Business and Other Risks

Information on risks involved in business operations has been disclosed in the Yukashoken-Hokokusho for the year ended March 31, 2012, as follows. Any future forecasts included in the following descriptions are based on the estimated or judgment of Nissan as of June 28, 2012.

1. Rapid changes in the global economy and economic climate

(1) Economic factors

The demand for products and services provided by the Group is strongly affected by the economic conditions in each country or market in which they are offered for sale. Although the Group strives to predict change in economic climate and demand precisely and to take necessary measures in the major markets like Japan, China, the United States of America, Mexico, Europe and Asia, in case of greater-than-anticipated downturn, such as global economic crisis, it could have a significant effect on the Group's financial position and business performance.

(2) Situation regarding resources and energy

The demand for products and services provided by the Group largely varies depending on rapid changes in the situation surrounding various resources and energy as represented by the hike of crude oil prices. If gasoline prices continue to rise, consumer demand is forecast to shift to products with better fuel consumption and overall demand could decline in case of further hikes in gasoline prices. Any greater-than-anticipated fluctuations in such resources or the energy situation could have a significant effect on the Group's financial position and results of operations due to deterioration in operating performance and/or opportunity loss.

2. Rapid changes and moves in the automotive market

The automobile industry is currently experiencing intensified market competition worldwide. To win given such intense competition, the Group maximizes its efforts in all aspects of technology development, product development and marketing strategy to timely provide products that address customer needs. Nevertheless, the failure to timely address customer needs or improper responses to environmental and/or market changes could have a significant effect on the Group's financial position and business performance.

Demand might decrease or change due to the progress of negative factors such as a decline in population, the aging society and a dwindling birthrate in a mature market, whereas demand might considerably increase in emerging markets. These changes or trends might generate favorable results for the Group with a rise in business opportunities but could result in an adverse effect on the Group's financial position and results of operations due to an excessive dependency on certain products and/or regions unless appropriate forward-looking steps are undertaken.

3. Risks related to the financial market

(1) Fluctuation in foreign currency exchange rates

The Group's products, finished cars, are produced in 18 countries and regions, and are sold in more than 160 countries.

The Group's procurement activities for raw materials, parts/components and services are conducted in many countries. As the consolidated financial statements of the Group are calculated and presented in Japanese yen, the appreciation of the yen against other currencies adversely affects the Group's financial results of operations, in general. In contrast, the depreciation of the yen against other currencies favorably affects the Group's financial results of operations. Any sharp appreciation of the currencies of countries where the Group manufactures vehicles could lead to increases in production costs that would adversely affect the Group's competitiveness.

(2) Hedging of currency and interest rate risks

The rise in market interest rates and/or in the cost of capital procurement due to the Company's decreased rating by credit rating agencies could have a significant effect on the Group's financial position and business performance.

The Group may utilize derivative transactions for the purpose of hedging its exposure to risks such as fluctuations in the foreign exchange rates of its receivables and payables denominated in foreign currencies, the interest rates of interest-bearing debt and fluctuations in commodity prices. Although the Group can hedge against these risks by using derivatives transactions, the Group might miss potential gains that could result from seizing the market opportunities to profit from such fluctuation in exchange rates and interest rates. In addition, the Group manages its exposure to credit risk by limiting its counterparties to financial institutions with high credit ratings. However, a default by any one of these counterparties could have an adverse effect on the Group's financial position and business performance.

(3) Financial Asset Price Risk

The Group may hold marketable securities for certain reasons including strategic holding, relationship management and cash management, in which there are risks of price fluctuation. Therefore the Group's financial position and business performance can be affected by the price fluctuation in the stock and bond markets.

(4) Liquidity risk

The Company endeavors to raise funds from appropriate sources with measures such as an accumulation of net cash, the conclusion of loan commitment agreements and the diversification of funding sources and geographies for fund-raising by formulating relevant internal rules so that the Group can ensure an appropriate level of liquidity even if any environmental change beyond expectations occurs in the financial market. However, this factor could entail a greater-than-anticipated level of risk that might hinder the smooth execution of the initially planned financing, thereby having a significant effect on the Group's financial position and business performance.

