Linking Japan

Summer 2012
Volume 3

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QUARTERLY INVESTMENT INSIGHTS

Japan Economic Outlook 2012-2013

Forecast: Sunny with Potential Storms

Premier Investment Corporation
An Instinctively Sophisticated Approach to Real Estate Investment

Global-Dining
Serving It Up Large

Hino Motors
Gaining Traction

Publisher's Note

Where is Japan going? I have posited this question to myself every year for the past two decades. And I would like to think that this has enabled me to acquire some insight that may not be available to the masses. This insight prompts me to say that one of the worst developments in post-World War II Japan is that it has become Tokyo centric. Why is this bad? Tokyo companies tend to look to the government for guidance and use it as a conduit for business, which often results in the dilution of the entrepreneurial spirit that drove their companies in the first place. And when that government is frequently being run by a somewhat inane and mostly inept political party or parties, it is likely not the ideal source to tap for advice. This brings me to what I DO like about Japan today. Japanese firms and individuals have learned to brush the government out of their perspective. They are now focused on doing what they do best… that is, business.

Of course, a looming consumption tax increase, a continuing lack of clarity in energy policy, etc. mean the government continues to generate issues that affect business. However, when business sets its mind to resolving an issue, it can effectively remove the government's adverse influence. For instance, I act as an advisor to a few cities that are formulating plans to enhance their environmental friendliness in the future. Some used to point to electric vehicles as a core pillar of their environmental plans. Lately we have encouraged them to look elsewhere because the private sector has already driven this theme to the point where eco-cars are affordable and electricity distribution is readily available.

In this issue we feature three firms – Premier REIT, Global-Dining and Hino Motors – whose performances are a good bellwether of Japanese economic activity, and in one instance, a good read on the reliability of Japanese consumption. Well known and less known, they are elements to predicting Japan's future and seeing glimpses of a desire that is key to any economic success.

J. Michael Owen
President
Transpacific Enterprises

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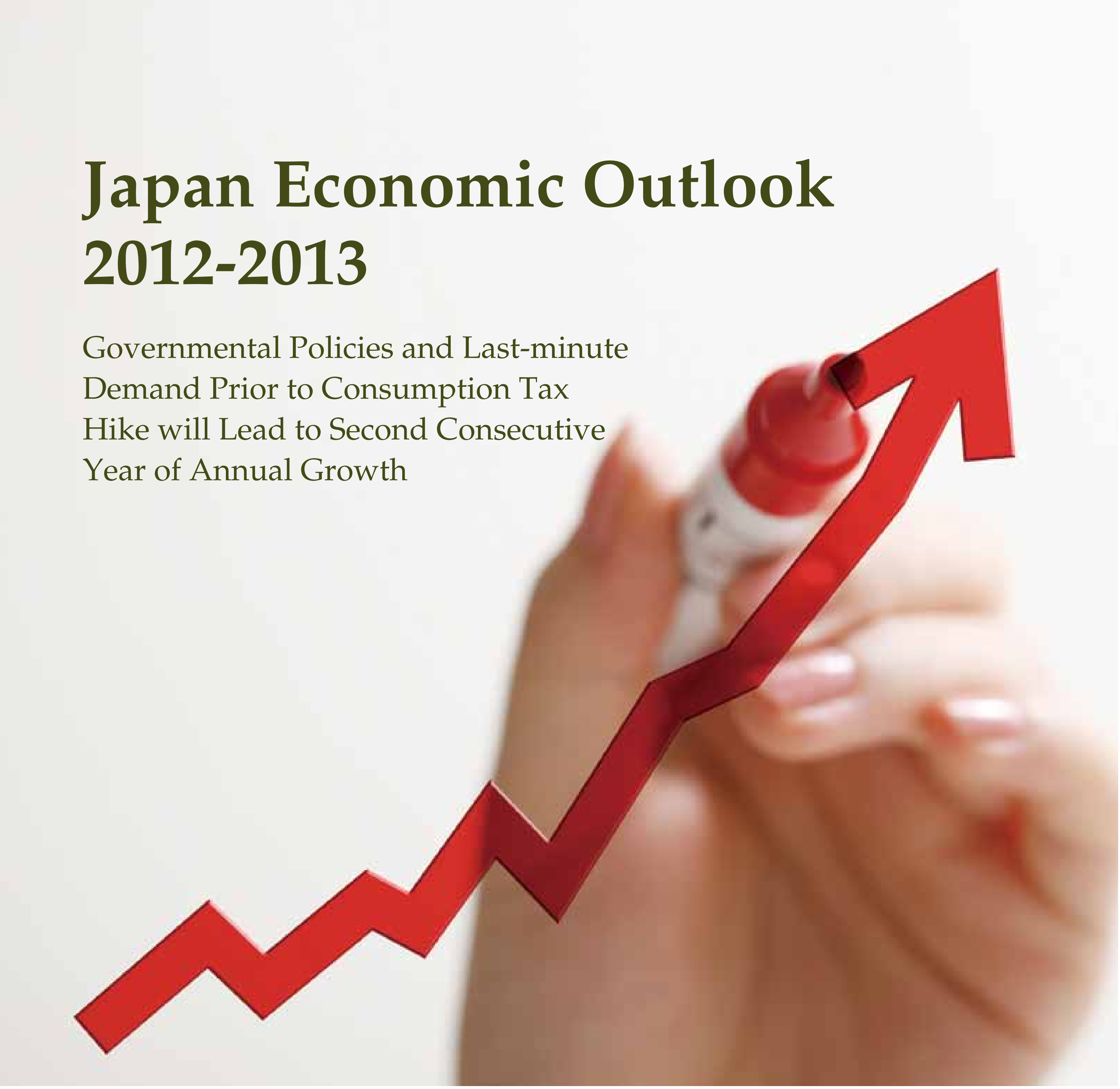
Japan Economic Outlook 2012-2013

Governmental Policies and Last-minute Demand Prior to Consumption Tax Hike will Lead to Second Consecutive Year of Annual Growth



Overall, Japan has continued on a path of recovery since the Great East Japan Earthquake in March 2011. Of course, the economic recovery has primarily been driven by domestic demand buoyed by governmental policies related to recovery demand following the disaster and by measures for promoting the purchase of eco-cars. A self-sustaining recovery of the private sector is still in progress. Furthermore, foreign demand is weak due to deceleration in the European and Asian economies.

Given these conditions, there are three key issues in relation to the economy of Japan: 1) the risk of a slowdown in foreign demand, 2) the effectiveness of government policy in driving the economy, and 3) the force of the self-sustaining recovery of domestic demand. This report focuses on these three issues in analyzing the economy in terms of foreign and domestic demand as a basis for the economic outlook for the Japanese economy.

Foreign Demand: U.S. and Chinese Economies Remain Robust

The keys to projecting the external demand environment are the U.S. and China, which have large trade volumes with Japan, along with Europe which is slumping due to its sovereign debt issues.

First, the U.S. is expected to maintain its gradual economic recovery backed by the generally strong performance of the corporate sector, driven by the manufacturing industry. Furthermore, since the household debt situation is not yet remedied, it is projected that the large cuts in public spending that the government is expected to implement in early 2013 will lead to continuous economic growth at a rate lower than the potential growth rate through the middle of 2013. However, there is expected to be progress in the adjustment of household debts and in the housing market.

Fears concerning a significant deceleration in China's economy may have been overstated, as it appears there will not be a substantial slowdown. Despite continued weak economic performance, monetary and financial policies have been implemented and with the modest inflationary pressure domestic demand is expected to recover gradually. China is forecasted to maintain a growth rate of around 8% in 2012 and 2013.

Lastly, Europe is expected to suffer from negative growth until the July to September quarter due to the tight monetary policy, and deterioration in the employment and income environments. Of course, exports to Europe are only about 10% on a monetary basis, much smaller than exports to the U.S. and China; thus the direct negative impact on Japan is expected to be limited.

This leads us to believe that while the global economy likely will not decelerate significantly in 2012, a moderate slowdown is unavoidable given negative growth in Europe. Looking at 2013, dramatic acceleration in growth is not foreseen, which means that recovery in exports from Japan will be modest at best.

