

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## **Note 1: Basis of Consolidated Financial Statements' Presentation**

The accompanying consolidated financial statements have been prepared from the accounts maintained by HINO MOTORS, LTD. (the "Company") and its consolidated subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The U.S. dollar amounts included herein are solely for the convenience of readers outside Japan and have been translated from the Japanese yen amounts at the rate of ¥123.90=\$1, the approximate exchange rate prevailing as of March 31, 2001.

## **Note 2: Summary of Significant Accounting Policies**

### **(1) Consolidation**

The accompanying consolidated financial statements include the accounts of the Company and its significant companies controlled directly or indirectly by the Company, and companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All significant inter-company balances and transactions have been eliminated in consolidation.

### **(2) Foreign Currency Translation**

Foreign currency translation of the accounts of the Company and its subsidiaries are as follows:

Effective the year ended March 31, 2001, current receivables and payables and non-current monetary items denominated in foreign currencies are translated into Japanese yen at the exchange rates in effect at the respective balance sheet date.

The financial statements of overseas subsidiaries are translated into the reporting currency of Japanese yen

as follows: all assets and liabilities are translated at the rate of exchange in effect at the balance sheet date; shareholders' equity accounts are translated at historical rates; revenue and expense items are translated at the rate of exchange in effect at the balance sheet date; and cumulative adjustment resulting from translation of all assets and liabilities is presented as "translation adjustments" in the consolidated balance sheet as shareholders' equity.

### **(3) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, cash deposited with banks and short-term investments with maturities of three months or less.

### **(4) Inventories**

#### **The Company:**

Finished products are stated at cost, which is determined by the identified cost method. Work in process, raw materials and supplies are stated at cost, which is determined by the moving average cost method.

#### **Subsidiaries:**

Inventories are principally stated at cost, which is determined by the moving average cost method or at the latest purchase price.

### **(5) Marketable Securities and Investments Securities**

Effective the year ended March 31, 2001, the Company and its consolidated subsidiaries adopted a new accounting standard for financial instruments.

At the same time, securities other than investments in affiliates have been classified as "Available-for-sale securities", which are securities other than trading securities and securities being held to maturity. Available-for-sale securities are stated at moving average cost.

### **(6) Property, Plant and Equipment and Depreciation**

Property, plant and equipment are stated at cost. Depreciation is computed principally by the declining balance method based on the estimated useful lives of the respective assets.

The range of useful lives is as follows:

Buildings and structures	2 to 75 years
Machinery, equipment and vehicles	2 to 17 years
Tools	2 to 20 years

#### **(7) Retirement Benefits**

Effective the year ended March 31, 2001, the Company and its consolidated subsidiaries adopted a new accounting standard for retirement benefits.

The effect of this adoption was to increase loss before income taxes for the year ended March 31, 2001, by ¥20,937 million. The provision for employees' retirement benefits is provided mainly at an amount calculated based on the retirement benefit obligation and the market value of the plan assets. The net retirement benefit obligation at transition of ¥21,703 million was fully amortized for the year ended March 31, 2001.

Employees who terminate their services with the Company and its subsidiaries are entitled to a lump-sum severance payment determined by reference to their current basic rate of pay and length of service.

#### **(8) Provision for Doubtful Accounts**

The provision for doubtful accounts is provided based on the rate of actual results of the past or the estimated amount of probable bad debts.

#### **(9) Research and Development Costs**

Research and development costs are charged to income when incurred. A new accounting standard for research and development costs become effective the fiscal year ended March 31, 2000. However, the adoption of this new standard had no effect on the consolidated statement of operations for the year ended March 31, 2000.

#### **(10) Income Taxes**

Deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the financial statement carrying amount of existing assets and liabilities and 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.

#### **(11) Revenue Recognition**

Sales of products are recognized in the accounts upon shipment to customers.

#### **(12) Net Loss per Share**

The computation of net loss per share is based on the weighted average number of shares outstanding during the period.

