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ITEMS DISCLOSED ON INTERNET CONCERNING NOTICE OF CONVOCATION OF THE 116TH ANNUAL GENERAL MEETING OF SHAREHOLDERS

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES ON THE FINANCIAL STATEMENTS

(April 1, 2017 to March 31, 2018)

June 7, 2018

ISUZU MOTORS LIMITED

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

Basis for Consolidated Financial Statements

1. Scope of Consolidation

- (1) Number of consolidated subsidiaries: 91
- (2) Principal subsidiaries: ISUZU MOTORS SALES LTD.; Isuzu Motors Kinki Co., Ltd.; ISUZU MOTOR SYUTOKEN CO., LTD.; Isuzu Motors America, LLC.; Isuzu Motors Co., (Thailand) Ltd.
- (3) Changes in scope of consolidation
- 1) As a result of acquiring control, Isuzu Vietnam Co., Ltd. has been converted into a consolidated subsidiary from an affiliate accounted for by the equity method.
 - 2) Nagano Isuzu Motors Co., Ltd. has been excluded from the scope of consolidation because it was merged through absorption with Isuzu Motors Tokai-Hokuriku Co., Ltd. (currently Isuzu Motors Chubu Co., Ltd.).
 - 3) As a result of share acquisition, ISUZU EAST AFRICA LIMITED has been converted into a consolidated subsidiary.
- (4) Principal non-consolidated subsidiaries: Hakodate Isuzu Motors Ltd.
- (5) Reasons for excluding subsidiaries from consolidation
The non-consolidated subsidiaries are small in terms of their total assets, net sales, net income or loss, and retained earnings (attributed to the Company earnings). Thus, they only have minor effects on the consolidated financial statements.

2. Scope of Equity Method

- (1) Number of companies accounted for by the equity method: 54
- (2) Principal companies accounted for by the equity method
- | | |
|--------------------------------|--|
| Non-consolidated subsidiaries: | Omori Regional Airconditioning Co., Ltd. |
| Affiliates: | J-Bus Limited |
- (3) Changes in scope of equity method accounting
- 1) As a result of acquiring control, Isuzu Vietnam Co., Ltd. has been converted into a consolidated subsidiary from an affiliate accounted for by the equity method.
 - 2) Isuzu Remanufactura de Colombia S.A.S. has been included within the scope of non-consolidated subsidiaries accounted for by the equity method following its establishment.
- (4) Principal companies not accounted for by the equity method
- | | |
|--------------------------------|----------------------------|
| Non-consolidated subsidiaries: | Hakodate Isuzu Motors Ltd. |
| Affiliates: | Suzuki Unyu Ltd. |
- (5) Reasons for not accounting by the equity method
These companies are not accounted for by the equity method because their effect on the consolidated financial statements is not significant, either individually or collectively.

3. Fiscal Period of Consolidated Subsidiaries

Of the consolidated subsidiaries, the accounting date for 23 overseas subsidiaries is December 31.

In preparing consolidated financial statements, the Company uses the respective financial statements of subsidiaries as of the accounting date. If significant transactions have been made between the two accounting dates, the Company may make the necessary adjustments.

The accounting date for 35 domestic subsidiaries and 33 overseas subsidiaries are the same as the consolidated accounting date.

4. Significant Accounting Policies

- (1) Valuation methods for securities
- Other securities
- i) Marketable securities

Marketable securities are measured at fair value. Changes in unrealized holding gain or loss are directly included in net assets. The cost of securities sold is calculated by the moving average method.

ii) Non-marketable securities

Non-marketable securities are measured at cost determined by moving average method.

(2) Valuation methods for inventories

i) Parent company

Inventories are measured at the cost determined by the gross average method.

(Balance sheet values are measured by the method of devaluing book price to reflect decreases in profitability.)

ii) Consolidated subsidiaries

Inventories are principally measured at the cost determined by the specific identification method. (Balance sheet values are measured by the method of devaluing book value to reflect decreases in profitability.)

(3) Valuation methods for derivative financial instruments

Derivative financial instruments are measured at fair value.

