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Thank you for joining our earnings announcement today.

1. HIGHLIGHTS
In the first half of FY March 2019, global sales were up 2% year on year to 796,000 units, achieving a new record for the first half. Sales of crossover models have kept their momentum, and Japan and ASEAN drove volume growth. CX-8 was introduced in Australia and New Zealand, following its introduction in Japan. The sales are off to a good start. Revenue was ¥1,729.1 billion, operating profit was ¥30.9 billion, and net income was ¥24.4 billion. We utilized inventory to minimize the sales impact of the record rains in July. Full-year forecast of global sales volume is revised to 1,617,000 units, as well as operating profit to ¥70.0 billion and net income to ¥50.0 billion. This forecast has been revised to reflect wholesale volume decrease from the impact of the record rains and others, as well as revisions to exchange rate assumptions and quality-related costs.

2. FISCAL YEAR MARCH 2019 FIRST HALF RESULTS
Global sales volume was 796,000 units, setting a new record. This is due to continued strong sales momentum of crossover models including CX-5 and CX-8, and enhanced product competitiveness of updated models. By region, Japan and ASEAN markets such as Thailand and Vietnam significantly contributed to volume growth.

Now, I will talk about sales in each market.
In Japan, sales were 103,000 units, up 7% year on year. Registered vehicle market share was 5.2%, up 0.4 points year on year. CX-8 is popular with a wide range of customers and selling well. CX-5 maintained high sales volumes on par with the previous year. Updated CX-3, Mazda6, and Mazda2 all got off to a strong start.
Sales in North America were 222,000 units, up 2% year on year.
Sales in the United States were 151,000 units, on par with the previous year.
In the United States, updated Mazda6 helped maintain sales volume despite declining demand for sedan models. Sales of all crossover models grew year on year.
Sales in Canada were 43,000 units, up 3% year on year. Sales in Mexico were 28,000 units, up 10% year on year.

Sales in Europe were 135,000 units, up 2% year on year.
CX-5 sales remained strong at 46,000 units, up 20% year on year.
Sales in Europe excluding Russia were 118,000 units, down 1% year on year.
Sales in Germany were 33,000 units, down 4% year on year.
Sales in the UK were 19,000 units, on par with the previous year. Sales in Spain were 11,000 units, up 17% year on year.
Sales in Russia were strong at 16,000 units, up 30% year on year, outperforming industry-wide demand growth.

Sales in China were 133,000 units, down 11% year on year.
Demand slowed and the sales environment deteriorated due to the US-China trade dispute and other factors.
Sales of major models, including Mazda3, declined in line with their relative price competitiveness.
We remain focused on communicating the merits of our products and advancing efforts to improve brand value.
We are holding a new technology briefing and design forum for SKYACTIV-X and KODO Design to promote deeper understanding of the Mazda Brand.
CX-8 will be launched at the end of 2018. Preparations for the launch are on track, and the model is expected to improve sales momentum in China.

Sales in other markets were 202,000 units, up 8% year on year.
Sales in Australia were 56,000 units, down 5% year on year. Despite a deteriorating sales environment, sales of CX-5 were up 3% year on year to 14,000 units, maintaining momentum.
Newly introduced CX-8 got off to a good start and is steadily gaining recognition in the market.
Sales in the ASEAN region were 66,000 units, up 28% year on year. Sales in Thailand were 35,000 units, up 40% year on year thanks to initiatives to enhance dealer networks, and sales in Vietnam were 14,000 units, up 25% year on year, driving volume growth in ASEAN.
Sales in Chile set a new record for the first half.

Next, I would like to explain the financial results for the first half.
Revenue was ¥1,729.1 billion, up 4% year on year. Operating profit was ¥30.9 billion, down 60% year on year; ordinary profit was ¥54.5 billion, and net income was ¥24.4 billion, down 62% year on year.
The yen averaged ¥110 to the US dollar, ¥1 stronger, and ¥130 to euro, ¥3 weaker over the prior year.

I would like to explain the key factors behind the ¥45.6 billion operating profit decrease. Although wholesale volume increased in spite of the loss from the rains, volume and mix deteriorated ¥16.5 billion because of increased marketing expenses due to higher interest rates in the United States, fiercer competition, and a reduction in OEM supply. Foreign exchange deteriorated ¥8.7 billion due to deteriorations from the Australian dollar and emerging market currencies such as the Russian ruble and Thai baht. These were partially offset by the impact of a weaker yen against the euro. Variable costs improved ¥11.7 billion, as hikes in raw material prices were offset by effects of cost improvement efforts. R&D costs improved ¥2.2 billion. Other fixed costs deteriorated ¥34.3 billion due to investment for US sales network reforms, costs for compliance with environmental regulations in Europe, and quality-related costs.

Let me explain the impact of the record rains in July 2018. As disclosed in September, after the rains, both Ujina and Hofu plants suspended operations. The plants resumed operations afterwards, but for the sake of the local community and suppliers, plants operated at reduced production volumes, resulting in a production loss of 44,000 vehicles and 23,000 knockdown kits for overseas compared with the original plan. We announced an approximate estimate of the profit impact of this production loss of about ¥28 billion. Using the inventory in the Group, the drop in first half consolidated wholesales was kept to approximately 22,000 units. The profit impact includes a ¥15 billion operating loss from the reduced volume, as well as ¥3.7 billion extraordinary loss as the cost for production loss, totaling approximately ¥18 billion. For the full year, the impact of the production loss on wholesales in the second half will be offset with recovery by inventory and production. Although there are other factors affecting sales, the full year impact on volume and profit will be similar to the first half impact. We will continue to maximize recovery to minimize the impact.