Domestic Demand: Impact of Government Policies will Diminish or Disappear within a Year

1. Recovery Demand

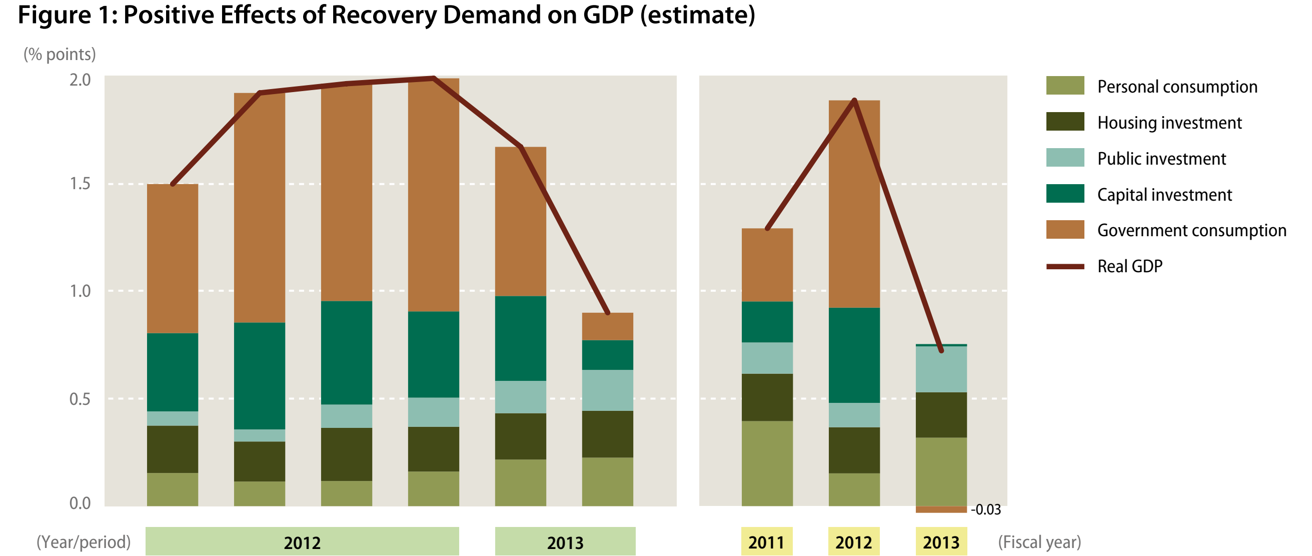
Recovery demand tied to the earthquake and other calamities finally gained traction in 2012. Future projections are immensely dependent on the speed in which construction is started, making this trend difficult to project. However, we have made the following projections related to public demand and housing starts.

Of the roughly 18.5 trillion yen of the recovery and recovery-related budget tied to public demand, about 11.5 trillion yen will directly contribute to raising the GDP as recovery demand. This recovery demand falling under public demand is expected to peak in the October to December 2012 quarter based on the recovery pattern following the Great Hanshin Awaji Earthquake of 1995.

With regard to housing, we assumed that housing starts would continue for about two years as they did in the recovery pattern of the Great Hanshin Awaji Earthquake. However, the recovery is expected to proceed at a very modest pace in regions flooded by the tsunami due to difficulty in securing land. Therefore, recovery demand for housing was assumed to be about 10,000 units in fiscal 2012 and about 25,000 units in fiscal 2013.

A simulation of the actual positive impact on the real GDP was conducted based on the above premises, and it was found that there would be a strong positive impact through the end of 2012 and that this would gradually decelerate as we enter 2013 (see Figure 1). The positive impact on an annual basis was found to be +1.9% in fiscal 2012 and +0.7% in fiscal 2013.

Figure 1: Positive Effects of Recovery Demand on GDP (estimate)



Source: Simulated using a macro model based on materials from the Cabinet Office
Note: The rate of divergence from the main scenario

A discrepancy exists with regard to a shortage of personnel involved in recovery; while there are not enough construction-related workers, there has been an increase in people looking for work in the tsunami-stricken coastal areas in industries such as fishery. If this results in a bottleneck, we may see a delay in recovery activity.

2. Household Segment

The household segment shows personal consumption being supported by measures to increase purchases of eco-cars. However, the current subsidy budget for buying eco-cars that was introduced in December 2011 is expected to run out in the near future. Automobile sales are expected to decline precipitously when the budget is depleted, as it did the last time, and so personal consumption is expected to drop in the October to December 2012 quarter.

However, the environment surrounding personal consumption is not necessarily bad: 1) In correlation with the continuation of general improvements in mining and manufacturing due to the full-scale recovery, salaries are projected to continue on their present gradual upward trend, and 2) consumer sentiment, which had frozen immediately following the earthquake, has almost completely recovered with spending on amusement, dining out and such improving markedly. A thorough analysis of these conditions reveals that we cannot expect robust growth in personal consumption but we are not looking at a dramatic drop even after the end of the eco-car subsidy.

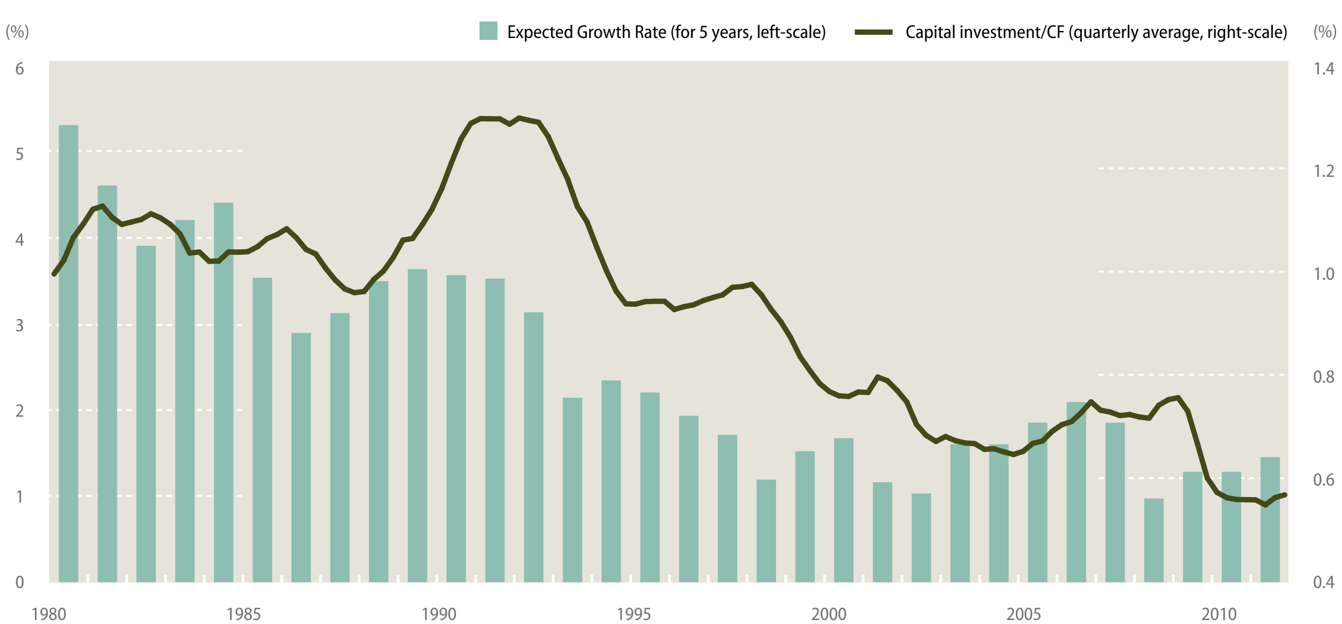
Furthermore, the government's raising of the consumption tax rate will positively drive the economy in fiscal 2013. If the April 2014 increase in the consumption tax is implemented, the latter half of fiscal 2013 is projected to see last-minute demand for durable products such as housing, as occurred following the consumption tax increase in April 1997. However, the reverse cannot be avoided in 2014, the year from when the increased tax rate will be in effect.

3. Corporate Segment

The corporate segment is experiencing an improvement in earnings as the negative impacts of the flooding in Thailand have largely been overcome and the recovery from the earthquake is gradually picking up speed. In addition, capital investment is projected to expand going forward as trends toward recovery will continue.

Despite the strong correlation over many years between ordinary profit and capital investment, in recent years there has been an evolution into a structure in which capital investment does not expand very much even if there is an increase in ordinary income. Reasons for this include 1) the drop in the projected growth rate of Japan (see Figure 2), 2) an acceleration in the establishment of overseas operations due to an expansion in overseas demand, and 3) the demerits of the tax rate and other policies compared to foreign countries, such as the high Japanese corporate tax rate. Within the present conditions in which there is weak sentiment toward investment in Japan, the growth in capital investment is also expected to be limited going forward.

