

# Financial Section

## ISUZU MOTOR LIMITED ANNUAL REPORT 2006

<u>Consolidated Five-Year Summary</u>	<b>20</b>
<u>MD&amp;A</u>	<b>21</b>
<u>Consolidated Balance Sheets</u>	<b>24</b>
<u>Consolidated Statements of Income</u>	<b>26</b>
<u>Consolidated Statements of Shareholders' Equity</u>	<b>27</b>
<u>Consolidated Statements of Cash Flows</u>	<b>28</b>
<u>Notes to Consolidated Financial Statements</u>	<b>29</b>
<u>Report of Independent Auditors</u>	<b>40</b>



## Consolidated Five-Year Summary

	Millions of yen					Thousands of U.S. dollars
	2006	2005	2004	2003	2002	2006
<b>For the Year:</b>						
Net sales	¥1,581,857	¥1,493,567	¥1,430,339	¥1,349,449	¥1,597,701	\$ 13,466,056
Cost of sales	1,347,861	1,268,483	1,214,763	1,171,366	1,355,190	11,474,089
Gross profit	233,996	225,083	215,576	178,083	242,510	1,991,967
Selling, general and administrative expenses	143,334	137,869	131,085	162,621	227,376	1,220,180
Operating income	90,661	87,214	84,490	15,462	15,134	771,786
Income (loss) before extraordinary items	93,843	91,555	81,678	(4,200)	(1,984)	798,872
Income (loss) before income taxes	79,625	68,767	55,357	(111,527)	(28,506)	677,840
Net income (loss)	58,956	60,037	54,713	(144,301)	(42,991)	501,887
<b>At Year-End:</b>						
Total assets	¥1,168,697	¥1,142,580	¥1,077,816	¥1,028,844	¥1,324,144	\$ 9,948,898
Shareholders' equity	244,350	158,463	109,753	26,434	61,084	2,080,111

## Non-Consolidated Five-Year Summary

	Millions of yen					Thousands of U.S. dollars
	2006	2005	2004	2003	2002	2006
<b>For the Year:</b>						
Net sales	¥ 917,895	¥ 880,072	¥ 890,336	¥ 760,608	¥ 761,904	\$ 7,813,872
Cost of sales	753,078	728,369	730,395	656,576	655,719	6,410,817
Gross profit	164,816	151,702	159,941	104,032	106,185	1,403,055
Selling, general and administrative expenses	111,309	91,135	92,945	90,904	98,098	947,560
Operating income	53,506	60,566	66,995	13,128	8,086	455,495
Income before extraordinary items	64,149	53,907	57,561	4,880	2,123	546,092
Income (loss) before income taxes	47,122	22,345	32,221	(146,966)	(45,898)	401,141
Net income (loss)	46,476	27,019	38,857	(189,447)	(56,224)	395,647
<b>At Year-End:</b>						
Total assets	¥ 867,698	¥ 812,521	¥ 808,674	¥ 717,601	¥ 876,680	\$ 7,386,556
Shareholders' equity	231,289	169,353	151,722	82,743	159,062	1,968,922

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥117.47=US\$1; the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2006.



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

## 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, retirement benefits, and provisions for product warranties 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 may have a negative impact on earnings results.

### Sales

In fiscal 2006 (ended March 31, 2006), Isuzu's consolidated-basis sales rose 5.9% from the previous year to ¥1,581,857 million.

In the domestic commercial vehicle market, sustained replacement demand for vehicles compliant with the new NOx and particulate matter (PM) emissions regulations contributed to modest growth in overall demand—a 5.9% increase in standard truck demand to 105,504 units and 2.6% growth in demand for 2–3 ton trucks to 117,093 units. In this environment, Isuzu gained market share through the introduction of products with superior fuel efficiency and economy and group-wide sales initiatives to capture 28.8% share of the standard truck market (up 1.4 percentage points from the previous year) and 39.7% of share of the 2–3 ton truck market, an increase of 1.3 percentage points from the previous year. As a result, domestic sales grew 9.5% to ¥684,993 million.

Sales in Asia grew 18.2% from the previous fiscal year to ¥442,181 million from the impact of consolidating Thai manufacturing operations and brisk sales of pickup trucks in the ASEAN region, especially in Thailand. In the Thai market, where pickup trucks account for around 60% of the total, Isuzu pickup trucks held 37% market share, sustaining steady sales growth despite intensifying competition.

North American sales fell 14.4% to ¥183,143 million as we withdrew from local SUV production and shifted emphasis to profit.

### Operating income

Operating income for fiscal 2006 was a record ¥90,661 million, up 4.0% from a year earlier. Rationalization, including raw material expense reduction, contributed ¥21,500 million, improved sales mix primarily as a result of domestic vehicle sales growth contributed ¥14,500 million, and consolidation of manufacturing operations in Thailand added ¥5,200 million, offset against ¥19,200 million negative impact from increased raw material expenses and other economic fluctuations, ¥8,700 million increase in R&D expenses, and ¥9,800 million due to other factors.

Looking at each of our key business areas, operating income at the parent company declined ¥7,060 million from the previous year to ¥53,506 million because of increased R&D expenses associated with full model changes in the domestic light-duty and medium-duty truck range, despite absorbing the impact of higher crude oil prices by rationalization efforts.

Consolidated sales subsidiaries in Japan posted an operating income of ¥4,400 million, down ¥1,600 million from the previous year. Although sales increased as a result of higher sales volume, increased competition (especially in the first half of the fiscal year) weighed on profits.

In North America, operating income grew ¥5,500 million to ¥5,100 million due to progress with profit-focused sales activities in the SUV business and steady earnings growth in the CV business.

In ASEAN, operating income grew ¥5,800 million to ¥21,000 million due to the consolidation of Thai manufacturing operations and sustained brisk pickup truck sales in Thailand.

(The figures shown for each of our key business areas above reflect the simple addition of the profits and losses of the parent company and consolidated subsidiaries, grouped according to the characteristics of each unit).

As a result, our operating margin contracted 0.1 percentage point from 5.8% in fiscal 2005 to 5.7% in fiscal 2006.

### Non-operating gains/losses

In fiscal 2006, we posted a non-operating profit of ¥3,181 million, deteriorating ¥1,159 million from the previous year.

Equity-method profit declined ¥5,138 million to ¥10,673 million because of lower shipments at engine manufacturing operations in Poland (an equity-method company) due to model changes, and the decrease in the number of equity-method companies in Thailand following the consolidation of Thai manufacturing operations.

Progress with reduction of interest-bearing debt resulted in a ¥1,515 million improvement in net interest (interest received minus interest paid) to ¥9,013 million.

### Extraordinary gains/losses

In fiscal 2005, we posted an extraordinary loss of ¥22,788 million associated with the consolidation and reorganization of our domestic sales network and disposal of fixed assets accompanying the relocation of the Kawasaki plant. In fiscal 2006, the extraordinary loss improved ¥8,569 million to ¥14,218 million, mainly associated with disposal of fixed assets and additional losses incurred in the dismantling of the former Kawasaki plant, service warranty expenses on RV products, and fixed asset impairment losses.

