

FINANCIAL SECTION

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Five-Year Summary

Years ended March 31

Consolidated Five-Year Summary						Thousands of U.S. Dollars
	Millions of Yen					
	2003	2002	2001	2000	1999	2003
For the Year:						
Net sales	¥1,349,449	¥1,597,701	¥1,569,199	¥1,506,642	¥1,619,101	\$11,226,704
Cost of sales	1,171,366	1,355,190	1,343,166	1,297,291	1,321,173	9,745,144
Gross profit	178,083	242,510	226,032	209,350	297,928	1,481,559
Selling, general and administrative expenses	162,621	227,376	253,349	260,147	288,747	1,352,923
Operating income (loss)	15,462	15,134	(27,316)	(50,797)	9,180	128,636
Income (loss) before special items	(4,200)	(1,984)	(47,435)	(68,047)	(5,784)	(34,944)
Income (loss) before income taxes	(111,527)	(28,506)	(73,300)	(150,937)	16,111	(927,848)
Net income (loss)	(144,301)	(42,991)	(66,787)	(104,186)	6,235	(1,200,515)
At Year-End:						
Total assets	¥1,028,844	¥1,324,144	¥1,891,492	¥1,843,053	¥1,627,302	\$ 8,559,434
Shareholders' equity	26,434	61,084	94,108	169,338	177,771	219,921
Non-Consolidated Five-Year Summary						Thousands of U.S. Dollars
	Millions of Yen					
	2003	2002	2001	2000	1999	2003
For the Year:						
Net sales	¥ 760,608	¥761,904	¥ 829,890	¥ 836,123	¥934,865	\$ 6,327,861
Cost of sales	656,576	655,719	726,601	764,570	820,108	5,462,366
Gross profit	104,032	106,185	103,289	71,553	114,756	865,495
Selling, general and administrative expenses	90,904	98,098	107,002	118,139	109,680	756,275
Operating income (loss)	13,128	8,086	(3,712)	(46,586)	5,076	109,219
Income (loss) before special items	4,880	2,123	(10,578)	(55,412)	1,874	40,604
Income (loss) before income taxes	(146,966)	(45,898)	(66,105)	(172,957)	(4,536)	(1,222,680)
Net income (loss)	(189,447)	(56,224)	(57,938)	(103,861)	(4,566)	(1,576,100)
At Year-End:						
Total assets	¥ 717,601	¥876,680	¥1,032,614	¥1,117,373	¥907,474	\$ 5,970,062
Shareholders' equity	82,743	159,062	217,788	273,012	271,320	688,379

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥120.20=U.S.\$1; the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2003.

Financial Review

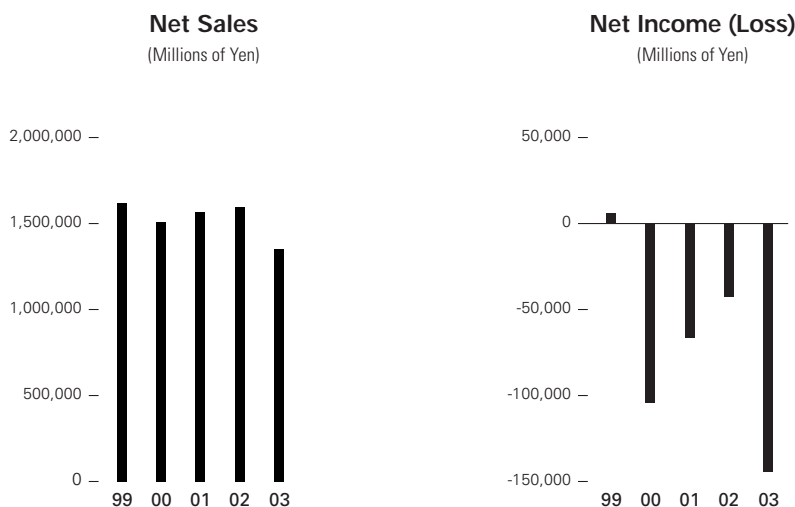
Financial Targets

Under the New Three-Year Business Plan, the company's medium-term management plan running from October 2002 to March 2005, Isuzu is targeting an approximate ¥384.0 billion reduction in total consolidated assets to ¥940.0 billion, and a decrease of roughly ¥290.0 billion in interest-bearing debt to ¥450.0 billion. As of March 31, 2003, total consolidated assets had fallen approximately ¥295.3 billion to ¥1,028.8 billion, with interest-bearing debt standing at ¥517.9 billion, a reduction of ¥220.8 billion from a year earlier. In addition, Isuzu is pushing forward with plans to improve its cash flows.

Income Analysis

During fiscal 2003, the year ended March 31, 2003, consolidated net sales declined 15.5% year on year to ¥1,349,449 million. Total vehicle unit sales fell 9.9% to 277,891 units. Despite higher unit truck sales in Japan, domestic vehicle unit sales decreased 3.5% to 61,894 units, partly reflecting structural reform initiatives at Isuzu. Overseas vehicle unit sales declined 11.6% to 215,997 units. Sales of automotive components for overseas production declined sharply by ¥1,868 million to ¥44,872 million. Meanwhile, engine component sales increased 11.0% to ¥250,311 million on strong demand from the ASEAN region.

Despite losses stemming from structural reforms to the North American business, operating income increased 2.2% year on year to ¥15,462 million, due to cost-cutting measures, including reduced payroll expenses. However, Isuzu reported a net loss of ¥144,301 million. This was mainly attributable to a ¥76,752 million loss on investment for affiliated company restructuring based in North America; a severance benefit of ¥24,808 million for the early retirement plan; a business model reform loss of ¥12,201 million relating to the downsizing of the SUV business; and a ¥5,088 million loss on revaluation of investments. These losses were partly offset by gains on the sale of property, plant, equipment, and investment securities of ¥13,785 million, and a gain of ¥13,437 million on the return of the substituted portion of the employee pension fund to the government.



Segment Information

By Type of Business

Total sales in the automotive segment were ¥1,337,695 million, a decrease of 13.1% year on year. This mainly reflected structural reforms in the North American business. However, the Isuzu Group made a concerted effort to reduce costs, mainly at the parent company and domestic sales companies. The result was a significant 135.1% increase in segment operating income to ¥16,823 million.

