October 30, 2008

(For Your Information)

Mazda Motor Corporation

FY2008 First Half Results (Speech Outline)

Representative Director, Chairman of the Board
President and CEO
Hisakazu Imaki

Thank you for joining us at our earnings announcement today.

1. Highlights

First, let's go through the overview. Operating profit for the first half of FY2008 was ¥60.7 billion, down 17% from the prior year, but ¥10.7 billion better than our original forecast announced at the beginning of the fiscal year. Revenue was down 5% to ¥1,575.5 billion, and net income was up 2% to ¥29.5 billion. In July, new Biante was introduced in Japan. Sales of new Mazda6, which was developed exclusively for North America, started in August. Both models have been favorably received by customers. Our sales remained strong. With contributions of new Demio/Mazda2 and new Atenza/Mazda6 launched last year, global sales volume was 701,000 units, up 6% year over year.

Full year operating profit is projected to be down 44% from the prior year to ¥90 billion. We revise our original forecast reflecting the deteriorating sales environment across global markets and higher material prices. We also revise down ordinary profit and net income from our initial forecast. Revenue is projected at ¥3 trillion, down 14% from the prior year and net income is projected to be down 46% to ¥50 billion. Since we have already hedged most of our 3rd and 4th quarter currency exposure, there is almost no impact from future exchange rate fluctuations on ordinary profit and net income. Due to changes in external conditions including deteriorating industries, triggered by turmoil in financial market, and the yen's appreciation, the business environment is projected be increasingly challenging from the 3rd quarter. To meet the challenges, we continue to accelerate our business efficiency and Cost Innovation initiatives, while improving brand value.

Representative Director,
Senior Managing Executive Officer and CFO
David E Friedman

2. FY2008 First Half Results

Our consolidated operating profit for the first half of FY2008 was ¥60.7 billion, down ¥12.4 billion or 17% from the prior year. The breakdown of the decrease will be explained later, but this was a result of the exchange impact of yen's appreciation against key currencies and material price hikes, which were partially offset by volume and mix improvements. Ordinary profit was down 16% to ¥48.5 billion. Consolidated net income was up 2% to ¥29.5 billion, including the impact of taxation accounting changes. Operating ROS was 3.9%.

As announced in April, we maintain capital spending and R&D cost at appropriate levels to prepare for the future. Capital spending for the first half was at ¥59.9 billion, up ¥24.6 billion consistent with our plan. This includes about ¥30 billion which was booked in the United States related to tooling and other capital spending for new Mazda6. Depreciation increased ¥5.2 billion to ¥37.9 billion reflecting higher capital spending over the past few years. R&D cost was almost flat year over year at ¥56.3 billion, as we reinforce next generation products and technology developments.

Cash flow for the first half of FY2008 was negative ¥22.2 billion as planned due to the timing of capital spending. This consists of operating cash flow of ¥13.0 billion, less investments of ¥35.2 billion. Net debt was up ¥93.7 billion from the end of the prior fiscal year to ¥374.8 billion, mainly due to an accounting change and lease obligation increase.

Our global retail volume increased 6% from the prior year to 701,000 units with contributions from new Mazda2 and new Mazda6.
The yen to dollar exchange rate for the first half of FY2008 averaged 106 and the yen to Euro exchange rate averaged 163.

Revenues were down 5% from prior year. Favorable volume and mix improved revenues by 8%, explained by higher revenues overseas. Exchange rates negatively impacted revenues by 4% and a change in accounting standard by 9%. Excluding the impact of the accounting standard change, revenue improved 4%.

