Bonds payable
The fair value of bonds issued by the Group is based on the market price where such a price is available. Otherwise, the sum of the present value of principal and interest payments is used as the fair value of bonds payable. The discount rates used in computing the present value reflect the time to maturity of the bonds as well as credit risk.

b) Long-term loans payable and c) Finance lease obligations
The fair value of these liabilities is calculated by the sum of the principal and interest payments discounted to present value, using the imputed interest rate that would be required to newly execute a similar borrowing or lease transaction.

DERIVATIVE INSTRUMENTS

Refer to Note 7, "Derivatives."

SCHEDULED AMOUNT OF RECEIVABLES

Scheduled amounts of receivables were as follows:

	Millions of yen			
As of March 31, 2020	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Trade notes and accounts receivable	¥169,007	¥ –	¥ –	¥ –
Long-term loans receivable	246	6,441	208	158
Total	¥169,253	¥6,441	¥208	¥158

	Millions of yen				Thousands of U.S. dollars			
As of March 31, 2021	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Trade notes and accounts receivable	**¥167,533**	**¥ –**	**¥ –**	**¥ –**	**$1,509,306**	**$ –**	**$ –**	**$ –**
Long-term loans receivable	**1,907**	**1,731**	**106**	**24**	**17,180**	**15,595**	**955**	**216**
Total	**¥169,440**	**¥1,731**	**¥106**	**¥24**	**$1,526,486**	**$15,595**	**$955**	**$216**

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

6 SECURITIES

The acquisition costs and the carrying values of available-for-sale securities with market values as of March 31, 2020 and 2021 were as follows:

	Millions of yen		
As of March 31, 2020	Acquisition costs	Carrying values	Difference
Stocks	¥55,974	¥59,535	¥3,561
Other	1,015	973	(42)
Total	¥56,989	¥60,508	¥3,519

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2021	Acquisition costs	Carrying values	Difference	Acquisition costs	Carrying values	Difference
Stocks	**¥54,660**	**¥77,710**	**¥23,050**	**$492,432**	**$700,090**	**$207,658**
Other	**1,073**	**1,178**	**105**	**9,667**	**10,613**	**946**
Total	**¥55,733**	**¥78,888**	**¥23,155**	**$502,099**	**$710,703**	**$208,604**

7 DERIVATIVES

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

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

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

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

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

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

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

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

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

The following tables summarize fair value information as of March 31, 2020 and 2021 of derivative transactions for which hedge accounting has not been applied:

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

1) Currency related

As of March 31, 2020	Millions of yen Contract amount	Thereof due after 1 year	Estimated fair value	Valuation gain (loss)
Forward foreign exchange contracts:				
Sell:				
Euro	¥ 4,882	¥—	¥ 103	¥ 103
Canadian dollar	7,081	—	572	572
Australian dollar	3,742	—	433	433
Buy:				
Thai baht	4,289	—	(138)	(138)
Total	¥19,994	¥—	¥ 970	¥ 970

	Millions of yen				Thousands of U.S. dollars			
As of March 31, 2021	Contract amount	Thereof due after 1 year	Estimated fair value	Valuation gain (loss)	Contract amount	Thereof due after 1 year	Estimated fair value	Valuation gain (loss)
Forward foreign exchange contracts:								
Sell:								
Euro	**¥19,875**	**¥—**	**¥ (604)**	**¥ (604)**	**$179,055**	**$—**	**$ (5,441)**	**$ (5,441)**
Canadian dollar	**8,645**	**—**	**(576)**	**(576)**	**77,883**	**—**	**(5,189)**	**(5,189)**
Australian dollar	**10,701**	**—**	**(260)**	**(260)**	**96,405**	**—**	**(2,342)**	**(2,342)**
Buy:								
Thai baht	**5,240**	**—**	**63**	**63**	**47,207**	**—**	**568**	**$568**
Total	**¥44,461**	**¥—**	**¥(1,377)**	**¥(1,377)**	**$400,550**	**$—**	**$(12,405)**	**$(12,405)**

For forward foreign exchange contracts, fair values at year-end are estimated based on prevailing forward exchange rates at that date.

2) Interest rate related
Not applicable.

The following tables summarize fair value information as of March 31, 2020 and 2021 of derivative transactions for which hedge accounting has been applied:

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

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

As of March 31, 2020	Millions of yen Contract amount	Thereof due after 1 year	Estimated fair value
Forward foreign exchange contracts:			
Sell:			
U.S. dollar	¥11,054	¥—	¥ 212
Euro	15,743	—	216
Canadian dollar	5,029	—	441
Australian dollar	1,482	—	161
Buy:			
Thai baht	17,811	—	(592)
Total	¥51,119	¥—	¥ 438

As of March 31, 2021	Millions of yen Contract amount	Millions of yen Thereof due after 1 year	Millions of yen Estimated fair value	Thousands of U.S. dollars Contract amount	Thousands of U.S. dollars Thereof due after 1 year	Thousands of U.S. dollars Estimated fair value
Forward foreign exchange contracts:						
Sell:						
Euro	**¥23,122**	**¥–**	**¥(255)**	**$208,306**	**$–**	**$(2,297)**
Canadian dollar	**2,983**	**–**	**(90)**	**26,874**	**–**	**(811)**
Australian dollar	**1,685**	**–**	**(1)**	**15,180**	**–**	**(9)**
Buy:						
Thai baht	**–**	**–**	**–**	**–**	**–**	**–**
Total	**¥27,790**	**¥–**	**¥(346)**	**$250,360**	**$–**	**$(3,117)**

2) Interest rate related

Not applicable.

8 INVENTORIES

Inventories as of March 31, 2020 and 2021 were as follows:

As of March 31	Millions of yen 2020	Millions of yen 2021	Thousands of U.S. dollars 2021
Finished products	¥331,574	**¥330,109**	**$2,973,955**
Work in process	89,846	**81,206**	**731,586**
Raw materials and supplies	19,885	**21,734**	**195,801**
Total	¥441,305	**¥433,049**	**$3,901,342**

9 LAND REVALUATION

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

The fair value of land was determined based on official notice prices that were assessed and published by the Commissioner of the National Tax Administration, as stipulated in Article 2-4 of the 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, were made to the official notice prices.

The amounts of decrease in the aggregate fair value of the revalued land as of March 31, 2020 and 2021 from that at the time of revaluation, as stipulated in Article 10 of the Land Revaluation Law, were ¥78,987 million and ¥77,059 million ($694,225 thousand), respectively.

10 SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt as of March 31, 2020 and 2021 consisted of loans, principally from banks with interest rates averaging 1.10% and 1.21% for the respective years.

Long-term debt as of March 31, 2020 and 2021 consisted of the following:

As of March 31	Millions of yen 2020	Millions of yen 2021	Thousands of U.S. dollars 2021
Domestic unsecured bonds due serially through 2022 to 2027 at rate of 0.30% to 0.42% per annum	¥ 50,000	¥ 50,000	$ 450,450
Loans principally from banks, maturing through 2076:			
Secured loans	4,329	4,135	37,252
Unsecured loans	423,176	678,108	6,109,081
Lease obligations, maturing through 2028	20,999	22,077	198,892
Subtotal	498,504	754,320	6,795,675
Amount due within one year	(41,614)	(15,805)	(142,387)
Total	¥456,890	¥738,515	$6,653,288

The annual interest rates applicable to long-term loans and lease obligations outstanding averaged 1.22% and 2.07%, respectively, for obligations due within one year and 0.69% and 3.06%, respectively, for obligations due after one year at March 31, 2020.

The annual interest rates applicable to long-term loans and lease obligations outstanding averaged 1.72% and 2.13%, respectively, for obligations due within one year and 0.71% and 3.13%, respectively, for obligations due after one year at March 31, 2021.

The annual maturities of long-term debt at March 31, 2021 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2022	¥ 15,805	$ 142,387
2023	65,009	585,667
2024	271,846	2,449,063
2025	95,046	856,270
2026	112,760	1,015,856
Thereafter	193,854	1,746,432
Total	¥754,320	$6,795,675

The assets pledged as collateral for short-term debt of ¥33,737 million and ¥190 million ($1,712 thousand), and long-term debt of ¥4,329 million and ¥4,135 million ($37,252 thousand) at March 31, 2020 and 2021, respectively, were as follows:

As of March 31	Millions of yen 2020	Millions of yen 2021	Thousands of U.S. dollars 2021
Property, plant and equipment, at net book value	¥443,862	¥439,215	$3,956,892
Inventories	71,692	67,422	607,405
Other	75,662	105,953	954,532
Total	¥591,216	¥612,590	$5,518,829

11 CONTINGENT LIABILITIES

Contingent liabilities for guarantees of loans and similar agreements as of March 31, 2020 and 2021 were as follows:

As of March 31	Millions of yen 2020	Millions of yen 2021	Thousands of U.S. dollars 2021
Guarantees of loans and similar agreements	¥12,533	¥14,070	$126,757

12 OPERATING LEASES

The amounts of future minimum lease payments under non-cancellable operating leases as of March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2020	2021	2021
Current portion	¥ 3,073	¥ 3,291	$ 29,649
Non-current portion	9,984	8,932	80,468
Total	¥13,057	¥12,223	$110,117

13 NET ASSETS

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

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

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

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

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

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

Dividends

1) Dividends paid to shareholders

Resolution	Amount (Millions of yen) (Thousands of U.S. dollars)	Amount per share	Shareholders' cut-off date	Effective date
Annual general meeting of shareholders held on June 24, 2020	¥12,596 $113,477	¥20.00 $0.18	March 31, 2020	June 25, 2020

2) Dividends with the cut-off date within the current fiscal year, but the effective date falls within the subsequent fiscal year
No items to disclose.

14 STOCK OPTIONS

The stock options outstanding as of March 31, 2021 were as follows:

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

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

The stock options activities for the year ended March 31, 2021 were as follows:

For the year ended March 31, 2021	2016 Stock Acquisition Rights (Shares)	2017 Stock Acquisition Rights (Shares)	2018 Stock Acquisition Rights (Shares)	2019 Stock Acquisition Rights (Shares)	2020 Stock Acquisition Rights (Shares)
Non-vested:					
March 31, 2020 - Outstanding	–	–	–	–	–
Granted	–	–	–	–	223,300
Forfeited	–	–	–	–	–
Vested	–	–	–	–	223,300
March 31, 2021 - Outstanding	–	–	–	–	–
Vested:					
March 31, 2020 - Outstanding	48,800	56,800	78,900	104,700	–
Vested	–	–	–	–	223,300
Exercised	–	–	–	–	–
Expired	–	–	–	–	–
March 31, 2021 - Outstanding	48,800	56,800	78,900	104,700	223,300
Price of Stock Options:					
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
	$ 0.01	$ 0.01	$ 0.01	$0.01	$0.01
Weighted average stock price at exercise	¥ –	¥ –	¥ –	¥ –	¥ –
	$ –	$ –	$ –	$ –	$ –
Fair value price at grant date	¥1,327	¥1,336	¥1,027	¥ 650	¥ 415
	$11.95	$12.04	$ 9.25	$5.86	$3.74

The assumptions used to measure the fair value of 2020 Stock Acquisition Rights	
Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	38.596%
Estimated remaining outstanding period:	8 years
Estimated dividend:	¥35.00 per share
Risk-free interest rate:	(0.045)%

15 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major items and amounts included in "Selling, general and administrative expenses" in the consolidated statements of operations for the years ended March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2020	2021	2021
Sales promotion expenses	¥ 57,449	¥ 55,002	$ 495,514
Advertising expenses	124,313	92,560	833,874
Freightage and packing expenses	51,564	43,783	394,441
Reserve for warranty expenses	51,520	33,230	299,369
Salaries and wages	121,066	115,880	1,043,964
Retirement benefit expenses	7,670	6,451	58,117
Research and development costs	135,009	127,432	1,148,036

16 RESEARCH AND DEVELOPMENT COSTS

All research and development costs are included in selling, general and administrative expenses. The research and development costs for the years ended March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2020	2021	2021
Research and development costs	¥135,009	¥127,432	$1,148,036

17 OTHER INCOME/(EXPENSES)

The components of "Other, net" in Other income/(expenses) in the consolidated statements of operations for the years ended March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2020	2021	2021
Rental income	¥ 1,731	¥ 1,682	$ 15,153
Loss on sale of receivables	(1,478)	(891)	(8,027)
Foreign exchange gain/(loss)	(10,466)	16,062	144,703
Loss on sales and retirement of property, plant and equipment, net	(3,645)	(4,563)	(41,108)
Impairment loss (Note 18)	(797)	(1,355)	(12,207)
Loss on production suspension due to the novel coronavirus (*1)	—	(20,460)	(184,324)
Gain on sale of investment securities	413	400	3,604
Compensation for the exercise of eminent domain	109	180	1,622
Other	(1,219)	(1,434)	(12,922)
Total	¥(15,352)	¥(10,379)	$ (93,506)

(*1) Loss on production suspension due to the novel coronavirus represents the fixed cost during the production suspension due to the impact of the novel coronavirus. This extraordinary loss was due to the period during which overseas production bases were shut down at the request of the government and the effects of governments declaring emergencies and taking measures to prevent the spread of infection by limiting economic activities.

18 IMPAIRMENT LOSS

Details of impairment losses for the years ended March 31, 2020 and 2021 were as follows:

For the year ended March 31, 2020

Purpose of use	Location	Type of assets	Millions of yen
Idle assets (Sales facilities)	Gifu Prefecture, Japan, etc.	Buildings and structures, Machinery, equipment and vehicles	¥203
Idle assets (Production facilities)	Hiroshima Prefecture, Japan, etc.	Machinery, equipment and vehicles, Land, etc.	475
Assets held for sales	Osaka Prefecture, Japan, etc.	Buildings and structures, Land.	119
Total			¥797

For the year ended March 31, 2021

Purpose of use	Location	Type of assets	Millions of yen	Thousands of U.S. dollars
Idle assets (Sales facilities)	State of California, U.S.A, etc.	Buildings and structures, Machinery, equipment and vehicles, etc.	**¥ 749**	**$ 6,747**
Idle assets (Production facilities)	Hiroshima Prefecture, Japan, etc.	Machinery, equipment and vehicles, etc.	**506**	**4,559**
Assets held for sales	Tokyo Metropolis, Japan, etc.	Buildings and structures, Land.	**100**	**901**
Total			**¥1,355**	**$12,207**

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

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

19 OTHER COMPREHENSIVE INCOME/(LOSS)

The following table presents reclassification and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2020 and 2021.

For the years ended March 31	Millions of yen 2020	Millions of yen 2021	Thousands of U.S. dollars 2021
Net unrealized gain/(loss) on available-for-sale securities			
Amounts arising during the fiscal year	¥ (2,393)	¥19,571	$176,315
Reclassification adjustments	6	(70)	(631)
Subtotal before tax	(2,387)	19,501	175,685
Tax effect	622	(5,747)	(51,775)
Balance at end of period	(1,765)	13,754	123,910
Deferred gains/(losses) on hedges			
Amounts arising during the fiscal year	1,318	(2,159)	(19,450)
Reclassification adjustments	(2,080)	1,375	12,387
Subtotal before tax	(762)	(784)	(7,063)
Tax effect	232	239	2,153
Balance at end of period	(530)	(545)	(4,910)
Foreign currency translation adjustment			
Amounts arising during the fiscal year	(15,855)	19,698	177,459
Adjustments for retirement benefits			
Amounts arising during the fiscal year	(8,739)	27,864	251,027
Reclassification adjustments	4,883	4,182	37,676
Subtotal before tax	(3,856)	32,046	288,703
Tax effect	1,215	(9,662)	(87,045)
Balance at end of period	(2,641)	22,384	201,658
Share of other comprehensive income/(loss) of affiliates accounted for using equity method			
Amounts arising during the fiscal year	1,570	(2,785)	(25,090)
Reclassification adjustments	48	5	45
Balance at the end of period	1,618	(2,780)	(25,045)
Total other comprehensive income/(loss)	¥(19,173)	¥52,511	$473,072

20 EMPLOYEES' RETIREMENT BENEFITS

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

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

Reconciliations of beginning and ending balances of the retirement benefit obligations and the plan assets for the years ended March 31, 2020 and 2021 were as follows:

For the years ended March 31	Millions of yen 2020	Millions of yen 2021	Thousands of U.S. dollars 2021
Movements in retirement benefit obligations:			
Balance at beginning of year	¥351,192	¥353,670	$3,186,216
Service cost	13,070	13,343	120,207
Interest cost	2,641	2,732	24,613
Actuarial differences	1,503	448	4,036
Benefits paid	(15,389)	(16,828)	(151,604)
Past service costs	(125)	5	45
Other	778	3,071	27,667
Balance at end of year	¥353,670	¥356,441	$3,211,180

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2020	2021	2021
Movements in plan assets:			
Balance at beginning of year	¥285,446	¥281,532	$2,536,324
Expected return on plan assets	5,124	4,930	44,414
Actuarial differences	(7,561)	28,486	256,631
Contributions paid by the employer	9,478	8,230	74,144
Benefits paid	(11,722)	(12,635)	(113,829)
Other	767	2,519	22,694
Balance at end of year	¥281,532	¥313,062	$2,820,378

The reconciliation of the retirement benefit obligations and plan assets to the liability and asset for retirement benefits recognized in the consolidated balance sheets as of March 31, 2020 and 2021 was as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2020	2021	2021
Funded retirement benefit obligations	¥ 337,975	¥ 340,294	$ 3,065,712
Plan assets	(281,532)	(313,062)	(2,820,378)
Subtotal	56,443	27,232	245,334
Unfunded retirement benefit obligations	15,695	16,147	145,468
Total net liability (asset) for retirement benefits recognized in consolidated balance sheets	72,138	43,379	390,802
Liability for retirement benefits	75,874	50,039	450,802
Asset for retirement benefits	(3,736)	(6,660)	(60,000)
Total net liability (asset) for retirement benefits recognized in consolidated balance sheets	¥ 72,138	¥ 43,379	$ 390,802

The profits and losses related to retirement benefits for the years ended March 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2020	2021	2021
Service cost	¥13,070	¥13,343	$120,207
Interest cost	2,641	2,732	24,613
Expected return on plan assets	(5,124)	(4,930)	(44,414)
Actuarial differences amortization	5,616	4,774	43,009
Past service costs amortization	(733)	(592)	(5,333)
Other	(50)	23	206
Severance and retirement benefit expenses	¥15,420	¥15,350	$138,288

Note: For the years ended March 31, 2020 and 2021, accrued pension costs related to defined contribution plans were charged to income as ¥3,388 million and ¥3,426 million ($30,865 thousand), respectively. This cost is not included in the above.

The breakdown of items of adjustments for retirement benefit (before tax) recognized in other comprehensive income for the years ended March 31, 2020 and 2021 was as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2020	2021	2021
Past service costs	¥ (608)	¥ (597)	$ (5,378)
Actuarial differences	(3,248)	32,643	294,081
Total	¥(3,856)	¥32,046	$288,703

The breakdown of items of accumulated adjustments for retirement benefits (before tax) recognized in accumulated other comprehensive income as of March 31, 2020 and 2021 was as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2020	2021	2021
Past service costs that are yet to be recognized	¥ 3,309	¥ 2,712	$ 24,432
Actuarial differences that are yet to be recognized	(36,142)	(3,499)	(31,522)
Total	¥(32,833)	¥ (787)	$ (7,090)

The breakdown of plan assets by major category as of March 31, 2020 and 2021 was as follows:

As of March 31	2020	2021
Bonds	47%	46%
Equity securities	24%	29%
General accounts of the life insurance companies	16%	15%
Other	13%	10%
Total	100%	100%

The major items of actuarial assumptions for the years ended March 31, 2020 and 2021 were as follows:

For the years ended March 31	2020	2021
Discount rate	Primarily 0.6%	Primarily 0.7%
Long-term expected rate of return	Primarily 1.5%	Primarily 1.5%

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

21 INCOME TAXES

The effective tax rate reflected in the consolidated statements of operations for the years ended March 31, 2020 and 2021 differs from the statutory tax rate for the following reasons.

For the years ended March 31	2020	2021
Statutory tax rate	30.5 %	30.5 %
Valuation allowance	56.1 %	1,722.0 %
Foreign withholding tax	13.3 %	203.2 %
Unrecognized tax effect on unrealized gains	1.0 %	(111.9)%
Different tax rates applied to foreign consolidated subsidiaries	(5.8)%	(101.8)%
Equity in net income of affiliated companies	(12.2)%	(91.6)%
Tax system differences for foreign consolidated subsidiaries	—	(60.2)%
Retained earnings in subsidiaries and affiliates	2.7 %	(30.3)%
Refund of income taxes for prior periods	(21.2)%	—
Other	7.0 %	(4.2)%
Effective tax rate	71.4 %	1,555.7 %

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

The significant components of deferred tax assets and liabilities as of March 31, 2020 and 2021 were as follows:

As of March 31	Millions of yen 2020	Millions of yen 2021	Thousands of U.S. dollars 2021
Deferred tax assets:			
Accrued bonuses and other reserves	¥ 60,735	¥ 59,909	$ 539,721
Tax loss carryforwards (*2)	19,626	43,264	389,766
Liability for retirement benefits	24,473	15,600	140,541
Inventory, etc.	9,245	10,570	95,225
Impairment loss	1,377	1,247	11,234
Valuation loss on investment securities, etc.	675	396	3,568
Foreign tax credit carryforward	11,716	210	1,892
Allowance for doubtful receivables	190	198	1,784
Other	52,910	50,823	457,864
Total	180,947	182,217	1,641,595
Valuation allowance for tax loss carryforwards (*2)	(6,779)	(38,549)	(347,288)
Valuation allowance for deductible temporary differences, etc.	(53,752)	(49,796)	(448,613)
Total valuation allowance (*1)	(60,531)	(88,345)	(795,901)
Total deferred tax assets	120,416	93,872	845,694
Deferred tax liabilities:			
Retained earnings in subsidiaries and affiliates	(14,200)	(13,532)	(121,910)
Effect of exchange rate fluctuations on foreign subsidiaries	(11,983)	(10,168)	(91,604)
Net unrealized gain on available-for-sale securities	(1,391)	(7,073)	(63,721)
Asset for retirement benefits	(2,287)	(2,990)	(26,937)
Other	(5,996)	(5,463)	(49,216)
Total deferred tax liabilities	(35,857)	(39,226)	(353,388)
Net deferred tax assets	¥ 84,559	¥54,646	$ 492,306

(*1) Valuation allowance increased by ¥27,814 million ($250,577 thousand). This increase was mainly resulted from the increase in tax loss carryforward on the Company and its associated valuation allowance.

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

As of March 31, 2020	Millions of yen: Tax loss carryforwards (a)	Valuation allowance	Deferred tax assets
2021	¥ —	¥ —	¥ —
2022	—	—	—
2023	—	—	—
2024	—	—	—
2025	—	—	—
Thereafter	19,626	(6,779)	12,847
Total	¥19,626	¥(6,779)	¥12,847 (b)

As of March 31, 2021	Millions of yen: Tax loss carryforwards (a)	Valuation allowance	Deferred tax assets	Thousands of U.S. dollars: Tax loss carryforwards (a)	Valuation allowance	Deferred tax assets
2022	¥ 149	¥ —	¥ 149	$ 1,342	$ —	$ 1,342
2023	—	—	—	—	—	—
2024	—	—	—	—	—	—
2025	—	—	—	—	—	—
2026	—	—	—	—	—	—
Thereafter	43,115	(38,549)	4,566	388,423	(347,288)	41,135
Total	¥43,264	¥(38,549)	¥4,715 (c)	$389,766	$(347,288)	$42,477 (c)

(a) Tax loss carryforwards are after multiplying the statutory tax rate.
(b) Deferred tax assets of ¥12,847 million were recognized for tax loss carryforwards of ¥19,626 million (amount multiplied by the statutory tax rate). No valuation allowance was recognized for the tax loss carryforwards, which were determined to be recoverable based on expected future taxable income.
(c) Deferred tax assets of ¥4,715 million ($42,477 thousand) were recognized for tax loss carryforwards of ¥43,264 million (amount multiplied by the statutory tax rate; $389,766 thousand). No valuation allowance was recognized for the tax loss carryforwards, which were determined to be recoverable based on expected future taxable income.
As of March 31, 2021, the Company's deferred tax assets for tax loss carryforwards, net of valuation allowance for tax loss carryforwards, were ¥4,150 million ($37,387 thousand).

