

(For your information)

Mazda Motor Corporation
FISCAL YEAR MARCH 2020 SECOND QUARTER FINANCIAL RESULTS
(Speech Outline)

Tetsuya Fujimoto
Managing Executive Officer in charge of Finance

1. Fiscal Year March 2021 First Half Results/Full Year Forecast Highlights

Global sales in the first half of the year was 578,000 units, down 21% year on year. Consolidated wholesales were down 41% from the prior year to 368,000 units. Net sales were ¥1,115.8 billion, down 35% from the prior year. Operating loss was ¥52.9 billion and net loss attributable to owners of the parent was ¥93.0 billion. As we announced on July 31, we have decided to forgo the payment of interim dividend taking into account this year's business performance, and other factors.

The full year forecast remains unchanged from the July forecast although we updated the "by market" breakdown of global sales and foreign exchange rate assumptions to reflect current circumstances.

At our first quarter financial results announcement, we presented the following three initiatives as this fiscal year's initiatives based on lessons learned from the COVID-19 crisis.

- Steadily improving sales and production by managing inventory levels in line with demand recovery
- Streamlining fixed costs by keeping them thoroughly in check and improving efficiency
- Continuing efficient investment for future growth

As we worked on these initiatives in all regions on a corporate-wide basis, we saw business performance in the second quarter improve over the results in the first quarter. During the three months of the second quarter, we were successful in steadily bringing in sales opportunities in the US, while at the same time accelerating fixed cost reductions. As a consequence, earnings improved more than expected. Free cash flow was also positive at ¥95.1 billion in the second quarter. Full-year capital expenditure was revised by ¥10.0 billion from ¥120.0 billion to ¥110.0 billion, as leveling and efficiency improvement thereof progressed.

2. Fiscal Year March 2021 First Half Results

Global sales volume was 578,000 units, down 21% year on year, as sales volume decreased in major markets except for China. In the U.S., in addition to the launch of CX-30, crossover SUVs

saw strong sales, resulting in a year-on-year increase in sales volume during the three months of the second quarter. As for the status of global sales, we believe they have been improving steadily as planned.

I will now go through the financial metrics.

Net sales were ¥1,115.8 billion, operating loss was ¥52.9 billion and net loss attributable to owners of the parent was ¥93.0 billion. Average exchange rates for the first half were ¥107 against the US dollar, ¥2 stronger than the prior year, and ¥121 against the Euro, flat from a year ago.

Consolidated wholesales were down 254,000 units year on year to 368,000 units.

I will now explain factors behind a breakdown of the ¥78.7 billion year-on-year decline in operating profit.

Volume & mix deteriorated ¥133.6 billion due to the decline in wholesales by 254,000 units and lower parts & accessories sales. Other sales-related factors deteriorated ¥10.4 billion, due to higher costs to comply with environmental regulations, lower OEM supply, and low use of our plant in Thailand. Foreign exchange deteriorated ¥3.9 billion, due to a stronger yen against the key currencies. Variable cost deteriorated ¥0.7 billion as a result of raw material price hikes, including precious metals, exceeding cost improvement efforts. Fixed costs and other costs improved by ¥49.4 billion. As we achieved nearly ¥50.0 billion improvement in the first half, fixed cost improvement is progressing as planned toward the full-year reduction target of ¥65.0 billion. This includes reductions of approximately ¥20.0 billion in advertising costs and approximately ¥5.0 billion in R&D costs through continuous efforts to improve efficiency. Quality-related costs decreased by approximately ¥20.0 billion mainly due to the stable initial quality of new-generation products. In addition, ¥20.5 billion production loss stemming from suspended operations was moved over to extraordinary loss in the first quarter.

3. Fiscal Year March 2021 Full Year Forecast

We revised our full year global sales volume breakdown by market. Reflecting sales results and the latest forecasts, we lowered our forecast in China and emerging markets, but increased our forecast in the US where sales have been strong. As a result, our global sales volume forecast remains unchanged at 1.3 million units, as announced in July.

Although earnings progressed favorably in the first half, the full year financial forecast remains unchanged due to continuing uncertain circumstances, including the resurgence of COVID-19 in Europe, the US and other countries, and the re-enforcement of lockdown measures.

The business environment remains tough, but we will continue to strengthen efforts to recover sales and improve fixed cost efficiency toward meeting the full-year forecast.

Akira Marumoto

Representative Director, President and CEO

4. Medium-Term Management Plan Revision

In July 2020, I talked about the direction of the Medium-Term Management Plan Revision. To stay sustainable, we said we needed to offer Mazda's unique value of "co-creating with others," while continuing investment for future growth with maximum efficiency, and taking actions to respond to CASE by enhancing alliances and investing in unique values. This philosophy remains valid.