Total sales in the finance segment declined 92.9% to ¥4,510 million. This mainly reflected the deconsolidation of IFCO Inc., a domestic automotive leasing firm, following the sale of 80% of shares in the company to a third party in the fiscal year ended March 31, 2002. The segment operating loss was ¥1,697 million due to restructuring costs accompanying the realignment of a North American financial services subsidiary.

The miscellaneous segment recorded sales of large real estate properties in the previous fiscal year, but no comparable real estate sales were posted in the fiscal year under review. Consequently, total sales in the miscellaneous segment decreased 50.8% to ¥11,683 million. Segment operating income declined 46.4% to ¥857 million.

By Geographical Area

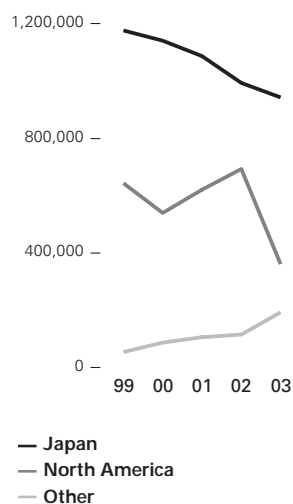
Total sales in Japan declined 5.1% to ¥942,455 million mainly due to the deconsolidation of IFCO. However, operating income improved 37.9% to ¥19,316 million, reflecting improved profitability at Isuzu and its domestic sales companies.

In North America, there was a large decrease in segment sales and a much wider operating loss. Total sales decreased 48.0% to ¥360,208 million, reflecting ongoing structural reforms. The operating loss widened from ¥7,129 million in fiscal 2002 to ¥11,518 million in fiscal 2003.

In other regions, total sales jumped to ¥192,003 million, due to brisk sales of a pickup truck model rolled out in Thailand in 2002 and other factors. Operating income, however, decreased 9.7% to ¥3,140 million, partly due to foreign currency fluctuations.

Total Sales by Geographic Segment

(Millions of Yen)



Financial Position

As of March 31, 2003, total consolidated assets were ¥1,028,844 million, a decline of ¥295,300 million from a year earlier. This mainly reflects inventory reductions, more timely collection of accounts receivables, and the sale of property, plant and equipment. Total current assets decreased ¥115,770 million to ¥433,170 million, reflecting declines in cash and deposits, notes and accounts receivable and inventories. Net property, plant and equipment were ¥477,191 million, a decline of ¥73,987 million from a year ago. Total investments and advances declined ¥104,361 million. As a result, fixed assets decreased ¥179,529 million to ¥595,673 million.

Total current liabilities were ¥660,857 million, a decrease of ¥211,283 million. The main components were declines of ¥173,087 million in bank loans and ¥36,500 million in the current portion of long-term bonds. Long-term liabilities were down ¥48,464 million at ¥338,776 million, mainly due to the redemption of corporate bonds. Interest-bearing debt was reduced ¥220,813 million to ¥517,921 million.

Although Isuzu booked large losses to eliminate future uncertainties, which caused a sharp decline in shareholders' equity, those losses were partly offset with the support of GM and the cooperation of Isuzu's primary lenders. This involved a capital increase of approximately ¥10.0 billion from General Motors Limited, a wholly owned subsidiary of GM, in December 2002 and the conversion of ¥100.0 billion in debt into equity by primary lenders. Shareholders approved a proposal to decrease capital and capital surplus at an Extraordinary Meeting held in November 2002, a move that will help to improve Isuzu's financial structure. As a result, total consolidated shareholders' equity stood at ¥26,434 million at the fiscal year-end. Through these and other actions, Isuzu made significant progress toward improving its financial health.

Cash Flows

Net cash provided by operating activities was ¥49,997 million, ¥5,182 million less than in the previous fiscal year. Despite significant cash outflows accompanying large personnel cuts, cash was provided by efforts to reduce inventories, improve collection of receivables and tighten cash flow management and other initiatives.

Net cash used in investing activities was ¥16,506 million, a reversal of ¥22,790 million from the previous fiscal year. This mainly reflected the large cash outlays needed to recapitalize affiliated companies in North America and the absence of the previous fiscal year's sale of large real estate holdings, offset partly by proceeds from the sale of shares in affiliated companies and the sale of finance receivables of an overseas finance subsidiary.

During fiscal 2003, the restructuring process placed a wide variety of funding requirements on Isuzu, yet the company continued to reduce interest-bearing debt through the redemption of bonds and other means. Net cash used in financing activities was ¥50,029 million, ¥73,501 million less than in the previous fiscal year, in the absence of significant proceeds from the sale of investments.

Consolidated Balance Sheets

As of March 31, 2003, 2002 and 2001

Assets	Millions of Yen			Thousands of U.S. Dollars
	2003	2002	2001	2003
Current Assets:				
Cash and cash equivalents (Notes 2, 4)	¥ 63,389	¥ 79,121	¥ 109,760	\$ 527,364
Receivables:				
Notes and accounts (Note 4)	204,371	220,696	352,459	1,700,258
Less: allowance for doubtful receivables .	(8,331)	(5,292)	(7,696)	(69,317)
Inventories (Note 4)	108,972	156,305	202,038	906,591
Deferred taxes (Note 6)	16,614	12,329	16,159	138,222
Other current assets	48,155	85,780	138,978	400,630
Total Current Assets	433,170	548,941	811,698	3,603,751
Investments and Advances:				
Investments (Notes 3, 4):				
Unconsolidated subsidiaries and affiliated companies	20,387	28,304	22,892	169,609
Others	25,316	37,893	63,362	210,618
Long-term loans	28,799	34,894	20,469	239,597
Deferred taxes (Note 6)	10,697	42,873	68,944	89,001
Other investments and advances	42,478	88,255	134,372	353,399
Less: allowance for doubtful accounts	(14,937)	(15,117)	(10,626)	(124,273)
Total Investments and Advances	112,741	217,103	299,415	937,952
Property, Plant and Equipment (Note 4)				
Land	281,873	281,163	322,290	2,345,039
Buildings and structures	236,600	247,188	265,951	1,968,387
Machinery and equipment	558,851	623,135	913,966	4,649,342
Construction in progress	3,938	9,236	14,304	32,769
Less: accumulated depreciation	(604,072)	(609,543)	(745,369)	(5,025,559)
Net Property, Plant and Equipment	477,191	551,179	771,142	3,969,979
Other Assets	5,739	6,920	9,235	47,751
Total Assets	¥1,028,844	¥1,324,144	¥1,891,492	\$ 8,559,434