Figure 2: Expected Corporate Growth Rate and Capital Investment



Source: Ministry of Finance and Cabinet Office
Note: Capital investment/CF excludes finance and insurance industries

Figure 3: Outlook of Japanese Economy and Product Prices

(annual rate compared to previous period, %, and % points)

	2012				2013				2014	FY2011	FY2012	FY2013
	1～3	4～6	7～9	10～12	1～3	4～6	7～9	10～12	1～3			
	(Real)	(Projected)								(Real)	(Projected)	
Real GDP	4.7	1.6	2.0	0.1	1.3	1.2	1.3	2.8	4.5	0.0	2.3	1.5
Personal consumption	4.9	0.4	1.3	- 2.0	0.6	0.7	0.9	3.2	6.8	1.1	1.7	1.1
Housing investment	- 6.0	16.4	16.7	4.5	2.7	3.0	8.5	8.7	- 8.3	3.6	7.7	4.9
Capital investment	- 8.2	3.4	2.6	3.2	3.0	3.1	3.3	3.4	4.2	0.9	2.9	3.2
Inventory investment (level of contribution)	(1.3)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)	(- 0.4)	(0.2)	(0.1)
Government consumption	3.0	0.6	0.8	0.8	0.5	0.3	0.2	0.5	0.7	1.8	1.3	0.5
Public investment	16.3	8.2	4.5	2.1	- 0.5	- 4.7	- 7.9	- 2.4	- 1.0	3.1	5.4	- 2.9
Public inventory (level of contribution)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Exports	12.4	2.0	3.0	4.0	3.9	4.3	4.5	4.8	4.8	- 1.4	4.1	4.2
Imports	7.9	3.9	3.6	2.4	2.6	2.5	2.5	3.8	4.9	5.3	4.9	2.9
Domestic private demand (level of contribution)	(2.8)	(1.3)	(1.7)	(- 0.6)	(0.9)	(1.1)	(1.3)	(2.6)	(4.4)	(0.5)	(1.8)	(1.3)
Public demand (level of contribution)	(1.3)	(0.5)	(0.4)	(0.3)	(0.1)	(- 0.2)	(- 0.3)	(0.0)	(0.1)	(0.5)	(0.5)	(0.0)
Net exports (level of contribution)	(0.5)	(- 0.4)	(- 0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.1)	(- 0.1)	(- 1.0)	(- 0.2)	(0.2)

(year-on-year change, %)

Nominal GDP	1.4	2.4	1.8	1.7	1.1	1.2	0.7	1.3	2.3	- 2.0	1.8	1.4
GDP Deflator	- 1.3	- 1.0	- 0.5	- 0.3	- 0.3	0.1	- 0.3	- 0.3	- 0.1	- 2.0	- 0.5	- 0.1
Consumer price index (excluding fresh food)	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.0	0.0	0.1

(Source) Ministry of Finance and Cabinet Office
(Note) Capital investment/CF excludes finance and insurance industries

Economic Outlook: Two Years of Growth from Policy Benefits and Pre-consumption Tax Hike Demand

Taking a close look at the above arguments, we can project that in the first half of 2012 the economy will be driven by 1) an increase in public demand and housing investment as the recovery demand hits stride, and 2) an increase in personal consumption driven by subsidies for buying eco-cars (see Figure 3). Automobile sales are expected to drop immensely from autumn as the budget for eco-car subsidies will have expired, and the October to December quarter is expected to see zero growth due to the shrinking of personal consumption. Since foreign demand cannot be expected to drive economic growth and Japan's self-sustaining recovery in domestic demand is weak, the growth rate in the first half of fiscal 2013 is projected to be slow due to the attenuation and elimination of any benefits of recovery demand. On the other hand, the latter half of fiscal 2013 and after will see the economy being driven positively due primarily to the last-minute demand for durable products and housing investment as the consumption tax hike draws near.

As a result of the above, the real GDP growth rate is projected to be positive for two consecutive years with fiscal 2012 seeing growth in the lower +2% level and growth in fiscal 2013 in the mid +1% level.

Caution is necessary, however, as the environment in and around Japan harbors perils including the adverse effects of a shortage in the supply of electricity on production and the increasing severity of the European debt crisis overseas driving the yen up and stocks down. There are clearly factors that could conceivably weigh down the economy both in Japan and overseas.

Proactive Government Support of Improvement in Investment Environment Essential

As described above, Japan is projected to experience positive growth despite having inherent risk factors through fiscal 2013. Without the positive impact of government benefits such as recovery demand, the "true" growth rate in Japan would drop to the 1% level.

A key contributing factor in this low growth situation is the weak capital investment sentiment in Japan, which has a negative impact on supply and demand in the Japanese economy. Proactive capital investment in Japan is absolutely essential in powering the growth of Japan and this requires improvements in the Japanese investment environment such as the lowering of the corporate tax rate, political support for growth industries and other efforts.

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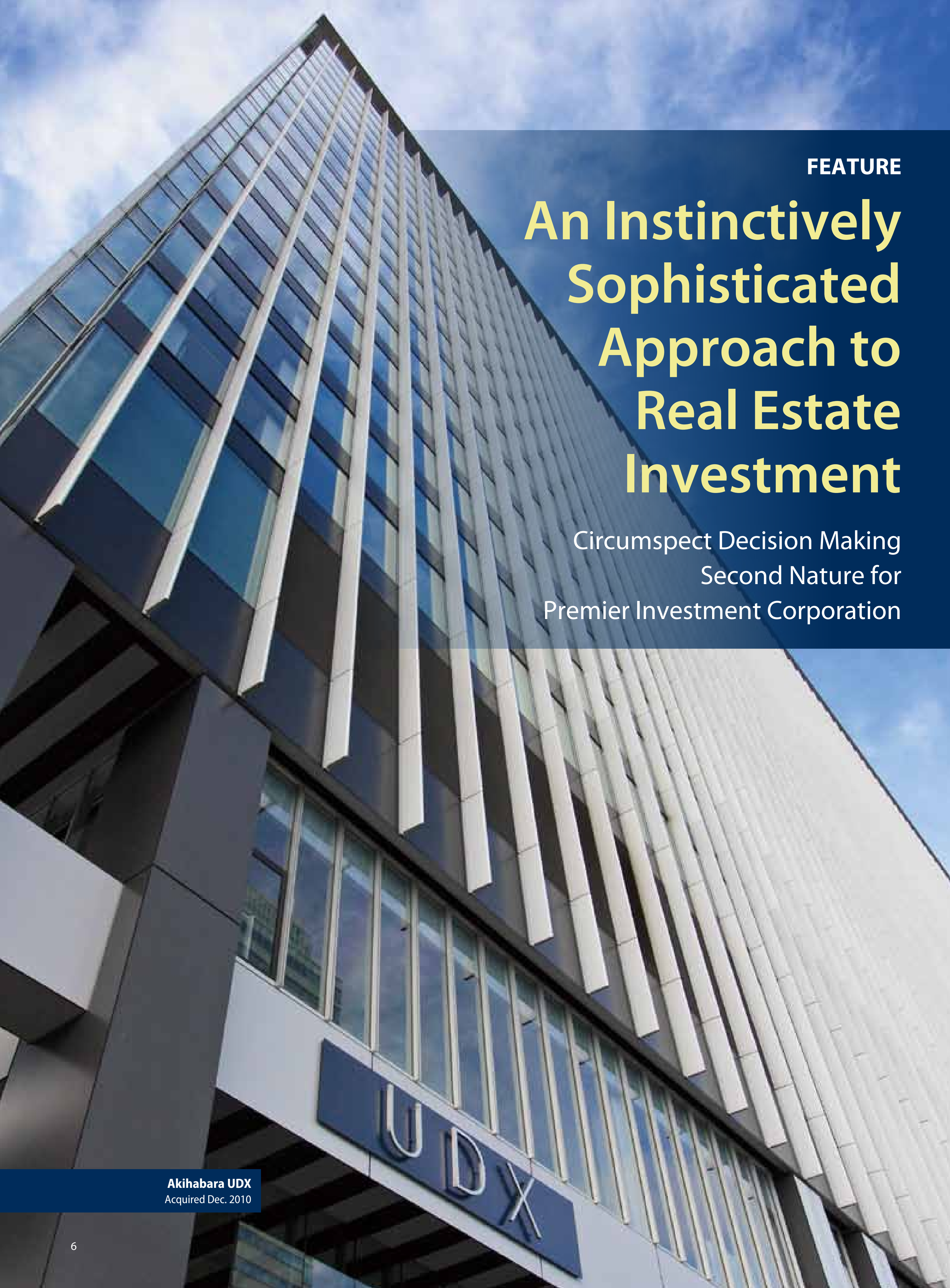


Akihabara UDX
Acquired Dec. 2010

FEATURE

An Instinctively Sophisticated Approach to Real Estate Investment

Circumspect Decision Making Second Nature for Premier Investment Corporation

PIC is headed by Executive Director Yuichi Kawamori, who assumed the post in April 2011, one of the most trying, turbulent and tragic times in recent history.
Since the beginning of his tenure, seven properties have been added to PIC's portfolio, increasing the overall value of the portfolio, and aggressive refinancing has contributed to an improved financial position.

"We believe that the addition of the new properties, acquired at comparatively inexpensive prices amid the stagnancy in the market, should help enhance the portfolio quality over the medium to long term."

Yuichi Kawamori
Executive Director, Premier Investment Corporation

There are J-REITs that specialize in office buildings, and still others that have portfolios anchored by office properties, but Premier Investment Corporation's (PIC, 8956) portfolio balance of office and residential properties is unique in the J-REIT market. PIC's strategy of protecting itself and its investors by hedging against the vagaries of the domestic, regional and global economies that significantly impact office property profitability with a solid catalog of residential properties that traditionally generate dependable earnings through good times and bad enables PIC to effectively withstand economic downturns while at the same time positioning it to enjoy considerable gains when the economy is strong. The concentration of its holdings in the Tokyo Economic Bloc, which comprises Tokyo along with Kanagawa, Saitama and Chiba prefectures and serves as Japan's financial, political and social center, further enhances the potential benefits to be earned when the economy's performance improves and a reliability unavailable in any other domestic location. PIC, which recently celebrated its first decade in existence and its asset management arm, Premier REIT Advisors Co., Ltd. (PRA) have entered the next phase in their development, and have wasted no time in reasserting themselves in a market that has shown subtle signs of turning around.

