

## Q&A for the Second Quarter of the Fiscal Year Ending March 31, 2022 Financial Results

### ◇ Message from the President

I would like to talk firstly about how Isuzu management evaluated the Company's business performance during the first half of this fiscal year. In this first half period, we spent most of the time dealing with parts supply issues, and although we received many orders from our customers at home and abroad, we were unable to fully meet them.

In comparison to our business plan, we were unable to produce and sell vehicles as planned. On the profit and loss front, we earned slightly more profits than planned, despite considerable impacts from a sharp rise in raw material prices, as well as from increases in expenses such as freight. In addition to postponed expenditures of expenses planned in the first half, sales style reforms and per-unit profitability improvement activities through rationalization, initiatives that had been led by management since the previous mid-term business plan period, contributed steadily to profitability. With the positive effects from manufacturing-related investments and plant improvements added to the earning power of the Company, we achieved record-high first-half results.

As regards the second half of this fiscal year, we still have concerns over the parts supply issues. Though our production target for the second half is even higher than that for the first half, with demands expected to remain high, we maintain the full-year forecast already released, taking in account the reality that we cannot fully meet all demands.

As regards the mid-term business plan, carbon neutrality is one of its important points. With the nationwide electrification target for CVs by 2030 released by the government of Japan, we have to figure out how to respond to it and resolve various related challenges, based on full utilization of vital alliances we formed during the previous mid-term business plan period. The alliances each have their specific characteristics and advantages in terms of technology, geographical areas, etc., which we will utilize optimally.

Last but not least, as part of the alliance agreement with Volvo, UD Trucks Corp. became part of Isuzu Group as of April 1, 2021. In the first six months after the acquisition, we paid particular attention so that this change would not trouble customers of both entities, and we understand we met that target. Product launches expected in 2022 and 2025 will clearly show synergy effects based on the collaboration with UDT and Volvo. We are fully in line with the scenarios defined in the mid-term business plan.

### ◇ First Half Results/Outlook of the Year

- Q. Based on the strong business performance for this first half, how do you foresee the business outlook for the next fiscal year and beyond.
- A. Sales volumes in the first half were lower than expected. Operating income in the second half could rise by 30 billion yen if there were no parts supply shortages. From the next fiscal year onwards, without the said restrictions, Isuzu has the ability to earn operating income of around 100 billion yen for a half period, based on the sum of forecast operating income for this second half (70 billion yen)

and the lost opportunity (30 billion yen) due to the afore-mentioned restrictions, and therefore around 200 billion yen for the full-year period. Without the afore-mentioned parts supply problems, the quantitative goal in the mid-term business plan is within reach.

Q. Please break down 40 billion JPY of the cost fluctuations. What are your thoughts on an idea of increasing the profitability by price hikes?

A. The breakdown is as follows: 30 billion JPY in material cost, and 10 billion JPY in logistics cost. Due to the sharp price increases in steel, and non-ferrous metal, and the rise in the logistics cost, which surpassed our expectations at the beginning of this fiscal year, we have revised our outlook, made at the beginning of this fiscal year, downwardly by 20 billion JPY.

Currently, it is difficult for us to pass the cost increases onto the sales prices because we are causing inconvenience to our customers in terms of vehicle supply. Having said that, if the current trend of cost fluctuations continues, we have no choice but to consider a price hike.

Q. In the breakdown of the change analysis of the consolidated operating income in the first half of this fiscal year, amount categorized as “Others” of sales/model mix is large. Please explain the current situation of aftersales business and secondhand vehicle business.

A. The others of the sales/model mix segment include the profits of the suppliers in the Isuzu Group as well. Therefore, not all the profit increase came from the aftersales business. The aftersales business has been strong, and the profitability of secondhand vehicles has dramatically increased year over year. The demand for new vehicles has been replaced by that for secondhand vehicles. Thus, the profitability has improved, thanks to the higher prices of secondhand vehicles. However, we believe this trend will not last long but will slow down in this fiscal year.