(4) Depreciation of non-current assets

i) Depreciation of property, plant and equipment (excluding lease assets)

Depreciation of property, plant and equipment is calculated principally by the straight-line method. Some non-current assets are calculated by the declining balance method.

ii) Amortization of intangible assets (excluding lease assets)

Amortization of intangible assets is calculated by the straight-line method. "Software," included in intangible assets, is amortized by the straight-line method based on the estimated useful lifetime in-house (5 years).

iii) Lease assets

Lease assets relating to finance lease transactions without transfer of ownership are depreciated over the lease contract's lifetime by the straight-line method. In addition, the residual value is the guaranteed residual value if a guaranteed residual value has been arranged under the lease agreement, and in other cases the residual value is zero.

(5) Basis for provisions and allowances

i) Allowance for doubtful accounts

With a view to providing for account receivables, loan receivables, and bad debt expenses, the Company and domestic consolidated subsidiaries provide an allowance for doubtful accounts based on the historical default rate of normal receivables and with reference to the collectability of receivables from companies in financial difficulty. Foreign consolidated subsidiaries determine allowances for doubtful accounts by assessing each individual account. The Company makes necessary adjustments to allowance for doubtful accounts in consolidation of receivables and payables of each consolidated subsidiary.

ii) Accrued bonus costs

Accrued bonus costs are provided in an amount estimated to cover the bonus payment for services rendered by employees during the fiscal year.

iii) Accrued directors' bonus costs

Accrued directors' bonus costs are provided in an amount estimated to cover the bonus payment for services rendered by directors during the fiscal year.

iv) Provisions for warranty costs

Provisions for warranty costs are provided to cover the cost of all services anticipated to be incurred during the entire warranty period in accordance with the warranty contracts. These provisions are calculated based on past experience.

v) Provision for automobile maintenance costs

Provision for automobile maintenance costs is provided for the portion corresponding to the already leased period out of the total amount anticipated to be incurred during the entire lease period for maintenance costs based on lease contracts, such as lease automobile maintenance costs.

(vi) Provision for management board incentive plan trust

Provision for management board incentive plan trust is provided in an amount estimated to cover the payment of Company stock benefits to Directors and others during the current fiscal year.

(6) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into yen at the foreign exchange spot rate on the date of the balance sheet, and differences arising from the translation are included in the statement of income as gains or losses. The Company translates assets and liabilities of foreign consolidated subsidiaries into yen at the foreign exchange spot rate on the date of the balance sheet of each of those subsidiaries. Statement of income accounts are translated using the average foreign exchange rate of the statement of income's period. Translation adjustments are included in the foreign currency translation adjustments account and non-controlling interests account of net assets.

(7) Hedge accounting

i) Hedge accounting

a. Forward foreign exchange contracts and currency options

Designated hedge accounting is adopted.

(except transactions which do not fulfill the required conditions)

b. Interest rate swaps and interest rate options

Deferral hedge accounting or exceptional accounting method specified in the accounting standard for financial instruments is adopted.

ii) Hedging instruments and hedged items

a. Hedging instruments

Interest rate swaps, interest rate options, forward foreign exchange contracts, and currency options.

b. Hedged items

Receivables and payables denominated in foreign currencies, and borrowings.

iii) Hedging policy

The Company utilizes derivative financial instruments, with receivables and payables denominated in foreign currencies, and borrowings to hedge possible future fluctuations in market prices.

iv) Assessment of hedge effectiveness

The Company determines hedge effectiveness by comparing the cumulative changes in cash flows from hedging instruments with those from hedged items. However, this assessment excludes the effectiveness of interest rate swaps accounted by exceptional accounting method.

v) Other

The Company has a bylaw on derivative transactions and executes its transactions and risk management based on this bylaw, which stipulates policies, procedures, retention limits, and reporting systems.

(8) Recognition of material profits and expenses

Profit on finance lease transactions is recognized based on accounting methods for net sales and cost of sales upon the receipt of lease fees.

(9) Amortization of goodwill and period

The Company estimates the period for goodwill to remain in effect and in principle amortizes that account over 20 years or less after recognition under straight-line method.

