

# **Mid-term Business Plan** **(April 2011 to March 2014)**

November 8, 2011

**Isuzu Motors Limited**

- 1. Position of Mid-term Business Plan**
- 2. Surrounding Environment & Direction**
- 3. Mid-term Challenges**
  - ◆ Product Strategy**
  - ◆ Regional Strategy**
  - ◆ Group Strategy**
  - ◆ Alliance Strategy**
- 4. Quantitative Plan**

# Position of Mid-term Business Plan



▶ The Great East Japan Earthquake(3.11)

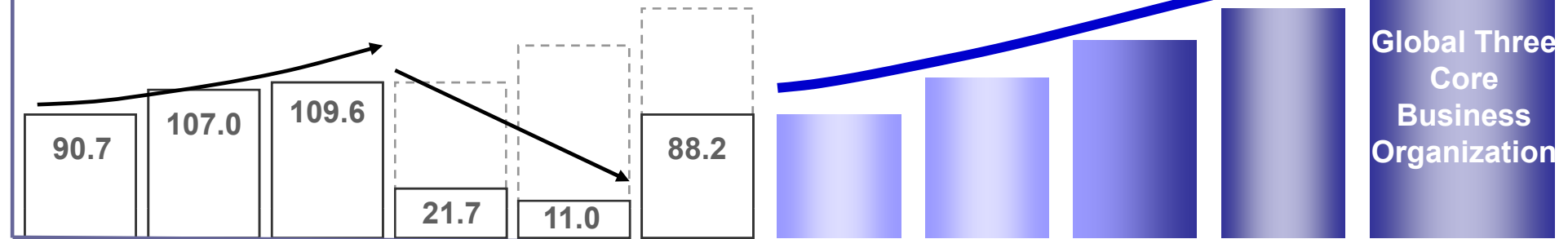
Economy globally expanded **Global financial crisis** Advanced countries are stagnant. Emerging countries sustain growth.

FY06 FY07 FY08 FY09 FY10 FY11 \*FY12 FY13 FY14 FY15 FY16~

Stabilization of income / financial position Measures taken to cope with economic crisis **Mid-term Business Plan**

Operating profit scale (JPY in Bil.)

Change & Growth of Business Model



- The mid-term plan was successfully attained
- Preconditions were largely changed: however, profit was secured
- Address to expand our business regions and stabilize our business structure, with a view to the achievement in FY2016

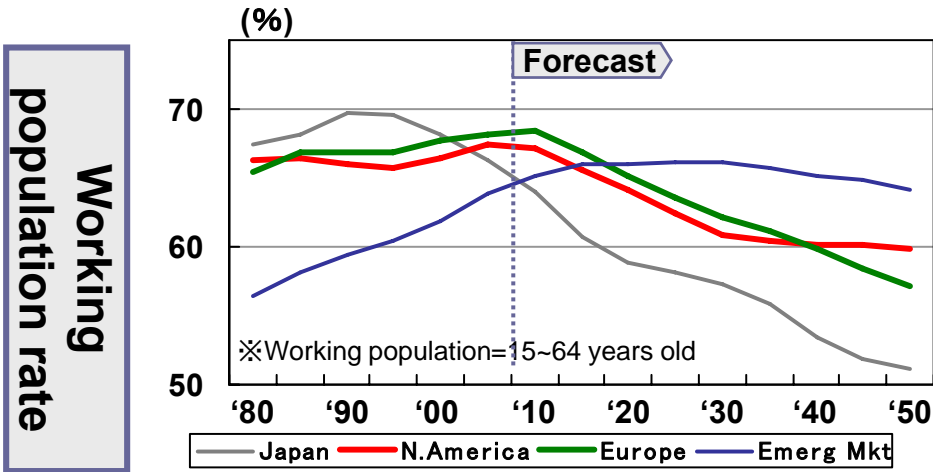
\*Note: "FY12" from April 2011 to March 2012.

## **2. Surrounding Environment & Direction**

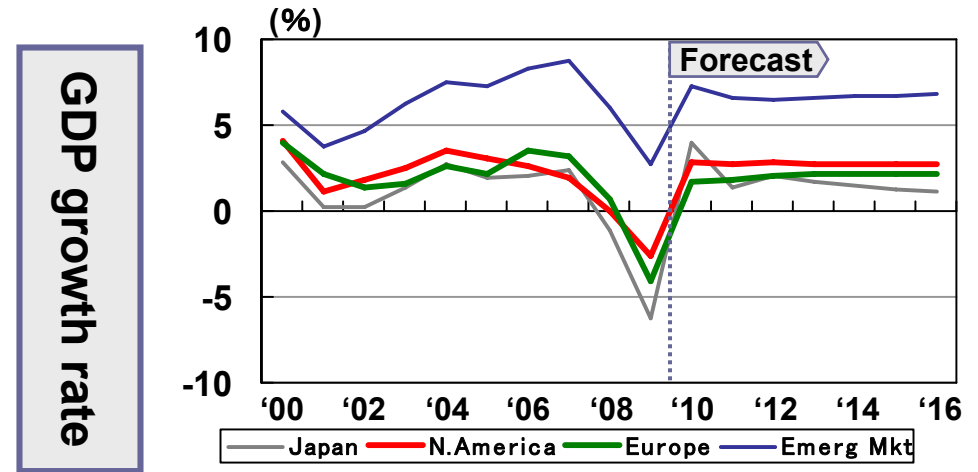
# 1) Global Economy



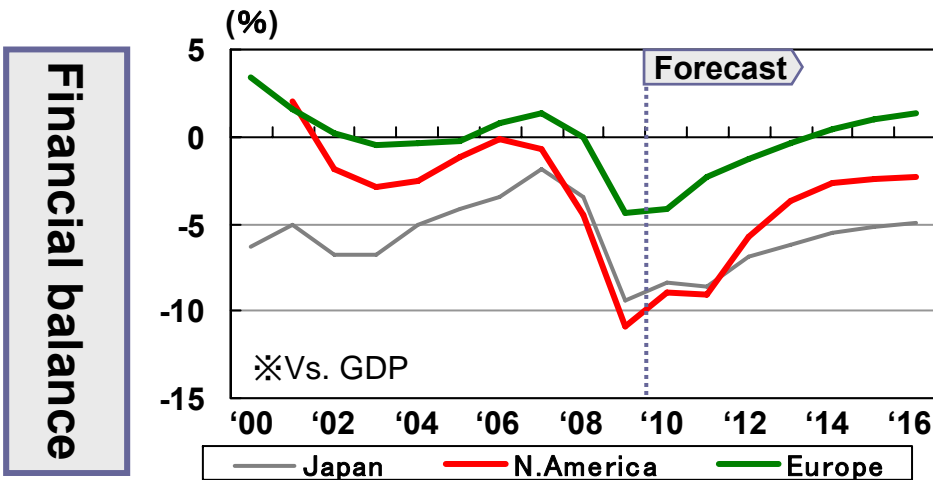
- Falling economic growth rate of advanced market due to financial deterioration and decline in working population, etc. Concern about continuous appreciation of JPY to USD and Euro.



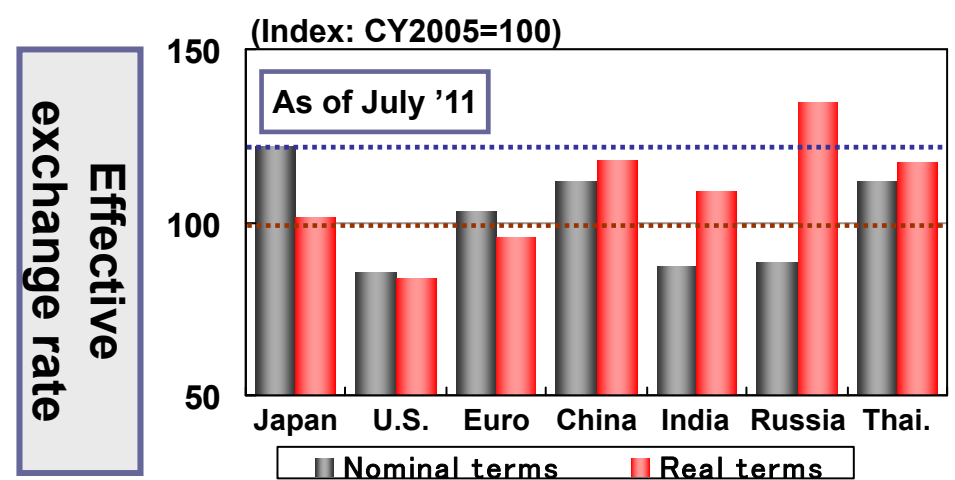
Source: UN, World Population Prospects, The 2010 Revision