Q. You said that the initiatives planned in the previous Midterm Business Plan are now bearing fruit and resulting in good financial results. Could you explain about the details of these initiatives?

A. Looking at the results in the first half of this fiscal year, the profitability per unit has significantly risen. This shows that the cost reduction initiatives we have been doing for a long time have yielded results. Additionally, one of the sales method reforms we have conducted is the maintenance & leasing program using connected services. With this program, service workshops are able to know in advance when customers' vehicles will come to their workshops, resulting in an improved productivity at service workshops. Also, we have heavily invested in plant modernization, and thus the inside of the plant buildings has been streamlined, and the equipment has been rationalized as well. Each initiative may be a small activity, but the results have been solid and steady. We have analyzed and concluded internally that our fundamental strength has enhanced.

◇ Current Situation of Production and Parts Procurement

Q. Explain the influence of semiconductor shortages on Isuzu's businesses by product (CVs and LCVs) and by period (first half and second half); more specifically, which parts are the production

bottleneck?

- A. As regards CVs, the parts shortage issues affected 15,000 units in the first half and 30,000 units for the full-year. Most of them are light-duty trucks. As regards LCVs, they affected 40,000 units in the first half, but recovery production of 10,000 units in the second half will limit the affected total number for the full-year period to 30,000 units.

Though the CV business in the first half was affected by disrupted supply of parts made in Vietnam, these supply issues are expected to subside toward the second half. CV production is predicted to be affected by the semiconductor shortage in the latter half. LCVs has been continuously affected by chip shortage from the first half. Though we plan recover production in the second half, we shall not be able to secure enough semiconductors to fully recover the reduced units.

- Q. Isuzu has revised the number of CVs expected to be produced for the full-year period upward by 10,000 units. Is this upward revision a response to the strong demands Isuzu has explained before? Are you affected by the parts supply issues?

- A. Though we have decided to make the upward revision to respond to the high demand, the number is limited to 10,000 units because of the production restrictions due to the parts supply issues. Without them, the number could be raised to nearly 40,000 units. Accordingly, our CV production was reduced 30,000 units by production limitations.

- Q. As for the recovery of 10,000 LCV units in the second half of this fiscal year, what is the probability of achieving the production target?

- A. Our original outlook planned the LCV production in the second half at a very high level, but we are now planning a recovery production. We aim to achieve that target by improving productivity, for example, outsourcing work partially, and implementing the enhanced labor force operation, which was conducted in the wake of the 2011 flood in Thailand. There is a supply shortage risk of semi-conductors, but the unit production recovery plan is based on the currently-thinkable worst-case scenario, and therefore, we think we can achieve the production target with a high probability.

◇ Sales Status

- Q. Explain the current level of inventory and backorder of LCVs. Also explain the current level of their demands.

- A. The demands for LCVs in Thailand and in export destinations are strong. However, due to production limitations, the inventory level in Thailand as of the end of September was around 8,000 units, a level lower than one month of retail sales, and this inventory situation has continued for more than six months. The backorders in Thailand have reached 30,000 units, equivalent to a level a little over two months of retail sales. Backorders in export destinations sum up to a little more than 60,000 units. This situation has remained unchanged since the end of June this year.

- Q. How strong are the demands for CVs at home and abroad? Explain the details.

A. The demands for light-, medium- and heavy-duty trucks in Japan are steady, keeping the same level as before; we see demands for all truck categories coming steadily from the logistics industry including small package delivery, in addition to from construction-related applications for construction work to replace old equipment and facilities, a positive trend against expectations that demands for CVs would fall in the 2020s.

Overseas, in Australia, the economic stimulus packages by the government there have triggered considerable demands for CVs. With rising resource prices, this trend is considered to continue in the next fiscal year. In the U.S., as its economy is booming, demands for logistics by light-duty trucks are growing. Other areas on the globe are showing rather modest demand recovery; in the Middle East and South America, we see the demands for CVs recovering thanks to resource price hikes. In South East Asia, the demands for CVs in Thailand is recovering. Demand in Indonesia recovering but yet to return to its pre-pandemic demand level.