Operating revenues in the 19th fiscal period (November 1, 2011 – April 30, 2012) climbed by 21.4% against the preceding period, operating income was up 31.5%, and ordinary income and net income rose by nearly 40%. The marked increases were primarily attributable to a rise in earnings through the acquisition of seven properties – rental revenues were up 1,144 million yen against the previous period (held back to an extent by continued issuance of rent-free periods to new tenants) – an overall occupancy rate that has gotten increasingly healthy, and gains from the sale of a property, in addition to cost reductions achieved during the period.

PREMIER INVESTMENT CORPORATION

PIC's portfolio as of the end of the 19th fiscal period (April 30, 2012) comprised 54 properties, all located within the Tokyo Economic Bloc, with the vast majority of the properties situated within the 5 Central Wards (Chiyoda, Chuo, Minato, Shinjuku and Shibuya).

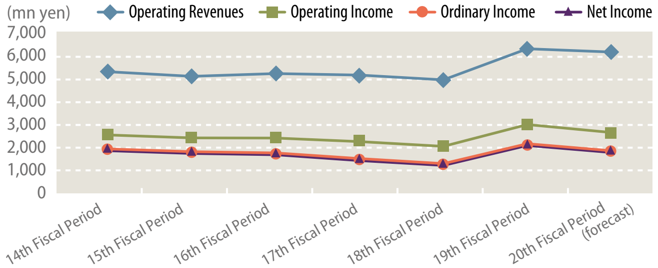
Portfolio Status (As of April 30, 2012)

	Office	Residential
No. of Properties	22	32
Acquisition Price	196,544 mn yen	
Occupancy Rate	92.2%	

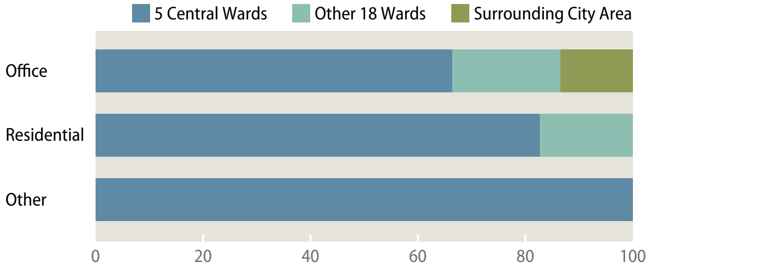
The Kanagawa Science Park R&D Building
Acquired Sept. 2002

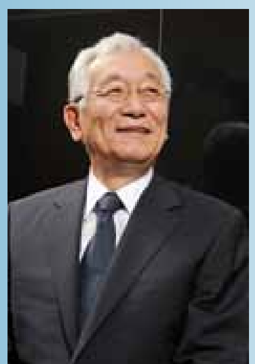
Urbannet Mita Building
Acquired Nov. 2011

Operational Performance



Investment Ratio (Area, Building Type)





"PRA is committed to reinforcing our management capabilities under the framework of the new sponsorship, and is working to enhance PIC's profitability and raise dividend levels by steadily seizing opportunities that should arise as J-REITs enter a new stage in their evolution."

Kimito Muragishi
President and CEO, Premier REIT Advisors Co., Ltd.

"Our basic policy strives to further spread out the repayment dates of borrowings by accelerating shifts to long-term loans and fixed-rate loans, and to reinforce the financial ground and stability of PIC by lowering the LTV."

Atsuo Komai
Director and CFO, Premier REIT Advisors Co., Ltd.

"The inclusion of NTT Urban Development Corporation as the main sponsor… should provide PIC with greater opportunities for investing in office buildings, and we intend to realize both the targeted investment balance by asset class as early as possible and expand PIC's portfolio."

Fumihiro Yasutake
Deputy President and CIO, Premier REIT Advisors Co., Ltd.

PREMIER REIT ADVISORS

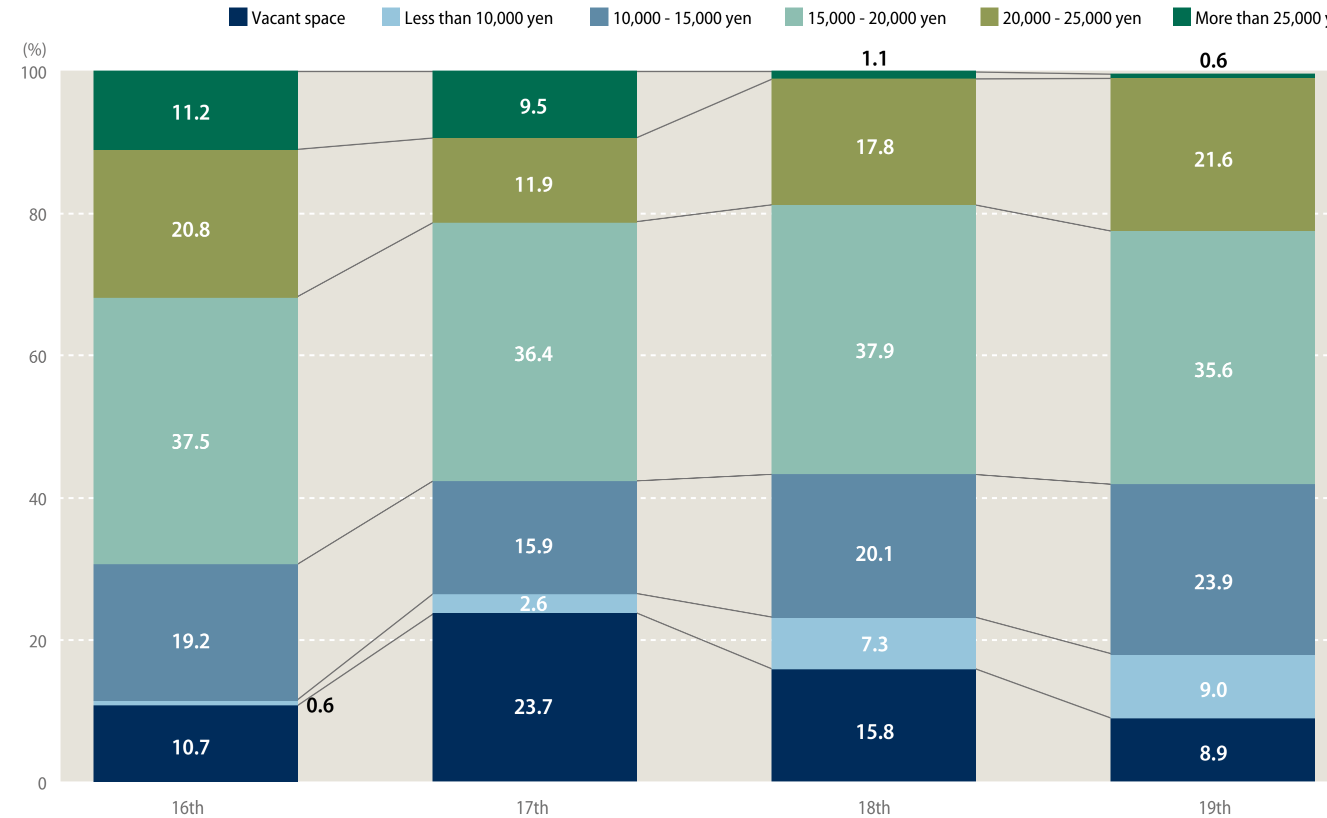
PIC's assets are managed by PRA, which was launched in 2001 on the strength of investments by Ken Corporation Ltd. and The Chuo Mitsui Trust and Banking Company. From 2002 (the year of PIC's listing on the Tokyo Stock Exchange) until 2010, PRA, through the strategic implementation of public offerings and calculated property acquisitions and dispositions, succeeded in building PIC into a REIT with 146,755 million yen in total assets under management. In May 2010, PRA, after several trying fiscal periods impacted by subprime and the Lehman Shock, welcomed aboard as its new main sponsor NTT Urban Development Co., Ltd. (NTTUD). NTTUD's reputation in Japan as a top tier developer and member of Japan's representative telecommunications group has led to reduced financing costs and fortified PRA's ability to source and acquire blue-chip properties that practically guarantees reliable medium- to long-term portfolio growth. The establishment of NTTUD as main sponsor also launched a new administration. Fumihiro Yasutake, who'd served as President and CEO from June 2004 through May 2010 and shepherded the firm over tumultuous terrain during his tenure, was appointed Deputy President and CIO to enable him to focus on investment strategies, with Kimito Muragishi assuming the leadership of PRA. Muragishi began his career at NT&T in 1971, and was seconded to NTTUD in 1999, where he served in various capacities before taking the reins at the asset manager. Atsuo Komai, who also got his start with NT&T, was simultaneously appointed Director and CFO, completing the new brain trust that would drive the future development of the REIT.

