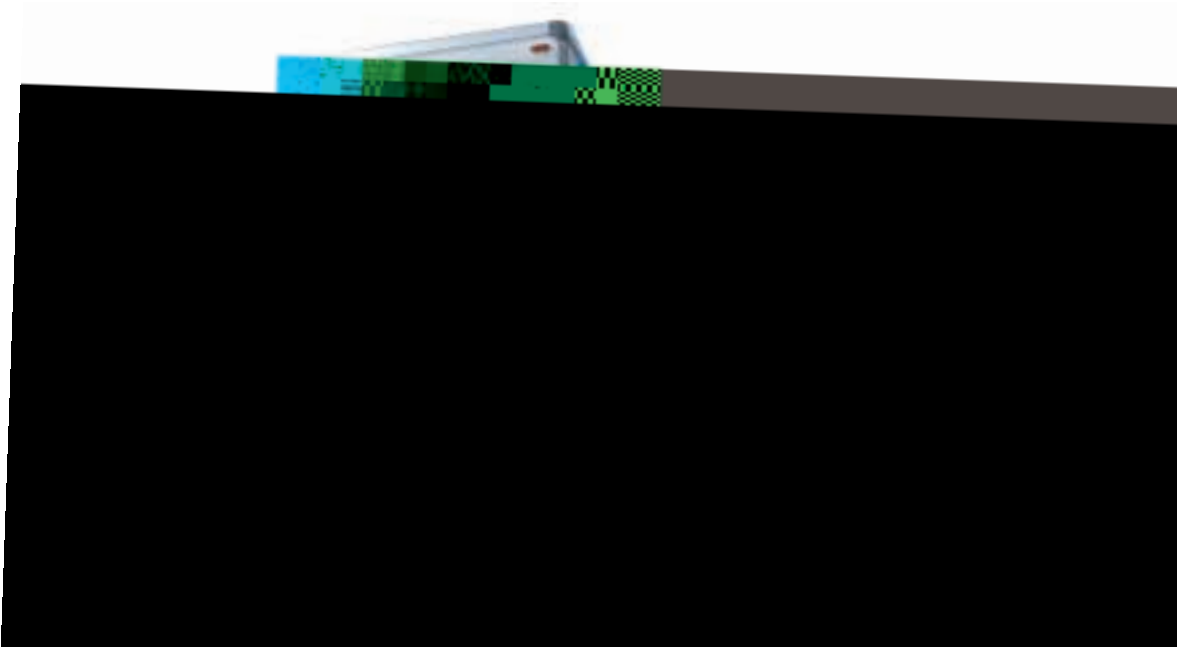




Isuzu is one of the world's leading manufacturers of commercial vehicles and diesel engines. Always an innovator, Isuzu introduced Japan's first



**Buses >>**

Our ERGA and ERGA Mio buses are powered by fuel-efficient, low-emission Isuzu diesel engines, with CNG power plants available on some models. The highly rigid body structure of these



Isuzu is moving forward on research and development in the latest technologies for trucks, buses, pickup trucks and diesel engines so that we can offer products and services that satisfy the needs of our customers around the globe. For the sake of the future of our planet, we are working to develop clean diesel engines that impose a minimal burden on the environment and we are also promoting the more widespread

acceptance of vehicles that use low-emission CNG and LPG fuels. We are also forging ahead on the development of clean energy vehicles such as diesel-engine-based hybrid vehicles and vehicles that run on dimethyl ether (DME), an alternative energy fuel. Isuzu is pouring a tremendous amount of effort into this research and development, and we are making a broad contribution to society through the resulting advanced vehicle technology.

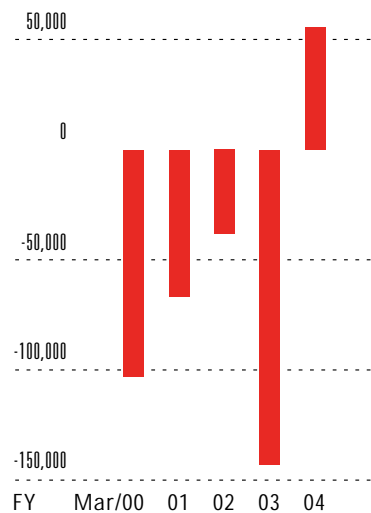
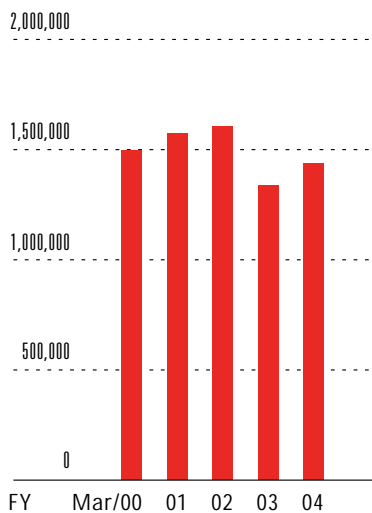
ISUZU at a Glance .....	MD&A .....	17
	Consolidated Balance Sheets .....	20
	04 Consolidated Statements of Operations .....	22
Environmental & Social Activities	Consolidated Statements of Shareholders' Equity .....	23
	Consolidated Statements of Cash Flows .....	
.....		12
Corporate Governance .....		14
Financial Section .....		15
Five-Year Summary .....		16



## CONSOLIDATED FINANCIAL HIGHLIGHTS

Year ended March 31	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
<b>For the Year:</b>				
Net sales	¥1,430,339	¥1,349,449	¥1,597,701	\$13,533,347
Net income (loss)	54,713	(144,301)	(42,991)	517,680
<b>At Year End:</b>				
Total assets	¥1,077,816	¥1,028,844	¥1,324,144	\$10,197,908
Shareholders' equity	109,753	26,434	61,084	1,038,448

	Yen			U.S. dollars
	2004	2003	2002	2004
<b>Per Share:</b>				
Net income (loss) – primary	¥72.37	¥(131.34)	¥(33.68)	\$0.68





## MESSAGE FROM THE PRESIDENT

# Yoshinori Ida

President & Representative Director

Fiscal 2004 (ended March 31, 2004) was a pivotal year for Isuzu. In fiscal 2003 we embarked on our New Three-Year Business Plan, and with the support of our shareholders, customers, suppliers, and other stakeholders, in fiscal 2004 our efforts to radically overhaul our earnings structure began to bear fruit. We turned around earnings to post record profits at all levels, and sales grew 6%.