Source: IMF, World Economic Outlook Database April 2011



Source: IMF, World Economic Outlook Database April 2011

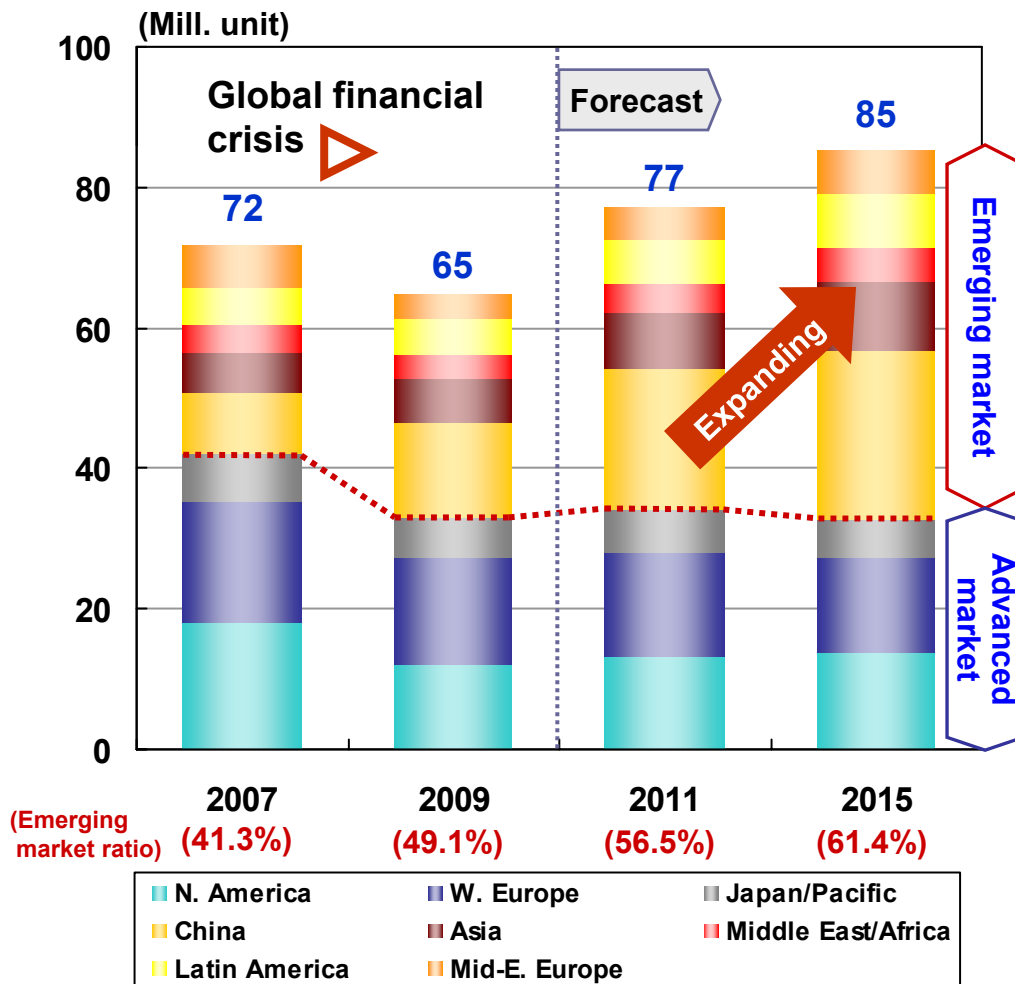


Source: BIS effective exchange rate, July 2011

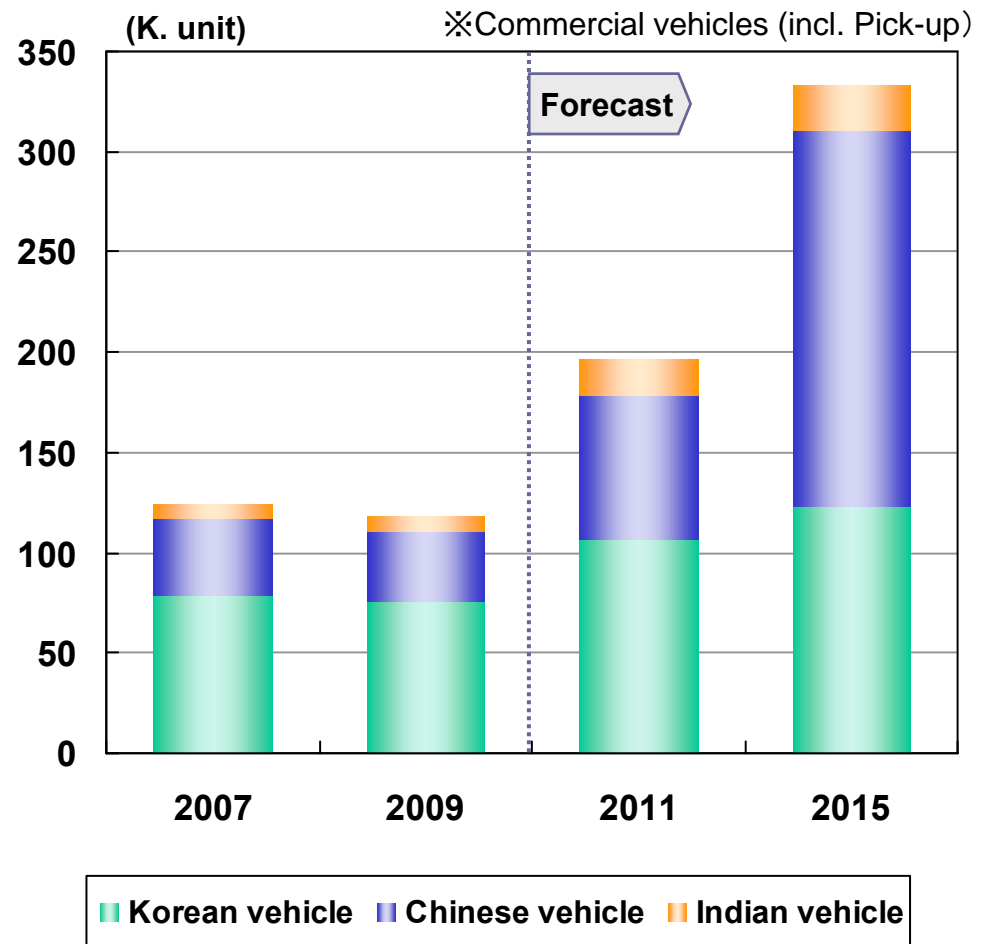
## 2) Global Market Trend

- Sales volume transfers to emerging market, mainly in Asia and expands there. Competition is intensified due to rise of Chinese/Korean manufacturers.

### Global vehicle demand by region



### Trend of export volume of Chinese, Korean and Indian manufacturers

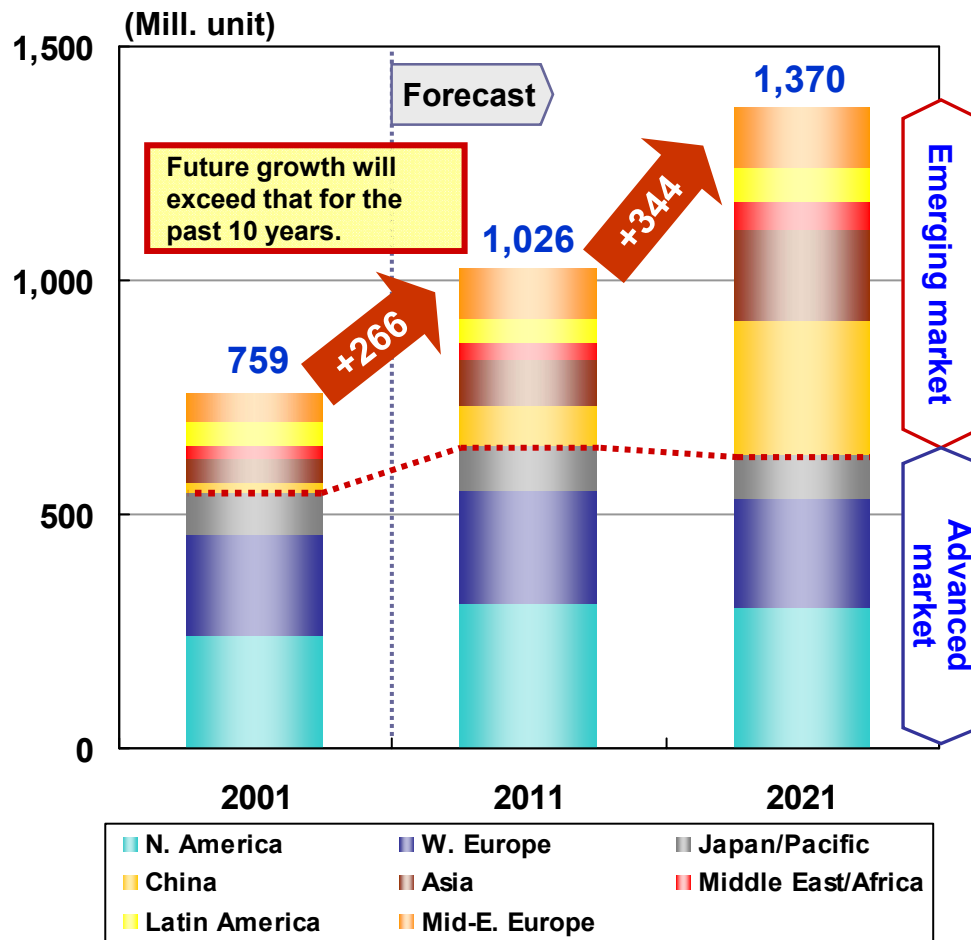


### 3) Macro Environment

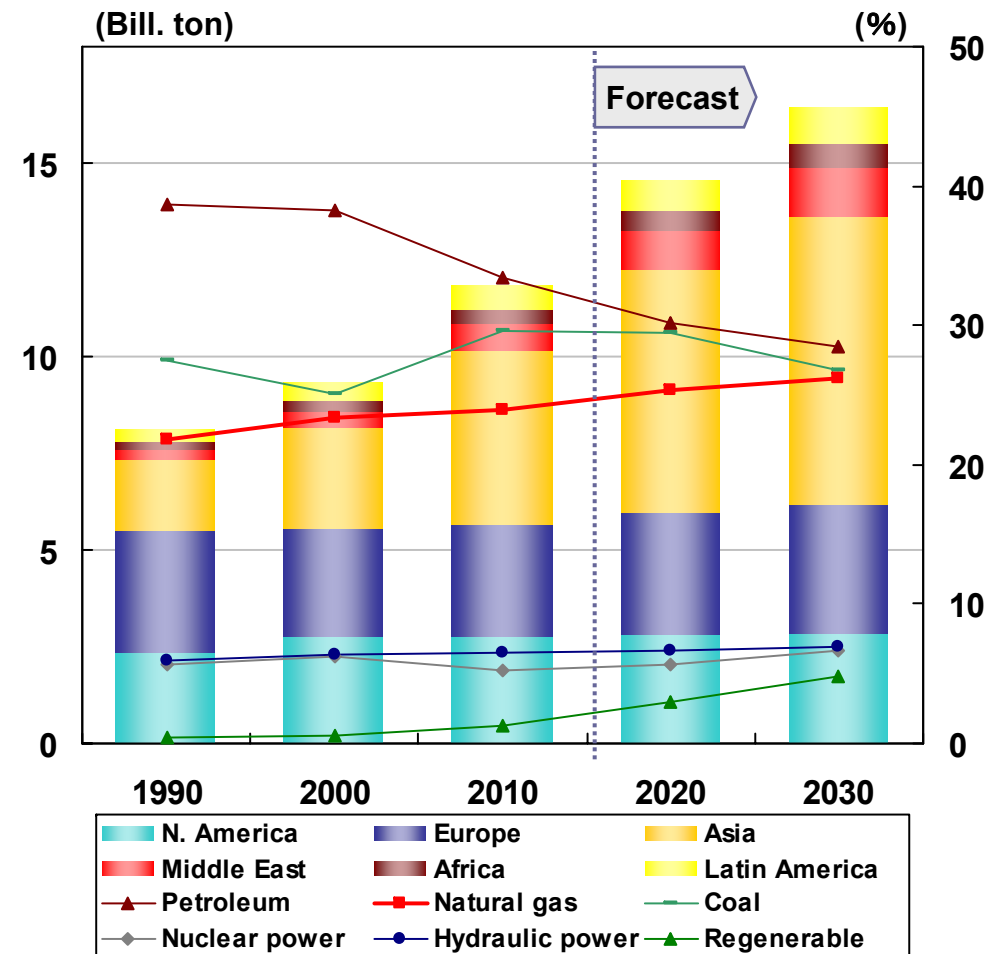


- World energy demand increases due to large growth of number of vehicle in operation, mainly in emerging market. There is a trend from petroleum dependence to energy diversification.

