A Centralized, Globalized Treasury Function

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"Treasury was decentralized in the past, with various offices around the world dealing directly with their respective local banks. Four years ago, however, we decided it would be more consistent and efficient to centralize the function in Tokyo as a Global Treasury Center.

During the NISSAN Value-Up period, my major responsibilities are global tax optimization, risk management and quality improvement of the balance sheet. Global tax optimization is a major challenge because our taxable income has been rising. We used to be reactive to tax policies, but we've realized that we need to be more proactive, since tax is one of the biggest cash-out items. Tax planning is of no small concern; cash paid for taxes was approximately ¥200 billion in fiscal 2004, which made our effective tax rate 33 percent. This amount is substantial compared to our capital and R&D expenditures of ¥480 billion and ¥400 billion, respectively, for the same period. We will always comply with tax law, of course, but the strategy is to set up a long-term plan to reduce the effective tax rate. For example, we can take advantage of an R&D tax incentive that was recently introduced in Japan. Another example would involve the variability in tax rates among countries. These tax differences are important in determining production locations.

Risk management has also been centralized under our control, and is a developing facet of our organization. The financial risks we face are traditional ones such as interest rates and foreign exchange. However, we are also subject to a variety of physical risks. To put this in an automotive context, risk management at Nissan is not the brakes, but the airbags. We can't prevent all risks from affecting us, but we can reduce their impact and keep our business going.

Our production facilities may be exposed to various forms of risk. For example, the production facilities in Japan are susceptible to earthquakes, so we are investing ¥20 billion to reinforce the pillars in all of them. Through the risk-mapping process developed by our cross-functional team, we've identified nearly 860 different risks, prioritized them, and started to create solutions to mitigate them.

On financial risks, we take a 'no speculation' position in addressing foreign exchange fluctuations. We usually hedge for only short periods of one to two months. Foreign exchange is a major concern, since a shift of one yen against the dollar translates to an ¥11 billion gain or loss, or ¥2 billion for a change of one yen against the euro. We hold weekly videoconferences with Renault Finance S.A. in Switzerland to exchange ideas and forecast trends.

When it comes to the state of the balance sheet, Nissan is in a good position with our current levels of debt. In 1998, for example, we had debt of ¥2.1 trillion; now we are in a cash-positive position of ¥205.8 billion under the new accounting standard. We concentrate more on the quality of our balance sheet. Factors affecting the balance sheet include our pension situation and possible impairment of assets. We have sold off a number of non-core assets over the past five years, significantly reducing the risk of capital loss from differences between market and book values.

The remaining issue is non-funded pensions. In June 2005, we contributed ¥228 billion to our pension fund. We did this to ensure the health of our fund and to reduce its future negative impact on operating profit. Our funding came from a bond issue, which got a favorable response in the market despite bad market conditions. Transparent communication with investors worked.

Nissan is currently rated a triple-B+ by the major international rating agencies. Our goal is to be a single A. To accomplish this, the first issue we need to address is profit sustainability, which is very important to the rating agencies. We've shown stable profitability growth over the past few years, but we must deliver sustainable profit growth for longer periods. The balance sheet is also important. Liquidity is one of the major factors for strong ratings. For that reason we decided to increase cash on hand from 3.5 percent of net sales to 8 percent, a figure

we set after benchmarking others with A+ ratings. This is also the reason we changed our ROIC formula. Previously, cash on hand was one of the denominators in our formula, which meant that higher cash on hand led to lower ROIC. We do not want to penalize liquidity improvements. Obviously, cash is a funding source that enables us to invest in opportunities such as R&D in a flexible way.

Liquidity can also have a significant impact on our sales financing business, which requires large amounts of cash to operate. There has been a high degree of inter-company loans to the sales finance companies, but that strategy will change after our rating improves. With a higher rating we can develop diversified sources of funding. We will strive to achieve a healthy balance between the diversification of funds and cost efficiencies by utilizing sound financial management.

In terms of the commitment under NISSAN Value-Up, we must maintain a 20 percent ROIC on average over the course of the plan. I believe that Treasury can continue to play a key role in managing working capital. What we did especially well under NISSAN 180 was to improve our supply chain management. With the information from the new supply chain management system, we succeeded in converting our working capital into cash much faster than before.

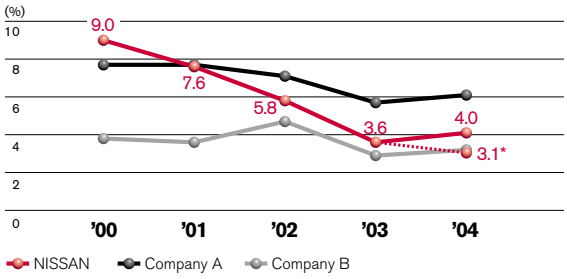
However, our inventory increased in fiscal 2004. There are two reasons for this. First, we increased our inventory to prepare for the spring season. As evidenced by the strong sales volume so far in fiscal 2005, it appears that our decision was correct. The second reason was the consolidation of new companies, whose operations are not yet as efficient as Nissan's. I believe, though, that we can apply our methodology to these newly consolidated companies. We will focus on reducing working capital on a consolidated basis.

We will not change our commitment to the NISSAN Value-Up dividend plan. Our dividend policy is transparent because we have already announced our dividends for the next three years. I believe that this benefits our shareholders in forecasting the return for Nissan's shares. We want to encourage more long-term investors, and dividends are the way to do that. Concurrently, we have also been repurchasing stock from the market, primarily for stock option purposes. We will continue this to some extent, because we may have M&A and other opportunities.

With global expansion, we must extend financing to new areas. This means that we have to move to a second phase in the development of our Global Treasury Center. For example, the use of leading competitive countries will create a more complex cash flow due to foreign exchange exposure. We've opened an office in Singapore as a first step.

In our drive to become a world-class Treasury function, we evaluate our performance in comparison to worldwide best practices. This provides an objective assessment of our operation. Investors also provide us with objective evaluations. To receive feedback from the latter, we must be transparent, and also pay attention to the signals from the capital market. I believe that is the most effective way to enhance shareholders' value."

Working Capital Management



Consolidated automotive working capital/consolidated automotive turnover
* Same scope pf consolidation as P&L, excluding change of cash compared to fiscal year 2003