We have drastically transformed the shape of our business. We have restructured our North American SUV operations and we are concentrating our resources in the areas where we are strongest—commercial vehicles and diesel engines. Sales in these areas grew remarkably thanks to the introduction of stricter emission regulations in Japan and our aggressive marketing efforts overseas. Our business is steadily growing in ASEAN and China locations where we took the lead in establishing local facilities.

As a result of these efforts, in fiscal 2004 (ended March 31, 2004) consolidated-basis sales rose 6% from a year earlier to ¥1,430,339 million and operating income jumped 446.4% to ¥84,490 million.

As we overhauled our earnings structure, over the past few years we have booked massive restructuring charges at the parent level. And to further buttress our earnings capacity, we have also moved ahead on making provisions for anticipated future expenses. But even after booking these charges for fiscal 2004, our net result rebounded from the previous year's loss of ¥144,301 million to a profit of ¥54,713 million.

These restructuring charges have impacted profitability in recent years, but now we are positioned for a brighter future. We are growing stronger not only at the parent company, but also at our affiliates. Our affiliated dealers returned to the black, and our parts suppliers also further improved earnings thanks to streamlining measures

Fiscal 2004 marked the second year of the New Three-Year Business Plan that we unveiled in October 2002. Under this plan, we aim to capitalize on our technological advantages in diesel engines and specialize in commercial vehicles. We are striving to strengthen all of our corporate functions—from development through marketing—as well as strengthen our earnings structure. Our core markets will be





[Redacted]

[Redacted]

[Redacted]

## FISCAL 2004 TOPICS

### Isuzu Developments





## Environmental Efforts



## Developing cleaner vehicles »

We have been able to solve technologically difficult problems by combining new technologies such as super-high pressure fuel injection, exhaust gas recirculation, catalytic oxidation, and the use of 16 valves.

Isuzu took the lead in meeting Japan's tougher new emissions regulations when we launched the new line up ELF-KR light-duty trucks in June 2002, complying with the new rules one-and-a-half year earlier than required.

In fiscal 2004 we have continued to introduce new, more environmentally friendly models. In May 2003, we launched medium-duty FORWARD CNG trucks with

At Isuzu, we recognize the importance of a system of corporate governance that strengthens oversight while also optimizing and accelerating the decision-making process and ensuring effective implementation of management strategies.

Over the past year, we have taken the following steps to enhance our corporate governance:

- To strengthen the local management structures for our North American and ASEAN operations, in June 2003 we unified the oversight of each of these regions.
- In December 2003, our president and representative director certified that the contents of the first half earnings report submitted to Japanese regulatory authorities were accurate.
- To strengthen the local management structures for our Chinese operations, in April 2004 we established unified oversight for China.
- With the aim of strengthening internal controls and ensuring independence, also in April 2004 we transformed the Audit Group of the General Affairs and HR Department into the independent Business Audit Group, and we began conducting our internal audits under this new structure.

ISUZU MOTORS LIMITED  
ANNUAL REPORT 2004

**FINANCIAL SECTION**

Exceeding Consumer Expectations, Maximizing Corporate Value

Five-Year Summary .....	16
MD&A .....	17
Consolidated Balance Sheets .....	20
Consolidated Statements of Operations .....	22
Consolidated Statements of Shareholders' Equity .....	23
Consolidated Statements of Cash Flows .....	24
Notes to Consolidated Financial Statements .....	25
Report of Independent Auditors .....	40

## Consolidated Five-Year Summary

	Millions of yen					Thousands of U.S. dollars
	2004	2003	2002	2001	2000	2004
<b>For the Year:</b>						
Net sales	¥1,430,339	¥1,349,449	¥1,597,701	¥1,569,199	¥1,506,642	\$13,533,347
Cost of sales	1,214,763	1,171,366	1,355,190	1,343,166	1,297,291	11,493,645
Gross profit	215,576	178,083	242,510	226,032	209,350	2,039,701
Selling, general and administrative expenses	131,085	162,621	227,376	253,349	260,147	1,240,280
Operating income (loss)	84,490	15,462	15,134	(27,316)	(50,797)	799,420
Income (loss) before special items	81,678	(4,200)	(1,984)	(47,435)	(68,047)	772,809
Income (loss) before income taxes	55,357	(111,527)	(28,506)	(73,300)	(150,937)	523,770
Net income (loss)	54,713	(144,301)	(42,991)	(66,787)	(104,186)	517,680
<b>At Year-End:</b>						
Total assets	¥1,077,816	¥1,028,844	¥1,324,144	¥1,891,492	¥1,843,053	\$10,197,908
Shareholders' equity	109,753	26,434	61,084	94,108	169,338	1,038,448

## Non-Consolidated Five-Year Summary

	Millions of yen					Thousands of U.S. dollars
	2004	2003	2002	2001	2000	2004
<b>For the Year:</b>						
Net sales	¥890,336	¥760,608	¥761,904	¥829,890	¥836,123	\$8,424,041
Cost of sales	730,395	656,576	655,719	726,601	764,570	6,910,736
Gross profit	159,941	104,032	106,185	103,289	71,553	1,513,305
Selling, general and administrative expenses	92,945	90,904	98,098	107,002	118,139	879,418
Operating income (loss)	66,995	13,128	8,086	(3,712)	(46,586)	633,886
Income (loss) before special items	57,561	4,880	2,123	(10,578)	(55,412)	544,623
Income (loss) before income taxes	32,221	(146,966)	(45,898)	(66,105)	(172,957)	304,866
Net income (loss)	38,857	(189,447)	(56,224)	(57,938)	(103,861)	367,656
<b>At Year-End:</b>						
Total assets	¥808,674	¥717,601	¥876,680	¥1,032,614	¥1,117,373	\$7,651,381
Shareholders' equity	151,722	82,743	159,062	217,788	273,012	1,435,544

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥105.69=US\$1; the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2004.



## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Results of Operations

#### Significant accounting policies

The consolidated financial statements of the Isuzu group are prepared in accordance with the generally accepted accounting principles of Japan. In the preparation of these statements, the amounts recorded for items including bad debt allowance, inventory, investments, income taxes,



Asian countries—could have a negative impact on the earnings and financial position of the Isuzu group.