#### Vehicle in operation (Forecast)



#### Energy consumption / Composite ratio



# 4) Product / Technologies

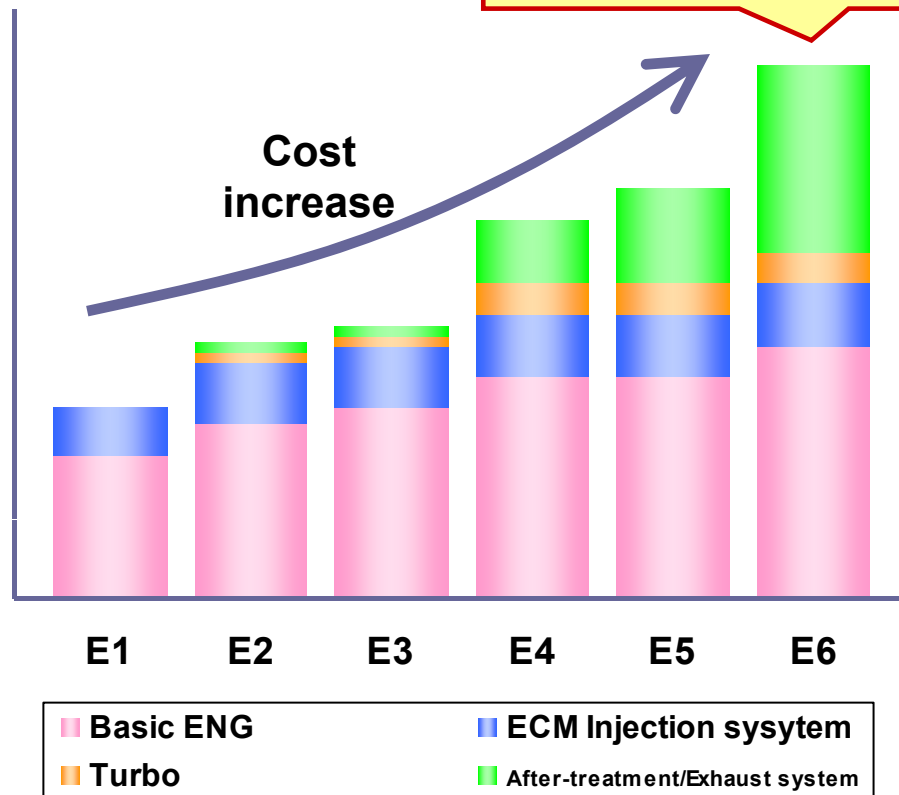
- Engine cost significantly increases to comply with emission regulations. The number of R&D centers has been increased to respond to product needs in emerging market.

## Cost required to comply with emission regulations

## Measures taken to meet product needs (in emerging market)

Image of Engine. Mfg. cost

Increased and complicated devices to meet emission regulations



Difference in product needs

### Emerging market

### Advanced market

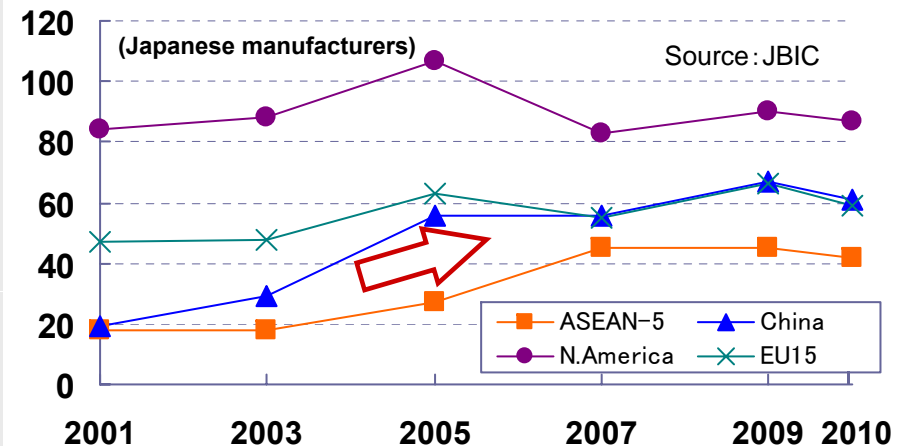
- Robustness
  - High payload, low quality fuel
- Basic equipment



- Environmental performance
  - Low fuel consumption / low emission
- Safety/comfort/quietness



No. of R&D centers

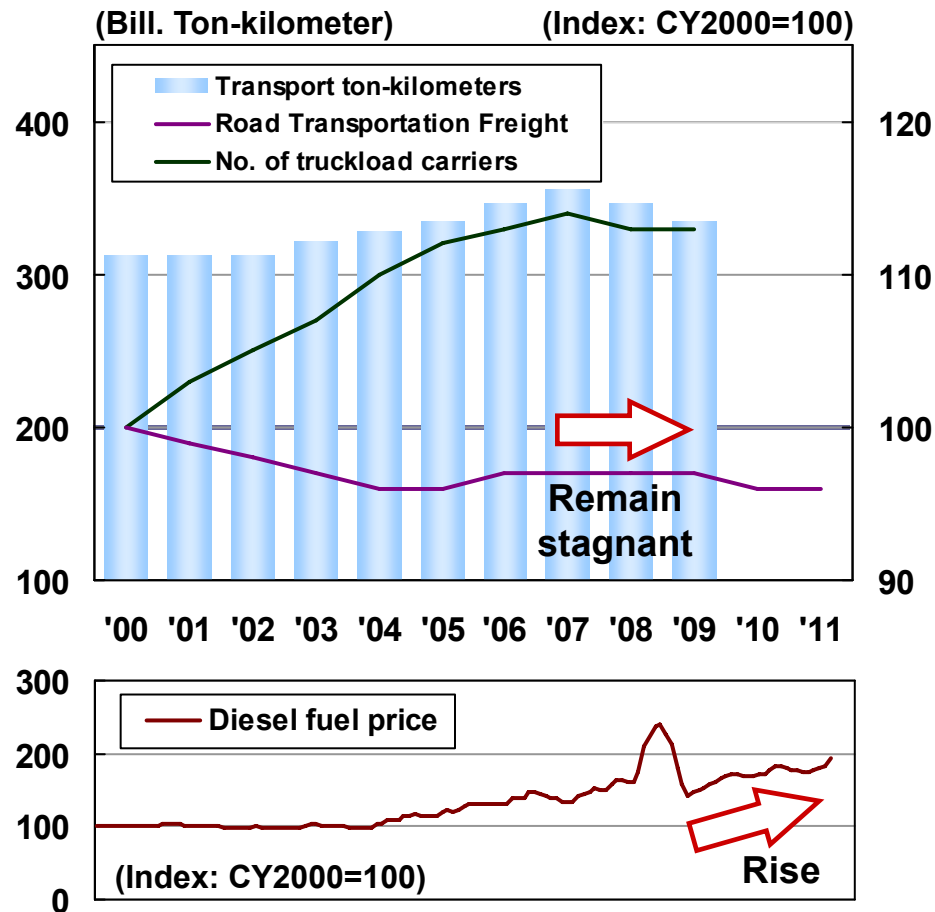




## 5) Domestic Operations

- Deterioration of business environment surrounding the transportation industry due to low transportation freight and increased vehicle life-cycle cost. The Great East Japan Earthquake exposed structural concerns of supply chain.