Q. In Indonesia, the unit sales of TRAGA, the lightweight truck, has been growing. What is the impact on the profitability?

A. The demand in Indonesia has recovered in the areas of e-commerce, and resources, but still has not reached to pre-pandemic levels. The unit sales of TRAGA dropped last year due to COVID-19, however, they are expected to surpass 10,000 units this fiscal year. At the beginning, the profitability was low, but since then, we have increased the price on the back of the strong demand, and conducted rationalization. Even though we are not fully satisfied but the profitability has improved.

Q. Regarding the demand in the Middle East, is it possible that the demand will get back to the record-high level in the past? Also, what are the changes the market is experiencing?

A. In the Middle East, we used to ship a large number of light-duty trucks and LCVs to the region, mainly in Saudi Arabia, in the past. In 2015, the number of units were 27,000 in light-duty truck, and 30,000 in LCV. We don't think we can reach that level. At that time, our vehicles were exported to the Middle East and Africa through Saudi Arabia. Currently, the demand is limited in the domestic market in Saudi Arabia. Therefore, presumably, the demand won't be as high as that of 2015. We shall take in the sales units originally exported from Saudi Arabia to steadily increase the unit sales in Africa.

#### ◇ About Alliance and Collaboration

Q. How has UDT fared after acquired by Isuzu? Explain why the amount of goodwill has changed.

A. In the first half, the results of UDT for April-June period were reflected on our consolidated financial results in a three-month delay. UDT fared well during April-June period, with its operating income amounting to about 4 billion yen, contributing positively to our consolidated operating income, even after goodwill amortization. Though there were some component supply issues with Volvo, we expect UDT to achieve higher full-year profits than planned. Collaboration between Isuzu, UDT and Volvo is being focused on heavy-duty trucks for the Japanese and Asian markets.

Goodwill has amounted to 20 billion yen, compared with 45 billion yen we explained before, because part of it will be posted separately as intangible assets based on discussions with our auditors. There is no big change to the total amount of amortization and depreciation of goodwill and UDT's intangible assets.

Q. What are the areas where successful synergies with UD Trucks can be expected more than before, when Isuzu decided to purchase UD Trucks.

A. Possible significant synergy areas lie in the rationalization of our product mix and purchasing. Besides them, we assume that there may be more room for synergies in the details. For example, we can utilize the UD Trucks' Ageo Plant to conduct the paint process in order to complement the production capacity at our Fujisawa Plant. Additionally, we are starting to realize that a significant impact will be made in the aftersales business in Japan if Isuzu and UD Trucks can use each other's service workshops, which we are currently examining in details. The impact will become even bigger with the usage of connected services. In overseas markets, we consider that there are room for collaboration more than we had expected in the areas of the operation of service-parts warehouses, rear body application, and sales finances. To this end, we will examine the feasibility going forward. Our aim is to start generating positive impact in the next fiscal year onward.

Q. How has the collaboration with Volvo been progressing?

A. During the first three to six months from the beginning of this fiscal year in April, we cooperated with Volvo to concentrate on transferring UD Trucks to Isuzu Group and getting their operations on track. As the first technology collaboration initiative, we have been working on developing new products based on UD Trucks' vehicles in the heavy-duty truck segment mainly for the Japanese market, and this project is getting on track. From now on, we will work closely with Volvo to lead projects in the light-duty truck segment for, particularly, the European and North American markets. Electrification projects are also about to start.

Q. Is there a possibility of an alliance with Volvo in the area of light-duty truck? Also, is there a possibility that this bilateral alliance between Isuzu and Volvo will expand to a trilateral alliance among Isuzu, Volvo, and Toyota?

