2. NISSAN Value-Up Update

In the Nissan Value-Up business plan, the company made three key commitments:

1. Top level operating profit margin among global automakers in FY05 to FY07.
2. 4.2 million sales in FY08.
3. 20% average return on invested capital over the plan.

Under Nissan Value-Up, the company is pursuing four major breakthroughs:

1. Build Infiniti into a globally recognized luxury brand.
2. Build a new and significant global presence in Light Commercial Vehicles.
3. Develop new supply sources in Leading Competitive Countries ("LCC") for parts, machinery & equipment, vendor tooling and services.
4. Expand geographic presence in markets such as China, India, Thailand, Russia, Eastern Europe, the Gulf Countries and Egypt.

3. FISCAL YEAR 2006 FIRST-HALF BUSINESS PERFORMANCE

For the first six months of fiscal year 2006, Nissan's sales in all regions totaled 1,709,000 units, down 6.9% from 2005.

Reviewing volumes by region, in Japan, Nissan sold 350,000 units in the first half, down 16.9% from the same period last year, with minicars up 1.9% and registered vehicles down 19.9%. Total industry volume decreased by 3.4%, with minicars up 4.9% and registered vehicles down by 7.5%. Nissan's market share stands at 12.9%, which is 2.1% lower than last year.

As there is no elasticity in the minicar segment, this industry evolution did not favor Nissan, particularly in a market where the main actors remained focused on higher incentives and volume rather than profitability. In this half-year, results were also compared at a low point in the product cycle to the period of the final sprint of Nissan 180.

Nissan is implementing specific actions to improve the effectiveness, particularly in sales, marketing and distribution. For example, the company has taken measures to enhance the network of dealer subsidiaries by consolidating unprofitable outlets, streamlining back-office operations and integrating subsidiary dealers. The company is also revising the way dealer management is compensated. Although the external environment is challenging, there are solutions and it is the company's responsibility to implement them and deliver better results.

In the United States, prior to the launch of the Versa Hatchback in July, Nissan had not launched an all-new model in 16 months. As a result, a decline in sales was anticipated. In the first half, sales decreased 10.2% to 513,000 units. In comparison, total industry volume that declined by 5.6%. Nissan's U.S. market share decreased to 5.8% from 6.1% in the previous year.

In the Nissan Division, U.S. sales were down 9.8% in the first half. Unsupported by new products for 19 months, Infiniti Division sales declined 17.5% from 2005.

In Europe, Nissan sold 275,000 units from January to June, which represented a 4.4% decrease from the same period in 2005. During this period, Nissan was running out Primera, Almera and Tino in most markets, with only one new model launch, the Note, in March.

On the other hand, Nissan's performance in General Overseas Markets, including Mexico and Canada, have been encouraging. In the first half, sales were up 2.9% to 571,000 units. In China, Nissan unit sales increased from 2005 by 28% to 180,000 units. This was primarily due to strong sales of the Tiida. The company does not expect to sustain this rapid growth over the entire year. Growth for the full year is anticipated to be 15%. In the Middle East, sales increased 18% to 73,000 units. This momentum is expected to continue throughout the year. In Taiwan, the company sold 23,000 units, down 39% in an overall market that declined by 26%. In Thailand, sales fell 24% to 17,000 units in a market that fell 3%. The product range, particularly in the key pickup-truck segment, is near the end of its lifecycle. Nissan also faces operational issues in Thailand that are being addressed through a change in management

In the first half of fiscal year 2006, consolidated revenues reached 4.534 trillion yen, up 1.0% from the same period in fiscal year 2005. This was primarily due to favorable exchange rates, which had a positive impact of 201.2 billion yen.

Nissan's consolidated operating profits decreased by 15.3% to 348.6 billion yen from last year. The operating margin was 7.7%.