### Business environment of road transportation

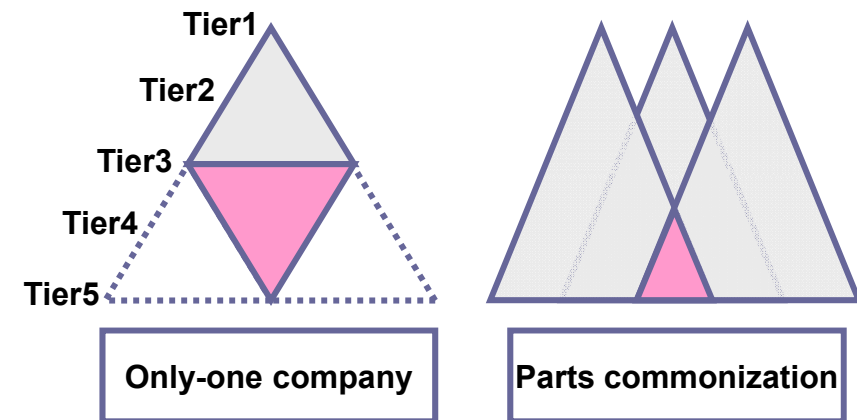


Source: BOJ, MLIT, Oil Information Center

### Structural concerns of supply chain

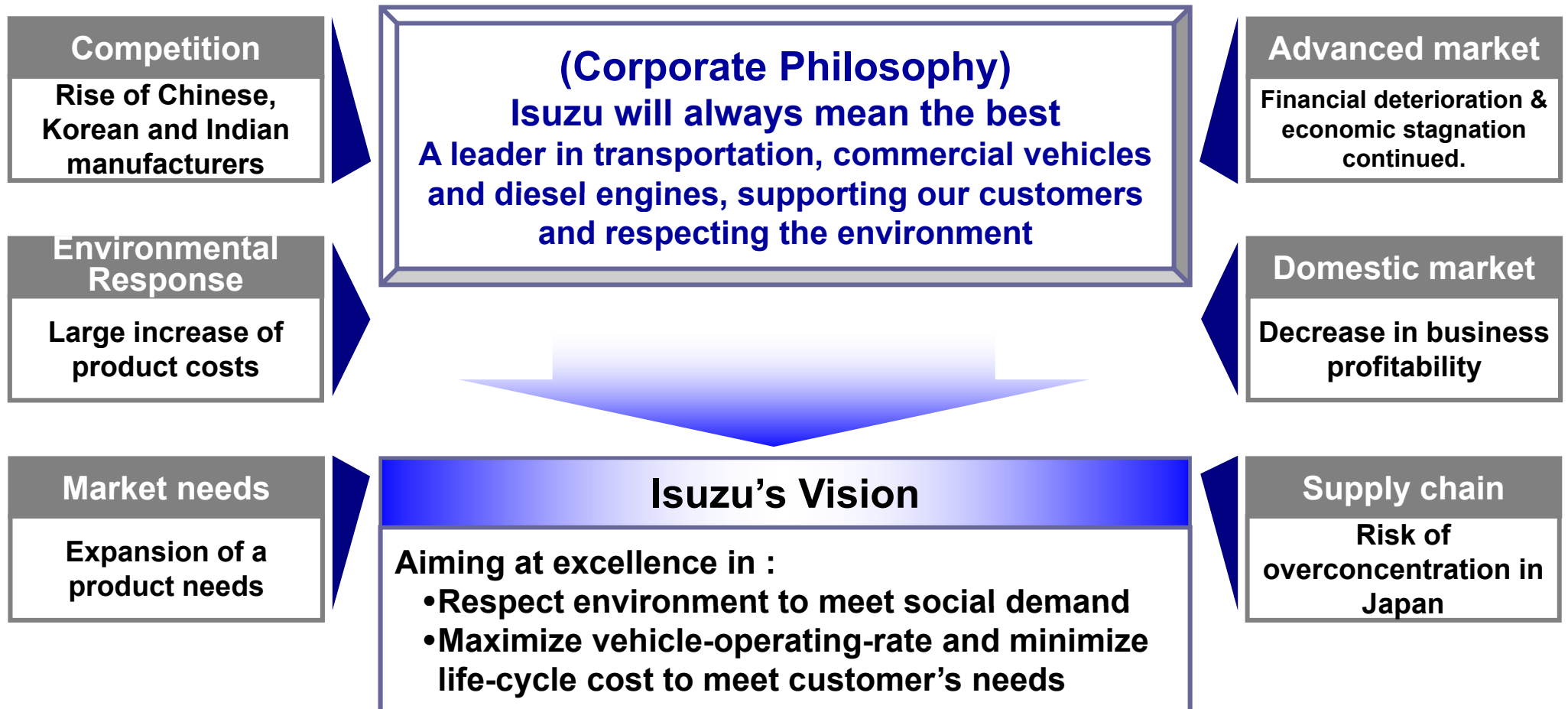
- Excessive dependency on specific suppliers under Tier II .

→ The supply chain blocked by the Great Earthquake.



- The constrained power supply resulting from the nuclear power station problems.

→ Deteriorating manufacturing location conditions in Japan.



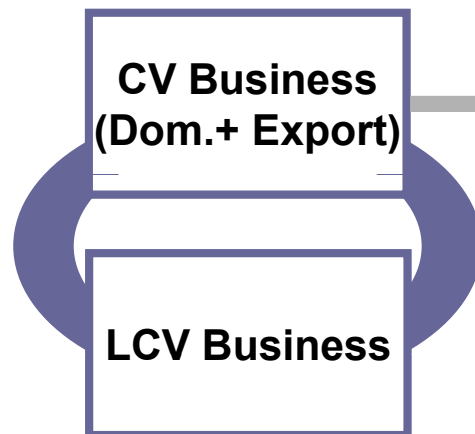
## Direction

- Develop “eco-friendly product” and “product meeting specific needs of emerging market”
- Set-up growth strategy for emerging market and maintain business in advanced market
  - Aggressive resources input to establish manufacturing operations in emerging market

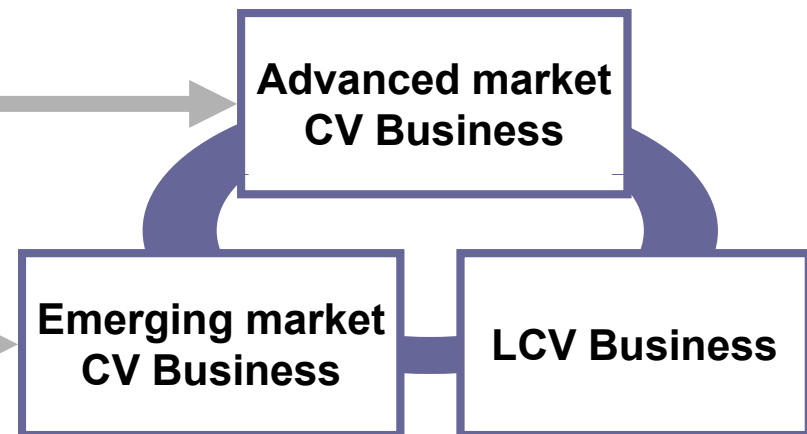
## Basic Policy

### “Expand Business Domain and Stabilize Business Structure”

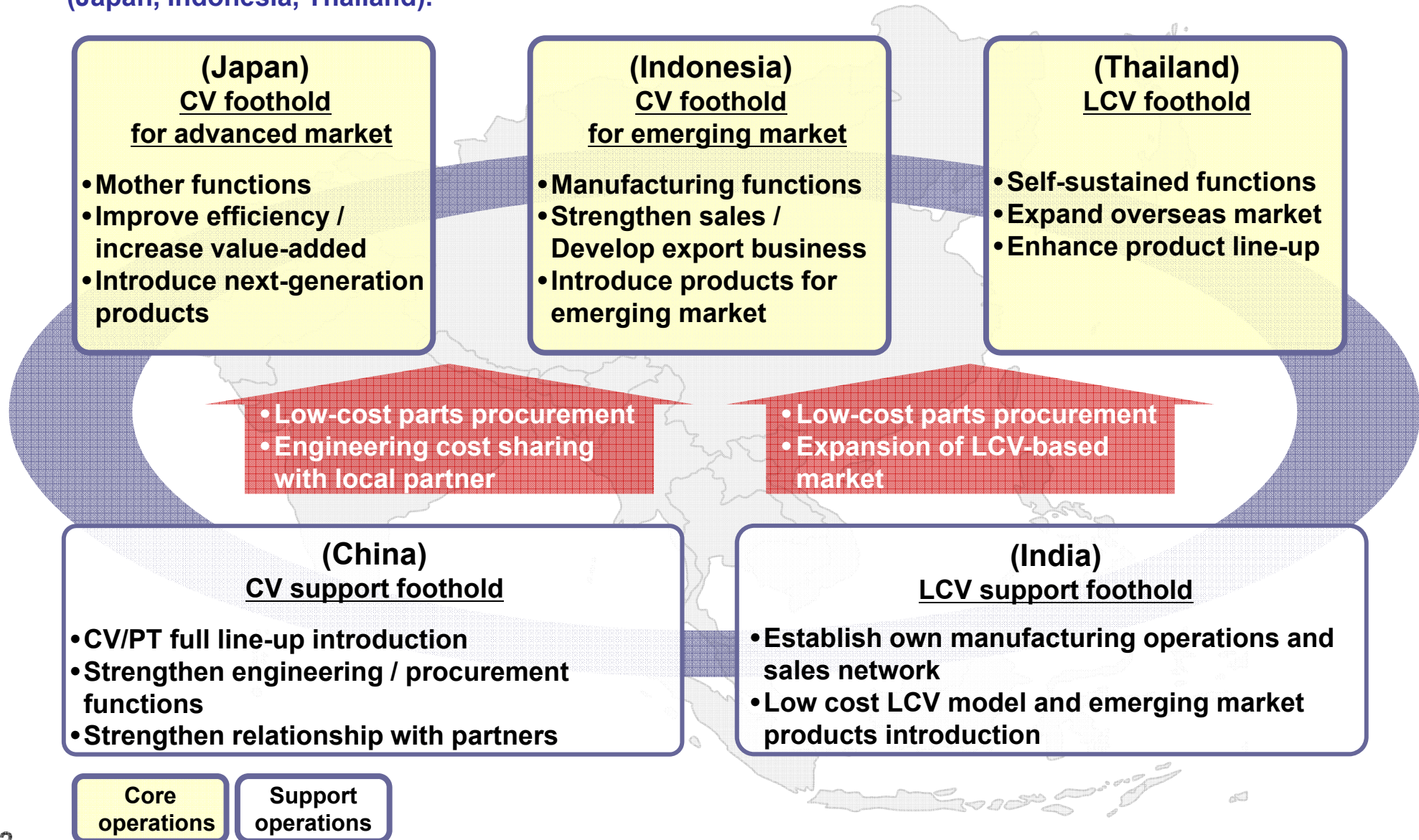
#### Japan-based Business Organization



#### Global Three Core Business Organization



- In order to strengthen business structure, the China and India footholds support three core operations (Japan, Indonesia, Thailand).



# Action Items and Future Growth Strategy



- Accelerate business framework construction and promote growth strategy to establish Global Three Core Business Organization.

