

# HINO MOTORS IS RESPONDING TO A HISTORIC DOWNTURN IN THE BUSINESS ENVIRONMENT.



Fiscal year 1998, ended March 31, 1998, was characterized by a dramatic deterioration in the business environment. The domestic automotive industry felt the full brunt of these conditions, and truck manufacturers were forced to focus on competitive strengths and concentrate resources on product areas with growth potential. Despite these efforts, business results fell below expectations.

With due consideration to the fiscal year's performance, Hino Motors has clarified its management strategy for the years ahead. We ask for the support of our shareholders as we position Hino Motors for future growth and value creation.

## MARKETS AND PERFORMANCE

In the fiscal year under review, the Japanese economy entered a period of severity that was unprecedented in the post-war era. Consumer sentiment was adversely affected by a hike in the consumption tax, and curbs on both public spending and private-sector capital investment led to continued economic weakness. These factors were compounded in the second half of the term when non-performing loan difficulties at financial institutions resurfaced amid a sharp rise in corporate bankruptcies.

In the market for medium- and heavy-duty trucks, our mainstay products, domestic demand fell due to the economic slowdown, which was led by cuts in public works spending and a slump in housing investment. In the overseas market, although exports were supported by the yen's continued depreciation, economic conditions weakened in our principal export market of Southeast Asia as a result of the currency crisis and economic turmoil in the region. Consequently, demand declined substantially overseas as well as in Japan.



*Toshimi Onishi, Chairman (left) and Hiroshi Yuasa, President*

# AGGRESSIVELY

During the term, Hino Motors launched vehicles incorporating new technology, bolstered its product lineup and aggressively boosted its R&D and marketing programs. However, the effects of these measures were overwhelmed by the extreme deterioration of market conditions. As a result, overall unit sales of diesel trucks and buses declined 16.1% compared with the previous term to 70,868 units.

In Japan, unit sales of medium-duty trucks fell 13.6% to 19,841 units and declined 14.5% on a value basis to ¥56,224 million. In heavy-duty trucks, unit sales were down 10.8% to 17,880 units, and sales decreased 11.7% on a value basis to ¥116,740 million. Sales of buses recorded a 3.0% decline in unit sales to 2,739 units and a 5.5% drop in value to ¥29,052 million. Overall domestic sales of diesel vehicles, including 3.0- to 3.5-ton trucks and 2-ton trucks, which posted a relatively strong performance during the year, declined 8.5% to 46,412 units, or 10.4% to ¥212,832 million. Overseas sales in this category, however, dropped 27.5% to 24,456 units, or 20.9% in value to ¥76,406 million. In addition, commissioned small vehicle production for Toyota Motor Corporation declined 20.3% to 248,019 units, or 2.3% to ¥170,578 million, mainly the result of a slump in knockdown production for the Southeast Asian region.

Consolidated net sales for the year declined 6.9% to ¥589,208 million. The Company responded with aggressive countermeasures to support earnings, including stepped up efforts to reduce costs. These efforts, however, were insufficient to offset falling sales, and operating income fell 93.1% to ¥728 million, with net income down 77.2% to ¥1,649 million.

## OUTLOOK AND STRATEGY

Although the government implemented a broad economic stimulus package, the economy is unlikely to turn upward in the near future. In the domestic medium- and heavy-duty truck market, we do not expect an early recovery in the structural downturn in construction-related demand, and depressed demand for cargo transport is also likely to be prolonged.

Consequently, we do not foresee an increase in demand in the near term. Overseas, the timing of an economic recovery in Southeast Asia, our key overseas market, remains uncertain, and further declines in export volume have been incorporated into our forecasts.

Hino Motors will therefore concentrate on creating a corporate structure that enables it to develop, manufacture and distribute high-quality products at a low cost, while fostering aggressive management to maintain the Company's earning power and market presence in the 21st century. To achieve these objectives, we are committed to maintaining our position as number one in the domestic market for medium- and heavy-duty trucks, which we have held for the past 25 years. At the same time, we aim to reinvigorate our bus business, proceed with preparations for our full-fledged entry into the light-duty truck market, and attain growth as a comprehensive truck and bus manufacturer.

As the leading manufacturer of diesel trucks and buses, we fully understand the importance of environmental conservation, and this is our highest priority in product development, manufacturing and other business processes. These efforts to protect the environment are valuable activities in the sense of making qualitative improvements to products, such as enhancing combustion efficiency, and we believe they hold the key to the Company's growth.

At the Board of Directors' meeting following the general shareholders' meeting on June 26, 1998, Kaneyoshi Kusunoki, who had served with distinction as chairman for many years, was appointed to the position of senior adviser to the Board, and Toshimi Onishi was appointed as our new chairman.

We ask for the continued support of our shareholders.

大西利美

Toshimi Onishi, Chairman

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Hiroshi Yuasa, President