(5) Sales financing business risk

Sales financing is an integral part of the Group's business. The Global Sales Financing Business Unit was established at the Company. This dedicated internal department provides strong support to its automotive sales, while maintaining high profitability and a sound and stable financial condition through strict risk management policies. However, the sales financing companies inevitably have high exposure to interest-rate risk, residual value risk and credit risk. Accordingly, these risk factors could entail a greater-than-anticipated level of risk, which could adversely affect the Group's financial position and business performance.

(6) Counterparty credit risk

The Group does business with a variety of local counterparties including suppliers and sales companies in different regions around the world. The Group manages its own counterparty credit risk by conducting a comprehensive annual assessment of suppliers' financial condition based on their financial information. Nonetheless, should unprecedented conditions such as bankruptcies be triggered by a global economic crisis, the resulting production interruption and/or troubles on any other production activity at the procurement side and any significant default by a counterparty at the sales side would adversely affect the Group's financial position and business performance.

(7) Employee retirement benefit expenses and obligations

The amounts of retirement benefit obligation and related expenses of the Group, which are provided for retirement benefits of employees of the Group companies, are calculated using various actuarial assumptions including the discount rate applied, the projected rate of return on plan assets and other factors. If the Group's actual results differ from those assumptions or if any of the assumptions change, the resulting effects will be accumulated and recognized systematically over future periods. The cumulative effect could adversely affect the recognition of expenses and liabilities recorded in future periods.

4. Risks related to business strategies and maintenance of competitive edge

(1) Risks involved in international activities and overseas expansion

The Group's products, finished cars, are produced in 18 countries and regions, and are sold in more than 160 countries. It is possible that the Group's global manufacturing and marketing activities will be extended to other countries and regions. The Group forecasts and sufficiently evaluates a wide variety of risks inherent in conducting business in overseas markets, including the factors noted below. Nevertheless, each of these factors could entail unpredictable risks or a greater-than-anticipated level of risk at any place in our overseas presence without achieving the planned rate of capacity utilization and/or profitability, which could have significant effects on the Group's financial position and business performance.

- Unfavorable political or economic factors
- Legal or regulatory changes
- Changes in corporate income tax, customs duties and/or other tax system
- Labor disputes including strikes
- Difficulties in recruiting and retaining talented human resources
- Social turmoil due to terrorism, war, coup, large-scale natural disaster, epidemic disease or other destabilizing factors

(2) Research and development
The Group's technology must be useful, pragmatic and user friendly. To this end, the Group anticipates the nature and scope of the market demand and then prioritizes and invests in the development of new technologies. However, any sudden and greater-than-anticipated changes in its business environment or in customer preferences or a relative decline in its competitive edge in development could impact negatively on customer acceptance of these new technologies, which could have a significant effect on the Group's business performance.

(3) Collaboration with other corporations
The Group may collaborate with other corporations that have excellent technologies to effectively acquire higher competitiveness within the short term. However, the anticipated results might not be achieved depending on the market environment of the business field concerned and/or changes in technological trends and the progress of collaborative activities with allied partners, which could adversely affect the Group's business performance.

(4) Quality of products and services
To provide products and services of superior quality, the Group endeavors to ensure and enhance maximum quality through detailed management systems from the standpoint of research and development, manufacturing and services.

However, the adoption of new technology to propose higher added value might cause unexpected quality issues after sales of a product start even if it has been repeatedly tested prior to its launch with maximum care. Although the Group has insurance policies to assure the source of funding product liability claims to a certain extent, this does not necessarily mean that all damages are fully covered. If the Group were to implement significant recalls in volume and amount for the benefit of customers' safety, the Group would incur significant additional expenses that could adversely affect its financial position and business performance.

