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(For your information)

**Mazda Motor Corporation**  
**FISCAL YEAR MARCH 2018 FULL YEAR FINANCIAL RESULTS**  
(Speech Outline)

**Tetsuya Fujimoto**  
**Managing Executive Officer in charge of Finance**

Thank you for joining our earnings announcement today.

**1. HIGHLIGHTS**

In FY March 2018, global sales volume was 1,631,000 units, up 5% from the prior year and the highest on record.

The global launch of the new CX-5 contributed to the increase in sales, and strong sales in China and Thailand drove volume growth.

Sales have been supported by enhanced crossover production capacity at our plants in Hiroshima and Hofu since August 2017.

Revenue was ¥3,474 billion, operating profit was ¥146.4 billion and net income was ¥112.1 billion. Both revenue and profit increased.

In FY March 2019, we are forecasting record global sales of 1,662,000 units, up 2% year on year, with revenue of ¥3,550 billion. However, operating profit and net income are projected to decline to ¥105 billion and ¥80 billion, respectively.

We will enhance our competitiveness by launching updated models and roll out the new CX-8 to overseas markets. In addition, Hofu Plant No.2 will start two-shift operation from August 2018 for a more flexible production system.

We will proceed steadily with key initiatives for the future, including the development and introduction of next-generation products and new technologies, while responding to changes in the business environment.

As for the dividend, we plan to pay ¥35 per share, the same amount as FY March 2018.

**2. FISCAL YEAR MARCH 2018 RESULTS**

Global sales volume set a new record at 1,631,000 units.

The new CX-5, which was introduced at the beginning of 2017, made a full-year contribution to sales growth globally.

By region, sales increased in most markets, including China, where sales of Mazda3 and crossovers were strong, and Thailand, where Mazda2 enjoyed brisk sales. As a result, global

sales volume increased 5% from the prior year.

Let's take a look at sales performance by market.

In Japan, sales were 210,000 units, up 4% year on year. Registered vehicle market share was 5.1%, up 0.2 points year on year.

New CX-5 achieved significantly higher sales than the prior year and contributed to full-year volume growth. An updated model was launched in March, and sales remain strong.

New CX-8 has created demand for 3-row crossover SUVs. Since its launch in December, orders have continually exceeded the plan and a high percentage of orders are for high-grade models.

Sales in North America were 435,000 units, up 1% year on year. Of that volume, U.S. sales accounted for 304,000 units, up 1% year on year.

The U.S. sales environment continues to be fierce, but strong crossovers sales more than offset the decline in sedans that resulted from contracting demand and intensifying competition.

In particular, sales of new CX-5 were 146,000 units, up 29% year on year, and sales of CX-9 were 27,000 units, up 28% year on year, significantly outperforming industry demand.

Sales in Canada were 75,000 units, up 5% year on year, and sales in Mexico were 55,000 units, up 2% year on year.

In Europe, sales were 269,000 units, up 3% year on year.

Since its full-scale launch, new CX-5 has demonstrated strong sales in countries across Europe and contributed to overall volume growth with sales of 87,000 units, up 17% year on year.

Sales in Germany were 68,000 units, up 8% year on year, and sales in Russia were 27,000 units, up 20% year on year.

In contrast, sales in the UK fell 15% year on year to 38,000 units due to a contraction in demand.

Sales in China were 322,000 units, up 11% year on year to set a new record high.

Sales of Mazda3 remained strong despite the end of tax cuts on small cars. Sales of Mazda6 also significantly outperformed the prior year.

Sales of crossovers, such as CX-4 and new CX-5, also remained strong.

Sales in other markets were 394,000 units, up 5% year on year.

In Australia, sales were 116,000 units, down 2% year on year, but Mazda remained the country's second highest-selling brand. In particular, sales of CX-5 and CX-9 were strong, and CX-5 remained the top-selling vehicle in its segment.

Sales in Thailand rose 31% year on year to 56,000 units with strong sales of Mazda2.