(10) Other

i) Recognition of net defined benefit liability

To provide for payments of retirement benefits for employees, net defined benefit liability is accounted for by posting an amount obtained by deducting pension plan assets expected from projected benefit obligations as of the end of the current fiscal year. Upon calculating net retirement benefit liability, the method of attributing the expect amount of payments of retirement benefits up until the period of the consolidated fiscal year is based on the benefit formula method. Prior service costs are amortized using the straight-line method over a period (mainly 10 years) less than the average remaining years of service of eligible employees. Actuarial gain or loss is amortized using the straight-line method or declining balance method over periods shorter than the average remaining years of service of eligible employees (mainly 10 years) from the fiscal year following that when the actuarial gain or loss is incurred. Unrecognized actuarial gain or loss and unrecognized prior service costs are posted to remeasurements of defined benefit plans under accumulated other comprehensive income in the net assets section after adjusting for tax effects.

ii) Transactions subject to consumption tax

Transactions subject to consumption tax are recorded at amounts excluding consumption tax.

Notes on the Consolidated Balance Sheet

1. Pledged Assets

Assets pledged as collateral

Land	1,026 million yen
Buildings and structures	753 million yen
Machinery, equipment and vehicles	649 million yen
Other	4,935 million yen
Total	7,363 million yen

Secured liabilities

Long-term borrowings (including borrowings falling due within a year)	1,082 million yen
Accounts payable	7,078 million yen

2. Accumulated Depreciation of Property, Plant and Equipment 880,573 million yen

3. Guaranteed Obligation

Sumitomo Mitsui Trust Club Co., Ltd.	6 million yen
Housing Loans for Workers	0 million yen
Total	6 million yen

4. Revaluation of Business Land

The Company revaluates its business land pursuant to the Law to Revise Part of the Land Revaluation Law (Law No. 24 of March 31, 1999). The tax equivalent to this revaluation variance has been stated in Liabilities as "Deferred tax liabilities on revaluation reserve for land," and the amount deducted this has been stated in Net Assets as "Unrealized holding gain or loss on land revaluation."

The difference between the total fair value of the revaluated business land at the end of the current fiscal year and the total book value after revaluation was 62,961 million yen.

Notes on the Consolidated Statement of Changes in Net Assets

1. Number of Shares Issued and Outstanding at the End of the Fiscal Year
 Common stock 848,422,669 shares

2. Details of Dividends Paid as Distribution of Profits

(1) Amount of dividends paid

Date of Resolution	Type of Stock	Source of Funds for Dividends	Total Amount of Dividends Paid (millions of yen)	Dividend per Share	Record Date	Effective Date
June 29, 2017 General Meeting of Shareholders	Common stock	Retained earnings	12,615	16.00 yen	March 31, 2017	June 30, 2017
November 6, 2017 Board of Directors Meeting	Common stock	Retained earnings	12,615	16.00 yen	September 30, 2017	November 30, 2017

(2) Of the dividends whose record date belongs to the current fiscal year, the dividend whose effective date falls in the following fiscal year

Planned Date of Resolution	Type of Stock	Source of Funds for Dividends	Total Amount of Dividends Paid (millions of yen)	Dividend per Share	Record Date	Effective Date
June 28, 2018 General Meeting of Shareholders	Common stock	Retained earnings	13,403	17.00 yen	March 31, 2018	June 29, 2018

Notes on Financial Instruments

1. Matters Relating to the Status of Financial Instruments

The Company restricts investments only for part of deposits and obtains funds from bank borrowings. Customer credit risks in connection with trade notes and accounts receivable are managed by monitoring balances by customer on a timely basis, in accordance with the Company's internal accounting manual. Investment securities are mainly equity securities issued by affiliates, and it continually monitors their market prices in accordance with the Company's internal rules for securities. Derivatives are used for avoiding risks related to future fluctuations of market prices, within the limits of receivables and payables denominated in foreign currencies and borrowings.