	Action Items	Future Growth Strategy				
Product	<ul style="list-style-type: none"> <li>■ Formulate basic product strategy                             <ul style="list-style-type: none"> <li>- Product portfolio for emerging market</li> <li>- Next-generation product (HD, Pick-up / Pick-up derivative)</li> <li>- PT downsizing</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Expand product segments to reinforce the growth strategy</li> <li>■ Strengthen DE competitiveness and apply to alternative fuel                             <ul style="list-style-type: none"> <li>→ Product Strategy</li> </ul> </li> </ul>				
Manufacturing / Engineering	<table border="1"> <tr> <td>Emerging market CV</td> <td> <ul style="list-style-type: none"> <li>■ Parts procurement center in China</li> <li>■ Engineering function in ASEAN</li> </ul> </td> </tr> <tr> <td>LCV</td> <td> <ul style="list-style-type: none"> <li>■ Transfer engineering responsibilities to Thailand and transfer function on step by step process</li> </ul> </td> </tr> </table>	Emerging market CV	<ul style="list-style-type: none"> <li>■ Parts procurement center in China</li> <li>■ Engineering function in ASEAN</li> </ul>	LCV	<ul style="list-style-type: none"> <li>■ Transfer engineering responsibilities to Thailand and transfer function on step by step process</li> </ul>	<ul style="list-style-type: none"> <li>■ Clarify direction and business position of each region                             <ul style="list-style-type: none"> <li>→ Regional Strategy</li> </ul> </li> <li>■ Enhance cross-business functions to support Regional Strategy                             <ul style="list-style-type: none"> <li>→ Group Strategy</li> </ul> </li> </ul>
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Sales	<table border="1"> <tr> <td>Domestic</td> <td> <ul style="list-style-type: none"> <li>■ Reorganization of logistic channel                                     <ul style="list-style-type: none"> <li>- Establish Isuzu Motors Sales Ltd. and integrated dealers to cover extensive areas</li> </ul> </li> </ul> </td> </tr> <tr> <td>Overseas</td> <td> <ul style="list-style-type: none"> <li>■ Establish After-Sales Center (ASC)                                     <ul style="list-style-type: none"> <li>- Middle East, Latin America, Europe</li> </ul> </li> </ul> </td> </tr> </table>	Domestic	<ul style="list-style-type: none"> <li>■ Reorganization of logistic channel                                     <ul style="list-style-type: none"> <li>- Establish Isuzu Motors Sales Ltd. and integrated dealers to cover extensive areas</li> </ul> </li> </ul>	Overseas	<ul style="list-style-type: none"> <li>■ Establish After-Sales Center (ASC)                                     <ul style="list-style-type: none"> <li>- Middle East, Latin America, Europe</li> </ul> </li> </ul>	
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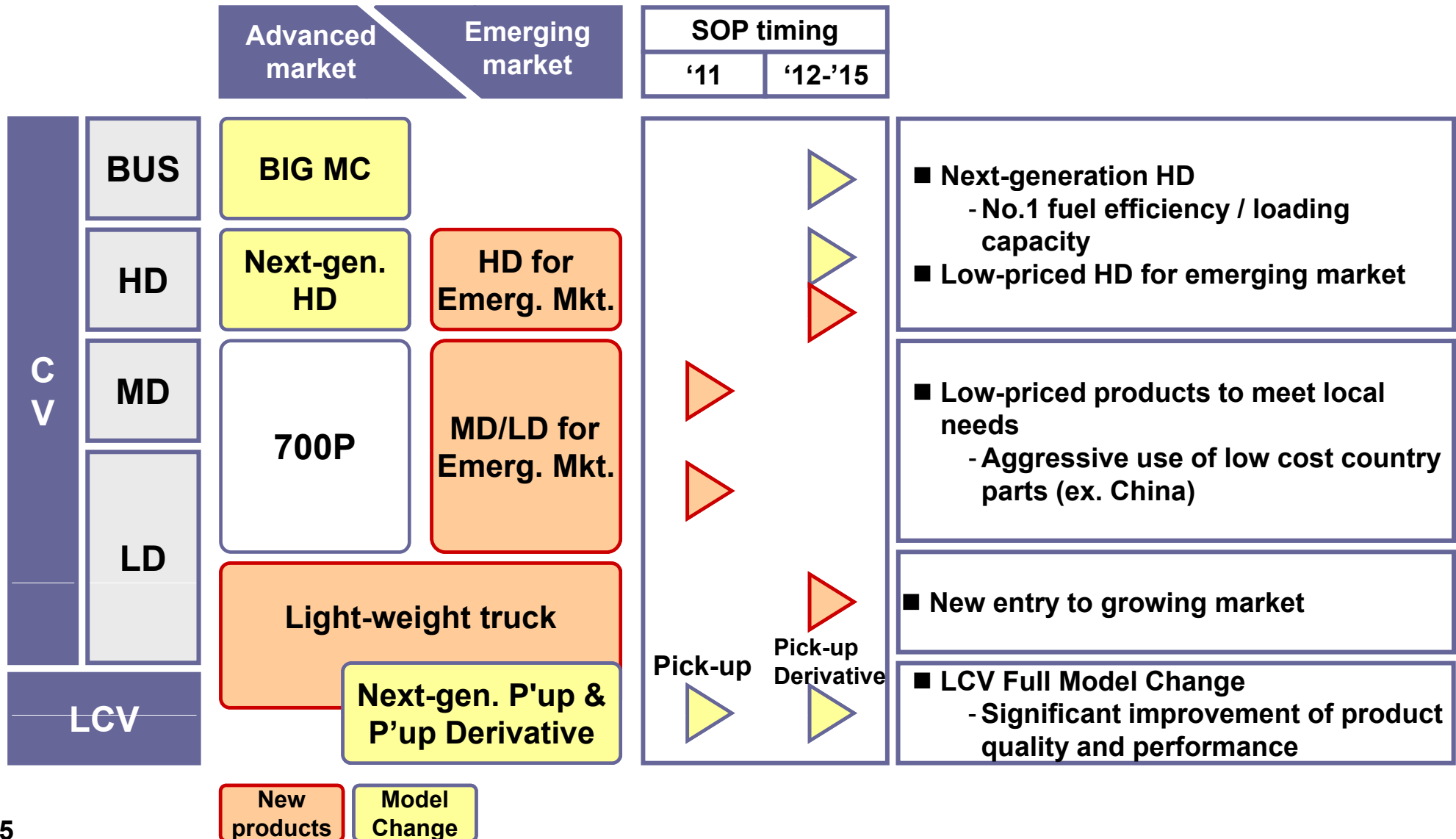
## **3. Mid-term Challenges**

- ◆ **Product Strategy**
- ◆ Regional Strategy
- ◆ Group Strategy
- ◆ Alliance Strategy

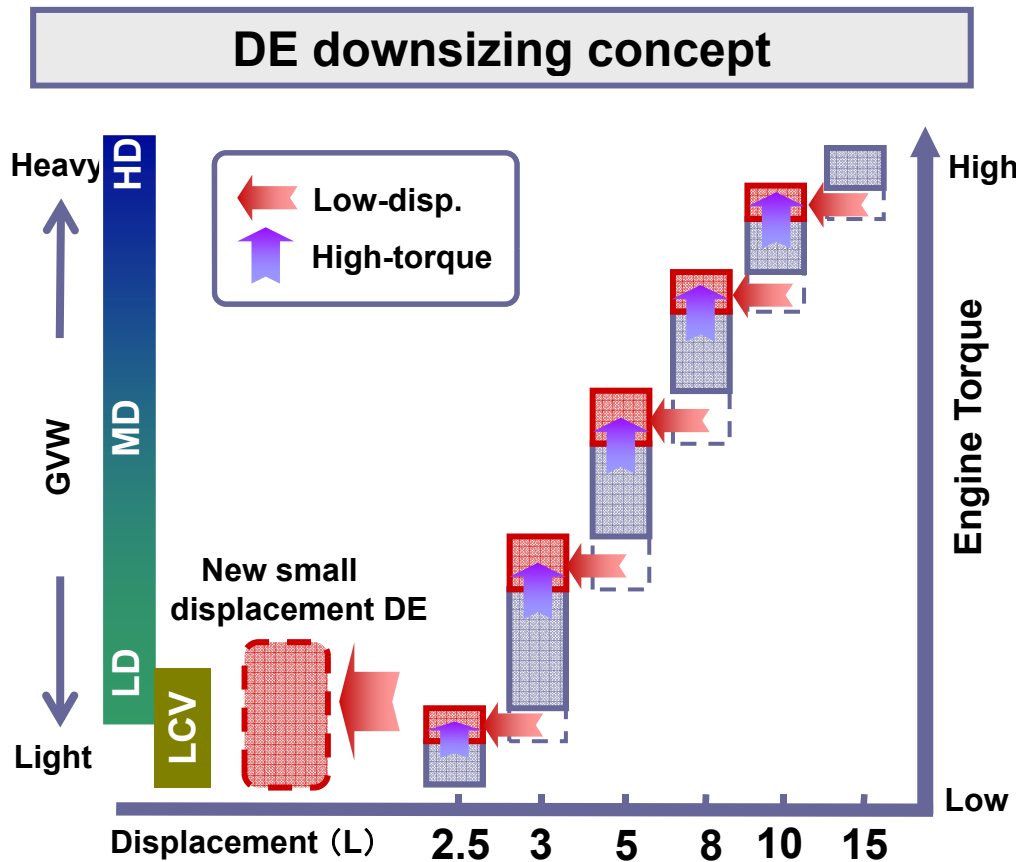
# Product Strategy 1) Vehicle



- Introduction of best suited product for emerging market by engineering function localization.
- New entry in Light-weight truck segment as future strategic vehicle.



- Accomplish fuel efficiency and cost reduction by DE downsizing. Take aggressive action to respond the needs for alternative fuel.