### Taxes

In fiscal 2005, Isuzu's net tax expense, including corporate income taxes, municipal taxes, and business taxes and after adjustments was a ¥6,245 million expense because of increased corporate tax payments at the parent and ASEAN subsidiaries. In fiscal 2006, the net tax expense was ¥15,446 million, because of an increase in corporate income tax adjustments and higher corporate tax payments by overseas subsidiaries.

### Minority interests

Minority interests consist primarily of profits returned to the minority shareholders of our locally incorporated subsidiaries in ASEAN and North America. The figure increased from ¥2,484 million in fiscal 2005 to ¥5,222 million in fiscal 2006.

### Net profit

In fiscal 2006, our net profit was ¥58,956 million, a decrease of ¥1,080 million from the previous year. Earnings per share came to ¥48.75 and fully diluted earnings per share to ¥31.67.



## Financial Condition

### Cash flow

In fiscal 2006, Isuzu generated cash flow of ¥106,495 million, down ¥28,757 million from the previous year, primarily because it used net cash flow from operating activities of ¥82,448 million and part of the fiscal 2005 net cash flow of ¥135,252 million to repay interest-bearing debt and redeem convertible bonds ahead of schedule.

Net cash provided by operating activities increased ¥16,917 million (25.8%) from the previous year to ¥82,448 million, because of an increase in net profit before tax and other adjustments and recovery of receivables that increased temporarily in the previous year, despite some cash outflows such as a rise in inventory.

Net cash used in investing activities increased ¥13,284 million (170.4%) to ¥21,080 million, primarily because of active capital investment. Investment in the purchase of investment securities increased to ¥9,717 million as a result of raising our stake in Qingling Motors Co., Ltd., a partner in light and medium-duty commercial vehicle production and sales in the Chinese market, to 20%. Ongoing aggressive capital investments in expanding production facilities resulted in expenditure of ¥36,306 million in the purchase of fixed assets.

Net cash used in financing activities increased ¥71,127 million (269.8%) from the previous year to ¥97,493 million. While we raised ¥100,000 million from our second unsecured convertible bond issue in fiscal 2005, we concentrated on repayment of borrowings in fiscal 2006, and redeemed the full outstanding balance of ¥40,000 million ahead of schedule.

### Assets

As of March 31, 2006, total consolidated assets were ¥1,168,697 million, an increase of ¥26,116 million from a year earlier.

The main factors contributing to the increase were inventory (up ¥13,228 million from ¥124,526 million to ¥137,754 million), tangible fixed assets (up ¥15,650 million from ¥458,613 million to ¥474,264 million), and investment securities (up ¥29,889 million from ¥65,339 million to ¥95,229 million). The increase in inventory is the result of sales growth in Japan and ASEAN, while the increase in tangible fixed assets is due to former equity-method company Automobile Foundry Co., Ltd. becoming a consolidated subsidiary at the end of fiscal 2006. The main reasons for the increase in investment securities are acquiring additional shares in Qingling Motors Co., Ltd., a partner in light and medium-duty commercial vehicle production and sales in the Chinese market, substantial increase in the market value of securities holdings amid Japanese stock price appreciation, and equity-method profit.

Cash and deposits declined ¥30,715 million from ¥139,357 million to ¥108,642 million, mainly due to repayment of interest-bearing debt and redeeming the outstanding balance of our second unsecured convertible bond issue ahead of schedule.

### Liabilities

Total liabilities decreased ¥72,398 million from the previous year to ¥897,529 million. Interest-bearing liabilities (total of short-term borrowings, corporate bonds, and long-term borrowings) decreased ¥43,444 million from ¥393,103 million to ¥349,659 million. We issued corporate bonds totaling ¥40,000 million in fiscal 2006, using the funds and cash flow from operating activities to repay group borrowings.

The balance of our second unsecured convertible bond stood at ¥56,000 million at the end of fiscal 2005, of which ¥16,000 million converted to capital on exercise and the remaining ¥40,000 million was

redeemed ahead of schedule, reducing our liabilities by ¥56,000 million from the previous year.

### Capital

In fiscal 2006, our capital grew ¥85,886 million from a year earlier to ¥244,350 million. In addition to the exercise of ¥16,000 million of convertible bonds increasing capital by the same amount, ¥58,956 million of net profit was generated, there was an increase in valuation gains on securities due to stock price appreciation in the Japanese market, and an improvement in the foreign exchange adjustment account because of the yen weakening against major currencies. Consequently our equity ratio improved 7.0 percentage points from a year earlier to 20.9%.

### Risks

There are certain risks that could have a significant impact on our earnings results, financial condition, and other information contained in the annual securities report, or share price, and these risks are outlined below. (The following information contains forward-looking statements that reflect the judgment of management as of March 31, 2006).

#### 1. Economic situation/supply and demand trends in our major markets

Vehicles account for an important portion of the Isuzu group's worldwide operating revenue, and demand for these vehicles is affected by the economic situation in the various countries and regions and markets where we sell vehicles. Therefore, economic recession and an ensuing decline in demand in our major markets—Japan, North America, and other Asian countries—could have a negative impact on the earnings and financial position of the Isuzu group. Price competition also entails the risk of price fluctuation for our products.

#### 2. Interest rate fluctuations

The Isuzu group tightened its cash flow management and continues to concentrate on shrinking interest-bearing debt. In fiscal 2006, we allocated profit from business operations and other funds to the reduction of interest-bearing debt, whose balance stood at ¥349,659 million at the end of the fiscal 2006—¥43,444 million less than a year earlier. This is still a relatively large balance, however, leaving us vulnerable to the risk of higher interest payments having a negative impact on earnings and financial position of the Isuzu group should market rates rise sharply.

#### 3. 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.

#### 4. 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.

#### **5. Suppliers, subcontractors, etc., of parts and materials**

The Isuzu group sources the raw materials, components, and products required for production from outside suppliers. Should supply-demand conditions significantly exceed suppliers' capacity, it is possible that we are unable to source sufficient volume. Shortages of, and delays in the supply of parts, etc., could have a negative impact on the earnings and financial position of the Isuzu group. It is also possible that a tight supply-demand situation for raw materials, etc., may result in price increases, which may also have a negative impact on the earnings and financial position the Isuzu group if we are unable to absorb them through our own efforts such as improving productivity or by passing on sales prices, resulting in rising costs.

#### **6. 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 large-scale recall or product liability award (we are covered by product liability insurance, but in the case of costs exceeding insurance cover), there could be a negative impact on the earnings and financial position of the Isuzu group.

#### **7. Joint ventures**

The Isuzu group engages in business in some countries in the form of joint ventures due to legal and other requirements of each country. Changes in management policy, operating environment, etc., of these joint ventures can affect their earnings performance, which could produce a negative impact on the earnings and financial position of the Isuzu group.

#### **8. 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 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.

#### **9. 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 its 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.

#### **10. 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.

#### **11. 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 in 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 our customers' support of our products and services
- Potential negative tax consequences
- Social unrest stemming from terrorism, war, or other factors

#### **12. 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.

#### **13. 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, environmental preservation, recycling, and safety. Unexpected changes in these regulations could have a negative impact on the earnings and financial position of the Isuzu group. Exhaust emissions regulations are generally being tightened amid growing environmental awareness. Since substantial investment is required to comply with these regulations, failure to generate sufficient sales to recover this investment could have a negative impact on the earnings and financial position of the Isuzu group.