#### **(13) Leases**

Finance leases, other than those lease agreements which stipulate the transfer of ownership of the leased property, are accounted for as operating leases.

#### **(14) Reclassification**

Certain prior year amounts have been reclassified to conform to the 2001 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

### **Note 3: Inventories**

Inventories at March 31, 2000 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
Finished products	¥53,225	<b>¥51,276</b>	<b>\$413,848</b>
Work in process	11,708	<b>10,838</b>	<b>87,478</b>
Raw materials and supplies	10,442	<b>8,729</b>	<b>70,453</b>
Total	¥75,375	<b>¥70,843</b>	<b>\$571,779</b>

**Note 4: Assets Pledged**

At March 31, 2001, assets pledged as collateral for short-term bank loans and long-term debt were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Notes receivable	¥ 60,169	\$ 485,624
Inventories	1,487	12,004
Land	51,633	416,729
Buildings and structures	34,495	278,415
Machinery, equipment, vehicles and tools	6,808	54,945
Investment securities	1,384	11,175
Other	1,868	15,074
	¥157,844	\$1,273,966

**Note 5: Advances to Unconsolidated Subsidiaries and Affiliates**

Loans to unconsolidated subsidiaries and affiliates at March 31, 2000 and 2001, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
Long-term loans:			
Unconsolidated subsidiaries	¥ 910	¥910	\$7,341
Affiliates	424	11	91
Total	¥1,334	¥921	\$7,432

**Note 6: Short-Term Bank Loans and Long-Term Debt**

The annual interest rates applicable to short-term bank loans outstanding at March 31, 2000 and 2001 were principally 1.375%.

Long-term debt at March 31, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
Loans, principally from banks, insurance companies and other institutions, due 2000 to 2026 with interest rates ranging from 0.75% to 9.20%			
Secured	¥ 81,685	¥69,221	\$558,681
Unsecured	40,069	28,175	227,406
Less amount due within one year	(27,783)	(43,392)	(350,222)
Sub-total	93,971	54,004	435,865
2.0% bonds due 2001	10,000	10,000	80,710
2.2% bonds due 2002	10,000	10,000	80,710
2.5% bonds due 2002	20,000	20,000	161,421
2.6% bonds due 2003	20,000	20,000	161,421
Less amount due within one year	—	(20,000)	(161,421)
Sub-total	60,000	40,000	322,841
Total	¥153,971	¥94,004	\$758,706

The aggregate annual maturities of long-term debt outstanding at March 31, 2001, were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2002	¥ 63,393	\$ 511,642
2003	59,617	481,174
2004	17,877	144,284
2005 and thereafter	16,509	133,248
Total	¥157,396	\$1,270,348

As is customary in Japan, short-term and long-term bank loans are made under general agreements which provide that collateral and guarantees for present and future indebtedness will be given upon request of the bank with reasonable and probable cause, and that the bank shall have the right to offset cash deposited with it against any obligation that has become due or, in the event of default, against all obligations due to the bank. The Company has never been requested to give any additional collateral or guarantee.

## Note 7: Retirement Benefits

The Company and its domestic subsidiaries have various retirement pension plans substantially covering their employees.

Retirement benefit under the plans are primarily based on the combination of years of service and compensation.

There are occasions when their employees receive special lump-sum payments at retirement. Such payments are charged to income when paid since it is impractical to compute a liability for future payments.

### Projected benefit obligation

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Projected benefit obligation	¥(84,122)	\$(678,953)
Plan assets at fair value	40,423	326,255
Projected benefit obligation in excess of plan assets	(43,699)	(352,698)
Unrecognized actuarial difference	1,865	15,053
Unrecognized prior service obligation	(409)	(3,301)
Provision for employees' retirement benefits	¥(42,243)	\$(340,946)

### Service cost benefits

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Service cost benefits	¥ 5,580	\$ 45,037
Interest cost on projected benefit obligation	1,917	15,472
Expected return on plan assets	(957)	(7,725)
Amortization of retirement benefit obligation at transition	21,703	175,168
Amortization of prior service obligation	(102)	(825)
Retirement benefit cost	¥28,141	\$227,127

