

NISSAN DIESEL MOTOR CO., LTD.

# ANNUAL REPORT

# 2005

Fiscal year ended March 31, 2006

UD:Ultimate Dependability  
Driving Innovation:Nissan Diesel



 NISSAN DIESEL

# PROFILE

Nissan Diesel Motor Co., Ltd., is one of the world's leading manufacturers of trucks and buses. Nissan Diesel was established in 1935 to produce diesel engines and introduced its first line of trucks, the 4.5-metric-ton payload TT6 series, in 1940. For more than 60 years, Nissan Diesel has developed and marketed a wide range of light-, medium-, and heavy-duty vehicles as well as buses and bus chassis, engines, vehicle components, and special-purpose vehicles.

Nissan Diesel has steadily expanded and reinforced its worldwide sales as well as its parts supply, service, and communications networks.

Nissan Diesel has ties with distributors in nearly 70 countries around the world.

Through creative engineering aimed at generating benefits for people and the environment, Nissan Diesel applies the technologies that it has amassed in the diesel engine field to produce an even greater range of comfortable, safe, and environment-friendly vehicles.

In fiscal 2005(ended March 31, 2006), Nissan Diesel succeeded in making all Quon heavy-duty trucks exceeding eight tons in weight and the SPACEARROW, SPACEWING and SPACERUNNER large buses compliant with Japan's new long-term diesel emissions regulation. At the same time, in order to realize new growth strategy, Nissan Diesel formulated a new medium-term business plan for fiscal 2006-08, the "Plan for Vision (PFV)." The PFV, which was announced in November 2005, aims to take another step forward from the improvement phase towards the direction of a growth phase through aggressive management.

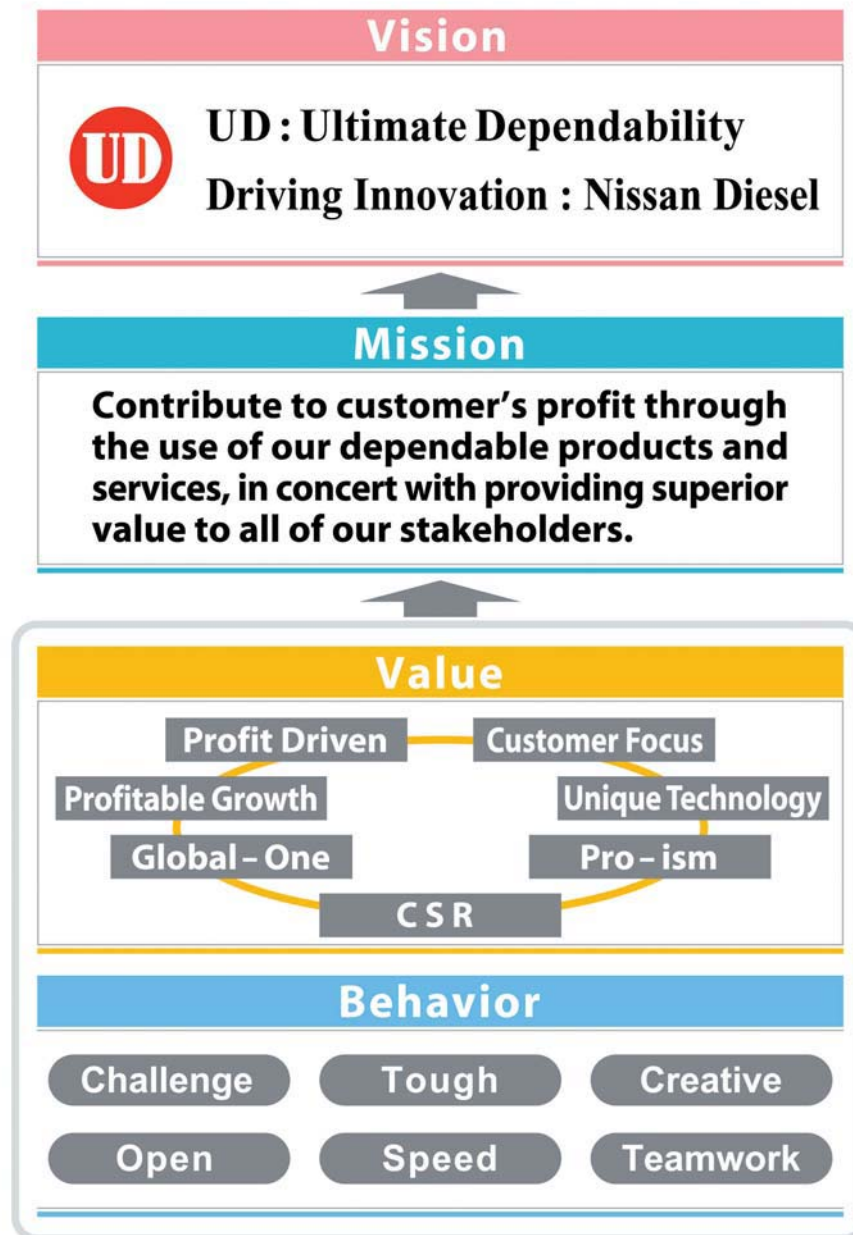
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### Disclaimer Regarding Forward-Looking Statements