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity	Millions of Yen			Thousands of U.S. Dollars
	2003	2002	2001	2003
Current Liabilities:				
Bank loans	¥ 299,869	¥ 472,957	¥ 572,085	\$ 2,494,757
Current portion of bonds	15,500	52,000	31,739	128,951
Commercial paper	-	-	50,000	-
Notes and accounts payable	247,257	237,298	302,544	2,057,047
Accrued expenses	49,335	60,656	86,697	410,445
Accrued income taxes (Note 6)	1,633	1,217	3,694	13,588
Deposits received	13,912	24,654	37,718	115,747
Deferred tax current liabilities (Note 6)	-	5	44	-
Other current liabilities	33,348	23,351	93,356	277,442
Total Current Liabilities	660,857	872,141	1,177,880	5,497,979
Long-term Debt (Note 4)	202,551	213,777	414,384	1,685,122
Accrued Retirement and Severance Benefits (Note 5)	58,487	98,562	105,385	486,588
Deferred Tax Liabilities (Note 6)	2,107	4,557	13,889	17,529
Deferred Tax Liabilities Related to Land Revaluation (Note 9)	56,296	56,460	68,116	468,356
Other Long-term Liabilities	19,333	13,880	13,171	160,845
Minority Interests	2,775	3,679	4,555	23,091
Contingent Liabilities (Note 10)				
Shareholders' Equity:				
Common stock and preferred stock (Notes 7, 8)	55,545	90,329	90,329	462,105
Preferred stock:				
Class I—authorized 37,500,000 shares; issued 37,500,000 shares in 2003				
Class II—authorized 37,500,000 shares; issued 37,500,000 shares in 2003				
Class III—authorized 25,000,000 shares; issued 25,000,000 shares in 2003				
Class IV—authorized 25,000,000 shares; issued 25,000,000 shares in 2003				
Common stock:				
Authorized 3,369,000,000 shares in 2003 and 3,000,000 shares in 2002 and 2001				
Issued 748,526,911 shares in 2003 and 1,277,453,911 shares, 2002 and 2001				
Capital surplus (Note 7)	131,850	101,741	101,741	1,096,924
Accumulated deficit	(242,546)	(213,562)	(188,891)	(2,017,857)
Variance of land revaluation (Note 9)	90,064	91,287	104,932	749,290
Unrealized holding gain (loss) on securities	896	(2,213)	-	7,459
Foreign currency translation adjustments	(8,883)	(6,474)	(13,239)	(73,906)
Less: treasury stock, at cost - 2,622,160 common shares in 2003	(492)	(22)	(764)	(4,093)
Total Shareholders' Equity	26,434	61,084	94,108	219,921
Total Liabilities, Minority Interests and Shareholders' Equity	¥1,028,844	¥1,324,144	¥1,891,492	\$ 8,559,434

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

For the years ended March 31, 2003, 2002 and 2001

	Millions of Yen			Thousands of U.S. Dollars
	2003	2002	2001	2003
Net Sales	¥1,349,449	¥1,597,701	¥1,569,199	\$11,226,704
Cost of Sales	1,171,366	1,355,190	1,343,166	9,745,144
Gross Profit	178,083	242,510	226,032	1,481,559
Selling, General and Administrative Expenses (Notes 5, 12)	162,621	227,376	253,349	1,352,923
Operating Income (Loss)	15,462	15,134	(27,316)	128,636
Other Income (Expenses):				
Interest and dividend income	2,724	4,145	5,318	22,663
Interest expense	(18,026)	(21,848)	(23,522)	(149,971)
Equity in earnings of unconsolidated subsidiaries and affiliates	(726)	(2,211)	(1,149)	(6,044)
Others, net	(3,633)	2,794	(766)	(30,227)
Loss before special items	(4,200)	(1,984)	(47,435)	(34,944)
Extraordinary Items:				
Gain (loss) on sales or disposal of property, plant and equipment, net	(504)	5,526	5,306	(4,200)
Gain on sales of investments	9,947	7,878	1,017	82,760
Gains on return of substituted portion of employee pension fund (Notes 2, 5)	13,437	-	-	111,791
Loss on revaluation of investments	(9,538)	(15,209)	(17,006)	(79,355)
Loss on business model reform	(12,201)	-	-	(101,507)
Loss on investment for affiliated company restructuring	(76,752)	-	-	(638,537)
Severance benefit of early retirement plan ...	(24,808)	(14,475)	-	(206,391)
Others, net	(6,906)	(10,241)	(15,181)	(57,462)
Loss before Income Taxes and Minority Interests	(111,527)	(28,506)	(73,300)	(927,848)
Income Taxes (Note 6):				
Current	5,103	5,616	4,149	42,455
Deferred	25,348	9,532	(5,197)	210,883
Minority Interests in Income of Consolidated Subsidiaries	2,323	(664)	(5,466)	19,327
Net Loss	¥ (144,301)	¥ (42,991)	¥ (66,787)	\$ (1,200,515)
		Yen		U.S. Dollars
Per Share of Common Stock:				
Net Loss	¥(131.34)	¥(33.68)	¥(52.76)	\$(1.09)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

