Strategic Focus in a Harsh Business Environment

In fiscal year 1999, ended March 31, 1999, domestic demand for medium- and heavy-duty trucks declined to a level last recorded in the mid-1960s. In Asian markets, our largest overseas demand source, the effects of economic turmoil arising from the currency crisis in the region continued, and truck demand weakened further. With severe pressure on the two main engines of demand supporting our operations, corporate performance deteriorated. Net sales recorded a year-on-year decline, and management regrets to announce the first net loss since Hino Motors was listed on the Tokyo Stock Exchange in 1949.

RESULTS

In the fiscal year under review, consolidated net sales declined 26.6% to ¥432,284 million. Hino Motors adopted such unprecedented countermeasures as temporarily halting portions of our medium- and heavy-duty truck operations, and took resolute steps to reduce manufacturing costs and strengthen earnings power. However, these efforts were unable to offset the adverse impact of the sharp decline in sales, and Hino Motors recorded an operating loss of ¥37,593 million, compared with operating income of ¥710 million in the previous fiscal year, and a net loss of ¥36,659 million, compared with net income of ¥1,649 million a year earlier. During the fiscal year, the number of consolidated subsidiaries increased by three to a total of 10, of which six posted profits and four reported losses. At the same time, the number of affiliated companies accounted for by the equity method rose by two for a total of 19, of which five recorded profits and 14 posted losses.

In view of these results, management suspended cash dividends for the year. As we make concerted efforts to realize a rapid earnings recovery and resume dividend payments, we ask for the support of our shareholders.

MARKETS AND PERFORMANCE

Operating conditions in the domestic automobile industry remained depressed by the protracted downturn in the Japanese economy, and extremely weak demand prevailed in Asian countries affected by the economic crisis in the region. The only positive sign was a firm increase in demand in the North American and European markets.

Toshimi Onishi, Chairman of the Board (left) and Hiroshi Yuasa, President

In recent years, the domestic market for our core medium- and heavy-duty trucks has been affected by an unprecedented slump in demand. Despite government measures to stimulate the domestic economy, the future economic outlook remains uncertain. Weak demand for construction and cargo trucks led to a decline in the domestic truck market from approximately 112,000 units in the previous term to 81,000 units, the lowest level since the market first exceeded 100,000 units in 1967.

In response to intense competition resulting from the market contraction, Hino Motors expanded its lineup of medium- and heavy-duty trucks and bolstered marketing capabilities. In developing new products, we are focused on the key issues of environmental conservation, economy and safety. Since it is no longer possible for a company to differentiate its trucks on the basis of load-carrying function alone, Hino Motors has continuously introduced products backed by leading-edge development concepts. For example, in 1995 we adopted the world's first common rail, electronically controlled, high-pressure fuel injection system for our RISING RANGER series of medium-duty trucks, and extended its application to heavy-duty trucks during fiscal year 1999. Through such achievements, we were able to maintain a 28.8% share of the domestic medium- and heavy-duty truck market, marking our 26th consecutive year as the market leader based on the number of medium- and heavy-duty truck registrations in Japan.

During the fiscal year under review, the domestic diesel bus market also remained in a downturn. Total demand declined from 11,500 units in the previous term to 10,200 units. In response, we aimed to stimulate demand by launching new medium- and small buses and by adding a low-floor bus to our lineup of large city buses. These efforts helped maintain a 22.0% share of the domestic market, a level comparable with previous years.

Overseas, demand collapsed in Southeast Asia, our principal export market, and our total export volume plunged to approximately half the level of the previous term. Such harsh business conditions were unprecedented, and we took urgent steps to restructure and reinforce our operating base in several Asian countries while stepping up marketing activities in the Americas, where sales have generally been robust.

In commissioned production for Toyota Motor Corporation, production of the T100 pickup truck was transferred to Toyota's new plant in the United States, and commissioned production of the 4Runner (Hilux Surf in Japan) declined in volume. As a result, unit production fell 7.4% from the previous term.

OUTLOOK AND STRATEGY

We do not expect the operating environment in the current and future fiscal years to deteriorate much further compared with the fiscal year under review. However, we do not foresee an imminent recovery in either the domestic medium- and heavy-duty truck market or in export demand to Southeast Asia.

Consequently, our current mission is to generate the best possible performance under adverse conditions, and we will strive to build a sound earnings structure able to generate profits—even in an operating environment as inhospitable as the fiscal year under review. Our goals are to maintain the top position we have held for the past 26 years in the medium- and heavy-duty truck market, and to expand efforts in bus operations.

To create a new source of rapid growth as an integrated manufacturer of trucks and buses, Hino Motors made a full-fledged entry into the light-duty truck market in May 1999 with the domestic launch of the 2-ton payload truck DUTRO, jointly developed with Toyota. Our aim is to raise our share of this market from 3.1% in fiscal 1999, to 10% as rapidly as possible to cultivate this business into one of the forces that will drive our earnings recovery.

The merger of Hino Motors with Hino Motor Sales, Ltd., our domestic sales affiliate, effective October 1, 1999, was approved at the Company's general shareholders' meeting on June 24, 1999. The objective of the merger is to combine the management resources of both companies to enhance competitiveness. As this will increase our ability to rapidly develop, manufacture and market vehicles that respond to customer demand by staying in close touch with market trends, we believe it is the best strategy to respond to the difficult corporate environment faced in fiscal year 1999.

A new executive officer system was also approved at the general shareholders' meeting. This system is designed to accelerate the decision-making process, ensure an appropriate number of directors and strengthen strategic execution.

We ask for the continued support of our shareholders as we rebuild profitability for future growth and value creation.

大西利美
Toshimi Onishi, Chairman of the Board

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Hiroshi Yuasa, President