May 12, 2009

(For your information)

Mazda Motor Corporation

FY2008 Results and FY2009 Forecast

(Speech Outline)

Representative Director,
President and CEO
Takashi Yamanouchi

Thank you for joining us at our earnings announcement today.

1. Highlights

Revenue for FY2008 was ¥2,535.9 billion. Operating loss was ¥28.4 billion and net loss was ¥71.5 billion.

Although we improved our performance, operating loss deteriorated slightly versus the forecasts made at our February announcement due to devaluation of inventory.

Global sales volume totaled 1.261 million units, up 21,000 units versus the February announcement. Amid a rapid deterioration in the sales environment globally, we improved or maintained market share in major markets with our highly competitive products. This is the result of our product strategy and zoom-zoom product development that have been well received by consumers.

Emergency measures that we implemented from the 2nd half of last fiscal year have resulted in outcomes better than we expected.

In particular, the inventory reduction result was better than planned and we achieved positive free cash flow of ¥67.5 billion in the 4th quarter.

Next, I will highlight the projections for FY2009.

Revenue is projected to be ¥2,030 billion. Operating loss is projected to be ¥50 billion and net loss is also projected at ¥50 billion, due to the strong yen against major currencies and continuing decline in global demand since last fiscal year.

However, with the acceleration of Cost Innovation activities and the increase in sales momentum due to the global launch of the new Mazda3, we expect to become profitable again in the 2nd half.

We will also focus on improving free cash flow to a positive position in the full fiscal year.

Global sales volume is projected to be 1.1 million units, due to the industry demand decline in major markets excluding China. However, we aim to continue to improve or maintain market share in major markets, as we did in the prior year. We will also accelerate our environmentally-friendly actions. As we have already announced, in Japan and Europe we will introduce the new Mazda3/Axela with the idling stop system, which improves the fuel economy by about 10% using the common fuel economy measurement standard in Japan.

We have already delivered a mid-term divided of ¥3 per share, but we decided to forgo the year-end dividend in FY2008 in consideration of the performance this fiscal year and the recent significant deterioration in the business environment.

We regret this, but we hope that our shareholders will understand our reasons.

An annual dividend of ¥3 per share is planned in FY2009.

Managing Director,
Akira Marumoto

2. FY2008 Results

Our consolidated operating loss in FY2008 was ¥28.4 billion. The breakdown of the decrease will be explained later, but this was the result of deterioration of volume and mix due to the reduction in demand and the impact of the yen's appreciation. It is also because the raw material price hikes exceeded gains from cost reductions.
Consolidated ordinary loss was ¥18.7 billion. Consolidated net loss was ¥71.5 billion.
We reduced our profit compared to the estimate made at the February announcement. Considering the continuing deterioration in the business environment, we reassessed the valuation of inventory, fixed assets, and tax assets, mainly at our overseas subsidiaries.

Although full year free cash flow was negative ¥129.2 billion, free cash flow in the 4th quarter was significantly improved, reaching ¥67.5 billion.
This improvement reflects the inventory reduction that we undertook in the 4th quarter.
Furthermore, as cash and cash equivalents were ¥220.7 billion, which is close to the same level as FY2007, we secured enough liquidity.
As we mentioned at the outset, we will forgo a year-end dividend for FY2008.

Capital spending in FY2008 was ¥81.8 billion, up ¥6.3 billion year over year, due to the investment in new model facilities.
Depreciation increased ¥8.7 billion to ¥75.2 billion, due to the increase in capital spending in the past several years.
R&D cost was down ¥18.4 billion year over year, to ¥96 billion, by constraining investment as part of Mazda's emergency measures. However, we promoted more efficient R&D activities and increased our investment in advanced technology development, including next-generation products and environmental technologies.

Our global retail volume declined to 1.261 million units, reflecting deteriorations in the sales environment since the latter half of last year.
The yen-to-dollar exchange rate for FY2008 averaged 101, and the yen-to-Euro exchange rate averaged 144.

Revenue was down 27% versus the prior year. Excluding the 9% impact of an

accounting standard change, revenue was down 18%.
Volume and mix reduced revenue by 11% on lower volume. Exchange rates negatively impacted by 7%. Japan was down 3% and overseas was down 8%.

Now I will take you through the sales performance in each of the key markets in FY2008.
In Japan, sales volume was 219,000 units.
While the new Biante and new Atenza launches had positive new model effects, overall sales volume declined due to a significant reduction in registered vehicle demand. In this difficult market environment, we tried to reorient our focus on “quality” and strengthen sales activities, centering on brand value improvement and profitability.
Although sales volume declined, we maintained our market share in key competitive segments where Mazda registered vehicles are being sold.

