Q&A for the Fiscal Year Ending March 31, 2022 Financial Results

✧ Message from Katayama, the President

I would like to briefly talk about the financial results of FY2022 ended March 31, 2022 and the plans for FY2023 ending March 31, 2023.

In FY2022, sales were 2,500 billion yen and operating income was 187.2 billion yen. While the sales were in line with the plan initially made at the beginning of FY2022, we saw a significant difference in operation from what we had been estimated.

We shifted production to vehicles for emerging nations where there had been a large number of backorders, covering the volume for developed nations impacted by parts shortages. As a result, despite unexpected major issues such as constraints in parts procurement from ASEAN region in the first half and semiconductor shortages in the second half, we were able to achieve the sales target as initially planned. Operating income exceeded our initial forecast by 17.2 billion yen. While faced by an unanticipated substantial impact of 45.0 billion yen from the sharp increase in material and logistics costs, operating income slightly exceeded the initial plan due to such factors as positive impact of 31.8 billion yen from favorable FX, rationalization efforts undertaken despite very challenging environment, and postponement of expenditures of R&D cost and other expenses.

Trucks are part of our social infrastructure. We apologize for the inconvenience we have caused to many customers waiting for our trucks to be delivered. We would like to express our gratitude to all the dealers, suppliers, and body builders who have supported Isuzu by responding to the change in our production plans.

We set our sales target of 3,000 billion yen for FY2023. Compared with the sales targets of 2,500 billion yen for FY2022 and 2,750 billion yen for the final year of the current mid-term business plan period, it is quite an aggressive target amid the impact of the ongoing chip shortage in the first half and the lockdown in Shanghai. We will make all-out effort to achieve the target along with reducing the current backorders and recover from the impact of parts supply shortages in the second half. The operating income target of 200.0 billion yen seems to be a low target when we consider the point that the target for the final year of the current medium-term business plan period is 250.0 billion yen. This is due to the fact that despite efforts for cost realization, it would not be enough to cover the unprecedented increases in raw materials and logistic costs exceeding 100.0 billion yen. We have kept the operating income target of 250.0 billion yen unchanged taking in account of further measures we plan to implement in the next fiscal year.

Despite the constraints on our operations by the pandemic, we recognize that we are on track with our mid-term business plan.

✧ Production and sales situation

Q. The backorders in Japan as of the end of December 2021 were 14,000 units for medium-and heavy-duty trucks and 14,000 units for light-duty trucks. What is the status as of the end of FY2022 ended

March 2022? When do you expect the backorders to be resolved?

A. The backorders as of the end of FY2022 ended March 2022 were 30,000 units in total, 15,000 units respectively, for both medium-and heavy-duty trucks and for light-duty trucks. We expect that the number will decrease to a certain level at the end of FY2023 ending March 2023.

Q. CV sales volume in Japan is projected to increase from the previous fiscal year. What is your outlook in the first half and second half?

A. We foresee that parts supply shortages will keep us in a challenging situation in the first half, but we assume that the situation will start to recover from the second half.

Q. According to the FY2023 full-year outlook, LCV sales volume for FY2023 is estimated to be 438,000 units. Is it correct to assume that it is the maximum volume considering your production capacity?

A. As was planned in the 4Q in the previous fiscal year, the manufacturing plant in Thailand will continue to operate almost at its full capacity throughout the current fiscal year.

Q. Thailand may also be affected by potential risks of economic changes such as inflation concerns. Please elaborate the outlook for LCVs for Thailand.

A. Order intake remain very strong, with a large number of backorders at 35,000 units for Thai market as of the end of the previous fiscal year. We estimate that eliminating backorders will be difficult within this fiscal year even if we continue production at full capacity.

Q. In your presentation, you noted sales of LCVs for Australia would be impacted by semiconductor shortages. Can we assume that the affected market is limited to Australia?

A. As the semiconductors used for high-end models are in shortage, Australian market will see a decrease in sales units. Those semiconductors are also used for some high-end models for Thai market, hence a certain level of impact is estimated. However, the production volume impact is expected to be limited as we have been shifting production for Thailand to the models which do not require the affected components.

✧ Steel, oil price etc. fluctuations and price realization

Q. What is the breakdown of steel, oil price etc. fluctuations in the current fiscal year?

A. The total amount of steel, oil price fluctuation etc. is 105.0 billion yen, which consists of 85.0 billion yen for material cost and 20.0 billion yen for logistics cost. The material cost is made up of 53.0 billion yen for iron and 32.0 billion yen for non-ferrous materials. The iron ore and coal prices are soaring.

