

Management's Discussion and Analysis

Business Content

The Nissan Diesel Group is comprised of the parent company, 41 subsidiaries, and 6 affiliated companies. The Group's primary business is the manufacture and sale of motor vehicles, engines and components. It also provides various services associated with its primary business.

In Japan, Group subsidiaries and affiliates are tasked with the manufacture of components, sale of products, and provision of associated services, while the parent company manufactures and markets vehicles, engines and components. Overseas, business activities are primarily related to vehicle sales.

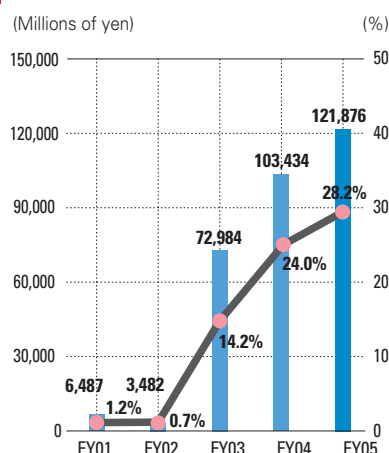
Overview of Operations

During fiscal 2005, amid a background of improving corporate profitability, the Japanese economy showed signs of a slight recovery brought about by a growth in personal spending from the improved employment environment, and an increase in capital investments. Both domestic and overseas demand rose steadily as exports increased amid a continually robust global economy.

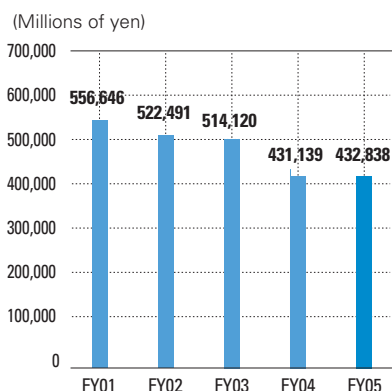
Under these economic conditions, Nissan Diesel's net sales for fiscal 2005 hit a new record of ¥482.8 billion, a 4.7% increase compared to fiscal 2004. This was mainly as a result of an increase in demand for medium-, and heavy-duty trucks (greater than 4-ton load capacity) in the metropolitan Tokyo area and Kinki region as customers moved to replace old trucks with new ones that meet the recently implemented diesel emissions regulation. Also, overseas sales were strong; particularly sales from Nissan Diesel South Africa, and exports to Asia showed significant growth. In fact, these positive trends were able to absorb a decrease in sales to Nissan Motor.

Operating income for fiscal 2005 increased by 0.2% from fiscal 2004 to finish at ¥33.5 billion. This was despite an increase in raw material costs because of worsening conditions in the steel market. In fact, the increase in sales and the injection of new products and efforts to streamline the business operations of the Group were able to absorb any negative factors to profitability. Ordinary income also hit a record high of ¥33.2 billion, a 9.1% increase compared to fiscal 2004 as the Group was able to reduce interest expense by cutting the amount of interest-bearing debt, and reduce retirement benefit expenses by changing the relevant system that was in place in the past. Net income after income tax and minority interest totaling ¥4.9 billion decreased by 3.1% from fiscal 2004 to finish at ¥29.1 billion. This was despite the Group generating extraordinary income of ¥3.2 billion (mainly from the sale of ¥2.2 billion worth of marketable securities). The fall in net income was mainly as a result of posting an extraordinary loss of ¥2.3 billion (mainly from the ¥900 million loss of impairment value of fixed assets) and the absence of the ¥4.7 billion gain from the dissolution of the Welfare Pension Fund Plans generated last year.

Equity, Net Equity Ratio



Total Assets



Operating Results

Net Sales

Domestic Net sales in fiscal 2005 increased by 10.4% from fiscal 2004 and finished at ¥311.9 billion; mainly as a result of an increase in demand for medium-, heavy-duty trucks. On a downbeat note, sales to Nissan Motor fell by 11.2% and finished at ¥85.2 billion. However, this was absorbed by a 3.6% increase in overseas sales, which finished at ¥85.7 billion. In overall terms, the Group posted a record net sales figure of ¥482.8 billion in fiscal 2005.