## 2. Foreign exchange fluctuations

The business of the Isuzu group includes manufacturing and marketing products in several regions around the world. Local currency amounts for sales, expenses, assets and other items are therefore converted into Japanese yen in the preparation of our consolidated financial statements. Depending on the exchange rate in effect at the time of conversion, the yen amount for these items may change even if the underlying local currency value has not changed. Generally, a strengthening of the yen relative to other currencies has a negative impact on the business of the Isuzu group, and a weakening of the yen has a positive impact.

## 3. Dependence on General Motors Corporation and other major customers

The Isuzu group supplies vehicles and vehicle components to General Motors Corporation (Detroit, MI) and its affiliates as well as to other vehicle manufacturers on an OEM basis. Sales to these customers are affected by fluctuations in production and sales at these customer companies and other factors over which the Isuzu group has no control, and therefore they could have a negative effect on the earnings and financial position of the Isuzu group.

## 4. Product defects

At its plants both inside and outside of Japan, the Isuzu group manufactures its products according to the strictest globally accepted quality control standards. However, in the unusual event of a recall or product liability award, there could be a negative impact on the earnings and financial position of the Isuzu group.

## 5. Disasters, power outages, and other interruptions

To minimize the potential of a negative impact due to an interruption in the manufacturing process, the Isuzu group regularly conducts disaster prevention inspections and facilities examinations at all of our sites. However, we may not be able to completely eliminate or minimize the impact that would arise from a disaster, power outage, or other interruption during the manufacturing process.

## 6. Securities investments

The Isuzu group invests in securities, to produce, sell, and distribute its products as well as to build and maintain good relationships with our business partners. For marketable securities, a downturn in share prices could have a negative impact on the earnings and financial position of the Isuzu group. Isuzu provides management guidance and advice to companies—including those in which we have invested through non-marketable securities—that can have a strong influence over our own business results. However, if the financial condition of the companies in which we have invested were to deteriorate due to factors such as a worsening business environment, this could have a negative impact on the earnings and financial position of the Isuzu group.

## 7. Retirement obligations and deferred tax assets

The figures recorded for "retirement obligations" and "deferred tax assets" are estimates that reflect the judgment of management. Because of the uncertain nature of estimates, in some cases actual results may vary from

initial estimates, and this could have a negative impact on earnings results.

## 8. Potential risks associated with international activities and foreign ventures

The Isuzu group conducts some of its manufacturing and marketing activities outside of Japan in the U.S. and in developing and emerging markets in Asia. The following risks are inherent to such overseas business development, and could have a negative impact on the earnings and financial position of the Isuzu group.

- Unfavorable changes in the political or business climate
- Difficulties in recruiting and retaining personnel
- Inadequate technological infrastructure could have a negative impact on our manufacturing activities or on our customers' support of our products and services.
- Potential negative tax consequences
- Social unrest stemming from terrorism, war or other factors.

## 9. Limits on intellectual property protection

The Isuzu group has accumulated technology and expertise that differentiates us from our rivals; however, in certain regions due to legal restrictions we are unable to fully protect or we are able to only partly protect some of our proprietary technology and expertise through intellectual property rights. As a result, we may be unable to effectively prevent third parties from using our intellectual property to make similar products.

## 10. Legal requirements

The Isuzu group is subject to various government regulations in the countries in which it does business, such as business and investment approvals, export controls designed to protect national security, and other import/export regulations such as tariff rules. We are also subject to legal requirements concerning areas such as commerce, antitrust, patents, consumer rights, taxation, foreign exchange, recycling and safety. Unexpected changes in these regulations could have a negative impact on the earnings and financial position of the Isuzu group.

## 11. Impairment accounting

The Isuzu group owns and leases facilities used in manufacturing, marketing and distributing our products. Japan is preparing to introduce impairment accounting for fixed assets used in the course of business, and if it becomes necessary to treat some fixed assets that are owned or used through finance leases as impaired, this could have a negative impact on the earnings and financial position of the Isuzu group.

## 12. Sale of Kawasaki Plant property

We have been notified of a claim for damages stemming from soil contamination at a parcel of property at our Kawasaki plant location, which we sold in July 2001. Depending on the course of this claim, this could have a negative impact on the earnings and financial position of the Isuzu group.

## 13. Preferred shares

Isuzu issued preferred shares on December 26, 2002. These shares could be exchanged for common shares at some time in the future, and this could result in the dilution of the existing common shares.

**Consolidated Balance Sheets** (As of March 31, 2004, 2003 and 2002)

Assets	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
<b>Current Assets:</b>				
Cash and cash equivalents (Note 2,4)	¥ 113,315	¥ 63,389	¥ 79,121	\$ 1,072,148
Receivables:				
Notes and accounts (Note 4)	216,934	204,371	220,696	2,052,551
Less : allowance for doubtful receivables	(4,806)	(8,331)	(5,292)	(45,473)
Inventories (Note 4)	112,938	108,972	156,305	1,068,581
Deferred taxes (Note 6)	27,651	16,614	12,329	261,625
Other current assets	31,618	48,155	85,780	299,163
<b>Total Current Assets</b>	<b>497,651</b>	<b>433,170</b>	<b>548,941</b>	<b>4,708,596</b>
<b>Investments and Advances:</b>				
Investments (Note3,4):				

Liabilities and Shareholders' Equity	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
<b>Current Liabilities:</b>				
Bank loans	¥ 256,762	¥ 299,869	¥ 472,957	\$ 2,429,392
Current portion of bonds	15,000	15,500	52,000	141,924
Commercial paper	1,800	—	—	17,030
Notes and accounts payable	268,206	247,257	237,298	2,537,669
Accrued expenses	42,451	49,335	60,656	401,659
Accrued income taxes (Note 6)	6,501	1,633	1,217	61,514
Deposits received	12,824	13,912	24,654	121,341
Deferred tax current liabilities (Note 6)	—	—	5	—
Other current liabilities	40,401	33,348	23,351	382,265
Total Current Liabilities	643,948	660,857	872,141	6,092,800
<b>Long-Term Debt (Note 4)</b>	179,102	202,551	213,777	1,694,601
<b>Accrued Retirement and Severance Benefits (Note 5)</b>	60,284	58,487	98,562	570,388
<b>Deferred Tax Liabilities (Note 6)</b>	5,016	2,107	4,557	47,465
<b>Deferred Tax Liabilities Related to Land Revaluation (Note 9)</b>	57,167	56,296	56,460	540,900
<b>Other Long-Term Liabilities</b>	19,411	19,333	13,880	183,662
<b>Minority Interests</b>	3,132	2,775	3,679	29,640
<b>Contingent Liabilities (Note 10)</b>				
<b>Shareholders' Equity :</b>				
Common stock and preferred stock (Note 7,8)	67,564	55,545	90,329	639,270
Preferred stock:				
Class I-authorized 37,500,000 shares; issued 37,500,000 shares in 2004 and 2003				
Class II-authorized 37,500,000 shares; issued 37,500,000 shares in 2004 and 2003				
Class III-authorized 25,000,000 shares; issued 25,000,000 shares in 2004 and 2003				
Class IV-authorized 25,000,000 shares; issued 25,000,000 shares in 2004 and 2003				
Common stock:				