#### **14. Sale of Kawasaki Plant property**

We have been notified of a claim for damages stemming from soil contamination of natural origin at a parcel of property at our Kawasaki Plant location, which we sold in July 2001 to the Urban Renaissance Agency, an independent administrative institution. Depending on the course of this claim, this could have a negative impact on the earnings and financial position of the Isuzu group.

#### **15. 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 existing common shares.



## Consolidated Balance Sheets (As of March 31, 2006, 2005 and 2004)

Assets	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
<b>Current Assets:</b>				
Cash and cash equivalents (Note 2, 4)	¥ 108,642	¥ 139,357	¥ 113,315	\$ 924,853
Receivables:				
Notes and accounts (Note 4)	252,441	248,744	216,934	2,148,985
Less : allowance for doubtful receivables	(3,393)	(5,055)	(4,806)	(28,889)
Inventories	137,754	124,526	112,938	1,172,681
Deferred taxes (Note 6)	27,632	28,480	27,651	235,231
Other current assets	31,063	32,162	31,618	264,436
Total Current Assets	554,141	568,215	497,651	4,717,298
<b>Investments and Advances:</b>				
Investments (Note3, 4):				
Unconsolidated subsidiaries and affiliated companies	58,652	36,537	32,152	499,301
Others	36,576	28,801	30,321	311,365
Long-term loans	15,404	22,291	27,409	131,138
Deferred taxes (Note 6)	6,369	8,576	8,484	54,222
Other investments and advances	29,218	32,859	38,847	248,730
Less : allowance for doubtful accounts	(15,107)	(20,983)	(12,895)	(128,604)
Total Investments and Advances	131,114	108,084	124,321	1,116,154
<b>Property, Plant and Equipment (Note 4)</b>				
Land	267,687	267,868	273,639	2,278,774
Buildings and structures	229,744	216,436	205,689	1,955,775
Machinery and equipment	595,752	573,951	535,231	5,071,527
Construction in progress	18,365	7,473	7,956	156,340
Less : accumulated depreciation	(637,286)	(607,114)	(573,386)	(5,425,096)
Net Property, Plant and Equipment	474,264	458,613	449,131	4,037,322
<b>Other Assets</b>	9,177	7,666	6,713	78,123
<b>Total Assets</b>	¥ 1,168,697	¥ 1,142,580	¥ 1,077,816	\$ 9,948,898

See accompanying notes to consolidated financial statements.



Liabilities and Shareholders' Equity	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
<b>Current Liabilities:</b>				
Bank loans	¥ 91,971	¥ 151,513	¥ 256,762	\$ 782,938
Current portion of bonds	—	—	15,000	—
Commercial paper	—	—	1,800	—
Notes and accounts payable	297,370	278,511	268,206	2,531,456
Accrued expenses	61,172	54,045	42,451	520,751
Accrued income taxes (Note 6)	10,933	10,588	6,501	93,073
Deposits received	3,768	11,206	12,824	32,082
Other current liabilities	32,043	36,053	40,401	272,783
Total Current Liabilities	497,260	541,918	643,948	4,233,085
<b>Long-Term Debt (Note 4)</b>	257,688	297,591	179,102	2,193,649
<b>Accrued Retirement and Severance Benefits (Note 5)</b>	62,257	60,057	60,284	529,985
<b>Deferred Tax Liabilities (Note 6)</b>	9,455	4,693	5,016	80,497
<b>Deferred Tax Liabilities Related to Land Revaluation (Note 9)</b>	55,827	49,571	57,167	475,247
<b>Other Long-Term Liabilities</b>	15,040	16,096	19,411	128,035
<b>Minority Interests</b>	26,816	14,188	3,132	228,285
<b>Contingent Liabilities (Note 10)</b>				
<b>Shareholders' Equity :</b>				
Common stock and preferred stock (Note 7,8)	40,644	32,617	67,564	346,002
Preferred stock:				
Class I-authorized 37,500,000 shares; issued 37,500,000 shares in 2006, 2005 and 2004				
Class II-authorized 37,500,000 shares; issued 37,500,000 shares in 2004				
Class III-authorized 25,000,000 shares; issued 25,000,000 shares in 2006, 2005 and 2004				
Class IV-authorized 25,000,000 shares; issued 25,000,000 shares in 2006, 2005 and 2004				
Common stock:				
Authorized 3,369,000,000 shares in 2006, 2005 and 2004				
Issued 1,141,289,786 shares in 2006, 1,073,619,832 shares in 2005 and 878,105,748 shares in 2004				
Capital surplus (Note 7)	50,427	42,435	67,461	429,280
Retained earnings (Accumulated deficit)	68,689	10,460	(111,058)	584,743
Variance of land revaluation (Note 9)	74,138	77,791	90,485	631,128
Unrealized holding gain on securities	15,014	8,324	7,518	127,811
Foreign currency translation adjustments	(4,334)	(12,946)	(12,049)	(36,898)
Less: treasury stock, at cost 1,258,960 common shares in 2006	(229)	(220)	(168)	(1,955)
Total Shareholders' Equity	244,350	158,463	109,753	2,080,111
<b>Total Liabilities, Minority Interests and Shareholders' Equity</b>	¥ 1,168,697	¥ 1,142,580	¥ 1,077,816	\$ 9,948,898



## Consolidated Statements of Income

(For the years ended March 31, 2006, 2005 and 2004)

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
<b>Net Sales</b>	<b>¥ 1,581,857</b>	¥ 1,493,567	¥ 1,430,339	<b>\$ 13,466,056</b>
<b>Cost of Sales</b>	<b>1,347,861</b>	1,268,483	1,214,763	<b>11,474,089</b>
Gross Profit	<b>233,996</b>	225,083	215,576	<b>1,991,967</b>
<b>Selling, General and Administrative Expenses (Note 5)</b>	<b>143,334</b>	137,869	131,085	<b>1,220,180</b>
Operating Income	<b>90,661</b>	87,214	84,490	<b>771,786</b>
<b>Other Income (Expenses):</b>				
Interest and dividend income	<b>3,129</b>	3,002	2,370	<b>26,637</b>
Interest expense	<b>(10,551)</b>	(12,564)	(13,116)	<b>(89,819)</b>
Equity in earnings of unconsolidated subsidiaries and affiliates	<b>10,673</b>	15,811	10,362	<b>90,858</b>
Others, net	<b>(69)</b>	(1,909)	(2,428)	<b>(590)</b>
Income before Extraordinary Items	<b>93,843</b>	91,555	81,678	<b>798,872</b>
<b>Extraordinary Items:</b>				
Gain (Loss) on sales or disposal of property, plant and equipment, net	<b>(3,927)</b>	(12,377)	(7,865)	<b>(33,433)</b>
Gain on sales of investments	<b>212</b>	5,807	5,488	<b>1,805</b>
Revenue from the settlement of North America project	<b>4,897</b>	—	—	<b>41,693</b>
Gain on dissolution of employee pension fund (Note 2,5)	<b>1,391</b>	—	—	<b>11,845</b>
Loss on revaluation of investments	<b>(1,079)</b>	(6,056)	(5,333)	<b>(9,188)</b>
Loss on restructuring of domestic subsidiaries & affiliates	<b>(933)</b>	(5,573)	—	<b>(7,949)</b>
Loss on investment for affiliated company restructuring	—	—	(7,785)	—
Dismantlement and other cost on former Kawasaki Plant	<b>(5,257)</b>	—	—	<b>(44,754)</b>
Special warranty cost	<b>(3,247)</b>	—	—	<b>(27,641)</b>
Loss on impairment on fixed assets (Note 12)	<b>(2,600)</b>	—	—	<b>(22,134)</b>
Others, net	<b>(3,673)</b>	(4,586)	(10,824)	<b>(31,275)</b>
Income before Income Taxes and Minority Interests	<b>79,625</b>	68,767	55,357	<b>677,840</b>
<b>Income Taxes (Note 6):</b>				
Current	<b>12,891</b>	14,648	7,828	<b>109,747</b>
Deferred	<b>2,555</b>	(8,403)	(7,905)	<b>21,750</b>
<b>Minority Interests in Income of Consolidated Subsidiaries</b>	<b>5,222</b>	2,484	720	<b>44,455</b>
<b>Net Income</b>	<b>¥ 58,956</b>	¥ 60,037	¥ 54,713	<b>\$ 501,887</b>