In North America, sales were up 5,000 units compared to the figures released at the February announcement, to 347,000 units.
In the United States and Mexico, sales outperformed the market. In Canada, we maintained the same share.
We reduced unprofitable fleet sales and focused on retail. Our market share in the United States was up 0.1 points to 2.0%. Market share has improved in the United States for three consecutive years.
The new Mazda3 was launched in Canada and Mexico ahead of other markets and has been well received.
Inventory adjustment is on track and according to plan. Going forward, we will maintain inventory levels that are aligned with demand.

Sales in Europe were up 8,000 units compared to the February announcement, to 322,000 units, which is the 2nd highest sales record.
In Europe, the sales were down 2% year over year, due to the drastic deterioration in the sales environment since the latter half of last year, market share was still up 0.2 points to 1.7%.
Share improved in majority of the countries.
Mazda2 has been selling well and contributing to the share increase.
Inventory adjustment exceeded the plan.

Sales in China were 8,000 units better than the February estimates we announced, at 135,000 units, up 33% year over year. Share improved 0.3 points to 1.4%.

Mazda2 and Mazda3 fully contributed to this sales result. Although the Mazda6 is going to have a full model freshening soon, it continues to sell better than last year.
Sales network development is making steady progress. The number of outlets increased to 221 stores at the end of March, up 46 stores from last year. Two sales channels have started along the right track. We will further expand the sales networks and improve business efficiency as we go forward.

In the other markets category, one of the major markets, Australia, recorded the highest market share ever. Sales in Australia were 77,000 units and the share was up 0.5 points to 8%.
In New Zealand, sales were 6,800 units and the share increased for the 8th consecutive year.

Next, I would like to explain key factors regarding the ¥190.5 billion consolidated operating profit reduction compared to the prior year.
The volume and mix effects were negative ¥86.5 billion, reflecting sales volume declines in all markets except China, which were attributable to market environment deterioration that began in the second half last year.
The sharp appreciation of the yen concurrent with the economic crisis, negatively impacted on profit by a total ¥102.0 billion --¥40.8 billion from the US dollar, ¥17.2 billion from the Euro, and ¥44.0 billion from other currencies.
Product enhancement costs increased by ¥19.0 billion, primarily reflecting additional expenses incurred on product improvements for the new Atenza/Mazda6 and the new Mazda3.

Cost reductions improved by ¥44 billion. Material costs declined by ¥44 billion, reflecting steel and other material price hikes which were offset by accelerated cost innovation initiatives.
Marketing expenses improved ¥6.5 billion by reducing advertising costs as part of our emergency measures.
Other costs improved ¥10.5 billion. This is mainly a result of R&D cost efficiency improvements which more than offset a one-time loss, such as overseas inventory reserves.

I will take you through the breakdown of profits from non-operating profits and expenses down to net income.

Mainly due to exchange gains, non-operating profit was ¥9.7 billion.
With impairment losses due to tooling at an overseas subsidiary, loss before tax was ¥51.3 billion.
We posted a net loss of ¥71.5 billion due to a release of deferred tax assets at overseas subsidiaries of ¥17.1 billion and tax evaluation.

Dealer inventory in the United States and Europe achieved a further improvement of 2,000 units from the plan we presented at our February earnings announcement.
Dealer inventory is now at an appropriate level in the United States and Europe.

To summarize the FY2008 results, profits declined due to a drastic deterioration in the operating environment. However, Mazda's performance exceeded our expectations. Operating loss was better than our February announcement excluding inventory devaluation.
Cash flow in the 4th quarter turned substantially positive, reflecting good progress of inventory adjustment and secured sufficient liquidity.
Sales also generated some positive results. New generation products are receiving high acclaim and our "Zoom-Zoom" brand strategy is successful around the globe. As a result, market share was improved or maintained in key regions.

3. FY2009 Forecast

FY2009 full year revenue is projected to be ¥2,030 billion. We project a consolidated operating loss of ¥50 billion and net loss of ¥50 billion.

Operating profit is forecasted to decline ¥21.6 billion year over year. We will continue to exert a maximum effort to improve profits by reducing vehicle costs and fixed costs. However, volume and mix deterioration due to industry decline as well as the impact of yen appreciation against major currencies will likely exceed these improvements.

The breakdown of the decrease will be explained later.

Despite the tough business environment, we project to return profitability in the second half through an acceleration of Cost Innovation efforts and improved sales momentum with the global launch of the new Mazda3.