**Consolidated Statements of Operations** (For the years ended March 31, 2004, 2003 and 2002)

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
<b>Net Sales</b>	<b>¥1,430,339</b>	<b>¥1,349,449</b>	<b>¥1,597,701</b>	<b>\$13,533,347</b>
<b>Cost of Sales</b>	<b>1,214,763</b>	<b>1,171,366</b>	<b>1,355,190</b>	<b>11,493,645</b>
Gross Profit	215,576	178,083	242,510	2,039,701
<b>Selling, General and Administrative Expenses (Note 5,12)</b>	<b>131,085</b>	<b>162,621</b>	<b>227,376</b>	<b>1,240,280</b>
Operating Income (Loss)	84,490	15,462	15,134	799,420
<b>Other Income (Expenses):</b>				
Interest and dividend income	2,370	2,724	4,145	22,425
Interest expense	(13,116)	(18,026)	(21,848)	(124,108)
Equity in earnings of unconsolidated subsidiaries and affiliates	10,362	(726)	(2,211)	98,045
Others, net	(2,428)	(3,633)	2,794	(22,974)
Income (Loss) before Extraordinary Items	81,678	(4,200)	(1,984)	772,809
<b>Extraordinary Items:</b>				
Gain (loss) on sales or disposal of property, plant and equipment, net	(7,865)	(504)	5,526	(74,418)
Gain on sales of investments	5,488	9,947	7,878	51,927
Gains on return of substituted portions of employee pension fund (Note 2,5)	—	13,437	—	—
Loss on revaluation of investments	(5,333)	(9,538)	(15,209)	(50,465)
Loss on business model reform	—	(12,201)	—	—
Loss on investment for affiliated company restructuring	(7,785)	(76,752)	—	(73,667)
Severance benefit of early retirement plan	—	(24,808)	(14,475)	—
Others, net	(10,824)	(6,906)	(10,241)	(102,414)
Income (Loss) before Income Taxes and Minority Interests	55,357	(111,527)	(28,506)	523,770
<b>Income Taxes (Note 6):</b>				
Current	7,828	5,103	5,616	74,070
Deferred	(7,905)			

## Consolidated Statements of Shareholders' Equity

(For the years ended March 31, 2004, 2003, 2002 and 2001)

	Millions of yen				Thousands of U.S. dollars
	2004	2003	2002	2001	2004
<b>Common Stock and Preferred Stock:</b>					
Balance at beginning of the year	¥ 55,545	¥ 90,329	¥ 90,329	¥ 89,619	\$ 525,546
Add:					
Issuance of common stock	—	5,045	—	710	—
Issuance of preferred stock	—	50,000	—	—	—
The exercise of stock acquisition right	12,019	—	—	—	113,723
Deduct:					
Capital deduct (off-set with deficit)	—	(89,829)	—	—	—
Balance at end of the year	¥ 67,564	¥ 55,545	¥ 90,329	¥ 90,329	\$ 639,270
<b>Capital Surplus:</b>					
Balance at beginning of the year	¥131,850	¥ 101,741	¥ 101,741	¥ 99,212	\$ 1,247,519
Add:					
Profit from merger	—	—	—	2,528	—
Issuance of common stock	—	4,954	—	—	—
Issuance of preferred stock	—	50,000	—	—	—
The exercise of stock acquisition right	11,980	—	—	—	113,355
Deduct:					
Capital surplus deduct (off-set with deficit)	(76,369)	(24,846)	—	—	(722,578)
Balance at end of the year	¥ 67,461	¥ 131,850	¥ 101,741	¥ 101,741	(89,856)(2,528)-r68q2,741 rplus

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
<b>Cash Flows from Operating Activities</b>				
Net income (loss) before income taxes and minority interests	¥55,357	¥(111,527)	¥(28,506)	\$523,770
Depreciation and amortization	27,401	43,387	73,629	259,265
Equity in loss of unconsolidated subsidiaries and affiliates	(10,362)	726	2,211	(98,045)
Loss on revaluation of investments	—	5,088	15,209	—
Provision for retirement benefits, less payments	2,591	(40,150)	(4,725)	24,516
Provision for allowance for product warranty	648	1,263	(1,564)	6,139
Provision for allowance for bonus	2,394	(3,307)	(2,748)	22,657



## Notes to Consolidated Financial Statements

### 1. Basis of Presenting The Financial Statements

The accompanying consolidated financial statements of Isuzu Motors Limited ("the Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirement of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

In order to facilitate the understanding of readers outside Japan, certain reclassifications have been made to the consolidated financial statements prepared for domestic purposes and relevant notes and statements of stockholders' equity and statements of cash flows have been added.

The yen amounts are rounded down in millions. Therefore, total or subtotal amounts do not correspond with the aggregation of such account balances.

U.S. dollar amounts have been translated from Japanese yen for convenience only at the rate of ¥105.69= US\$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2004. The translations should not be construed as a representation that Japanese yen have been or could be converted into U.S. dollars at that rate. The U.S. dollar amounts are then rounded down in thousands.

Certain reclassifications have been made in the 2003 and 2002 financial statements to conform to the presentation for 2004.

### 2. Summary of Significant Accounting Policies

#### a) Consolidation

The consolidated financial statements include the accounts of the Company and significant subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

Investments in main unconsolidated subsidiary and significant affiliated companies (15% to 50% owned) are accounted for by the equity method.

The differences at the time of acquisition between the cost and underlying net equity of investments in consolidated subsidiaries and in unconsolidated subsidiaries and affiliated companies accounted for under the equity method are, as a rule, amortized over periods of five years after appropriate adjustments.

#### b) Foreign Currency Translation

The Company has adopted the revised Financial Accounting Standard for Foreign Currency Transactions in Japan effective from April 1, 2000. Based on the change in accounting principle, foreign currency transaction adjustments which was Recorded in "Assets" in the prior fiscal year, are recorded in "Equity" or "Minority Interest" at March 31, 2001.