Yen

U.S. dollars

### Per Share of Common Stock

Net Income				
Basic	<b>¥ 48.75</b>	¥ 56.64	¥ 72.37	<b>\$ 0.41</b>
After dilution of potential stock	<b>31.67</b>	25.79	20.90	<b>0.27</b>

See accompanying notes to consolidated financial statements.



## Consolidated Statements of Shareholders' Equity (For the years ended March 31, 2006, 2005 and 2004)

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
<b>Common Stock and Preferred Stock:</b>				
Balance at beginning of the year	¥ 32,617	¥ 67,564	¥ 55,545	\$ 277,669
Add:				
The exercise of stock acquisition right	8,027	25,053	12,019	68,332
Deduct:				
Capital deduct (retirement of class II preferred stock)	—	(60,000)	—	—
Balance at end of the year	¥ 40,644	¥ 32,617	¥ 67,564	\$ 346,002
<b>Capital Surplus:</b>				
Balance at beginning of the year	¥ 42,435	¥ 67,461	¥131,850	\$ 361,247
Add:				
The exercise of stock acquisition right	7,972	24,946	11,980	67,872
Unrealized gain by dispose of treasury stock	18	27	—	161
Deduct:				
Capital surplus deduct (off-set with deficit)	—	(50,000)	(76,369)	—
Balance at end of the year	¥ 50,427	¥ 42,435	¥ 67,461	\$ 429,280
<b>Variance of Land Revaluation</b>				
Balance at beginning of the year	¥ 77,791	¥ 90,485	¥ 90,064	\$ 662,222
Add:				
Reversal of land revaluation	688	—	19	5,865
Other	—	—	401	—
Deduct:				
Transfer to retained earnings	—	(12,565)	—	—
Others	(4,341)	(129)	—	(36,959)
Balance at end of the year	¥ 74,138	¥ 77,791	¥ 90,485	\$ 631,128
<b>Retained Earnings (Accumulated deficit):</b>				
Balance at beginning of the year	¥ 10,460	¥(111,058)	¥(242,546)	\$ 89,049
Add:				
Reduction of capital reserve	—	50,000	76,369	—
Transfer from variance of land revaluation	(688)	12,565	(19)	(5,865)
Net income	58,956	60,037	54,713	501,887
Other	2,726	—	550	23,208
Deduct:				
Dividend	(2,614)	—	—	(22,252)
Other	(150)	(1,083)	(126)	(1,284)
Balance at end of the year	¥ 68,689	¥ 10,460	¥ (111,058)	\$ 584,743

See accompanying notes to consolidated financial statements.



## Consolidated Statements of Cash Flows

(For the years ended March 31, 2006, 2005 and 2004)

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
<b>Cash Flows from Operating Activities</b>				
Net income before income taxes and minority interests	¥ 79,625	¥ 68,767	¥ 55,357	\$ 677,840
Depreciation and amortization	24,672	27,170	27,401	210,032
Equity in earnings of unconsolidated subsidiaries and affiliates	(10,673)	(15,811)	(10,362)	(90,858)
Provision for retirement benefits, less payments	708	(2,209)	2,591	6,030
Provision for allowance for product warranty	1,533	(1,098)	648	13,051
Provision for allowance for bonus	1,660	1,032	2,394	14,137
Provision for allowance for doubtful assets	(2,029)	8,361	(5,245)	(17,275)
Interest and dividend income	(3,129)	(3,002)	(2,370)	(26,637)
Interest expenses	10,551	12,564	13,116	89,819
Gain on disposal of property assets	(4,383)	(3,211)	(2,893)	(37,318)
Loss on disposal of property assets	8,311	15,589	10,758	70,751
Loss on investment for affiliated company restructuring	—	—	241	—
Gain on sales of securities	(203)	(5,300)	(3,524)	(1,735)
Loss on impairment of fixed assets	2,600	—	—	22,134
Other extraordinary loss	826	1,409	1,186	7,031
Decrease (increase) in receivable	8,338	(31,466)	(17,293)	70,982
Decrease (increase) in inventories	(11,321)	(8,836)	(6,852)	(96,379)
Decrease (increase) in other current assets	563	(2,504)	9,622	4,794
Increase (decrease) in notes and accounts payable	8,359	17,721	26,724	71,160
Increase (decrease) in accrued expenses and taxes	2,545	12,841	(4,359)	21,668
Increase (decrease) in deposit received	(8,148)	(1,449)	(2,127)	(69,365)
Increase (decrease) in other liabilities	(8,804)	(2,243)	4,010	(74,948)
Others	(24)	(1,844)	(441)	(208)
Cash received from interest and dividends	5,243	3,112	2,646	44,633
Cash paid for interest	(10,369)	(12,511)	(13,105)	(88,272)
Cash paid for income taxes	(14,002)	(11,550)	(2,831)	(119,200)
Net Cash Provided by Operating Activities	82,448	65,531	85,292	701,870
<b>Cash Flows from Investing Activities</b>				
Payment on purchase of securities	(9,717)	(2,204)	(3,672)	(82,719)
Proceeds from sales of securities	960	11,319	11,333	8,180
Payment on purchase of property, plant and equipment	(36,306)	(44,645)	(30,394)	(309,068)
Proceeds from sales of property, plant and equipment	15,797	16,865	15,752	134,477
Payment on long-term loans receivable	(4,958)	(4,105)	(4,805)	(42,213)
Collection of long-term loans receivable	3,045	4,955	3,905	25,927
Increase (decrease) in short-term loans receivable	3,497	1,289	(1,833)	29,770
Increase (decrease) in finance receivable of overseas subsidiary	16	396	3,023	136
Increase (decrease) in fixed deposits	1,957	7,046	301	16,666
Proceeds from the transfer of investment	5,607	—	—	47,737
Others	(980)	1,286	721	(8,350)
Net Cash Used in Investing Activities	(21,080)	(7,795)	(5,668)	(179,454)
<b>Cash Flows from Financing Activities</b>				
Increase (decrease) in short-term debt	(58,056)	(88,374)	(49,074)	(494,219)
Increase (decrease) in commercial paper	—	(1,800)	1,800	—
Proceeds from long-term debt	38,008	275,789	78,655	323,555
Payment on long-term debt	(75,464)	(249,544)	(76,834)	(642,418)
Increase (decrease) in bonds	40,000	(2,350)	(15,500)	340,512
Increase (decrease) in bonds with warrant attached	(40,000)	100,000	30,000	(340,512)
Payment on retirement of preferred stock	—	(60,000)	—	—
Payment on dividend	(2,602)	—	—	(22,154)
Others	621	(86)	1,956	5,292
Net Cash Used in Financing Activities	(97,493)	(26,366)	(28,997)	(829,944)
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	4,544	(256)	(1,061)	38,684
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(31,581)	31,112	49,564	(268,843)
<b>Cash and Cash Equivalents at Beginning of the Year</b>	135,252	102,579	52,951	1,151,377
<b>Increase (Decrease) in Cash and Cash Equivalents from the Addition or Exclusion of Consolidated Companies</b>	2,823	1,560	63	24,038
<b>Cash and Cash Equivalents at End of the Year (Notes 2)</b>	¥ 106,495	¥ 135,252	¥ 102,579	\$ 906,572