22 SEGMENT INFORMATION

SEGMENT INFORMATION

OVERVIEW OF REPORTABLE SEGMENTS

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

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

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

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

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

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

Net sales, income or loss, and assets by reportable segment for the years ended March 31, 2020 and 2021 were as follows:

	Millions of yen						
	Reportable Segments						
As of and for the year ended March 31, 2020	Japan	North America	Europe	Other areas	Total	Adjustment(*1)	Consolidated(*2)
Net sales:							
Sales to external customers	¥1,035,277	¥1,166,712	¥705,492	¥522,804	¥3,430,285	¥ —	¥3,430,285
Inter-segment sales and transfers	1,735,605	197,582	28,816	83,324	2,045,327	(2,045,327)	—
Total	2,770,882	1,364,294	734,308	606,128	5,475,612	(2,045,327)	3,430,285
Segment income/(loss)	(25,320)	30,839	10,260	26,435	42,214	1,389	43,603
Segment assets	2,174,003	456,906	205,142	326,146	3,162,197	(374,557)	2,787,640
Other items:							
Depreciation and amortization	59,098	21,220	5,621	6,330	92,269	—	92,269
Impairment losses	792	7	—	(2)	797	—	797
Investments in affiliated companies on the equity method	33,353	16,420	3,052	99,074	151,899	—	151,899
Increase in property, plant and equipment and intangible assets	89,241	38,229	1,661	3,447	132,578	—	132,578

As of and for the year ended March 31, 2021	Millions of yen — Reportable Segments: Japan	North America	Europe	Other areas	Total	Adjustment (*1)	Consolidated (*2)
Net sales:							
Sales to external customers	¥ 866,977	¥1,027,856	¥490,134	¥497,099	¥2,882,066	¥ –	¥2,882,066
Inter-segment sales and transfers	1,464,574	252,611	19,600	57,664	1,794,449	(1,794,449)	–
Total	2,331,551	1,280,467	509,734	554,763	4,676,515	(1,794,449)	2,882,066
Segment income/(loss)	(64,724)	40,477	10,002	17,761	3,516	5,304	8,820
Segment assets	2,343,476	449,287	198,115	354,802	3,345,680	(428,266)	2,917,414
Other items:							
Depreciation and amortization	59,723	19,345	4,574	6,123	89,765	–	89,765
Impairment losses	842	467	31	15	1,355	–	1,355
Investments in affiliated companies on the equity method	32,612	5,230	2,444	82,776	123,062	–	123,062
Increase in property, plant and equipment and intangible assets	64,238	24,892	2,063	1,779	92,972	–	92,972

As of and for the year ended March 31, 2021	Thousands of U.S. dollars — Reportable Segments: Japan	North America	Europe	Other areas	Total	Adjustment (*1)	Consolidated (*2)
Net sales:							
Sales to external customers	$ 7,810,604	$ 9,259,964	$4,415,622	$4,478,369	$25,964,559	$ –	$25,964,559
Inter-segment sales and transfers	13,194,360	2,275,775	176,577	519,495	16,166,207	(16,166,207)	–
Total	21,004,964	11,535,739	4,592,199	4,997,864	42,130,766	(16,166,207)	25,964,559
Segment income/(loss)	(583,099)	364,658	90,108	160,009	31,676	47,783	79,459
Segment assets	21,112,396	4,047,631	1,784,820	3,196,414	30,141,261	(3,858,252)	26,283,009
Other items:							
Depreciation and amortization	538,045	174,279	41,207	55,163	808,694	–	808,694
Impairment losses	7,586	4,207	279	135	12,207	–	12,207
Investments in affiliated companies on the equity method	293,802	47,117	22,018	745,730	1,108,667	–	1,108,667
Increase in property, plant and equipment and intangible assets	578,722	224,252	18,586	16,026	837,586	–	837,586

(*1) Notes on adjustment:
(1) The adjustment on segment income/(loss) is eliminations of inter-segment transactions.
(2) The adjustment on segment assets is mainly eliminations of inter-segment receivables and payables.
(*2) The segment income/(loss) is reconciled with the operating income in the consolidated statements of operations for the years ended March 31, 2020 and 2021.
The segment assets are reconciled with the total assets in the consolidated balance sheets as of March 31, 2020 and 2021.

ASSOCIATED INFORMATION

INFORMATION BY GEOGRAPHIC AREA

The sales information by geographic area for the years ended March 31, 2020 and 2021 was as follows:

For the years ended March 31	Millions of yen 2020	2021	Thousands of U.S. dollars 2021
Japan	¥ 629,911	¥ 594,490	$ 5,355,766
U.S.A	873,632	792,024	7,135,351
North America (Excluding U.S.A)	294,261	232,870	2,097,928
Europe	715,837	498,037	4,486,820
Other areas	916,644	764,645	6,888,694
Total	¥3,430,285	¥2,882,066	$25,964,559

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

The property, plant and equipment information by geographic area as of March 31, 2020 and 2021 was as follows:

As of March 31	Millions of yen 2020	Millions of yen 2021	Thousands of U.S. dollars 2021
Japan	¥ 863,019	¥ 861,731	$7,763,342
Mexico	110,476	95,671	861,901
North America (Excluding Mexico)	23,309	45,075	406,081
Europe	20,015	16,924	152,468
Other areas	55,695	55,767	502,406
Total	¥1,072,514	¥1,075,168	$9,686,198

23 RELATED PARTY TRANSACTIONS

There were no transactions with related parties to be disclosed during the years ended March 31, 2020 and 2021.

For the year ended March 31, 2021, an important affiliate was Changan Mazda Automobile Co., Ltd., and the summary of its financial statements used in the calculation of the equity in net income of affiliated companies was as follows;

As of and for the year ended March 31, 2021	Millions of yen	Thousands of U.S. dollars
Total current assets	¥130,185	$1,172,838
Total non-current assets	61,677	555,649
Total current liabilities	101,494	914,361
Total non-current liabilities	26,391	237,757
Total net assets	63,977	576,369
Net sales	267,256	2,407,712
Net income before income taxes	30,475	274,550
Net income	23,523	211,919

24 SIGNIFICANT SUBSEQUENT EVENTS

On July 20, 2021, the Company implemented the funding by new subordinated loan (the "Subordinated Loan") and made an early repayment of the existing subordinated loan (the "Existing Subordinated Loan").

OVERVIEW OF THE SUBORDINATED LOAN

The detailed conditions and terms of the Subordinated Loan are as follows.

1) Amount borrowed	¥70 billion ($631 million)
2) Use of proceeds	Applied to the repayment of the Existing Subordinated Loan
3) Drawdown date	July 20, 2021
4) Maturity date	July 20, 2081 However, the Company may make early repayment of all or part of the principal on July 20, 2026 or any interest payment date thereafter or upon occurrence of any predefined early repayment events.

5) Replacement restrictions

Upon early repayment of the Subordinated Loan, the Company intends to raise the funds that the rating institution has approved the same or greater equity credit attributes as the Subordinated Loan within the 12-month prior to the early repayment date. Provided, however, if after July 20, 2026, certain financial conditions are met at the time of the early repayment, the Company may not raise funds that the rating institution has approved the same or greater equity credit attributes as the Subordinated Loan.

6) Interest payment

Excluding the cases where dividends are paid on common stock, the Company may, at its discretion, defer all or some of the payment of interest on the Subordinated Loan.

7) Subordination

If liquidation proceedings, bankruptcy proceedings, reorganization proceedings or rehabilitation proceedings, or any proceedings similar to any of those under the law of any nation other than Japan are commenced against the Company and such proceedings continue, the right to request payment of the receivables under the Agreement will be effective on the condition precedent that all receivables other than the receivables whose subordination and the like are similar in substance to those of the Subordinated Loan are paid in full or otherwise satisfied in full.

No term of the Agreement may be changed to the disadvantage of any creditors other than the creditors of the subordinated receivables in any respect whatsoever.

8) Equity credit attributes of the Subordinated Loan evaluated by a Ratings Institution

Class 3 / 50% (Rating and Investment Information, Inc.)

9) Investors (lenders) participating in the Subordinated Loan

Sumitomo Mitsui Banking Corporation

Sumitomo Mitsui Trust Bank, Limited

Development Bank of Japan Inc.

The Hiroshima Bank, Ltd.

The Yamaguchi Bank, Ltd.

Momiji Bank, Ltd.

DETAILS OF THE EARLY REPAYMENT OF THE EXISTING SUBORDINATED LOAN

Details of the early repayment of the Existing Subordinated Loan are as follows.

1) Early repayment date	July 20,2021
2) Total amount of early repayment	¥70 billion ($631 million)
3) Reason for early repayment	Pursuant to the early repayment clause of the Existing Subordinated Loan (*)

*: Repay based on the prior consent of all lenders on the date available to make an early repayment initially set for the Existing Subordinated Loan (interest payment date on or after July 20, 2021)

EFFECT ON THE CONSOLIDATED STATEMENT OPERATIONS

The effect of the funding by the Subordinated Loan and early repayment of the Existing Subordinated Loan on the consolidated statement of operations is immaterial.

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent auditor's report

To the Board of Directors of Mazda Motor Corporation:

Opinion

We have audited the accompanying consolidated financial statements of Mazda Motor Corporation ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheet as at March 31, 2021, the consolidated statements of operations, comprehensive income, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

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

Appropriateness of management's judgment as to whether there was an impairment indicator for operating assets of Mazda Motor Corporation	
The key audit matter	**How the matter was addressed in our audit**
The Group manufactures automobiles at domestic and overseas plants and owns long-lived assets such as manufacturing facilities, and land and buildings for plants. The balance of property, plant and equipment ("PP&E") and intangible assets on the consolidated balance sheet for the current fiscal year amounted to ¥1,118,082 million. Of this amount, the balance	The primary procedures we performed to assess the appropriateness of management's judgement as to whether there was an impairment indicator for the Company's operating assets included the following: **(1) Internal control testing**

of the Company's PP&E and intangible assets was ¥708,860 million, which accounted for approximately 24% of total assets in the consolidated financial statements.

In applying the Accounting Standard for Impairment of Fixed Assets, the Group principally groups its long-lived assets at each operating company level and assesses whether indicators of impairment exist. Idle assets, assets held for leasing, and assets held for sale, however, are assessed individually. When there is an indicator of impairment, the Group estimates the future cash flows of each asset group and determines if an impairment loss shall be recognized. Most of the Company's PP&E and intangible assets are grouped as that of operating assets.

While the Company recorded net losses from operations for the fiscal years ended March 31, 2020 and 2021, the Company expects net income from operations for the fiscal year ending March 31, 2022. Since there were no other events or circumstances that might indicate impairment, the Company determined that there was no impairment indicator for its operating assets.

On the other hand, the next year's budget, which was the basis for the forecasts of profit or loss from operations for the following fiscal year, included significant assumptions involving estimation uncertainty, such as the prospects for consolidated wholesales volume assuming a certain business environment that incorporated the effects of novel coronavirus and the shortage of semiconductors, the results of manufacturing cost improvement measures, the impact of rising raw material prices, including precious metals, as well as transaction prices between the Company and its subsidiaries, which required management judgment.

We, therefore, determined that our assessment of the appropriateness of management's judgment as to whether there was an impairment indicator for the Company's operating assets was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.

We tested the design and operating effectiveness of certain of the Company's internal controls over the estimation related to impairment of its long-lived assets. In the assessment, we focused our testing on the internal controls relevant to management's assessment of the reasonableness of the estimation related to consolidated wholesales volume, manufacturing cost improvement plans, the impact of rising raw material prices, including precious metals, as well as transaction prices between the Company and its subsidiaries, which were especially important in the next year's budget.

(2) Assessment of the estimation included in the next year's budget

We assessed the precision of management's estimates by comparing the previous years' budgets with the actual results and analyzing the causes of any variances. We then assessed the reasonableness of key assumptions embedded in the next year's budget, by performing the following procedures, among others:

- discussed the economic outlook and demand fluctuations in each market embedded in the next year's budget with management and relevant personnel of the Company, and assessed the reasonableness of consolidated wholesales volume in the next year's budget in light of market forecast reports issued by an external research company based on our reading of those reports;
- inquired of management and relevant personnel of the Company regarding assumptions related to the results of manufacturing cost improvement measures and the impact of rising raw material prices, including precious metals, embedded in the next year's budget, inspected documents supporting those assumptions and compared them with actual cost improvement achieved through similar measures in the past and historical price trends; and
- inquired of management and relevant personnel of the Company regarding the estimates of transaction prices between the Company and its subsidiaries embedded in the next year's budget, and assessed the reasonableness of those assumptions by involving a tax specialist within our network firms.

Appropriateness of management's judgment on the recoverability of deferred tax assets of Mazda Motor Corporation

The key audit matter	How the matter was addressed in our audit
The Group recognized deferred tax assets of ¥61,120 million on the consolidated balance sheet for the current fiscal year. Of this amount, deferred tax assets of the Company in its stand-alone financial statements was ¥37,208 million, which accounted for approximately 1% of total assets in the consolidated financial statements. As described in Note 21, "Income Tax" to the consolidated financial statements, the balance of deferred tax assets related to tax loss carryforwards of the Company was ¥4,150 million at the end of the current fiscal year. Based on the estimated future taxable income, deferred tax assets are recognized for tax loss carryforwards and deductible temporary differences to the extent that they are expected to reduce the amount of future tax payments. The estimated future taxable income, which was used to assess the recoverability of deferred tax assets, was based on the next year's budget prepared by management. Accordingly, it included significant assumptions involving estimation uncertainty, such as the prospects for consolidated wholesales volume assuming a certain business environment that incorporated the effect of novel coronavirus and the shortage of semiconductors, the results of manufacturing cost improvement measures, the impact of rising raw material prices, including precious metal, as well as transaction prices between the Company and its subsidiaries, which required management judgment. We, therefore, determined that our assessment of the management's judgment on the recoverability of deferred tax assets of the Company was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	In our auditor's report on the consolidate financial statements, we have described our audit responses to the key audit matter, "Appropriateness of management's judgment as to whether there was an impairment indicator for operating assets of Mazda Motor Corporation." This key audit matter, "Appropriateness of management' judgment on the recoverability of deferred tax assets of Mazda Motor Corporation" mainly concerned significant assumptions involving estimation uncertainty, such as the prospects for consolidated wholesales volume, the results of manufacturing cost improvement measures, the impact of rising raw material prices, including precious metal, as well as transaction prices between the Company and its subsidiaries, which required management judgment. In that context, since our audit responses to the key audit matter were substantially the same as those in "Appropriateness of management's judgment as to whether there was an impairment indicator on operating assets of Mazda Motor Corporation" in our auditor's report on the consolidated financial statements, no further description is provided in this section.

Assessment of the appropriateness of management's estimation of the expected reimbursement rate used to calculate a reserve for warranty expenses related to recall-related repair costs at Mazda Motor Corporation

The key audit matter	How the matter was addressed in our audit
On the consolidated balance sheet, the Group recognized a reserve for warranty expenses of ¥80,504 million for the current fiscal year. The reserve for recall-related repair costs included as part of the reserve for warranty expenses is	The primary procedures we performed to assess the appropriateness of management's estimation of the expected reimbursement rate from suppliers for

calculated by deducting an estimated amount of reimbursement from suppliers, which is based on an expected reimbursement rate, from the expected amount of future recall-related repair costs. Based upon the analysis of the causes of defects, the expected reimbursement rate is determined by considering technical responsibility, the suppliers' payment ability, and the status of negotiations with suppliers. It is then incorporated into the calculation of the reserve. The expected reimbursement rate included management's assessment of technical responsibility, involved uncertainty, and was dependent upon future negotiations with suppliers. Therefore, management's judgment thereon had a significant effect on the expected reimbursement rate and there is a risk that an inappropriate expected reimbursement rate may be determined. We, therefore, determined that our assessment of the appropriateness of management's estimation of the expected reimbursement rate from suppliers for recall-related repair costs at the Company was one of the most significant matters in our audit of the consolidated financial statements for the current year, and accordingly, a key audit matter.	recall-related repair costs at the Company included the following: **(1) Internal control testing** We tested the design and operating effectiveness of certain of the Company's internal controls relevant to estimating the reserve for warranty expenses related to recall-related repair costs, including those over determining the expected reimbursement rate from suppliers, as a key assumption, based on technical responsibility. In this assessment, we particularly focused our testing on controls to prevent or detect adopting an inappropriate reimbursement rate that is inconsistent with the facts such as where technical responsibility falls. **(2) Assessment of the estimation of the expected reimbursement rate** For a selection of significant cases where a large amount of reimbursement is expected, we performed the following procedures to assess the appropriateness of management's estimation of the expected reimbursement rate from suppliers, as a key assumption, based on technical responsibility: ● inspected the minutes of the meetings on quality assurance and the defect analysis reports, and assessed the consistency of management's future perspective and negotiation policy with assumptions adopted to estimate the expected reimbursement rate for accounting purposes; ● agreed the expected reimbursement rate to the defect analysis reports that served as the basis for the estimation, and inspected the minutes of negotiations with suppliers; and ● inquired of the personnel responsible for the Quality Division and Financial Services Division, as well as personnel in charge of negotiations with suppliers, and assessed the consistency among their respective responses to our inquiry.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

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

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

/S/ Satoshi Yokosawa
Designated Engagement Partner
Certified Public Accountant

/S/ Atsushi Nagata
Designated Engagement Partner
Certified Public Accountant

/S/ Takuya Morishima
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Hiroshima Office, Japan
August 5, 2021

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

LONG-TERM VISION FOR TECHNOLOGY DEVELOPMENT AND INITIATIVES FOR CARBON NEUTRALITY

In August 2017, Mazda announced "Sustainable Zoom-Zoom 2030," its long-term vision for technology development that looks ahead to the year 2030. In light of the significant changes in the global automobile industry, the new vision takes a longer-term perspective and sets out how Mazda will make use of driving pleasure—the fundamental appeal of the automobile—to help resolve issues facing the earth, society, and people.

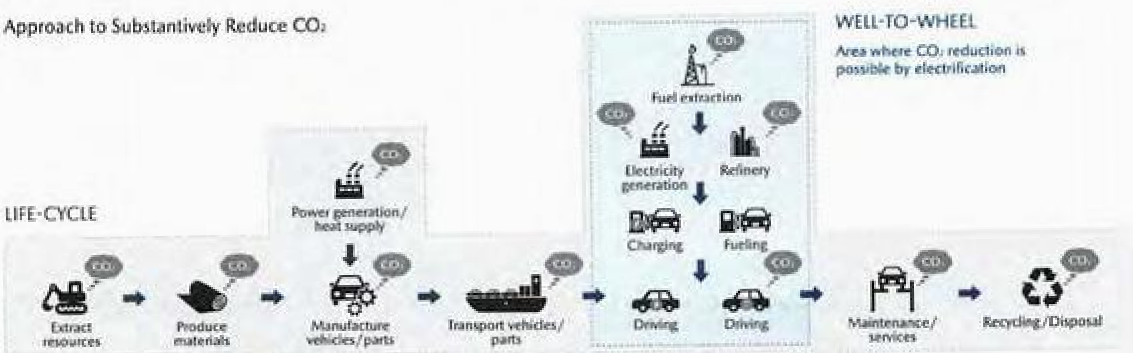
Sustainable Zoom-Zoom 2030

At Mazda, we see it as our mission to bring about a beautiful earth and to enrich people's lives as well as society. We will continue to seek ways to inspire people through the value found in cars.



Working to Reduce CO_2 Emissions throughout a Vehicle's Life Cycle and Endeavor for Carbon Neutrality By 2050
Our greatest challenge lies in reducing CO_2 emissions to curb global warming. In order to stop global warming and preserve this beautiful earth for future generations, we are working to reduce CO_2 emissions throughout a vehicle's life cycle. Accordingly, we are promoting the reduction of CO_2 emissions not just from the previous perspective, which evaluates CO_2 emissions while driving, but also from a well-to-wheel perspective, which evaluates CO_2 emissions from fuel extraction to manufacturing and shipping. In addition, we promote the reduction of CO_2 emissions throughout a vehicle's life cycle, which includes the manufacturing, logistics, disposal, and recycling of vehicles.

Approach to Substantively Reduce CO_2



Multiple solutions for electrification are important in line with each country's power supply conditions, usage environment, and customer diversity and demands. With this approach, we plan to develop electrification technologies in stages based on our Building Block Strategy and electrify all of the vehicles we produce by 2030. In 2020, we introduced the Mazda MX-30 mild hybrid and EV models.

Additionally, we announced in February 2021 that we will endeavor to achieve carbon neutrality by 2050. We will make efforts to promote carbon neutrality throughout the supply chain as we gain support for energy policies and the development, production, and spread of electrification.

For specific Mazda CSR activities, please see the *Mazda Sustainability Report*.
https://www.mazda.com/en/csr/report/download/
The CSR Initiatives section of this annual report has been reedited from *Mazda Sustainability Report 2020*. *Mazda Sustainability Report 2021* is currently in progress (as of September 2021).

CSR INITIATIVES

Mazda CSR

Basic Approach

Mazda aims to achieve its Corporate Vision through the actions of each individual, based on the Mazda Way. While striving to meet the requests and expectations of all of Mazda's stakeholders, each employee pursues corporate social responsibility (CSR) initiatives in the course of their daily business activities, in order to achieve the sustainable development of both society and the Company itself.

Areas of CSR Initiatives

Referencing the Charter of Corporate Behavior issued by the Japan Business Federation (Keidanren), etc., Mazda classifies and evaluates its CSR initiatives. The areas of CSR initiatives are periodically reviewed and revised in the light of issues in the business activities of the automotive industry and Mazda, as well as social issues to which stakeholders attach particular importance. The most recent review was made in July 2016, by which the Company defined the following as the key areas of its CSR initiatives: Customer Satisfaction, Quality, Safety, Environment, Respect for People, and Social Contributions.

Customer Satisfaction	Providing a Mazda brand experience that exceeds customer expectations Commitment to customers / Sales and customer service, etc.
Quality	Offering products and services that please our customers Establishing stable product quality / Achieving quality that exceeds customer expectations / Cultivating human resources capable of thinking and acting for the happiness of customers
Safety	Promoting safety initiatives to achieve a safe and accident-free automotive society Safety initiatives based on three viewpoints: vehicles, people, and roads and infrastructure
Environment	Reducing environmental impact throughout the entire vehicle life cycle Environmental management / Efforts regarding product and technology development / Efforts regarding manufacturing and logistics / Recycling / Biodiversity / Communication, etc.
Respect for People	Developing human resources, who are the foundations of the Company and society, and respecting for human rights Initiatives with employees (including occupational safety and health) / Respect for human rights, etc.
Social Contributions	Contributing to local communities as a good corporate citizen Activities based on the three pillars (environment and safety performance, human resources development, and community contributions), etc.

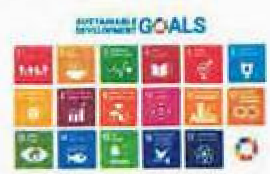
(Mazda plans to review "the areas of CSR initiatives" in *Mazda Sustainability Report 2021*)

Collaboration with Local Government, Industrial Organizations, etc.

To fulfill its social responsibility, Mazda is actively collaborating with external organizations, including local governments and industrial organizations. The Company has participated in activities conducted by industrial organizations, such as the Japan Business Federation (Keidanren) and the Japan Automobile Manufacturers Association, while also being involved in government-led activities, such as the Strategic Commission for the New Era of Automobiles set up by Japan's Ministry of Economy, Trade and Industry. In addition, Mazda signed the United Nations Global Compact and declared its support for the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) (see "Support for and Response to TCFD" on page 62), as part of its efforts in line with the international community's initiatives.

Promoting Initiatives Based on the SDGs

The Mazda Group pushes forward with various initiatives to contribute to the achievement of the Sustainable Development Goals (SDGs) adopted by the United Nations. In fiscal year March 2021, the Company has made progress with clarifying the relationship between SDGs and the initiatives based on the Medium-Term Management Plan.



External Evaluations of CSR (As of August 31, 2021)

Mazda identifies key external ratings and evaluations both from within Japan and overseas. By analyzing the results, Mazda evaluates its own initiatives. Mazda continuously makes active efforts to disclose information by responding to both domestic and global surveys and evaluations, such as those by socially responsible investment (SRI) and environmental, social, and governance (ESG) rating organizations.

- Inclusion in the Dow Jones Sustainability Index (DJSI) Asia Pacific Index (Selected since September 2017)
- Inclusion in the FTSE4Good Index Series (Selected since March 2011)
- Inclusion in the FTSE Blossom Japan Index (Selected since the index was established in July 2017)
- Inclusion in the MSCI ESG Leaders Indexes (Selected since June 2020)
- Inclusion in the MSCI Japan Empowering Women Index (WIN) (Selected since December 2019)
- Inclusion in the Ethibel EXCELLENCE Investment Register (Selected since October 2013)
- In the CDP Climate Change Report 2020, Mazda's score was A-
- Inclusion in the S&P/JPX Carbon Efficient Index (Selected since the index was established in September 2018)
- In fiscal year March 2021, Mazda received Silver Medal evaluation in a supply chain assessment conducted by EcoVadis

Customer Satisfaction

Basic Approach

The Mazda Group promotes brand value management. By enhancing its brand value, the Group aims to increase the number of enthusiastic Mazda fans and attain its business growth, thereby consequently enhancing its corporate value. To establish an emotional connection with customers, Mazda considers it necessary to take into account all touch points, i.e., not only the period during which customers are in possession of a Mazda vehicle, but also the periods before they purchase the vehicle and after they let go of it.

Every Touch Point

Promoting Activities to Enable Customers to Experience "Driving Pleasure"

Mazda promotes initiatives to provide customers with opportunities to communicate with the Mazda brand and strengthen bonds with Mazda throughout their car ownership. As part of these initiatives, Mazda promotes activities which are designed to communicate the concept of Mazda's *monotsukuri* and its latest technologies to customers, and offering them opportunities to dialogue with employees. Through these various approaches, Mazda strives to establish special bonds with customers, while striking a balance between providing customers with driving pleasure and raising their safety and environmental awareness.

Supporting Customers' Car Ownership Assuredly

Mazda promotes initiatives that aim to realize "safer, secure and comfortable ownership experiences" and "customer services that will be relied on by customers." Through developing and providing service/repair tools and service manuals, establishing parts supply networks, and offering training for service trainers and service staff, Mazda supports dealers in Japan and overseas, aiming at building up systems to enable them to provide close and proper support for customers.

Quality

Basic Approach

Toward the realization of its Corporate Vision, Mazda believes that it is important to enhance the "quality of all things offered outside the Company," including products and services, to satisfy customers. The Company defines the Five Types of Mazda Quality: "quality of work," "quality of management," "quality of work environment," "quality of behavior," and "quality of all things offered outside the Company," which is underpinned by the preceding four. In line with its quality policy, Mazda further advances the efforts it has made and promotes united collaboration among all areas, continuing to enhance Mazda's unique value.