Operating Income

Operating income reached another historic high as the Group increased the figure by ¥100 million from fiscal 2004 (0.2%) and finished at ¥33.5 billion. Specifically, positive factors (a total of ¥12.2 billion) such as the ¥2.7 billion increase in domestic and overseas sales and the ¥9.5 billion decrease in costs of goods sold as a result of streamlining efforts absorbed negative income factors (total of ¥12.1 billion). Such factors included the ¥6.9 billion cost increase related to worsening market conditions for steel products, the absence of the ¥3.1 billion gain associated with the realization of the unrealized portion of income related to the sale of Ace Sogo Lease, Co., Ltd., and the ¥2.1 billion increase in other expenses.

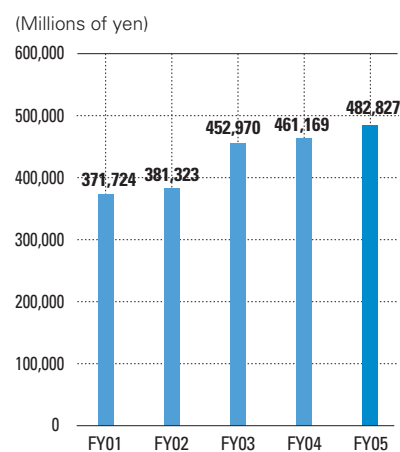
Ordinary Income

The Company recorded a net non-operating loss of ¥200 million; an improvement of ¥2.8 billion from the fiscal 2004 loss of ¥3.0 billion. This was mainly as a result of the ¥2.2 billion improvement in interest expenses due to the decline in the balance of interest-bearing debt, and the ¥600 million decline in non-operating expenses as the substitutional portion of the Welfare Pension Fund Plans was returned. Subsequently, ordinary income during fiscal 2005 hit another historic high of ¥33.2 billion; an increase of 9.1% over the ¥30.4 billion posted in fiscal 2004.

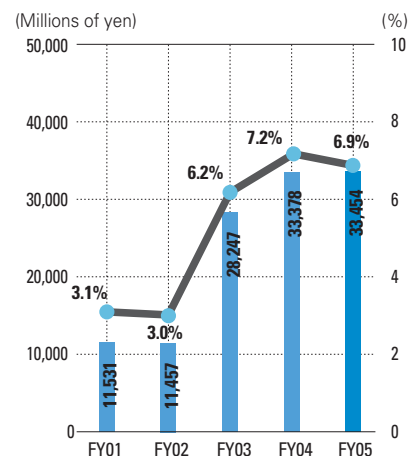
Income (Loss) before Income Taxes and Minority Interests

Nissan Diesel recorded net extraordinary gains of ¥900 million; a fall of ¥3.2 billion from the ¥4.1 billion gain posted in fiscal 2004. Specifically, the Company generated extraordinary gains totaling ¥3.2 billion which included a ¥2.2 billion gain from the sale of marketable securities and a ¥900 million gain from the sale of fixed assets. However, the Company generated an extraordinary loss of ¥2.3 billion inclusive of a valuation loss of ¥900 million on fixed assets and the absence of a ¥4.7 billion gain on the dissolution of the Welfare Pension Fund Plans which was accounted for during fiscal 2004. Subsequently, net income before income tax and minority interests for fiscal 2005 totaled ¥34.1 billion, a decrease from the ¥34.5 billion posted in fiscal 2004.