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 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 has 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 ¥117.47 = US\$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2006. 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 2005 and 2004 financial statements to conform to the presentation for 2006.

### 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

Receivables and payables denominated in foreign currencies are translated into yen at the exchange rate of the balance sheet date, and differences arising from the translation are included in the statements of income. The balance sheet accounts and revenue and expense accounts of the foreign consolidated subsidiaries are translated into yen at the exchange rate of the balance sheet date and translation adjustments are included in "minority interests" and "foreign currency

translation adjustments" accounts of shareholders' equity. The components of shareholders' equity are translated at historical exchange rates.

#### c) Investments

The accounting standard for financial instruments requires that securities be classified into three categories: marketable, held-to-maturity or other securities.

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 stockholders' equity. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.

#### d) Inventories

Inventories of the Company are valued at cost using the weighted 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 of the Company and its consolidated subsidiaries is calculated principally by the straight-line method based on the estimated useful lives. Depreciation of property, plant and equipment of few consolidated subsidiaries is calculated by declining balance method.

#### f) Software

Software used by the Company and its consolidated subsidiaries is depreciated using the straight-line method, based on the estimated 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 Financial Accounting Standard for retirement benefits in Japan. In accordance with this standard, accrued employees' retirement benefits are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the end of the current fiscal year. Prior service cost is being amortized as incurred by straight-line method over periods, which are shorter than the average remaining years of service of the eligible employees. Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by



straight-line method over periods, which are shorter than the average remaining years of service of the eligible employees.

*(Additional Information)*

On August 1, 2005, pension funds of several consolidated companies obtained approval from the Minister of Health, Labor and Welfare of exemption from the benefits related to future employee service under the substitutional portion. Estimated plan assets to be returned to the government on March 31, 2006 were ¥3,791 million (\$32,279 thousands). If the estimated plan assets had been returned to the government on March 31, 2006 and the transitional measurement of accounting standard for employees' retirement benefits as stipulated in the Accounting Committees Report No.13, Article 44-2 by the Japanese Institute of Certified Public Accountants had been adopted, the effect of the adoption on the consolidated income statement for the year ended March 31, 2006 would be ¥3,033 million (\$25,820 thousands).

### **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 calculated 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, 2006 is as follows:

	Millions of yen	Thousands of U.S. dollars
Net Income	¥ 58,956	\$501,887
Less: Components not pertaining to common shareholders;		
Dividend to preferred stock (Class II excluded)	584	4,971
Net income pertaining to common stock	¥ 58,372	\$496,916
Average outstanding shares:		
Common stock (share):	1,130,109,701	—
Class IV preferred stock (share):	67,340,067	—

### **k) Appropriation of Retained Earning**

The appropriation of retained earnings is recorded in the fiscal year in which such appropriation is approved by the shareholders meeting.

### **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 the year on the statement of cash flows for the years ended March 31, 2006 is as follows:

	Millions of yen	Thousands of U.S. dollars
Cash and time deposits on the consolidated balance sheet	¥ 108,642	\$ 924,853
Time deposits with original maturities over three month at the time of purchase	(2,147)	(18,280)
Cash and cash equivalents on the statement of cash flows	¥ 106,495	\$ 906,572

### **m) Adoption of New Accounting Standards**

From this fiscal year, the Company, its consolidated domestic subsidiaries and its equity method-applied domestic affiliates adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The effect of adopting the new accounting standard on the consolidated statement of income for the year ended March 31, 2006 was to decrease income before income taxes and minority interests by ¥2,600 million (\$22,134 thousands). Also, the impaired fixed assets are presented in the consolidated balance sheet net of accumulated impairment.

### 3. Securities

Fair Value of Securities of other securities as of March 31, 2006 is 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	¥ 10,145	¥ 32,558	¥ 22,412	\$ 86,364	\$ 277,160	\$ 190,796
Bonds:						
Corporate bonds	—	—	—	—	—	—
Investment trusts	19	19	0	167	168	0
Total	¥ 10,164	¥ 32,577	¥ 22,412	\$ 86,531	\$ 277,328	\$ 190,797
Unrealized loss:						
Stocks:	¥ 2,325	¥ 2,088	¥ (236)	\$ 19,793	\$ 17,768	\$ (2,017)
Total	¥ 2,325	¥ 2,088	¥ (236)	\$ 19,793	\$ 17,768	\$ (2,017)

For the year ended March 31, 2006, proceeds from sales of securities classified as other securities amounted to ¥955 million (\$8,131 thousands) with an aggregate gain on sales of ¥431 million (\$3,675 thousands) and an aggregate loss on sales of ¥12 million (\$105

thousands).

Non-marketable securities classified as other securities at March 31, 2006 amounted to ¥1,910 million (\$16,260 thousands).

### 4. Long-Term Debt

Long-term debt at March 31, 2006 is as follows:

	Millions of yen	Thousands of U.S. dollars
1.59% straight bonds due 2010	¥ 10,000	\$ 85,128
1.24% straight bonds due 2010	20,000	170,256
1.55674% straight bonds due 2012	10,000	85,128
1.579% straight bonds due 2012	10,000	85,128
3.3% Guaranteed debentures of Isuzu Motors Co., (Thailand) Ltd.		
No.1/2547 due 2007	2,870	24,431
Loans	256,077	2,179,941
Less: current portion	¥ 51,259	\$ 436,364
	¥ 257,688	\$ 2,193,649

The Company issued 2nd Series Unsecured Convertible Bonds in fiscal year 2005. The Company has redeemed all of these bonds before maturity in June 17, 2005.

The annual maturities of long-term debt at March 31, 2006 are summarized as follows:

Planned maturity date	Millions of yen	Thousands of U.S. dollars
Over 1 year within 2 years	¥ 53,304	\$ 453,770
Over 2 years within 3 years	46,872	399,015
Over 3 years within 4 years	56,186	478,303
Thereafter	101,324	862,560
Total	¥ 257,688	\$ 2,193,649

The assets pledged as collateral for certain loans and other liabilities at March 31, 2006 is as follows:

	Millions of yen	Thousands of U.S. dollars
Cash and time deposits	¥ 111	\$ 948
Notes and accounts receivable	2,471	21,043
Building and structures	51,309	436,787
Machinery and equipment	44,581	379,511
Land	181,218	1,542,679
Securities	3,137	26,705
Others	37	317

### 5. Retirement Benefit Obligation and Pension Plan

The Company has defined benefit plans, i.e., employee pension fund, tax-qualified pension funds and lump-sum payment plans. The employee pension fund was amended to establish a cash balance pension plan on September 1, 2003. The consolidated subsidiaries have defined benefit plans, i.e., welfare pension fund plans, tax-qualified pension funds and lump-sum payment plans. Pension funds of several consolidated companies obtained approval from the Minister of Health, Labor and Welfare of exemption from the benefits related to future employee service under the substitutional portion.



