

REVIEW OF OPERATIONS

DOMESTIC MARKET

The Japanese market for Medium- and Heavy-duty trucks continued to languish during the fiscal year ended March 31, 2001, failing to break through the 80,000-unit barrier. In this environment, Hino Motors implemented sweeping management reforms, aggressively worked on R&D and pushed ahead with various sales initiatives, all based on a medium-term management plan launched in March 2000. These efforts drove an 11.4% increase in domestic sales of trucks and buses to ¥227,819 million.

During the fiscal year, production volume in Japan's automobile industry as a whole recovered to around 10 million units for the first time in 3 years. Growth was driven in the first half of the fiscal year by exports to the U.S. and in the second half by strong domestic sales as carmakers rolled out new models. The domestic Medium- and Heavy-duty truck market, Hino Motors' main market, staged a recovery centered on brisk sales of cargo carrying vehicles in the first half as the economy bottomed out, but lost momentum in the latter half of the year. Consequently, although there was an upturn in this market from the unusually sluggish conditions in the previous fiscal year, aggregate demand for Medium- and Heavy-duty trucks in Japan remained at a low level, below the 80,000-unit mark.

In this climate, we took steps to ensure that we remain the undisputed No. 1 in Medium- and Heavy-duty trucks (based on the number of registrations in Japan), a rank we have had a firm grip on for the past 28 years. Hino Motors and each and every one of its employees pulled together to ensure total customer satisfaction—the key to achieving that goal. On the product front, we bolstered the appeal of our existing truck and bus lines and added a CNG-powered model to our Light-duty truck DUTRO series. We also rolled out new models of Large Tour and City buses. These actions underscore how we earnestly engaged in R&D and developed sales strategies.

As overall demand languishes, Hino Motors' pressing issues are to build a resilient operating structure and for its sales companies to generate more earnings from peripheral activities. On the production front, we shut down and integrated assembly lines, made Hino Auto Body, Ltd., which manufactures Hino-brand buses, a wholly owned subsidiary, and took other major reform measures. We also launched a company-wide cost-cutting drive that extended to paring fixed expenses by reducing unit costs, rationalizing production and trimming operating expenses.





DOMESTIC MARKET

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In domestic sales activities, Hino Motors purchased approximately ¥30 billion of newly issued shares of sales subsidiaries, eliminating accumulated losses and giving these companies the solid balance sheets required to return to profitability. Furthermore, we bolstered our Light-duty truck operations, which shifted into full gear in May 1999, as part of our efforts to transform Hino Motors into a full-line manufacturer of trucks and buses. Japan is an obvious target for expanding sales, but Hino Motors is also setting its sights on developing full-scale operations overseas, building on its successes in Australia, for instance. Light-duty truck operations are positioned as a major growth driver alongside its Medium- and Heavy-duty truck operations.

Aggregate Demand for Medium- and Heavy-Duty Trucks and Hino Motors' Share

In the year ended March 31, 2001, aggregate domestic demand for Heavy-duty trucks and Medium-duty trucks was 39,000 units and 38,000 units, respectively, representing a combined year-on-year increase

of 3,000 units. Hino Motors once again held the top market share with 28.8%, its 28th consecutive year of market leadership.

Aggregate Demand for Light-Duty Trucks and Hino Motors' Share

Aggregate domestic demand for Light-duty trucks was 109,000 units for the fiscal year under review, an increase of 8,000 units over the previous fiscal year. Hino Motors increased its market share by 1.4 percentage points from 6.8% to 8.2%. Since fiscal 1998, before the launch of the DUTRO, Hino Motors has steadily carved out a bigger market share—its market share has risen 5.2 percentage points in that time.

Aggregate Demand for Buses and Hino Motors' Share

Aggregate demand for large buses, medium-sized buses and small buses was 2,800 units, 1,400 units and 4,800 units, respectively, in the fiscal year under review. Demand for small buses was the most noticeable casualty of economic malaise and there were no signs of an upturn in the market as a whole. Hino Motors held on to its No. 2 position, with a market share of 21.9%, slightly down from the previous fiscal year. The domestic bus market is being shaped by trends closely linked to the direction of people's lifestyles, such as the proliferation of low-floor buses and heightened concern about environmental issues such as air pollution. Hino Motors will roll out buses that stay in step with these trends as it seeks to capture a bigger market share.





OVERSEAS MARKET

OVERSEAS MARKET

The overseas market was a mixed bag during the fiscal year under review, but signs of a recovery in the Asian market were evident. Although that market is still off its peak, positive signs are emerging. Hino Motors is determined to preserve and fortify its operating base in Southeast Asia to capitalize on the inevitable market rebound. Hino Motors will also build an optimal production and sales framework, as part of the Toyota Group, to expand overseas Light-duty truck operations.

Total overseas vehicle sales increased 4,415 units to 19,380 units due to higher sales volumes

in Asia, particularly Indonesia, and various initiatives such as the launch of the Light-duty truck DUTRO in Australia.

During the year, Hino Motors invested in a Chinese bus manufacturer, thereby becoming a partner in a new joint-venture bus manufacturing and sales operation. Hino Motors will supply the new Chinese joint venture with design and production technology and lend its marketing expertise. It will also grant production and sales rights for Hino Motors vehicles. Hino Motors will aggressively develop the Chinese bus market, a market with a potential annual demand of 60,000 units, through its local production base.