Mazda Quality Policy

Mazda Quality Policy

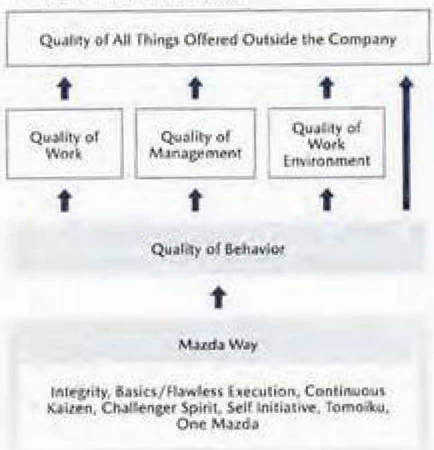
To enrich the lives of our customers by providing products and services that reflect steady and uncompromising work.

Approach to Quality Improvement

To deliver customers safety, trust, and excitement through automotive lifestyles, and to have customers continuously realize the value of its products, Mazda makes Group-wide efforts based on the three principles below:

1. Establishing consistent quality, from planning to production
2. Early detection and early solution of market problems
3. Building special bonds with customers—cultivating human resources capable of considering and acting toward the happiness of customers

Five Types of Mazda Quality



Safety

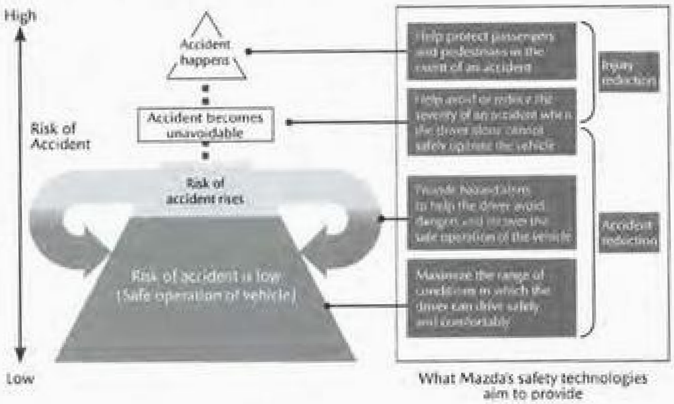
Basic Approach

While continuing to keep abreast of the latest safety advancements, Mazda works on technology development with the belief that technologies will demonstrate their true value only when their use becomes widespread.

Initiatives in Vehicles: Mazda Proactive Safety

Mazda's safety philosophy, which guides the research and development of safety technologies, is based on understanding, respecting, and trusting the driver.

To drive safely it is essential to recognize potential hazards, exercise good judgment, and operate the vehicle in an appropriate fashion. Mazda aims to support these essential functions so that drivers can drive safely and with peace of mind, despite changing driving conditions. Since drivers are human beings, and human beings are fallible, Mazda offers a range of technologies which help to prevent or reduce the damage resulting from an accident.



What Mazda's safety technologies aim to provide

Continuous Evolution of Safety Technologies

Mazda strives to continuously evolve its basic safety technologies, such as the ideal driving position and pedal layout and excellent visibility, as well as technologies to mitigate injuries in an accident, as represented by a lightweight, high-rigidity, safe body. The Company is also committed to continuous evolution of i-Activsense, a series of Mazda's advanced safety technologies, which the Company plans to incorporate into more Mazda models, in order to deliver safer, more reliable cars to a greater number of customers. The features of i-Activsense include technologies that support safer driving by helping the driver to recognize potential hazards and technologies which help to avert collisions or reduce their severity in situations where they cannot be avoided.

Meanwhile, Mazda is developing the Mazda Co-Pilot Concept, a development concept for human-centered self-driving technology. This "Mazda Co-Pilot" monitors the driver's condition at all times and if a sudden change in the driver's physical condition is detected, switches to autonomous driving, bringing the car to a safe place, stopping the car and places an emergency call. For the first step, called Mazda Co-Pilot 1.0, we plan to start its introduction from our Large Products from 2022.

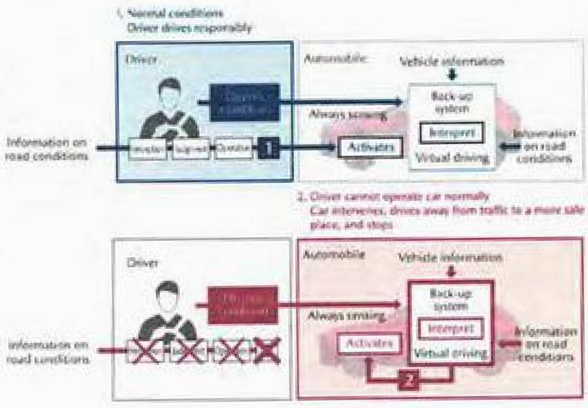
MAZDA CO-PILOT CONCEPT

When the driver's condition is normal

Under normal conditions, drivers can enjoy driving themselves while the car constantly monitors their condition and conducts "virtual driving," meaning it is ready to drive itself at any time.

When the driver cannot operate the vehicle in a normal manner

When it is determined that the driver cannot operate the vehicle normally, the car intervenes in an attempt to avoid collisions and moves the vehicle away from traffic to a more safe location where it can stop the vehicle.



Environment

Basic Approach

Mazda actively adopts initiatives to promote a decarbonized and low-carbon society, recycling-oriented society in harmony with nature, in cooperation with local governments, industrial organizations, and non-profit organizations. These efforts are reflected in all of Mazda's corporate activities with the aim of achieving a sustainable society. The Company carries out initiatives in each of the following fields, which Mazda believes automakers should address in the face of the worsening environmental issues: energy-and global-warming-related issues, promoting resource recycling, cleaner emissions, and environmental management.

Energy- and Global-Warming-Related Issues

Mazda is taking various measures to reduce CO_2 emissions over the entire life cycle of a vehicle. The Company is developing multiple solutions that enable us to offer appropriate powertrains that take into consideration each region's situation and power generation mix. In addition, Mazda carries out various initiatives such as making efforts with other companies and between industry, academia, and government to encourage the spread of renewable liquid fuels and reducing CO_2 emissions from production, offices, and logistics operations.

Promoting Resource Recycling

Mazda strives to reduce waste from vehicles, the vehicle manufacturing and shipping processes, and the disposal of end-of-life vehicles, while actively promoting the comprehensive recycling of resources. Various initiatives are under way, including the development of vehicles that are easy to disassemble and recycle, the reduction of direct landfill waste in production sites, and the reduction of the volume of packaging and wrapping materials used for logistics operations.

Cleaner Emissions

Efforts are being made to reduce various emissions/waste (aside from CO_2) from vehicles and manufacturing processes, especially emissions with highly adverse environmental impacts. For example, the Company encourages the introduction of low-emission vehicles to improve air quality in each country and region and activities to reduce emissions of PRTR substances and VOCs in production sites.

Environmental Management

Mazda is promoting initiatives under environmental management systems (EMS) across its entire supply chain and in all Group companies, in order to conduct more environmentally conscious business activities in a more effective manner based on ISO 14001 and other standards. Moreover, various measures are carried out to expand the implementation of life cycle assessment (LCA) and biodiversity preservation activities.

Establishment of Value Chain for Next-Generation Biodiesel Fuels in Hiroshima "Your Green Fuel" Project

Mazda participates in the Hiroshima "Your Green Fuel" Project, a project to spread next-generation biodiesel automotive fuels. To create a model for the local production and consumption of biodiesel fuels in Hiroshima, the Company has established a biodiesel fuel value chain—from the production and supply of raw materials to the use of the fuels—and use of the fuels has started.

Image of biofuel vehicle

Refer to the following URL for details (Japanese only):
https://newsroom.mazda.com/ja/publicity/release/2020/202008/200804a.html

Support for and Response to TCFD

In May 2019, Mazda declared its support for the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD)*1 and joined the TCFD Consortium,*2 showing its commitment to strengthening its efforts to address climate change. Since fiscal year March 2021, the Company has been taking measures for information disclosure regarding climate-related risks and opportunities in accordance with the TCFD recommendations in the thematic areas of governance, strategy, risk management, and metrics and targets.*3

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

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

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

Respect for People

Basic Approach

Mazda recognizes that people are its most important resource and aims to be a company staffed by people who enjoy their work. To this end, the Company promotes human resources training based on the Mazda Way principles that are shared throughout the entire Mazda Group worldwide. Also, the Company has established Group-wide human resources policies and measures along with the promotion of various initiatives.

Also, Mazda declares that it will never tolerate human rights violations of any kind, including discrimination and bullying on the basis of race, nationality, faith, gender, social status, family origin, age, physical disability, sexual orientation, or gender identity, and also states that Mazda is determined to eliminate human rights violations from business activities both inside and outside the Company. With this determination, the Company expands its initiative to promote respect for human rights to its domestic and overseas group companies and suppliers.

Creating a Working Environment That Enables Each Employee's Successful Performance

Mazda strives to create a working environment where each employee can continue to proactively work and succeed. Specifically, the Company promotes the introduction of a system that encourages flexible and diverse work styles, the reduction of working (overtime) hours through the effective use of information technology, and the development of career plans for employees' continued success.

Seven Principles of the Mazda Way

INTEGRITY
We keep acting with integrity toward our customers, society, and our own work.

BASICS/FLAWLESS EXECUTION
We devote ourselves to the basics, and make steady efforts in a step by step fashion.

CONTINUOUS KAIZEN
We continue to improve with wisdom and ingenuity.

CHALLENGER SPIRIT
We set a high goal, and keep challenging to achieve it.

SELF INITIATIVE
We think and act with "self initiative."

TOMOIKU
We learn and teach each other for our mutual growth and success.

ONE MAZDA
We think and act with the view of "Global" and "One Mazda."

Human Resources System and Measures (Examples)

Work-Life Balance
Child-rearing paid leave / Child-rearing leave, Nursing care leave, Special Warm Heart leave system*

* A paid-leave system that covers nursing care for relatives, volunteer work, functions at one's child's school, and infertility treatment

Support for Employees with Special Needs
Establishment of the Physical Challenge Support Desk for consultations. Employment of certified sign-language interpreters as regular employees.

Promotion of Reemployment of the Elderly
Reemployment of retired former employees to help them share their expertise (Expert Family system)

Health Improvement
Vitality checkups (investigation of occupational stress and diagnosis of the organization's comprehensive health degree)
Eco-Walk Commuting Program (with allowance payments)

Social Contributions

Basic Approach

As a company engaged in global business, Mazda is fulfilling its responsibilities as a good corporate citizen through ongoing involvement in socially beneficial activities tailored to the needs of local communities, in order to ensure that its business activities contribute to the building of a sustainable society. Mazda conducts various social contribution initiatives, based on the three pillars in the basic policy.

Three Pillars in Basic Policy on Social Contribution Initiatives

DIRECTORS AND OFFICERS (As of June 24, 2021)

Directors

Number of shares held: 9,200

Kiyotaka Shobuda
Representative Director and Chairman of the Board

Mar. 1982	Joined the Company
Apr. 2006	Deputy General Manager, Hofu Plant
Nov. 2008	Executive Officer; President, AutoAlliance (Thailand) Co., Ltd.
Jun. 2013	Managing Executive Officer
Apr. 2016	Senior Managing Executive Officer
Jun. 2016	Director and Senior Managing Executive Officer
Jun. 2021	Representative Director and Chairman of the Board

Number of shares held: 13,200

Akira Marumoto
Representative Director

Apr. 1980	Joined the Company
Jun. 1997	Program Manager, Program Managers Div.
Jun. 1999	Director
Jun. 2002	Executive Officer
Apr. 2006	Managing Executive Officer
Apr. 2010	Senior Managing Executive Officer
Jun. 2010	Director and Senior Managing Executive Officer
Jun. 2013	Representative Director, Executive Vice President
Jun. 2018	Representative Director, President and CEO

Number of shares held: 13,000

Kiyoshi Fujiwara
Representative Director

Mar. 1982	Joined the Company
Mar. 2003	Vice President, Mazda Motor Europe GmbH
Jun. 2005	General Manager, Product Planning & Business Strategy Div.
Nov. 2008	Executive Officer
Jun. 2013	Managing Executive Officer
Apr. 2015	Managing Executive Officer; President, Mazda Engineering & Technology Co., Ltd.
Apr. 2016	Senior Managing Executive Officer
Jun. 2016	Director and Senior Managing Executive Officer
Jun. 2018	Representative Director, Executive Vice President
Jun. 2021	Representative Director, Executive Vice President and COO

Number of shares held: 1,100

Mitsuru Ono
Director

Apr. 1981	Joined Sumitomo Bank, Ltd. (now Sumitomo Mitsui Banking Corp.)
Apr. 2011	Executive Officer, General Manager of International Credit Management Dept.
Jun. 2015	Standing Auditor
May 2017	Adviser, Mazda Motor Corporation
Jun. 2017	Director and Senior Managing Executive Officer

Number of shares held: 2,400

Akira Koga
Director

Mar. 1984	Joined the Company
Mar. 2004	General Manager, Corporate Planning Div.
Nov. 2008	Executive Officer
Apr. 2011	Executive Officer; Executive Vice President, Mazda Motor of America, Inc. (Mazda North American Operations)
Jun. 2013	Managing Executive Officer
Apr. 2016	Senior Managing Executive Officer
Jun. 2018	Director and Senior Managing Executive Officer

Number of shares held: 1,300

Masahiro Moro
Director

Mar. 1983	Joined the Company
Aug. 2002	General Manager, Global Marketing Div.
Mar. 2004	Vice President, Mazda Motor Europe GmbH
Nov. 2008	Executive Officer
Jun. 2013	Managing Executive Officer
Jan. 2016	Managing Executive Officer, President and CEO, Mazda Motor of America, Inc. (Mazda North American Operations)
Apr. 2016	Senior Managing Executive Officer
Apr. 2019	Senior Managing Executive Officer, Chairman and CEO, Mazda Motor of America, Inc. (Mazda North American Operations)
Jun. 2019	Director and Senior Managing Executive Officer

Number of shares held: 1,600

Yasuhiro Aoyama
Director

Mar. 1986	Joined the Company
Oct. 2007	General Manager, Product Planning & Business Strategy Div.
Oct. 2011	General Manager, Global Marketing Div.
Apr. 2014	Executive Officer
Apr. 2017	Managing Executive Officer
Apr. 2019	Managing Executive Officer President and CEO, Mazda Motor Europe GmbH
Jun. 2021	Director and Senior Managing Executive Officer

Independent director
Outside director

Number of shares held: 700

Kiyoshi Sato
Director

Apr. 1979	Joined Tokyo Electron Ltd.
Dec. 2001	General Manager of Clean Track Business Unit, Tokyo Electron Ltd.
Jun. 2003	Representative Director, President and CEO, Tokyo Electron Ltd.
Apr. 2009	Director and Vice Chairman of the Board, Tokyo Electron Ltd.
Jun. 2011	Director, Tokyo Electron Ltd.
Jul. 2014	Advisor, Tokyo Electron Ltd.
Jun. 2016	Audit & Supervisory Board Member, Tokyo Electron Yamanashi Ltd.
Jun. 2017	Outside Director, TOSHIBA MACHINE Co., Ltd. (now SHIBAURA MACHINE CO., LTD.)
Jul. 2017	Advisor, Tokyo Electron Ltd.
Jun. 2019	Outside Director, Inabata & Co., Ltd.
Jun. 2019	Outside Director, Mazda Motor Corporation

Independent director
Outside director

Number of shares held: 1,200

Michiko Ogawa
Director

Apr. 1986	Joined Matsushita Electric Industrial Co., Ltd. (now Panasonic Corporation)
Apr. 2015	Executive Officer, in charge of Technics Brand; Managing Officer, Appliances Company
Jun. 2017	Executive Officer, in charge of Technics Brand; Vice President, Appliances Company in charge of Home Entertainment Business and Communication Business
Jun. 2018	Chairman, Japan Audio Society
Jun. 2019	Outside Director, Mazda Motor Corporation
Oct. 2019	Director, in charge of Technics Brand, Panasonic Corporation; Vice President, Appliances Company in charge of Technology
Apr. 2021	Director in charge of Technics Brand; Director in charge of Kansai External Relations and EXPO Promotion, Panasonic Corporation

Number of shares held: 5,600

Masatoshi Maruyama
Director, Audit & Supervisory Committee Member (Full-time)

Apr. 1980	Joined the Company
Jun. 2005	Executive Vice President, AutoAlliance (Thailand) Co., Ltd.
May 2010	General Manager, Quality Div.
Apr. 2011	Executive Officer; General Manager, Quality Div.
Jun. 2012	Executive Officer; General Manager, Hiroshima Plant
Apr. 2015	Managing Executive Officer
Jun. 2019	Director, Audit & Supervisory Committee Member (Full-time)

Number of shares held: 4,700

Nobuhiko Watabe
Director, Audit & Supervisory Committee Member (Full-time)

Mar. 1982	Joined the Company
Feb. 2002	Deputy General Manager, Corporate Planning Div.
Apr. 2006	Deputy General Manager, Domestic Marketing Div.
Jun. 2011	General Manager, China Business Div.
Jun. 2013	Executive Officer; CEO, Mazda Motor (China) Co., Ltd.
Apr. 2016	Executive Officer; Chairman, Mazda Motor (China) Co., Ltd.
Apr. 2017	Managing Executive Officer Chairman, Mazda Motor (China) Co., Ltd.
Apr. 2021	Managing Executive Officer
Jun. 2021	Director, Audit & Supervisory Committee Member (Full-time)

Independent director
Outside director

Number of shares held: 13,200

Ichiro Sakai
Director, Audit & Supervisory Committee Member

Apr. 1966	Appointed Prosecutor
Dec. 1999	Chief Public Prosecutor of the Yokohama District Public Prosecutors Office
May 2001	Chief of the Research and Training Institute of the Ministry of Justice
Oct. 2002	Superintendent Public Prosecutor of the Hiroshima High Public Prosecutors Office
Jun. 2004	Superintendent Public Prosecutor of the Fukuoka High Public Prosecutors Office
Apr. 2005	Registered as Lawyer (Daiichi Tokyo Bar Association)
Jun. 2005	Outside Audit & Supervisory Board Member, Toray Industries, Inc.
Feb. 2006	Outside Audit & Supervisory Board Member, Kewpie Corporation
Jun. 2007	Outside Audit & Supervisory Board Member, Mazda Motor Corporation
Jun. 2011	Outside Director, Mazda Motor Corporation
Feb. 2014	Outside Director, Kewpie Corporation
Jun. 2019	Outside Director, Audit & Supervisory Committee Member, Mazda Motor Corporation

Independent director

Outside director

Number of shares held: 1,600

Akira Kitamura

Director, Audit & Supervisory Committee Member

Apr. 1974	Joined Sumitomo Bank, Ltd. (now Sumitomo Mitsui Banking Corp.)
Jun. 2003	Executive Officer, Sumitomo Mitsui Banking Corp.
Apr. 2006	Managing Executive Officer, Sumitomo Mitsui Banking Corp.
Apr. 2007	Director & Senior Managing Executive Officer, Sumitomo Mitsui Banking Corp.
Apr. 2008	Representative Director & Senior Managing Executive Officer, Sumitomo Mitsui Banking Corp.
Apr. 2009	Advisor, Kansai Urban Banking Corporation
Jun. 2009	Vice Chairman (Representative Director), Kansai Urban Banking Corporation
Mar. 2010	Chairman of the Board & CEO (Representative Director), Kansai Urban Banking Corporation
Jun. 2016	Advisor, Kansai Urban Banking Corporation
Apr. 2018	Outside Director, ARK Real Estate Co., Ltd.
Jun. 2018	Outside Audit & Supervisory Board Member, Mazda Motor Corporation
Jun. 2019	Outside Director, Audit & Supervisory Committee Member, Mazda Motor Corporation
Jun. 2020	Outside Audit & Supervisory Committee Member, Toyo Aluminium K.K.

Independent director

Outside director

Number of shares held: 600

Hiroko Shibasaki

Director, Audit & Supervisory Committee Member

Apr. 1978	Joined Tokio Marine and Fire Insurance Company, Limited (now Tokio Marine & Nichido Fire Insurance Co., Ltd.)
Jul. 2008	Senior General Manager General Manager, Voice of Customers Dept., Tokio Marine & Nichido Fire Insurance Co., Ltd.
Jul. 2010	Senior General Manager General Manager, Fukuoka Chuo Branch, Tokio Marine & Nichido Fire Insurance Co., Ltd.
Apr. 2012	Director General Manager, Fukuoka Chuo Branch, Tokio Marine & Nichido Fire Insurance Co., Ltd.
Apr. 2015	Managing Executive Officer, Tokio Marine & Nichido Fire Insurance Co., Ltd.
Apr. 2018	Advisor, Tokio Marine & Nichido Fire Insurance Co., Ltd.
Jun. 2019	Outside Director, Audit & Supervisory Committee Member, Mazda Motor Corporation
Jun. 2021	Outside Director, Kyudenko Corporation (Appointed on June 25, 2021)

Independent director

Outside director

Number of shares held: 0

Masato Sugimori

Director, Audit & Supervisory Committee Member

Apr. 1979	Joined Sumitomo Corporation
Apr. 2010	Executive Officer, Sumitomo Corporation; Executive Vice President and CFO, Sumitomo Corporation North America Group
Apr. 2012	Executive Officer; General Manager, Corporate Planning & Coordination Dept., Sumitomo Corporation
Apr. 2013	Managing Executive Officer, Sumitomo Corporation
Apr. 2016	Senior Managing Executive Officer, Assistant CFO, Risk Management, Sumitomo Corporation
Jun. 2017	Director, Executive Vice President, CFO, General Manager, Corporate Control Unit, Jupiter Telecommunications Co., Ltd.
Apr. 2020	Advisor; Assistant to General Manager, Media & Digital Business Unit, Sumitomo Corporation
Apr. 2021	Advisor, Sumitomo Corporation Advisor, Jupiter Telecommunications Co., Ltd. (Stepped down on June 30, 2021)
Jun. 2021	Outside Director, Audit & Supervisory Committee Member, Mazda Motor Corporation

Note: Based on its criteria for independence, the Company has determined that all of the Company's outside directors have sufficient independence such that they have no conflicts of interest with general shareholders and has notified the Tokyo Stock Exchange that the individuals are designated as independent directors. Please refer to the *Corporate Governance Report* for the Company's criteria for the independence of an outside officer.
(https://www.mazda.com/en/investors/library/governance/)

Executive Officers

President and CEO

Akira Marumoto*

Executive Vice President and COO

Kiyoshi Fujiwara*
Oversight of Innovation, Carbon Neutrality, Partnership and New Business

Senior Managing Executive Officers

Mitsuru Ono*
Oversight of Financial Services and Corporate Planning & Development

Akira Koga*
Oversight of Corporate Strategy, Product Strategy, Cost Planning and MDI & IT

Masahiro Moro*
Oversight of Communication, Corporate Communications, Corporate Liaison and Administrative Domain

Yasuhiro Aoyama*
Oversight of Global Marketing, Sales and Customer Service

Ichiro Hirose
Oversight of R&D and Cost Innovation

Takeshi Mukai
Oversight of Quality, Purchasing, Production and Business Logistics; In charge of Cost Innovation

Jeffrey H. Guyton
Oversight of Operations in North America; President and CEO, Mazda Motor of America, Inc. (Mazda North American Operations)

Managing Executive Officers

Ikuo Maeda
In charge of Design and Brand Style

Tetsuya Fujimoto
In charge of Financial Services and Corporate Planning & Development

Hiroshi Inoue
In charge of Asia & Oceania and New Emerging Markets; President, Mazda South East Asia Ltd.

Makoto Yoshihara
Assistant to the Officer overseeing Administrative Domain; In charge of Global Auditing, CSR, Environment, Secretariat, General & Legal Affairs, Compliance and Risk Management

Hidenori Kawakami
In charge of Global Quality; Assistant to the Officer in charge of Cost Innovation

Hidetoshi Kudo
In charge of Brand Enhancement, Digitalization Promotion, Global Marketing, Sales and Customer Service

Takeji Kojima
In charge of R&D Administration, Product Strategy, Technical Research Center and Carbon Neutrality

Executive Officers

Masashi Aihara
President, Mazda Toyota Manufacturing U.S.A., Inc.

Ryuichi Umeshita
Executive Vice President, Mazda Motor of America, Inc. (Mazda North American Operations)

Kazuhisa Yoshida
In charge of Global Human Resources, Safety, Health & Disaster Prevention and Mazda Hospital

Hiroyuki Matsumoto
In charge of Vehicle Development and Product Planning

Akihiro Kidani
In charge of MDI & IT

Eiji Nakai
In charge of Powertrain Development and Integrated Control System Development

Ikuo Sugiyama
Senior Vice President, Mazda Toyota Manufacturing U.S.A., Inc.

Hironori Tanaka
In charge of Domestic Sales

Noriyuki Takimura
In charge of Corporate Communications, Corporate Liaison and Operations in the Greater Tokyo Metropolitan Area

Osamu Kawamura
In charge of Operations in China

Takuji Iwashita
President and CEO, Mazda Motor Manufacturing de Mexico, S.A. de C.V. (Mazda de Mexico Vehicle Operation)

Kazuhiko Sumi
General Manager, Purchasing Div.

Kazuyoshi Todou
General Manager, Domestic Business Div.

Fellow

Senior Innovation Fellow

Mitsuo Hitomi

* Also holds the post of Directors

CORPORATE GOVERNANCE

Please refer to the *Corporate Governance Report* for Mazda's basic philosophy, policies, and details on its initiatives regarding the Corporate Governance Code.
https://www.mazda.com/en/investors/library/governance/

Mazda respects the intent of the Corporate Governance Code set by the Tokyo Stock Exchange and, while working to build a good relationship with its stakeholders, including shareholders, customers, suppliers, the local community, and its employees, the Company shall strive to sustain growth and enhance its corporate value over the medium and long terms through transparent, fair, prompt, and decisive decision-making and to continue to enhance its corporate governance.