Statements appearing in this annual report that are not historical fact are forward-looking statements concerning Nissan Diesel Motor Co., Ltd.'s future plans and objectives and pursuant product planning, capital outlays, and production. Numerous factors may cause actual results to differ, in some cases materially, from these forward-looking statements. Such factors include not only Nissan Diesel's business activities and development but also global economic trends and changes in the circumstances surrounding the automotive industry, which pose a potentially substantial influence on actual earnings.

## Vision of Nissan Diesel Group



In November 2004, Nissan Diesel brought new meaning to the UD, long valued by shareholders and customers. UD, short for "Ultimate Dependability" will now form the basis of our new, long-term vision.

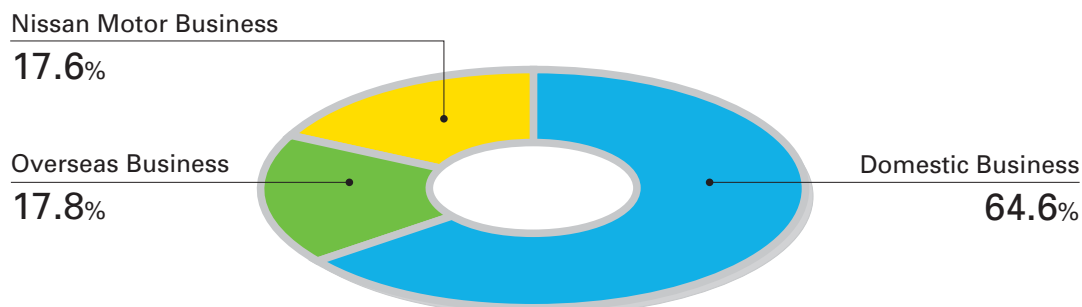
Under this vision, Nissan Diesel has gone beyond previous ways of thinking, and has drawn up operational policies to continue innovations in all areas, in order to build relationships of "Ultimate Dependability" among customers, shareholders, affiliated companies, employees, and local and international communities.

# Consolidated Financial Highlights

For the year ended	Millions of yen		Thousands of U.S.dollars
	2005 Mar.31, 2006	2004 Mar.31, 2005	2005 Mar.31, 2006
Net sales	¥482,827	¥461,169	4,126,726
Operating income	33,454	33,378	285,932
Net income	29,089	30,020	248,624
Shareholder's equity, net	121,876	103,434	1,041,675
Total assets	432,838	431,139	3,699,470
Interest-bearing debt	129,968	155,168	1,110,838
Net interest-bearing debt	82,691	117,539	706,761