PRESENT CONDITIONS AND GROWTH STRATEGIES

Amidst a challenging environment for office space demand, there have been indications that the declines in demand and rent levels have nearly bottomed out. In particular, demand has resurfaced for class B offices. Though space leased by PIC at more than 25,000 yen per tsubo fell from 1.1% in the 18th period to 0.6% in the 19th period and space leased at between 15,000 yen and 20,000 yen per tsubo dropped from 37.9% to 35.6%, more importantly there was a decline in vacant space from 15.8% to 8.9%, and a slight uptick in space leased at less than 10,000 yen per tsubo as well as higher-quality space between 20,000 yen and 25,000 yen per tsubo.

On the residential side, PIC sees gradual increases in demand from singles and DINKs. Investment-grade large-scale office properties are becoming available on the market, and residential transaction volume has been steady. The acquisition in November 2011 of six offices and one residential property served to

Dispersion of Unit Rents at Office Buildings



Note: Calculations have been made for the properties owned as of the end of respective fiscal period.

shift the portfolio balance nearly back to PIC's ideal of 60% office and 40% residential in one fell swoop, enabling PIC to return to its core philosophy of achieving external growth through the strategic acquisition of blue-chip properties within its target range (and timely disposition of certain assets as needed) while remaining mindful of the balance of asset classes. It will look to gradually expand the size of its portfolio with properties in a superior location within a good environment and featuring top of the line specs. PIC endeavors to maintain high occupancy rates through its detailed understanding of tenant needs, offering of building management services and promotion of individual properties according to their specific property attributes. As of July 2012, PIC boasted a 92.0% overall occupancy rate – office buildings in the Other 18 Wards of Tokyo came in at 83.0%, while those in the Surrounding City Area were at 97.2%, up from 92.3% in January of this year. Occupancy at residential properties continued to be comfortably above 90%. PIC has developed a comprehensive understanding of the attributes of each property in its portfolio and this enables PIC to set rents and enhance key conditions to secure maximum potential from each property, with the goal of medium- to long-term expansion of rental revenues. In order to sustain and improve the value of its assets, it proposes and executes repair plans that enable the maintenance of each property's functionality and integrity, and strategically implements the maintenance to spread out repair costs. Given sustained stagnation in the office rental market in Tokyo, weak rent levels and contract cancellations, PIC devotes itself to encouraging existing tenants to utilize additional space, and securing new tenants while gradually phasing out the rent-free offerings that had become so commonplace. PIC will also take another look at its property management organization to consider ways in which the strengths of NTTUD can be most effectively capitalized upon. PIC has and will continue to balance public offerings, issuance of corporate bonds and new borrowings – with a focus going forward on long-term, fixed-rate loans in order to mitigate risks posed by fluctuation in interest rates – in tune with the state of capital markets, and factoring in forecasts of economic and social conditions, in order to maintain procurement capability. Its bulk acquisition of seven properties in November 2011 was financed through a public offering of 59,599 new investment units which generated 13,686 million yen and new borrowings totaling 19,600 million yen. PIC selects the optimum means of procurement based on prevailing conditions and works to acquire capital at minimum cost.

Premier Investment Corporation

PIC's Approach to the Mitigation of Risk

Q. How does PIC guard against the dilution in proportion of existing investment units held when issuing new units to procure capital?

A. PIC's new unit issuances are carefully planned, timed and executed to ensure maximum effectiveness in the application of procured funds.

Q. How does PIC avoid reductions in unitholder dividends resulting from interest rate fluctuations that can cause the LTV to rise?

A. PIC employs prudent financial strategies with the goal of keeping LTV at or below 60%.

Q. What is PIC's strategy for maintaining financial stability from a debt financing perspective?

A. PIC works to enrich existing relationships and forge new connections with financial institutions by capitalizing on the high credibility of NTT Urban Development, its main sponsor and a member of the NTT Group. PIC further endeavors to conduct intelligent fund procurement by achieving and sustaining an optimal balance between short-term loans, which offer flexibility, and long-term loans, which provide stability. Diversification of fund-raising methods, dispersal of repayment and redemption dates, and selection of lending terms based on prevailing macroeconomic conditions are measures PIC implements to lighten financial risk.

Q. How does PIC gain and sustain investor trust despite the absence of insider trading regulations applicable to investment units issued by listed J-REITs?

A. Officers and employees of PIC's asset manager, PRA, are prohibited from trading PIC investment units and corporate bonds under PRA regulations and compliance standards. PIC also follows a very strict transparency regimen regarding acquisitions, divestments, financings and other material developments so that investors are well aware of happenings, market trends and economic conditions, enabling mature and sophisticated investment decisions.

Q. What prevents related parties such as PIC's external administrative services provider, PRA shareholders and companies that have seconded staff to PRA from taking advantage of their positions to act in their own interests or in the interest of a third party?

A. Related parties such as those mentioned are bound by The Law Concerning Investment Trusts and Investment Corporations to conduct fiduciary and other duties in good faith and with due diligence.

Q. What measures has PIC taken toward mitigating the risk of asset devaluation due to damage caused by fire, accidents, earthquakes and other natural disasters?

A. PIC has insured all of its properties against fire, and will insure all properties acquired in the future against fire. PIC also follows a strict policy regarding earthquakes with earthquake policies taken out for properties above a certain PML value.

Serving It Up

LARGE

Global-Dining Adjusting Successfully to New Paradigm, Setting the Table for Long-term Prosperity

"Since the food service industry is a universal business that addresses one of people's most fundamental desires, we believe it's important to constantly evolve and improve upon our concept in order to continue satisfying our customers."

Kozo Hasegawa
Global-Dining President and CEO

The history of Global-Dining began in 1973 with the opening of a coffee shop in Takadanobaba and several years – and countless headaches – later, Café La Boheme debuted in Harajuku. While it struggled initially, as time passed, people began to appreciate President and CEO Kozo Hasegawa's approach to décor, food and service. Fast-forward to 2012 and today Hasegawa's Global-Dining (securities code: 7625) operates 56 outlets in Japan and California, serving up everything from Tex-Mex to Southeast Asian fare in restaurants designed and decorated in uniquely creative ways. Each of the restaurants offers surprisingly generous portions of cuisine at affordable prices, along with a vast, high-quality selection of wines. Global-Dining, Inc. listed on the second section of the Tokyo Stock Exchange in December 1999.

The food service industry worldwide fell on hard times when the global financial crisis broke. Recovery of the economy would bring an industry-wide recovery, but economic stagnation continues on a global basis. Within this circumstance, Global-Dining has succeeded in bringing its customers back consistently despite a gradual decrease in per-customer revenue. As the figure below shows, March, June, September and December are all times of significant movement (coinciding with quarterly activity as well as traditional cultural rituals such as the beginning of the school year in April and year-end parties, or "bonenkai" in December), and though revenues are down, in general people seem to be maintaining their routines and adhering to their traditions. Declining revenue is likely in part attributable to adjusted spending habits; according to the OECD, percentage of household income routed to savings in Japan was 2.1% in 2010 and jumped to 2.9% in 2011. The forecast for 2012 and 2013 is 1.9%, perhaps signaling a loosening of consumer pursestrings.

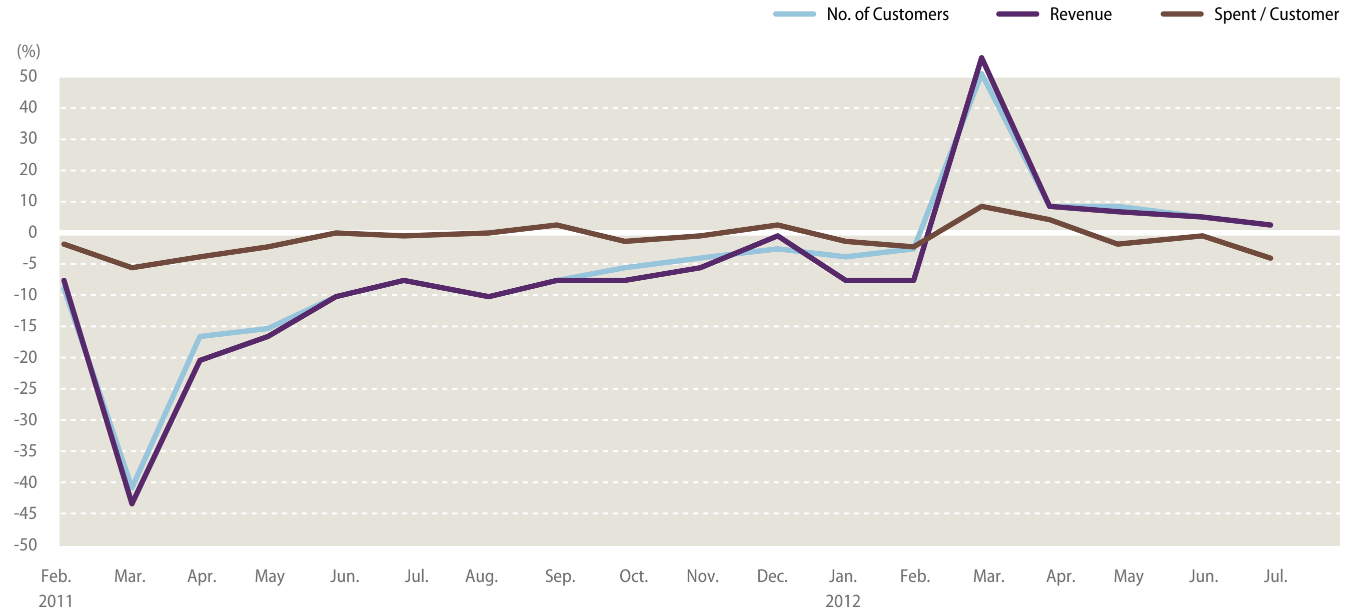
Following the tragic events of March 2011, retail sales, particularly entertainment, took a nosedive, but have gradually righted themselves since. In the case of Global-Dining, though overall sales had not recovered to the previous year's level, it appears customers are again exhibiting their 'normal' dining habits.