FY2009 capital spending is planned to be ¥30 billion, down about ¥20 billion versus the prior year excluding a tooling cost of about ¥30 billion at an overseas subsidiary which we booked in FY2008. The lower investment is primarily attributable to a full product lineup now in place as well as the flexible production system. For example, we can now produce engines and transmissions requiring only a quarter of the investment we used to spend 10 years ago. This leads to a substantial efficiency improvement. We can also substantially shorten the lead time for new product development and this contributes to more efficient investment.

Depreciation will slightly increase to ¥78 billion, reflecting the last several years' capital spending increases.

R&D cost is projected to be ¥92 billion. Introductions of next-generation products are on track and we are further accelerating development of environmental technologies. R&D cost is projected to be almost flat against the prior year as we are promoting more efficient R&D activities through "Monotsukuri Innovation", such as integrated planning and the common architecture concept.

Our global retail sales plan for FY2009 is 1.1 million units, reflecting a tougher sales environment. Sales in all markets except China are projected to decline year-over-year due to the worldwide economic slowdown that began in the second half of last year.

Exchange rate assumptions for the full year are ¥95 for the dollar and ¥125 for the Euro.

I will now explain the ratio of Mazda vehicles that meet Japanese tax incentive regulations which are included in the domestic registered passenger car sales volume.

Tax incentives are provided for vehicles whose emission standard is 4 stars or better and fuel economy is 15% or higher than the 2010 fuel economy standard. The ratio of Mazda vehicles that meet the Japanese tax incentive regulations is projected to be 70% by the end of this year, which is the best in the industry.

I will now explain the key factors behind the decline in operating profit of ¥21.6 billion against the prior year.
Volume and mix effects are projected to substantially decline by ¥89 billion, reflecting the global decline in volume.
Reflecting our updated exchange assumptions, negative exchange impact is projected to be a total decline of ¥96.0 billion--¥15.0 billion for the US dollar, ¥30.0 billion for the Euro, and ¥51.0 billion for other currencies. Among other currencies, large impacts are expected from the Canadian dollar, Australian dollar, and the British pound.

Cost reduction effects are planned to improve by ¥68.0 billion. Good news is that decreased material prices' impact, together with VE and VA activities through acceleration of cost innovation activities, will more than offset the increase of product enhancement costs and help achieve substantial improvement.
We project an improvement of about ¥100 billion in total related to marketing expenses and other costs.

I will take you through revenue, operating profit, global sales volume and global production volume for the prior and this fiscal year, on a half-year basis.
In the FY2008 second half, global retail volume was 560,000 units while global production was 474,000 units, leading to about 90,000 units of inventory reduction.
We will continue inventory reduction globally in the FY2009 first half. In the second half of FY2009, inventory optimization will be completed and production will substantially increase.
FY2009 half-year sales volume, however, is projected to be at about the same level as the second half of FY2008.
Based on these assumptions, we project losses will be reduced in the first half by promoting cost innovation initiatives and further improving efficiencies in various areas including fixed costs.
In the second half, we plan to post a ¥10 billion operating profit, reflecting continued cost innovation as well as volume and mix improvement through production and wholesale volume increases.

I will take you through an overview of actions to return to profitability in the second half.
The second half will see the end of production adjustments for inventory optimization and will lead to increased production and wholesale volumes. The capacity utilization ratio of our plants in Japan was less than 50% in the last 4th quarter but will recover to about 80%.
The new Axela/Mazda3, our best-selling model, will be launched globally. Our global sales plan for the new Axela/Mazda3 is 300,000 units. We expect the new model will make an even larger contribution than the current model.
We will further promote Cost Innovation initiatives. On top of our ongoing fixed cost reduction activities, we will promote Cost Innovation initiatives in our VA and VE activities, working together with the suppliers.
In addition, through more efficient marketing spend and streamlining our organization, we will pursue reductions in distribution costs.
With these efforts we will aim to return to profitability in the second half of FY2009.

We are focusing on achieving positive cash flow in FY2009 by improving investment efficiency and increasing the plant utilization rates.

Representative Director,
President and CEO
Takashi Yamanouchi

4. Initiatives for the future

In our earnings announcement on February 4th, we mentioned that we set up a team to study future initiatives. We also stated that we would explain the results of the study at the full year earnings announcement.

We have made progress with the study since then, however we believe it is not appropriate to revise and present the specific targets of our mid-term plan in this still-uncertain environment.

Today, I will touch on the direction of our studies briefly and our environmentally friendly actions.