(5) Environmental and safety-related restrictions and corporate social responsibility (CSR)
The automobile industry worldwide is influenced by a broad spectrum of regulations governing the emission levels of exhaust fumes, CO_2/fuel economy guidelines, noise level limitations, recycling-related restrictions and safety standards. These regulations have become increasingly stringent. Indeed, compliance with such regulations is obvious to industrial corporations, and it is becoming common to comply with autonomous guidelines and stricter objectives are required in an increasing number of fields as part of CSR. Although the Company is actively committed inside and outside of the Group to several continuous environmental activities based on Nissan Green Program 2016, the medium-term environmental action plan, the burden of ongoing development and investments has been increasing to ensure and/or maintain an advantageous position against competitors. As a consequence, a further rise in these costs could have an impact on the Group's financial position and business performance.

(6) Critical lawsuits and claims
It is possible that the Group could encounter a variety of claims or lawsuits with counterparties and/or third parties in the course of conducting business. With respect to various lawsuits and claims that the Company and the Group might encounter, the possibility exists that the Company's assertion may not be accepted or that the outcome may be significantly different from that anticipated. As a result, any such judgment verdict or settlement could adversely affect the Group's financial position and business performance.

(7) Intellectual property rights
The Group owns a wide variety of proprietary technologies and has the expertise to differentiate the Group's products making them unique from those of its competitors. These assets have proven their value in the growth of the Group's business and will continue to be of value in the future. The Group strives to protect its intellectual property assets.

However, in certain markets, the Group may encounter difficulty in fully protecting the proprietary rights to its own technologies.

The Company established the Intellectual Property Rights Management Department to protect intellectual property rights in such markets, strengthen activities to protect Nissan's intellectual property rights, accumulate new intellectual property rights and perform various activities to protect and create the Brands. However, cases may arise where the Group finds itself unable to prohibit others from abusing or infringing on its intellectual property rights by imitating and manufacturing or selling similar vehicles.

(8) Recruitment and retaining of talented human resources
The Company considers human resources to be the most important corporate assets. The Company therefore focuses its efforts on recruiting talented people globally, enhancing the development of human resources and implementing fairer and more transparent performance evaluation systems. However, industrial competition to secure talented people is intense. Should appropriate recruitment and/or retaining of such desirable human resources not go according to plan, such an unsuccessful personnel development strategy could adversely affect and reduce the competitiveness of the Group on a long-term basis.

(9) Compliance and reputation
The Group always takes appropriate preventive measures and conducts regular audits with regard to compliance of laws and regulations including necessary information security measures for the protection of personal and confidential information. Furthermore, the Group has strived to streamline the relevant systems to rapidly cope with any possible detection of compliance-related incidents to prevent their adverse effects on trust in and/or the reputation of the Company. Nevertheless, in view of increasing expectations relative to CSR in contemporary society, delayed, insufficient and/or improper responses on compliance-related issues could adversely affect the confidence and/or reputation of the Group, thereby adversely affecting the Group's results of operations through, for example, a possible decline in sales resulting from a damaged reputation.

5. Continuation of business

(1) Large-scale natural disasters
The Group's corporate headquarters and many of its manufacturing facilities are located in Japan, where the statistically proven probability of earthquakes is higher than in many other countries. The Group has developed basic guidelines on earthquake risk management, and has organized a global task force (the COO is the head) to direct disaster prevention and recovery activities. In addition, the Group has been strengthening its manufacturing facilities with anti-seismic reinforcement. However, if a severe earthquake were to hit one of the Group's key facilities causing a halt in production, this would adversely affect the Group's financial position and results of operations.

The Group addresses preventive measures and the improvement of emergency response systems to prepare for risks other than earthquakes, including fires, typhoons, floods and epidemics of new types of influenza. Nevertheless, if any of these risk factors occurs or spreads on an unprecedented scale, such risk could adversely affect the Group's financial position and business performance.

In the wake of the Great East Japan Earthquake that occurred in March 2011, various unforeseen risks emerged as listed below.