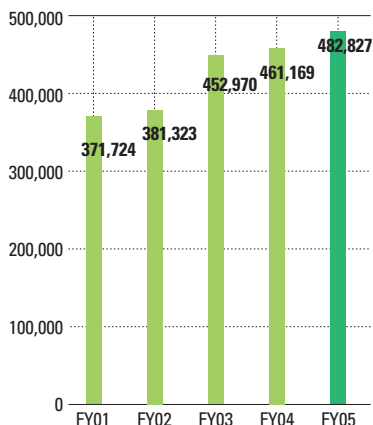
Notes:1.Amounts in U.S. dollars are included solely for the convenience of readers. The rate of ¥117=US\$1.00, the approximate exchange on March 31, 2006, has need used.  
2.Figures for net interest-bearing debt represent interest-bearing debt minus cash and cash equivalents.

## Breakdown of Total Sales by Market



### Net Sales

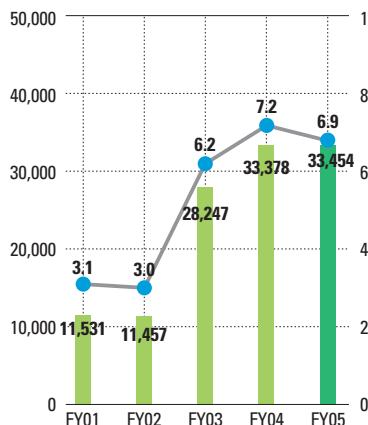
(Millions of yen)



### Operating Income and Operating Margin

(Millions of yen, %)

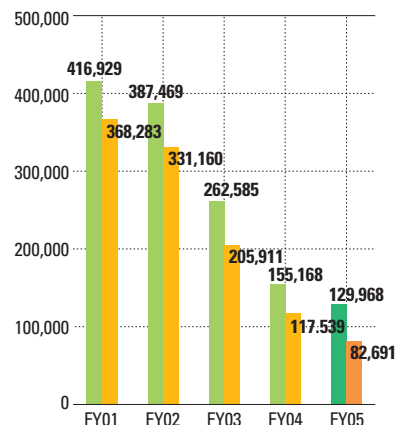
■ Operating income  
● Operating margin



### Interest-Bearing Debt and Net Interest-Bearing Debt

(Millions of yen)

■ Interest-bearing debt  
■ Net interest-bearing debt



# Message from the President



President

**Iwao Nakamura**

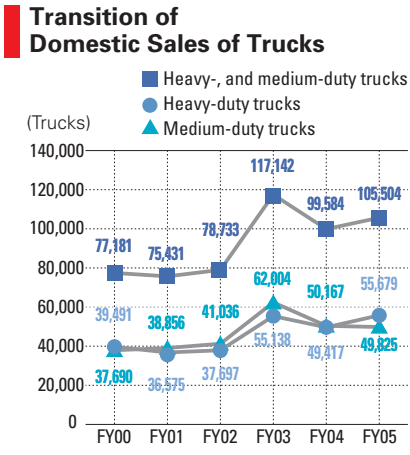
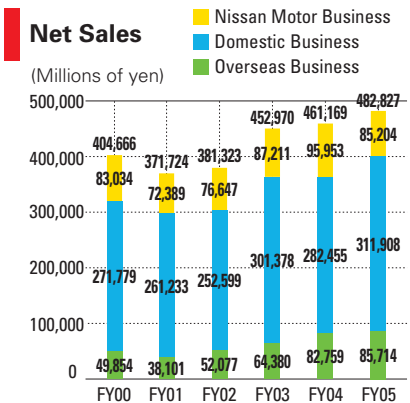
## Review of Fiscal 2005

The 2005 fiscal year was a record year for the Company highlighted by increases in domestic demand for trucks with payloads greater than 4 tons and a rise in demand in the markets of South Africa and Asia. Subsequently, net sales for the current fiscal year under review finished at ¥482.8 billion, an increase of 4.7% from the previous fiscal year.