Q. How are you going to respond to rise in material and logistic costs?

A. The impact of the fluctuations in steel, oil price etc. for the current and previous fiscal years is extremely huge at approximately 150.0 billion yen in total, which puts us in a situation where we have no choice but to promote price realization within the range acceptable to our customers. While we implement initiatives for price realization tailored to the characteristics of each product and market, the orders which we have already received are not in scope. As such, it is hard to absorb all the impact within this fiscal year.

The approach we will take for Japan is controlling incentives rather than adjusting sales price. We will take such measures as further promoting sales style reforms which have been implemented for the past few years and refraining from chasing too far for light-duty and medium-duty trucks inquiries with lower margin. For new models, we are considering incorporating the impact of the rising costs and added values into the sales price.

In overseas markets, price realization is easier compared with Japanese market owing to yen depreciation and acceleration of inflation. We will cover for the impact of cost fluctuation at the timing of annual price revision. In addition, we are looking into means to cover surging logistics cost in North America and other markets by means of surcharge.

✧ Mid-term business plan progress report

Q. The situation has dramatically changed for the past year when the mid-term business plan was announced. Please explain once again what Isuzu will focus on.

A. While the business environment has dramatically shifted from our assumptions in mid-term business plan, we were able to select optimum partners for each segment. That is a positive accomplishment. The movement towards carbon neutrality is accelerating at a pace faster than expected, and we recognize that we were able to take necessary actions for CASE technology in time as a result of forming partnerships with very strong partners such as Volvo, Cummins, Toyota, Hino, and Honda.

Meanwhile, we had not anticipated the current geopolitical risks in the supply chain. We recognize with a sense of urgency that we need to implement measures with strong determination while considering whether the current condition will continue or the supply chain will be further fragmented. In global business, security has been a given. If this premise is lost, we have to revisit the procurement structure itself. Should supply chain be fragmented, semiconductor shortage will escalate into a more serious problem. Since it cannot be tackled by Isuzu alone, collaborating with our partners is vital.

Also, we had not expected that the costs of raw materials would soar to this level. It is not about applying surcharge to sales price to cover material cost fluctuations as it has been, but we regard it as a structural change of the society. Therefore, pricing should not be simply considered in a conventional manner, but the pricing policy itself is called into question. Since the pricing policy for this fiscal year was formulated following our past practices, we believe the target can be achieved with high probability. We have started to study internally about new pricing policy, recognizing it will need to be developed taking in account the global inflation going forward.

Q. What kinds of measures do you expect to implement towards achieving the next fiscal year's operating income target of 250.0 billion yen stated in your mid-term business plan?

A. Current fiscal year's operating income target of 200.0 billion yen does not fully reflect the effects of price realization, because we have to firstly deal with many vehicles in backlog which are out of the scope. In other words, we expect to see larger-than-usual positive effects of price realization in profitability in the next fiscal year. In the Japanese market, we have been reforming ways of selling commercial vehicles since around 2016, which now allows us to better manage customer incentives. We will work further on strengthening this direction. In the next fiscal year, the new models will come to full-swing, whose sales prices are supposed to reflect their increased values. This, together with the said effects of price realization, as well as the effects of rationalization initiatives, will contribute positively to the next fiscal year's profits. We have a good potential to achieve the mid-term business plan's profit target.

Q. Your net sales target for this fiscal year exceeds the target in the final fiscal year of your mid-term business plan. While redefining price strategies, are you aiming to further increase unit sales?

A. We expect to secure a high level of unit sales for this and next fiscal year, as shown on the last page of the mid-term business plan's progress report.

In the Japanese CV market, we pursue a market share increase while further improving our customers′ trust and satisfaction through continued sales reforms , as well as efforts for vehicle life cycles including aftersales, instead of trying forcibly to expand our market shares. In the previous fiscal year, though we lost market shares from the impact of semiconductor shortages, we secured stable profitability thanks to various efforts we had made. We shall continue to maintain our policy of increasing sales volumes on the basis of our customers' trust in us in the coming future, instead of pursuing market share increase.

In the overseas CV markets, we have been working on organizing CV distribution networks rooted in each region, aiming to steadily increase sales volumes by improving customer satisfaction and product quality in a closer-to-market approach, instead of simply targeting a rise in market share. Looking back the previous fiscal year, we can recognize positive effects of such approach on sales volumes. In the next fiscal year, we expect to achieve sales volumes as high as the current fiscal year thanks partly to the introduction of full-model-change models. Thus, we are not in a situation where we should forcibly pursue sales volume increase.