2. Matters Relating to the Fair Values of Financial Instruments

The table below shows the amounts of financial instruments recorded in the consolidated balance sheet and their fair values as of March 31, 2018 (at the end of the current fiscal year) as well as their variances. Financial instruments, whose fair values are deemed to be extremely difficult to value, are not included in the following table. (See NOTE 2)

(millions of yen)

	Consolidated balance sheet amount (*1)	Fair value (*1)	Variance
(1) Cash and deposits	346,818	346,818	-
(2) Trade notes and accounts receivable	279,401	279,401	-
(3) Lease receivables and Lease investment assets	103,223	103,324	100
(4) Investment securities	94,538	94,538	-
(5) Trade notes and accounts payable	(350,555)	(350,555)	-
(6) Electronically recorded obligations - operating	(29,439)	(29,439)	-
(7) Short-term borrowings	(30,770)	(30,770)	-
(8) Accrued expenses	(52,730)	(52,730)	-
(9) Long-term borrowings (*2)	(239,963)	(240,726)	(763)
(10) Derivatives (*3)	1,089	1,089	-

*1 The figures in parentheses indicate those posted in liabilities.

*2 Long-term borrowings include those falling due within one year.

*3 Assets and liabilities arisen from derivatives are offset against each other and stated in net.

NOTE 1:

Method of fair value measurement of financial instruments and matters regarding securities and derivatives

(1) Cash and deposits, and (2) Trade notes and accounts receivable

Since these accounts are settled in a short period of time, their fair values are nearly equal to their book values. Therefore, the book values are deemed as their fair values.

(3) Lease receivables and Lease investment assets

The fair values of lease investment assets are based on present values discounted by an interest rate which takes into account the period until maturity and credit risk for receivable amounts for each type of receivable as classified according to certain periods.

(4) Investment securities

The fair values of investment securities are based on prices quoted on stock exchanges.

(5) Trade notes and accounts payable, (6) Electronically recorded obligations - operating, (7) Short-term borrowings, and (8) Accrued expenses

Since these accounts are settled in a short period of time, their fair values are nearly equal to their book values. Therefore, the book values are deemed as their fair values.

(9) Long-term borrowings

The fair values of long-term borrowings are measured by discounting the future cash flows of principals and interests at an interest rate that would apply for a new loan borrowed under similar conditions.

(10) Derivatives

Interest rate swaps under the exceptional accounting method are accounted for as an integral part of long-term borrowings, the hedged item. Therefore, their fair values are included in the fair value of their underlying long-term borrowings (See (9) above).

As forward foreign exchange contracts under designated hedge accounting method are accounted for as an integral part of accounts receivable, the hedged item, their fair values are included in the fair value of their underlying accounts receivable.

NOTE 2:

Because market prices of unlisted investment securities (2,353 million yen shown in the consolidated balance sheet) and investments in non-consolidated subsidiaries and affiliates (81,735 million yen shown in the consolidated balance sheet) are not available, and their future cash flow cannot be estimated, it is extremely difficult to determine their fair values. Therefore, they are not included in “(4) Investment securities” mentioned above.

Matters on Investment and Rental Property

Disclosures are omitted due to immateriality in amounts.

Notes on Net per Share

Net Assets per Share	1,167.68 yen
Net Income per Share	134.17 yen

Notes on Subsequent Events

There are no relevant items.

NOTES ON THE FINANCIAL STATEMENTS

Basis for Financial Statements

1. Valuation Standards and Methods for Securities

(1) Security investments in subsidiaries and affiliates

Securities investment in subsidiaries and affiliates are measured at the cost determined by the moving average method. Some of the securities have been written-off.

(2) Other securities

i) Marketable securities

Marketable securities are measured at fair value with changes in unrealized holding gain or loss directly included in net assets.

Cost of securities sold is calculated by the moving average method.

ii) Non-marketable securities

Non-marketable securities are measured at cost using the moving average method.

2. Valuation Methods for Derivative Financial Instruments

Derivative financial instruments are measured at fair value.

3. Valuation Methods for Inventories

Inventories are measured at cost using the gross average method.

(Balance sheet values are measured by method of devaluing book value to reflect decreases in profitability.)

4. Depreciation of Non-Current Assets

(1) Depreciation of property, plant and equipment (excluding lease assets)

Depreciation of property, plant and equipment is calculated by the straight-line method.

Property with an acquisition cost of more than 100 thousand yen and less than 200 thousand yen is depreciated equally over 3 years.

(2) Amortization of intangible assets (excluding lease assets)

Amortization of intangible assets is calculated by the straight-line method.