The assumptions as of March 31, 2001, which were used in determining pension costs and provision for employees' retirement benefits shown above were as follows:

Allocation of retirement benefit cost	Flat allocation
Discount rate	3.0%
Expected rate of return on plan assets	3.0 to 4.0%
Years of amortization of prior service obligation	5 years
Years of allocation of actuarial difference	5 to 18 years
Years of amortization of retirement benefit obligation at transition	1 year

## Note 8: Depreciation

Depreciation charges of property, plant and equipment for the years ended March 31, 2000 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
Selling, general and administrative expenses	¥ 6,766	¥ 6,965	\$ 56,213
Cost of sales	37,559	30,997	250,181
Other	210	226	1,827

## Note 9: Leases

Lease expenses and lease income in respect of finance leases, other than those lease agreements which stipulate the transfer of ownership of the leased property at March 31, 2000 and 2001, were as follows:

**a) Lessee**

Class of property	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
Machinery, equipment and vehicles	¥11,017	¥ 9,175	\$ 74,052
Tools	13,389	11,944	96,401
	24,406	21,119	170,453
Less accumulated depreciation	(13,647)	(12,283)	(99,134)
Net	10,759	8,836	71,319
Future minimum payments			
Due within one year	3,062	2,577	20,804
Due after one year	7,697	6,259	50,515
	10,759	8,836	71,319
Lease expense for the year	3,612	3,288	26,540
Depreciation	3,612	3,288	26,540

**b) Lessor**

Class of property	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
Machinery, equipment and vehicles	¥14,014	¥11,753	\$94,859
Tools	1,011	—	—
Other assets	234	—	—
	15,259	11,753	94,859
Less accumulated depreciation	(7,774)	(6,054)	(48,860)
Net	7,485	5,699	45,999
Future minimum income			
Due within one year	3,068	2,338	18,873
Due after one year	4,598	3,374	27,231
	7,666	5,712	46,104
Lease income for the year	3,201	3,342	26,970
Depreciation	2,744	2,888	23,311

**Note 10: Income Taxes**

The Company and its domestic subsidiaries are subject to corporate income tax, enterprise tax and prefectural and municipal inhabitants taxes, based on income, which in the aggregate result in statutory tax rates of approximately 42.1% for both 2000 and 2001. The foreign subsidiaries are subject to taxes based on income at rates ranging from 30.0% to 42.3%.

However, the effective tax rates in the accompanying statements of operations differ from the above-mentioned income tax rates.

The years ended March 31, 2000 and 2001 are years with losses before income taxes and minority interests. Therefore we omit mentioning the differences between the statutory tax rate and effective tax rate for consolidated financial statement purposes.

Significant components of the Company and its subsidiaries' deferred tax assets and liabilities as of March 31, 2001 were as follows :

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
Deferred tax assets:			
Net operating loss carryforwards	¥24,346	¥27,046	\$218,290
Accrued employees' bonus	849	1,645	13,274
Accrued severance indemnities	217	—	—
Provision for employees' retirement benefits	—	10,461	84,427
Other	1,366	(16,035)	(129,416)
Total deferred tax assets	26,778	23,117	186,575
Deferred tax liabilities:			
Deferred gains on real properties	(3,906)	(3,757)	(30,326)
Other	—	(1,055)	(8,511)
Total deferred tax liabilities	(3,906)	(4,812)	(38,837)
Net deferred tax assets	¥22,872	¥18,305	\$147,738

**Note 11: Contingent Liabilities**

Contingent liabilities at March 31, 2000 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
Trade notes receivable			
discounted			
with banks	¥ 720	¥ 557	\$ 4,499
Guarantees of housing			
loans of employees			
and for indebtedness			
of unconsolidated			
subsidiaries			
and affiliates	19,212	17,797	143,637

**Note 12: Research and Development Costs**

Research and development costs for the year ended March 31, 2000 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
Research and			
development			
costs	¥22,996	¥23,589	\$190,387

