



Supplying Sales Support, Profits and Solid Customer Connections

Rising interest rates worldwide squeezed our margins and made the sales finance business tougher in fiscal 2005. Our overall profitability was relatively good, however, and we managed losses and delinquencies very well. Net loss ratios at our main sales finance companies in the U.S., Japan, Canada and Mexico, for example, were among the lowest in Nissan's history.

We also had great market penetration. In the U.S., Nissan Motor Acceptance Corporation took almost 50 percent of the market. Nissan Financial Services, Japan had 36 percent, a slight increase over 2004. Nissan Canada Finance was at 73 percent thanks to more lease demand. NR Finance Mexico also had the highest penetration at 34 percent. That's a 43 percent average, so our contribution to sales was very high.

Because of this higher penetration and increased sales, our total assets have grown. Asset-backed securities represent nearly 50 percent of our finance funding. They're an effective, low-cost source of money, and one we will continue to use. However, we've increased the proportion of funding coming from commercial paper and corporate bonds in Japan and the U.S. We are also setting up commercial paper and bond programs in Mexico.

Basically we're trying to spread out our funding and rely less on asset-backed securities and group financing. Our credit rating has improved in recent years, and I think we'll be able to diversify our funding further once we are officially upgraded from BBB+

to A. The secondary markets already price our bonds at the A level.

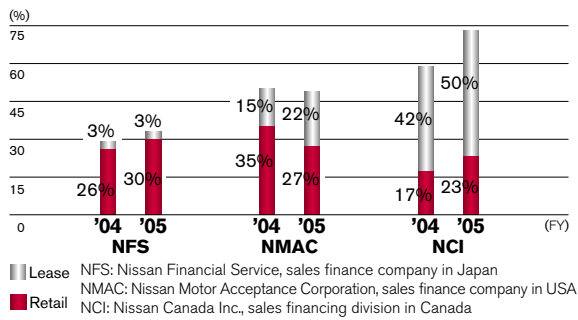
The risk that a sales finance company should pay is the interest rate risk. This comes from duration mismatches between assets and liabilities. We aren't interested in speculative trading, so we utilize a natural hedging system that doesn't involve too many complicated derivative transactions. Term-match hedging is the best way to do that.

There is no foreign exchange risk for us from an asset and liability management standpoint. For example, all funding for our U.S. finance company comes from U.S. dollars. Our other entities are similarly funded through local currency.

Another way we maintain a stable natural hedge position is to utilize our equity position or cash flow from our automotive operations. Nissan's automotive business has excellent positive cash flow. Of course the first priority for that money is R&D, capital expenditure, dividend payments and so on, but we use some of that excess cash to fund our finance activities rather than depositing it. If the market interest rate goes up, the finance company may suffer from the increase in the cost of funds. The automotive company simultaneously recognizes higher interest rate income because it is lending to the sales finance company.

A finance company is a capital-intensive business and requires considerable investment, particularly for IT. One thing we evaluate before setting up in a country is the minimum annual volume of contracts necessary to justify the expense. We've just established a finance company in Thailand

Penetration



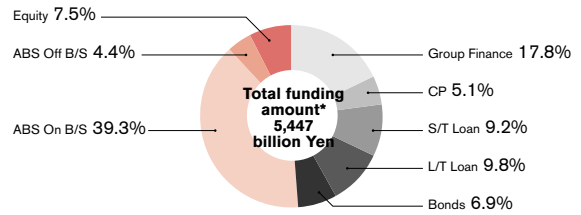
because we anticipate a significant increase in sales there, and we are also considering setting one up in China. Of course a finance company cannot expect to get 100 percent of the car sales, so we usually plan for a minimum of 50,000 or 60,000 units in retail sales, anticipating that we'll get 30 to 40 percent penetration.

Coordination and cooperation with Renault is also a major driver for our sales financing business. Having Nissan and Renault set up an Alliance finance company to provide financing to our respective dealers is our favored solution. That is what we did in Mexico. We rely on the larger sales company in the country to take the leadership role.

We are currently planning to use the same method in Korea, where Renault has more sales volume than Nissan. If Nissan is slightly ahead in a market and establishes a finance company, Renault can piggyback on that. That may happen in Thailand, where Nissan already has a company. We're looking at China, Russia and other countries in which we'll have the necessary volume and deciding which company should establish the finance business. Utilizing Nissan and Renault's expertise, people and systems, we have both become much more powerful.

The sales finance business will also act as a buffer. The auto industry is cyclical, going up and down. Nissan's sales do, too, but the finance portfolio is usually pretty stable. Once you book a contract, you have revenue coming in over a three- or five-year period. If you don't have a finance company in place, you're missing a crucial tool for selling vehicles and

Funding Sources



* (= Total assets - Other liabilities + Off balance sources)

making a profit contribution. If you rely on banks to finance your sales, you're just letting them make the money and providing them with a customer base to sell their products to.

A finance company is an excellent tool for marketing and boosting sales, enhancing customer loyalty and maintaining our customer database. A dealer may lose track of a customer after selling the vehicle, but a sales finance company, having a three- or five-year contract, contacts customers regularly. You know their living situation and how their income has changed. We can also offer them future vehicle contracts, and insurance products, and pursue other related business.

To me, sales finance mirrors the automotive business. You could just play in the big markets—the U.S., Europe and Japan—and ignore the rest. But everyone expects the volume in the rest of the world to grow, and sales finance can play an important role in that growth. We're not anticipating big initial profits in China, Thailand and elsewhere. Once the volume catches up, however, we've got a strong chance to maximize profits on both the automotive side and financing side.

In April, we formed a virtual organization to control all of Nissan's sales finance companies and work closely with Renault's sales finance division. The organization's head, an American, travels constantly to ensure that each finance company is working well. He has six people reporting to him with plenty of experience in sales finance, including IS. I'm very pleased to have this organization overseeing operations.