In comparison to last year's consolidated operating profit, the variance was due to several factors:

・ Foreign exchange rate movements resulted in a positive contribution of 54.8 billion yen. This was mainly due to favorable movements in the U.S. dollar and Euro. The U.S. dollar rate averaged 115.4 yen compared to 109.5 yen the previous year. The euro moved to 142.3 yen from 136.3 yen.
・ Change in scope of consolidation contributed an additional 4.6 billion yen.
・ Raw material costs increased to 65.8 billion yen. In an industry with no pricing power, additional costs cannot be passed to the consumer. As such, Nissan had to absorb most of these costs.
・ Price, volumes and mix had a negative impact of 104.3 billion yen. This was due to lower volumes at the end of product cycles and a shift in mix to smaller cars in the U.S. and to minicars in Japan.
・ Selling expenses had a positive impact of 3.8 billion yen. This is not particularly good news given that sales volume decreased. Expenses should have been lower but per car sold, incentives and costs of marketing costs were higher.
・ Purchasing continued its good performance as lower net purchasing costs generated a positive contribution of 75.5 billion yen to operating profits. However, this was offset by having to absorb additional costs related to increased prices for raw materials and energy.
・ Product enrichment and the cost of regulations produced a negative impact of 19.1 billion yen.
・ Higher R&D expenses generated a negative impact of 7 billion yen, as Nissan continued to boost investments in technology and product development.
・ Manufacturing and logistics expenses decreased by 4.3 billion yen.
・ Warranty expenses increased by 3.9 billion yen. This relates to charges taken in the first quarter on the QR engine. This amount was little changed from the one-time warranty charge taken in the second quarter of 2005.
・ General, administrative and other expenses produced a negative impact of 5.8 billion yen.

By region, operating profits in Japan amounted to 133.7 billion yen, compared to last year's 199.4 billion yen. Operating profit in the U.S. and Canada was 121.1 billion yen, versus 152.1 billion yen in 2005. Europe's operating profit was 26.8 billion yen compared to 18.2 billion yen in the prior year. General Overseas Markets, including Mexico, contributed to 58.8 billion yen to operating profit, which increased from 46.2 billion yen in 2005.

Inter-regional eliminations resulted in a positive 8.2 billion yen, versus a negative 4.4 billion yen reduction in the first half of last year.

Net non-operating items totaled a positive 12.3 billion yen, mainly due to foreign exchange gains in Mexico this fiscal year. This yields an ordinary profit of 360.9 billion yen, compared to last year's 395.6 billion yen.
Net extraordinary items totaled a negative 5.2 billion yen, which improved from last year's negative 28.2 billion yen.

Income before taxes totaled 355.7 billion yen. Taxes amounted to 68.4 billion yen, down from 117.2 billion yen in 2005. The consolidated effective tax rate for the period was 19.2%, which was lower than the 31.9% rate in 2005. This was mainly due to the favorable impact of realizing tax-deductible losses on investments in domestic dealers prior to their merger into Nissan Network Holdings. The result was an 8.3% reduction in the effective tax rate.

Minority interests, which are profits in fully consolidated companies that Nissan does not own 100%, such as Calsonic Kansei, Aichi Kikai and Nissan Shatai, totaled 13.1 billion yen.

Net income after tax increased by 18.8% to 274.2 billion yen. The main drivers of this improvement were the sale of Nissan Diesel shares in September, favorable changes in the pension scheme of the company's Chinese operations, and tax benefits resulting from losses incurred through the company's domestic dealer restructuring. Exceptional charges were taken in the same period in 2005, which were related to impairment losses on fixed assets and the introduction of Nissan's defined-contribution pension plan.

At the end of September 2006, Nissan's net cash position stood at 94.9 billion yen. The company's position improved significantly from September 2005 when net automotive debt stood at 126.3 billion yen. However, this is down from the net cash position of 372.9 billion yen in March 2006, as a result of normal seasonality.

4. FISCAL YEAR 2006 FINANCIAL FORECAST

Considering the risks and opportunities for fiscal year 2006, the most significant risks continue to be continued high incentive levels worldwide, mix and grade deterioration, high commodity prices, high energy prices and higher interest rates. Major opportunities come from the flawless implementation of the Nissan Value-Up plan and favorable foreign exchange rates, particularly the yen-dollar relationship.

Given these risks and opportunities, Nissan continues to believe the favorable foreign exchange rates will offset the identified risks. As such, the company does not see any compelling reason to change its initial forecasts for the full fiscal year.