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(For your information)

Mazda Motor Corporation

FISCAL YEAR MARCH 2022 SECOND QUARTER FINANCIAL RESULTS

(Speech Outline)

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1. Fiscal Year March 2022 First Half Results

Global sales volume in the first half was impacted by greater than expected production cuts due to supplier plants going into lockdown amid continued COVID-19 pandemic and shortages in the supply of semiconductors, bringing the total at 660,000 units. Considering the circumstances, we prioritized the supply of vehicles to the US, Australia and other markets showing strong sales, while also streamlining and fully utilizing global inventory. We worked on maximizing sales and profit through lean inventory management.

I would like to present the financial metrics.
Net sales were ¥1,495.9 billion, operating profit was ¥39.7 billion, and net income attributable to owners of the parent was ¥23.9 billion. In comparison with FY March 2020, consolidated wholesale volume was down by 141,000 units or 23% due to the production cuts, and net sales declined, but our efforts to curb marketing expenses and improve country and grade mix helped limit the reduction in net sales to 12%. As we accelerated initiatives to improve variable profit and fixed cost efficiency, operating profit increased by ¥13.9 billion or 54%.

I would like to explain the operating profit improvement of ¥92.6 billion year on year.
Volume & Mix improved ¥107.8 billion due to an increase in wholesales volume and improvements in sales quality of approximately ¥50 billion, including curbed marketing expenses and improvement of per-unit profit in SUV mix, county and grade mix, etc. Foreign exchange improved by ¥24.7 billion due to the depreciation of the yen against major currencies. Variable costs deteriorated ¥23.9 billion due to an approximate ¥40 billion impact from hikes in raw material prices and semiconductor costs, which was partially offset by cost improvement efforts. Fixed costs improved by ¥4.5 billion as a result of continued efforts to curb expenditures and improve efficiency.

I would like to explain the operating profit improvement of ¥13.9 billion from FY March 2020 before the COVID-19 outbreak.

A reduction in wholesales volume and hikes in the price of raw materials and the cost of semiconductors led to a deterioration of ¥113.6 billion. Leaving a deterioration of ¥92.8 billion despite a ¥20.8 billion improvement in foreign exchange. On the other hand, sales quality improvements worth ¥33.8 billion, as well as variable costs improvements standing at ¥19 billion and fixed costs efficiency improvements of ¥53.9 billion, resulted in a total improvement of ¥106.7 billion.

2. Fiscal Year March 2022 Full Year Forecast

Global sales volume is forecast to be 1.311 million units, up 2% year on year. Due to the impact from production cuts, it has been reduced by 98,000 units over the forecast made in May. When compared with what we announced in May, we plan to further increase the sales volume in the U.S. and Australia where sales have been strong.

I will take you through the financial metrics.
Net sales are projected at ¥3.2 trillion, operating profit at ¥65 billion, and net income attributable to owners of the parent at ¥41 billion. In comparison with the May forecast, due to the impact from production cuts that resulted from factors such as the semiconductor supply shortage, the consolidated wholesales volume is projected at 1.03 million units, down 105,000 units.
Operating profit forecast remains unchanged from the May forecast at ¥65 billion thanks to continued efforts to beef up activities of enhancing variable profit and improving fixed costs efficiency in order to offset the decrease in wholesales volume and hikes in the price of raw materials and the cost of semiconductors.

I will explain the factors behind changes in operating profit compared with the prior year.
Volume & Mix improved ¥112.5 billion through increasing wholesales volume, curbing marketing expenses and improving SUV mix and country and grade mix. On the other hand, we included ¥20 billion business risks in light of uncertainties regarding semiconductor and other parts supply environments. Foreign exchange is expected to improve ¥39.9 billion thanks to a weaker yen against key currencies. Variable cost is projected to deteriorate by ¥60.6 billion as the approx. ¥94 billion impact from hikes in the price of raw materials and the cost of semiconductors outweighs cost improvements. Fixed cost will improve by ¥4.9 billion through accelerating efforts to improve fixed cost efficiency despite an increase in growth investment.

I would like to explain changes in operating profit from our forecast in May.
The deterioration due to the external environment, such as production reduction due to semiconductor supply shortages and hikes in the price of raw materials and the cost of semiconductors, has been greater than expected at the beginning of the fiscal year. We plan to offset the negative factors by promoting efforts to strengthen profit structure, such as sales quality improvements and fixed cost efficiency improvements.