Let's now look at our sales performance in each of our key markets.
In Japan, our sales volume was 123,000 units, flat year over year. With effects of new model introductions including new Biante and new Atenza, sales were unchanged from the prior year despite the difficult new car sales environment. Share increased 0.1 percentage points from the prior year to 5.1%.
In North America, sales declined 6% to 200,000 units. In the United States, sales volume was 138,000 units. New Mazda6 was launched and sales of Mazda3 and Mazda5 remained strong reflecting robust small car demand. As total industry declined 15% and our sales declined 8%, overall market share improved 0.1 point to 1.9%. In Mexico, sales volume increased 30% from the prior year to 10,000 units.
Sales in Europe increased 17% to 179,000 units. New Mazda2, New Mazda6, CX-7 and Mazda3 contributed to the growth. Sales were down in some countries including Germany due to lower industry demand. But higher sales in Russia offset the sales decline elsewhere. Following Turkey at the end of June, a national sales company was established in the Netherlands. That company started operations in October.
Sales in China were 63,000 units, up 53% from the prior year. Expansion of product line-up contributed to volume growth. But due to low awareness and slower than planned outlet expansion, sales of Mazda2 are lower than our original projection. On the other hand, sales of Mazda6 remained strong. The number of sales outlets increased to 192 as of the end of September, up 17 from March end. We continue our efforts to improve the sales network to grow the Mazda brand in the Chinese market.
In Other Markets, sales were up 5% to 136,000 units. New Mazda2 and CX-9 continued to contribute to the growth. Sales in Australia were up 3,000 units to 41,000 units, despite declines in industry demand. Volume growth in Australia, Israel and South Africa was partially offset by declines in Taiwan and Thailand, where the economic slow-down is significant.

I will cover the key factors behind the year-over-year decline of consolidated operating profit of ¥12.4 billion mentioned earlier.
Volume and mix effects are ¥45.1 billion favorable. In addition to the launch of Biante in Japan and the Mazda3, which continues to sell well around the globe, new Mazda2 and new Mazda6 are widely accepted by customers. Supported by strong sales in overseas markets in addition to the effect of inventory optimization last year, the volume and mix improved substantially. With regard to exchange rates, the weaker US dollar had a

negative impact of ¥23 billion, while Euro improved ¥1 billion. Including the negative impact of other currencies of ¥6 billion, exchange rates had a total negative effect of ¥28 billion.

Product enhancement costs increased ¥8.5 billion, primarily reflecting costs for product enhancement actions for new Atenza/Mazda6. Cost reductions improved ¥17.6 billion, while material costs deteriorated ¥23.6 billion reflecting the result of steel price negotiations and the impact of other material costs. The net impact of the cost reductions and the material price hikes is negative ¥6 billion.

Fixed marketing cost was up ¥7.1 billion as planned, reflecting higher cost for new model launches, primarily in Europe. Other costs increased ¥7.9 billion from the prior year, primarily due to increased depreciation as discussed earlier and higher quality related costs. In summary, the improvement in volume and mix was more than offset by the impact of exchange and material price hikes, resulting in the profit decline of ¥12.4 billion.

3. FY2008 Full Year Forecast

Full year operating profit is projected at ¥90 billion and net income at ¥50 billion. We revised our original forecasts at all profit levels mainly due to the increasingly challenging global sales environment and higher than projected material costs. Since we have already hedged most of our 3rd and 4th quarter currency exposure, there is almost no impact of future exchange rate fluctuations on ordinary profit and net income.

Capital spending in FY2008 will be ¥90 billion, up ¥14.5 billion from last year, reflecting investment for new products. Higher depreciation is due to a depreciation period change based on an accounting standard change in addition to higher capital spending over the past few years. R&D activities continue to reinforce next generation product and technology development. At the same time, we pursue efficiency improvement. As a result, our R&D cost is projected at ¥111 billion, down ¥3.4 billion from last year.

The global sales plan was reduced to 1,405,000 units mainly reflecting downward revisions to the sales forecast in China and other markets except for Europe.

Exchange rate assumptions for the second half are ¥100 for the dollar, and ¥140 for the Euro. As a result, average full year assumption is ¥103 for the dollar, and ¥152 for the Euro.

Let’s go through our projected performance in each of our key markets.

In Japan, we project the challenging environment to continue from the 3rd quarter and forecast full year volume to be down 3% from last year to 247,000 units. On the other hand, we focus to improve dealer network efficiency and used car sales to improve profitability.
The sales projection for North America is 396,000 units, down 2% from last year. In the United States, we revise our full year volume downward reflecting the forecasted 17% industry decline. Sales of new Mazda6, which started in August, are on track. The industry in Canada is weakening, while we still target to grow in Mexico.
Sales in Europe are projected at 370,000 units, up 13% from last year. New Mazda2, CX-7 and Mazda3 continue to drive growth. We minimize the impact from declining Western European industries through an attractive new product line-up and continuing growth in Russia.
In China, sales in FY2008 are projected to increase approximately 29% to 130,000 units aided by a full product lineup. However, due to severe competition and sales network enhancement timing, the sales target is revised downward from 180,000 units. In addition to reinforcing the sales network, we continue to focus on expanding awareness and enhancing brand image.
In other markets, the sales projection is 262,000 units, down 4% from last year. This is attributed to a volume decline in Taiwan, and the impact of import restrictions in Venezuela. Sales in Australia are projected to be flat from the prior year, and sales in Israel are expected to grow by 3,000 units.