Operating income also increased mainly as a result of a rise in net sales, the effects of introducing new products into the line-up, and various efforts to streamline operations. In fact, these positive effects to earnings were able to absorb negative factors such as worsening market conditions associated with a rise in prices for steel products, and the need to realize the unrealized gain of ¥3.1 billion associated with the sale of Ace Sogo Lease Co., Ltd. during the previous fiscal year. As a result, operating income finished up 0.2% from the previous fiscal year to finish at ¥33.5 billion.

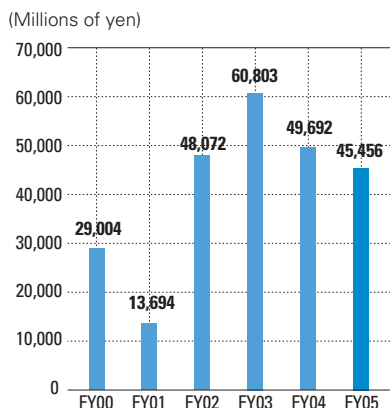
Furthermore, reduced interest expenses as a result of a decrease in the level of interest-bearing debt, and the fall in retirement benefit expenses as a result of a change in the Company's retirement benefit scheme caused ordinary income to increase by 9.1% from the previous fiscal year to finish at ¥33.2 billion.

The above operating income and ordinary income figures represent record figures for the Company.



## Message from the President

### Net Cash Provided by Operating Activities



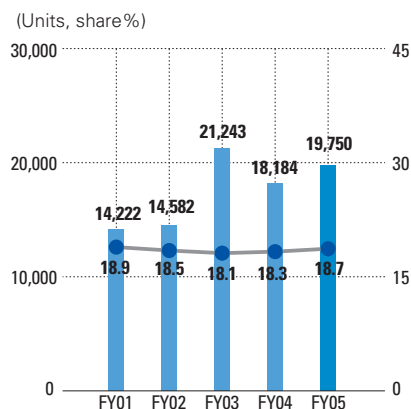
On another important issue of interest-bearing debt, the Company was able to exceed its full-year forecast of achieving a level of ¥140 billion and dropped liability levels down to ¥130 billion mainly as a result of improved operating cash flow. In fact, net interest-bearing debt after subtracting cash equivalents greatly exceeded the full-year forecast of ¥110 billion to drop down to ¥82.7 billion. This marked the first time the figures for net interest-bearing debt fell below ¥100 billion.

As indicated, the Company was able to achieve record figures for net sales, operating income and ordinary income. Additionally, operating income and ordinary income figures were at record levels for the third consecutive period. In the future, we will continue our efforts to improve financial performance with the goal to build a stronger financial base.

### Domestic Business

Since the debut of Nissan Diesel's "Quon" equipped with the urea SCR system "FLENDs", sales beginning in 2004, have steadily grown, reaching 7,851. The urea SCR system has received the "55th Society of Automotive Engineers of Japan Award – The Technological Development Award," the "2005 Nikkei Superior Products and Services Awards for Excellence,". The Quon design concept has also received a high level of attention from winning the 2005 Good Design Award in October 2005.

### Nissan Diesel's Domestic Sales of Trucks (Payload Capacities of Four or More Metric Tones) and Market Share



2005 Nikkei Superior Product and Service Awards

Nissan Diesel also established a company that specializes in used-car sales in February 2006. The new company, named CROSSNET Co., Ltd., will act as the control center for the Group's overall used vehicle business and will aim to sell the most optimal vehicle to customers by providing up-to-date market information.

In order to respond to domestic business trend, currently struggling the with declining demand for trucks, Nissan Diesel is aiming to revolutionize the business by access in detail to the full life cycle of a truck from the time it comes off the production line to the point that the vehicle is shipped for disposal. At the same time, the Company is expanding its revenue streams and combining the hardware of Quon with the software of UD-TRUST.\*

\* UD-TRUST is a new financial lease product developed jointly with Nissan Diesel and Ace Sogo Lease, a GE group sales finance company. In order to gain customer trust, UD-TRUST offers traditional lease benefits and year-round, round-the-clock support through the Nissan Diesel Group's nationwide maintenance system.