### Corresponding alternative fuel

	BUS	HD	MD	LD	LCV
HEV (EV)	● Newly Introduced	-	-	●	-
CNG	●	● Mass-produced	●	●	● Newly Introduced
Alternative fuel (DE)	Bio Diesel	■ Correspond to 1st generation Bio Diesel, considering needs in each country			
	GTL/DME(*)	■ Promote fundamental research toward commercialization for future growth			

(\*) GTL: Gas to Liquid  
DME: Dimethyl Ether

**Efforts to L/D DE**

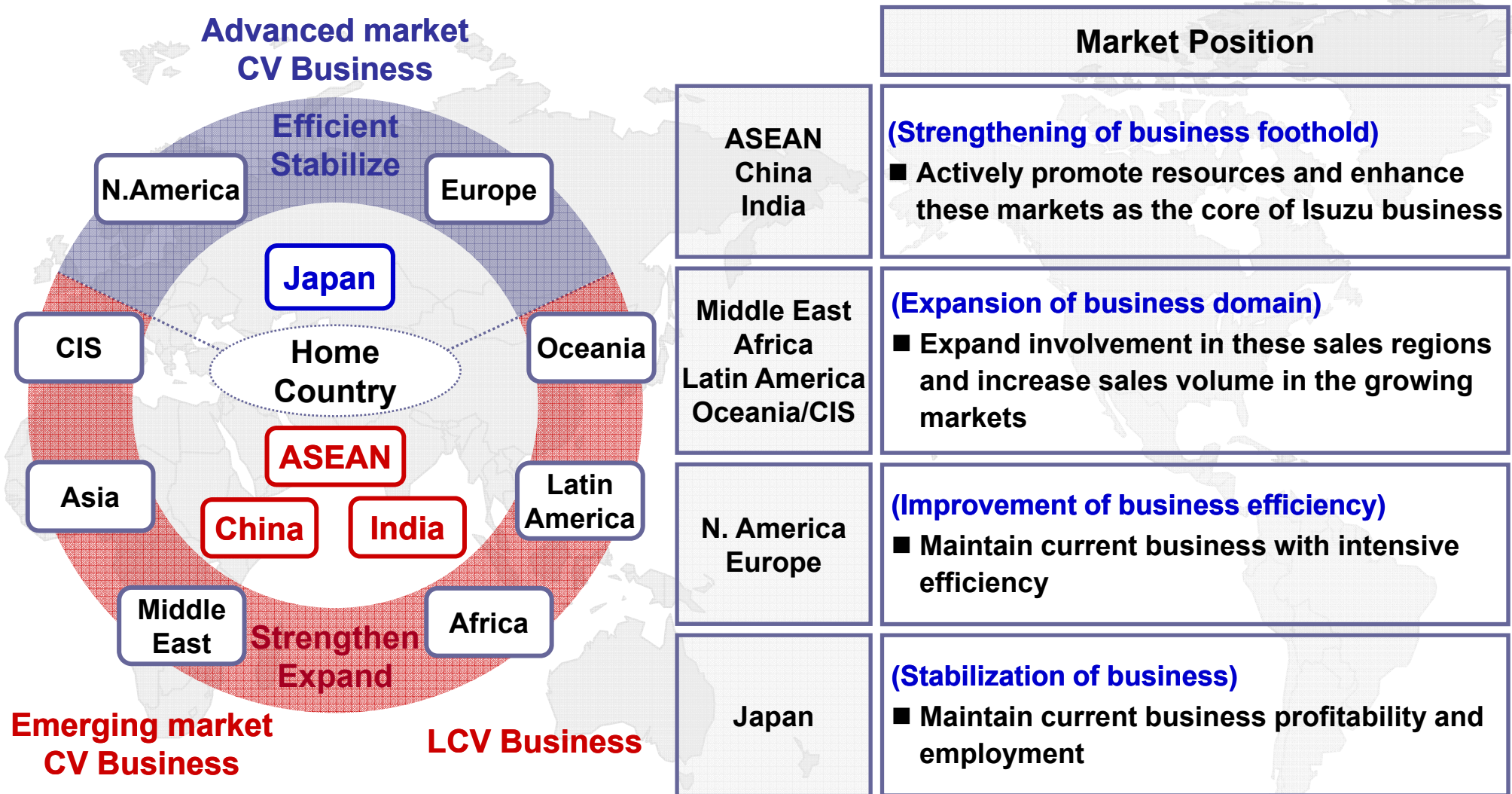
- Pursue characteristics required for CV - Robustness/durability/serviceability, etc
- Attain balanced performance and economic efficiency



### 3. Mid-term Challenges

- ◆ Product Strategy
- ◆ **Regional Strategy**
- ◆ Group Strategy
- ◆ Alliance Strategy

- Prioritize business directions by regions and resources for business scale expansion.



## LCV Business

## Strengthening of global sales

<FY2011: 324K units → FY2016: 467K units>

- Introduction of next-generation Pick-up and its derivatives
- Establish IMIT (NEWCO for Export) to strengthen global sales
  - Spare parts / service operation to be added to the NEWCO that integrate “3S” functions— sales, spare parts and service
  - Development of new market and production/sales operations (India)
- Establish the new plant (with a production capacity of 400,000 units), Self-sustained engineering functions in Thailand



**Next-gen. Pick-up  
(Introduction in Thailand in Oct.'11)**

## CV Business

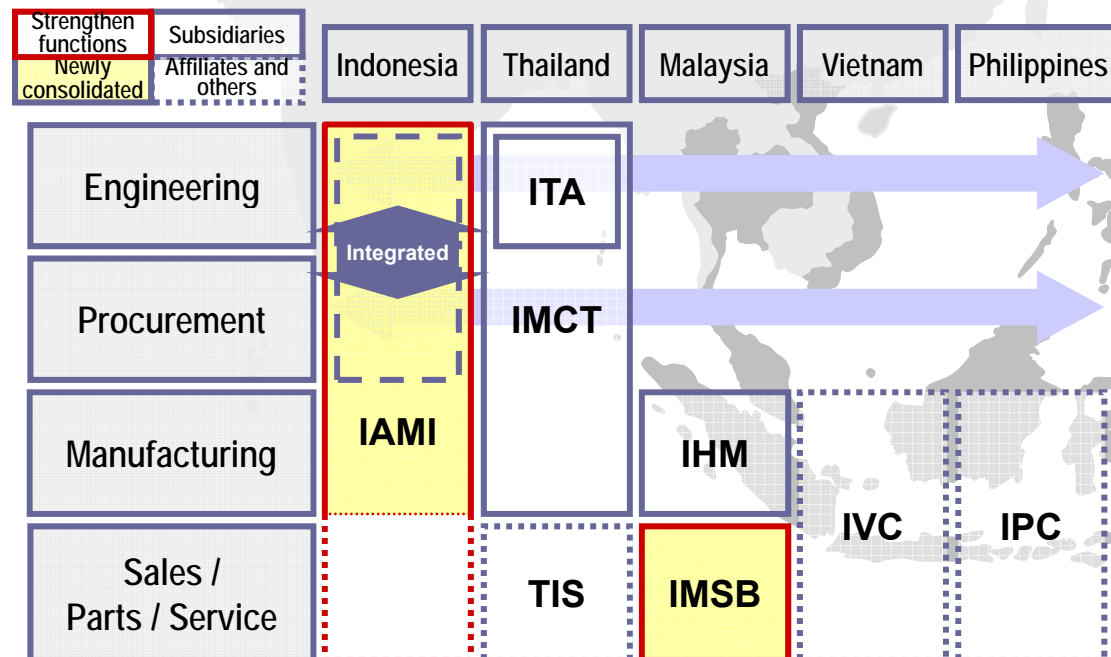
**Strengthen CV competitiveness  
(Market share No.1)**

<FY2011: 38K units → FY2016: 81K units>  
Market share: 40%

- Develop and introduce best suited product for emerging market using Indonesia foothold as a core
- Consolidate local manufacturing company to strengthen manufacturing functions
  - Localize engineering functions, expand parts localization (local contents: 40%), to strengthen production capacity
- Strengthen the sales network (parts supply chain and service network establishment)



**MD for Emerg. Mkt.  
(Introduction in Indonesia in Jul.'11)**



### Vehicle Business

### Enhance partnership

<FY2011: 58K units → FY2016: 138K units>

- CV full line-up development by H/D truck introduction
- Strengthen global H/D competitiveness by engineering localization
- Increase number of vehicle sales and improve “ISUZU” brand value through support to Qingling Motors Ltd.

### Component Business

### Contribution to ISUZU profit-earning

<FY2011: 150K units → FY2016: 328K units>  
(including industrial engine)

- Engine full line-up development by H/D engine introduction
- Absorb and increase earnings through consolidation of manufacturing operation and strengthening sales including industrial engine
- Strengthen global competitiveness of Isuzu product through components and parts export

### CV Business

#### “ISUZU” branding penetration

<FY2016: 30K units>

- Introduction of best suited product for India equipped with Isuzu components based on existing SML truck
- Strengthen SMLI functions (dispatch engineering and sales personnel from Isuzu)
- Establish dedicated task force team in SMLI to reconstruct DLR network (core DLR selection)

### LCV Business

#### Build up future core business

<FY2016: 120K units (Dom. 80K / Exp. 40K)>

- Low cost LCV model and emerging market products introduction (new market entry)
- Establish Isuzu-driven manufacturing operations and sales network
- Contribute to CV/LCV business for emerging market through low cost parts and products export



Further involvement in sales operations

<FY2011: 93K units → FY2016: 159K units>

## Middle East

- Establish ASC (After-Sales Center) in Dubai to expand Isuzu's after-market business and strengthen marketing function
- KD operation introduction in Saudi Arabia

## Asia / Central America Oceania / CIS

- Consolidate Mexico Distributer affiliated companies and establish a new Distributer in Pakistan
- Strengthen parts business of Australia Distributer subsidiary (hub parts operation function in Oceania)

## South America/ Africa

- Establish Isuzu-driven CV sales network (South America) and manufacturing operations (South Africa)



After-Sales Center (ASC) in Middle East

## Stabilize and maintain business efficiency

### Japan

<FY2011: 47K units → FY2016: 55K units>

- Strengthen cost competitiveness and optimize asset allocation by streamlining sales/manufacturing
  - Establish integrated dealers to cover extensive areas (consolidation: 15→6 companies) and consolidate distributor/dealer indirect work
  - Core module manufacturing and flexible production lines establishment (mutual complementation of H/D and L/D lines)
- Maintain business profitability/employment by expanding added value