For the years ended March 31, 2003, 2002, 2001 and 2000

	Millions of Yen				Thousands of U.S. Dollars
	2003	2002	2001	2000	2003
Common Stock and Preferred Stock:					
Balance at beginning of the year . . .	¥ 90,329	¥ 90,329	¥ 89,619	¥ 89,619	\$ 751,496
Add:					
Issuance of common stock	5,045	-	710	-	41,972
Issuance of preferred stock	50,000	-	-	-	415,973
Deduct:					
Reduction of capital (offset with deficit)	(89,829)	-	-	-	(747,336)
Balance at end of the year	¥ 55,545	¥ 90,329	¥ 90,329	¥ 89,619	\$ 462,105
Capital Surplus:					
Balance at beginning of the year . . .	¥ 101,741	¥ 101,741	¥ 99,212	¥ 99,212	\$ 846,434
Add:					
Profit from merger	-	-	2,528	-	-
Issuance of common stock	4,954	-	-	-	41,222
Issuance of preferred stock	50,000	-	-	-	415,973
Deduct:					
Reduction of capital reserve (offset with deficit)	(24,846)	-	-	-	(206,705)
Balance at end of the year	¥ 131,850	¥ 101,741	¥ 101,741	¥ 99,212	\$ 1,096,924
Variance of Land Revaluation					
Balance at beginning of the year . . .	¥ 91,287	¥ 104,932	¥ 102,292	¥ -	\$ 759,459
Add:					
Land revaluation	-	3,841	2,501	102,292	-
Reversal of land revaluation	-	-	138	-	-
Deduct:					
Transfer to retained earnings and other	(1,222)	(17,486)	-	-	(10,169)
Balance at end of the year	¥ 90,064	¥ 91,287	¥ 104,932	¥ 102,292	\$ 749,290
Accumulated Deficit:					
Balance at beginning of the year . . .	¥(213,562)	¥(188,891)	¥(121,785)	¥ (11,058)	\$(1,776,724)
Add:					
Reduction of capital	89,829	-	-	-	747,336
Reduction of capital reserve	24,846	-	-	-	206,705
Transfer from variance of land revaluation	1,268	17,486	(138)	-	10,551
Other	47	2,583	577	2,555	393
Deduct:					
Net loss	(144,301)	(42,991)	(66,787)	(104,186)	(1,200,515)
Other	(673)	(1,749)	(758)	(9,096)	(5,605)
Balance at end of the year	¥(242,546)	¥(213,562)	¥(188,891)	¥(121,785)	\$(2,017,857)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2003, 2002 and 2001

	Millions of Yen			Thousands of U.S. Dollars
	2003	2002	2001	2003
Cash Flows from Operating Activities				
Loss before income taxes and minority interests	¥ 111,527	¥ 28,506	¥ 73,300	\$ 927,848
Depreciation and amortization	43,387	73,629	104,886	360,964
Equity in loss of unconsolidated subsidiaries and affiliates	726	2,211	1,149	6,044
Loss on revaluation of investments	5,088	15,209	14,460	42,332
Provision for retirement benefits, less payments	(40,150)	(4,725)	(10,329)	(334,031)
Provision for allowance for product warranties	1,263	(1,564)	(964)	10,508
Provision for allowance for bonuses	(3,307)	(2,748)	(2,520)	(27,514)
Provision for allowance for doubtful assets	2,999	1,842	468	24,952
Interest and dividend income	(2,724)	(4,146)	(5,440)	(22,663)
Interest expenses	18,026	21,848	23,522	149,971
Gain on disposal of property assets	(3,838)	(10,731)	(10,721)	(31,937)
Loss on disposal of property assets	4,343	8,122	8,360	36,137
Loss on investment for affiliated company restructuring	72,795	-	-	605,620
Gain on sales of securities	(8,060)	(5,943)	(973)	(67,055)
Decrease (increase) in receivables	8,313	35,113	(13,902)	69,164
Decrease (increase) in inventories	29,163	56,643	18,200	242,625
Decrease (increase) in other current assets	18,130	6,787	(12,102)	150,835
Increase (decrease) in notes and accounts payable	29,325	(29,065)	(34,823)	243,973
Increase (decrease) in accrued expenses and taxes	(3,004)	(25,811)	7,797	(24,994)
Increase (decrease) in deposits received	(10,380)	(15,611)	7,395	(86,364)
Increase (decrease) in other liabilities	17,507	(5,208)	32,048	145,649
Others	1,437	(8,717)	(1,469)	11,960
Cash received from interest and dividends	3,650	6,382	4,834	30,374
Cash paid for interest	(18,466)	(22,337)	(23,555)	(153,633)
Cash paid for income taxes	(4,702)	(7,492)	(2,025)	(39,124)
Net Cash Provided by Operating Activities	49,997	55,179	30,995	415,950
Cash Flows from Investing Activities				
Proceeds from sales of securities	(50,247)	(2,450)	(1,955)	(418,036)
Payments for purchase of securities	16,934	11,738	3,788	140,886
Payments for property, plant and equipment	(34,703)	(30,215)	(26,180)	(288,714)
Payments for leased property, plant and equipment	-	(37,395)	(73,105)	-
Proceeds from sales of property, plant and equipment	9,284	64,271	17,831	77,245
Payments for long-term loans receivable	(8,735)	(22,919)	(3,500)	(72,677)
Collection of long-term loans receivable	16,600	3,820	6,014	138,108
Increase (decrease) in short-term loans receivable	(245)	10,563	9,469	(2,038)
Increase (decrease) in finance receivables of overseas subsidiary	43,376	14,129	(35,527)	360,871
Others	(8,771)	(5,258)	(4,619)	(72,975)
Net Cash Provided by (Used in) Investing Activities	(16,506)	6,283	(107,785)	(137,329)
Cash Flows from Financing Activities				
Issuance of common stock	9,999	-	-	83,194
Increase (decrease) in short-term debt	(40,088)	(11,944)	36,002	(333,513)
Increase (decrease) in commercial paper	-	(50,000)	35,000	-
Proceeds from long-term debt	136,453	76,753	121,110	1,135,217
Payments of long-term debt	(103,368)	(92,953)	(116,657)	(859,972)
Payments (issuance) of bonds	(53,000)	(31,739)	(32,500)	(440,931)
Others	(25)	(13,647)	9,833	(211)
Net Cash Provided by (Used in) Financing Activities	(50,029)	(123,530)	52,788	(416,217)
Effect of Exchange Rate Changes on Cash and Cash Equivalents				
Net Increase (Decrease) in Cash and Cash Equivalents	(2,752)	2,649	2,489	(22,897)
Cash and Cash Equivalents at Beginning of the Year	(19,291)	(59,418)	(21,512)	(160,493)
	72,284	137,363	157,584	601,371
Increase (Decrease) in Cash and Cash Equivalents from the Addition or Exclusion of Consolidated Companies				
	(42)	(5,660)	1,291	(353)
Cash and Cash Equivalents at End of the Year (Notes 2)	¥ 52,951	¥ 72,284	¥ 137,363	\$ 440,525

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Basis of Presenting the Financial Statements

The accompanying consolidated financial statements of Isuzu Motors Limited ("the Company") and its consolidated subsidiaries have been prepared from the consolidated financial statements filed with the Minister of Finance as required by the Securities and Exchange Law of Japan, in accordance with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than 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 shareholders' 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 ¥120.20=U.S.\$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2003. 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 2002 and 2001 financial statements to conform to the presentation for 2003.