- The risk that plant operations could be restricted, to a significant extent, because a scheduled power failure is forcibly implemented or a long-term power shortage continues.
- The risk that plant employees and/or suppliers could not restore operations or operate facilities within areas of limited or no access, in which people cannot restore or operate facilities based on an evacuation directive to restrict or prohibit entry due to radioactive pollution from a nuclear power generation plant.
- The risk that the acceptance of parts and/or products could be rejected or postponed by customers because of radioactive pollution, as well as the risk of sluggish sales due to harmful rumors.
- The risk of tsunamis, for which damage projections (e.g., the height of a tsunami and the scope of the expected devastated areas) are now much more severe than previously anticipated, in the event of any significant earthquakes such as a Nankai Trough earthquake.

The Group is currently studying and addressing effective countermeasures to solve these problems. However, these risks often cannot be handled by the Company alone and may entail certain costs to implement actions, and therefore could have an impact on the Group's financial position and business performance.

(2) Purchase of raw materials and parts
The Group purchases raw materials, parts/components and services from many suppliers by reason of its business structure. In recent years, the use of rare metals, of which production volume is extremely small and production mines are limited to several restricted areas of a few countries, has been increasing, in association with the implementation of new technologies. The unpredictable fluctuation of market conditions resulting from a drastic change in the supply-demand balance or a radical change in the political situation of a production country could entail a greater-than-anticipated level of risk in the stable procurement of necessary raw materials, parts/components or services on an ongoing basis, which could adversely affect the Group's financial position and business performance.

(3) Dependency on specific suppliers
If procurement of higher technology or higher quality is pursued at more competitive pricing, actual orders might sometimes concentrate on only one or a small limited number of suppliers. Although the Company has reviewed its supply chains, including secondary and tertiary suppliers, and addressed their reinforcement measures, a possible suspension of supply due to any unforeseen accident or any delay or deficit in supply could lead to the forced suspension of the Group's production plants, thereby adversely affecting the Group's financial position and business performance.

(4) Computer information system
Almost all the Group's business activities are supported by computerized information systems. As information systems have become increasingly complicated and sophisticated, the Group takes a variety of measures to ensure security and improve their reliability. However, any possible shutdown of overall systems due to the occurrence of any greater-than-anticipated disaster or by the intrusion of a wrongful computer virus would make it difficult for the Company to continue operations, thereby adversely affecting the Group's financial position and business performance.

Third-Party Comments

Toshihiko Goto
Chief Executive
Sustainability Forum Japan

I must begin with words of praise for Nissan. In the wake of the Great East Japan Earthquake, the way its business continuity plan (BCP) has functioned and the company's efforts to revise and expand this BCP—not to mention the variety of relief activities it has carried out—have been splendid.

Looking over the entirety of Nissan's CSR activities in fiscal 2011, while there have been some instances where the company took on new challenges, such as with Nissan Green Program 2016 (NGP2016), for the most part there have been no externally visible changes to its traditional approach to the issues. However, the comments from the company's leader in this report give a palpable sense that the content of Nissan's thinking on and approaches to sustainability has grown more profound. There is a clear recognition here that the issues we face today may tomorrow take on entirely new aspects and develop into crisis situations, and Nissan has stated that it will resolutely address the material issues that humanity must deal with, but that the general populace may have yet to recognize fully.

Nissan has also defined four foundations for Nissan Power 88, its mid-term business plan: People, Alliance, Processes and Products. These foundations tie in admirably to things generally classified as a company's intangible assets—aspects related to its organizations, people and innovation—and inform all the efforts toward achieving Nissan Power 88's goals. I expect that with NGP2016 as an underlying strategy and the Blue Citizenship platform and the CSR scorecard as tools for implementing it, Nissan will take all necessary steps to achieve this end through the PDCA (plan, do, check and act) cycle.