This means that the Medium-Term Management Policy strategy and the net sales and profit targets for the final year remain unchanged, but due to the COVID-19 pandemic, the completion year is being postponed by a year to FY March 2026. On the other hand, based on lessons learned from the pandemic and after considering actions to adapt to the changing environment, part of the policy and some initiatives have been revised.

There have been four major changes to the business environment in the last 12 months, especially after the COVID-19 outbreak.

- Global environmental regulations tightened and accelerated
- Competition for new value creation in CASE era
- Work style changes and efficiency improvements
- Changes in customer desires and behavior toward sales and services

Here you can see a 5-point summary of the direction of our revision as explained in July. Due to the changes to the environment as seen earlier, we revised and/or reemphasized certain points, which have been underlined in the following text.

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. Curb expenses that depreciate brand value
3. Accelerate fixed cost/cost reductions to lower break-even volume
4. Investment in areas where we need to catch up and start investment in new areas
5. Enhance alliances (CASE, new partnership)

We recognize the necessity to take action more proactively toward reducing break-even volume, the speed of change, accommodating the shift of customer's buying behavior, and so forth.

Key initiatives (1): Investment for raising brand value

First, I will cover investment for raising unique brand value, which means investing in unique products, technology, production, and customer experience.

Throughout the rest of the presentation, I will talk about the assets that we have built up to now, the plan for the next 2 years, and the plan for the 4 years thereafter.

With regard to technology and products, we will further enhance efficient development and complete development of architecture, unit, and environmental technologies for Large products, and start rolling out new products all in the next 2 years. After that, I think we have to shift to new value creation engineering.

In the past, we boosted our abilities to develop various technologies and products with small investment and completed development of hardware architecture of Small products. From now on, we are entering into a stage to refine the hardware architecture to a more competitive level.

As for our investment plan for the next two years, we said we would continue to upgrade products. I will be going through two specific examples.

When new hardware is developed for new-gen products, it is used for existing products also. An example is Mazda Connect 2, which is being incorporated into CX-5, CX-8 and CX-9. Another example is product upgrade with control technology. We are upgrading marketability of Skyactiv-X and Skyactiv-D and updating i-Activsense.

Also in the next 2 years, we will be investing in Large products.

To meet both high power demand and low CO2 requirements in each country, we are developing architecture of Large product hardware with electrification technologies including plug-in hybrid. Using our enhanced capability of efficient development, we are developing highly competitive architecture. We are also developing multiple electrification technologies using our unique rotary engine technology. We plan to start rolling out the product into the market from 2022.

After that, we will be focusing on these four areas stated below to start creating new values as the CASE era truly begins.

- 1) Increase hardware value
- 2) Integrated control development to create value
- 3) Electric platform/people/IT/partnership
- 4) Develop exclusive platform for next-gen EV

As mentioned earlier, we will complete investment on hardware and start utilizing it to keep upgrading product value through control technology and create new value in integrated control development process. As such, we will keep shifting our investment toward electric platforms, people, IT, new partnerships, etc. At the culmination of the hardware and control technologies is an exclusive platform designed for next generation EVs that we plan to start developing.

Next, let me talk about production.

To summarize production, you could say that as we establish efficient production structure of all factories, it is important from 2022 to start shifting investment to new value creation and decarbonization efforts.

Up to now we made efforts to be able to build various products and technologies with low investment. In other words, our focus was to improve production efficiency by flexible facility and mixed production.

Flexibility is critical to build various products with the minimum number of unique machines. This technology can improve the utilization of our facilities and save future investment. This kind of flexible technology is used in body and powertrain units. For the CASE era, we have made possible mixed-model assembly for both EVs and Mild Hybrids on our assembly line(s).

Next, I will speak about future investments. With more advanced flexibility and mixed-model assembly production, we will be able to produce I4 and I6, transmission/drivetrain of both longitudinal and transverse layouts, and also plug-in hybrid and 48V mild hybrid using flexible facilities.

Flexible body line is being adopted in other plants. These investments are to build up production structure in place to minimize investment for future new technologies and products. So we are building manufacturing structures looking 10 to 15 years down the road.

We are also building a new plant in US, our most important market, to drive growth by building and selling vehicles locally and working as a good corporate citizen.

The latter phase has 3 critical points. We will make investment in IoT for stronger ties with technology/product; AI to raise product value; accommodating different work styles and recognize "Takumi meister"; and accelerate efficiency improvement. As a step toward a carbon-free society, we will start sequential investment to decarbonize plants and offices while taking actions for EVs.

Next, I would like to talk about our sales efforts.