The business environment surrounding the Company is undergoing rapid changes. In order to enable faster business decision-making, further enhance discussion of management strategies, and strengthen supervisory functions of Board of Directors' meetings, the Company has adopted a Company with an Audit & Supervisory Committee structure.

Furthermore, in addition to bodies designated by law such as the general meeting of shareholders, the Board of Directors, and the Audit & Supervisory Committee, the Company has established an Officer Lineup & Remuneration Advisory Committee in order to enhance the transparency of the process for nominating and appointing executive officers and candidates for director, as well as their remuneration, as an advisory function for the board of directors.

Regarding the system for the execution of business, Mazda has adopted an executive officer system. The Company holds Executive Committee meetings to convey information necessary for debate on important Company-wide policies and initiatives and business management, as well as advisory bodies to contribute to decision-making by the president.

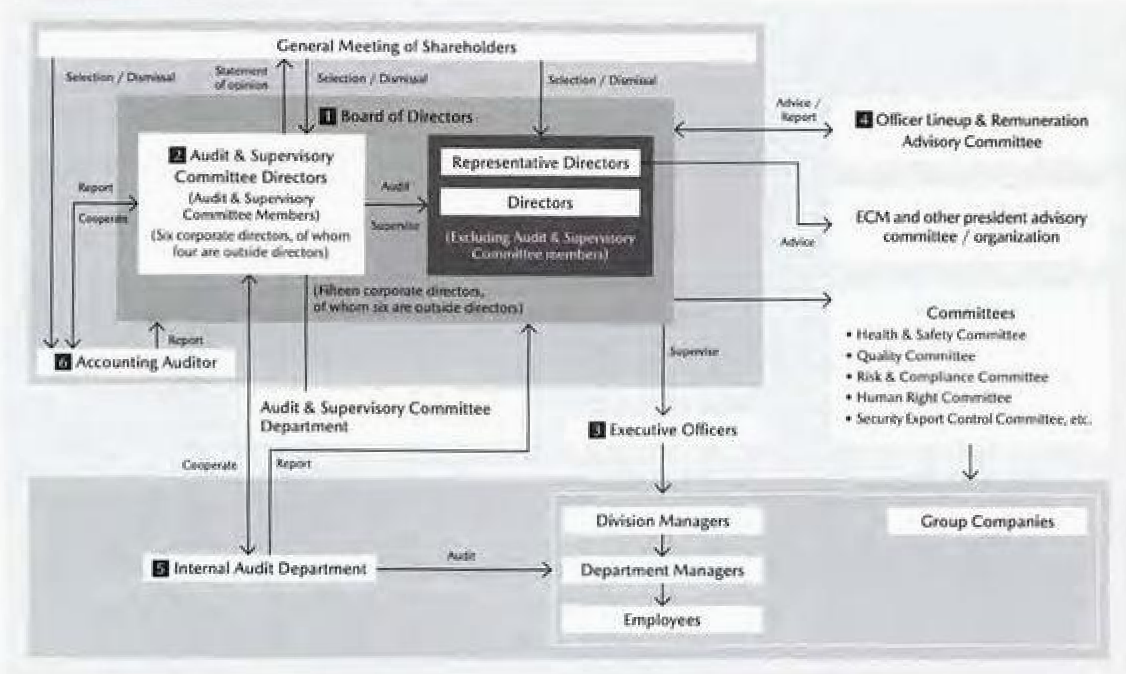
Overview of the Corporate Governance Structure

Directors (Excluding Directors who are Audit & Supervisory Committee Members)	Number of Directors	9 (7 inside directors, 2 outside directors), of whom 1 is a woman
	Term of Office	1 year
	Incentives	Short term: Performance-based remuneration Medium to long term: Remuneration in the form of stock options
Directors who are Audit & Supervisory Committee Members	Number of Directors	6 (2 inside directors, 4 outside directors), of whom 1 is a woman
	Term of Office	2 years
Number of Directors on the Board	Number of Directors	15 (9 inside directors, 6 outside directors), of whom 2 are women
	Ratio of Outside Directors	40%
	Ratio of Female Directors	13.3%
Independent Directors (filed with Tokyo Stock Exchange)		6 outside directors
Accounting Auditor		KPMG AZSA LLC

Structure by Organization (◎ is the Chairperson)

Position	Name	Outside Directors	Board of Directors	Audit & Supervisory Committee	Officer Lineup & Remuneration Advisory Committee
Representative Director and Chairman of the Board	Kiyotaka Shobuda		◎		◎
Representative Director, President and CEO	Akira Marumoto		○		○
Representative Director, Executive Vice President and COO	Kiyoshi Fujiwara		○		○
Director and Senior Managing Executive Officer	Mitsuru Ono		○		
Director and Senior Managing Executive Officer	Akira Koga		○		
Director and Senior Managing Executive Officer	Masahiro Moro		○		
Director and Senior Managing Executive Officer	Yasuhiro Aoyama		○		
Director	Kiyoshi Sato	○	○		○
Director	Michiko Ogawa	○	○		○
Director who is Audit & Supervisory Committee Member (Full-time)	Masatoshi Maruyama		○	◎	
Director who is Audit & Supervisory Committee Member (Full-time)	Nobuhiko Watabe		○	○	
Director who is Audit & Supervisory Committee Member	Ichiro Sakai	○	○	○	○
Director who is Audit & Supervisory Committee Member	Akira Kitamura	○	○	○	○
Director who is Audit & Supervisory Committee Member	Hiroko Shibasaki	○	○	○	○
Director who is Audit & Supervisory Committee Member	Masato Sugimori	○	○	○	○

Corporate Governance Framework



1 Board of Directors

The Company's Board of Directors deliberates and makes decisions regarding the execution of important matters including fundamental business policies and management strategy. In addition, it supervises the execution of operations by individual directors. In order to enable quick and flexible decision-making, a significant portion of important business execution decisions are delegated to the relevant management team in accordance with the provisions of the Articles of Incorporation. The president and other executive officers who have been delegated authority make decisions on these matters. The Board is made up of 15 directors, six of whom are highly independent outside directors.

2 Audit & Supervisory Committee

The Company's Audit & Supervisory Committee audits the Board of Directors' decision-making process and business execution through the execution of voting rights at Board of Directors' meetings and the execution of its right to state opinions on personnel changes and remuneration of directors (excluding directors who are Audit & Supervisory Committee members) at the general meeting of share-holders. The Audit & Supervisory Committee is made up of six members, four of whom are highly independent outside directors. In order to ensure the smooth operation of the Audit & Supervisory Committee's audits, two of its members are full-time.

3 Executive Officers

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

4 Officer Lineup & Remuneration Advisory Committee

The Company has established the Officer Lineup & Remuneration Advisory Committee, made up of three representative directors and six outside directors and chaired by a representative director and chairman of the board, as an advisory body to the Board of Directors. The committee reports to the Board of Directors the results of its deliberation on matters such as officer lineup and policies regarding the selection and training of directors, as well as remuneration payment policies and the remuneration system and process based on those policies, which contribute to the Company's sustainable growth and the raising of corporate value in the medium and long term.

5 Internal Audit Department

In an effort to contribute to sound and efficient management, the Global Audit Department audits the appropriateness of the business activities of the Company or its Group companies. It also audits the appropriateness and effectiveness of internal control.

6 Accounting Auditor

Accounting audits are conducted by KPMG AZSA LLC, with whom the Company has concluded an audit contract. The certified public accountants who conducted the Company's accounting audits have been working on the Company's audits for less than seven years. Those assisting with the Company's accounting audits include 11 certified public accountants, one public accountant with U.S. certification, and 23 others, nine of whom have passed the certified public accountant examination.

Procedures in Nominating, Appointing, and Dismissing Officers and Determining Their Remuneration

In order to enhance the transparency, fairness, and objectivity of the process for nominating and appointing executive officers and candidates for director and the remuneration of directors and executive officers, the Officer Lineup & Remuneration Advisory Committee reports to the Board of Directors the results of its deliberation on matters such as officer lineup and policies regarding the selection and training of directors, as well as remuneration payment policies and the remuneration system and process based on those policies, which contribute to the Company's sustainable growth and raising of corporate value in the medium and long terms.

Policies on the Nomination, Appointment, and Dismissal of Officers

When nominating and appointing officers, under the basic premise that they are healthy both physically and mentally, the Company shall consider whether they have the proper attitude to fulfill the mandate of shareholders, customers, and other stakeholders, high ethical standards, the ability to take action, leadership qualities, and the experience and ability to carry out their duties as well as their professional and personal achievements. Candidates for director must have exceptional character, insight, ability, and a wealth of experience. The overall structure and balance of the Board must also be considered. The Company shall confirm that, in addition to the above, candidates for outside director meet the Company's requirements for independence and have the time and energy necessary to properly fulfill their roles and responsibilities. Based on the advice of the Officer Lineup & Remuneration Advisory Committee, proposals on the nomination, appointment, and dismissal of officers shall be submitted to the Board.

Regarding dismissal or other measures taken against an officer, in cases where an officer was found to have violated the rules, regulations, or Company statutes regarding their duties; in cases where an officer took an inappropriate action, thereby making them unqualified to serve as an officer; or in cases where circumstances emerged that made the appropriate execution of their duties difficult, a proposal to dismiss the officer in question shall be introduced to the Board based on the advice of the Officer Lineup & Remuneration Advisory Committee.

Policy on Remuneration of Officers

The policy for remuneration for the Company's officers is 1) connected to the Company's sustainable growth and raising corporate value in the medium to long term, 2) used to acquire and maintain capable personnel, 3) understandable and easy to explain to stakeholders and officers, and 4) the officers' remuneration standard, set in comparison with other automobile manufacturers, is to be determined based on the position of employee salary, bearing in mind that officers work alongside employees.

The remuneration of internal directors (excluding directors who are Audit & Supervisory Committee members and outside directors) and executive officers consists of 1) a fixed amount of basic remuneration commensurate with their responsibilities, 2) performance-based remuneration determined at the end of the fiscal year in accordance with a designated standard and process after evaluating how much has been achieved toward goals set based on the business plan, and 3) compensation in the form of stock options under a system introduced to incentivize contributions toward enhancing corporate value over the medium and long term and to share the benefits with shareholders. Considering their status independent from the execution of operations, outside directors and directors who are Audit & Supervisory Committee members shall receive a fixed amount of basic remuneration only. Based on the advice of the Officer Lineup & Remuneration Advisory Committee, proposals on remuneration of officers (excluding the separate remuneration of directors who are members of the Audit & Supervisory Committee) shall be submitted to the Board.

Analysis and Evaluation of the Board's Effectiveness

In order to steadily advance measures for the further enhancement of its efficiency, the Company's Board of Directors analyzed and evaluated the meetings conducted in fiscal year March 2021.

Reasons for Appointment of Outside Directors

[Outside Directors] These directors are anticipated to enhance the supervisory functions of the Board of Directors through their efforts, in addition to leveraging the following experience and insight in the management of the Company.

Kiyoshi Sato	Mr. Sato has rich expertise in the areas of sales and marketing at an electronics manufacturer. He has served in senior roles, such as representative director, president and CEO, and director and vice chairman of the board, and has rich experience and insight in corporate management. We expect his advice and recommendations from an international perspective and his broad management viewpoint in particular.
Michiko Ogawa	Ms. Ogawa has detailed knowledge as an audio technology researcher at an electronics manufacturer. As an officer in charge of premium audio equipment, she engaged in brand reestablishment efforts and possesses rich experience and insight into corporate management. We expect her advice and recommendations from a brand marketing perspective and her professional viewpoint as an engineer in particular.

[Outside Directors (Audit & Supervisory Committee Members)] These directors are anticipated to strengthen the audit and supervisory functions of the Company's management through their efforts by leveraging the following experience and insight.

Ichiro Sakai	Mr. Sakai served as a prosecutor and attorney for many years, and has extensive experience in and knowledge of the legal profession. We expect his advice and recommendations from the viewpoint of compliance and from his expert standpoint as a legal professional in particular.
Akira Kitamura	Mr. Kitamura has held key posts at a financial institution, including representative director & senior managing executive officer as well as chairman of the board and chief executive officer (representative director). He has great knowledge of finance and accounting and rich experience in and knowledge of corporate management. We expect his advice and recommendations from the broad viewpoint of corporate management and from his expert understanding of finance and accounting in particular.
Hiroko Shibasaki	Ms. Shibasaki has many years of experience in the field of sales at a damage insurance company. In roles such as managing executive officer, she oversaw sales in Kyushu and Okinawa and gained rich experience and insight into corporate management. We expect her advice and recommendations from the standpoint of customer satisfaction and from her expert knowledge of sales in particular.
Masato Sugimori	Mr. Sugimoto has worked in administration for many years at a trading company and has considerable knowledge of risk management, finance, and accounting. He has also served as a senior managing executive officer with experience in and insight into corporate management. We expect his advice and recommendations from the broad viewpoint of risk management and from his expert understanding of finance and accounting in particular.

■ Method of analysis and evaluation

Based on a survey prepared by the Board's secretariat, all of the directors evaluated the Board's effectiveness. After the results were compiled by the secretariat, an analysis of the current situation was shared at a Board meeting and the ideal to be pursued and improvements were discussed.

The survey primarily covered the constitution of the Board of Directors, debate on the business strategy, debate on compliance and internal control, the provision of information (the amount of information, materials, explanations, and support for outside directors), and involvement in the debate. Additionally, the effects of improved management decision-making speed, enhanced deliberation among the Board of Directors, and the strengthened supervisory function of the Board of Directors, which were objectives of the transition to company with an Audit & Supervisory Comittee, were comfirmed.

■ Overview of the results

It was found that members of the Board of Directors are properly involved in determining the Company's business strategy and share an understanding of its content, that the outside directors express their opinions from an independent perspective after gaining an understanding of the Company's situation by receiving explanations of resolutions in advance and other forms of support, and that the oversight function of the execution of operations has been ensured. Furthermore, it was confirmed that productive deliberation took place without any problem even in the online environment of meetings during COVID-19 conditions. Additionally, it was confirmed that the business strategy and other matters were thoroughly discussed by securing ample time and that decision-making speed had been improved by delegating the Board of Directors' authorities to representative directors within an appropriate scope based on the Company's Articles of Incorporation. However, although improvements are evident since last year, it was also confirmed that initiatives are necessary to further improve and strengthen areas such as the monitoring of the business strategy and other important matters, as well as thorough discussion of risks and profitability.

The Company will analyze and evaluate the effectiveness of the Board of Directors every year and continue initiatives for constant improvement in order to raise corporate value in the medium to long term.

Basic Strategy for Capital Policy

In order to enhance corporate value over the medium and long terms and build a solid financial foundation for stable, continued growth, the Company shall endeavor to reduce its interest-bearing debt and increase its equity capital.

The Company shall also endeavor to use its management resources effectively and enhance its capital efficiency.

With regard to shareholder returns, the Company shall endeavor to strengthen its financial foundation for a higher dividend payout ratio, with the payment of dividends based on performance as its basis.

Policy on Cross-Shareholdings

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

Dialogue with Shareholders and Investors

For continued growth and enhancement of corporate value over the medium and long terms, the Company shall promote investor relations through the timely and appropriate disclosure of information to shareholders and investors and through constructive dialogue.

The officer who oversees finance shall have overall responsibility for dialogue with shareholders and investors, and the officer in charge of finance and the financial planning department (investor relations department) shall be in charge. In order to enhance dialogue, they shall cooperate with the departments in charge, including the Corporate Planning & Development Division and the Corporate Services Division, and create a framework for the proper provision of information.

In addition to general meetings of shareholders, the Company holds meetings with shareholders and investors to explain its quarterly business results, management, and other business activities. Mazda is working to increase opportunities for dialogue in such ways as holding business briefings for institutional investors, individual investors, and domestic and overseas securities analysts.

Mazda's website provides information including the schedule for general meetings of shareholders and financial results announcements, performance and financial data, notice of the general meeting of shareholders (business report), summary of financial results, briefing materials for the financial results, asset securities reports (in Japanese only), annual reports, and the *Corporate Governance Report,* as the Company shall endeavor to disclose information impartially and with a high degree of transparency.

Opinions from shareholders and investors will be relayed to the Board of Directors or the management team as necessary by the officer in charge of finances. In dialogues with shareholders and investors, insider information (undisclosed material facts) shall be handled appropriately in accordance with laws and regulations and internal regulations.

Initiatives to Invigorate General Meetings of Shareholders and Ensure the Smooth Exercise of Voting Rights

Date for general meetings of shareholders

General meetings of shareholders are held on dates that avoid concentrations of other companies' general meetings.

Exercise of voting rights

To improve convenience, voting by electromagnetic methods was introduced at the general meeting of shareholders held in June 2004.

Environment for exercise of voting rights for institutional investors

Mazda has participated in the electronic voting platform operated by ICJ, Inc. for the exercise of voting rights by institutional investors since the general meeting of shareholders held in June 2008.

English convocation notice

An English version of the convocation notice is prepared as a reference for the exercise of voting rights.

Others

The convocation notice is mailed early and disclosed on Mazda's corporate website prior to mailing.

At the general meeting of shareholders held in June 2018, we introduced a service that enables shareholders to view convocation notices and related information, etc., and to access a website to exercise their voting rights on smartphones.

English https://www.mazda.com/en/investors/stockinfo/meeting/
Japanese https://www.mazda.com/ja/investors/stockinfo/meeting/

CORPORATE DATA (As of March 31, 2021)

Name:	Mazda Motor Corporation
Founded:	January 1920
Head Office:	3-1 Shinchi, Fuchu-cho, Aki-gun, Hiroshima 730-8670, Japan Phone: +81 (82) 282-1111
Main business lines:	Manufacture and sales of passenger cars and commercial vehicles
Capital:	¥284.0 billion
Number of employees:	49,786 (consolidated)
Research and development sites:	Head Office, Mazda R&D Center (Yokohama), Mazda North American Operations (USA), Mazda Motor Europe (Germany), MCO China Engineering Support Center (China)
Production sites:	Japan: Hiroshima Plant (Head Office, Ujina), Hofu Plant (Nishinoura, Nakanoseki), Miyoshi Plant Overseas: China, Thailand, Mexico, Vietnam,* Malaysia,* Russia*
Sales companies:	Japan: 212 Overseas: 136
Principal products:	Four-wheeled vehicles, gasoline reciprocating engines, diesel engines, and automatic and manual transmissions for vehicles

* Assembly only (Volume is not disclosed)

Introduction to Other Tools

Mazda Sustainability Report
https://www.mazda.com/en/csr/report/download/

Mazda in Brief
https://www.mazda.com/en/about/profile/library/

Please Visit Our Official Website

Investor Relations
Includes the president's message, financial results, and presentation documents
https://www.mazda.com/en/investors/

CSR
Includes environmental protection, social contributions, and approaches to safety
https://www.mazda.com/en/csr/

About Mazda
Includes Mazda Corporate Vision, Company profile
https://www.mazda.com/en/about/

For Inquiries

For inquiries concerning this annual report, please contact:
IR Group, Financial Planning Department, Financial Services Division
Mazda Motor Corporation
3-1 Shinchi, Fuchu-cho, Aki-gun, Hiroshima 730-8670, Japan
Phone: +81 (82) 282-1111

STOCK INFORMATION (As of March 31, 2021)

Authorized:	1,200,000,000 shares
Issued:	631,803,979 shares
Number of shareholders:	146,297
Listing:	Tokyo Stock Exchange, First Section
Code:	7261
Fiscal year-end:	March 31
Transfer agent:	Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233, Japan

Breakdown of Shareholders

* Treasury stock is included in Japanese individuals and others.

Major Shareholders

Shareholder	No. of Shares Owned (Thousand shares)	Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	47,410	7.5
Toyota Motor Corporation	31,928	5.1
Custody Bank of Japan, Ltd. (Trust Account)	28,043	4.5
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	15,488	2.5
THE BANK OF NEW YORK MELLON 140051	12,181	1.9
Sumitomo Mitsui Banking Corporation	10,191	1.6
NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS	10,123	1.6
Custody Bank of Japan, Ltd. (Trust Account 5)	9,623	1.5
SSBTC CLIENT OMNIBUS ACCOUNT	9,253	1.5
STATE STREET BANK WEST CLIENT - TREATY 505234	8,876	1.4

Note: Treasury stock of 2,011,338 shares is excluded in the calculation of the ratio.

Forward-Looking Statements
Statements made in this annual report with respect to Mazda's plans, strategies, and future performance are forward-looking statements based on management's assumptions and beliefs in light of information currently available and involve risks and uncertainties. Potential risks and uncertainties include, but are not limited to: sudden changes in general economic conditions in Mazda's markets and operating environment, exchange rates, the ability of Mazda and its subsidiaries to develop and introduce products that incorporate new technology in a timely manner and to manufacture them in a cost-effective way, and fluctuations in stock markets. Accordingly, actual results could differ materially from those contained in any forward-looking statements.

MAZDA MOTOR CORPORATION

EXHIBIT B

To the

DECLARATION OF FRANCIS J. FARINA

IN SUPPORT OF MOTION TO INTERVENE

MAZDA FINANCIAL REPORT 2022

YEAR ENDED MARCH 31, 2022

FINANCIAL REPORT 2022

YEAR ENDED MARCH 31, 2022

CONTENTS

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

1. Basic Policy of Company Management

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

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

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

2. Business Environment and Issues to be Addressed

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

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

Medium-term Management Plan Key Initiatives

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

Having earmarked the period up until the end of the fiscal year ended March 2022 as a foundation-building period, the Company has completed preparations as planned for stronger growth from the fiscal year ending March 2023. With our sights set on 2030 to realize the Company's long-term vision for technology development, "Sustainable Zoom-Zoom 2030", we are now examining the transformation of our business structure, bearing in mind changes in the business environment due to the worldwide tightening and acceleration of environmental regulations and competition in new value creation in an era characterized by CASE. We will strive to achieve significant growth by leveraging the assets we have built to date and accelerate efforts to achieve a resilient management structure capable of withstanding major changes over time.

Medium-term Management Plan Financial Metrics

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

Net sales	· About 4.5 trillion yen
Profit	· Operating return on sales (ROS) 5% or higher
	· Return on equity (ROE) 10% or higher
Investment for future	· Capex and R&D: 7-8% of net sales or less
	· Actions for electrification, IT and carbon neutrality
Financial structure	· Maintenance of a net cash position
Shareholder return	· Sustainable payout ratio of 30% or higher
Sales volume	· About 1.8 million units
Break-even volume	· About 1 million units (wholesales)

*1 CASE: an acronym that combines the initial letters of the following areas, namely Connected technology, Autonomous driving technology, Shared services, and Electrification technology

(2) Initiatives to Raise Brand Value through Introduction of New Products

In the SUV segment, which has been experiencing growth on a global basis, Mazda will further enhance its crossover SUV lineup and in 2022 will commence the launch of five new models: the Mazda CX-50, Mazda CX-60, Mazda CX-70, Mazda CX-80 and Mazda CX-90. In the fiscal year ending March 2023, Mazda plans to launch the CX-60 mainly in Japan and Europe in the summer to autumn period, and commence production of the CX-90 for the North American market. Through ongoing improvement in quality of sales, we will raise brand value and ensure our achievement of solid growth.

Making full use of bundled planning,*2 flexible production*3 and other technological assets, we will expand this product lineup efficiently with low investment and provide customers with diverse choices that will offer both driving pleasure and the latest environmental performance.

<Crossover SUVs to be introduced from 2022 onwards>

Product group	Models	Main markets for introduction
Large Product group	Mazda CX-60 (two rows of seats)	Europe, Japan, etc.
	Mazda CX-70 (wide body, two rows of seats)	North America, etc.
	Mazda CX-80 (three rows of seats)	Europe, Japan, etc.
	Mazda CX-90 (wide body, three rows of seats)	North America, etc.
Small Product group	Mazda CX-50	USA

*2 A method for developing a common chassis and parts across vehicle models, vehicle classes and segments to be introduced in the future

*3 A production system capable of producing multiple models and parts on the same line as well as flexibly accommodating the introduction of new models quickly with low investment

(3) Promotion of Multi-solutions in Electrification and Initiatives for Achieving Carbon Neutrality

To fulfill our social responsibility in curbing global warming, we have been directing our efforts to promoting electrification and carbon neutrality.

Under our Building Block Strategy,*4 we will further improve internal combustion engines and build on our electrification technologies to introduce a range of models with diverse electrification technologies. Applying our "SKYACTIV Multi-Solution Scalable Architecture," a platform compatible with transverse power units in our Small Products and longitudinal power units in our Large Products, we plan to roll out multiple electrification solutions including EVs, plug-in hybrids, and hybrids capable of meeting various customer needs, environmental regulations, and electric power generating infrastructure. From 2025 onwards, we will also newly introduce "SKYACTIV EV-dedicated scalable architecture," Mazda's proprietary EV-dedicated platform that can be adapted to EV models of various vehicle classes and body types.

To achieve carbon neutrality by 2050, Mazda has been striving to promote wider use of renewable liquid fuel, make production plants and offices carbon neutral, and reduce CO_2 in the entire life cycle of cars and throughout the entire supply chain.*5 In November 2021, Mazda participated in launching the Carbon Neutral Electricity Promotion Subcommittee in the Chugoku Region and has been serving as the secretariat in promoting initiatives to increase the supply and demand of electricity derived from renewable energy in the region.