(1) Retirement benefit obligation as of March 31, 2006 is as follows:

	Millions of yen	Thousands of U.S. dollars
Retirement benefits obligation		
at end of the year	¥ (117,305)	\$ (998,598)
Fair value of plan assets	32,624	277,727
Accrued retirement benefits obligations on balance sheets	62,257	529,985
Prepaid pension cost	(26)	(228)
Net	¥ (22,450)	\$ (191,114)
(Details on net amount)		
Unrecognized actuarial net loss	¥ (22,309)	\$ (189,918)
Unrecognized prior service cost	¥ (140)	\$ (1,195)
Net	¥ (22,450)	\$ (191,114)

The substitution portion of the benefits under the welfare pension fund plans has been included in the amounts shown in the above table.

(2) Retirement benefit cost for the year ended March 31, 2006 is as follows:

	Millions of yen	Thousands of U.S. dollars
Service cost	¥ 3,975	\$ 33,840
Interest cost on projected benefit obligation	2,041	17,382
Expected return on plan assets	(383)	(3,265)
Amortization of actuarial net loss (gain)	3,578	30,462
Amortization of prior service cost	1,279	10,895
Net retirement benefit cost	¥ 10,491	\$ 89,315

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

	2006
Discount rate	2.3%
Expected rate of return on plan assets	1.5–2.5%
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 tax, inhabitant taxes and enterprise tax. Income taxes in the statements of operations include corporation tax and inhabitant taxes and enterprise tax.

The significant components of the Company's deferred tax assets and liabilities as of March 31, 2006 is as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets:		
Accrued retirement benefits	¥ 21,191	\$ 180,401
Loss from revaluation of investments and allowance for doubtful accounts	47,158	401,450
Accrued expenses	14,535	123,734
Accrued Bonus cost	4,841	41,217
Loss from inventory write down	1,489	12,676
Loss carried forward	26,460	225,253
Unrealized profit eliminated in consolidation etc.	4,849	41,286
Other	45,385	386,356
Total gross deferred tax assets	165,911	1,412,376
Valuation allowance	(125,844)	(1,071,293)
Total deferred tax assets	40,066	341,082

Deferred tax liabilities:

Reserve for deferred income tax of fixed assets	(981)	(8,353)
Depreciation adjustment of foreign consolidated subsidiaries	(4,381)	(37,295)
Other	(702)	(5,978)
Total deferred tax liabilities	¥ (6,064)	\$ (51,628)
Net deferred tax assets	¥ 34,002	\$ 289,453

Deferred tax liabilities:

Reserve for deferred income tax of fixed assets	1,700	14,477
Unrealized holding gain on other securities	6,987	59,484
Other	767	6,534
Total deferred tax liabilities	¥ 9,455	\$ 80,497

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, 2006 is as follows:

	2006
Normal effective statutory tax rate	40.0%
Net valuation allowance	(22.1)
Different tax rate applied to foreign subsidiaries	(3.8)
Loss for this fiscal year by consolidated subsidiaries	7.3
Equity in earnings of unconsolidated subsidiaries	(5.4)
Additional income tax	2.0
Foreign withholding tax	0.6
Others	0.8
Effective tax rate after adoption of tax-effect accounting	19.4

## 7. Shareholders' Equity

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

The Company issued new common stock due to the exercise of stock acquisition right. As the effect of the issuance, the Company's common stock increased by ¥8,027 millions (\$68,332 thousands), the Company's capital surplus increased by ¥7,972 millions (\$67,872 thousands).

## 8. Preferred Stock

The Company issued the preferred stock (Class I, Class II, Class III and Class IV) in the fiscal year 2003. The Company has retired Class-II preferred stock in fiscal year 2005. No other dividends of surplus than specified in a) (1), b) (1), and c) (1) respectively shall be paid to preferred shareholders or to preferentially registered stock pledgees. When the amount of surplus to be paid to the preferred shareholders or preferentially registered stock pledgees 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 stock pledgees before the ordinary shareholders or the ordinarily registered stock pledgees.

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

The Company can always purchase preferred stocks and cancel them according to law. The preferred shareholders shall not have a voting right at the General Meeting of Shareholders.

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

The Company shall not give the rights to receive allotments of offered shares or to receive allotments of offered share warrants 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 Dividend

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

$$\text{Adj. acquisition price} = \text{Pre-adjust acquisition price} \times \frac{\text{No. of issued common stocks} + \frac{\text{No. of new and disposal common stocks} \times \text{Amount paid per share}}{\text{Market value per share}}}{\text{No. of issued common stocks} + \text{No. of new and disposal common stocks}}$$

$$\text{Class I preferred dividend} = ¥800 \times (\text{Japanese Yen TIBOR} + 0.750\%)$$

Any portion of 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 stock pledgees.

#### (2) Right of Claim for Acquisition

##### (i) Period for Claiming Acquisition

Period for claiming the acquisition of the Class-I preferred stocks shall be from October 1, 2006 to September 30, 2022.

##### (ii) Conditions for Acquisition

Shareholders of the Class-I preferred stocks can claim the common stocks of the Company to be issued, whose number is obtained from the equation (iii) below based on the per-share acquisition price of the Class-I preferred stocks that is determined by a) (1) above, in exchange for the Company's acquiring the Class-I preferred stocks.

##### (a) Initial Acquisition Price = ¥54

##### (b) Revision of Acquisition Price

Acquisition 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 acquisition 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 acquisition price (hereinafter referred to as actual value calculation period respectively) is below the initial acquisition price (revised acquisition 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 acquisition price is below the price equal to 70% of the initial acquisition price (calculated to the first decimal point and then rounded up, hereinafter referred to as floor acquisition price and revised according to (c).), the floor acquisition price shall be treated as the revised acquisition price.

##### (c) Adjustment of Acquisition Price

After the issue of Class-I preferred stocks, if any of the followings applies, the acquisition price shall be adjusted by the formula below (hereinafter referred to as formula for the adjustment of acquisition 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 in exchange for the Acquisition of the Class-I Preferred Stocks

The number of common stocks of the Company to be issued in exchange for the acquisition of the Class-I preferred stocks shall be as follows.

$$\text{No. of common stocks issued in exchange for the acquisition of the Class-I preferred stocks} = \frac{\text{Total value equal to paid-in amount of the Class-I Preferred Stocks submitted by Shareholders asking for Acquisition}}{\text{Acquisition Price}}$$

### (3) Mandatory Acquisition

The Class-I preferred stocks which are not requested for acquisition during the period in which a request for acquisition 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 acquisition) 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 during 30 business days (excluding days without closing price) starting from the 45th business day preceding the base date of Mandatory acquisition.

When the average price is lower than the floor acquisition 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 acquisition price. Also, when the average price is more than the maximum acquisition 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 acquisition price.