While sales were down 14% year on year in Vietnam, partly due to customers deferring purchases in anticipation of the elimination of import tariffs, total sales in the ASEAN region increased 11% year on year to 116,000 units.

New Zealand, Peru, and Chile set new sales records.

I would like to explain the financial results of FY March 2018.

Revenue was ¥3,474 billion, up 8% year on year.

Operating profit was ¥146.4 billion, up 16% year on year; ordinary profit was ¥172.1 billion and net income was ¥112.1 billion, up 19% year on year. Both revenue and profit increased.

Exchange rates on average were ¥111 to the US dollar and ¥130 to the Euro, ¥2 and ¥11 weaker respectively compared to the prior year.

I will explain the key factors behind the operating profit increase of ¥20.7 billion over the prior year.

Volume & mix declined ¥24 billion with reduced wholesale volume and increased marketing expenses, mainly in the U.S.

Exchange rates improved ¥40 billion in total, mainly thanks to improvements of ¥4.1 billion from the US dollar, ¥17 billion from the Euro and ¥9.8 billion from the Australian dollar.

Variable costs improved ¥10.5 billion, with the effect of cost-improvement efforts partially offset by hikes in raw material prices.

R&D costs increased ¥9.1 billion due to enhanced development efforts for next-generation technologies and products. Other fixed costs improved ¥3.3 billion.

Operating profit declined ¥3.6 billion from our February forecast.

Volume & mix deteriorated ¥2 billion due to increased marketing costs.

R&D costs improved ¥4 billion thanks to accelerating efforts to improve efficiency.

Other fixed costs increased ¥5.3 billion mainly due to quality-related costs.

### **3. FISCAL YEAR MARCH 2019 FORECAST**

Global sales volume for FY March 2019 is projected to be 1,662,000 units, up 2% year on year.

North America and Japan, where sales of crossovers are strong, are expected to drive volume growth together with ASEAN markets, especially Thailand and Vietnam.

We will launch the updated Mazda6 and CX-3, and roll out the new CX-8 to overseas markets.

We plan to introduce our first next-generation model at the end of this fiscal year. There may be some launch impact with the model change in some regions, but we will continue trying to increase sales by enhancing our crossover lineup.

Next, I will take you through the financial forecast for FY March 2019.

Revenue is forecast at ¥3,550 billion, operating profit at ¥105 billion and net income at ¥80 billion.

Our exchange assumptions reflecting the current rates are ¥107 to the US dollar, ¥4 stronger year on year, and ¥130 to the euro, similar to the prior fiscal year.

I would like to talk about exchange rate assumptions for key currencies.

We assume ¥84 to the Canadian dollar and ¥84 to the Australian dollar, both stronger than the prior year by ¥2. The British Pound is assumed at ¥148, ¥1 weaker year on year.

Next, I would like to explain the factors behind the forecast ¥41.4 billion decline in operating profit

from the prior year.

Volume & mix is projected to improve ¥3 billion. Wholesale volume will increase 50,000 units, but its improvement effect will be limited to ¥3 billion due to increased incentives driven by interest rate hikes and reduced OEM vehicle supply.

Foreign exchange will deteriorate by ¥22 billion in total, including ¥4 billion from the Canadian dollar and ¥5 billion from the Australian dollar. In addition, among other currencies, particularly the Russian ruble will significantly weaken against yen and account for a ¥9 billion deterioration.

In the area of variable costs, we project an improvement of ¥19 billion. Commodity prices, including aluminum, are expected to rise, but we will accelerate cost improvement efforts.

R&D costs will increase by ¥7 billion as investment for future growth. As the development of next-generation products approaches its peak, we will promote efficiency to ensure that the costs do not exceed 4% of revenue.

Other fixed costs are forecast to increase by ¥34.4 billion in total, including about ¥10 billion each for investment in U.S. sales network reforms, depreciation costs, and costs for compliance with environmental regulations, such as CO2 penalties in Europe.