#### c) Securities

Marketable securities, investments in securities and investments in unconsolidated subsidiaries and affiliates are principally valued at cost using the moving average method until the fiscal year 2001.

Marketable securities classified as other securities are carried at fair

benefits at March 31, 2001 have been provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of March 31, 2001 as adjusted for unrecognized actuarial gain or loss. The cumulative effect of this accounting change is recorded in the Consolidated Statements of Operations.

### **i) Income Taxes**

Income taxes are accounted for on an accrual basis. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of deferred tax assets and liabilities of a change in tax rate are recognized in income in the period that includes the enacted date.

### **j) Net Income per Share**

Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each year. Under the revised financial statements regulations in Japan, the weighted average number of shares is calculated based on the number of issued shares less the number of treasury stocks from the fiscal year ended March 31, 2002.

Effective from the fiscal year ended March 31, 2003, the Company applied early adoption of the Financial Accounting Standard No. 2 "Financial Accounting Standard for Earnings per Share" and the Financial Accounting Standard Implementation Guidance No. 4 "Implementation Guidance for Accounting Standard for Earnings per Share" issued by the Accounting Standards Board of Japan on September 25, 2002.

Basis for the calculation of net income per share at the year ended March 31, 2004 is as follows:

	Millions of yen	Thousands of U.S. dollars
Net Income	¥54,713	\$517,680
Less: Components not pertaining to common shareholders:		
Bonuses to directors and corporate auditors	8	79
Net income pertaining to common stock	54,705	517,305
Average outstanding shares of common stock (share):	755,865,175	755,865,175

### **k) Appropriation of Retained Earnings**

Appropriations of retained earnings are recorded in the financial year in which the appropriation is approved by the Board of Directors or shareholders.

### **l) Cash and Cash Equivalents**

For the purpose of the statement of cash flows, the Company considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Reconciliation for cash and cash equivalents at end of year on the statement of cash flows for the years ended March 31, 2004 is as follows:

	Millions of yen	Thousands of U.S. dollars
Cash and time deposits on the consolidated balance sheet	¥113,315	\$1,072,148
Time deposits with original maturities over three month at the time of purchase	(10,735)	(101,579)
Cash and cash equivalents on the statement of cash flows	¥102,579	\$970,569

## **3. Investments**

Fair Value of Securities of other securities as of March 31, 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Unrealized gain:						
Stocks	¥12,640	¥22,796	¥10,156	\$119,598	\$215,694	\$96,096
Bonds:						
Investment trusts	¥204	¥208	¥3	\$1,931	\$1,968	\$37
Total	¥12,844	¥23,004	¥10,160	\$121,529	\$217,663	\$96,133
Unrealized loss:						
Stocks	¥2,969	¥2,634	¥(335)	\$28,094	\$24,923	\$(3,170)
Bonds:						
Corporate bonds	¥10	¥9	¥(0)	\$94	\$94	\$(0)
Total	¥2,979	¥2,644	¥(335)	\$28,189	\$25,018	\$(3,171)

Proceeds from sales of securities classified as other securities amounted to ¥8,566 million (\$81,054 thousands) with an aggregate gain on sales of ¥4,538 million (\$42,936 thousands) and an aggregate loss on sales of ¥137 million (\$1,299 thousands) for the year ended March 31, 2004.

Non-marketable securities classified as other securities at March 31, 2004 amounted to ¥4,672 million (\$44,212 thousands).

The redemption schedule for bonds with maturity dates at March 31, 2004 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	Due in one year or less	Due after one year through five years	Due in one year or less	Due after one year through five years
Corporate bonds	¥10	¥3	\$94	\$29

#### 4. Long-Term Debt

Long-term debt at March 31, 2004 was as follows:

	Millions of yen	Thousands of U.S. dollars
3.45% straight bonds due 2005	10,000	94,616
3.00% straight bonds due 2004	5,000	47,308
Bonds with warrant attached (*)	6,000	56,769
Loans	¥256,685	\$2,428,661
Less: current portion	¥ 98,582	\$ 932,753
	¥179,102	\$1,694,601

The Company issued 1st Series Unsecured Convertible Bonds in fiscal year 2004.

The contents are as follows.

##### (\*) 1. Name of the Bonds:

Isuzu Motors Limited 1st Series Unsecured Convertible Bonds (bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*)(with pari passu clause limited to bonds with the stock acquisition rights of convertible bonds types (*tenkanshasaigata*))

##### 2. Aggregate amount of Bonds:

¥30,000,000,000

##### 3. Principal amount of each Bond:

A single denomination of ¥100,000,000

##### 4. Form of the certificates of Bonds:

The form of the certificates of Bonds with Stock Acquisition Rights shall be in bearer form. Pursuant to Paragraph 4, Article 341-2 of the Commercial Code of Japan, the Bonds and the Stock Acquisition Rights may not be transferred separately.

##### 5. Rate of interest:

The Bonds shall bear no interest.

##### 6. Issue price of the Bonds:

¥100 for each principal amount of ¥100; however, the issue price of the Stock Acquisition Rights shall be zero.

##### 7. Redemption price:

¥100 for each principal amount of ¥100; however, in the case of

redemption prior to maturity, the redemption price shall be as set forth in Item 15 (2) through (4) below.

##### 8. Maturity date:

January 6, 2006

##### 9. Term of subscription:

January 7, 2004

##### 10. Date of payment:

January 7, 2004

##### 11. Method of offering:

The entire amount of the Bonds with Stock Acquisition Rights shall be allocated to Nomura Securities Co., Ltd.

##### 12. Security or guarantee:

No security or guarantee is created on the Bonds with Stock Acquisition Rights, and no assets are reserved especially for the Bonds with Stock Acquisition Rights.

##### 13. Negative pledge:

So long as any of the Bonds remain outstanding, the Company shall, in the case a security is created on other bonds with the stock acquisition rights of convertible bonds types (*tenkanshasaigata*) issued domestically by the Company after the Bonds with Stock Acquisition Rights have been issued, for the benefit of the holders of the Bonds with Stock Acquisition Rights and pursuant to the Security Bonds Trust Law of Japan, a security ranking pari passu with the security as is granted to such bonds with the stock acquisition rights of convertible bonds types (*tenkanshasaigata*) shall be created on the Bonds with Stock Acquisition Rights. The "bonds with the stock acquisition rights of convertible bonds types (*tenkanshasaigata*)" means the bonds with stock acquisition rights provided for in Article 341-2 of the Commercial Code of Japan, and which are resolved by the Board of Directors that pursuant to Items 7 and 8, Paragraph 1 of Article 341-3 of the Commercial Code of Japan, the holder of the Bonds with Stock Acquisition Rights exercising such Stock Acquisition Rights shall be deemed to make a request to treat such exercise as the payment by the holder of the full amount required to be paid upon exercise of the Stock Acquisition Rights, in lieu of the full redemption of the Bonds.