The maximum acquisition price is equal to the initial acquisition price (subject to "Adjustment of Acquisition Price" described in 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 specified in the Article 234 of the Company Law.

### **b) Outline of the Issue of Class-III Preferred Stock**

#### (1) Preferred Dividend

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.

$$\text{Class-III preferred dividend} = \text{¥}800 \times (\text{Japanese Yen TIBOR} + 1.500\%)$$

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 stock pledgees.

### (2) Right of Claim for Acquisition

#### (i) Period for Claiming Acquisition

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

#### (ii) Conditions for Acquisition

Shareholders of the Class-III preferred stocks can claim the common stocks of the Company to be issued, whose number is obtained from the equation (iii) below based on the per-share acquisition price of the Class-I preferred stocks that is determined by a) (1) above, in exchange for the Company's acquiring the Class-I preferred stocks.

#### (a) Initial Acquisition 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 acquisition (calculated to the first decimal point and then rounded up the first decimal point and then rounded up.)

#### (b) Revision of Acquisition Price

Acquisition 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 acquisition price (hereinafter referred to as actual value calculation period respectively) on October 1 every year from October 1, 2011 to September 30, 2027 (hereinafter referred to as the date of revision of acquisition price respectively). (Revised acquisition 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 acquisition price is below the price equal to 50% of the initial acquisition price (calculated to the first decimal point and then rounded up, hereinafter referred to as floor acquisition price and revised according to (c).), the floor acquisition price shall be treated as the revised acquisition price. Also after the above calculation, when the revised acquisition price is above the price equal to 200% of the initial acquisition price (calculated to the first decimal point and then rounded up, hereinafter referred to as the maximum acquisition price and revised according to (c).), the maximum acquisition price shall be treated as the revised acquisition price.

**(c) Adjustment of Acquisition Price**

After the issue of Class-III preferred stocks, if any of the followings applies, the acquisition price shall be adjusted by the formula below

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

$$\text{Adj. acquisition price} = \text{Pre-adjust acquisition price} \times \frac{\text{No. of issued common stocks} + \frac{\text{No. of new and disposal common stocks} \times \text{Amount paid per share}}{\text{Market value per share}}}{\text{No. of issued common stocks} + \text{No. of new common stocks}}$$

(iii) The Number of Common Stocks to be issued in exchange for the Acquisition of the Class-III Preferred Stocks

The number of common stocks of the Company to be issued in exchange for the acquisition of the Class-III preferred stocks shall be as follows.

$$\text{No. of common stocks issued in exchange for the acquisition of the Class-III preferred stocks} = \frac{\text{Total value equal to paid-in amount of the Class-III Preferred Stocks submitted by Shareholders asking for Acquisition}}{\text{Acquisition Price}}$$

**(3) Mandatory Acquisition**

The Class-III preferred stocks which are not requested for acquisition during the period in which a request for acquisition 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 acquisition) 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 acquisition.

When the average price is lower than the floor acquisition 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 acquisition price. Also, when the average price is more than the maximum acquisition 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 acquisition price.

When fractions less than 1 are produced in calculating the above number of common stocks, they shall be treated according to the treatment specified in the Article 234 of the Company Law.

**c) 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.

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

When there is a residual profit after the Class-IV preferred dividend is paid, dividend of surplus can be paid to ordinary shareholders or ordinarily registered stock pledgees it becomes equal to Class-IV preferred dividend. Also when dividend of surplus is paid concerning the residual profit, the same amount of money per stock shall be paid to the Class-IV preferred shareholders or preferentially registered stock pledgees and ordinary shareholders or ordinarily registered stock pledgees.

**(2) Right of Claim for Acquisition****(i) Period for Claiming Acquisition**

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

**(ii) Conditions for Acquisition**

Shareholders of the Class-IV preferred stocks can claim the common stocks of the Company to be issued, whose number is obtained from the equation (iii) below based on the per-share acquisition price of the Class-I preferred stocks that is determined by a) (1) above, in exchange for the Company's acquiring the Class-I preferred stocks.

**(a) Initial Acquisition 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 acquisition (calculated to the first decimal point and then rounded up.)

**(b) Revision of Acquisition Price**

Acquisition 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 acquisition 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 acquisition price respectively).



(Revised acquisition 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 acquisition price is below the price equal to 50% of the initial acquisition price (calculated to the first decimal point and then rounded up, hereinafter referred to as floor acquisition price and revised according to (c.)), the floor acquisition price shall be treated as the revised acquisition price. Also after the above calculation, when the revised acquisition price is above the price equal

to 200% of the initial acquisition price (calculated to the first decimal point and then rounded up, hereinafter referred to as the maximum acquisition price and revised according to (c.)), the maximum acquisition price shall be treated as the revised acquisition price.

#### (c) Adjustment of Acquisition Price

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

$$\text{Adj. acquisition price} = \text{Pre-adjust acquisition price} \times \frac{\text{No. of issued common stocks} + \frac{\text{No. of new and disposal common stocks} \times \text{Amount paid per share}}{\text{Market value per share}}}{\text{No. of issued common stocks} + \text{No. of new common stocks}}$$

#### (iii) The Number of Common Stocks to be issued in exchange for the acquisition of the Class-IV Preferred Stocks

The number of common stocks of the Company to be issued in exchange for the acquisition of the Class-IV preferred stocks shall be as follows.

$$\text{No. of common stocks issued in exchange for the acquisition of the Class-IV preferred stocks} = \frac{\text{Total value equal to paid-in amount of the Class-IV Preferred Stocks submitted by Shareholders asking for Acquisition}}{\text{Acquisition Price}}$$

#### (3) Mandatory Acquisition

The Class-IV preferred stocks which are not requested for acquisition during the period in which a request for acquisition 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 acquisition) 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 acquisition.

When the average price is lower than the floor acquisition 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 acquisition price. Also, when the average price is more than the maximum acquisition 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 acquisition price.

When fractions less than 1 are produced in calculating the above number of common stocks, they shall be treated according to the treatment specified in the Article 234 of the Company Law.

## 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 and its consolidated subsidiaries was revalued, and the unrealized gain on the revaluation of land, net of deferred tax, was re-

ported as "Variance of Land Revaluation" within Stockholders' Equity, and the relevant deferred tax was reported as "Deferred Tax Liabilities related to Land Revaluation" in Liabilities for the fiscal year ended 31 March, 2006.

Revalued Date: 31 March, 2000

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 consolidated subsidiaries and affiliates accounted for by the equity method were revalued.

Revalued Date: 31 March, 2002

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, 1998.

The difference of the total fair value, revalued based on the law on revaluation of land article 10, of business land for the end of this fiscal year and the total book price for the business land revalued was ¥56,149 millions (\$477,986 thousands).

## 10. Contingent Liabilities

Contingent liabilities at March 31, 2006 is as follows:

	Millions of yen	Thousands of U.S. dollars
Guarantees of bank loans	¥ 2,647	\$ 22,539
Export bills discounted	99	843
Notes endorsed	—	—
Notes discounted	725	6,172

## 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, is as follows.

a) As a lessee

(i) Amounts equivalent to acquisition costs, accumulated depreciation and net balance as of March 31, 2006 and 2005 concerning the finance lease assets:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Acquisition Costs	¥ 35,817	¥ 41,910	\$ 304,907
Accumulated Depreciation	20,121	24,374	171,290
Net Balance	15,695	17,536	133,616

(ii) Future payment obligations of finance lease expenses as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Portion due within one year	¥ 6,182	¥ 6,319	\$ 52,628
Thereafter	10,742	12,593	91,144
Lease expense paid	7,367	8,490	62,717

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 is as follows.