3. FISCAL YEAR MARCH 2019 FULL YEAR FORECAST
Global sales volume is projected to be 1,617,000 units, down 46,000 units from the April forecast. The volume forecast is revised downwards to reflect the sales volume decrease due to the effects of the record rains, the worsening sales environment in China and lower sale volumes in the United States and other major countries.

Operating profit forecast is revised to ¥70 billion, down ¥35 billion from the April forecast. Ordinary profit is revised to ¥100 billion and net income to ¥50 billion.
I will now explain the key factors behind the ¥35 billion-decrease in forecast operating profit compared to the April forecast.

Volume and mix is projected to deteriorate ¥23.6 billion due to reduced wholesale volume caused by the record rains and other factors, as well as changes in sales environment.

Foreign exchange deteriorates ¥11.3 billion mainly reflecting the impact of a stronger yen to the Australian dollar.

In the area of variable costs, the impact of raw material price hikes will be offset by the effects of accelerated cost improvement efforts.

R&D costs improve ¥5.0 billion. Despite an increase of quality-related costs, the projected deterioration in other fixed costs has been kept to ¥5.1 billion by reducing expenses.

Next, I would like to explain the key factors behind the operating profit decrease of ¥76.4 billion from the prior year.

Volume and mix is projected to deteriorate ¥20.6 billion, because of increased marketing expenses due to higher interest rates in the United States, fiercer competition, and reduced OEM supply, although wholesale volume is expected to increase overall, even with the decrease due to the effects of the record rains.

Foreign exchange is projected to deteriorate ¥33.3 billion due to appreciation of the yen against the Australian dollar and emerging market currencies, such as the Russian ruble.

Variable costs will improve by ¥19 billion as cost improvements more than offset rises in raw material prices.

We plan to increase R&D costs by ¥2 billion. Other fixed costs deteriorate by ¥39.5 billion due to investments in US sales network reforms, costs for compliance with environmental regulations in Europe, and quality-related costs.

4. PROGRESS OF KEY INITIATIVES

In the area of products, we have been enhancing product competitiveness through new car launches and continuous product updates.

Updated Mazda2 in Japan is now powered by an advanced SKYACTIV-G 1.5, in place of the previous SKYACTIV-G 1.3 gasoline engine. It offers relaxed, smooth driving and improved real-world fuel economy. We also updated the CX-5. It is the first model in Japan available with the SKYACTIV-G 2.5T turbo gasoline engine, and a special edition model features a premium-feeling interior. The model also adopts G-Vectoring Control Plus, a vehicle dynamics control technology, to significantly enhance its product appeal. Following its introduction in Australia and New Zealand, the CX-8 will be launched in China at the end of 2018.

In the area of production, we added a second shift at Hofu Plant No.2 as planned in August to establish a more efficient and flexible production structure.

We are on track with the development of next-generation products and new technologies.

We will launch the first next-generation product at the end of this fiscal year.
The model will be equipped with the SKYACTIV-X next-generation gasoline engine that uses Mazda's unique SPCCI combustion method and the human-centric next-generation SKYACTIV-Vehicle Architecture. It also adopts the second phase of KODO design, an evolution of the “Soul of Motion” design philosophy. Mass-production of the first next-generation model began at the end of September and we plan to unveil it at the Los Angeles Auto Show in late November.

The next initiative I would like to talk about is the sales network reforms in the United States. We started dealer support programs in July that provide incentives to comply with high brand standards. Through this, we will accelerate efforts to improve quality and upgrade to next-generation brand showrooms.

We have made a good start to our plans to upgrade 300 showrooms, with about 200 dealers announcing their intention to invest in upgrading to next-generation brand showrooms.

We will also continue to improve business quality by strengthening dealers’ revenue base and managing maintenance of residual values through enhanced trade cycle management and strengthened sales of certified pre-owned vehicles.

Last year, we announced our long-term vision for technology development that looks ahead to the year 2030. As a concrete step toward realization of this vision, we announced electrification and connectivity strategies on October 2nd. To help suppress global warming, Mazda aims to cut corporate average CO2 emissions to 50% of 2010 levels by 2030. We will deploy some form of electrification in all production vehicles by 2030. In addition to a regular battery electric vehicle, we will develop one with a range extender powered by Mazda’s unique rotary engine to extend the driving range.

In the area of connectivity technologies, we aim to contribute to the resolution of social issues, such as the weakening of interpersonal connections. We will link connectivity with computer modeling-based development and reflect the results in future product development, improving quality and customer satisfaction. To ensure access to accurate information, we see the development of the communication platform as an area of cooperation and will leverage the alliance with Toyota Motor Corporation.

Last but not least, I would like to reiterate our position on the “Direction of Future Frameworks” which we announced in April. We revised full-year forecast downwards reflecting reduced sales, partly due to the effects of the record rains, foreign exchange impact, and quality-related costs. Nonetheless, we aim to return ROS to the 3% range in the next fiscal year by introducing next-generation products, recovering from the impact of record rains and quality-related costs and thoroughly revising both variable and fixed costs. We will constantly promote key actions in line with “Direction of Future Frameworks” to solidify our footing and achieve stronger growth from FY March 2022.

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