**14. Method and date of payment of interest:**

Not applicable.

**15. Method and term of redemption of the Bonds:****(1) Redemption at maturity:**

The Bonds shall be redeemed at their aggregate amount on January 6, 2006.

(2) In the case of a resolution being passed at the general meeting of shareholders of the Company for the Company to become a wholly-owned subsidiary of another corporation by way of share exchange (*kabushiki-kokan*) or share transfer (*kabushiki-iten*), the Company shall, having given not less than thirty (30) nor more than sixty (60) days' advance notice to the holders of the Bonds with

## (5) Other conditions for the exercise of the Stock Acquisition Rights:

If the Bonds are redeemed prior to maturity pursuant to Item 15(2) or (3), or if the Bonds become due and repayable, the Stock Acquisition Rights shall not be exercised after the redemption date or the date when the Bonds become due and repayable. In the case where the Company redeems the Bonds prior to maturity by request of the holders of the Bonds with Stock Acquisition Rights provided for in Item 15(4), the Stock Acquisition Rights shall not be exercised after the certificate of the Bonds with Stock Acquisition Rights (in the case of an early redemption of the registered Bonds in respect of Bonds with Stock Acquisition Rights, Early Redemption Request Form) has been submitted to the place of payment of redemption described in Item 18. In addition, no Stock Acquisition Right may be exercised in part only.

## (6) Events and conditions of the cancellation of the Stock Acquisition Rights:

None.

## (7) Amount to be paid upon exercise of the Stock Acquisition Rights:

- (i) The amount to be paid upon exercise of one (1) Stock Acquisition Right shall be equal to the issue price of each Bond.
- (ii) The amount to be paid per share upon exercise of the Stock Acquisition Rights shall initially be 216 yen (hereinafter referred to as the "Conversion Price").

## (8) Amount which is not transferred to stated capital out of the issue price of a share to be issued upon exercise of the Stock Acquisition Rights:

The amount which is not transferred to stated capital out of the issue price of a share to be issued upon exercise of the Stock Acquisition Rights shall be the amount of the relevant issue price reduced by the amount to be transferred to stated capital. The amount to be transferred to stated capital shall be the relevant issue price multiplied by 0.5, with any fraction less than one yen being rounded up.

## (9) Revisions to the Conversion Price:

After the Bonds with Stock Acquisition Rights have been issued, the Conversion Price after the immediately following trading day of the third Friday of each month (hereinafter referred to as the "Setting Date"), shall be revised to an amount equivalent to 90% of the average of the daily closing prices (including the quotation prices) of shares of common stock of the Company (regular manner) (rounded down to the first decimal place; hereinafter referred to as the "Revised Conversion Price") for five (5) consecutive trading days on the Tokyo Stock Exchange, Inc. up to and including the Setting Date (however, the day on which there is no closing price shall be excluded and if the Setting Date is not a trading day, five (5) consecutive trading days up to and including

tradg price shall be excluded61 TiT\*0.0iy, ik4ing Tc4br.0iy,16anaa24.osing prices (includi out -1.6359 TD0.0615 Twxrdb.0iy.ng of ading

full redemption of the Bonds in respect of such Stock Acquisition Rights, shall be deemed to have been made.

**(12) Initial dividends to be paid after the exercise of the Stock Acquisition Rights:**

The dividends on the shares of common stock of the Company delivered pursuant to the Request for Exercise or distribution of cash as provided for in Article 293-5 of the Commercial Code of Japan (interim dividends) shall be made on the assumption that the shares of common stock of the Company shall be delivered on April 1, if the Request for Exercise is made during the period from April 1 through September 30, or on October 1, if the Request for Exercise is made during the period from October 1 to March 31 of the following year.

**17. Rationale for determining the issue price of the Stock Acquisition Rights as zero and the amount to be paid upon exercise thereof:**

The issue price of the Stock Acquisition Rights has been

(3) Actuarial assumptions used to determine costs and obligations for retirement.

## 6. Income Taxes

Accrued income taxes in the balance sheets include corporation taxes, inhabitant taxes and enterprise taxes.

Income taxes in the statements of operations include corporation taxes and inhabitant taxes and enterprise taxes.

The significant components of the Company's deferred tax assets and liabilities as of March 31, 2004 were as follows:

## 7. Shareholders' Equity

On October 1, 2001, an amendment (the "Amendment") to the Commercial Code of Japan (the "Code") became effective. The Amendment eliminates the stated par value of the Company's outstanding shares, which resulted in all out-standing shares having no par value as of October 1, 2001.

The Amendment also provides that all share issuances after

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the years ended March 31, 2004 was as follows:

Pre-adjust conver. price	No. of issued common stocks	$\frac{\text{No. of new common stocks} \times \text{Amount paid per new stock}}{\text{Market value per stock}}$
	No. of issued common stocks	No. of new common stocks

(iii) The Number of Common Stocks to be issued through Conversion

The number of common stocks of the Company to be issued through the conversion of the Class-I preferred stocks shall be as follows.

No. of common stocks	Total Amount of Issue Price of Class- I Preferred Stocks submitted by
----------------------	---



**(3) Mandatory Conversion**

The Class-I preferred stocks which are not requested for conversion during the period in which a request for conversion is possible shall become common stocks on the day determined by the Board of Directors' Meeting which is held on the next day of the last day of the said period (hereinafter referred to as the base date of Mandatory conversion) and the number of the common stocks is obtained from dividing the amount equal to the amount paid per stock of the Class-I preferred stocks by the average price (calculated to the first decimal point and then rounded up) of the daily closing price (including quoted price) in regular transactions of common stocks of the Company at the Tokyo Stock Exchange the Tokyo Stock Exchange. during 30 business days (excluding days without closing price) starting from the 45th business day preceding the base date of Mandatory conversion.