Evaluating the Eight CSR Focus Areas

All of the eight fields Nissan has chosen as its CSR focus areas are important, but let me first examine that of the value chain. Generally speaking, a comprehensive approach to the supply chain in particular among the value chain's components is something that all companies have traditionally held. This approach usually reached only to the tier 1 suppliers, though, going no further down the chain. The *Renault-Nissan CSR Guidelines for Suppliers* have been crafted with suppliers on all links of the chain in mind, but more information would be welcome on how precisely the company will promote this inclusive approach in areas other than green procurement. Since the publication of ISO26000, the international standard for CSR, the process of due diligence with respect to suppliers—in short, CSR auditing—has taken on greater importance. This, too, represents a change in the issues that must be addressed. While there is likely no need to implement a new auditing process for every supplier in tier 1, there is a need for a framework going beyond what has existed in the past.

In the environment chapter, the report gives a clear presentation of Nissan's thinking on zero-emission vehicles, instilling confidence that the company will take energetic steps toward its long-range goals for 2050. The report fails to present a data overview of the material flows covering all environmental inputs and outputs; it is hoped this will be included in future editions.

Nissan's marvelous approaches in the fields of safety and quality are easily grasped in the report. However, given the rapid aging of societies that will take place on a global basis in the near future, it is unclear how adeptly average drivers will be able to make use of Nissan's various elemental technologies. The company must be giving some thought to the possibility of automated vehicles requiring no manual operation. Explanations along these lines would also be welcome in the report. During the transitory period to this new phase of automotive mobility, there may also be a need for the company to carry out training of its sales employees to prepare them to help customers understand the vehicles' functions at the time of sale.

The section on employees presents the company's admirable philosophy on worker issues: "the power comes from inside." Many of the company's broad range of actions likely had their start in steps taken by a single individual; it would be most interesting to see some examples showcased in the report as a means of making CSR an even more deeply ingrained part of the company's activities.

Issues to Address in Future Reports

The Sustainability Report is written for many different stakeholders, and its readership is diverse as a result. Specialist terminology could be fleshed out with explanatory material, such as in footnotes, to improve readability. At the same time, though, moves are afoot to release integrated reports for investors. The European Union has noted that integrated reporting represents an important goal for the medium and long term, with steps to be taken no sooner than 2015; this means there is no need to rush. Given this fundamental European stance, though, at some point Nissan will need to begin exploring integrated reporting in the context of its Alliance with Renault, perhaps separately from the Sustainability Report.

This year's Sustainability Report is a substantial volume; there is a need to simplify its content where possible. The report explains the diverse measures in which Nissan is engaged, and its qualitative nature is to a certain extent unavoidable. The report would benefit, though, from the addition of quantitative data on the company's goals and results. A more thorough section at the end of the report gathering and presenting this data would be ideal. In the future I hope to see Nissan evaluate its Sustainability Report's completeness by showing how thoroughly it satisfies external guidelines.

Nissan and Socially Responsible Investment

Today investors are paying more attention than ever to the concept of socially responsible investment (SRI), evaluating corporations from environmental and social perspectives in addition to financial fundamentals. Nissan is proud to be listed as part of the FTSE4Good Index Series, DJSI Asia/Pacific and Global 100 (as of August 2012).

FTSE4Good Index Series

This SRI index is managed by the FTSE Group, an independent company co-owned by the Financial Times and the London Stock Exchange.

Dow Jones Sustainability Asia/Pacific Index

The Dow Jones Sustainability Indexes (DJSI) are the longest-running global sustainability benchmarks. SAM partners with S&P Dow Jones Indices in the publication of the DJSI. Launched in 2009, the DJSI Asia Pacific tracks the performance of the top 20% of companies in the Asia-Pacific region that lead the field in terms of sustainability.

Global 100

Conducted since 2005 by the Canadian publisher Corporate Knights Inc., Global 100 is a corporate evaluation scheme focusing on sustainability. The survey reviews some 3,500 major firms in various industries, selecting 100 of them as the "most sustainable corporations in the world" based on their environmental, social and governance initiatives.

For further information, please contact:

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