### N. America / Europe

<FY2011: 17K units → FY2016: 37K units>

- N. America: Consider export business of locally-produced vehicles and parts business hub operation for Latin America
- Europe: Maintain current business by improving vehicle business efficiency and strengthening parts operation



### 3. Mid-term Challenges

- ◆ Product Strategy
- ◆ Regional Strategy
- ◆ **Group Strategy**
- ◆ Alliance Strategy

# Group Strategy 1) Engineering



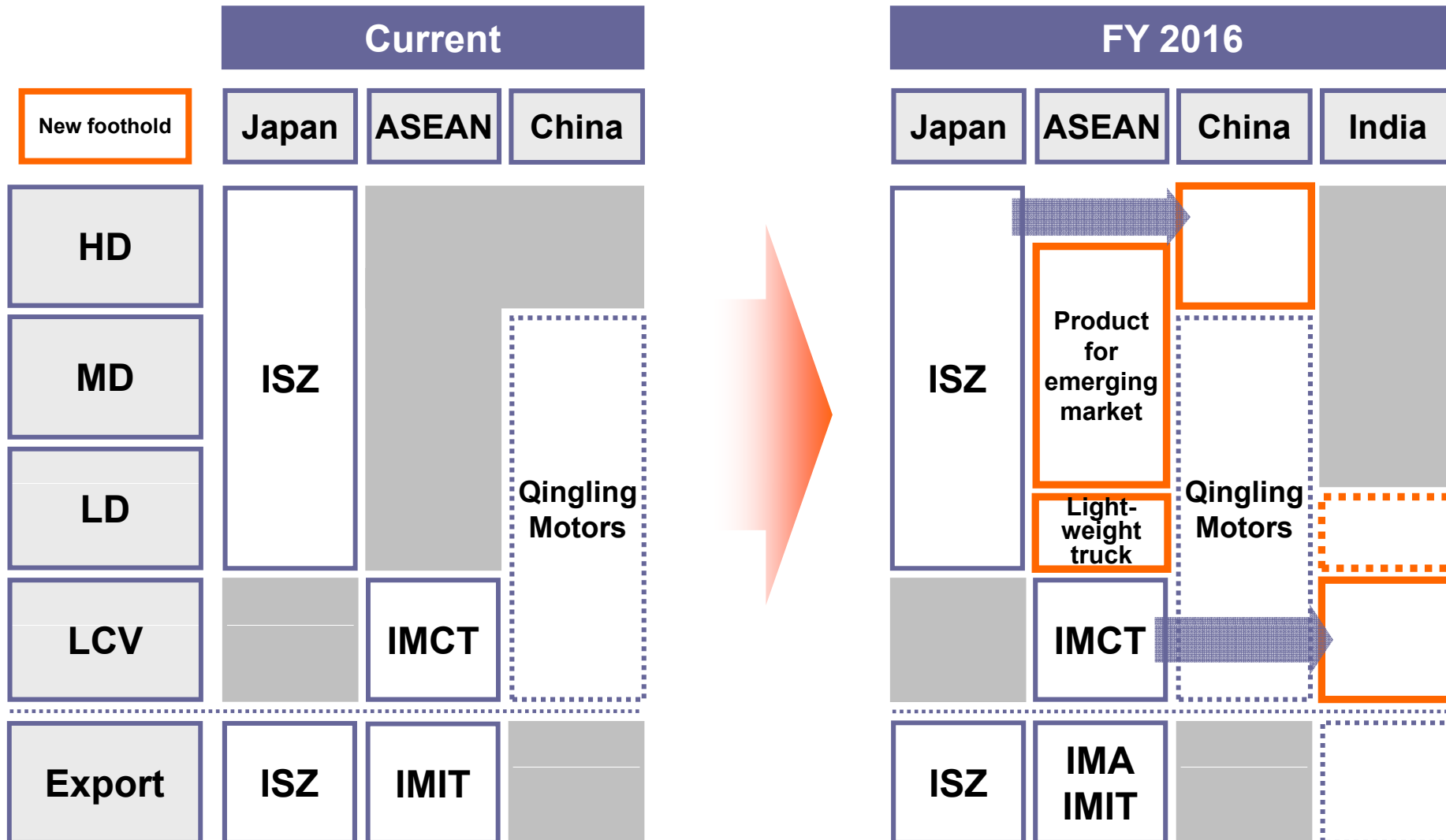
- Japan focuses on core engineering and transfers engineering function to ASEAN to develop specific products best suited for emerging market.

		CV	LCV	PT	Current number of Engineering Personnel
Overseas	Japan	Core Engineering Support			<u>3,300</u>
	ASEAN	ASEAN-specific Engineering for emerging market	Engineering responsibility (core+specific)	Function transfer	<u>210</u>
	China	Support HD Engineering		Support industrial engine Engineering	<u>20</u>
	Europe/ N. America	N. America unique vehicle Engineering		U.S./Euro emission evaluation	<u>150</u>
					<b>TTL <u>3,680</u></b>

# Group Strategy 2) Manufacturing (Vehicles)



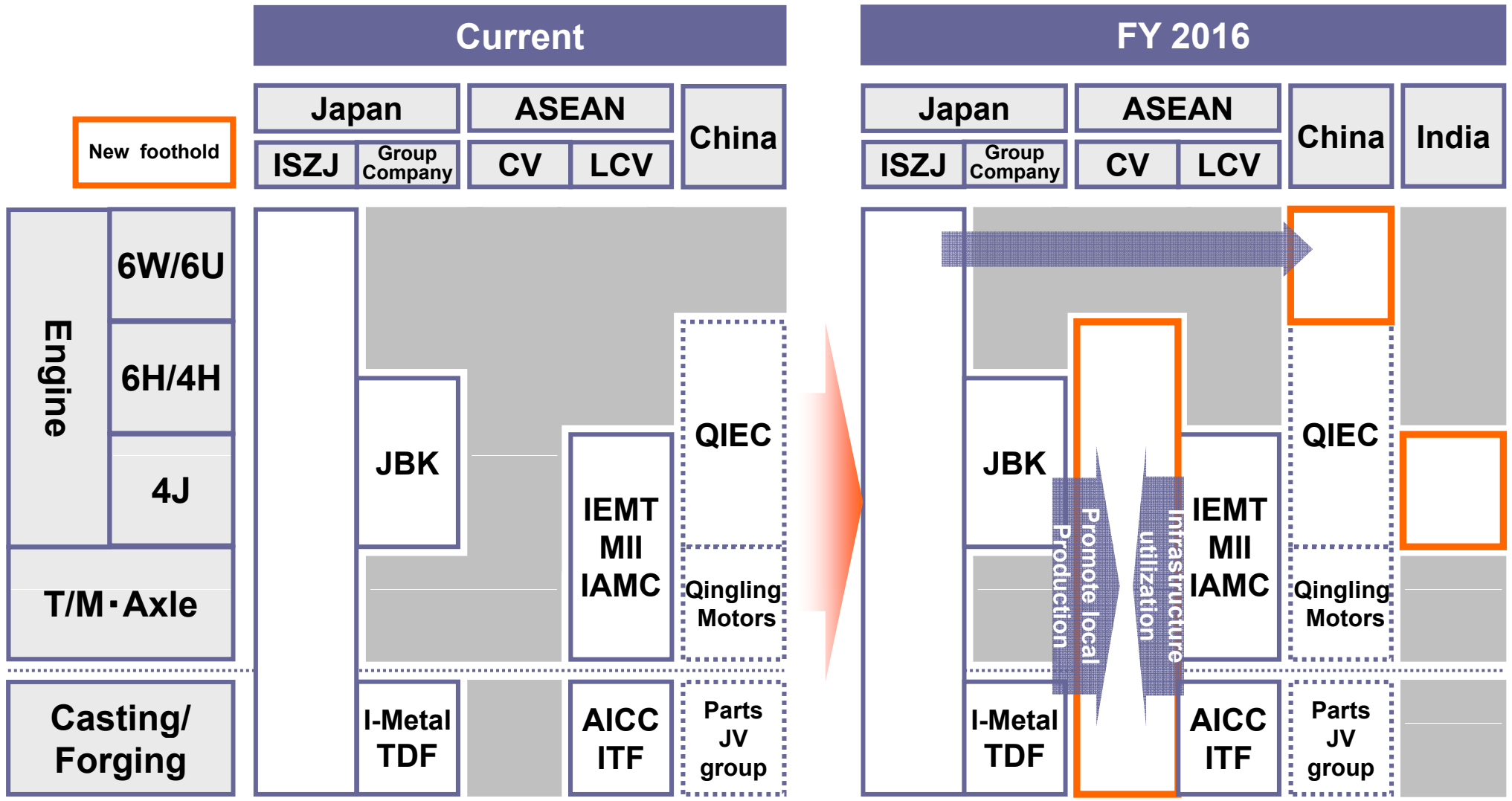
- CV full line-up development in ASEAN. Transfer manufacturing function from Japan to China to establish foothold for next-generation HD.



# Group Strategy 2) Manufacturing (Components)



- Expand localization of CV components in ASEAN by utilizing LCV infrastructure and promoting local production by Isuzu Group companies.



### **3. Mid-term Challenges**

- ◆ Product Strategy
- ◆ Regional Strategy
- ◆ Group Strategy
- ◆ **Alliance Strategy**

- Isuzu will aggressively promote discussions for alliance with possible partners on a product by product basis and on a market by market basis so that Isuzu can grow as an independent entity.