When the average price is lower than the floor conversion price, the Class-I preferred stocks shall become common stocks whose number is obtained from dividing the amount equal to the amount paid per stock of the Class-I preferred stock by the floor conversion price. Also, when the average price is more than the maximum conversion price, they shall become common stocks whose number is obtained from dividing the amount equal to the amount paid per stock of the Class-I preferred stocks by the maximum conversion price.

The maximum conversion price is equal to the initial conversion price (subject to "Adjustment of Conversion Price" described the above (2)(ii)(c)).

When fractions less than 1 are produced in calculating the above number of common stocks, they shall be treated according to the treatment of the reverse split of stocks stipulated in the Commercial Law.

**b) Outline of the Issue of Class-II Preferred Stock****(1) Preferred Dividend**

Class-II preferred dividend shall be calculated according to the following formula. Class-II preferred dividend shall be calculated to four places of decimals of less than yen and rounded off at the fourth place of decimals. However, when the calculation result exceeds ¥80, Class-II preferred dividend will be set at ¥80.

$$\text{Class-II preferred dividend} = ¥800 \times (\text{Japanese Yen TIBOR} + 1.125\%)$$

Any portion of dividend which exceeds the amount of the Class-II

preferred stocks shall not be paid to Class-II preferred shareholders and Class-II preferentially registered pledges.

**(3) Conversion Contract Right****(i) Period for Claiming Conversion**

Period for claiming the conversion of the Class-II preferred stocks shall be from October 1, 2008 to September 30, 2024.

**(ii) Conditions for Conversion**

The Class-II preferred stocks can be converted to the common stocks of the Company at the per-share converting values specified below from (a) to (c).

(a) Initial Conversion Price = ¥54

**(b) Revision of Conversion Price**

Conversion price is revised to the average price on October 1 every year from October 1, 2009 to September 30, 2024 (hereinafter referred to as the date of revision of conversion price respectively) when the average price (excluding days without closing price) of daily closing prices (including quoted price) in regular transactions of common stocks of the Company at the Tokyo Stock Exchange. during 30 business days starting from 45th business day preceding the date of revision of conversion price (hereinafter referred to as actual value calculation period respectively) is below the initial conversion price (revised conversion price shall be calculated to the first decimal point and then rounded up. In addition, if during the actual value calculation period, a revision specified in (c) below has to be necessary, the average price shall be revised to an amount judged appropriate by the Board of Directors in accordance with (c). However, when after calculation, the revised conversion price is below the price equal to 70% of the initial conversion price (calculated to the first decimal point and then rounded up, hereinafter referred to as floor c.et laF c.tloeedbWte by the as floese -1.6346 TD0.0368 Tc -3.27.o2e TDn of dividend which extriate by the



conversion price and revised according to (c).), the maximum conversion price shall be treated as the revised conversion price.

(c) Adjustment of Conversion Price

After the issue of Class-III preferred stocks, if any of the followings

$$\text{Adj. conver. price} = \frac{\text{Pre-adjust conver. price} \times \left( \text{No. of issued common stocks} + \frac{\text{No. of new common stocks} \times \text{Amount paid per new stock}}{\text{Market value per stock}} \right)}{\text{No. of issued common stocks} + \text{No. of new common stocks}}$$

applies, the conversion price shall be adjusted by the formula below (hereinafter referred to as formula for the adjustment of conversion price). In this formula, figures shall be calculated to the first decimal point and then rounded up.

(iii) The Number of Common Stocks to be issued through Conversion

The number of common stocks of the Company to be issued through the conversion of the Class- III preferred stocks shall be as follows.

$$\text{No. of common stocks issued thru conversion} = \frac{\text{Total Amount of Issue Price of Class- III Preferred Stocks submitted by Shareholders for asking Conversion}}{\text{Conversion Price}}$$

When fractions less than 1 are produced in calculating the number of common stocks to be issued, they shall be dropped.

(3) Mandatory Conversion

The Class-III preferred stocks which are not requested for conversion during the period in which a request for conversion is possible shall become common stocks on the day determined by the Board of Directors' Meeting which is held on the next day of the last day of the said period (hereinafter referred to as the base date of Mandatory conversion) and the number of the common stocks is obtained from dividing the amount equal to the amount paid per stock of the Class-III preferred stocks by the average price (calculated to the first decimal point and then rounded up) of the daily closing price (including quoted price) in regular transactions of common stocks of the Company at the Tokyo Stock Exchange. during 30 business days (excluding days without closing price) starting from the 45th business day preceding the base date of Mandatory conversion.

When the average price is lower than the floor conversion price, the Class-III preferred stocks shall become common stocks whose number is obtained from dividing the amount equal to the amount paid per stock of the Class-III preferred stock by the floor conversion price. Also, when the average price is more than the maximum conversion price, they shall become common stocks whose number is obtained from dividing the amount equal to the amount paid per stock of the Class-III preferred stocks by the maximum conversion price.

When fractions less than 1 are produced in calculating the above number of common stocks, they shall be treated according to the treatment of the reverse split of stocks stipulated in the Commercial Law.

**d) Outline of the Issue of Class-IV Preferred Stock**

(1) Preferred Dividend

Amount of preferred dividend per share (hereinafter referred to as "Class-IV preferred dividend") shall be calculated according to the

following formula. Class-IV preferred dividend shall be calculated to four places of decimals of less than yen and rounded off at the fourth place of decimals. However, when the calculation result exceeds ¥80, Class-IV preferred dividend will be set at ¥80.

$$\text{Class-IV preferred dividend} = ¥800 \times (\text{Japanese Yen TIBOR} + 2.000\%)$$

When there is a residual profit after the Class-IV preferred dividend is paid to the Class-IV preferred stocks, dividend of profit can be paid to the common stocks until it becomes equal to Class-IV preferred dividend. Also when dividend of profit is paid concerning the residual profit, the same amount of money per stock shall be paid to the Class-IV preferred stocks and the common stocks.

(2) Conversion Contract Right

(i) Period for Claiming Conversion

Period for claiming the conversion of the Class-IV preferred stocks shall be from October 1, 2012 to September 30, 2032.

(ii) Conditions for Conversion

The Class-IV preferred stocks can be converted to the common stocks of the Company at the per-share converting values specified below from (a) to (c).

(a) Initial Conversion Price

The average price of daily closing prices (including quoted price) in regular transactions of common stocks of the Company at the Tokyo Stock Exchange. during 30 business days (excluding days without closing price) starting from 45th business day preceding the first day of period for claiming conversion (calculated to the first decimal point and then rounded up.)