FY March 2019 is the final year of Structural Reform Stage 2. We expect to achieve our global sales target of 1.65 million units. But operating ROS is projected at 3%, regretfully falling short of our target of 5%.

The main reasons are missed volume and profit targets in the U.S., the costs of complying with environmental regulations, and investment in sales reforms for future growth.

With respect to strengthening our financial foundation, we have made steady improvements and achieved a net cash position, although our equity ratio is slightly off target at 44%. As to dividends, we aim to consistently deliver a stable dividend.

In this FY March 2019, we will further strengthen actions to improve profitability. Updated models will be introduced, and the first model of the next-generation lineup will be launched at the end of the fiscal year. Furthermore, two-shift operation will start at Hofu Plant No.2 in August 2018 to increase production flexibility for crossovers.

In parallel, with a view to consolidating our foundation for future growth, we will steadily proceed with U.S. sales network reforms as well as the development and introduction of next-generation products.

**Masamichi Kogai**

**Representative Director, President and CEO**

#### **4. DIRECTION OF FUTURE FRAMEWORK**

I will first recapitulate the initiatives of the Structural Reform Plan, starting from FY March 2013, and Structural Reform Stage 2.

Then, I will explain the direction of our future framework based on issues and measures.

Let me review the key initiatives.

Over the periods of the Structural Reform Plan and Structural Reform Stage 2, global sales have grown at a steady rate of 50,000 units per year from 1.25 million units in FY March 2012 to 1.66 million units this fiscal year.

The volume growth has been driven by the new-generation product lineup, featuring SKYACTIV technologies and Kodo Design. In addition, continued launches of update models with the latest technologies and new features have also contributed to the growth.

In sales, we have improved sales performance globally, through “right-price” sales by promoting our brand value and enhancing trade cycle management.

We have also proceeded with sales network reforms, mainly in the US market.

In the area of Monotsukuri Innovation, we promoted highly efficient development and production through common architecture and computer modeling-based development.

In production, we started operations at overseas plants, such as our Mexican Plant and Thai Powertrain Plant, and built a flexible production system that allows complementarity between factories.

In the area of alliances, in addition to strategic alliances for optimum complementarity in products, technologies and regions, we have begun a new mid-to-long term collaborative relationship with Toyota based on a business and capital alliance.

In terms of finance, as we have achieved net cash position and improved equity ratio, our financial foundation has significantly improved and strengthened.

As for shareholder returns, we focus on steady dividend payout and continue stable improvement of payout ratio targeting 20% or more.

During the Structural Reform Plan and Structural Reform Stage 2 periods, we achieved quantitative growth, but we were not able to achieve the qualitative growth we positioned as our most critical challenge.

Due to insufficient qualitative growth, we failed to meet per-unit profit targets against a backdrop of intensifying global competition. Especially in the U.S. market, volume and profit targets were not achieved, and that led to reduced profitability in the final year of Structural Reform Stage 2. Failure to predict such a swift shift in demand to crossovers was another factor.

From now on, we will raise competitiveness through next-generation products and new

technologies, and accelerate sales network reforms. We will also proceed with activities to ensure the success of alliances.

To realize qualitative growth, we will improve net revenue and profit and grow sales revenue and volume to achieve both sustainable future growth and shareholder returns.

I would like to take you through an overview of our future framework.

In the area of products and technology development, we will advance to a highly competitive new product lineup and increase production capacity to support sales.

For further advances over the first generation of SKYACTIV models, we will change from our previous architecture, which was based on Bundled Product Planning, to a product lineup divided into two architectures: Small Products and Large Products.

Also, in the areas of internal combustion engines, electrification, autonomous driving and connectivity, we will accelerate development of new technologies to improve product competitiveness.

In terms of production capacity, while making better use of existing capacity in the near term, we will work to build 2 million-unit production and sales structures with the addition of the new US plant, scheduled to start operations in 2021.

As we aim at a 2 million-unit structure, the SKYACTIV Generation 2 portfolio will consist of two architectures: Small Products, with CX-3 and a new crossover as the main models; and Large Products, with CX-5 as the main model, along with CX-8 and CX-9.