Operating income, ordinary income and current net income all declined significantly in 2009, and while the figures remain in the red and sales have not climbed to near previous levels, and there has been a relative increase in profits. The current net income figure for 2012 (minus 122 million yen) is largely attributable to costs incurred in the closing of the Zest Cantina in Ebisu.

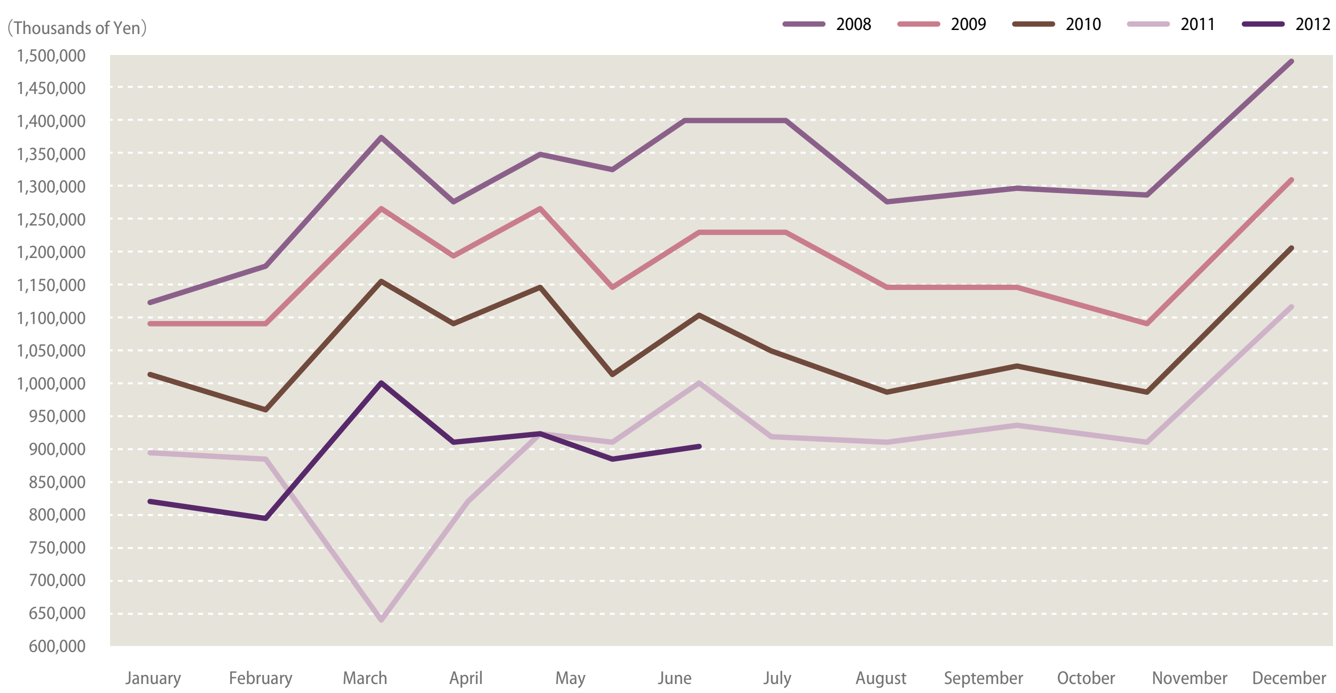
In the first half of 2012, Global-Dining took aggressive action to cease operation of unprofitable outlets, closing Zest Cantina Itakura and La Boheme Kohoku in January. The flagship Zest Cantina Ebisu was also closed in May, as the property owner sold the land. In June, the renovation of La Boheme Roppongi was completed, and the space was reborn as "LB6" – a new category for Global-Dining – specializing in grilled foods and wine in a casual and stylish setting.

Looking at sales and operating income by restaurant concept, virtually all Global-Dining restaurants posted declines annually from 2008 through 2011, but at the same time virtually all have made a turnaround, posting year-on-year increases in sales and operating income.

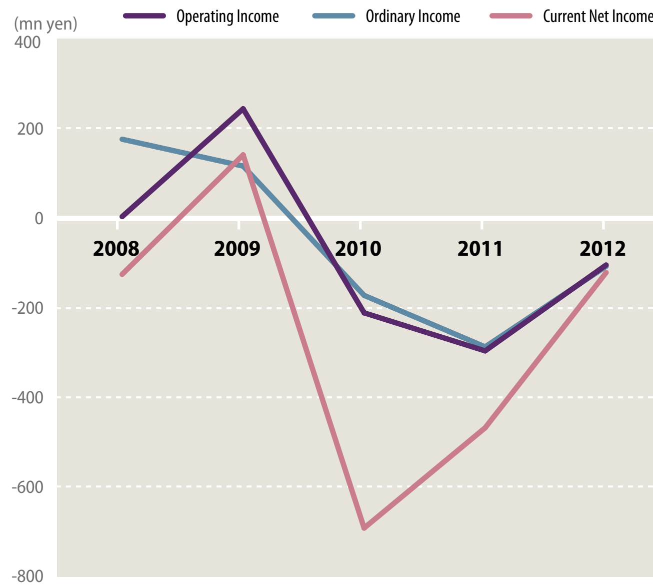
Trends Since February 2011



Global-Dining Sales 2008 – 2012



Marked Improvement



In October 2010, Hasegawa reorganized Global-Dining's outlets. Until then they had been managed by concept, but the realignment divided them into seven areas. Hasegawa installed "center leaders" who were capable of managing across concepts to manage each of the divisions, and since they were now moving in a single defined area, they were able to devote more time to on-site management and less to commuting. The new management model also enabled area-specific marketing, as well as more efficient allocation of staff company-wide.

In an August 2012 interview published in Japan Today online, Hasegawa reminds us that his approach is "Simple. We are selling great food and an experience. Business is a tool for both me and the staff to live their lives fully. This is a fun but tough game which is endless." He certainly has not stopped playing, skillfully adjusting and evolving the business in accordance with changes in climate, and cultivating staff that grasp and embrace his vision and rewarding them based strictly on performance. Global-Dining is a pliable organization that deftly and accurately anticipates and reacts to a changing environment – in an industry that swallows pretenders whole – has weathered the global economic downturn, and is well-positioned to satisfy reasonable expectations for mid- and long-term growth.

Global-Dining Sales 2008 – 2012

Year-on-year increase

		2008	2009		2010		2011		2012	
			(mn yen)	(change)	(mn yen)	(change)	(mn yen)	(change)	(mn yen)	(change)
La Boheme	Revenue	2,434	2,232	-202	2,032	-200	1,698	-334	1,692	-6
	Operating Margin	11.5%	11.4%	-0.1	5.8%	-5.6	1.1%	-4.7	2.1%	1
Zest	Revenue	804	757	-47	697	-60	547	-150	460	-87
	Operating Margin	11.9%	11.1%	-0.8	2.9%	-8.2	0.2%	-3.1	-0.4%	-0.2
Monsoon Café	Revenue	1,694	1,579	-115	1,472	-107	1,155	-317	1,274	119
	Operating Margin	11.7%	10.5%	-1.2	8.2%	-2.3	7.3%	-0.9	10.4%	3.1
Gonpachi	Revenue	1.721	1,353	-368	1.253	-100	958	-295	1,142	184
	Operating Margin	12.1%	8.6%	-3.5	7.0%	-1.6	4.0%	-3	8.8%	4.8
Food Colosseum	Revenue	393	467	74	349	-118	274	-75	299	25
	Operating Margin	-1.6%	4.9%	6.5	3.2%	-1.7	0.9%	-2.3	1.0%	0.1
Dinner Restaurants	Revenue	403	384	-19	376	-8	301	-75	354	53
	Operating Margin	3.6%	0.4%	-3.2	-0.4%	-0.8	-7.9%	-7.5	-3.8%	4.1