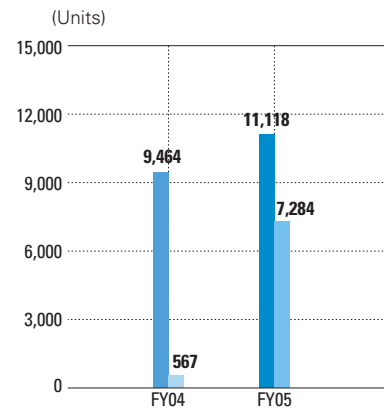
The Quon Heavy-Duty truck



The Quon Tractor

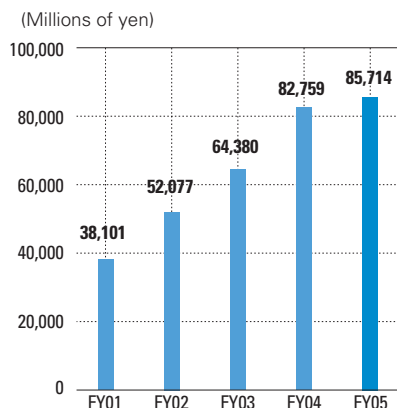
### Sales Performance and Plan of "Quon"

- Sales of heavy-duty truck (Payload capacities of 8 or more metric tons)
- Sales of Quon

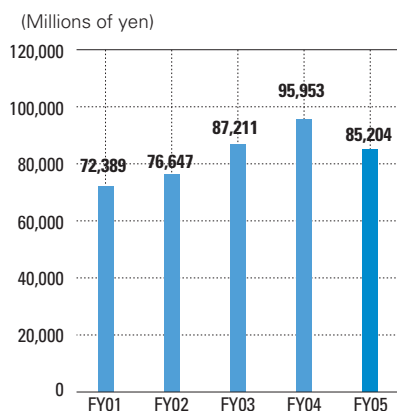


## Message from the President

### Overseas Net Sales



### Nissan Motor Business Net Sales



### Overseas Business

On the overseas side of the business, the Company has continued to see an increase in exports amid a background of strong growth in the global economy. Specifically, sales of Nissan Diesel South Africa (Pty) Ltd. and exports to Asia have shown steady growth.

In China, Nissan Diesel recorded a 10.3% increase in the number of units export volume as compared to Fiscal 2004. The Company will introduce new products to the Chinese market and make a full-scale play into the premium heavy-duty truck segment. Also, the Company upped its stake in Dongfeng Nissan Diesel Motor Co., Ltd. to the maximum allowable 50% in September 2005. Furthermore, the establishment of an axle manufacturing company is planned with the goal to be able to provide a stable supply of high quality products to customers as appropriate.

Even outside of China, Nissan Diesel is planning to develop new markets with the goal being to increase sales and earnings in such areas.

### Nissan Motor Business

Nissan Motor business for the fiscal year under review (Fiscal 05) totaled ¥85.2 billion, or approximately 17.6% of the Nissan Diesel Group's overall sales.

In addition, mass production of engines installed in the light-duty trucks developed by Nissan Motor Light Truck Co., Ltd., a joint venture with Nissan Motor began. Next year, new light duty trucks for the domestic market will be launched with the goal to further stabilize the revenue and earnings streams of this company in the future.

### Research and Development

Nissan Diesel has succeeded in developing a truck that is fuel efficient and emits low amounts of CO<sub>2</sub>, thereby complying with Japan's new long-term diesel emissions regulation, which are among the world's most stringent standards, one year before they come into force. The R&D team at Nissan Diesel is moving ahead with the development of new technologies that will enable Nissan Diesel trucks to meet even tighter future standards after the new long-term diesel emissions regulation.

In addition to core diesel engines, Nissan Diesel is also working on developing engines that use alternative power sources such as compressed natural gas (CNG), capacitors and dimethyl ether (DME).