We consider that our product-led growth has been successful. We will continue this growth trend and reinforce actions to respond to changes in our operating conditions, including eco-friendly actions and a shift to small-size vehicles.

We will continue to pursue synergies with Ford on product development and production areas.

We further reinforce the flexible production system to achieve flexible responses to changes, and to reduce investment for the future and shorten our response time.

While continuing a brand-focused sales strategy, we will enhance sales networks and dealers' business structures, assuming that industry demand will not show a substantial improvement.

In emerging markets such as China, we will expand sales networks and introduce new products.

We will realize a substantial cost reductions on next-generation powertrain and products through "Monotsukuri Innovation" which we are promoting now.

Our integrated planning and common architecture concept will deliver substantial efficiency improvements in engineering and facility investments.

We will continue to thoroughly reduce fixed costs, and aim to substantially improve the efficiency of administrative work.

Now, let me talk about our response to environmental concerns.

Mazda made an announcement on "Sustainable Zoom-Zoom" in 2007. Mazda's basic concept regarding the environment is "to deliver driving pleasure and excellent

environmental and safety performance to all customers of Mazda vehicles rather than limiting focus to a handful of environmental specific vehicles."
As we announced in June 2008, during the seven years between 2001 and 2008, we improved the average fuel economy of Mazda vehicles by 30% in Japan. We are proud that this ratio is the best in the industry. We are aiming to improve our average fuel economy by another 30% globally during the seven years between 2008 and 2015.
This will be achieved mainly through an evolution of basic technologies in vehicle engineering, such as the improvement of internal combustion engines.

I will explain the approximate level of targets for our next generation products to be introduced from 2011 onward.
Our next generation gasoline engine models will incorporate technologies such as Direct Injection to achieve fuel economy equivalent to current diesel engine vehicles.
Also, next generation diesel engine models will be made cheaper, while aiming to realize substantial fuel economy improvements. It is a general accepted that the cost of diesel vehicles will increase in the future due to exhaust emissions countermeasures, but Mazda has been developing breakthrough technologies in response to this.

Next I would like to briefly introduce our policy on electric devices such as hybrids.
After taking our base technologies to a higher level as explained earlier, we are looking at gradually combining them with electric devices. We are considering to take a step-up approach, which will commence with the simplest system, idle stop, followed by the introduction of regenerative breaking technology as the next step, then extend them to hybrids.
From the standpoint of providing such systems to as many customers as possible to reduce the total amount of CO2, we believe that it is the most realistic method. To do so, we will aim at reducing the cost of complex systems, along with the implementation time and time necessary to incorporate the technologies.
As the first step, the Axela, soon to be launched in Japan, will have an 'i-stop' system which will improve its fuel economy by about 10%.
Also, the Premacy Hydrogen RE Hybrid, which commenced leasing in March in Japan, has an accumulation of future technologies such as regenerative braking and motor drive technologies.
We would like to talk about these in more detail on another occasion in the future.

5. In summary

With regard to sales, we will focus on improving or maintaining our share in key markets. We delivered steady results in key markets with our new generation products, which we have been introducing since FY2001. Notably, we achieved a record high market share of 8% in Australia in the last fiscal year. We believe these achievements are the result of our brand strategy and the positive reception our new generation products have received.

Our product lineup has supported brisk sales. Since the Atenza/Mazda6 launch in 2002, our products have enjoyed accolades globally. Including “the World Car of The Year” won by the new Mazda2, we have won over 500 awards in total.
We are also working on improving our existing engines, such as gasoline, diesel, and rotary engines, to better cope with contemporary environmental issues.

We are making steady improvement in our financials, too.
Our equity capital base back in FY2000 was mere ¥158.8 billion, but since then, in the seven years through to the last fiscal year end, we improved our equity base by approximately ¥400 billion.
Currently, we are facing tough times, but we are all more committed to harness the collective ability of Mazda group to overcome the present difficulties.

Lastly, let me summarize today’s presentation.
With regard to sales performance, market share improved in major markets with highly-acclaimed new generation products. We continue our efforts to outperform the market.
We aim to further reinforce our brand with competitive products by controlling incentives and reducing fleet sales.
Our financial strength is making steady improvement. We have enough liquidity at hand. In this fiscal year, and we aim to reduce fixed costs by about ¥100 billion. We will also focus on bringing operating profit up to a positive position in the second half and free cash flow in the full year.
We will further accelerate our environmental efforts. After improving base technologies on the next generation products, we will quickly shift to electric devices such as hybrids.
Finally, in order to transform our business to a leaner and meaner structure, we will promote structural reform quickly in key areas such as production, sales, R&D, and costs.