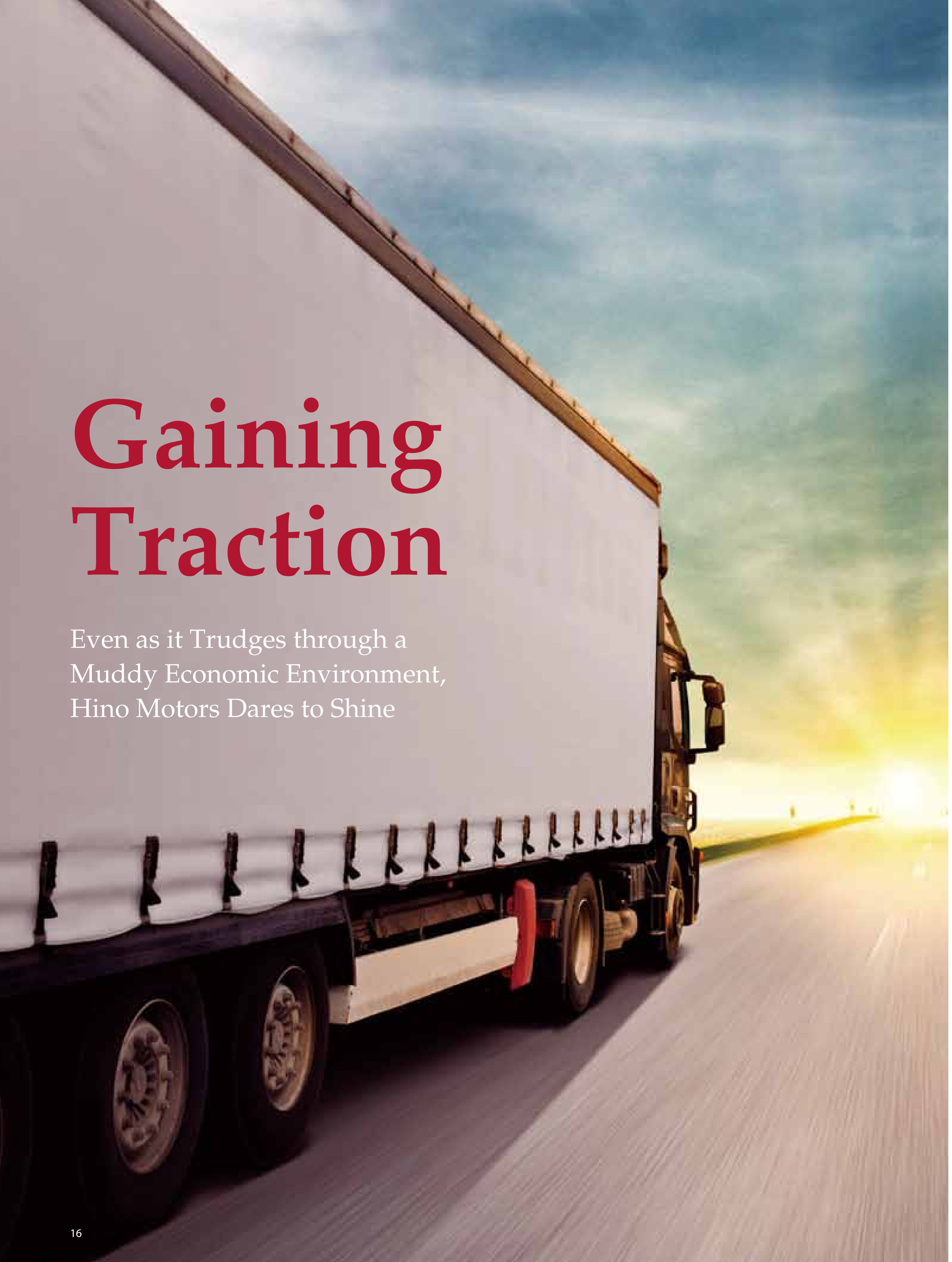
Breaking the Mold

One unique aspect of Global-Dining is President and CEO Kozo Hasegawa's business philosophy. Placing results above all else, he has implemented a merit system, and instilled a deep competitive awareness in his staff. The basic ideology is that restaurants are operated fairly, earnings are accumulated and the restaurants that excel each month in terms of earnings are the ones that stand the best chance of surviving. The rule is that in order for the manager of each restaurant to maintain his or her position, earnings at their restaurant must increase on a monthly basis. If a particular restaurant posts losses for three consecutive periods (six months per period), the responsible manager is replaced. Likewise, if a restaurant's total earnings for the year come in under the previous year, the manager is unseated.

As Global-Dining does not conduct promotions based on seniority (which is prevalent in Japan) an employee who feels they have earned increases in pay or promotions has to toot his or her own horn. If an employee does not engage in self-promotion, even if they have served in a particular position for a considerable amount of time, they may eventually come to be regarded as "unmotivated."

Unlike other companies in the food service industry, Global-Dining has its own internal restaurant design team, taking control of design and construction inside the company. The layouts, which feature split levels and open spaces, are created by the designers on this team. They're referred to as "in-house designers," and the model has sparked a number of imitators. In the first half of 2000, the team grew to over 10 members, and though it did expand as the group grew, it contracted again as performance stagnated, and many of the members of the design team have left Global-Dining to strike out on their own.

Another interesting aspect of this company is that it does not have a human resources (HR) division. According to Hasegawa, the existence of a an HR department, which he feels can become too powerful, can cause difficulties. Further, a system is in place that enables them to recruit staff from existing restaurants when they decide to open a new restaurant, and as the restaurants are fairly similar in terms of positioning, employee transfers to different restaurants or across concepts can be executed smoothly.



Gaining Traction

Even as it Trudges through a Muddy Economic Environment, Hino Motors Dares to Shine

In 1942, following 25 years in automobile development and production, Hino changed its focus to military track-laying vehicles and a few years later to heavy-duty trailer trucks, buses and diesel engines, where it remained except for a dalliance of a decade and a half with a renowned French brand and famed Italian designer. The dalliance resulted in Hino becoming a subsidiary of a global automobile conglomerate and it has since executed a controlled, strategic evolution to meet changing needs and conditions under the wing of Toyota, its parent company. Hino has since blossomed into one of the world's leading names in trucks and buses, light commercial vehicles, engines and related items using 70 consistent years of excellence as its weapon. Hino's domestic operations are comprised of four factories, eight parts depots across the country, a number of testing facilities ("proving grounds"), and an extensive network of dealers and affiliates. Hino now operates in 15 countries outside of Japan, with sales offices, production complexes and parts centers in Asia, Oceania, Central America and the Caribbean, North America, Europe and the Middle East. Hino proactively expanded in 2008 by establishing Hino Motors (China) Co., Ltd., Hino Motors Manufacturing Mexico, S.Z. DE C.V., Hino Motors Sales, LLC in Russia, and Hino Motors de Venezuela, C.A. As of March 31, 2012 Hino had a total of 25,820 employees at its offices and facilities around the world. At the controls is President, Member of the Board and Executive Officer Yoshio Shirai, who began his career in 1973 with Toyota and spent many years involved in vehicle body design. He ascended to Director in 2001, Managing Officer in 2003, and was named Senior Managing Director in June 2005. In June 2003 Shirai also took over Toyota's Environmental Product Design Assessment Committee, which analyzes the top environmental preservation issues as they are impacted by Toyota vehicle design and development. Shirai played a key role in the company's efforts to minimize the use of mercury, lead, cadmium and other such substances in a drive to increase recyclability. Since assuming his current position in June 2008 – three months before Lehman Brothers' bankruptcy declaration sent the global economy into an historic tailspin – Shirai has led the company in a recovery that has been nothing short of miraculous.

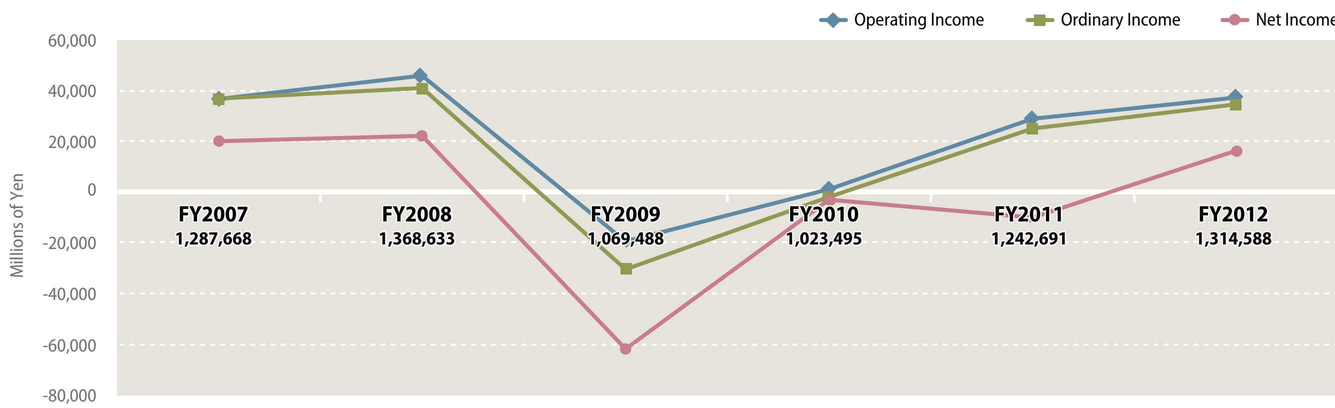
> *"There are still many people around the world without access to safe, highly fuel-efficient vehicles. To fulfill our role, we want to bring joy to a greater number of people by providing the most advanced, environmentally friendly trucks and buses to markets in every region, from advanced countries to emerging nations."*
>
> **Yoshio Shirai**
> President, Member of the Board and Executive Officer
> Hino Motors