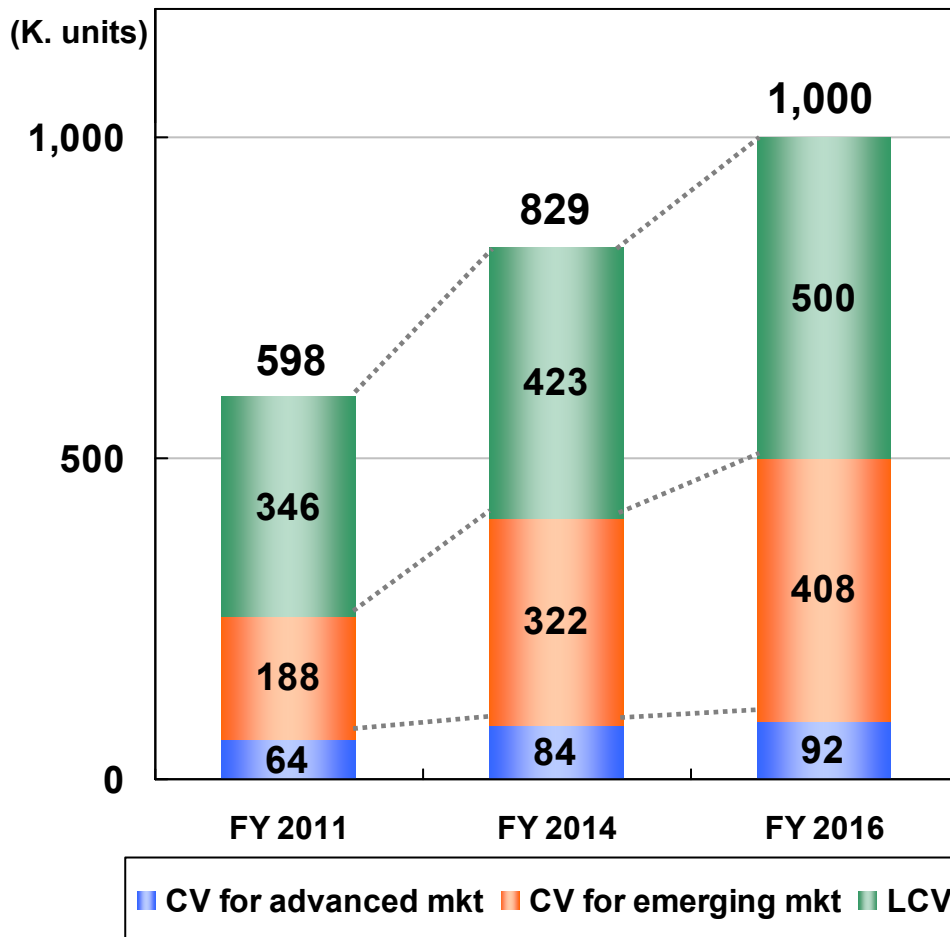
<b>Alliance needs</b>	Ensure volume to make business viable (share of fixed cost)	Secure advanced technologies	Complementary regional project	Volume expansion (secure procurement capability)
<b>Items already in place</b>	<p style="text-align: center;"><b><u>Bus</u></b> <b>(Hino)</b></p>	<p style="text-align: center;"><b><u>Emission after-treatment</u></b> <b>(Hino)</b></p>	<p style="text-align: center;"><b><u>S. America / Africa</u></b> <b>(GM)</b></p>	<p style="text-align: center;"><b><u>Domestic LD</u></b> <b>(Nissan/UD/Mazda)</b></p>
	<ul style="list-style-type: none"> <li>■ Business integration of bus body manufacturing operations (JBUS)</li> </ul>	<ul style="list-style-type: none"> <li>■ Mutual complement of advanced technologies/ effective utilization of engineering resources</li> </ul>	<ul style="list-style-type: none"> <li>■ Joint Venture -S. Africa/Egypt ; manufacturing/sales -Andean ; marketing</li> </ul>	<ul style="list-style-type: none"> <li>■ Aggressive OEM(Original Equipment Manufacturing) supply of competitive products</li> </ul>
<b>Future policy</b>	Aggressively utilize Alliance by products and by markets			

# **4. Quantitative Plan**

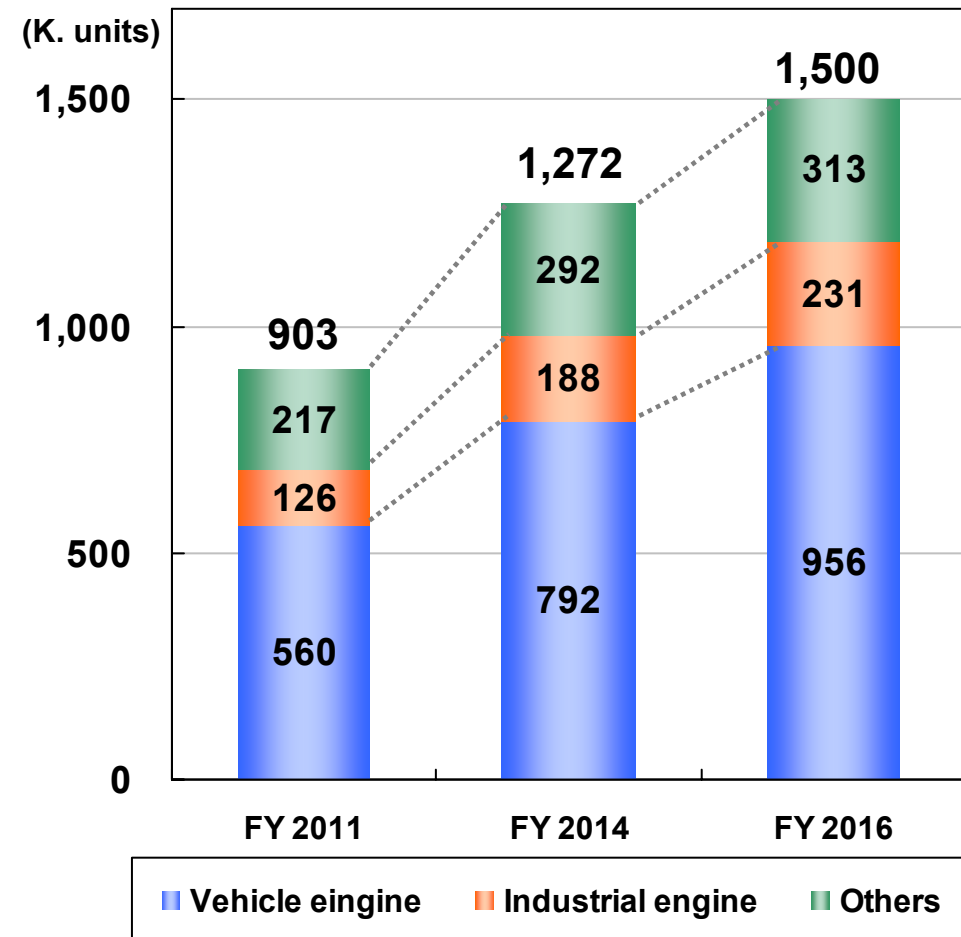
# 1) Volume Plan



Vehicle shipment volume



Diesel engine production volume





## 2) Business Target / Investment Plan

**ISUZU**

(Bill. In JPY)

		FY2011	FY2014
<b>Business Target</b>	<b>Net Sales</b>	<b>1,415.5</b>	<b>1,850.0</b>
	<b>Operating Income</b>	<b>88.2</b>	<b>130.0</b>
	<b>Operating Income Ratio</b>	<b>6.2%</b>	<b>7.0%</b>

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		FY2009 - FY2011	FY2012 - FY2014
<b>Investment Plan</b>	<b>R&amp;D Expense</b>	<b>181.5</b>	<b>185.0</b>
	<b>Facilities Investment</b>	<b>121.8</b>	<b>200.0</b>
	<b>Financial Investment</b>	<b>7.1</b>	<b>44.0</b>

# (Appendix) ISUZU Subsidiaries and Affiliates



Area		Company Name		Type Of Business	Pages
Japan		<b>JBK</b>	Jidosha Buhin Kogyo Co., Ltd.	Manufacture of Diesel Engines and components	28
		<b>I-Metal</b>	I Metal Technology Co., Ltd.	Manufacture of Casting	28
		<b>TDF</b>	TDF Co., Ltd.	Manufacture of Forgings	28
ASEAN	Thailand	<b>IMCT</b>	Isuzu Motors Co., (Thailand) Ltd.	Manufacture of CV and LCV	20,27
		<b>ITA</b>	Isuzu Technical Center of Asia Co., Ltd.	Vehicle Engineering	20
		<b>IEMT</b>	Isuzu Engine Manufacturing Co., (Thailand) Ltd.	Manufacture of Diesel Engines	28
		<b>ITF</b>	IT Forging (Thailand) Co., Ltd.	Manufacture of Forgings	28
		<b>TIS</b>	Tri Petch Isuzu Sales Co., Ltd.	Distribution of CV and LCV	20
		<b>IMIT</b>	Isuzu Motors International Operations (Thailand) Co., Ltd.	Export of LCV	19,27
		Indonesia	<b>IAMI</b>	P.T. Isuzu Astra Motor Indonesia	Manufacture of CV and AUV
	<b>MII</b>		P.T. Mesin Isuzu Indonesia	Manufacture of Diesel Engines	28
	<b>AICC</b>		P.T. Asian Isuzu Casting Center	Manufacture of Casting	28
	Malaysia	<b>IHM</b>	Isuzu Hicom Malaysia sdn. bhd	Manufacture of CV	20
		<b>IMSB</b>	Isuzu Malaysia Sendirian Berhad	Manufacture of LCV and Sales of CV and LCV	20
	Philippines	<b>IPC</b>	Isuzu Philippines Corporation	Manufacture and Distribution of CV and LCV	20
		<b>IAMC</b>	Isuzu Autoparts Manufacturing Corporation	Manufacture of transmission	28
	Vietnam	<b>IVC</b>	Isuzu Vietnam Co., Ltd.	Manufacture and Distribution of CV and LCV	20
	Singapore	<b>IMA</b>	Isuzu Motors Asia. Ltd.	Control of Business in the Asian Area	27
China	<b>QL</b>	Quingling Motors Co., Ltd.	Manufacture of CV and LCV	21,27,28	
	<b>QIEC</b>	Quingling Isuzu (Chongqing) Engine Co., Ltd.	Manufacture of Engines	28	
India	<b>SMLI</b>	SML ISUZU Ltd.	Manufacture and sale of CV	22	

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**Trucks for Life**

**ISUZU**