“Software” included in intangible assets, is amortized by the straight-line method based on the estimated useful lifetime (5 years).

(3) Lease assets

Lease assets relating to finance lease transactions without transfer of ownership are depreciated over the lease contract’s lifetime by the straight-line method. In addition, the residual value is the guaranteed residual value if a guaranteed residual value has been arranged under the lease agreement, and in other cases the residual value is zero.

5. Basis for Provisions and Allowances

(1) Allowance for doubtful accounts

To prepare for losses on doubtful accounts from trade receivables and loan receivables, allowance for doubtful accounts is provided based on the historical default rate of normal receivables and with reference to the collectability of receivables from companies in financial difficulty.

(2) Accrued bonus costs

Accrued bonus costs are provided in an amount estimated to cover the bonus payment for services rendered by employees during the fiscal year.

(3) Accrued directors’ bonus costs

Accrued directors’ bonus costs are provided in an amount estimated to cover the bonus payment for services rendered by directors during the fiscal year.

(4) Provisions for warranty costs

Provisions for warranty costs are provided to cover the cost of all services anticipated to be incurred during the entire warranty period in accordance with warranty contracts. The provisions are calculated based on past experience.

(5) Accrued retirement benefits

Accrued retirement benefits are calculated in an amount based on the projected benefit obligation expected and the pension plan assets expected at the end of the current fiscal year. Upon calculating payments of retirement benefit liability, the method of attributing the expect amount of payments of retirement benefits up until the period of the consolidated fiscal year is based on the benefit formula method. Prior service costs are amortized by the

straight-line method over periods shorter than the average remaining years of service of eligible employees (1 year). Actuarial gain or loss is amortized by the straight-line method over periods shorter than average remaining years of service of eligible employees (10 years) from the following fiscal year when the actuarial gain or loss is incurred.

(6) Provision for management board incentive plan trust

Provision for management board incentive plan trust is provided in an amount estimated to cover the payment of Company stock benefits to Directors and others during the current fiscal year.

6. Foreign Currency Translation

Receivables and payables denominated in foreign currencies are translated into yen at the foreign exchange spot rate on the date of the balance sheet, and any differences arising from the translation are included in the statement of income as gains or losses.

7. Hedge Accounting

(1) Hedge accounting

i) Forward foreign exchange contracts and currency options

Designated hedge accounting is adopted.

(except transactions which do not fulfill the required conditions)

ii) Interest rate swaps and interest rate options

Deferral hedge accounting or exceptional accounting method specified in the accounting standard for financial instruments is adopted.

(2) Hedging instruments and hedged items

i) Hedging instruments

Interest rate swaps, interest rate options, forward foreign exchange contracts, and currency options.

ii) Hedged items

Receivables and payables denominated in foreign currencies, and borrowings.

(3) Hedging policy

The Company utilizes derivative financial instruments with receivables and payables denominated in foreign currency and borrowings to hedge against possible future fluctuations in the market prices.

(4) Assessment of hedge effectiveness

Hedge effectiveness is determined by comparing the cumulative changes in cash flows from the hedging instruments with those from the hedged items. However, this assessment excludes the effectiveness of interest rate swaps accounted by exceptional accounting method.

(5) Other

The Company has a bylaw on derivative transactions and executes its transactions and risk management based on this bylaw, which stipulates policies, procedures, retention limits and reporting systems.

8. Deferred Assets

Deferred assets are all accounted as an expense on payment.

9. Other

(1) Accounting related to retirement benefits

The method of accounting for unprocessed amounts of unrecognized actuarial gain or loss and unrecognized prior service costs relating to retirement benefits differs from the method of accounting for these items in the consolidated financial statements.

(2) Transactions subject to consumption tax

Transactions subject to consumption tax are recorded at amounts excluding consumption tax.