*4 Mazda's technology strategy for achieving multiple solutions by first improving base technologies in areas such as the engine, transmission, body and chassis (Skyactiv technologies), which determine a vehicle's basic performance, and then combining these with electric devices such as Mazda's idling stop system, regenerative braking system, and hybrid system.

*5 A series of processes through which products are delivered to customers' hands, including procurement, manufacturing, inventory management, shipping, sales, and consumption

(4) Recruitment and Education of Personnel with Skills in Areas of Electrification and Connectivity

In the Medium-term Management Plan, we identified investment in people as one of the areas we must focus on intensively. In today's business landscape where the environment surrounding the automobile industry is dramatically changing, we must assign talented personnel to and develop high-level skills in new areas including electrification and vehicle software development. To acquire skills and technologies in these new areas, we have been strengthening our investment in human resources by stepping up HR initiatives such as mid-career hires and personnel development through education in technologies and skills in new areas including digital education through external organizations. In cooperation with Hiroshima University, Mazda has also developed an education program on model-based development*6 and has been promoting personnel development in the region.

*6 An efficient development method that minimizes the number of prototypes and verification of actual units by using desk-top simulation as the main method of verification in development

(5) Strengthening of Investment in IT for Digital Transformation (DX)

We will utilize digital technologies to further advance Monotsukuri Innovation. In production processes, we have been able to significantly reduce man-hours, expense and preparation time by building a virtual production line on computers, connecting the computers with actual equipment and robot control devices, and introducing technology to check all operations online even when there are no physical vehicles. In the area of Research and Development (R&D), we have been expeditiously expanding the scope of application of Model Based Development to realize Model Based Development at all vehicle levels. The use of AI and digital technologies has also greatly improved the efficiency of R&D investment. In tandem with the tenacious efforts and challenging spirit of our development and production engineers, we will shore up investment in digital technologies to continue our pursuit of highly efficient monotsukuri with a moderate outlay.

There is increasing uncertainty in the business environment due to shortages in the supply of semiconductors, logistics problems, and the situation in Ukraine. By rigorously pressing forward with innovations in cross-functional operations in areas such as continuous supply chain improvements and cost structure reforms, we will respond promptly and appropriately to changes in the environment. Furthermore, we will continue to strengthen our efforts to lower the break-even volume and we will keep our finger on the business pulse to increase profitability by further improving operational efficiency and thoroughly reviewing investments and fixed costs other than future growth investment.

Note: The future plans in this text are based on certain assumptions made by the Mazda Group at the time of issuance of this report. As such, statements in the text may differ from actual results and no warranty is given about their achievement.

BUSINESS RISKS

Significant risks that could affect the Mazda Group's business results and financial position include those listed below. This list, however, shows the main risks anticipated at the end of the fiscal year ended March 2022 and does not represent a comprehensive list of all the risks faced by the Group. The forward-looking statements in this section are based on the judgments of the Group as of the end of the fiscal year ended March 2022.

Risks Associated with the External Environment

1. Economic Conditions Impacting the Group

Selling its products in Japan and other parts of the world, including in North America, Europe, and Asia, the Group is greatly impacted by economic trends and fluctuations in demand in each of its markets. Therefore, the Group's business results and financial position could be adversely affected by, for example, an economic downturn, recession, changes in demand structure, declining demand, and intensifying price competition in its main markets.

2. Fluctuations in Exchange Rates

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

3. Statutory Regulations Covering the Environment

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

4. Procurement of Materials and Components

The Group relies on numerous suppliers for the procurement of materials and components. For that reason, the Group may face difficulties in procuring the necessary level of materials and components for volume production, due to supply constraints or reduced logistics functions in the event of these suppliers being affected by a disaster, due to tight supply balances, or due to changes to and breaches of supply contracts. Should the Group be unable to absorb the effects of any increases in the prices of the materials being procured by the Group, logistics expenses, and other costs—for example, by making internal efforts to boost productivity or passing on price rises to customers—or should procured materials and components be of insufficient quality, the possibility exists of a deterioration in output or higher costs, which could adversely affect the Group's business results and financial position.

5. International Business Activities

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

- Adverse political and economic developments
- Impediments arising from changes in laws and regulations
- Import/export regulations, such as tariffs, detrimental taxes, and other regulations
- Difficulties in attracting and securing personnel
- Undeveloped infrastructure
- Strikes and other labor disputes
- Terrorist incidents, war, disease, and other factors leading to social disorder or restrictions

Furthermore, the Group's business results and financial position could be adversely affected by changes in circumstances including the global spread of the novel coronavirus in the future.

6. Natural Disasters and Accidents

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

7. Changes in Financing Procurement Environment and Interest Rate Fluctuations

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

Risks Associated with Business Activities

8. Alliances and Joint Ventures

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

9. Market Competitiveness

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

10. Protection of Intellectual Property

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

11. Product Quality

While striving to improve the quality of its products to meet the requirements of the market, the Group also does its utmost to ensure the safety of its products. However, should a defect develop in a product due to unforeseen circumstances or a large-scale recall occur, this could adversely affect the Group's business results and financial position due to such factors as the incurring of significant costs, the Group's diminished brand image, and loss of market trust.

12. Dependence on Information Technology

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

13. Compliance and Reputation

Commencing with information security efforts to protect personal information and confidential information, the Group has taken preventive measures regarding compliance, such as compliance with the law. In addition, in the event of a compliance-related incident being detected, the Group has a rapid response system in place to prevent any impact on the Group's social credibility and reputation. However, the Group cannot guarantee that there is no possibility of a legal violation occurring in the future. Should there be evidence of an illegal act or should the rapidity and content of the response prove insufficient, the Group's social credibility and reputation could be harmed, and the Group's business results and financial position could be adversely affected.

14. Forecasts

In November 2020, the Group announced its Medium-term Management Plan Revision (from the fiscal year ending March 2020 to the fiscal year ending March 2026). If the execution of the various measures does not realize the expected benefits, owing to such factors as substantial changes in the operating environment and slower progress with the plan than projected, the Group's business results and financial position could be adversely affected.

BUSINESS RESULTS, FINANCIAL POSITION, AND CASH FLOWS

1. Business Results, etc.

With regard to the business environment surrounding the Mazda Group in the fiscal year ended March 31, 2022, the global economy as a whole showed signs of recovery against a background of additional economic stimulus measures in the U.S. and Europe, and improvement in corporate performance in the wake of an increase in demand despite lockdowns, restrictions on movement, and other measures taken by various countries following new waves of the novel coronavirus outbreaks. Since the fourth quarter, however, the outlook for the business environment remains unclear amid growing concerns about inflation due to a dramatic increase in demand, the spread of the novel coronavirus in China, and the emergence of geopolitical risks such as the situation in Ukraine.

Under these conditions, despite a reduction in production due to new waves of the novel coronavirus outbreaks and a semiconductor supply shortage as well as a deterioration in the external environment including surges in material prices, the Group steadily implemented sales quality improvements such as streamlining sales costs and improving unit prices as well as cost cutting and improving fixed cost efficiency. As a result, we achieved the lower break-even volume target we committed to in our Medium-term Management Plan ahead of schedule and steadily improved our profit base.

Furthermore, taking into account the rigorous competition the Group will face in new value creation in an era of CASE, the Group shifted the focus of investment quality to electrification, IT and realizing carbon neutrality by 2050 and pressed forward in all areas to complete preparations for stronger growth in the future.

In October 2021, Mazda announced the introduction of five new models, namely the Mazda CX-50, Mazda CX-60, Mazda CX-70, Mazda CX-80 and Mazda CX-90, globally, as part of its plan to enhance its crossover SUV lineup from 2022 onward. We began production of the CX-50 at our new U.S. plant in January 2022, and production of the CX-60 also commenced in March 2022. Making full use of bundled planning, flexible production and other technological assets, we will expand this product lineup efficiently with low investment and work toward stable growth of our business over the medium and long term. We will continue to provide customers with diverse choices that will offer both the latest environmental performance and driving pleasure, which is the fundamental appeal of automobiles, and realize a beautiful planet, enrich the lives of people and society, and inspire the hearts of people, and thereby aim to become a brand that creates special bonds with customers.

Global Sales

Global sales volume for the fiscal year ended March 31, 2022 was 1,251,000 units, down 2.8% year on year as sales declined in Japan, China, ASEAN and other countries due to new waves of the novel coronavirus outbreaks and a semiconductor supply shortage. On the other hand, in the U.S. and Australia, where sales have been robust, year-on-year increases in sales volume were achieved in both markets as Mazda sales outpaced average demand recovery in the industry.

Sales volumes in individual markets were as follows.

<Japan>

While sales of the Mazda CX-5 were strong following the introduction of updated models, total sales declined due to supply shortages, resulting in sales of 149,000 units, down 15.8% year on year.

<North America>

In the U.S., sales rose 12.6% year on year to 332,000 units, led by crossover SUVs such as the Mazda CX-30, CX-5, and Mazda CX-9. Although sales in both Canada and Mexico declined, sales in North America as a whole rose 8.9% year on year to 439,000 units.

<Europe>

As the CX-30 enjoyed strong sales and sales recovered in the U.K., one of the key markets, sales in Europe rose 6.3% year on year to 190,000 units. The Mazda2 Hybrid was launched onto the European market in March 2022.

<China>

While sales of the Mazda3 were strong, sales of key models such as the Mazda CX-4 and CX-5 declined, resulting in sales of 170,000 units, down 25.5% year on year.

<Other Markets>

In Australia, another key market, sales rose 11.7% year on year to 103,000 units, as Mazda sales outpaced the recovery in overall demand with crossover SUV models such as the CX-30 and CX-5 leading the strong sales. Meanwhile, although sales in ASEAN markets such as Thailand declined, sales in other markets as a whole rose 0.7% year on year to 303,000 units.

Business Results

Financial performance on a consolidated basis for the fiscal year ended March 31, 2022 was as follows.

<Net Sales>

Net sales for the fiscal year ended March 31, 2022 totaled ¥3,120.3 billion, an increase of ¥238.2 billion, or 8.3% year on year, reflecting efficient inventory management and the improvement of unit prices.

By region, domestic sales amounted to ¥569.6 billion, a decrease of ¥24.9 billion, or 4.2% year on year, due to a drop in sales resulting from supply shortages. Overseas sales amounted to ¥2,550.7 billion, an increase of ¥263.2 billion, or 11.5% year on year, mainly due to an increase in wholesales volume in the North American market.

By product, vehicle sales increased by ¥240.9 billion, or 10.3% year on year, to ¥2,581.1 billion as efforts to strengthen sales capabilities and enhance brand power in the U.S. market, which is driving our growth, proved effective, and sales of knock-down parts for overseas production declined by ¥27.0 billion, or 39.6% year on year, to ¥41.1 billion. Sales of parts increased by ¥33.5 billion, or 14.6% year on year, to ¥262.5 billion. Other sales fell ¥9.2 billion, or 3.7% year on year, to ¥235.6 billion.

<Operating Income>

In addition to an increase in net sales, a steady accumulation of improvements, including improvement in sales quality and improved efficiency of fixed cost, resulted in operating income of ¥104.2 billion, an increase of ¥95.4 billion year on year, and consolidated operating income ratio of 3.3%, an increase of 3.0 percentage points year on year. Furthermore, we achieved our goal of one million units for break-even sales volume, as set out in our Medium-term Management Plan, ahead of schedule.

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

	Full year
	(Billion yen)
Volume and mix	+98.4
Foreign exchange	+45.7
Cost improvement	(59.4)
Fixed costs and others	+22.3
Transfer to extraordinary loss	+8.9
Transfer to extraordinary loss in the previous fiscal year	(20.5)
Total	+95.4

<Net Income Attributable to Owners of the Parent>

Net income attributable to owners of the parent was ¥81.6 billion, compared with net loss attributable to owners of the parent of ¥31.7 billion in the previous fiscal year, due to factors such as the recording of equity in net loss of affiliated companies of ¥4.1 billion, losses of ¥8.9 billion resulting from suspension of operations, etc. due to the novel coronavirus, and tax expenses of ¥30.1 billion, despite the recording of foreign exchange gains of ¥30.3 billion.

<Capital Expenditures and R&D Costs>

Capital expenditures (including intangible assets) for the fiscal year ended March 31, 2022 totaled ¥144.3 billion as a result of efficient investments for future growth such as those in new-generation products, environmental and safety technologies, and the reinforcement of the global production system. By segment, capital expenditures totaled ¥92.8 billion in Japan and were mainly focused on new-generation products, environmental and safety technologies, and increased production capacity at the Hiroshima and Hofu Plants. In North America, ¥46.3 billion was invested in projects such as the construction of a new plant in the United States. Capital expenditures in Europe totaled ¥1.4 billion, and totaled ¥3.9 billion in other regions. Additionally, Mazda is not implementing the disposal or sale of any major facilities in any segment.

R&D costs totaled ¥134.6 billion, for the research and development of new-generation products and environmental and safety technologies.

2. Financial Position

Total assets as of March 31, 2022 came to ¥2,968.1 billion, up ¥50.7 billion from the end of previous fiscal year. This was mainly due to increases in property, plant and equipment, such as investment in the plant in the United States. Total liabilities fell ¥70.1 billion from the end of previous fiscal year to ¥1,651.5 billion, due mainly to early repayment of long-term loans.

Net assets amounted to ¥1,316.7 billion, an increase of ¥120.9 billion from the end of previous fiscal year, due mainly to net income attributable to owners of the parent of ¥81.6 billion. The equity ratio increased 3.3 percentage points from the previous fiscal year to 43.8% (the percentage after consideration of the equity credit attributes of the subordinated loan was 45.0%).

3. Cash Flows

As of March 31, 2022, cash and cash equivalents increased ¥1.6 billion from the end of previous fiscal year to ¥740.4 billion. Interest-bearing debt fell ¥75.1 billion from the end of previous fiscal year to ¥680.8 billion. As a result, after subtracting cash and cash equivalents from interest-bearing debt, net cash position was net interest-bearing debt of ¥59.6 billion.

Cash flows in the fiscal year ended March 31, 2022 were as follows.

Cash flow from operating activities

Net cash provided by operating activities was ¥189.2 billion, compared with ¥120.1 billion provided in the previous fiscal year, mainly reflecting income before income taxes of ¥112.4 billion and a decrease in inventories.

Cash flow from investing activities

Net cash used in investing activities was ¥136.2 billion, compared with ¥78.9 billion used in the previous fiscal year, mainly reflecting capital expenditure for the purchase of property, plant and equipment of ¥121.9 billion.

As a result of this, consolidated free cash flow (net of cash flow from operating activities and investing activities) was a positive ¥52.9 billion, compared with the previous fiscal year's positive free cash flow of ¥41.2 billion.

Cash flow from financing activities

Net cash used in financing activities was ¥86.4 billion, compared with net cash provided by financing activities of ¥99.3 billion in the previous fiscal year, mainly reflecting the repayment of long-term loans.

4. Source of Funds and Liquidity

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

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

At the end of the fiscal year ended March 31, 2022, liquidity, comprising cash and cash equivalents of ¥740.4 billion, in addition to unused commitment credit lines of ¥200.0 billion, amounted to ¥940.4 billion, which is equivalent to 3.6 months of monthly sales.

5. Basic Dividend Policy, Dividends for the Fiscal Year ended March 31, 2022

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

For the fiscal year ended March 31, 2022, we paid a full-year dividend of ¥20 per share.

CONSOLIDATED BALANCE SHEETS

Mazda Motor Corporation and Consolidated Subsidiaries
As of March 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2021	2022	2022
Current assets:			
Cash and cash equivalents (Note 5)	¥ 738,793	¥ 740,385	$ 6,068,730
Trade notes and accounts receivable (Notes 5 and 15)	167,533	146,136	1,197,836
Inventories (Notes 8 and 10)	433,049	399,923	3,278,057
Other current assets	152,023	173,182	1,419,525
Allowance for doubtful receivables	(1,803)	(1,813)	(14,861)
Total current assets	1,489,595	1,457,813	11,949,287
Property, plant and equipment:			
Land (Note 9)	417,027	418,454	3,429,951
Buildings and structures	549,059	568,740	4,661,803
Machinery, equipment and vehicles	893,991	974,510	7,987,787
Tools, furniture and fixtures	281,970	337,082	2,762,967
Leased assets	31,100	33,622	275,590
Construction in progress	113,733	82,949	679,910
	2,286,880	2,415,357	19,798,008
Accumulated depreciation	(1,211,712)	(1,268,641)	(10,398,697)
Net property, plant and equipment (Notes 10 and 19)	1,075,168	1,146,716	9,399,311
Intangible assets (Note 19)	42,914	48,358	396,377
Investments and other assets:			
Investment securities (Note 5):			
Affiliated companies	123,173	122,050	1,000,410
Other	80,259	100,142	820,836
Asset for retirement benefits (Note 21)	6,660	7,912	64,852
Deferred tax assets (Note 22)	61,120	37,256	305,377
Other investments and other assets	38,870	52,964	434,132
Allowance for doubtful receivables	(345)	(5,063)	(41,500)
Total investments and other assets	309,737	315,261	2,584,107
Total assets	¥ 2,917,414	¥ 2,968,148	$ 24,329,082

LIABILITIES AND NET ASSETS	Millions of yen 2021	Millions of yen 2022	Thousands of U.S. dollars (Note 1) 2022
Current liabilities:			
Short-term debt (Notes 5 and 10)	¥ 1,608	¥ **1,526**	$ **12,508**
Long-term debt due within one year (Notes 5 and 10)	15,805	**66,831**	**547,795**
Trade notes and accounts payable	363,679	**345,443**	**2,831,500**
Income taxes payable	5,336	**6,621**	**54,270**
Accrued expenses	286,061	**287,268**	**2,354,656**
Reserve for warranty expenses	80,504	**66,261**	**543,123**
Provision for loss on compensation for damage	-	**11,500**	**94,262**
Other current liabilities (Notes 5 and 22)	54,657	**113,483**	**930,190**
Total current liabilities	807,650	**898,933**	**7,368,304**
Non-current liabilities:			
Long-term debt due after one year (Notes 5 and 10)	738,515	**609,098**	**4,992,607**
Deferred tax liability related to land revaluation (Note 9)	64,537	**64,537**	**528,992**
Liability for retirement benefits (Note 21)	50,039	**33,433**	**274,041**
Other non-current liabilities (Notes 5 and 22)	60,843	**45,450**	**372,540**
Total non-current liabilities	913,934	**752,518**	**6,168,180**
Total liabilities	1,721,584	**1,651,451**	**13,536,484**
Contingent liabilities (Note 11)			
Net assets:			
Capital and retained earnings (Notes 13):			
Common stock	283,957	**283,957**	**2,327,516**
Authorized: 1,200,000,000 shares			
Issued: 631,803,979 shares in 2022 and 2021			
Capital surplus	263,028	**263,003**	**2,155,762**
Retained earnings	508,784	**581,458**	**4,766,050**
Treasury stock	(2,187)	**(2,100)**	**(17,213)**
(1,938,951 shares in 2022 and 2,018,122 shares in 2021)			
Total capital and retained earnings	1,053,582	**1,126,318**	**9,232,115**
Accumulated other comprehensive income/(loss):			
Net unrealized gain/(loss) on available-for-sale securities	16,002	**29,707**	**243,500**
Deferred gains/(losses) on hedges	(312)	**(1,314)**	**(10,770)**
Land revaluation (Note 9)	145,536	**145,536**	**1,192,917**
Foreign currency translation adjustment	(30,897)	**(6,162)**	**(50,508)**
Accumulated adjustments for retirement benefits	(2,181)	**7,055**	**57,828**
Total accumulated other comprehensive income	128,148	**174,822**	**1,432,967**
Stock acquisition rights (Note 14)	382	**440**	**3,607**
Non-controlling interests	13,718	**15,117**	**123,909**
Total net assets	1,195,830	**1,316,697**	**10,792,598**
Total liabilities and net assets	¥ 2,917,414	¥ **2,968,148**	$ **24,329,082**

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2021 and 2022

Consolidated Statements of Operations

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2022	2022
Net sales (Note 15)	¥ 2,882,066	¥ **3,120,349**	$ **25,576,631**
Cost and expenses:			
Cost of sales	2,268,422	**2,432,645**	**19,939,713**
Selling, general and administrative expenses (Note 16)	604,824	**583,477**	**4,782,598**
	2,873,246	**3,016,122**	**24,722,311**
Operating income	8,820	**104,227**	**854,320**
Other income/(expenses):			
Interest and dividend income	5,173	**5,795**	**47,500**
Interest expense	(8,034)	**(6,782)**	**(55,590)**
Equity in net income/(loss) of affiliated companies	6,622	**(4,074)**	**(33,393)**
Other, net (Note 18)	(10,379)	**13,233**	**108,466**
	(6,618)	**8,172**	**66,983**
Income before income taxes	2,202	**112,399**	**921,303**
Income taxes (Note 22):			
Current	17,400	**11,219**	**91,959**
Deferred	16,856	**18,833**	**154,369**
	34,256	**30,052**	**246,328**
Net income/(loss)	(32,054)	**82,347**	**674,975**
Net income/(loss) attributable to non-controlling interests	(403)	**790**	**6,475**
Net income/(loss) attributable to owners of the parent	¥ (31,651)	¥ **81,557**	$ **668,500**

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income/(loss):			
Basic	¥ (50.26)	¥ **129.49**	$ **1.06**
Diluted	-	**129.38**	**1.06**
Cash dividends applicable to the year	-	**20.00**	**0.16**
Net assets	1,876.40	**2,065.74**	**16.93**

Consolidated Statements of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2022	2022
Net income/(loss)	¥ (32,054)	¥ **82,347**	$ **674,975**
Other comprehensive income/(loss):			
Net unrealized gain/(loss) on available-for-sale securities	13,754	**13,709**	**112,369**
Deferred gains/(losses) on hedges	(545)	**(1,141)**	**(9,352)**
Foreign currency translation adjustment	19,698	**20,909**	**171,385**
Adjustments for retirement benefits	22,384	**8,807**	**72,189**
Share of other comprehensive income/(loss) of affiliates accounted for using equity method	(2,780)	**5,192**	**42,557**
Total other comprehensive income/(loss)	52,511	**47,476**	**389,148**
Comprehensive income	¥ 20,457	¥ **129,823**	$ **1,064,123**
Comprehensive income/(loss) attributable to:			
Owners of the parent	21,269	**128,231**	**1,051,074**
Non-controlling interests	(812)	**1,592**	**13,049**

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2021 and 2022

	Millions of yen				
	Capital and retained earnings				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total
April 1, 2020	¥ 283,957	¥ 264,917	¥ 552,993	¥ (2,186)	¥ 1,099,681
Cumulative effects of changes in accounting policies	-	-	-	-	-
Restated balance	283,957	264,917	552,993	(2,186)	1,099,681
Increase/(decrease)					
Dividends paid	-	-	(12,596)	-	(12,596)
Net loss attributable to owners of the parent	-	-	(31,651)	-	(31,651)
Purchase of treasury stock	-	-	-	(1)	(1)
Sale of treasury stock	-	-	-	-	-
Reversal for land revaluation	-	-	38	-	38
Change in ownership interest of parent arising from transactions with non-controlling shareholders	-	(1,889)	-	-	(1,889)
Changes in items other than capital and retained earnings, net	-	-	-	-	-
Total changes during the fiscal year	-	(1,889)	(44,209)	(1)	(46,099)
April 1, 2021	¥ 283,957	¥ 263,028	¥ 508,784	¥ (2,187)	¥ 1,053,582
Cumulative effects of changes in accounting policies	-	-	**(8,883)**	-	**(8,883)**
Restated balance	**283,957**	**263,028**	**499,901**	**(2,187)**	**1,044,699**
Increase/(decrease)					
Dividends paid	-	-	-	-	-
Net income attributable to owners of the parent	-	-	**81,557**	-	**81,557**
Purchase of treasury stock	-	-	-	**(1)**	**(1)**
Sale of treasury stock	-	**(25)**	-	**88**	**63**
Reversal for land revaluation	-	-	-	-	-
Change in ownership interest of parent arising from transactions with non-controlling shareholders	-	-	-	-	-
Changes in items other than capital and retained earnings, net	-	-	-	-	-
Total changes during the fiscal year	-	**(25)**	**81,557**	**87**	**81,619**
March 31, 2022	**¥ 283,957**	**¥ 263,003**	**¥ 581,458**	**¥ (2,100)**	**¥ 1,126,318**