I will now explain the key factors behind the deterioration in operating profit of ¥72.1 billion. Due to lower volume in Japan, volume and mix deteriorations in the United States and volume decline in China from the 3rd quarter, wholesale volume is projected to substantially decline from last year. However, for the full year, the first half sales increase in Europe will improve the volume and mix by ¥27 billion. On the contrary, reflecting the exchange assumptions for the second half, the negative exchange impact is ¥36 billion from US dollar and ¥11 billion from Euro. Including the impact from other currencies, the total exchange effect is expected to deteriorate ¥78 billion.
The product enhancement impact of ¥19 billion includes costs for new model and regulatory actions. Impact of material price hikes accounts for ¥47 billion, and it is projected to be totally offset from the 3rd quarter onwards by accelerating the Cost Innovation initiative.
The marketing expense will increase ¥3 billion year over year reflecting the cost increase in the first half, although the expense decreases year over year from the 3rd

quarter, since we have completed a phase of new model introductions. However, we continue actions to further strengthen our brand. Other costs improve ¥0.9 billion reflecting fixed cost reductions in all areas.

Operating profit declines ¥72.1 billion from last year. However, the impact of external factors accounts for ¥125 billion, including ¥78 billion from sharp yen's appreciation and ¥47 billion from material price hikes. Our performance other than external factors improved ¥52.9 billion, partially offsetting the impact of external factors. We will continue to improve performance by reinforcing Cost Innovation initiatives.

Representative Director, Chairman of the Board

President and CEO

Hisakazu Imaki

4. In Summary

In the 1st half, we achieved better sales volume than last year in major markets excluding Japan and North America because of the successful introduction of new models and continuing strong acceptance of Mazda3. The operating profit was ¥60.7 billion, down by 17% year-over-year, due to deteriorating external factors including material price hikes, but it is better than the initial forecast at the beginning of the fiscal year.

We reduce the full year operating profit forecast downward to ¥90 billion due to the material price hikes and deterioration of the global sales environment.

Because we have already hedged for the 3rd quarter and onward, there is almost no impact of future exchange rate fluctuations on ordinary profit and net income.

To properly manage inventory levels, we will reduce our production volume in Japan by 73,000 units from the 3rd quarter. Full year production in Japan will be down 48,000 units from initial plan to 1,048,000 units.

The profit situation in the 3rd quarter and onward is projected to be very challenging, and we will take the appropriate actions to meet the challenge.

We will accelerate business efficiency, Cost Innovation and brand value improvements. Among them, today I will discuss the Cost Innovation initiative which started in April.

To meet the challenging environment, we recognize the need to become leaner and meaner in all areas and thus we are implementing activities based on 2 pillars that are "Vehicle and Parts Cost Innovation" and "Distribution Cost Innovation".

In the "Vehicle and Parts Cost Innovation", R&D, Purchasing and Production departments have been working together to identify cost reduction ideas. In addition to this intensive internal CR activity, cooperative actions with suppliers have also been initiated. As a result, we expect to achieve cost reductions that offset material price hikes in short term.

In the mid and longer terms, with Monotsukuri Innovation, we are working to realize best engineering, production and procurement for both function and cost of new powertrains and vehicles. Leveraging the achievements from our short-term Cost Innovation activities, we pursue the optimum efficiency in all functions like R&D, Manufacturing, Logistics, and Purchasing to improve our cost structure and product competitiveness.

In the "Distribution Cost Innovation", led by the management in each region, we will streamline the sales organizations and generate sales and marketing cost efficiencies together with focusing on eliminating any waste in logistic cost. While industry demand is substantially declining, we will further accelerate and reinforce this initiative.