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 a 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 were recorded in "Assets" in the prior fiscal year, are recorded in "Equity" or "Minority Interest" from March 31, 2001.

c) Securities

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

Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method from the fiscal year 2002.

The Company has adopted the new Financial Accounting Standard for Financial Instruments in Japan effective from April 1, 2000. The new accounting standard for financial instruments requires that securities be classified into three categories: trading, held-to-maturity or other securities since the fiscal year 2001, and other securities with a market value are stated at fair value from the fiscal year 2002.

The difference between the acquisition cost and the carrying value of other securities, including unrealized gain and loss, is recognized in "Unrealized holding loss on securities."

Unrealized holding loss on other securities, net of the applicable income taxes, was charged by ¥2,213 million to shareholders' equity from the fiscal year 2002.

The effect of the adoption of the new standard on the consolidated balance sheets was to decrease investments by ¥2,204 million, to increase deferred taxes assets by ¥4 million and to increase minority interests by ¥13 million for the year ended March 31, 2002.

d) Inventories

Inventories of the Company are valued at cost using the periodic average method. Inventories of consolidated subsidiaries are principally valued at cost using the specific identification method.

e) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is principally computed by the straight-line method over the applicable useful lives.

The Company also changed and shortened the estimated useful lives and its scrap value of some property, plant and equipment based upon an available time since the fiscal year 2001.

f) Software Costs

Software used by the Company and its consolidated subsidiaries is depreciated using the straight-line method, based on the useful life as determined by the Company and its consolidated subsidiaries (generally 5 years).

g) Leases

Finance lease transactions, except for those which meet the conditions that the ownership of the lease assets is substantially transferred to the lessee, are accounted for on a basis similar to ordinary rental transactions.

h) Employees' Retirement Benefits

Employees' retirement benefits covering all employees are provided through an unfunded lump-sum benefit plan and a funded pension plan. Under the plans, eligible employees are entitled, under most circumstances, to severance payments based on compensation at the time of severance and years of service.

The Company has adopted the new Financial Accounting Standard for Retirement Benefits in Japan effective from April 1, 2000. In accordance with this standard, accrued employees' retirement 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.

Following the enactment of the Welfare Pension Insurance Law in Japan, on July 1, 2002, the Company Employee Pension Fund, which the Company participates in, obtained approval from the Japanese Ministry of Health, Labour and Welfare for exemption from the future benefit obligation with respect to the portion of the Employee Pension Fund that the Company operates on behalf of the Government (the so-called substituted portion).

The Company applied transitional provisions as prescribed in paragraph 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (Accounting Committee Report No.13 issued by the Japanese Institute of Certified Public Accountants) and a gain in the amount of ¥13,437 million (\$111,791 thousand) for the settlement of the substitutional portion was recognized at the date of approval from Japan's Ministry of Health, Labour and Welfare. The amount of plan assets to be returned is ¥29,150 million (\$242,513 thousand) at the end of the fiscal year ended March 31, 2003.

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 has adopted 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, 2003 is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Net loss	144,301	1,200,515
Less: Components not pertaining to common shareholders;		
Bonuses to directors and corporate auditors	7	58
Net income pertaining to common stock	144,308	1,200,573
Average outstanding shares of common stock (share):	1,098,725,929	1,098,725,929

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 year ended March 31, 2003 is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash and time deposits on the consolidated balance sheet	¥ 63,389	\$527,364
Time deposits with original maturities over three months at the time of purchase	(10,438)	(86,839)
Cash and cash equivalents on the statement of cash flows	¥ 52,951	\$440,525

m) Treasury Stocks

Effective from the fiscal year ended March 31, 2003, the Company adopted the new Japanese regulation for the accounting standard regarding treasury stocks and reversal of legal reserves. As a result of the new regulation, there is no effect on the operating results for the fiscal year ended March 31, 2003.

n) Accounting Change

The house rent income and its cost expenses were recorded in "Other Income (Expenses)" until the fiscal year 2000. However, because of the revision of the operation to use the fixed property effectively, the Company changed its accounting method of the house rent and its income and expenses are recognized as "Net sales" and "Cost of sales" from the fiscal year 2001.

3. Investments

Fair Value of other securities as of March 31, 2003 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	¥ 5,804	¥ 8,134	¥ 2,329	\$ 48,292	\$ 67,674	\$ 19,381
Bonds:						
Investment trusts	157	271	113	1,312	2,260	948
Total	¥ 5,962	¥ 8,406	¥ 2,443	\$ 49,605	\$ 69,934	\$ 20,329
Unrealized loss:						
Stocks	¥13,410	¥12,036	¥(1,374)	\$111,570	\$100,133	\$(11,437)
Bonds:						
Corporate bonds	13	12	(0)	108	107	(1)
Total	¥13,423	¥12,048	¥(1,374)	\$111,679	\$100,240	\$(11,438)

Proceeds from sales of securities classified as other securities amounted to ¥6,433 million (\$53,526 thousand) with an aggregate gain on sales of ¥111 million (\$928 thousand) and an aggregate loss on sales of ¥1,172 million (\$9,756 thousand) for the year ended March 31, 2003.

Non-marketable securities classified as other securities at March 31, 2003 amounted to ¥4,861 million (\$40,443 thousand).