	Millions of yen								
	Accumulated other comprehensive income/(loss)								
	Net unrealized gain/(loss) on available-for-sale securities	Deferred gains/(losses) on hedges	Land revaluation	Foreign currency translation adjustment	Accumulated adjustments for retirement benefits	Total	Stock acquisition rights	Non-controlling interests	Total net assets
April 1, 2020	¥ 2,231	¥ 321	¥ 145,574	¥ (48,256)	¥ (24,604)	¥ 75,266	¥ 290	¥ 30,609	¥ 1,205,846
Cumulative effects of changes in accounting policies	-	-	-	-	-	-	-	-	-
Restated balance	2,231	321	145,574	(48,256)	(24,604)	75,266	290	30,609	1,205,846
Increase/(decrease)									
Dividends paid	-	-	-	-	-	-	-	-	(12,596)
Net loss attributable to owners of the parent	-	-	-	-	-	-	-	-	(31,651)
Purchase of treasury stock	-	-	-	-	-	-	-	-	(1)
Sale of treasury stock	-	-	-	-	-	-	-	-	-
Reversal for land revaluation	-	-	-	-	-	-	-	-	38
Change in ownership interest of parent arising from transactions with non-controlling shareholders	-	-	-	-	-	-	-	-	(1,889)
Changes in items other than capital and retained earnings, net	13,771	(633)	(38)	17,359	22,423	52,882	92	(16,891)	36,083
Total changes during the fiscal year	13,771	(633)	(38)	17,359	22,423	52,882	92	(16,891)	(10,016)
April 1, 2021	¥ 16,002	¥ (312)	¥ 145,536	¥ (30,897)	¥ (2,181)	¥ 128,148	¥ 382	¥ 13,718	¥ 1,195,830
Cumulative effects of changes in accounting policies	-	-	-	-	-	-	-	-	**(8,883)**
Restated balance	**16,002**	**(312)**	**145,536**	**(30,897)**	**(2,181)**	**128,148**	**382**	**13,718**	**1,186,947**
Increase/(decrease)									
Dividends paid	-	-	-	-	-	-	-	-	-
Net income attributable to owners of the parent	-	-	-	-	-	-	-	-	**81,557**
Purchase of treasury stock	-	-	-	-	-	-	-	-	**(1)**
Sale of treasury stock	-	-	-	-	-	-	-	-	**63**
Reversal for land revaluation	-	-	-	-	-	-	-	-	-
Change in ownership interest of parent arising from transactions with non-controlling shareholders	-	-	-	-	-	-	-	-	-
Changes in items other than capital and retained earnings, net	**13,705**	**(1,002)**	-	**24,735**	**9,236**	**46,674**	**58**	**1,399**	**48,131**
Total changes during the fiscal year	**13,705**	**(1,002)**	-	**24,735**	**9,236**	**46,674**	**58**	**1,399**	**129,750**
March 31, 2022	**¥ 29,707**	**¥ (1,314)**	**¥ 145,536**	**¥ (6,162)**	**¥ 7,055**	**¥ 174,822**	**¥ 440**	**¥ 15,117**	**¥ 1,316,697**

Thousands of U.S. dollars (Note 1)

	Capital and retained earnings				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total
April 1, 2021	$2,327,516	$2,155,967	$ 4,170,361	$ (17,926)	$ 8,635,918
Cumulative effects of changes in accounting policies	-	-	(72,811)	-	(72,811)
Restated balance	2,327,516	2,155,967	4,097,550	(17,926)	8,563,107
Increase/(decrease)	-	-	-	-	-
Dividends paid	-	-	-	-	-
Net income attributable to owners of the parent	-	-	668,500	-	668,500
Purchase of treasury stock	-	-	-	(8)	(8)
Sale of treasury stock	-	(205)	-	721	516
Reversal for land revaluation	-	-	-	-	-
Change in ownership interest of parent arising from transactions with non-controlling shareholders	-	-	-	-	-
Changes in items other than capital and retained earnings, net	-	-	-	-	-
Total changes during the fiscal year	-	(205)	668,500	713	669,008
March 31, 2022	$2,327,516	$2,155,762	$ 4,766,050	$ (17,213)	$ 9,232,115

Thousands of U.S. dollars (Note 1)

	Accumulated other comprehensive income/(loss)								
	Net unrealized gain/(loss) on available-for-sale securities	Deferred gains/(losses) on hedges	Land revaluation	Foreign currency translation adjustment	Accumulated adjustments for retirement benefits	Total	Stock acquisition rights	Non-controlling interests	Total net assets
April 1, 2021	$ 131,164	$ (2,557)	$1,192,917	$ (253,254)	$ (17,877)	$1,050,393	$ 3,131	$ 112,443	$ 9,801,885
Cumulative effects of changes in accounting policies	-	-	-	-	-	-	-	-	(72,811)
Restated balance	131,164	(2,557)	1,192,917	(253,254)	(17,877)	1,050,393	3,131	112,443	9,729,074
Increase/(decrease)	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-
Net income attributable to owners of the parent	-	-	-	-	-	-	-	-	668,500
Purchase of treasury stock	-	-	-	-	-	-	-	-	(8)
Sale of treasury stock	-	-	-	-	-	-	-	-	516
Reversal for land revaluation	-	-	-	-	-	-	-	-	-
Change in ownership interest of parent arising from transactions with non-controlling shareholders	-	-	-	-	-	-	-	-	-
Changes in items other than capital and retained earnings, net	112,336	(8,213)	-	202,746	75,705	382,574	476	11,466	394,516
Total changes during the fiscal year	112,336	(8,213)	-	202,746	75,705	382,574	476	11,466	1,063,524
March 31, 2022	$ 243,500	$ (10,770)	$1,192,917	$ (50,508)	$ 57,828	$1,432,967	$ 3,607	$ 123,909	$10,792,598

CONSOLIDATED STATEMENTS OF CASH FLOWS

Mazda Motor Corporation and Consolidated Subsidiaries
Years ended March 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2022	2022
Cash flows from operating activities:			
Income before income taxes	¥ 2,202	¥ 112,399	$ 921,303
Adjustments to reconcile income before income taxes to net cash provided by/(used in) operating activities:			
Depreciation and amortization	89,765	90,281	740,008
Impairment loss	1,355	691	5,664
Increase/(decrease) in allowance for doubtful receivables	847	4,625	37,910
Increase/(decrease) in reserve for warranty expenses	(6,664)	(14,243)	(116,746)
Increase /(decrease) in provision for loss on compensation for damage	-	11,500	94,262
Increase/(decrease) in liability for retirement benefits	2,796	(5,169)	(42,369)
Interest and dividend income	(5,173)	(5,795)	(47,500)
Interest expense	8,034	6,782	55,590
Equity in net loss/(income) of affiliated companies	(6,622)	4,074	33,393
Loss/(gain) on change in equity	-	(4,047)	(33,172)
Loss/(gain) on sale and retirement of property, plant and equipment, net	4,383	4,597	37,680
Loss/(gain) on sale of investment securities, net	(120)	-	-
Decrease/(increase) in trade notes and accounts receivable	5,785	(17,929)	(146,959)
Decrease/(increase) in inventories	30,051	77,411	634,516
Decrease/(increase) in other current assets	(6,113)	(24,064)	(197,246)
Increase/(decrease) in trade notes and accounts payable	(6,864)	(22,963)	(188,221)
Increase/(decrease) in other current liabilities	19,591	11,043	90,516
Other	(4,467)	(52,763)	(432,481)
Subtotal	128,786	176,430	1,446,148
Interest and dividends received	23,452	36,743	301,172
Interest paid	(7,730)	(9,176)	(75,213)
Proceeds from insurance income	-	1,009	8,270
Income taxes refunded/(paid)	(30,004)	(18,250)	(149,590)
Refund of income taxes for prior periods	5,554	2,456	20,131
Other	-	(57)	(467)
Net cash provided by/(used in) operating activities	120,058	189,155	1,550,451
Cash flows from investing activities:			
Net decrease/(increase) in time deposits	759	203	1,664
Purchase of investment securities	(255)	(389)	(3,189)
Proceeds from sales and redemption of investment securities	1,785	323	2,648
Purchase of property, plant and equipment	(71,776)	(121,946)	(999,557)
Proceeds from sale of property, plant and equipment	1,462	709	5,811
Purchase of intangible assets	(14,263)	(17,405)	(142,664)
Net decrease/(increase) in short-term loans receivable	263	598	4,902
Payments of long-term loans receivable	(587)	(145)	(1,189)
Collections of long-term loans receivable	3,848	1,480	12,131
Other	(98)	335	2,746
Net cash provided by/(used in) investing activities	(78,862)	(136,237)	(1,116,697)
Cash flows from financing activities:			
Net increase/(decrease) in short-term debt	(120,121)	(92)	(754)
Proceeds from long-term debt	291,575	70,709	579,582
Repayments of long-term debt	(41,541)	(156,891)	(1,285,992)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(17,831)	-	-
Cash dividends paid	(12,596)	-	-
Cash dividends paid to non-controlling interests	(137)	(193)	(1,582)
Net decrease/(increase) in treasury stock	(1)	62	508
Net cash provided by/(used in) financing activities	99,348	(86,405)	(708,238)
Effect of exchange rate fluctuations on cash and cash equivalents	30,255	35,079	287,533
Net increase/(decrease) in cash and cash equivalents	170,799	1,592	13,049
Cash and cash equivalents at beginning of the period	567,994	738,793	6,055,681
Cash and cash equivalents at end of the period	¥ 738,793	¥ 740,385	$ 6,068,730

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mazda Motor Corporation and Consolidated Subsidiaries

1 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

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

The conversion of the Japanese yen into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2022, which was ¥122 to U.S. $1.00. The conversions should not be construed as representations that the Japanese yen have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

The consolidated financial statements include the Company and 71 subsidiaries (70 in the year ended March 31, 2021). In addition, 18 affiliates (18 in the year ended March 31, 2021) are accounted for under the equity method.

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

FOREIGN CURRENCY CONVERSION

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

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

CASH AND CASH EQUIVALENTS

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

SECURITIES

Securities are classified as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by the unconsolidated subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

The Group does not have trading securities. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by unconsolidated subsidiaries and affiliated companies that, based on the applicable materiality provisions of Japanese GAAP, are not accounted for under the equity method are stated at moving-average cost.

Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of accumulated other comprehensive income within net assets. Realized gains and losses on the sale of such securities are computed using moving-average cost. Available-for-sale securities without available fair market values are stated mainly at moving-average cost.

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

DERIVATIVES AND HEDGE ACCOUNTING

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

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

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

INVENTORIES

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

PROPERTY, PLANT AND EQUIPMENT (EXCEPT FOR LEASED ASSETS)

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

INTANGIBLE ASSETS (EXCEPT FOR LEASED ASSETS)

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

AMORTIZATION OF GOODWILL

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

LEASED ASSETS

FINANCE LEASES IN WHICH OWNERSHIP IS NOT TRANSFERRED TO THE LESSEE

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

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

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

The consolidated foreign subsidiaries that apply IFRS adopted IFRS 16 "Leases" ("IFRS 16"). In accordance with IFRS 16, the lessee recognizes in principle all of the lease assets and lease liabilities on the balance sheet. For lease assets, depreciation or amortization expense is recognized on a straight-line basis over the lease period.

ALLOWANCE FOR DOUBTFUL RECEIVABLES

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

RESERVE FOR WARRANTY EXPENSES

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

PROVISION FOR LOSS ON COMPENSATION FOR DAMAGE

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

REVENUES

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

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

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

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

EMPLOYEES' RETIREMENT BENEFITS

The Group provides various types of post-employment benefit plans, including lump-sum plans, defined benefit pension plans, and defined contribution pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service, and certain other factors.

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

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

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

INCOME TAXES

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

The Company and its certain domestic consolidating subsidiaries elect to file a consolidated corporate tax return as a consolidation group.

The Company and its certain domestic consolidating subsidiaries will apply group tax sharing system from the next fiscal year. However, for the transition to the group tax sharing system established under the "Act on partial Revision of Income Tax Act, etc." (Act No.8 of 2020) and items revised on the non-consolidated taxation system in line with the transition to the group tax sharing system, the Company and its certain consolidated domestic subsidiaries calculate the amounts of deferred tax assets and deferred tax liabilities based on the existing Income Tax Act and do not apply the provisions stipulated in Paragraph 44 of the "Implementation Guidance on Tax Effect Accounting" (ASJB Guidance No.28, February 16, 2018) in accordance with the treatment set forth in Paragraph 3 of the "Practical Solution on Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ PITF No.39, March 31, 2020).

From the beginning of the fiscal year ending March 31, 2023, the Company and its certain domestic subsidiaries will apply the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (ASJB Guidance No.42, August 12, 2021), which stipulates the accounting treatment and disclosure procedures for corporate tax, local corporate tax and tax effect accounting after the group tax sharing system is applied.

AMOUNTS PER SHARE OF COMMON STOCK

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

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

RECLASSIFICATION

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

ADDITIONAL INFORMATION

ACCOUNTING ESTIMATES REGARDING THE CORONAVIRUS PANDEMIC IMPACT

As the impact of the coronavirus pandemic is still unpredictable, the Company has assessed the recoverability of deferred tax assets assuming that the pandemic will continue to have an impact to some extent on the fiscal year ending March 31, 2023.

It should be noted that the changes in the assumptions including the global spread of the pandemic in the future may affect the Company's consolidated financial results.

3 SIGNIFICANT ACCOUNTING ESTIMATES

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

RECOVERABILITY OF DEFERRED TAX ASSETS

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

	Millions of yen		Thousands of U.S. dollars
As of March 31	2021	**2022**	**2022**
Deferred tax assets	¥ 61,120	¥ **37,256**	$ **305,377**
Of which, the balance of the Company's deferred tax assets	37,208	**15,355**	**125,861**

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

Based on the estimated future taxable income, deferred tax assets are recognized for tax loss carryforwards and deductible temporary differences to the extent that they are expected to reduce the amount of future tax payments.

The estimated future taxable income was based on the next year's budget prepared by management. Accordingly, it included significant assumptions involving estimation uncertainty, such as the prospects for consolidated wholesales volume assuming a certain business environment that incorporated the effect of the shortage of semiconductors, etc., the results of unit selling price improvement measures, the impact of rising raw material prices, as well as transaction prices between the Company and its U.S. subsidiary, which required management judgment. Therefore, if changes in the market environment, etc. cause significant changes to these assumptions and reduce the estimated future taxable income, the amount of deferred tax assets may be reduced and additional tax costs may be incurred.

RESERVE FOR WARRANTY EXPENSES

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

	Millions of yen		Thousands of U.S. dollars
As of March 31	2021	**2022**	**2022**
Reserve for warranty expenses	¥ 80,504	¥ **66,261**	$ **543,123**

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

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

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

The expected reimbursement rate included management's assessment of technical responsibility, involved uncertainty, and was dependent upon future negotiations with suppliers. Therefore, if the actual reimbursement rate in the future is different from the reimbursement rate used for the estimation, additional recognition or reversal of reserve for warranty expenses may be required.

PROVISION FOR LOSS ON COMPENSATION FOR DAMAGE

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

	Millions of yen		Thousands of U.S. dollars
As of March 31	2021	**2022**	**2022**
Provision for loss on compensation for damage	¥ -	¥ **11,500**	$ **94,262**

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

The Group owns one subsidiary that is a distributor and one affiliate that manufactures and sells automobiles, etc. in Russia. Due to the situation in Ukraine that arose in February 2022, the Group has ceased the shipments of parts to Russia since March 2022, and local affiliated company has ceased its operations since the end of April 2022.

In the context of the current situation in Ukraine, the Company reasonably estimated the loss on compensation for damage that are expected to occur within the next fiscal year, and recorded ¥11,500 million ($94,262 thousand) as a provision for loss on compensation for damage.

The expected occurrence rate used in the estimation of the loss on compensation for damage involved management's judgment and uncertainty. Therefore, if there is a significant change in these assumptions, additional recognition or reversal of provision for loss on compensation for damage may be required.

4 ACCOUNTING CHANGES

CHANGES IN ACCOUNTING POLICIES

-APPLICATION OF ACCOUNTING STANDARD FOR REVENUE RECOGNITION

The Group has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as "Revenue Recognition Accounting Standards"), etc., effective from the beginning of the fiscal year ended March 31, 2022, which stipulates that revenue shall be recognized when (or as) it satisfies a performance obligation by transferring control of promised goods or services (i.e. an asset) to a customer for the amount expected to receive upon the exchange of goods or services. An asset is transferred when (or as) the customer obtains control of that asset. It recognizes as revenue the amount expected to be received upon the exchange of goods or services.

Dealers, domestic subsidiaries, recognized revenue for the sales of new cars at the time of the registration of vehicles under the previous accounting standards and now recognize revenue at the time of the delivery to customers under the current accounting standards. In addition, the Company's Connected Services was not recognized as revenue under the previous accounting standards as no consideration was received, and it is considered as an individual performance obligation and associated revenue is recognized over a certain period for the amount allocated based on the standalone selling price under the current accounting standards. Certain sales promotion expenses paid by the Company and the U.S. subsidiary to the dealers were accounted as selling, general and administrative expenses under the previous accounting standards, they are accounted as deduction from revenue under the current accounting standards.

The application of the Revenue Recognition Accounting Standards, etc. is in accordance with the transitional treatment provided in Paragraph 84 of the Revenue Recognition Accounting Standards. The cumulative effect of the retrospective application, assuming the new accounting standard had been applied to periods prior to the beginning of the fiscal year ended March 31, 2022, was added or subtracted from the beginning balance of retained earnings of the fiscal year ended March 31, 2022, and thus the new accounting standards have been applied from the beginning balance.

As a result, for the fiscal year ended March 31, 2022, net sales decreased by ¥42,003 million ($344,287 thousand), cost of sales increased by ¥12,194 million ($99,951 thousand), selling, general and administrative expenses decreased by ¥58,760 million ($481,639 thousand), and operating income and income before income taxes increased by ¥4,561 million ($37,385 thousand). Furthermore, on the consolidated balance sheet for the fiscal year ended March 31, 2022, the beginning balance of retained earnings decreased by ¥8,883 million ($72,811 thousand). The impact on per share information is immaterial.

It should be noted that information for the previous fiscal year is not described in the notes in accordance with the transitional treatment prescribed in the provision of paragraph 89-3 of this accounting standard.

-APPLICATION OF ACCOUNTING STANDARD FOR FAIR VALUE MEASUREMENT

The Group has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No.30, July 4, 2019; hereinafter referred to as "Fair Value Accounting Standards"), etc., from the beginning of the fiscal year ended March 31, 2022 and have applied a new accounting policy provided for by the Fair Value Accounting Standards, etc., in accordance prospectively with the transitional treatment specified in Paragraph 19 of the Fair Value Accounting Standards and Paragraph 44-2 of "Accounting Standard for Financial Instruments." This has no impact on the consolidated financial statements.

Hierarchy of the financial instruments is included under Note 5. "Financial Instruments." However, information for the previous fiscal year is not included in the notes in accordance with the transitional treatment prescribed in the proviso of paragraph 7-4 of "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, July 4, 2019).

NEW ACCOUNTING STANDARDS NOT YET APPLIED

- ASU 2016-02 "Leases"

1) Summary

Under this accounting standard, a lessee is required to recognize assets and liabilities for almost all of the assets on a balance sheet.

2) Effective date

Effective from the year ending March 31, 2023.

3) Effects of the application of the standards

The impact is yet to be determined at this time.

- "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021)

1) Summary

The handling of the calculation and notes of the market value of investment trusts and the handling of the notes of the market value of investment in partnerships, etc. whose net amount equivalent to equity interest is recorded in the balance sheet have been established.

2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2023.

3) Effects of the application of the standards

The application of this accounting standard has no effect on the consolidated financial statements.

5 FINANCIAL INSTRUMENTS

QUALITATIVE INFORMATION ON FINANCIAL INSTRUMENTS

POLICIES FOR USING FINANCIAL INSTRUMENTS

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

DETAILS OF FINANCIAL INSTRUMENTS AND THE EXPOSURES TO RISK

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

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

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

Loans payable, bonds payable, and lease obligations are mainly used to finance cash required for capital investment. The longest time to maturity of these liabilities is 59 years and 4 months from March 31, 2022 (55 years and 4 month in the year ended March 31, 2021).

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

POLICIES AND PROCESSES FOR MANAGING RISK

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

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

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

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

The amount of maximum risk as of March 31, 2022 is represented by the balance sheet amount of financial assets exposed to credit risks.

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

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

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

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

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

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

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

FAIR VALUES OF FINANCIAL INSTRUMENTS

As of March 31, 2021 and 2022, the carrying values on the consolidated balance sheet, the fair values, and the differences between these amounts, respectively, of financial instruments were as follows. Financial instruments without observable market data are excluded from the following table. Cash and cash equivalents (except for Securities), Trade notes and accounts receivable, Trade notes and accounts payable, Other accounts payable, Short-term debt are also excluded since the carrying values approximate fair values.

	Millions of yen		
As of March 31, 2021	Carrying values	Fair values	Difference
Assets:			
1) Securities (*1)			
Available-for-sale securities	¥ 147,900	¥ 147,900	¥ -
2) Investment securities			
Available-for-sale securities	78,888	78,888	-
Total	¥ 226,788	¥ 226,788	¥ -
Liabilities:			
1) Bonds	¥ 50,000	¥ 49,484	¥ (516)
2) Long-term loans	682,243	688,123	5,880
3) Lease obligations	22,077	22,102	25
Total	¥ 754,320	¥ 759,709	¥ 5,389
Derivative instruments:(*2)			
1) Hedge accounting not applied	¥ (1,377)	¥ (1,377)	¥ -
2) Hedge accounting applied	(346)	(346)	-
Total	¥ (1,723)	¥ (1,723)	¥ -

	Millions of yen			Thousands of U.S. dollars		
As of March 31, 2022	Carrying values	Fair values	Difference	Carrying values	Fair values	Difference
Assets:						
1) Securities (*1)						
Available-for-sale securities	¥ 71,000	¥ 71,000	¥ -	$ 581,968	$ 581,968	$ -
2) Investment securities						
Held-to-maturity debt securities	60	60	-	492	492	-
Available-for-sale securities	98,693	98,693	-	808,959	808,959	-
Total	¥ 169,753	¥ 169,753	¥ -	$1,391,419	$1,391,419	$ -
Liabilities:						
1) Bonds	¥ 50,000	¥ 49,616	¥ (384)	$ 409,836	$ 406,689	$ (3,148)
2) Long-term loans	602,520	604,713	2,193	4,938,689	4,956,664	17,975
3) Lease obligations	23,409	23,429	20	191,877	192,041	164
Total	¥ 675,929	¥ 677,758	¥ 1,829	$5,540,402	$5,555,394	$ 14,991
Derivative instruments:(*2)						
1) Hedge accounting not applied	¥ (3,436)	¥ (3,436)	¥ -	$ (28,164)	$ (28,164)	$ -
2) Hedge accounting applied	(1,986)	(1,986)	-	(16,279)	(16,279)	-
Total	¥ (5,422)	¥ (5,422)	¥ -	$ (44,443)	$ (44,443)	$ -

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

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

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

As of March 31	Millions of yen Carrying values 2021	Millions of yen Carrying values 2022	Thousands of U.S. dollars Carrying values 2022
Available-for-sale securities:			
Non-listed equity securities	¥ 1,371	¥ 1,389	$ 11,385
Investment securities of affiliated companies	123,173	122,050	1,000,410
Total	¥ 124,544	¥ 123,439	$ 1,011,795

FAIR VALUE OF FINANCIAL INSTRUMENTS AND HIERARCHY

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

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

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

Level 3: Fair value determined based on significant unobservable inputs

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

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

As of March 31, 2022	Millions of yen Fair values Level 1	Level 2	Level 3	Total	Thousands of U.S. dollars Fair values Level 1	Level 2	Level 3	Total
Assets:								
Investment securities								
Available-for-sale securities								
Stocks	¥ 97,446	¥ -	¥ -	¥ 97,446	$ 798,738	$ -	$ -	$ 798,738
Other	1,247	-	-	1,247	10,221	-	-	10,221
Total	¥ 98,693	¥ -	¥ -	¥ 98,693	$ 808,959	$ -	$ -	$ 808,959
Derivative instruments:(*1)								
Currency related	-	(5,422)	-	(5,422)	-	(44,443)	-	(44,443)
Total	¥ -	¥ (5,422)	¥ -	¥ (5,422)	$ -	$ (44,443)	$ -	$ (44,443)

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

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

As of March 31, 2022	Millions of yen Fair values Level 1	Level 2	Level 3	Total	Thousands of U.S. dollars Fair values Level 1	Level 2	Level 3	Total
Assets:								
Securities								
Available-for-sale securities (other)	¥ -	¥ 71,000	¥ -	¥ 71,000	$ -	$ 581,968	$ -	$ 581,968
Investment securities								
Held-to-maturity debt securities (bonds)	-	60	-	60	-	492	-	492
Total	¥ -	¥ 71,060	¥ -	¥ 71,060	$ -	$ 582,460	$ -	$ 582,460
Liabilities:								
Bonds	¥ -	¥ 49,616	¥ -	¥ 49,616	$ -	$ 406,689	$ -	$ 406,689
Long-term loans	-	604,713	-	604,713	-	4,956,664	-	4,956,664
Lease obligations	-	23,429	-	23,429	-	192,041	-	192,041
Total	¥ -	¥ 677,758	¥ -	¥ 677,758	$ -	$5,555,394	$ -	$5,555,394

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

INVESTMENT SECURITIES

Investments in publically traded equity securities are actively traded and valued based on their market prices, and their fair values are mainly classified as Level 1 assets.

SECURITIES

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

DERIVATIVE INSTRUMENTS

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

LONG-TERM DEBT

Bonds payable

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

Long-term loans payable and Finance lease obligations

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

SCHEDULE OF REPAYMENTS OF RECEIVABLE

Schedule of repayments of receivable were as follows:

	Millions of yen			
As of March 31, 2021	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Trade notes and accounts receivable	¥ 167,533	¥ -	¥ -	¥ -

	Millions of yen				Thousands of U.S. dollars			
As of March 31, 2022	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Trade notes and accounts receivable (*1)	**¥ 146,136**	**¥ -**	**¥ -**	**¥ -**	**$1,197,836**	**$ -**	**$ -**	**$ -**

(*1) Trade notes and accounts receivable do not include ¥7,707 million ($63,172 thousand) for doubtful accounts receivables, such that payments are not expected.

