

Message from the President

The Isuzu Group has long built relationships of trust with our stakeholders and delivered innovative products and services in the development and manufacture of commercial vehicles and diesel engines. Going forward, we aim to continue providing value to society based on the relationships of trust we have cultivated over many years.

In this chapter, the president introduces the Isuzu Group's value creation vision and strategies for sustainable growth.





Message from the President

Enabling Rich and Safe Lives for People Around the World Becoming a Corporate Group that Contributes to Society Through Innovation

Masanori Katayama

President and Representative Director

As COVID-19 spreads around the world, we once again have realized the importance of logistics as a social infrastructure that supports economic activities and daily life. As a commercial vehicle manufacturer, the Isuzu Group (hereafter called Isuzu) strongly recognizes its mission to provide a stable supply of vehicles and uptime support for everyone involved in the logistics industry.

The world is moving quickly to overcome not only the current COVID-19 pandemic, but also various social issues so that we can continue to live in a sustainable society in the future. At Isuzu, we aim to contribute to the creation of a sustainable society by engaging with a range of social issues such as realizing a carbon-neutral society, and making every effort to support our customers' *transportation needs*.

Changes in the External Environment and the Isuzu Group's Responsibility

The environment surrounding the automotive industry is changing rapidly with a speed and drastically with a destructive power that we have never experienced. As president, I have a stronger sense of crisis than ever before.

Amid a growing global sense of crisis over climate change, the tidal change towards carbon neutrality is the greatest long-term change in the external environment that Isuzu must confront. In Japan, the debate has shifted from the direction of aiming for virtually zero greenhouse gas emissions in 2050 to discussion of specific actions, with a target of 46% reduction from the 2013 level by 2030. Every industry must make an all-out effort, and Isuzu recognizes this as one of the highest priority tasks.

In a society aiming for virtually zero greenhouse gas emissions, Isuzu aims to achieve carbon neutrality using a scientific approach based on life-cycle assessment (LCA*).

A characteristic of commercial vehicles is that their largest environmental impact occurs during the use process. However, if we prioritize reducing this impact while increasing the environmental impact of other processes such as manufacturing, we will not be able to achieve overall carbon neutrality. This is a challenging long-term task, but in order for Isuzu to continue being a corporate group needed by society, we must boldly strive to carry through ambitious targets and fulfill our social responsibility.

(Note) *LCA: A method for aggregating and analyzing the environmental impact of a product, covering from the mining of raw materials to manufacture, use, and disposal.

Our Previous Mid-Term Business Plan, Strongly Focused on CASE, Set the Stage for the New Mid-Term Business Plan

In the previous Mid-Term Business Plan, we considered the auto industry's profound transformation that occurs only once in a hundred years as an opportunity, and developed *aggressive* initiatives with a strong orientation towards CASE technologies. We built an alliance structure with partners that are leaders in various fields, collaborating and refining our capabilities through friendly competition to strengthen the foundation of our core businesses and increase profitability. At the same time, we sowed seeds for the future, aiming to acquire the strength and endurance to realize innovation.

As a result of our initiatives under the previous Mid-Term Business Plan, Isuzu is on track to reach a level where we can secure annual consolidated net sales of 2.5 trillion yen or more, and have also laid the groundwork for the future by forming strategic alliances and other measures. Although the expectations for carbon neutrality are beyond our assumptions, and the impact of COVID-19 has changed our lifestyles, I am confident that we have successfully laid the foundation for our new Mid-Term Business Plan.

Carbon Neutral Strategy and Contributing to Logistics Evolution

In the new Mid-Term Business Plan (FY2022 ending Mar., 2022 to FY2024 ending Mar., 2024) announced this fiscal year, Isuzu formulated its *Carbon Neutral Strategy*. In 2022, we will begin mass production of lightweight battery electric vehicles (BEVs) and validation testing of heavy-duty fuel cell vehicles

(FCVs). At the same time, over the next several years we will select the optimal electrification technologies for commercial vehicles, with the aim of beginning mass production and sales by the 2030s. Moreover, in areas that cannot be addressed by electrification, we will continue to develop more efficient and high-performance internal combustion vehicles, and promote the use of carbon-neutral fuels to create a full lineup of carbon-neutral vehicles by 2040.

In addition, in the current Mid-Term Business Plan, we set out to *Contribute to the logistics evolution as a commercial vehicle (CV) manufacturer*. On the front line of truck logistics, which supports the economy and daily life, customers face a range of issues including labor shortages due to falling birthrates and aging populations. To help solve these issues in our role as a commercial vehicle manufacturer, we will accelerate initiatives aimed at putting connected services and autonomous driving to practical use.



In connected services, we aim to contribute to improving customers' productivity and decarbonization by strengthening connected services such as uptime support and fleet management. In autonomous driving, we will accelerate technology development in collaboration with our alliance partners and promote validation testing to support early commercialization. In the fields of autonomous and unmanned driving, in addition to technological development, changes in societal rules are also required, such as revision of the road system operation. These challenges are difficult for automobile manufacturers to achieve alone, and therefore we plan to resolve them in cooperation with governments, society, and customers.

We also believe we need to determine what kind of changes digital transformation (DX) will bring to logistics and distribution, and make the best use of them. The spread of the fifth-generation mobile network (5G) will realize a level of communication capacity that enables communication between things, which is expected to spark significant changes in numerous fields.