In the past, we planned our products in a bundled manner with a focus on Mazda3. This allowed us to grow efficiently from 1.2 to 1.6 million units. Higher volumes, however, can cause inefficiencies. To tackle that, we will have two architectures to optimize product strategy, taking into account customer needs, segment characteristics, profit, costs, etc.

These next-generation products will strengthen our business in the U.S. market, expand sales of crossovers globally and improve net revenue by strengthening high value-added products.

Small Products will promise high cost competitiveness through our traditional efficient car making.

We will also ensure global production flexibility centered on overseas production of CX-3. This group of products will serve as a driver for volume growth in response to demand for crossovers.

In our new US Plant, we plan to build a model belonging to the Small Products category. Including the Mexico Plant, we will improve business efficiency to ensure cost competitiveness in the U.S.

Large Products will help to enhance product competitiveness and brand value, and improve net revenue as high value-added models.

We will reveal more details about our product strategy when announcing specific products in the future.

Next is about sales network reforms.

We will accelerate sales network reforms in the U.S., which is our highest-priority market, and make sales of 400,000 units per year possible by 2021.

To summarize our initiatives of the past 2 years, we re-established our sale networks based on Mazda's brand value management. About 100 dealers exited and the half of them were replaced by strong dealer owners.

We have begun construction of next-generation branded dealerships. 40 dealerships were completed as of the end of March; 50 dealerships are currently under construction.

In each of 35 priority markets, we have defined roadmaps to build optimum sales networks and we are ready for implementation.

As a result, we have seen improvements in business quality with higher repurchase rates and profitability at dealers.

Let's take a look at initiatives from this year to 2021.

For strengthening of sales network, we will further enhance dealers' engagement in Mazda brand to drive qualitative and quantitative growth with showroom investment.

We will spend ¥10 billion this year and ¥40 billion over the next 4 years additionally as network reform costs to promote investment in showrooms.

Before 2021, we will increase the number of next-generation branded dealerships to 300, mainly in 35 priority markets, and raise the average throughput to 1,000 units.

Through such activities, we aim to continuously enhance the sales network by improving dealer profit and franchise value.

At the same time, we have overhauled marketing strategies and will offer comprehensive and localized support. We will also enhance customer experience through enhanced training for dealership staff and trade cycle management initiatives.

Through these initiatives, we will improve residual values, keep incentives in check and achieve "right price" sales.

Lastly, I will talk about alliances.

We need to accelerate development of next-generation technologies in many areas. In addition to making internal combustion engines more competitive through advances in next-generation SKYACTIV engines, these include electrification, autonomous driving and connectivity.

Along with enhancing the efficiency of development processes through computer modeling-based development and bundled planning, we will deepen alliances and collaboration with Toyota and suppliers, and achieve win-win alliances.

To establish a 2 million-unit production framework in the future, we will continue to generate profit and cash flow so that we can invest for growth.

As investment for growth and including the U.S. plant, we will invest around ¥250 billion over 4 years in addition to the normal investment of about ¥100 billion per year.

We will make successive high-level investments, but after that we expect to return to levels equivalent to FY March 2018.

Through maximizing production efficiency and enhancing cost improvement activities, we will build

business and financial foundations for sustainable growth.

We see the next 3 years as a period to build a foundation for strong growth from FY March 2022. Profit growth will be limited during the period, due to increased costs from increased competition and regulatory compliance. But we will make investments for future growth in all of areas, including R&D, production, sales and marketing.

Over the next 3 years, we will maintain stable growth in global sales at 50,000 units per year and make full use of existing capacity to sell up to 1.8 million units until the U.S. plant is ready to start operations.

Then we will aim for stronger growth from FY March 2022.

With the next-generation products and the fruits of sales reforms in the U.S. and other markets, after the start of operations at the new U.S. plant, we will have a framework to produce and sell 2 million units globally in FY March 2024.

We will announce the next mid-term plan when details are decided.

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