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

6 SECURITIES

The carrying values and the fair values of held-to-maturity debt securities and the acquisition costs and the carrying values of available-for-sale securities as of March 31, 2021 and 2022 were as follows:

	Millions of yen		
As of March 31, 2021	Acquisition costs	Carrying values	Difference
Available-for-sale securities:			
Stocks	¥ 54,660	¥ 77,710	¥ 23,050
Other	148,973	149,078	105
Total	¥ 203,633	¥ 226,788	¥ 23,155

As of March 31, 2022	Millions of yen			Thousands of U.S. dollars		
	Carrying values	Fair values	Difference	Carrying values	Fair values	Difference
Held-to-maturity debt securities:						
Bonds	¥ 60	¥ 60	¥ -	$ 492	$ 492	$ -

As of March 31, 2022	Millions of yen			Thousands of U.S. dollars		
	Acquisition costs	Carrying values	Difference	Acquisition costs	Carrying values	Difference
Available-for-sale securities:						
Stocks	¥ 54,666	¥ 97,446	¥ 42,780	$ 448,082	$ 798,738	$ 350,656
Other	72,187	72,247	60	591,697	592,189	492
Total	¥ 126,853	¥ 169,693	¥ 42,840	$1,039,779	$1,390,927	$ 351,148

7 DERIVATIVES

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

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

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

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

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

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

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

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

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

The following tables summarize fair value information as of March 31, 2021 and 2022 of derivative transactions for which hedge accounting has not been applied:

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

1) Currency related

As of March 31, 2021	Millions of yen			
	Contract amount	Thereof due after 1 year	Estimated fair value	Valuation gain(loss)
Forward foreign exchange contracts:				
Sell:				
U.S. dollar	¥ 19,875	¥ -	¥ (604)	¥ (604)
Canadian dollar	8,645	-	(576)	(576)
Australian dollar	10,701	-	(260)	(260)
Buy:				
Thai baht	5,240	-	63	63
Total	¥ 44,461	¥ -	¥ (1,377)	¥ (1,377)

As of March 31, 2022	Millions of yen Contract amount	Thereof due after 1 year	Estimated fair value	Valuation gain(loss)	Thousands of U.S. dollars Contract amount	Thereof due after 1 year	Estimated fair value	Valuation gain(loss)
Forward foreign exchange contracts:								
Sell:								
U.S. dollar	¥ 40,557	¥ -	¥ (2,269)	¥ (2,269)	$ 332,435	$ -	$ (18,598)	$ (18,598)
Canadian dollar	9,177	-	(614)	(614)	75,221	-	(5,033)	$ (5,033)
Australian dollar	8,093	-	(638)	(638)	66,336	-	(5,230)	$ (5,230)
Buy:						-		
Thai baht	1,758	-	85	85	14,410	-	697	$ 697
Total	¥ 59,585	¥ -	¥ (3,436)	¥ (3,436)	$ 488,402	$ -	$ (28,164)	$ (28,164)

2) Interest rate related
Not applicable.

The following tables summarize fair value information as of March 31, 2021 and 2022 of derivative transactions for which hedge accounting has been applied:
The amount in the contract itself does not indicate the market risk related to derivative transactions.

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

As of March 31, 2021	Millions of yen Contract amount	Thereof due after 1 year	Estimated fair value
Forward foreign exchange contracts:			
Sell:			
U.S. dollar	¥ -	¥ -	¥ -
Euro	23,122	-	(255)
Canadian dollar	2,983	-	(90)
Australian dollar	1,685	-	(1)
Buy:			
Thai baht	-	-	-
Total	¥ 27,790	¥ -	¥ (346)

As of March 31, 2022	Millions of yen Contract amount	Thereof due after 1 year	Estimated fair value	Thousands of U.S. dollars Contract amount	Thereof due after 1 year	Estimated fair value
Forward foreign exchange contracts:						
Sell:						
U.S. dollar	¥ 2,322	¥ -	¥ (122)	$ 19,033	$ -	$ (1,000)
Euro	9,237	-	(346)	75,713	-	(2,836)
Canadian dollar	11,926	-	(793)	97,754	-	(6,500)
Australian dollar	9,751	-	(814)	79,926	-	(6,672)
Buy:						
Thai baht	1,752	-	89	14,361	-	730
Total	¥ 34,988	¥ -	¥ (1,986)	$ 286,787	$ -	$ (16,279)

2) Interest rate related
Not applicable.

8 INVENTORIES

Inventories as of March 31, 2021 and 2022 were as follows:

As of March 31	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Merchandise and finished products	¥ 330,109	¥ 234,324	$ 1,920,689
Work in process	81,206	134,851	1,105,336
Raw materials and supplies	21,734	30,748	252,032
Total	¥ 433,049	¥ 399,923	$ 3,278,057

9 LAND REVALUATION

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

The fair value of land was determined based on official notice prices that were assessed and published by the Commissioner of the National Tax Administration, as stipulated in Article 2-4 of the 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, were made to the official notice prices.

The amounts of decrease in the aggregate fair value of the revalued land as of March 31, 2021 and 2022 from that at the time of revaluation, as stipulated in Article 10 of the Land Revaluation Law, were ¥77,059 million and ¥72,056 million ($590,623 thousand), respectively.

10 SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt as of March 31, 2021 and 2022 consisted of loans, principally from banks with interest rates averaging 1.21% and 1.02% for the respective years.

Long-term debt as of March 31, 2021 and 2022 consisted of the following:

As of March 31	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Domestic unsecured bonds due serially through 2023 to 2027			
at rate of 0.30% to 0.42% per annum	¥ 50,000	¥ 50,000	$ 409,836
Loans principally from banks, maturing through 2081:			
Secured loans	4,135	3,230	26,475
Unsecured loans	678,108	599,290	4,912,214
Lease obligations, maturing through 2039	22,077	23,409	191,877
Other interest-bearing debt, maturing through 2026 (*)	-	3,352	27,475
Subtotal	754,320	679,281	5,567,877
Amount due within one year	(15,805)	(67,605)	(554,139)
Total	¥ 738,515	¥ 611,676	$ 5,013,738

(*) Other interest-bearing debt are recorded as accrued expense and other non-current liabilities of ¥774 million ($6,344 thousand) and ¥2,578 million ($21,131 thousand), respectively, in the consolidated balance sheets.

The annual interest rates applicable to long-term loans and lease obligations outstanding averaged 1.72% and 2.13%, respectively, for obligations due within one year and 0.71% and 3.13%, respectively, for obligations due after one year at March 31, 2021.

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

The annual maturities of long-term debt at March 31, 2022 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2023	¥ 67,605	$ 554,139
2024	188,874	1,548,148
2025	87,030	713,361
2026	84,454	692,246
2027	151,913	1,245,189
Thereafter	99,405	814,794
Total	¥ 679,281	$ 5,567,877

The assets pledged as collateral for short-term debt of ¥190 million and ¥190 million ($1,557 thousand) , and long-term debt of ¥4,135 million and ¥3,230 million ($26,475 thousand) at March 31, 2021 and 2022, respectively, were as follows:

As of March 31	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Property, plant and equipment, at net book value	¥ 439,215	¥ 531,553	$ 4,356,992
Inventories	67,422	74,018	606,705
Other	105,953	66,322	543,623
Total	¥ 612,590	¥ 671,893	$ 5,507,320

11 CONTINGENT LIABILITIES

Contingent liabilities for guarantees of loans and similar agreements as of March 31, 2021 and 2022 were as follows:

As of March 31	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Guarantees of loans and similar agreements	¥ 14,070	¥ 15,192	$ 124,525

12 OPERATING LEASES

The amounts of future minimum lease payments under non-cancellable operating leases as of March 31, 2021 and 2022 were as follows:

As of March 31	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Current portion	¥ 3,291	¥ 3,301	$ 27,057
Non-current portion	8,932	8,921	73,123
Total	¥ 12,223	¥ 12,222	$ 100,180

13 NET ASSETS

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

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

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

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

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

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

Dividends

1) Dividends paid to shareholders

No items to disclose.

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

Resolution	Amount (Millions of yen) (Thousands of U.S. dollars)	Amount per share	Shareholders' cut-off date	Effective date
Annual general meeting of shareholders held on June 24, 2022	¥12,597 $103,254	¥20.00 $0.16	March 31, 2022	June 27, 2022

14 STOCK OPTIONS

The stock options outstanding as of March 31, 2022 were as follows:

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

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

The stock options activities for the year ended March 31, 2022 were as follows:

For the year ended March 31, 2022	2016 Stock Acquisition Rights (Shares)	2017 Stock Acquisition Rights (Shares)	2018 Stock Acquisition Rights (Shares)	2019 Stock Acquisition Rights (Shares)	2020 Stock Acquisition Rights (Shares)	2021 Stock Acquisition Rights (Shares)
Non-vested:						
March 31, 2021 - Outstanding	-	-	-	-	-	-
Granted	-	-	-	-	-	124,000
Forfeited	-	-	-	-	-	-
Vested	-	-	-	-	-	124,000
March 31, 2022 - Outstanding	-	-	-	-	-	-
Vested:						
March 31, 2021 - Outstanding	48,800	56,800	78,900	104,700	223,300	-
Vested	-	-	-	-	-	124,000
Exercised	10,000	9,500	12,100	16,100	32,500	-
Canceled	-	-	-	-	-	-
March 31, 2022 - Outstanding	38,800	47,300	66,800	88,600	190,800	124,000
Price of Stock Options:						
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
	$ 0.01	$ 0.01	$ 0.01	$ 0.01	$ 0.01	$ 0.01
Weighted average stock price at exercise	¥ 948.0	¥ 948.0	¥ 948.0	¥ 948.0	¥ 948.0	¥ -
	$ 7.8	$ 7.8	$ 7.8	$ 7.8	$ 7.8	$ -
Fair value price at grant date	¥ 1,327	¥ 1,336	¥ 1,027	¥ 650	¥ 415	¥ 968
	$ 10.88	$ 10.95	$ 8.42	$ 5.33	$ 3.40	$ 7.93

The assumptions used to measure the fair value of 2021 Stock Acquisition Rights	
Estimate method:	**Black-Scholes option pricing model**
Volatility of stock price:	**36.817%**
Estimated remaining outstanding period:	**8 years**
Estimated dividend:	**¥ - per share**
Risk-free interest rate:	**(0.096)%**

15 REVENUE RECOGNITION

BREAKDOWN OF REVENUE

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

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

	Thousands of U.S. dollars				
	Reportable Segments				
For the year ended March 31, 2022	Japan	North America	Europe	Other areas	Total
Timing of revenue recognition:					
Revenue recognized at a point in time	$ 6,687,648	$ 9,810,016	$ 4,410,041	$ 4,567,656	$ 25,475,361
Revenue recognized over time	3,803	80,697	11,262	5,508	101,270
Total	$ 6,691,451	$ 9,890,713	$ 4,421,303	$ 4,573,164	$ 25,576,631

BASIC INFORMATION FOR UNDERSTANDING REVENUE

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

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

1) Contract Balances

Receivables from contracts with customers and contract liabilities as of March 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2021	2022	2022
Receivables from contracts with customers	¥ 123,896	¥ 146,136	$1,197,836
Contract liabilities	52,530	83,710	686,148

(*1) In the consolidated balance sheet, receivables from contracts with customers are included in "Trade notes and accounts receivable," and contract liabilities are included in "Other current liabilities."

(*2) Contract liabilities consist mainly of advances received related to product sales and deferred revenue related to Connected Services. Of the amount recognized as revenue in the current fiscal year, the amount included in the contract liabilities balance at the beginning of the period was ¥24,913 million ($204,205 thousand).

2) Transaction price allocated to remaining performance obligations

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

	Millions of yen	Thousands of U.S. dollars
As of March 31	2022	2022
Within 1 year	¥ 22,775	$ 186,680
Over 1 year	28,380	232,623
Total	¥ 51,155	$ 419,303

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

16 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major items and amounts included in "Selling, general and administrative expenses" in the consolidated statements of operations for the years ended March 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2021	2022	2022
Advertising expenses	¥ 92,560	¥ **79,308**	$ **650,066**
Freight and packing expenses	43,783	**55,763**	**457,074**
Reserve for warranty expenses	33,230	**26,464**	**216,918**
Salaries and wages	115,880	**121,133**	**992,893**
Retirement benefit expenses	6,451	**3,888**	**31,869**
Research and development costs	127,432	**134,622**	**1,103,459**
Provision for loss on compensation for damage	-	**11,500**	**94,262**

17 RESEARCH AND DEVELOPMENT COSTS

All research and development costs are included in selling, general and administrative expenses. The research and development costs for the years ended March 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2021	2022	2022
Research and development costs	¥ 127,432	¥ **134,622**	$ **1,103,459**

18 OTHER INCOME /(EXPENSES)

The components of "Other, net" in Other income/(expenses) in the consolidated statements of operations for the years ended March 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2021	2022	2022
Rental income	¥ 1,682	¥ **1,634**	$ **13,393**
Loss on sale of receivables	(891)	**(932)**	**(7,639)**
Foreign exchange gain/(loss)	16,062	**30,288**	**248,262**
Taxes and dues	-	**(2,387)**	**(19,566)**
Loss on sales and retirement of property, plant and equipment, net	(4,563)	**(4,600)**	**(37,705)**
Impairment loss (Note 19)	(1,355)	**(691)**	**(5,664)**
Loss on disaster	-	**(1,563)**	**(12,811)**
Loss on production suspension and others due to the novel coronavirus (*1)	(20,460)	**(8,861)**	**(72,631)**
Gain on sale of investment securities	400	**-**	**-**
Insurance claim income	-	**1,009**	**8,270**
Gain on change in equity (*2)	-	**4,047**	**33,172**
Other	(1,254)	**(4,711)**	**(38,615)**
Total	¥ (10,379)	¥ **13,233**	$ **108,466**

(*1) Loss on production suspension and others due to the novel coronavirus for the years ended March 31, 2021 represents the fixed cost during the production suspension due to the impact of the novel coronavirus. This extraordinary loss was due to the period during which overseas production bases were shut down at the request of the government and the effects of governments declaring emergencies and taking measures to prevent the spread of infection by limiting economic activities.

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

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

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

19 IMPAIRMENT LOSS

Details of impairment losses for the years ended March 31, 2021 and 2022 were as follows:

For the year ended March 31, 2021

Purpose of use	Location	Type of assets	Millions of yen
Idle assets (Sales facilities)	State of California, U.S.A, etc.	Buildings and structures, Machinery, equipment and vehicles, etc.	¥ 749
Idle assets (Production facilities)	Hiroshima Prefecture, Japan, etc.	Machinery, equipment and vehicles, etc.	506
Assets held for sales	Tokyo Metropolis, Japan, etc.	Buildings and structures, Land	100
Total			¥ 1,355

For the year ended March 31, 2022

Purpose of use	Location	Type of assets	Millions of yen	Thousands of U.S. dollars
Idle assets (Sales facilities)	Fukuoka Prefecture, Japan, etc.	Buildings and structures, Machinery, equipment and vehicles	¥ 204	$ 1,672
Idle assets (Production facilities)	Hiroshima Prefecture, Japan, etc.	Buildings and structures, Machinery, equipment and vehicles, etc.	487	3,992
Total			¥ 691	$ 5,664

The Group principally groups its long-lived assets at each operating company level and assesses whether indicators of impairment exist. Idle assets, assets held for leasing, and assets held for sale, however, are assessed individually.
The recoverable amounts of these assets were measured at their net realizable value.

20 OTHER COMPREHENSIVE INCOME/(LOSS)

The following table presents reclassification and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2021 and 2022.

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2021	2022	2022
Net unrealized gain/(loss) on available-for-sale securities			
Amounts arising during the fiscal year	¥ 19,571	¥ 19,759	$ 161,959
Reclassification adjustments	(70)	-	-
Subtotal before tax	19,501	19,759	161,959
Tax effect	(5,747)	(6,050)	(49,590)
Balance at end of period	13,754	13,709	112,369
Deferred gains/(losses) on hedges			
Amounts arising during the fiscal year	(2,159)	(5,084)	(41,672)
Reclassification adjustments	1,375	3,443	28,221
Subtotal before tax	(784)	(1,641)	(13,451)
Tax effect	239	500	4,098
Balance at end of period	(545)	(1,141)	(9,352)
Foreign currency translation adjustment			
Amounts arising during the fiscal year	19,698	20,909	171,385
Adjustments for retirement benefits			
Amounts arising during the fiscal year	27,864	14,235	116,680
Reclassification adjustments	4,182	(1,382)	(11,328)
Subtotal before tax	32,046	12,853	105,352
Tax effect	(9,662)	(4,046)	(33,164)
Balance at end of period	22,384	8,807	72,189
Share of other comprehensive income/(loss) of affiliates accounted for using equity method			
Amounts arising during the fiscal year	(2,785)	5,111	41,893
Reclassification adjustments	5	81	664
Balance at the end of period	(2,780)	5,192	42,557
Total other comprehensive income/(loss)	¥ 52,511	¥ 47,476	$ 389,148

21 EMPLOYEES' RETIREMENT BENEFITS

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

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

Reconciliations of beginning and ending balances of the retirement benefit obligations and the plan assets for the years ended March 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2021	2022	2022
Movements in retirement benefit obligations:			
Balance at beginning of year	¥ 353,670	¥ 356,441	$ 2,921,648
Service cost	13,343	13,253	108,631
Interest cost	2,732	2,949	24,172
Actuarial differences	448	(11,163)	(91,500)
Benefits paid	(16,828)	(20,252)	(166,000)
Past service costs	5	(6,733)	(55,189)
Other	3,071	4,144	33,968
Balance at end of year	¥ 356,441	¥ 338,639	$ 2,775,730

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2021	2022	2022
Movements in plan assets:			
Balance at beginning of year	¥ 281,532	¥ 313,062	$ 2,566,082
Expected return on plan assets	4,930	5,911	48,451
Actuarial differences	28,486	(3,066)	(25,131)
Contributions paid by the employer	8,230	7,858	64,410
Benefits paid	(12,635)	(14,466)	(118,574)
Other	2,519	3,819	31,303
Balance at end of year	¥ 313,062	¥ 313,118	$ 2,566,541

The reconciliation of the retirement benefit obligations and plan assets to the liability and asset for retirement benefits recognized in the consolidated balance sheets as of March 31, 2021 and 2022 was as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2021	2022	2022
Funded retirement benefit obligations	¥ 340,294	¥ 322,887	$ 2,646,615
Plan assets	(313,062)	(313,118)	(2,566,541)
Subtotal	27,232	9,769	80,074
Unfunded retirement benefit obligations	16,147	15,752	129,115
Total net liability (asset) for retirement benefits recognized in consolidated balance sheets	43,379	25,521	209,189
Liability for retirement benefits	50,039	33,433	274,041
Asset for retirement benefits	(6,660)	(7,912)	(64,852)
Total net liability (asset) for retirement benefits recognized in consolidated balance sheets	¥ 43,379	¥ 25,521	$ 209,189

The profits and losses related to retirement benefits for the years ended March 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2021	2022	2022
Service cost	¥ 13,343	¥ 13,253	$ 108,631
Interest cost	2,732	2,949	24,172
Expected return on plan assets	(4,930)	(5,911)	(48,451)
Actuarial differences amortization	4,774	(786)	(6,443)
Past service costs amortization	(592)	(596)	(4,885)
Other	23	100	820
Severance and retirement benefit expenses	¥ 15,350	¥ 9,009	$ 73,844

Note: For the years ended March 31, 2021 and 2022, accrued pension costs related to defined contribution plans were charged to income as ¥ 3,426 million and ¥3,412 million ($27,967 thousand), respectively. This cost is not included in the above

The breakdown of items of adjustments for retirement benefit (before tax) recognized in other comprehensive income for the years ended March 31, 2021 and 2022 was as follows:

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	2021	2022	2022
Past service costs	¥ (597)	¥ 6,137	$ 50,303
Actuarial differences	32,643	6,716	55,049
Total	¥ 32,046	¥ 12,853	$ 105,352

The breakdown of items of accumulated adjustments for retirement benefits (before tax) recognized in accumulated other comprehensive income as of March 31, 2021 and 2022 was as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2021	2022	2022
Past service costs that are yet to be recognized	¥ 2,712	¥ 8,849	$ 72,533
Actuarial differences that are yet to be recognized	(3,499)	3,217	26,369
Total	¥ (787)	¥ 12,066	$ 98,902

The breakdown of plan assets by major category as of March 31, 2021 and 2022 was as follows:

As of March 31	2021	2022
Bonds	46%	42%
Equity securities	29%	29%
General accounts of the life insurance companies	15%	16%
Other	10%	13%
Total	100%	100%

The major items of actuarial assumptions for the years ended March 31, 2021 and 2022 were as follows:

For the years ended March 31	2021	2022
Discount rate	Primarily 0.7%	Primarily 0.9%
Long-term expected rate of return	Primarily 1.5%	Primarily 1.5%

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

22 INCOME TAXES

The effective tax rate reflected in the consolidated statements of operations for the years ended March 31, 2021 and 2022 differs from the statutory tax rate for the following reasons.

For the years ended March 31	2021	2022
Statutory tax rate	30.5 %	**30.5 %**
Foreign withholding tax	203.2 %	**5.2 %**
Unrecognized tax effect on unrealized gains	(111.9)%	**0.8 %**
Retained earnings in subsidiaries and affiliates	(30.3)%	**0.3 %**
Equity in net income of affiliated companies	(91.6)%	**(0.5)%**
Different tax rates applied to foreign consolidated subsidiaries	(101.8)%	**(1.4)%**
Valuation allowance	1,722.0 %	**(8.5)%**
Tax system differences for foreign consolidated subsidiaries	(60.2)%	**- %**
Other	(4.2)%	**0.3 %**
Effective tax rate	1,555.7 %	**26.7 %**

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

The significant components of deferred tax assets and liabilities as of March 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31	2021	2022	2022
Deferred tax assets:			
Accrued bonuses and other reserves	¥ 59,909	¥ **51,329**	$ **420,730**
Tax loss carryforwards (*2)	43,264	**15,449**	**126,631**
Inventory, etc.	10,570	**12,664**	**103,803**
Liability for retirement benefits	15,600	**10,329**	**84,664**
Excess of depreciation	3,785	**3,931**	**32,221**
Provision for loss on compensation for damage	-	**3,503**	**28,713**
Asset retirement obligations	1,584	**1,628**	**13,344**
Allowance for doubtful receivables	198	**1,617**	**13,254**
Impairment loss	1,247	**1,345**	**11,025**
Accrued business tax	262	**1,164**	**9,541**
Foreign tax credit carry forward	210	**553**	**4,533**
Valuation loss on investment securities, etc.	396	**425**	**3,484**
Other	45,192	**49,269**	**403,844**
Total	182,217	**153,206**	**1,255,787**
Valuation allowance for tax loss carryforwards (*2)	(38,549)	**(12,815)**	**(105,041)**
Valuation allowance for deductible temporary differences, etc.	(49,796)	**(63,401)**	**(519,680)**
Total valuation allowance (*1)	(88,345)	**(76,216)**	**(624,721)**
Total deferred tax assets	93,872	**76,990**	**631,066**
Deferred tax liabilities:			
Retained earnings in subsidiaries and affiliates	(13,532)	**(13,846)**	**(113,492)**
Net unrealized gain on available-for-sale securities	(7,073)	**(13,120)**	**(107,541)**
Effect of exchange rate fluctuations on foreign subsidiaries	(10,168)	**(8,940)**	**(73,279)**
Asset for retirement benefits	(2,990)	**(3,025)**	**(24,795)**
Other	(5,463)	**(7,761)**	**(63,615)**
Total deferred tax liabilities	(39,226)	**(46,692)**	**(382,722)**
Net deferred tax assets	¥ 54,646	¥ **30,298**	$ **248,344**

(*1) Valuation allowance decreased by ¥12,129 million ($99,418 thousand). This decrease was mainly resulted from the decrease in tax loss carryforward on the Company and its associated valuation allowance.

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

As of March 31, 2021	Millions of yen		
	Tax loss carryforwards (a)	Valuation allowance	Deferred tax assets
2022	¥ 149	¥ -	¥ 149
2023	-	-	-
2024	-	-	-
2025	-	-	-
2026	-	-	-
Thereafter	43,115	(38,549)	4,566
Total	¥ 43,264	¥ (38,549)	¥ 4,715 (b)

As of March 31, 2022	Millions of yen			Thousands of U.S. dollars		
	Tax loss carryforwards (a)	Valuation allowance	Deferred tax assets	Tax loss carryforwards (a)	Valuation allowance	Deferred tax assets
2023	¥ -	¥ -	¥ -	$ -	$ -	$ -
2024	-	-	-	-	-	-
2025	-	-	-	-	-	-
2026	-	-	-	-	-	-
2027	-	-	-	-	-	-
Thereafter	**15,449**	**(12,815)**	**2,634**	**126,631**	**(105,041)**	**21,590**
Total	**¥ 15,449**	**¥ (12,815)**	**¥ 2,634** (c)	**$ 126,631**	**$ (105,041)**	**$ 21,590** (c)

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

(b) Deferred tax assets of ¥4,715 million were recognized for tax loss carryforwards of ¥43,264 million (amount multiplied by the statutory tax rate). No valuation allowance was recognized for the tax loss carryforwards, which were determined to be recoverable based on expected future taxable income.

(c) Deferred tax assets of ¥2,634 million ($21,590 thousand) were recognized for tax loss carryforwards of ¥15,449 million (amount multiplied by the statutory tax rate; $126,631 thousand). No valuation allowance was recognized for the tax loss carryforwards, which were determined to be recoverable based on expected future taxable income.

(d) Gross deferred tax assets before being offset by deferred tax liabilities were ¥76,990 million ($631,066 thousand). Of this, the Company's deferred tax assets were ¥28,522 million ($233,787 thousand).