### a) As a lessee

Future payment obligations of operating lease expenses as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Portion due within one year	¥ 820	¥ 677	\$ 6,984
Thereafter	975	1,189	8,307

### b) As a lessor

Future receivable income of operating lease commitment as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Portion due within one year	¥ 46	¥ 19	\$ 397
Thereafter	46	29	397



## 12. Loss on impairment of fixed assets

Loss on impairment of fixed assets recognized in the consolidated financial statements is as follows:

Location	Usage	Type	Millions of yen	Thousands of U.S. dollars
Ohira-machi, Shimotsuga-gun, Tochigi prefecture	Idle Assets	Machinery and other	¥ 409	\$ 3,484
Fujisawa-shi, Kanagawa prefecture	Idle Assets	Machinery and other	420	3,579
Ebina-shi, Kanagawa prefecture and other	Idle Assets	Land and machinery	184	1,569
Ueki-machi, Kamoto-gun, Kumamoto prefecture and others	Idle Assets	Land and machinery	1,585	13,500
		total	¥ 2,600	\$ 22,134

As a general rule, assets were grouped into business assets, idle assets and assets for rent. As for idle assets and assets for rent were individually grouped by each item. There were no signs of necessity of impairment for business assets and assets for rent. However, for idle assets that were in need for impairment due to the fall in land prices, the carrying amount was reduced to the amount recoverable.

Breakdown of the loss on impairment by asset type is as follows:

Type	Millions of yen	Thousands of U.S. dollars
Land	¥ 1,703	\$ 14,500
Buildings	12	107
Machinery	818	6,970
Other	65	555

The recoverable amount of an asset is estimated based on the net amount that the asset could be sold (net selling amount) for land and buildings, the net selling amount is estimated by appraisal amount based on real estate appraisal standards.

## 13. Subsequent Events

a) The following appropriations of retained earnings of the Company were approved at the shareholders' meeting held on June 29, 2006:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends		
Preferred Stock (Class I) (¥6.944=U.S.\$0.059 per share)	¥ 260	\$ 2,213
Preferred Stock (Class III) (¥12.944=U.S.\$0.110 per share)	323	2,749
Preferred Stock (Class IV) (¥16.944=U.S.\$0.144 per share)	423	3,600
Common Stock (¥3.000=U.S.\$0.025 per share)	3,420	29,113

b) Dissolution of capital alliance between the Company and General Motors Corp.

On April 2006, the Company and General Motors Corp. (GM) has agreed to dissolve their capital alliance. Following this agreement, General Motors Ltd., a 100% subsidiary of GM, sold 40,000,000 shares, out of 90,090,000 shares of the Company common stock that it owned, to Mitsubishi Corporation. It also sold 40,000,000 shares to Itochu Corp. and 10,090,000 shares to Mizuho Corporate Bank, Ltd. As a result, Mitsubishi Corp. now holds 42,420,000 shares (shareholding; 3.72%), Itochu Corp. holds 48,251,000 shares (shareholding; 4.23%) and Mizuho Corporate Bank, Ltd. holds 41,931,411 shares (shareholding; 3.67%) of the Company. The Company and GM, however, have also agreed keep their business partnership the same as it has been.

## 14. Segment Information

(1) The business segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2005

As net sales, operating income and total assets from the automotive business of the Company and its consolidated subsidiaries constituted more than the consolidated totals for the year ended March 31, 2006 and 2005, the business segment information for fiscal 2006 and 2005 is not shown.

(2) The geographical segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2005 were as follows:

	Japan	North America	Asia	Other	Total	Eliminations	Consolidated
<b>Year ended March 31, 2006</b>	Millions of yen						
Sales to third parties	967,149	165,309	413,259	36,138	1,581,857	—	1,581,857
Inter-area sales and transfers	150,704	6,951	33,321	696	191,673	(191,673)	—
Total sales	1,117,853	172,260	446,581	36,834	1,773,531	(191,673)	1,581,857
Operating expenses	1,054,511	166,841	425,944	35,364	1,682,661	(191,466)	1,491,195
Operating income	63,342	5,419	20,637	1,470	90,869	(207)	90,661
Total assets	960,741	67,577	139,143	14,682	1,182,146	(13,449)	1,168,697

	Thousands of U.S. dollars						
Sales to third parties	8,233,164	1,407,249	3,518,002	307,640	13,466,056	—	13,466,056
Inter-area sales and transfers	1,282,915	59,174	283,662	5,928	1,631,680	(1,631,680)	—
Total sales	9,516,079	1,466,423	3,801,664	313,568	15,097,737	(1,631,680)	13,466,056
Operating expenses	8,976,860	1,420,289	3,625,981	301,052	14,324,183	(1,629,914)	12,694,269
Operating income	539,219	46,134	175,682	12,516	773,553	(1,766)	771,786
Total assets	8,178,613	1,071,285	1,184,505	124,990	10,063,388	(114,489)	9,948,898

	Japan	North America	Asia	Other	Total	Eliminations	Consolidated
<b>Year ended March 31, 2005</b>	Millions of yen						
Sales to third parties	971,729	195,917	292,903	33,016	1,493,567	—	1,493,567
Inter-area sales and transfers	116,132	4,970	3,694	176	124,974	(124,974)	—
Total sales	1,087,862	200,888	296,598	33,192	1,618,542	(124,974)	1,493,567
Operating expenses	1,014,931	201,117	282,516	31,870	1,530,436	(124,083)	1,406,353
Operating income	72,931	(229)	14,082	1,322	88,106	(891)	87,214
Total assets	963,719	56,879	125,541	14,426	1,160,567	(17,986)	1,142,580

(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 for the years ended March 31, 2006 and 2005, were as follows:

	North America	Asia	Other	Total
<b>Year ended March 31, 2006</b>	Millions of yen			
Overseas sales	183,143	442,181	271,539	896,864
Consolidated net sales	—	—	—	1,581,857
Overseas sales per consolidated net sales	11.6%	28.0%	17.2%	56.7%

	Thousands of U.S. dollars			
Overseas sales	1,559,067	3,764,209	2,311,564	7,634,840
Consolidated net sales	—	—	—	13,466,056
Overseas sales per consolidated net sales	11.6%	28.0%	17.2%	56.7%

	North America	Asia	Other	Total
<b>Year ended March 31, 2005</b>	Millions of yen			
Overseas sales	213,901	374,172	279,744	867,818
Consolidated net sales	—	—	—	1,493,567
Overseas sales per consolidated net sales	14.3%	25.1%	18.7%	58.1%



## 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, 2006, 2005 and 2004, 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 express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards 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, 2006, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 2, Isuzu Motors Limited, its consolidated domestic subsidiaries and its equity method-applied domestic affiliates adopted a new accounting standard for impairment accounting for fixed assets as adoption of the standard was permitted from the fiscal year ended March 31, 2006.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 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.

June 29, 2006  
Tokyo, Japan

*Ernst & Young Shin Nihon*