For example, even if the COVID-19 pandemic subsides, in preparation for a possible future pandemic outbreak, there may be an accelerated movement towards a contact-free society that reduces human intervention to a minimum and assumes the automating of processes as the norm. In logistics, there are many



Highway validation test for truck platooning

processes that rely on human labor, which previously made it difficult to move to a contact-free operation. However, DX may offer new possibilities, and has the potential to dramatically change the status of logistics and distribution. By continuing to evolve connected solutions, we will build a structure that can respond to the innovations in logistics in the future.

Solving Social Issues Through Innovation

In our current Mid-Term Business Plan, we set *Carbon neutral strategy* and *Contribute to logistics evolution as a CV Manufacturer* as the two pillars of innovation. The reason for our focus on *innovation* is because we believe it is impossible to keep up in an age of technological innovation simply through an extension of our past experience and conventional technology changes. We see this era of change as an opportunity to grow. Now is the time for us to become a corporate group that can proactively advance innovation. Isuzu must transform into a corporate group that can use innovation to solve the social issues it has presented as its materiality issues. Failure to do so will leave us unable to justify our *reason of existence* to society, causing us to lose vitality as an enterprise, and the ability to grow sustainably. As president, I have expressed a sense of crisis regarding Isuzu's sustainability in the new Mid-Term Business Plan.

Our ability to realize innovation relies on *expanding our existing businesses and improving their profitability*. We will steadily increase our profitability by continuously strengthening the foundations for growth that we built during the previous Mid-Term Business Plan, making full use of it and adding collaborative synergies through our alliances. In the CV business, we will realize



Heavy duty trucks: UD Trucks Quon and Isuzu GIGA

maximum effects from our alliance with UD Trucks in the areas of products, sales, and after-sales services, aiming to strengthen and expand our business. In the light commercial vehicle (LCV) business, we will utilize our business locations in Thailand, India, and South Africa to promote joint development and cooperation with various alliance partners to drive innovation in manufacturing.

Evolving Business Management from ESG Perspectives

Anticipating the further diversification and globalization of our stakeholders, we are strongly aware of the need to transform our corporate structure, culture, and management in order for us to continue to be a company respected by the global community. We have therefore included the concept of *Evolving business management from ESG perspectives* as a core pillar of the new Mid-Term Business Plan. While benchmarking ourselves against global companies, we will focus on the following prioritized policies: *Emphasize shareholder value, Improve governance and disclosure, and Become a corporate group that creates innovation*.

In *emphasizing shareholder value*, we will enhance capital efficiency, targeting an ROE of 15% in five years.



We have also set out to maintain an average dividend payout ratio of 40% during the period of the new Mid-Term Business plan, considering stock buybacks in a flexible manner.

We included *Improve governance and disclosure* because we recognize that our alliances with global companies depend on mutual trust, and that collaborating on equal terms requires Isuzu to aspire to the same level of business management as global players. To this end, we are taking measures to increase management transparency, such as transitioning to a company with an audit and supervisory committee and strengthening disclosure of non-financial information. By strengthening our governance to an even higher level, I feel that our business management has become even more streamlined than I anticipated.

We decided on *Becoming a corporate group that creates innovation* because we consider creating innovation that contributes to society is the very purpose for a company's existence. Internally, I constantly urge our colleagues to *approach innovation by starting with an ideal vision for the future and backcasting from there*. I believe that continually aiming for our ideal vision will lead to the creation of innovation. It is important to always be willing to change, and making decisions on your own initiative. In this era of great transformation, I want us to be a corporate group that proactively makes changes and continues to evolve.

Contributing to Enriching People's Lives as a Commercial Vehicle Manufacturer

As expressed in our corporate vision, our goal as a company is to support our customers around the world, thereby enriching people's lives. Isuzu does not hold all of the keys needed to enrich the lives of people around the world, but we are able to do so by providing social infrastructure in the form of trucks.

We are confident that contributing to logistics through our business will enrich people's lives and society, albeit indirectly.

Moreover, when we contribute to logistics, it is important to maintain good relationships with customers who are directly involved in logistics. I believe that commercial vehicle manufacturers do not sell trucks to customers, but rather sell *Trust* in securing the uptime of trucks.

However, it is not easy to build this *Trust*. Only when the concept of *Trust* is instilled in employees who interact with our customers on the front line, and is translated into action, can we begin to earn the *Trust* of our customers.

The Value of Isuzu Today and Future Vision to be a Globally Competitive Commercial Vehicle Manufacturer

I believe that it is important for Isuzu to be an organization in which each and every employee can clearly explain their aspirations and commitments about what kind of corporate group we are, what we are trying to achieve, and which direction we are heading. I also want those who are interested in joining Isuzu as employees to understand and share our thinking and key concepts. I would like those who invest in Isuzu to have a full understanding of the company before they decide to invest. To this end, we will increase communication about our views and current status as much as possible going forward.

I also believe that it is necessary for us to go beyond the Mid-Term Business Plan and share Isuzu's views with the general public at various opportunities. The new Mid-Term Business Plan has set out numerical targets for 2026 that represent our vision for the company as a *commercial vehicle manufacturer that can compete at the global level*. I also feel we successfully presented the road map to lead us there. In addition, we are currently conducting internal discussions to establish our *Pole Star*- our unshakable long-term vision of what Isuzu aims to become in the future. We are thinking deeply about the meaning of Isuzu's existence and how we can contribute to society, and are aiming that this will eventually lead to an unwavering corporate mission.

I ask all our investors and stakeholders to continue supporting Isuzu going forward.