In the matured domestic market, we want to maintain volume and improve quality for stable business growth. We have continued right-price sale and protected value of customer's asset, while reducing incentive and maintaining high residual value in all products. From now on, we will grasp the change of customers buying behavior and desire, explore best dealership structure to meet diversified needs, and continue investment in stores. We will study and take actions in online negotiation, system support in sales and services, stronger ties with sales finance, high quality used car programs, and so on. Also we will invest in human resources through items such as work style reforms in dealers to become a brand that truly cherishes its customers. By communicating values to new customers and improving customer satisfaction, we will maintain a level of 200,000 units of new cars sold, while achieving qualitative growth at the same time.

As the most important market, we want to build a robust profit base in the US.

Our focus so far is new-gen facility introduction to optimize market representation, enhance sales abilities, and improve throughput. At this point, we have more than 200 new-gen stores including those under construction and their throughput have also improved. We also enhanced sales finance through our partnership with Toyota and we are starting to benefit from both initiatives. Moving forward, as we start local production in the US once again, we will enhance brand value promotion as a US corporate citizen by producing and selling locally. In addition to the local production, we will increase inventory turnover through efficiency improvement of the supply chain, starting new sales methods to accommodate for changing customer behaviors and desires, making investments in systems to support online negotiations and sales and services so that we can improve both efficiency and revenue. Also we will enhance used car programs to increase residual value, which will improve profitability. As we take a series of actions, we want to raise franchise value and customer loyalty to be able to sell 450,000 units.

Europe is a matured market, in which we will continue to enhance brand value to be chosen for its uniqueness. While we maintain a level of 200,000 units sold, we aim to achieve qualitative growth. Regarding China, we want to make China our most important market and sell 400,000 units.

Key initiatives (2): Curb expenses that depreciate brand value

I would like to talk about our initiatives to curb expenses that depreciate brand value.

Let me start from variable marketing expense reduction.

Through value-based sales, we could achieve high residual value in Japan and Europe and increased car value as customer's asset. As a result, we could curb variable marketing expense. In Japan, US, and Australia, we have made progress in sales finance through our partnership with Toyota and incentives are being reduced. Moving forward, we want to continue increasing product value and Over-the-Air update of sold vehicles for functionality improvement so that the residual value can be increased. Also by a new sales method, we want to increase touchpoints with new customers. Through direct communications, we would like to tighten the relationship with customers to further reduce variable marketing expenses.

Next, let me talk about the supply chain.

In Japan, we mainly built a build-to-order structured business foundation to support operations with no inventory. After the COVID-19 outbreak, we visualized all pipeline stocks and built a structure for lean operation. In the future, we would like to start build-to-order in overseas plants, and shorten lead time from port to dealer and make delivery date perceivable. Also we want to revisit business processes of the whole supply chain from dealer, distributor, logistics, production, to supplier, in order to increase inventory turnover, improve cash flow, and achieve a nimble supply chain.

Next, I will talk about quality.

There is no panacea for quality improvement. I think we can only reduce quality costs through

continued efforts of Kaizen. In addition to continued improvement efforts, we used model-based development for quality improvement. Also we used connectivity to predict quality concerns to fix them quickly. Skyactiv-X was the whole new technology, but we could prevent quality issues from increasing. Moving forward, we will do pre-production verification of control technology which is becoming more sophisticated and complicated. At the same time, we will use connectivity in wider areas. Through these activities, we will continue to make quality improvement, remind ourselves of being a brand of cherishing customers, and redesign the business process.

Key initiatives (3): Accelerate fixed cost/cost reductions to lower break-even volume

The next part is about reduction of break-even volume.

I would like to start from manufacturing plant.

We have deployed our production footprint in phases to utilize trade blocs like ASEAN/NAFTA and we have reduced currency exposures and increased production capacity. From now on, we will better relate with rebuilt sales structure taking into account new economic blocs or trade relationships and redefine roles of plants as part of structural reform. During such process, we will take actions to make the fixed cost structure sound, such as shifting to more efficient local operation. Roles of plants will be redefined as a status shown below to make this happen.

	Positioning of plant
Japan	<ul style="list-style-type: none"> ■ Mother plant, drive growth of Chugoku area economy ■ Maintain 800-900K production
US	<ul style="list-style-type: none"> ■ Main source of products for US market ■ Continue product competitiveness enhancement
Mexico	<ul style="list-style-type: none"> ■ Fundamental strengthening of cost competitiveness by improving currency exposure ■ Use half capacity, 100K units, for Mexico ■ Revise sales strategy and stabilize profit/operations ■ Export 100K to North America
Thailand	<ul style="list-style-type: none"> ■ Enhance sales strategy and use 50% of capacity for Thailand ■ Accelerate competitiveness improvement incl. PT plant ■ Fully utilize capacity by exporting to both inside and outside ASEAN ■ Re-build the business with integrated manufacturing and sales including action to meet electrification requirements

Next, let me talk about fixed marketing.