I will talk about factors behind changes in operating profit vs FY March 2020.
Compared to two years ago, the negative factors deriving from the external environment, such as production cuts and raw material price hikes including semiconductors, exceeds ¥200 billion. The results of our structural reform efforts, such as sales quality improvements and fixed cost efficiency improvements, over the past two years also exceeds ¥200 billion. Steady progress has been made in strengthening our profit structure. The company is transforming into a strong profit structure and becoming capable of securing profits even in the most challenging of business environments.

I will now take you through the comparison of operating profit for the first half versus the second half.
Operating profit for the second half is projected to be ¥25.3 billion, down ¥14.4 billion from ¥39.7 billion in the first half. Wholesales volume is projected to increase by 69,000 units and Volume & Mix to improve by ¥46.4 billion. However, in addition to business risks such as production cut risks, deteriorations of raw material prices and semiconductor costs and an increase in expenses for the new US plant are reflected. We continue careful monitoring our production, sales, and inventory on a weekly basis in response to environmental changes.

Concerning the changes in the break-even volume, as we have been making steady progress in strengthening our profit structure, the break-even volume has achieved the target of 1 million units or less set in the Medium-Term Management Plan and has further improved since the second half of the previous fiscal year.

Akira Marumoto
Representative Director, President and CEO

3. <u>Progress of the Medium-Term Management Plan</u>

Before I talk about the progress of the Medium-Term Management Plan, I would like to both look back and look ahead of this fiscal year.
During this fiscal year, production cuts are greater than expected due to disruptions in parts procurement such as the semiconductor supply shortage. As a result, the wholesales volume is projected to go down by a further 100,000 units compared to what was forecast in May. This brings the impact on the wholesales volume to 170,000 units, despite our previous prediction of 100,000 units on production and 70,000 units on wholesales. We feel very sorry that many customers around the world are kept waiting for their vehicle to be delivered over a long time. We are taking every possible action to deliver vehicles to customers as early as possible. In the past 6 months, we regained appreciation for how important it is to take genuine care of every single unit during production and delivery. We will keep this in mind going forward and live up to it in every business activity.
Even under such circumstances, achieving the original profit forecast as defined at the beginning

of this fiscal year is not yet off the cards and we see it as a great progress to strengthen our profit base by accelerating structural reforms and making daily improvements globally. Since the outlook for the second half of the year remains unclear as to how much parts can be procured, we will keep the production volume at the same level as last year and not include aggressive recovery in our profit forecast. Opting to manage our business while taking business risks into consideration.

I would like to cover the progress of the Medium-Term Management Plan and first talk about Monotsukuri.

On June 17, 2021, we announced our policy on product and technology. We communicated how many EV models and what technologies would be introduced and at what timing. We also had two more points that we wanted to get across to you.

The first point is that we have been living up to and driving the building block concept for more than 10 years in a planned manner with a view to the future by setting the timelines, steadily establishing technological assets, leveraging such assets to recover investment, and establish a new set of technological assets.

The second point is the optimum technological asset available at this point in time, which is our Multi Solution Architecture — An architecture that can accommodate various power-sources including internal combustion engines and even BEV. We are also investing in an EV Architecture as our next technological asset.

On October 5, 2021, we covered the remodeling of Hofu No.2 Plant along with further evolution of Monotsukuri Innovation. The key point was to explain that Monotsukuri Innovation, which has now been ongoing for 15 years, is what enables us to implement our multi-solution approach. On the day, I also talked about production at Mazda. We have always excelled in flexible production, but we are now accelerating our efforts to further improve this and produce everything from internal combustion engines to BEVs flexibly and with low investment by using rootless equipment, or in other words, universal equipment.

As for assets in the production process, we making full use of digital twin technology, a part of DX, which enables us to verify production equipment even in stages of production when there are no physical vehicles or equipment. By doing so, we can reduce the amount of capital investment in this area to 10% and the time required to install equipment to 20% of what it used to be.

Although we did not explain on the day, there has been a great evolution in R&D areas too. We accelerated the expansion of scope to apply Model Based Development, aiming for Model Based Development at vehicle levels. The use of AI and the accumulation of production process assets to eliminate waste in the development process have greatly improved the efficiency of development investment. We are able to realize the multi-solution architecture at low investment with high efficiency thanks to the accumulation of technological and production process assets. Needless to say, our biggest assets are our development and production engineers who have been constantly making colossal efforts with their never-stop-challenging spirits.