(b) Revision of Conversion Price

Conversion price is revised to the average price (excluding days without closing price) of daily closing prices (including quoted price) in regular transactions of common stocks of the Company at the Tokyo Stock Exchange, during 30 business days starting from 45th business day preceding the date of revision of conversion price (hereinafter referred to as actual value calculation period respectively) on October 1 every year from October 1, 2013 to September 30, 2032 (hereinafter referred to as the date of revision of conversion price respectively). (Revised conversion price shall be calculated to the first decimal point and then rounded up. In addition, if during the actual value calculation period, a revision specified in (c) below becomes necessary, the average price shall be revised to an amount judged appropriate by the Board of Directors in accordance with (c). However, after the above calculation, when the revised conversion price is below the price equal to 50% of the initial conversion price (calculated to the first decimal

The method of revaluation is as follows:

Under article 3-3 of the enforcement ordinance for the law, the land price for the revaluation is determined based on the official notice prices assessed and published by the National Land Agency of Japan, after appropriate adjustments for the shape of land and the timing of the assessment on March 31, 1999.

## 10. Contingent Liabilities

Contingent liabilities at March 31, 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars
Guarantees of bank loans	¥13,994	\$132,411
Export bills discounted	1,220	11,545
Notes discounted	4,693	44,411
Notes endorsed	487	4,616
Accounts and loans receivable sold to others	7,122	67,389

## 11. Lease Transactions

(1) Finance lease transactions, except for those which meet the conditions that the ownership of the leased assets is substantially transferred to the lessee, were as follows.

### a) As a lessee

(i) Amounts equivalent to acquisition costs, accumulated depreciation and net balance as of March 31, 2004 and 2003 concerning the finance lease assets :

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Acquisition Costs	¥50,437	¥62,540	\$477,216
Accumulated Depreciation	30,030	34,286	284,135
Net Balance	20,406	28,254	193,081

(ii) Future payment obligations of finance lease expenses as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Portion due within one year	¥7,632	¥10,761	\$72,214
Thereafter	14,250	20,073	134,833
Lease expense paid	10,597	12,405	100,270

Amounts equivalent to interest expenses are calculated by the interest method based on an excess of the aggregate sum of lease payments over amounts equivalent to acquisition costs.

(2) Operating lease were as follows.

**12. Segment Information**

(1) The business segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2004 and 2003 was as follows:

	Automotive	Finance	Miscellaneous	Total	Eliminations	Consolidated
<b>Year ended March 31, 2003</b>						
	Millions of yen					
Sales to third parties	1,336,921	4,510	8,017	1,349,449	—	1,349,449
Interarea sales and transfers	773	—	3,666	4,440	(4,440)	—
Total sales	1,337,695	4,510	11,683	1,353,889	(4,440)	1,349,449
Operating expenses	1,320,871	6,207	10,826	1,337,906	(3,918)	1,333,987
Operating income (loss)	16,823	(1,697)	857	15,983	(521)	15,462
Total assets	998,938	9,324	24,307	1,032,570	(3,726)	1,028,844
Depreciation expenses	42,999	65	145	43,211	—	43,211
Capital expenditure	32,635	—	35	32,670	—	32,670
<b>Year ended March 31, 2004</b>						
	Thousands of U.S. Dollars					
Sales to third parties	11,122,476	37,523	66,703	11,226,704	—	11,226,704
Interarea sales and transfers	6,438	—	30,500	36,939	(36,939)	—
Total sales	11,128,915	37,523	97,204	11,263,643	(36,939)	11,226,704
Operating expenses	10,988,950	51,643	90,073	11,130,668	(32,600)	11,098,067
Operating income (loss)	139,964	(14,119)	7,130	132,975	(4,339)	128,636
Total assets	8,310,636	77,577	202,222	8,590,437	(31,002)	8,559,434
Depreciation expenses	357,735	547	1,209	359,492	—	359,492
Capital expenditure	271,506	—	294	271,801	—	271,801

As net sales, operating income and total assets from the automotive business of the Company and its consolidated subsidiaries constituted more than 90% of the consolidated totals for the year ended March 31, 2004, the business segment information in fiscal 2004 is not shown.

	Japan	North America	Asia	Other	Total	Eliminations	Consolidated
<b>Year ended March 31, 2003</b>	Millions of yen						
Sales to third parties	812,932	351,543	—	184,973	1,349,449	—	1,349,449
Interarea sales and transfers	129,523	8,664	—	7,030	145,218	(145,218)	—
Total sales	942,455	360,208	—	192,003	1,494,668	(145,218)	1,349,449
Operating expenses	923,139	371,727	—	188,863	1,483,729	(149,741)	1,333,987
Operating income (loss)	19,316	(11,518)	—	3,140	10,938	4,523	15,462
Total assets	901,618	84,043	—	64,082	1,049,744	(20,900)	1,028,844

(3) Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than export to Japan) of the foreign consolidated subsidiaries, were as follows:

	North America	Asia	Other	Total
<b>Year ended March 31, 2004</b>	Millions of yen			
Overseas sales	251,563	336,217	215,194	802,975
Consolidated net sales	—	—	—	1,430,339
Overseas sales per consolidated net sales	17.6%	23.5%	15.0%	56.1%

	Thousands of U.S. dollars			
Overseas sales	2,380,201	3,181,164	2,036,088	7,597,455
Consolidated net sales	—	—	—	13,533,347
Overseas sales per consolidated net sales	17.60%	23.50%	15.00%	56.10%

	North America	Asia	Other	Total
<b>Year ended March 31, 2003</b>	Millions of yen			
Overseas sales	377,503	210,736	287,223	875,462
Consolidated net sales	—	—	—	1,349,449
Overseas sales per consolidated net sales	28.0%	15.6%	21.3%	64.9%

	Thousands of U.S. dollars			
Overseas sales	3,140,625	1,753,213	2,389,546	7,283,385
Consolidated net sales	—	—	—	11,226,704
Overseas sales per consolidated net sales	28.00%	15.60%	21.30%	64.90%

**REPORT OF INDEPENDENT AUDITORS**

**To The Board of Directors  
Isuzu Motors Limited**

We have audited the accompanying consolidated balance sheets of Isuzu Motors Limited and consolidated subsidiaries as of March 31, 2004, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These statements are continued on the following pages.







## **Isuzu Motors Limited**

### **Date of Establishment**

April 9, 1937

### **Head Office**