Customers' behavior and expectations are changing over time and we need to change our approach. From now on, we will promote digitalization that was advanced after the COVID-19 outbreak and make optimum communications with individual customers to save huge amounts in advertisement cost. For example, by investment in social contribution through vehicles, we want to drive initiatives to increase Mazda's recognition and increase touchpoints. Car Care Programs in the US for essential workers and other good initiatives are starting all over the world.

The next part is about R&D efficiency and cost reduction efforts.

Basically cost reduction is a result of tenacious improvement activities. What we need especially to

do from now on is cost reduction of control technology, devices, and hardware mainly for CASE. We will revisit our development process from square one to reduce R&D expenditure and cost.

Key initiatives (4): Investment in areas where we need to catch up and start investment in new areas

The forth part is investment in the areas where we need to catch up.

Let me start from IT investment. We continued to make investments in IT, but I think we need to take another look at that to increase its scope, tighten security, and fix inefficiencies caused by many individual IT systems. As every piece of information has value for the future, we recognize the necessity to retain, analyze, and to add value to information. As we improve efficiency of existing systems, we will make new investments in phases. Of course we will continue investment on MBR (Model Based Research) /MBD (Model Based Development) and supercomputers used for development, production, quality improvement, and cost reduction. For a carbon-free society, we will start investment in phases from long-term viewpoints to decarbonize plants and offices.

Next let me talk about investment in people and the work environment.

During the COVID-19 pandemic, we recognized the importance of the work environment and systems to support various work styles and started to take action. Moving forward, we will decarbonize plants and offices, improve work environments, and support various work styles to increase flexibility. Also we will further contribute to local communities through vehicles to heighten brand value. Through these activities, we would like to maximize employee contribution.

Key initiatives (5): Enhance alliance (CASE, new partnership)

I would like to talk about the alliance status and its enhancement.

While keeping balance between “selection and focus” and “unique business and partnership”, we aim to increase brand value and expand business. So far we have expanded the scope of our partnership with Toyota. In areas such as advanced safety technology, sales finance, JV plant, and product complementation, we have made good progress to keep a good relationship. We agreed with them to continue collaboration in the area of environmental regulatory compliance. From Isuzu, we have started receiving pick-up truck. As we share technology, units, and products, we can use our resources on unique technologies and products.

To create new values in the CASE era, we can complement the areas that we are not good at and continue to explore new partnerships to build win-win relationships even outside the auto industry.

Medium-Term Management Plan: Financial Metrics

Lastly, I would like to talk about the financial metrics of Medium-Term Management Plan based on the policy and initiatives that I have explained so far.

In the foundation building stage, while recovering from the demand drop due to the pandemic, we will accelerate fixed cost and cost reductions to support profit and continue investment in CASE and new-gen Large products. In the strong growth phase, we will start rolling out Large products

and recovering investments. Our plan is to reach 5% ROS or more as shown in July. As I explained when we announced the revision of Medium-Term Management Policy, we will maintain and level investment for growth with improved efficiency. During the foundation building phase, we will complete main actions for large product architecture and unit and electrification so that we can put a structure in place to develop and produce new products in low investment. In the strong growth stage, we will start investment for enhanced electrification development. We will be ready to build EVs but also decarbonize our plants and offices and make investments in both IT and people.

The chart below shows key financial metrics. As I mentioned at the beginning, we have postponed the final year of the Medium-Term Management Plan completion, originally set for FY March 2025, by one year. So, we aim to be delivering on these financial targets set last year in FY March 2026. The break-even volume target has been set at 1 million wholesale units. We will continue to make efforts to meet this target.

Medium-Term Management Plan Financial Metrics for FY March 2026	
Net sales	Approx. ¥4.5 trillion
Profit	ROS* 5% or more/ROE 10% or more <small>*Operating Return on Sales</small>
Investment for future	<ul style="list-style-type: none"> ■ Capex + R&D: 7-8% of revenue or lower ■ Actions for electrification, IT, and decarbonized society
Financial structure	Maintain net cash position
Shareholder return	Payout 30% or more
Sales volume	Approx. 1.8 million units
Break-even volume	Approx. 1 million units (wholesale)

In summary, based on the building block concept set in 2008, we will be ready in both engineering and production facility to electrify all models as announced in “Sustainable Zoom-Zoom 2030”. At the same time, we will also be completing readiness in sales area, as we enhance sales infrastructure including our dealer network. To achieve growth moving forward, we will maximize employees’ contribution, improve efficiency in all areas, and begin new activities. Through these activities, we will utilize the assets we have built up by making well-planned investments for future growth, increase profit, and move on to grow even more.