Q. While maintaining the operating income target of 250 billion yen in the final fiscal year of your mid-term business plan, you currently see your shareholders' equity increasing, a situation where you may have difficulties achieving the ROE target of 12.5% at the end of the next fiscal year. When you released your mid-term business plan one year ago, you mentioned purchase of treasury shares. Explain how Isuzu management now prioritizes achieving this ROE target.

A. ROE in the previous fiscal year stood at 11.4%, which was in line with our mid-term business plan target. In the current fiscal year, though setting the ROE target at 10.3%, we understand that the

ROE number will fall in calculation, because in addition to the accumulation of net income from the previous fiscal year, valuation elements such as foreign currency translation adjustment and valuation difference on available-for-sales securities is predicted to increase. Therefore, in the current fiscal year, we want to work on increasing ROE, as well as expanding periodic profits, as much as possible. Though sticking to the next fiscal year's ROE target of 12.5%, we will firstly see the results of our efforts in the current fiscal year and then review how feasible the number is. The current fiscal year will serve as a period for us to examine the periodic profits and losses, shareholders' equity, future investments, and purchase of treasury shares, etc. as a whole.

Q. Explain your policy (including launch timing) about electrification of pickup trucks, based on trends in the Thai market.

A. EV pickup trucks require battery capacity high enough to deal with high-load conditions, posing us a challenge for affordable vehicle sales prices. Pickup trucks for workhorse applications, aimed to carry goods, will require higher operational economy. We will maintain our policy for EV pickup trucks that we will launch them after prerequisites, including social infrastructure, are met. As required by the society, as part of our initiatives to prepare for a CN society, we have been engaged in R&D activities to see the technical feasibility for their practical use, including a hybrid scenario.

✧ About UD Trucks

Q. As regards UD Trucks' sales results for the Japanese market, their April numbers look good. Does this mean UD Trucks is successfully expanding its sales, in part because other CV OEMs are faced with difficulties/challenges? How is the overview of UD Trucks' sales performances in May and beyond?

A. For heavy-duty trucks, the period necessary from order intake to registration is more than six months, meaning that the April sales results reflect the business environment, measures taken, and impact from disrupted supply chain issues six months ago. While the CV OEMs operating in Japan are struggling to deal with chip supply issues, UD Trucks is doing relatively well with its parts supplies. UD Trucks is strong mainly in the heavy-duty segment, tractor heads and special purpose vehicles in particular. By clarifying UD Trucks' sales strategies and targets, it has increased its sales activities, generating positive results. As the order intake in January-March 2022 period was very high, we expect to see more positive results from now on.

Q. Explain synergy effects from collaboration with UD Trucks.

A. UD Trucks became a consolidated subsidiary of Isuzu in the previous fiscal year, and synergies we created mainly centered on cost-reduction in areas easier to approach. In the current fiscal year, we plan to create synergies in earnest, focusing on duplicated operations and areas where mutual collaboration is possible. As regards cost-down synergies, we will work on areas such as logistics, purchasing common parts, and other rationalization efforts. The largest synergies in the Japanese sales are expected to come from utilizing each other's aftersales service functions. UD Trucks has been selling Isuzu-made medium-duty trucks with its own badges, but the sales volumes have not grown much. We want to improve this now that UD Trucks is part of Isuzu Group.

In the current fiscal year's business plan, we have included synergies of about 6.0 billion yen. For the future, reducing the cost of product development by each company shall be big drivers. We plan to launch new tractor heads and model-change of heavy-duty trucks, and cost-reduction effects in R&D expenses and parts procurement shall be a big merit.

In the overseas sales, we want to create synergies by addressing sales strategies utilizing the most of both brands as well as by integrating our back-office functions in earnest, which were not fully addressed in the previous fiscal year due to the Covid-19 pandemic.

✧ Other topics

Q. Explain the launch timing of the light-duty EV trucks, which is originally planned within the current fiscal year.

A. We expect to start selling them around the second half of the current fiscal year. Please allow us to refrain from talking about the exact timing, due to sales arrangements.

Q. Explain the overview of your Russian business and its future direction, including possible impairment.

A. Shipments to Russia have already been suspended, without any future prospect for resuming them. Even if any impairment is needed, the loss will not amount to much.