**Note 13: Market Value Information**

At March 31, 2000, book value, market value and net unrealized gains of quoted securities of the Company and its subsidiaries were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2000	2000
Book value:		
Current	¥ 5,673	\$ 53,439
Non-current	37,425	352,573
	43,098	406,012
Market value:		
Current	13,316	125,444
Non-current	115,410	1,087,236
	128,726	1,212,680
Net unrealized gains	¥ 85,628	\$ 806,668

At March 31, 2001, book value, market value and net unrealized gains of quoted securities of the Company and its subsidiaries were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Book value:		
Held-to-maturity securities	¥ 1,310	\$ 10,573
Available-for-sale securities	34,703	280,085
Subtotal	36,013	290,658
Market value:		
Held-to-maturity securities	1,310	10,571
Available-for-sale securities	78,846	636,365
Subtotal	80,156	646,936
Net unrealized gains	¥44,143	\$356,278

**Note 14: Financial Instruments**

The Company and certain of its subsidiaries are exposed to market risk from changes in foreign currency exchange rates and interest rates and periodically enter into forward exchange contracts and interest rate swap agreements for the purpose of reducing such risk. The Company and its subsidiaries did not hold derivative financial instruments for the purpose of trading.

The Company and its subsidiaries are exposed to credit-related losses in the event of non-performance by counterparties to financial instruments and derivative financial instruments, but it is not expected that any counterparties will fail to meet their obligations, because most of the counterparties are authentic financial institutions.

**Note 15: Retained Earnings and Dividends**

The amount of retained earnings available for dividends under the Commercial Code of Japan is based on the amount stated in the statutory financial statements of the Company.

**Note 16: Segment Information**

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of automobiles, particularly diesel trucks and buses.

Business segment information is not required to be disclosed as both sales and operating income of the automobile business exceed 90% of total sales and of operating income of all segments not incurring an operating loss.

Geographical segment information is not required to be disclosed as sales outside Japan are less than 10% of consolidated net sales.

Overseas sales	Year ended March 31, 2001		
	Millions of Yen		
	Overseas sales (A)	Consolidated sales (B)	(A)/(B)
Asia	<b>¥38,179</b>	—	<b>5.4%</b>
Oceania	<b>10,903</b>	—	<b>1.6%</b>
North America	<b>15,619</b>	—	<b>2.2%</b>
Other areas	<b>14,913</b>	—	<b>2.1%</b>
	<b>¥79,614</b>	<b>¥703,998</b>	<b>11.3%</b>

  

Overseas sales	Thousands of U.S. Dollars		
	Overseas sales (A)	Consolidated sales (B)	(A)/(B)
Asia	<b>\$308,144</b>	—	<b>5.4%</b>
Oceania	<b>87,997</b>	—	<b>1.6%</b>
North America	<b>126,062</b>	—	<b>2.2%</b>
Other areas	<b>120,360</b>	—	<b>2.1%</b>
	<b>\$642,563</b>	<b>\$5,681,986</b>	<b>11.3%</b>

  

Overseas sales	Year ended March 31, 2000		
	Millions of Yen		
	Overseas sales (A)	Consolidated sales (B)	(A)/(B)
Asia	¥30,748	—	4.7%
Oceania	11,519	—	1.8%
North America	13,648	—	2.1%
Other areas	9,591	—	1.4%
	¥65,506	¥653,288	10.0%

#### Note 17: Subsequent Event

(1) On April 25, 2001, the Company agreed to issue common stock upon third party allotment to Toyota Motor Corporation.

Following is the outline:

1. Number of common stocks to issue:  
122,300,000 stocks (face value: ¥50)
2. Total issue price:  
¥66,286,600,000
3. Formal capitalization of reserves:  
¥33,143,300,000
4. Issue date:  
August 31, 2001

(2) On May 24, 2001, the company agreed to sell its land in Mizuho, Tokyo, which was formerly used for its motor pool.