The redemption schedule for bonds with maturity dates at March 31, 2003 was summarized as follows:

	Millions of Yen	
	Due in one year or less	Due after one through five years
Corporate bonds	-	¥13

	Thousands of U.S. Dollars	
	Due in one year or less	Due after one through five years
Corporate bonds	-	\$108

4. Long-term Debt

Long-term debt at March 31, 2003 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
3.00% mortgage bonds due 2003 ..	¥ 500	\$ 4,159
2.65% straight bonds due 2004 . . .	10,000	83,194
3.45% straight bonds due 2005 . . .	10,000	83,194
2.50% straight bonds due 2003 . . .	5,000	41,597
3.00% straight bonds due 2004 . . .	5,000	41,597
Loans	261,733	2,177,481
Less: current portion	89,681	746,102
	<u>¥202,551</u>	<u>\$1,685,122</u>

The annual maturities of long-term debt at March 31, 2003 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
2004	¥ 80,611	\$ 670,648
2005	49,956	415,612
2006	23,430	194,929
Thereafter	48,552	403,932
Total	<u>¥202,551</u>	<u>\$1,685,122</u>

The assets pledged as collateral for certain loans and other liabilities at March 31, 2003 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash and time deposits	¥ 11,488	\$ 95,577
Notes and accounts receivable . . .	72,642	604,345
Inventories	30,551	254,174
Buildings and structures	83,471	694,441
Machinery and equipment	47,253	393,127
Land	258,592	2,151,348
Securities	19,222	159,920
Others	14,867	123,685

5. Retirement Benefits Obligation and Pension Plan

(1) Retirement benefits obligation as of March 31, 2003:

	Millions of Yen	Thousands of U.S. Dollars
Projected benefits obligation at end of the year	¥(118,492)	\$(985,793)
Fair value of plan assets	21,953	182,643
Accrued retirement and severance benefits on balance sheets	58,487	486,588
Net	¥ (38,050)	\$(316,562)
Unrecognized actuarial net loss . . .	¥ (38,050)	\$(316,562)

Following the enactment of the Welfare Pension Insurance Law in Japan, on July 1, 2002, the Company Employee Pension Fund, which the Company participates in, obtained approval from the Japanese Ministry of Health, Labour and Welfare for exemption from the future benefit obligation with respect to the portion of the Employee Pension Fund that the Company operates on behalf of the Government (the so-called substituted portion.)

The Company applied transitional provisions as prescribed in paragraph 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (Accounting Committee Report No.13 issued by the Japanese Institute of Certified Public Accountants) and a gain in the amount of ¥13,437 million (\$111,791 thousand) for the settlement of the substituted portion was recognized at the date of approval from Japan's Ministry of Health, Labour and Welfare. The amount of plan assets to be returned is ¥29,150 million (\$242,513 thousand) at the end of the fiscal year ended March 31, 2003.

(2) Retirement benefit cost for the year ended March 31, 2003:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 9,709	\$ 80,774
Interest cost on projected benefit obligation	3,991	33,209
Expected return on plan assets . . .	(1,484)	(12,349)
Amortization of actuarial net loss (gain)	3,053	25,407
Amortization of prior service cost . .	(9,384)	(78,076)
Net periodic pension cost	<u>¥ 5,885</u>	<u>\$ 48,965</u>
Gains on return of substituted portions of employee pension fund	¥(13,437)	\$(111,791)
Total	<u>¥ (7,551)</u>	<u>\$ (62,826)</u>

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

	2003
Discount rate	2.3%
Expected rate of return on plan assets	1.5-5.5%
Recognition period of prior service cost	1 year
Amortization period of actuarial net loss (gain) . .	10 years
Amortization period of net obligation arising from accounting changes	1 year

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, 2003 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Deferred tax assets:		
Retirement benefits	¥ 15,890	\$ 132,198
Loss from revaluation of securities and allowance for doubtful accounts	81,428	677,445
Accrued expenses	6,196	51,552
Bonus payment reserve	2,496	20,772
Inventory write down	1,101	9,161
Loss carried forward	78,559	653,574
Unrealized gain	9,829	81,775
Other	52,630	437,856
Valuation allowance	(208,594)	(1,735,397)
Deferred tax liabilities		
Reserve for deferred income tax of fixed assets	(5,303)	(44,125)
Depreciation adjustment of foreign subsidiaries	(6,802)	(56,592)
Other	(120)	(998)
Total deferred tax assets	¥ 27,312	\$ 227,223
Deferred tax liabilities:		
Reserve for deferred income tax of fixed assets	540	4,494
Other	1,566	13,035
Total deferred tax liabilities	¥ 2,107	\$ 17,529

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 outstanding shares having no par value as of October 1, 2001.

The Amendment also provides that all share issuances after September 30, 2001 will be of shares with no par value. Prior to the date on which the Amendment became effective, the Company's shares had a par value of ¥50 per share.

The Code provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

The legal reserves of the consolidated subsidiaries are included in retained earnings in the accompanying consolidated financial statements.

The Company received in trust 619,017,000 shares of common stock owned by General Motors Limited (GML), and then canceled the received common stock on December 25, 2002. Although the proposed cancellation of common stock has no effect on the stock owned by shareholders for which the Company wishes to express its deep apology.

The Company issued new common stock for GML and some classes of preferred stock for certain banks. The issuance of common stock and preferred stock increased the Company's capital from ¥90,329 million (\$751,496 thousand) to ¥145,374 million (\$1,209,441 thousand) at December 26, 2002.

The Company's capital in the amount of ¥145,374 million (\$1,209,441 thousand) was reduced ¥89,829 million (\$747,336 thousand) without any disbursement which offset with the deficit, into ¥55,545 million (\$462,105 thousand) on January 7, 2003, which was approved by the shareholders' meeting held on November 27, 2002.

The Company's capital surplus in the amount of ¥22,582 million (\$187,874 thousand) was transferred into retained earnings, which was approved by the Extraordinary Meeting of Shareholders held on November 27, 2002.