Net Sales

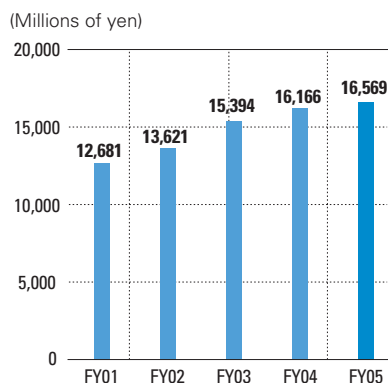


Operating Income and Operating Margin

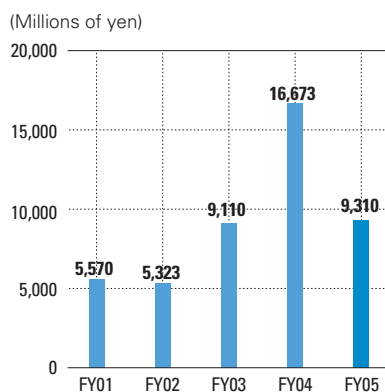


Management's Discussion and Analysis

R&D Expenses



Capital Investment



Net Income

Corporate taxes, inhabitants' taxes and enterprise taxes in the aggregate rose to ¥11 billion, up ¥4.7 billion from the ¥6.3 billion generated in fiscal 2004. Deferred income taxes increased from ¥2.4 billion in fiscal 2004 to ¥6.8 billion. This was mainly as a result of recognizing a temporary difference in the tax effect after adjusting for the valuation reserve. Subsequently, net income for fiscal 2005 fell by 3.1% from the fiscal 2004 amount of ¥30 billion to ¥29.1 billion. This includes a ¥100 million increase in minority shareholder income.

R&D Expenses

As a manufacturer of trucks and buses that support the daily lives and activities of society, Nissan Diesel works to ensure that its vehicles are economical, safe, comfortable, and environmentally friendly. Based on this philosophy, Nissan Diesel's R&D department has teamed up with affiliated entities and actively engaged in the development of new technologies. Such developments have included environment-preserving technologies that provide solutions to issues of emissions, noise, and recyclability as well as new technologies to reduce CO₂ (carbon dioxide) emissions and improve operational economy through increased fuel efficiency.

In overall terms, R&D expenses for fiscal 2005 increased ¥403 million to ¥16.569 billion.

Investment in Property, Plant and Equipment

The Group's capital investments for fiscal 2005 fell by ¥7.363 billion from fiscal 2004 to ¥9.31 billion. The funds were mainly used for investments in R&D facilities and manufacturing equipment.

Cash Flows

Free cash flow for fiscal 2005 totaled ¥45.3 billion, which is an increase of ¥300 million from fiscal 2004 and marks three consecutive years that free cash flow has been at the ¥45.0 billion level. Breaking this figure down further, net cash provided by operating activities totaled ¥45.5 billion (a decrease of ¥4.2 billion from fiscal 2004), and net cash used in investing activities totaled ¥200 million (a decrease of ¥4.6 billion from fiscal 2004).

Net cash provided by operating activities comprised of expense factors such as the ¥10.2 billion increase in inventory and ¥9.6 billion payment of corporate taxes. On the positive side, cash flow was generated by the ¥34.1 billion in net income before income taxes and minority interests, along with the ¥10.5 billion in depreciation and amortization, and a ¥20.7 billion decrease in accounts receivable as a result of an improvement in the accounts receivable turnover rate.

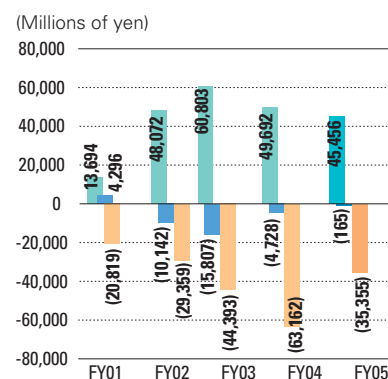
Net cash used in investing activities comprised of positive factors such as the ¥5.7 billion gain from the sale of property, plant and equipment including the former Gunma Plant site, and the ¥3.3 billion gain from the sale of investment securities. On the negative side, ¥9.7 billion was expended to acquire tangible fixed assets.

Cash used in financing activities totaled ¥35.4 billion, a decrease of ¥27.8 billion from fiscal 2004. On the positive side, the public issuance and third-party allocation of ¥48.9 billion worth of new shares, and the issuance of ¥15 billion worth of straight corporate bonds resulted in positive cash flow. However, this was surpassed by the ¥56.5 billion used to cancel of Class III and IV preferred stock and the ¥38.6 billion used to repay short-term borrowings. As a result of these efforts, interest-bearing debt decreased by ¥25.2 billion from fiscal 2004 to ¥130 billion, and net interest-bearing debt after subtracting cash and cash equivalents decreased by ¥34.8 billion from fiscal 2004 to ¥82.7 billion at the end of fiscal 2005.

As a result of the above activities, cash and cash equivalents on a consolidated basis increased by ¥9.7 billion (or 25.8%) from fiscal 2004 to finish at ¥47.3 billion.

Cash Flows

- Operating Activities
- Investing Activities
- Financing Activities



Interest-Bearing Debt and Net Interest-Bearing Debt

- Interest-bearing debt
- Net interest-bearing debt

