October 31, 2018

Mazda Motor Corporation

FY March 2019 Second Quarter Financial Results
Main Q&A

1. **Please summarize results for FY March 2019 Second Quarter.**

   In the first half of FY March 2019, global sales were 796,000 units, up 2% year on year, setting a new record for the first half, owing 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.

   Revenue for the period was ¥1,729.1 billion (up 4% year on year). Operating profit was ¥30.9 billion (down 60%), and net income attributable to owners of the parent was ¥24.4 billion (down 62%). Operating profit decreased ¥45.6 billion due to a deterioration of volume and mix, impact of exchange deterioration due to strong yen, investment for US sales network reforms, costs for compliance with environmental regulations in Europe and quality-related costs, despite cost improvement as well as R&D cost efficiency improvement. Although wholesale volume increased, volume and mix deteriorated because of impact of heavy rains in July 2018, increased marketing expenses due to higher interest rates in the United States and fiercer competition, and a reduction in OEM supply.

2. **Please explain why FY March 2019 full year forecast is revised.**

   Global sales volume is projected to be 1,617,000 units, down 46,000 units from the April forecast, 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.

   In addition to the impact of volume decline, a stronger yen to the Australian dollar, material price hike and quality-related cost increase are partially offset by cost improvement and fixed cost efficiency such as R&D cost. As a result, 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.

3. **You announced earlier the production loss of 44,000 units of vehicles and 22,000 units of knockdown parts for overseas production, and negative profit impact of ¥28 billion regarding the impact of heavy rains. How are they reflected into today's announcement each for the first half and the full year?**

   In the first half, production loss was 44,000 units, but wholesale drop was about 22,000 units as we utilized inventory. Retail sales impact was about 10,000 units. Profit impact of wholesale drop was about ¥10 billion. It adds up to about ¥15 billion reflecting high crossover mix and knockdown kits drop. Including extraordinary loss from production loss, the total profit impact was about ¥18 billion. Full-year volume plan was revised taking into account the rain impact and market situation. It is difficult to clearly segregate rain impact from others but the profit impact is likely to be similar to the first half impact. We will have Manufacturing and Sales work together to maximize recovery in order to minimize the impact.

Concerning the impact booked as an extraordinary loss, it is the fixed cost of unproduced volume, mainly including labor and depreciation costs. In the operating profit year-on-year change factors, the entire impact of heavy rains including the transfer to extraordinary loss is included in the volume and mix.

4. **Please explain more precisely why the volume and mix deteriorated despite the increase in wholesale volumes year on year in the first half as well as in the full year.**

   The volume was up 31,000 units in the first half and up 27,000 units for the full year. Meanwhile, volume and mix deteriorated as marketing expenses increase due to the US interest rate rise and intensified competition in US and Australia as well as sell-down of WLTP* non-compliance vehicles in Europe. In addition, product profitability declined due to adding safety and environmental features, and there was a reduction in OEM supply volumes.

   * Worldwide harmonized Light vehicles Test Procedure

5. **You said the impact of heavy rains and quality-related cost is one-off impact limited in this FY. Will operating income ratio return to 3% next FY?**

   In addition to the recovery from the one-time impact as mentioned, we will promote actions such as a thorough review of variable and fixed costs that support our mid-to long-term competitiveness.

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