8. Preferred Stock

The Company issued preferred stock (Class I, Class II, Class III and Class IV) in the fiscal year 2003. Interim dividends shall not be paid to preferred shareholders or to preferentially registered pledges. When the amount of the dividend to be paid to the preferred shareholders or preferentially registered pledges in a given business year does not reach the amount of the preferred dividend, the shortfall will not be carried over to the next business year for accumulation.

When the residual property of the Company is to be distributed, ¥800 per share of the preferred stocks shall be paid to the preferred shareholders or to the preferentially registered pledges before the ordinary shareholders or the ordinarily registered pledges.

No other residual property than the above shall be distributed to the preferred shareholders or to the preferentially registered pledges.

The Company can always purchase preferred stocks and cancel the stocks at the purchased price by a profit distributed to shareholders. The preferred shareholders shall not have a voting right at the General Meeting of Shareholders.

The Company shall not conduct the consolidation or division of preferred stocks unless otherwise stipulated by law.

The Company shall not give preemptive rights, stock acquisition rights or subscription rights of bonds with stock acquisition rights to the preferred shareholders.

Payment of dividends and distribution of residual property to each class of the preferred stock shall be made according to the same order of priority.

a) Outline of the Issue of Class I Preferred Stock**(1) Preferred Dividends**

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

Class I preferred dividend = ¥800 x (Japanese Yen TIBOR + 0.750%)

Any portion of the dividend which exceeds the amount of the Class I preferred stocks shall not be paid to Class I preferred shareholders and Class I preferentially registered pledges.

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

The period for claiming the conversion of the Class I preferred stocks shall be from October 1, 2006 to September 30, 2022.

(ii) Conditions for Conversion

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

(c) Adjustment of Conversion Price

After the issue of Class I preferred stocks, if any of the following applies, the conversion price shall be adjusted by the formula below (hereinafter referred to as the formula for the adjustment of conversion price.) In this formula, figures shall be calculated to the first decimal point and then rounded up.

Adj. conver. price =

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

(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:

$$\text{No. of common stocks issued through conversion} = \frac{\text{Total amount of issue price of Class I preferred stocks submitted by shareholders for asking conversion}}{\text{Conversion price}}$$

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 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 or after 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

(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, 2007 to September 30, 2022 (hereinafter referred to as the date of revision of conversion price) 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 the 45th business day preceding the date of revision of conversion price (hereinafter referred to as actual value calculation period) 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 conversion price and revised according to (c),) the floor conversion price shall be treated as the revised conversion price.

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 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 in (2) (ii) (c) on the lefthand page.)

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 Code.

b) Outline of the Issue of Class II Preferred Stock

(1) Preferred Dividends

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

Class II preferred dividend = ¥800 x (Japanese Yen TIBOR + 1.125%)

Any portion of the 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.

(2) 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.

(c) Adjustment of Conversion Price

After the issue of Class II preferred stocks, if any of the following applies, the conversion price shall be adjusted by the formula below (hereinafter referred to as the formula for the adjustment of conversion price.) In this formula, figures shall be calculated to the first decimal point and then rounded up.

Adj. conver. price =

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

(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 II preferred stocks shall be as follows:

$$\text{No. of common stocks issued through conversion} = \frac{\text{Total amount of issue price of Class II preferred stocks submitted by shareholders for asking conversion}}{\text{Conversion price}}$$

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 II 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 or after the next day of the last day of the said period (hereinafter referred to as the base date

(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) 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 the 45th business day preceding the date of revision of conversion price (hereinafter referred to as actual value calculation period) 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 conversion price and revised according to (c),) the floor conversion price shall be treated as the revised conversion price.

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 II 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 II preferred stocks shall become common stocks whose number is obtained from dividing the amount equal to the amount paid per stock of the Class II preferred stock by the floor conversion price. Also, when the average price is more than the initial 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 II preferred stocks by the initial conversion price.

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

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 Code.

c) Outline of the Issue of Class III Preferred Stock

(1) Preferred Dividends

Class III preferred dividend shall be calculated according to the following formula. Class III 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 III preferred dividend will be set at ¥80.

Class III preferred dividend = ¥800 x (Japanese Yen TIBOR + 1.500%)

Any portion of dividend which exceeds the amount of the Class III preferred stocks shall not be paid to Class III preferred shareholders and Class III preferentially registered pledges.

(2) Conversion Contract Right

(i) Period for Claiming Conversion

Period for claiming the conversion of the Class III preferred stocks shall be from October 1, 2010 to September 30, 2027.

(ii) Conditions for Conversion

The Class III 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

This is equal to 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 the 45th business day preceding the first day of the 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 the 45th business day preceding the date of revision of conversion price (hereinafter referred to as actual value calculation period) on October 1 every year from October 1, 2011 to September 30, 2027 (hereinafter referred to as the date of revision of 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 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 point and then rounded up, hereinafter referred to as floor conversion price and revised according to (c),) the floor conversion price shall be treated as the revised conversion price. Also after the above calculation, when the revised conversion price is above the price equal to 200% of the initial conversion price (calculated to the first decimal point and then rounded up, hereinafter referred to as the maximum 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 following applies, the conversion price shall be adjusted by the formula below (hereinafter referred to as the formula for the adjustment of conversion price.) In this formula, figures shall be calculated to the first decimal point and then rounded up.

Adj. conver. price =

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

(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 III preferred stocks shall be as follows:

$$\text{No. of common stocks issued through conversion} = \frac{\text{Total amount of issue price of Class III preferred stocks submitted by shareholders for asking conversion}}{\text{Conversion price}}$$

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 or after 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 stocks 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 Code.

d) Outline of the Issue of Class IV Preferred Stock

(1) Preferred Dividends

The amount of preferred dividends per share (hereinafter referred to as "Class IV preferred dividends") shall be calculated according to the following formula. Class IV preferred dividends 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 dividends will be set at ¥80.

Class IV preferred dividend = ¥800 x (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 the 45th business day preceding the date of revision of conversion price (hereinafter referred to as actual value calculation period) on October 1 every year from October 1, 2013 to September 30, 2032 (hereinafter referred to as the date of revision of 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 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 point and then rounded up, hereinafter referred to as floor conversion price and revised according to (c),) the floor conversion price shall be treated as the revised conversion price. Also after the above calculation, when the revised conversion price is above the price equal to 200% of the initial conversion price (calculated to the first decimal point and then rounded up, hereinafter referred to as the maximum 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 IV preferred stocks, if any of the followings 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.