A. Initially, we planned to provide light-duty trucks mounted with Isuzu diesel engines to Volvo. However, considering each other's recent initiatives in carbon neutrality in the U.S. and Europe, we have no choice but to shift our future projects toward electrification. Isuzu will launch an electric light-duty truck in Japan, and Isuzu and Volvo have been discussing collaboration in the U.S. and Europe based on this Isuzu electric light-duty truck. The electrification of light-duty truck will be mainly developed by Isuzu.

The Volvo Group resources will be dedicated to the electrification of heavy-duty truck. The approach towards electrification is significantly different between the light-duty truck and the heavy-duty truck. Therefore, it is most likely that Volvo will utilize electric light-duty trucks developed by Isuzu in Japan.

◇ Initiatives for Carbon Neutrality and Electrification

Q. How will Isuzu respond to carbon neutrality?

A. Basically, we have not changed our initial concept about how to address carbon neutrality. As the first step, we have been preparing for achieving the nationwide electrification target set by the Japanese government for light-duty trucks with GVW equal to or less than 8 tons, i.e., 20%-30% of them sold as new to be electrified by 2030. As we explained at the time of establishing CJPT, we currently have no intention to narrow down technological choices for electrification of CVs, taking account of their characteristics, i.e., wide variety of applications where some are used for delivering goods and parcels to homes and others for construction sites like concrete pump trucks. By 2025 to 2026, we will fully study every technological choice available to decide which one is the most appropriate for each application, based on how trucks are used there, and then we will accordingly increase our product portfolio. Carbon neutrality is such a big challenge that Isuzu cannot deal with it alone. This is where the alliances we formed play their roles. We will make the most of them to grapple with carbon neutrality as an important societal challenge.

Q. Has your plan to sell BEVs in 2022 been going as planned?

A. Yes, the plan has been moving as planned, expecting to start providing light-duty BEVs for the Japanese market within 2022.

Q. How do you see the electrification in the North American business? Explain also the current status.

A. We have understood that the regulations in the North American market are intended to increase the ratio of EVs in 14 to 15 states, mainly in California, and we will need to launch our EVs to the market accordingly. Other states are expected to follow suit later. As use of diesel engine vehicles in the North American market is expected to become more difficult by around 2030, we will need to gradually replace them.

◇ Others

Q. As the alliance planned in the previous Midterm Business Plan has started to run according to plan, what are the things the president of Isuzu is interested in focusing on in the medium term?

A. The strategic alliance was planned in a complex manner. But, the division of roles in our alliance plan has been well understood by all the partners as we move forward with the plan. The alliance is not something that Isuzu must provide solutions all by itself, but rather, Isuzu aims to keep it on track as we proceed with discussions with our partners. There are ways to achieve carbon neutrality through, for example, batteries, fuel cells, and others. However, they alone are not enough to fulfill the needs of commercial vehicles, and thus, Isuzu plans to make the best of the alliance.

Our profitability announced in our new Midterm Business Plan must have been received as a positive surprise. Since the announcement of the new Midterm Business Plan, some of the things surrounding us in the business environment have not gone for our favor, but we have addressed them with countermeasures, and I am satisfied with the outcome.

My biggest concern at the moment is how we can enhance the Isuzu values by 2026, when the year 2030 gets near, and how we can develop a business model in the period leading up to 2026. To build a structure that strongly promotes uncompromising initiatives, we cannot achieve that goal if we continue to base our organizational structure on the legacy of the past: Isuzu is the synonym of commercial vehicles; and Isuzu is synonymous with diesel engines. In order to create an internal organizational structure and an ESG structure including governance to support the internal organizational structure, an internal reform is necessary. If we consider our strategic alliance as an external reform, then we must also have the internal reform which covers such areas as how we work, and how to develop a desired personnel image. What is inspiring Isuzu is the UD Trucks talents. Since UD Trucks has a long relationship with Volvo, they have talents that Isuzu does not have. Even though it might be a highly risky reform, we intend to create innovations for which we are responsible as a commercial vehicle manufacturer by achieving the reform by all means necessary.