We issued a release on the SUV product lineup that will be launched over the next two years, and also distributed a video message to Mazda group employees as well as dealers on October 7, 2021. The purpose is to wipe away concerns brought by speculative articles, give hope, and increase the momentum of the efforts for the next fiscal year, during which we aim to achieve full scale growth by sending a message about the product lineup. In a time like this, having close communications with employees is one of the most crucial and important matters.

Another purpose was to ensure our employees acquire an accurate understanding of the evolution of Monotsukuri Innovation, which is the reason why Mazda can deliver multi-solution, as well as deepen their understanding on the multi-solution architecture which will be contributing as our profit source even beyond 2030. There were concerns over making large investments to introduce five SUV models over two years, yet the investment efficiency for four models with large architecture, for example, is greatly improved thanks to the evolved Monotsukuri Innovation. Compared to the investment for CX-5, CX-8, CX-9, FR architecture, I6 gasoline and diesel engines, plug-in hybrid, mild hybrid, were engineered with improved efficiency in man-hours and the investment for unique equipment by 25% and 40% respectively despite the increase in engineering elements. We will utilize the assets we have nurtured and pursue further efficiency for the EV architecture going forward. In Mazda, we split the global market into six groups according to the timings of electrification regulations, and set assumptions for the mix between the multi solution architecture and EV architecture in chronological order. In those assumptions, we project that multi-solution architecture will make up much of Mazda's sales and profit even in 2030.

We would like to show you our progress on customer experience in the US and China.
In the US, we started brand value management in 2016. We used to believe that incentives and huge fixed marketing costs as well as plenty of inventory were all necessary to achieve sales growth, but we spent a tremendous amount of efforts and time to shift our mindset. In parallel, we optimized the network and asked highly-engaged dealers to invest on next-generation facility upgrades and employee training. As of September 2021, we had 208 next-generation outlets and 130 dealers were enrolled for the upgrade program. By the end of the next fiscal year, we expect to see more than 300 dealers with next-generation facilities, which is ahead of predictions for our plan. Continuing such initiatives helped us to score a high position in JD Power's Customer Service Index Study. The next-generation stores' CSI score was ranked in the 1st position among non-premium brands in 2020 and 3rd position in 2021. Our bond with customers is becoming stronger, and so is the trust with dealers.
Our collaboration with Toyota Motor Corporation in sales finance is also working well. The finance service is flexible and speedy and supports dealers' sales activities. This new financial service started in April, 2020, when we saw the COVID-19 outbreak, and we have already seen very positive reactions from dealers. Marketing approach has also transformed. We shifted from a mass media focus to a social contribution approach and dealers' marketing activities also changed to contribute more to the local community.
Such initiatives are bearing fruit. This year, our market share continues to increase. We continued

to achieve year-on-year sales growth, despite it stopping in September due to production cuts. From next year and onwards, we will introduce the CX-50, built in our new US plant, and Large-products like the CX-70 and CX-90. We expect these new offerings to contribute to a big growth in sales.

Looking back on the history of our business in China, we built a sales joint venture with FAW in 2005, followed by a 3-way joint venture with Changan and Ford in 2007. We continued the business with these two joint ventures in China. The two-partner strategy was effective in this early stage for learning from each other and stabilizing the business. However, as a small player, we did not have enough carlines to fill different channels in investment efficiency like other OEMs did. To eliminate customer concerns regarding this we decided to shift our focus from dispersion to concentration. It was a huge challenge, but we had talks with Changan and FAW and consolidated the two joint ventures into a 3-company JV as announced in August 2021. This first-in-China JV restructuring will optimize our business and operating structures and serve as a solid foundation for better customer experience and future growth. We will make efforts to maintain a good relationship with both partners and use the assets we have built up to introduce new products and accelerate our business growth.

Today, I have only discussed Monotsukuri and customer experience in the US and China, but I would like to note that we have also been able to accelerate structural reforms considerably in other markets and areas. In the interest of time, I will refrain from talking about investment in new areas and enhanced alliances today, but we will announce our Medium-Term Management Plan update no later than next spring, including the latest plans and information regarding these initiatives.

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