Adj. conver. price =

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

(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 IV preferred stocks shall be as follows.

$$\text{No. of common stocks issued through conversion} = \frac{\text{Total amount of issue price of Class IV preferred stocks submitted by shareholders for asking conversion}}{\text{Conversion price}}$$

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 IV 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 or after 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 IV 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 IV preferred stocks shall become common stocks whose number is obtained from dividing the amount equal to the amount paid per stock of the Class IV 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 IV 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 Code.

9. Land Revaluation

In accordance with the Law Concerning Revaluation of Land enacted on 31 March, 1999, the land used for business owned by the Company was revalued, and the unrealized gain on the revaluation of land, net of deferred tax, was reported as "Variance of Land Revaluation" within Shareholders' Equity, and the relevant deferred tax was included in Liabilities as "Deferred Tax Liabilities related to Land Revaluation" for the fiscal year ended 31 March, 2003.

In accordance with the Law concerning Revaluation of Land enacted on March 31, 1998, the land used for business owned by some of the Company's non-consolidated subsidiaries and affiliates which were accounted for by the equity method were revalued.

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 31 March, 1999.

10. Contingent Liabilities

Contingent liabilities at March 31, 2003 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees of bank loans	¥17,325	\$144,142
Export bills discounted	2,357	19,617
Notes discounted	3,767	31,344
Notes endorsed	648	5,398
Accounts and loans receivable sold to others	14,042	116,828

11. Lease Transactions

(1) Finance lease transactions, except for those which meet the condition 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, 2003 and 2002 concerning the finance lease assets:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Acquisition costs	¥62,540	¥68,291	\$520,307
Accumulated depreciation	34,286	33,097	285,243
Net balance	28,254	35,193	235,064

(ii) Future payment obligations of finance lease expenses as of March 31, 2003 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Portion due within one year	¥10,761	¥11,299	\$ 89,530
Thereafter	20,073	27,231	167,000
Lease expense paid	12,405	13,572	103,206

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 leases were as follows:

(a) As a lessee

Future payment obligations of operating lease expenses as of March 31, 2003 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Portion due within one year	¥ 868	¥1,291	\$ 7,221
Thereafter	3,572	5,193	29,718

(b) As a lessor

Future receivable income of operating lease commitments as of March 31, 2003 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Portion due within one year	¥17	¥42	\$141
Thereafter	64	82	538

12. Segment Information

(1) The business segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2003 and 2002 was as follows:

Year ended March 31, 2003	Automotive	Finance	Miscellaneous	Total	Eliminations	Consolidated
	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

Year ended March 31, 2002	Thousands of U.S. Dollars					
	Automotive	Finance	Miscellaneous	Total	Eliminations	Consolidated
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

Year ended March 31, 2002	Automotive	Finance	Miscellaneous	Total	Eliminations	Consolidated
	Millions of Yen					
Sales to third parties	¥1,518,134	¥59,886	¥19,680	¥1,597,701	¥ -	¥1,597,701
Interarea sales and transfers	21,921	3,281	4,079	29,282	(29,282)	-
Total sales	1,540,056	63,168	23,759	1,626,984	(29,282)	1,597,701
Operating expenses	1,532,899	57,070	22,159	1,612,129	(29,562)	1,582,567
Operating income	7,156	6,097	1,600	14,854	279	15,134
Total assets	1,217,810	73,364	36,785	1,327,960	(3,815)	1,324,144
Depreciation expenses	43,788	29,462	316	73,567	-	73,567
Capital expenditure	29,324	37,326	11	66,662	(34)	66,628

(2) The geographical segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2003 and 2002 was as follows:

	Japan	North America	Other	Total	Eliminations	Consolidated
Year ended March 31, 2003	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

	Thousands of U.S. Dollars					
Sales to third parties	\$6,763,164	\$2,924,658	\$1,538,880	\$11,226,704	\$ -	\$11,226,704
Interarea sales and transfers	1,077,566	72,087	58,486	1,208,140	(1,208,140)	-
Total sales	7,840,731	2,996,745	1,597,366	12,434,844	(1,208,140)	11,226,704
Operating expenses	7,680,025	3,092,570	1,571,241	12,343,838	(1,245,770)	11,098,067
Operating income (loss)	160,706	(95,824)	26,124	91,006	37,630	128,636
Total assets	7,500,983	699,201	533,129	8,733,313	(173,878)	8,559,434

	Japan	North America	Other	Total	Eliminations	Consolidated
Year ended March 31, 2002	Millions of Yen					
Sales to third parties	¥ 830,639	¥658,713	¥108,349	¥1,597,701	¥ -	¥1,597,701
Interarea sales and transfers	162,421	33,927	6,293	202,642	(202,642)	-
Total sales	993,060	692,640	114,642	1,800,343	(202,642)	1,597,701
Operating expenses	979,052	699,769	111,165	1,789,987	(207,420)	1,582,567
Operating income (loss)	14,008	(7,129)	3,477	10,356	4,777	15,134
Total assets	1,015,159	259,600	86,194	1,360,954	(36,809)	1,324,144

(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 American	Asian	Other	Total
Year ended March 31, 2003	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	28.0%	15.6%	21.3%	64.9%

	North American	Asian	Other	Total
Year ended March 31, 2002	Millions of Yen			
Overseas sales	¥705,314	¥127,503	¥260,976	¥1,093,794
Consolidated net sales	-	-	-	1,597,701
Overseas sales per consolidated net sales	44.1%	8.0%	16.3%	68.5%

Independent Auditors' Report

Shin Nihon & Co.

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, 2003, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Isuzu Motors Limited and consolidated subsidiaries at March 31, 2003, 2002 and 2001, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Shin Nihon & Co.

June 27, 2003

See Note 1 to the consolidated financial statements which explains the basis of preparation of the consolidated financial statements of Isuzu Motors Limited and consolidated subsidiaries under Japanese accounting principles and practices.