Notes on the Balance Sheet

1. Accumulated Depreciation of Property, Plant and Equipment	473,776 million yen
2. Guaranteed Obligation	
Sumitomo Mitsui Trust Club Co., Ltd.	6 million yen
Housing Loans for Workers	0 million yen
Total	<u>6 million yen</u>
3. Debts and Credits to Subsidiaries and Affiliates	
Short-term credits	163,379 million yen
Long-term credits	4,540 million yen
Short-term debts	87,413 million yen
Long-term debts	465 million yen

4. Revaluation of Land

Business land is revalued in accordance with the "Act on Partial Amendment to the Law to Revise Part of the Land Revaluation Law (Law No. 24 of March 31, 1999). Of the valuation difference, tax corresponding to the valuation difference is recognized in Deferred Tax Liabilities for land revaluations in the liabilities section, while the deducted amount is recognized in the Revaluation Reserve for Land in the net assets section. The difference between the total fair value of revalued business land and the total book value after revaluation as of the end of the current fiscal year is 62,961 million yen.

Notes on the Statement of Income

Transactions with Subsidiaries and Affiliates

Sales to subsidiaries and affiliates	697,773 million yen
Purchases from subsidiaries and affiliates	298,047 million yen
Other	27,490 million yen

Notes on the Statement of Changes in Net Assets

Type and Number of Shares Held as Treasury Stocks at the End of the Fiscal Year

Common stock	60,830,314 shares
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(Note) Number of shares held as treasury stocks includes 864,808 shares held with a trust whose beneficiaries are Directors, etc.

Notes on Tax-Effect Accounting

1. Significant Components of Deferred Tax Assets and Deferred Tax Liabilities

Deferred tax assets (of current assets)	
Accrued expenses	5,456 million yen
Provisions for warranty costs	1,936 million yen
Accrued bonus costs	3,182 million yen
Accrued enterprise tax	667 million yen
Inventory write-offs	1,441 million yen
Other	298 million yen
Valuation allowance	(741) million yen
Total amount of deferred tax assets (of current assets)	<u>12,241 million yen</u>
Deferred tax liabilities (of current liabilities)	
Unrealized gain or loss from hedging activities	270 million yen
Dividends payable	397 million yen
Total amount of deferred tax liabilities (of current liabilities)	<u>667 million yen</u>
Net amount of deferred tax assets (of current assets)	<u>11,574 million yen</u>

Deferred tax assets (of non-current assets)	
Accrued retirement benefits	17,224 million yen
Write-off of investments	9,103 million yen
Other	1,503 million yen
Valuation allowance	(10,465) million yen
Total amount of deferred tax assets (of non-current assets)	<u>17,365 million yen</u>
Deferred tax liabilities (of non-current liabilities)	
Unrealized holding gain or loss on securities	14,490 million yen
Unrealized gain or loss from hedging activities	21 million yen
Total amount of deferred tax liabilities (of non-current liabilities)	<u>14,512 million yen</u>
Net amount of deferred tax assets (of non-current assets)	<u>2,853 million yen</u>

2. Reconciliation of the Effective Tax Rate and the Statutory Tax Rate

Statutory tax rate	30.8%
(Adjustment)	
Changes in valuation allowance	0.9%
Foreign withholding tax	5.2%
Dividends received (excluded from taxable income)	(10.9)%
Tax credit	(10.5)%
Other	0.8%
Effective tax rate after application of tax-effect accounting	<u>16.31%</u>

Notes on Transactions with Related Parties

Refer to the attachment "Notes on Transactions with Related Parties."

Notes on Net per Share

Net Assets per Share	754.20 yen
Net Income per Share	74.25 yen

Notes on Subsequent Events

There are no relevant items.

(Attachment)**Notes on Transactions with Related Parties**

Transactions with Subsidiaries

(millions of yen)

Name of Subsidiary	Percentage of Voting Right Owned	Connections with Related Parties	Details of Transactions	Amount of Transaction (NOTE 2)	Account	Balance Outstanding
ISUZU MOTORS SALES LTD.	Direct 75%	Sales of products	Sales of vehicles and parts (NOTE 1)	435,362	Accounts receivable	100,034
Isuzu Australia Limited	Direct 100%	Sales of products	Sales of vehicles and parts (NOTE 1)	50,651	Accounts receivable	14,796

Transaction conditions and policy on determining transaction conditions

NOTES:

1. Prices and other transaction conditions are determined through negotiation while giving appropriate consideration to market prices and so forth.
2. The amounts of transaction do not include consumption tax, etc. The balances outstanding as of the end of the current fiscal year include consumption tax, etc.