23 SEGMENT INFORMATION

SEGMENT INFORMATION

OVERVIEW OF REPORTABLE SEGMENTS

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

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

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

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

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

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

Net sales, income or loss, and assets by reportable segment for the years ended March 31, 2021 and 2022 were as follows:

	Millions of yen						
	Reportable Segments						
As of and for the year ended March 31, 2021	Japan	North America	Europe	Other areas	Total	Adjustment (*1)	Consolidated (*2)
Net sales:							
Sales to external customers	¥ 866,977	¥ 1,027,856	¥ 490,134	¥ 497,099	¥ 2,882,066	¥ -	¥ 2,882,066
Inter-segment sales and transfers	1,464,574	252,611	19,600	57,664	1,794,449	(1,794,449)	-
Total	2,331,551	1,280,467	509,734	554,763	4,676,515	(1,794,449)	2,882,066
Segment income/(loss):	(64,724)	40,477	10,002	17,761	3,516	5,304	8,820
Segment assets:	2,343,476	449,287	198,115	354,802	3,345,680	(428,266)	2,917,414
Other items:							
Depreciation and amortization	59,723	19,345	4,574	6,123	89,765	-	89,765
Impairment losses	842	467	31	15	1,355	-	1,355
Investments in affiliated companies on the equity method	32,612	5,230	2,444	82,776	123,062	-	123,062
Increase in property, plant and equipment and intangible assets	64,238	24,892	2,063	1,779	92,972	-	92,972

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

As of and for the year ended March 31, 2022	Thousands of U.S. dollars — Reportable Segments: Japan	North America	Europe	Other areas	Total	Adjustment (*1)	Consolidated (*2)
Net sales:							
Sales to external customers	$ 6,691,451	$ 9,890,713	$ 4,421,303	$ 4,573,164	$25,576,631	$ -	$ 25,576,631
Inter-segment sales and transfers	14,166,689	1,929,189	171,598	443,631	16,711,107	(16,711,107)	-
Total	20,858,140	11,819,902	4,592,901	5,016,795	42,287,738	(16,711,107)	25,576,631
Segment income/(loss) :	702,459	(77,746)	122,033	135,590	882,336	(28,016)	854,320
Segment assets:	19,636,615	4,308,705	1,519,598	2,982,393	28,447,311	(4,118,229)	24,329,082
Other items:							
Depreciation and amortization	464,458	181,156	41,787	52,607	740,008	-	740,008
Impairment losses	5,139	525	8	(8)	5,664	-	5,664
Investments in affiliated companies on the equity method	273,967	-	19,787	705,746	999,500	-	999,500
Increase in property, plant and equipment and intangible assets	760,353	379,402	11,221	32,073	1,183,049	-	1,183,049

(*1) Notes on adjustment:

(1) The adjustment on segment income/(loss) is eliminations of inter-segment transactions.

(2) The adjustment on segment assets is mainly eliminations of inter-segment receivables and payables.

(*2) The segment income/(loss) is reconciled with the operating income in the consolidated statements of operations for the years ended March 31, 2021 and 2022.

The segment assets are reconciled with the total assets in the consolidated balance sheets as of March 31, 2021 and 2022.

Note: As described in Note 4, "Accounting Changes," the Group has "Accounting Standard for Revenue Recognition", etc. effective from the beginning of the fiscal year ended March 31, 2022 and changed the measuring method of segment income or loss. As a result, for the fiscal year ended March 31, 2022, net sales of Japan segment increased by ¥15,881 million ($130,172 thousand) and North America segment decreased by ¥57,884 million ($474,459 thousand), and segment income of Japan segment increased by ¥4,561 million ($37,385 thousand), compared with the previous method.

ASSOCIATED INFORMATION

INFORMATION BY GEOGRAPHIC AREA

The sales information by geographic area for the years ended March 31, 2021 and 2022 was as follows:

For the years ended March 31	Millions of yen 2021	Millions of yen 2022	Thousands of U.S. dollars 2022
Japan	¥ 594,490	¥ 569,568	$ 4,668,590
U.S.A	792,024	977,816	8,014,885
North America (Excluding U.S.A)	232,870	229,224	1,878,885
Europe	498,037	540,550	4,430,738
Other areas	764,645	803,191	6,583,533
Total	¥ 2,882,066	¥ 3,120,349	$25,576,631

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

The property, plant and equipment information by geographic area as of March 31, 2021 and 2022 was as follows:

As of March 31	Millions of yen 2021	Millions of yen 2022	Thousands of U.S. dollars 2022
Japan	¥ 861,731	¥ **890,152**	$ **7,296,328**
Mexico	95,671	**89,655**	**734,877**
North America (Excluding Mexico)	45,075	**92,545**	**758,566**
Europe	16,924	**18,811**	**154,189**
Other areas	55,767	**55,553**	**455,351**
Total	¥ 1,075,168	¥ **1,146,716**	$ **9,399,311**

24 RELATED PARTY TRANSACTIONS

There were no transactions with related parties to be disclosed during the years ended March 31, 2021 and 2022.

For the year ended March 31, 2022, important affiliates were Changan Mazda Automobile Co., Ltd. and Mazda Toyota Manufacturing, U.S.A., Inc., and the summary of their financial statements used in the calculation of the equity in net loss of affiliated companies was as follows:

As of and for the year ended March 31, 2022	Millions of yen	Thousands of U.S. dollars
Total current assets	¥ **198,351**	$ **1,625,828**
Total non-current assets	**178,011**	**1,459,107**
Total current liabilities	**225,768**	**1,850,558**
Total non-current liabilities	**97,065**	**795,615**
Total net assets	**53,529**	**438,762**
Net sales	**320,873**	**2,630,107**
Net loss before income taxes	**(12,135)**	**(99,467)**
Net loss	**(17,434)**	**(142,902)**

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent auditor's report

To the Board of Directors of Mazda Motor Corporation:

Opinion

We have audited the accompanying consolidated financial statements of Mazda Motor Corporation ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheet as at March 31, 2022, the consolidated statements of operations, comprehensive income, changes in net assets and cash flows for the year then ended , and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

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

Appropriateness of management's judgment on the recoverability of deferred tax assets of Mazda Motor Corporation

The key audit matter	How the matter was addressed in our audit
Mazda Motor Corporation (hereinafter, the "Company") and its consolidated subsidiaries recognized deferred tax assets of ¥37,256 million on the consolidated balance sheet for the current fiscal year. As described in Note 22 "Income Taxes" to the consolidated financial statements, the amount of gross deferred tax assets before	The primary procedures we performed to assess the appropriateness of management's judgment on the recoverability of deferred tax assets of the Company included the following: (1) Internal control testing

being offset by deferred tax liabilities amounted to ¥76,990 million. Of this, the amount of deferred tax assets of the Company in its standalone financial statements was ¥28,522 million, which accounted for approximately 1% of total assets in the consolidated financial statements. Deferred tax assets are recognized for tax loss carryforwards and deductible temporary differences to the extent that they are expected to reduce the amount of future tax payments. As described in Note 3, "Significant Accounting Estimates" to the consolidated financial statements, the estimated future taxable income, which was used to assess the recoverability of deferred tax assets, was based on the next year's budget prepared by management. Accordingly, it included significant assumptions involving estimation uncertainty, such as the prospects for consolidated wholesales volume assuming a certain business environment that incorporated the effects of novel coronavirus, the shortage of semiconductors, etc., the results of unit selling price improvement measures, the effects of rising raw material prices, as well as transaction prices between the Company and its U.S. subsidiary which required management judgment. We, therefore, determined that our assessment of the appropriateness of management's judgment on the recoverability of deferred tax assets of the Company was the most significant matter in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	We tested the design and operating effectiveness of the Company's certain internal controls over the estimation related to the recoverability of deferred tax assets. In the assessment, we focused our testing on the internal controls relevant to management's assessment of the appropriateness of the estimation related to consolidated wholesales volume, unit selling price improvement measures, the effects of rising raw material prices, as well as transaction prices between the Company and its US subsidiary, which were especially important in the next year's budget. (2) Assessment of the estimation included in the next year's budget We assessed the precision of management's estimates by comparing the previous years' budgets with the actual results and analyzing the causes of any variances. Then we inquired of management regarding key assumptions included in the next year's budget to assess the appropriateness of those assumptions. In addition, we performed the following procedures, among others: ● inspected production forecast reports issued by external research organizations and assessed the appropriateness of the assumption of the consolidated wholesales volume included in the next year's budget to evaluate the feasibility of the production plan included in the next year's budget; ● compared the assumptions related to the unit selling price improvement measures included in the next year's budget with the results from the improvement achieved during the most recent accounting period; ● compared the assumptions related to the effects of rising raw material prices included in the next year's budget with price forecast reports issued by external research organizations; and assessed the appropriateness of management's estimates of transaction prices between the Company and its U.S. subsidiary included in the next year's budget by involving a tax specialist within our network firms.

Other Information

The other information comprises the information included in the Financial Report 2022, but does not include the consolidated financial statements, the financial statements, and our auditor's reports thereon. Management is responsible for the preparation and presentation of the other information. The audit and supervisory committee is responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the reporting process for the other information.

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

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

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

We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2022 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

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

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

/S/ Satoshi Yokosawa
Designated Engagement Partner
Certified Public Accountant

/S/ Atsushi Nagata
Designated Engagement Partner
Certified Public Accountant

/S/ Takuya Morishima
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Hiroshima Office, Japan
August 10, 2022

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

EXHIBIT C

To the

DECLARATION OF FRANCIS J. FARINA

IN SUPPORT OF MOTION TO INTERVENE

MAZDA FINANCIAL REPORT 2023

YEAR ENDED MARCH 31, 2023

FINANCIAL REPORT 2023

YEAR ENDED MARCH 31, 2023

CONTENTS

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

1. Basic Policy of Company Management

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

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

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

2. Business Environment and Issues to be Addressed

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

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

Medium-term Management Plan Key Initiatives

■ Invest in brand value improvement
  - Invest in unique products, technologies, production, and customer experience -
    · Continued investment with further efficiency and leveling
    · Staggered launch of new products/derivatives at planned intervals
    · Continued product upgrades

■ Curb expenditure that depreciates brand value

■ Accelerate fixed cost/cost reductions to lower break-even volume

■ Invest in areas where we need to catch up and start investing in new areas

■ Enhance alliances (CASE*[1], new partnerships)

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

Medium-term Management Plan Financial Metrics

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

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

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

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

(2) Management Policy for 2030

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

Basic Management Policy

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

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

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

Initiatives for Opening the Future

1. Initiatives for achieving carbon neutrality

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

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

2. Initiatives in electrification in each phase

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

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

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

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

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

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

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

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

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

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

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

4. Cost reduction and supply chain resilience

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

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

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

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

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

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

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

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

APPROACHES TO AND INITIATIVES FOR SUSTAINABILITY

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

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

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

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

Eight themes of materiality

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

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

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

- Creating a system that enriches people's lives

Common to "Earth," "People," and "Society"

- Quality improvement
- Exploring partnerships for "co-creation with others"

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

4. Response to TCFD *1

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

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

(1) Governance

<Transition Risk>

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

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

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

<Physical Risk>

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

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

(2) Strategy

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

<Major Risks and Opportunities>

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

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

(3) Risk Management

<Transition Risk>

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

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

<Physical Risk>

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

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

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

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

(4) Metrics and Targets

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

For the fiscal year ended March 2022 results, please refer to the "MAZDA SUSTAINABILITY REPORT 2022" (page 113) published in December 2022.

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

- Water consumption

For the fiscal year ended March 2022 results, please refer to the "MAZDA SUSTAINABILITY REPORT 2022" (page 116) published in December 2022.

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

- Major Metrics and Targets

<Addressing Global Warming>

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

＜Conservation of Water Resources＞

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

*1. TCFD : Task Force on Climate-related Financial Disclosures

A private sector organization set up by the Financial Stability Board (FSB), in response to the request from the G20 Finance Ministers and Central Bank Governors

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

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

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

*5. Scope 1: Direct emissions from consumption of fuels and industrial processes. Scope 2: Emissions

associated with consumption of purchased heat/electricity (indirect emissions from energy consumption).
Scope 3: Other indirect emissions excluding Scope 1 and 2

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

(1) Strategy

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

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

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

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

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

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

(2) Indicators and Targets (Submitting Company)

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

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

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

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

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

BUSINESS RISKS

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

Risks Related to the Markets and Business

1. Economic Conditions Impacting the Group

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

2. Procurement of Materials and Components

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

3. Alliances and Joint Ventures

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

4. Market Competitiveness

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

5. Protection of Intellectual Property

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

6. Product Quality

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

7. Dependence on Information Technology

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

8. Compliance and Reputation

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

9. Climate Change

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

10. Securing and Development of Personnel

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

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

Risks Related to Finance and Economy

1. Fluctuations in Exchange Rates

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

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

2. Increase in Material Prices

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

3. Changes in Financing Procurement Environment and Interest Rate Fluctuations

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

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

1. Statutory Regulations Covering the Environment

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

2. International Business Activities

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

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

3. Natural Disasters and Accidents

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

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

1. Business Results

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

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

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

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

Global Sales

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

Sales volumes in individual markets were as follows.

<Japan>

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

<North America>

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

<Europe>

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

<China>

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

<Other Markets>

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

Business Results

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

<Net Sales>

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

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

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

<Operating Income>

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

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

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

<Net Income Attributable to Owners of the Parent>

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

2. Financial Position

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

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

3. Cash Flows

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

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

Cash flows from operating activities

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

Cash flows from investing activities

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

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

Cash flows from financing activities

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

4. Source of Funds and Liquidity

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

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

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

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

5. Research and Development Activities

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

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

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

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

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

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

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

*2. The engine type is 8C.

6. Capital Expenditures

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

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

7. Dividend Policy

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

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

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

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

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

CORPORATE GOVERNANCE

1. Overview of Corporate Governance

(1) Corporate Vision

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

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

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

(2) Basic Views on Corporate Governance

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

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

(3) Corporate Governance System

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

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

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

<Board of Directors>

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

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

<Audit & Supervisory Committee>

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

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

<Executive officer system>

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

<Officer Lineup & Remuneration Advisory Committee>

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

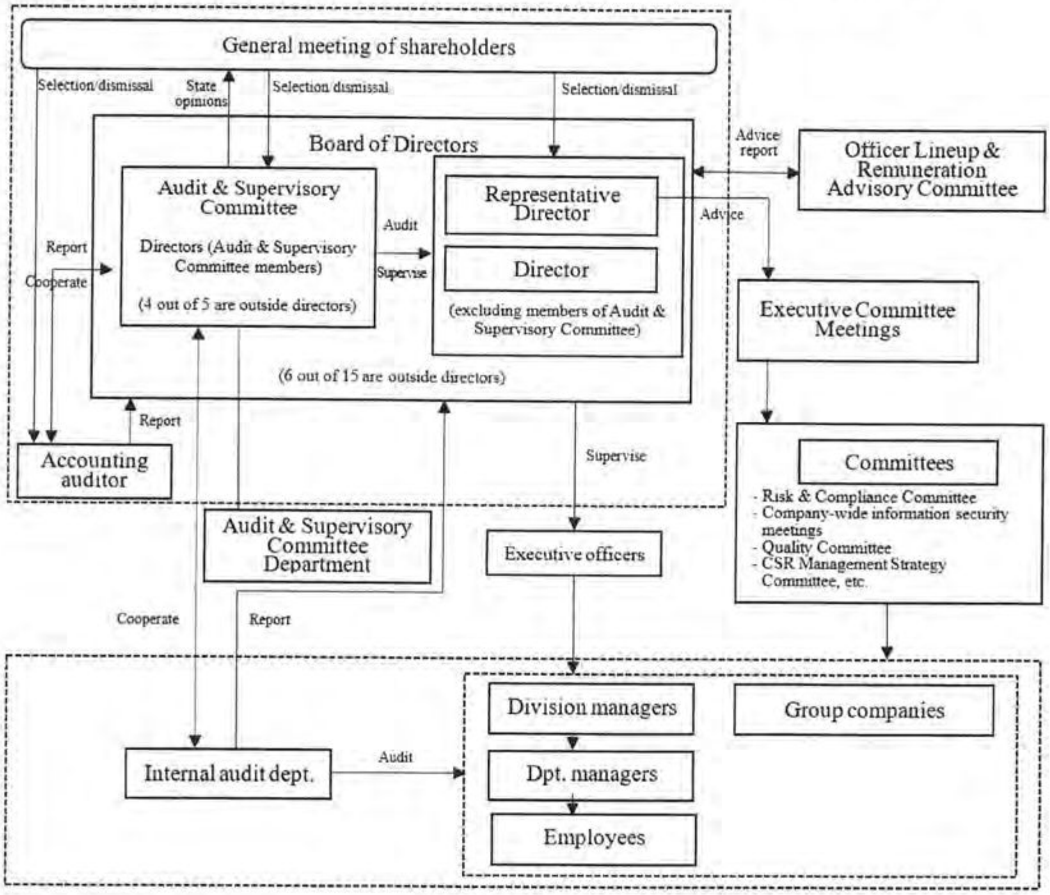
As an advisory body to the Board of Directors, the committee deliberates matters such as officer lineup and policies regarding the selection and training of candidates, as well as remuneration payment policies and the remuneration system and process based on those policies, which contribute to the Company's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

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

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

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

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



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

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

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

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

- Individual business risks will be managed by the relevant divisions, and company-level risks will be managed by the divisions in charge in accordance with basic risk management policy and other related internal regulations.
- In the event of serious management situations or emergencies such as disasters, appropriate measures such as establishing an emergency headquarters will be taken in accordance with internal regulations as necessary.
- The officer and department in charge of the promotion of risk management throughout the Company will be stipulated, and risk management will be further strengthened and enhanced by activities such as setting an agenda of priority issues for the Risk & Compliance Committee and checking and evaluating the risk management in each department.

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

c. System to ensure that directors execute their duties efficiently

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

k. Basic Views on Eliminating Anti-Social Forces

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

3) Other matters related to corporate governance

<Liability exemption for directors>

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

<Outline of the terms of liability limitation agreement>

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

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

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

<Number of Directors on the Board>

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

<Resolution requirements for the election of directors>

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

<Purchase of treasury shares>

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

<Decision-making body regarding dividends from surplus>

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

4) Activities of the Board of Directors

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

As of March 31, 2023

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

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

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

<Specific matters discussed by the Board of Directors>

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

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

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

5) Activities of the Officer Lineup & Remuneration Advisory Committee

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

As of March 31, 2023

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

(Notes) 1. The Officer Lineup & Remuneration Advisory Committee is chaired by Mr. Kiyotaka Shobuda.
2. Directors Mr. Kiyoshi Sato, Ms. Michiko Ogawa, Mr. Ichiro Sakai, Mr. Akira Kitamura, Ms. Hiroko Shibasaki and Mr. Masato Sugimori are outside directors.

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

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

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

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

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

2. Shareholdings

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

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

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

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

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

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

b. Number of issues and book value on balance sheet

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

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

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

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

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

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

Specified investment shares

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

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

are less than 1 percent of capital stock.

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

CONSOLIDATED BALANCE SHEETS

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

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

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

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

Consolidated Statements of Operations

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

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

Consolidated Statements of Comprehensive Income

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

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

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

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

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mazda Motor Corporation and Consolidated Subsidiaries

1 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

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

The conversion of the Japanese yen into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2023, which was ¥134 to U.S. $1.00. The conversions should not be construed as representations that the Japanese yen have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

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

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

FOREIGN CURRENCY CONVERSION

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

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

CASH AND CASH EQUIVALENTS

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

SECURITIES

Securities are classified as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by the unconsolidated subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

The Group does not have trading securities. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by unconsolidated subsidiaries and affiliated companies that, based on the applicable materiality provisions of Japanese GAAP, are not accounted for under the equity method are stated at moving-average cost.

Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of accumulated other comprehensive income within net assets. Realized gains and losses on the sale of such securities are computed using moving-average cost. Available-for-sale securities without available fair market values are stated mainly at moving-average cost.

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

DERIVATIVES AND HEDGE ACCOUNTING

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

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

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

INVENTORIES

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

PROPERTY, PLANT AND EQUIPMENT (EXCEPT FOR LEASED ASSETS)

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

INTANGIBLE ASSETS (EXCEPT FOR LEASED ASSETS)

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

AMORTIZATION OF GOODWILL

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

LEASED ASSETS

FINANCE LEASES IN WHICH OWNERSHIP IS NOT TRANSFERRED TO THE LESSEE

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

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

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

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

ALLOWANCE FOR DOUBTFUL RECEIVABLES

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

RESERVE FOR WARRANTY EXPENSES

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

PROVISION FOR LOSS ON COMPENSATION FOR DAMAGE

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

PROVISION RELATED TO ENVIRONMENTAL REGULATIONS

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

REVENUES

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

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

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

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

EMPLOYEES' RETIREMENT BENEFITS

The Group provides various types of post-employment benefit plans, including lump-sum plans, defined benefit pension plans, and defined contribution pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service, and certain other factors.

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

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

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

INCOME TAXES

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

AMOUNTS PER SHARE OF COMMON STOCK

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

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

PRESENTATION OF OPERATING LEASE ASSETS UNDER US GAAP

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

RECLASSIFICATION

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

3 SIGNIFICANT ACCOUNTING ESTIMATES

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

RESERVE FOR WARRANTY EXPENSES

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

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

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

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

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

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

4 ACCOUNTING CHANGES

CHANGES IN ACCOUNTING POLICIES

-APPLICATION OF ACCOUNTING STANDARD FOR FAIR VALUE MEASUREMENT

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

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

-APPLICATION OF ASU 2016-02 "LEASES"

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

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

NEW ACCOUNTING STANDARDS NOT YET APPLIED

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

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

5 FINANCIAL INSTRUMENTS

QUALITATIVE INFORMATION ON FINANCIAL INSTRUMENTS

POLICIES FOR USING FINANCIAL INSTRUMENTS

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

DETAILS OF FINANCIAL INSTRUMENTS AND THE EXPOSURES TO RISK

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

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

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

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

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

POLICIES AND PROCESSES FOR MANAGING RISK

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

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

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

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

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

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

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

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

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

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

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

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

SUPPLEMENTARY EXPLANATION ON FAIR VALUES OF FINANCIAL INSTRUMENTS

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

FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

FAIR VALUE OF FINANCIAL INSTRUMENTS AND HIERARCHY

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

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

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

Level 3: Fair value determined based on significant unobservable inputs

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

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

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

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

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

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

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

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

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

INVESTMENT SECURITIES

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

SECURITIES

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

DERIVATIVE INSTRUMENTS

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

LONG-TERM DEBT

Bonds payable

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

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

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

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

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

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

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

6 SECURITIES

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

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

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

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

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

7 DERIVATIVES

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

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

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

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

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

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

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

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

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

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

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

1) Currency related

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

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

2) Interest rate related
Not applicable.

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

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

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

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

2) Interest rate related
Not applicable.

8 INVENTORIES

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

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

9 LAND REVALUATION

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

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

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

10 SHORT-TERM DEBT AND LONG-TERM DEBT

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

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

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

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

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

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

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

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

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

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

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

11 CONTINGENT LIABILITIES

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

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

12 OPERATING LEASES

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

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

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

13 NET ASSETS

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

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

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

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

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

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

Dividends

1) Dividends paid to shareholders

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

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

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

14 STOCK OPTIONS

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

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

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

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

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

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

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

15 REVENUE RECOGNITION

BREAKDOWN OF REVENUE

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

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

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

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

BASIC INFORMATION FOR UNDERSTANDING REVENUE

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

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

1) Contract Balances

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

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

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

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

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

2) Transaction price allocated to remaining performance obligations

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

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

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

16 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

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

17 RESEARCH AND DEVELOPMENT COSTS

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

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

18 OTHER INCOME /(EXPENSES)

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

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

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

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

(*3) Gain on change in equity represents the profit from the change in equity resulting from the capital increase of Changan Mazda Automobile Co., Ltd. (CMA), affiliated company accounted for using equity method.
As China FAW Corporation Limited (FAW) participated in and won the bid for a capital increase project implemented by CMA in August 2021, CMA has become a joint venture company (new CMA) that are owned by the Company, Chongqing Changan Automobile Co., Ltd. (CA), and FAW. The Company and CA each own 47.5 percent of new CMA's shares while FAW owns 5 percent.

19 IMPAIRMENT LOSS

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

For the year ended March 31, 2022

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

For the year ended March 31, 2023

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

The Group principally groups its long-lived assets at each operating company level and assesses whether indicators of impairment exist. Idle assets, assets held for leasing, and assets held for sale, however, are assessed individually.
The recoverable amounts of these assets were measured at their net realizable value.

20 OTHER COMPREHENSIVE INCOME/(LOSS)

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

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

21 EMPLOYEES' RETIREMENT BENEFITS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

22 INCOME TAXES

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

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

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

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

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

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

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

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

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

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

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

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

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

23 SEGMENT INFORMATION

SEGMENT INFORMATION

OVERVIEW OF REPORTABLE SEGMENTS

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

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

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

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

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

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

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

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

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

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

(*1) Notes on adjustment:
(1) The adjustment on segment income/(loss) is eliminations of inter-segment transactions.
(2) The adjustment on segment assets is mainly eliminations of inter-segment receivables and payables.
(*2) The segment income/(loss) is reconciled with the operating income in the consolidated statements of operations for the years ended March 31, 2022 and 2023.
The segment assets are reconciled with the total assets in the consolidated balance sheets as of March 31, 2022 and 2023.

ASSOCIATED INFORMATION

INFORMATION BY GEOGRAPHIC AREA

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

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

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

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

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

24 RELATED PARTY TRANSACTIONS

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

25 SIGNIFICANT SUBSEQUENT EVENTS

No items to disclose.

KPMG

Independent auditor's report

To the Board of Directors of Mazda Motor Corporation:

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

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

Other Information

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

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

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

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

Convenience Translation

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

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

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

/S/ Hiroshi Tawara
Designated Engagement Partner
Certified Public Accountant

/S/ Koji Yoshida
Designated Engagement Partner
Certified Public Accountant

/S/ Takuya Morishima
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Hiroshima Office, Japan
July 28, 2023

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