



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 and higher sales. As a result, our consolidated-basis operating margin widened 4.8 points to 5.9%.

We are also strengthening our balance sheet. In fiscal 2004, we reached the debt-reduction target set forth in our New Three-Year Business Plan one year earlier than planned. Our consolidated-basis shareholders equity ratio also rose 7.6 points to 10.2% thanks to fiscal 2004's record earnings and fresh capital from the conversion of bonds with stock acquisition rights. While we still view this level of equity

as inadequate, we aim to continue building equity at this pace going forward to further shore up our balance sheet.

This is the final year of our New Three-Year Business Plan, and we intend to forge ahead on meeting its goals. This year in particular, we believe that achieving these targets is crucial for ensuring a bright future, so Isuzu—the company and the group as a whole—will strive to meet these objectives. By moving ahead with structural changes outlined in the plan, we aim to put Isuzu in on a footing where we can begin paying dividends to our shareholders again as soon as possible.

Though we expect the Japanese economy to continue its slow recovery this fiscal year, we do not believe this will mean an automatic end to the challenging business environment. We foresee a downturn this year after the brisk truck sales recorded in Japan in fiscal 2004, and the stronger yen could impact exports. Competition is also intensifying at home and abroad.

Going forward we aim to work even harder to use our superior emissions control technology and other environmental technologies to proactively address environmental issues. Furthermore, as replacement demand for vehicles in Japan stemming from the introduction of new emission runs its course, we are committed to making earnings less vulnerable to fluctuations in domestic demand by strengthening our brands and technologies while diligently pursuing cost reductions.

The Japanese economy is expected to continue slowly recovering, and the market for trucks will likely remain resilient. However, partly due to the strong base of comparison from the prior year and also due to the impact of the strengthening yen on exports as well as intensifying competition at home and abroad, the business environment will remain difficult. Currently, we see sales declining 5.6% from a year earlier to ¥1,350,000 million, working profit falling 20.4% to ¥65,000 million, and net profit shrinking 8.6% to ¥50,000 million in the fiscal year ending March 31, 2005.

However, these figures either meet or exceed the targets set forth in our New Three-Year Business Plan, so we expect earnings to remain on track.

We wish to note that Isuzu is striving to be a leader in environmental responsibility. Not only have we taken the lead in developing diesel engines that meet Japan's rigorous new emissions regulations, we have also expanded our lineup of CNG-powered trucks and we are opening CNG filling stations to fuel these vehicles.

On my desk I keep a piece of Japanese calligraphy that says *sekisei*, or "absolute sincerity." This motto is derived from the words of Kaishu Katsu, a prominent statesman of the Meiji Period, when Japan was opening up to the West. He admonished his readers that people are easily swayed, but one must live life in such a way that one will not be ashamed before heaven.

As someone who enjoys hiking on the nearby Tanzawa and Hakone Mountains, I am frequently in awe of nature and I appreciate how dependent we are upon it. We have an obligation to hand down this natural environment to future generations.

Although the Kyoto Protocol has yet to be enforced, companies that consume large amounts of energy in the course of business must be cognizant of our responsibility as members of society, and do what we can. Companies like Isuzu that make products that emit CO₂ in the course of operation have a particular obligation to strive to minimize exhaust gases.

As we move into the final year of our New Three-Year Business Plan, we look forward to your continued support as we continue to transform Isuzu into a leader in engineering distribution systems.

June 2004



Yoshinori Ida
President & Representative Director