Surprisingly Clean Bill of Health

In the most recent quarter of April to June 2012 (FY2013 Q1), Hino Motors recorded net sales of 372,076 million yen, up 62.5% against the same period the previous year; operating income of 15,229 million yen, or 3.3 times that of the previous year (4,591 million yen); ordinary income of 13,535 million yen, a year-on-year increase of nearly 3.6 times (3,772 million yen) and net income of 9,996 million yen against a deficit of 4,885 million yen last year. Naturally the extent of the difference is due to the Great East Japan Earthquake but an analysis of fiscal (FY) 2012's (April 2011 – March 2012) full-year results shows net sales of 1,314,588 million yen (up 5.8%); operating income

The Hino Credo

Hino Motors FY2007-2012



up 28.9% to 37,257 million yen; ordinary income rose by 38% to 34,577 million yen, and net income totaled 26,344 million yen in contrast to a deficit of 10,041 million yen in FY2011. Net sales recovered this past fiscal year, returning to and surpassing 2007 levels. Operating income, ordinary income and net income have also made a surprisingly fast resurgence following enormous drops in the aftermath of the global economic crisis and earthquake. How, after such a shocking fall, has the company managed to reverse conditions so swiftly? Demand for trucks and buses hit rock bottom globally at the end of FY2009 and early FY2010, but by Q4 it either neared or surpassed levels from Q1 FY2009. Profitability absolutely plunged at the end of FY2009, but Hino, in spite of a decrease in unit sales in Japan and abroad of 10.6%, or about 11,000 units, achieved striking turnarounds in operating, ordinary and net income thanks to the implementation of wide-sweeping profitability improvement measures such as value-adding activities in cooperation with suppliers, reductions in fixed costs and enhanced cost efficiency at Hino's plants. These measures further resulted in the resumption of dividend payments and a reduction of close to 16% in interest-bearing debt during FY 2010.

Looking at FY2013

Demand is expected to be bolstered in Japan by reconstruction efforts following the March 2011 earthquake and other calamities, and globally by interest in the New HINO300 Series. In FY2013 (April 2012 – March 2013) Hino expects global sales of 153,000 units, a 19.1% year-on-year increase, with improved sales overseas accounting for the lion's share of the gain. The company forecasts net sales of 1,480,000 million yen (+12.6%), operating income of 47,000 million yen (+25.2%), ordinary income of 45,000 million yen (+30.1%) and net income of 28,000 million yen (+71.7%). Key in the anticipated boost in operating income is an improvement in cost of sales of 18,000 million yen, which along with gains from sales will more than offset losses through changes in environment and cost structure.

Medium-term Business Plan

This past April, Hino released a medium-term business plan for FY2013 through FY2015. Demand is robust in the global commercial vehicle market presently and sales growth of 1.3 to 1.4 times is projected by FY2015 versus FY2007 levels for 3.5-ton or greater vehicles. Hino projects sales increasing by 20,000 to 25,000 vehicles per year over the next three years. Hino will continue to work to maximize profits in its home market of Japan, while concentrating resources in Australia, Asia, Latin America and Africa, its key markets where it expects competition with makers from other countries to become more intense. In particular, Chinese and South Korean manufacturers are garnering greater sales in emerging markets. For example, Hino has been overtaken by such makers in terms of market share in Pakistan and Thailand. In order to maximize operational and fiscal efficiency and handle the anticipated rise in sales overseas, Hino will modularize its production structure to create regional production nodes. It also intends to augment capacities and local procurement while undertaking process reorganization in Japan to enable support for capacity increases in Asia. The company plans to raise annual vehicle production capacity globally by 1.7 times to 292,000, and for engines by 1.7 times to 344,000, by FY2016. In May 2012, Hino completed construction of a new factory building at its Koga Plant in Japan. The plant is operational and producing kits of key components to be shipped abroad and assembled at overseas facilities along with locally procured parts. The medium-term business plan also incorporates the Fifth Environmental Initiatives Plan, a five-year strategy Hino has crafted to further enhance the environmental friendliness of its products through development, adoption and introduction of new technologies. Through the implementation

Consolidated Income Statement

(Billions of Yen)

Item	FY2013 Forecasts ('12/4 – '13/3)	FY2012 Results ('11/4 – '12/3)	Change	Change (%)
Net Sales	1,480,0	1,314,6	+165.4	+12.6
Operating Income	<3.2%> 47.0	<2.9%> 34.6	<+0.3p> +9.5	+25.2
Ordinary Income	<3.0%> 45.0	<2.6%> 34.6	<+0.4p> +10.4	+30.1
Net Income	<1.9%> 28.0	<1.2%> 16.3	<+0.7p> +11.7	+71.7

Note: Figures in brackets (< >) indicate income margin.

The New HINO300 Series

The HINO300 Series of light-duty trucks was originally launched in 1999 with Toyota, and went global in 2006. Since then the company undertook a series of structural and operational modifications – a widened cab, improved safety and comfort, and enhanced fuel efficiency. The year 2011 featured the unveiling of the New HINO300 Series globally.

According to Product Planning Chief Engineer Masahiro Kimasaka, "Making trucks that are a good fit with purchasing heads means that they are able to find the truck that is best suited to their needs from a broad range of variations." The New HINO300 Series is now available in 800 different types around the world. The Series garnered the Japan Good Design Award for 2011, and Design Division Manager Yuji Sekiguchi explains Hino's philosophy behind this project. "Firstly, the design must be based on 'functionality' which includes the reliability and safety that is expected of a professional tool. Secondly, its design must be such that it is able to provide 'joy in use' to our customers, including pride and excitement. And thirdly, the design must be an expression of Hino's nature that cannot be mimicked by others. We believe Hino's idea of design can only be considered to be complete when these three elements come together."

World Leader in Commercial Hybrid Vehicles

The HINO DUTRO, which had recently undergone its first significant design enhancements in 12 years, was unveiled at the Tokyo Motor Show in 2011. It offers improved fuel efficiency, enhanced cabin comfort and a two-pedal easy drive design. The DUTRO series was originally introduced in 1999, and reinvented as a hybrid vehicle in 2003. As always, Hino released the vehicle in Japan first, then in 2007 began exporting the model, starting with Australia.

Hino is recognized as a world leader in commercial hybrid vehicles, and in an interview earlier this year Yoshio Shirai provided an overview of the company's hybrid history.

"Hino Motors released a hybrid route bus in 1991 which was the world's first commercially available hybrid vehicle. Since then, the Company has continued to be a leader in environmental technologies for commercial vehicles. Our most recent diesel hybrid models improve fuel efficiency, help reduce CO_2 emissions, and produce cleaner exhaust emissions. They also offer a good balance between all aspects of commercial vehicle usage, which include cruising distance, load capacity, customization adaptability, and costs. Hino Motors has already produced over 12,000 commercial hybrid vehicles; we have indeed entered an era in which trucks and buses are naturally regarded as being hybrid vehicles."

Product Planning Executive Officer Hideyuki Kakizawa notes that the new series is a key product for Hino, and as such the evolution of the product is an ongoing process. "We will continue to enhance the HINO300 Series based on feedback from Hino dealers and our customers. We welcome your participation for this truck to continue evolving. In other words, please share your views with us!"

of the medium-term business plan, Hino anticipates achieving incremental annual growth in net sales and operating income through FY2015 (net sales 16,800,000 million yen; operating income 75,000 million yen; 4.5% profit margin).

Crisis Also Represents Opportunity

Hino's financial reports clearly reflect an upward trend in both sales and efficiency of earnings thanks to aggressive cost-reduction activities and aggressive R&D. The company has set forth a plan to intelligently consolidate its resources in Japan and abroad to further enhance the synergy of its global operations. It has introduced its new HINO300 Series and HINO DUTRO Hybrid vehicle lines. The company's efforts and forward view are best characterized in the closing of Shirai's greeting on the company website:

"In the midst of a once-in-a-century worldwide economic crisis, Hino Motors is facing an extremely difficult operating environment. Despite serious challenges for our business activities, we recognize this crisis as an ideal opportunity to begin a period of corporate reform and to strengthen our overall structure and systems. Based on its corporate principles, the Hino Motors Group will strive to meet the expectations of the global community by reinforcing its product and service capabilities, enhancing productivity and nurturing personnel that are capable of garnering the trust of customers."

Hino Vehicle Sales Forecasts (FY2013-2015)