## Financial Strategy

At Nissan Diesel, we are engaging in activities to reduce interest-bearing debt and increase operating margin through the complete management of cash flow in order to achieve a sustainable growth. As of the end of the fiscal year under review, interest-bearing debt fell to ¥130 billion (net interest-bearing debt of ¥82.7 billion) from the ¥400 billion level of 2002.

On another note, the retained earnings was utilized to cancel a portion of Class IV preferred stock in August 2005. Also, a public stock offering was carried out in December 2005 with the goal to cancel Class III preferred stock. Specifically, the proceeds from the public stock offering was used to eliminate the entire Class III preferred stock in March 2006 via a compulsory cancellation of stock. These moves were successful in reducing the preferred dividend burden while reducing the amount of shareholder value dilution through the conversion to common stock. It also prevented the decrease of shareholder equity. As of the end of March 2006, the total number of preferred stock outstanding decreased to ¥57 billion from the level of ¥106 billion at the end of fiscal year 2004.

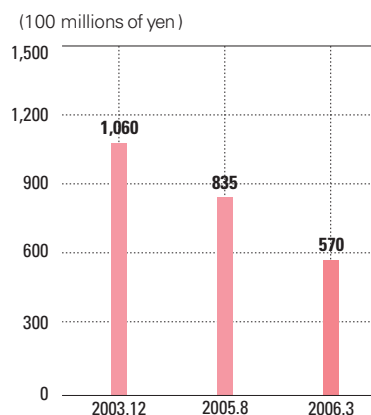
## Corporate Social Responsibility

Nissan Diesel believes that it can meet its corporate social responsibilities by complying with all rules and regulations and through both communication and the disclosing of information. The Company is making effort to be a good corporate citizen so that all stakeholders are able to feel pride in having a stake in the Company.

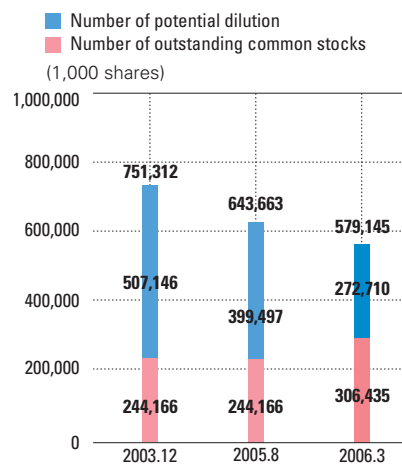
From a product standpoint, the Company has engaged in the development of low-pollution vehicles in recent years in order to prevent environmental problems such as global warming and air pollution and contribute towards environmental protection and resource conservation. In addition, both the disclosure of information to, and communication with the public regarding the environmental activities at the factory-level have occurred in a transparent manner.

Nissan Diesel actively engages in environmental protection efforts on our irreplaceable planet in order to develop in harmony with the environment in a sustainable manner. With this in mind, the Company hopes to contribute towards the development of a sustainable society through community-based production efforts that provide people with safe, comfortable, and environmentally sound vehicles.

### Changes in Total Value of Outstanding Preferred Stock



### Changes in Total Amount of Outstanding Common Stock and Potential Dilution



## Message from the President

### Plan for Vision

#### Operational Indicators (FY 2008)

Net Sales	¥ 600,000 million
Operating Margin	8 %
ROIC	15 %

As part of the corporate management vision to realize new growth strategy, the Nissan Diesel Group formulated a new medium-term business plan for fiscal 2006-08, the "Plan for Vision (PFV)." The PFV, which was announced in November 2005, aims to take another step forward from the improvement phase towards the direction of a growth phase through aggressive management. By increasing earnings from all three areas of domestic, overseas and Nissan businesses, the Company aims to achieve the goals of ¥600 billion in net sales, operating margin of 8%, and ROIC (return on invested capital) of 15% by the end of the 2008 fiscal year.

#### The main points of the PFV are as follows:

Offset the decline in domestic market demand for trucks with payloads greater than 4 tons by expanding market share of heavy-duty trucks.

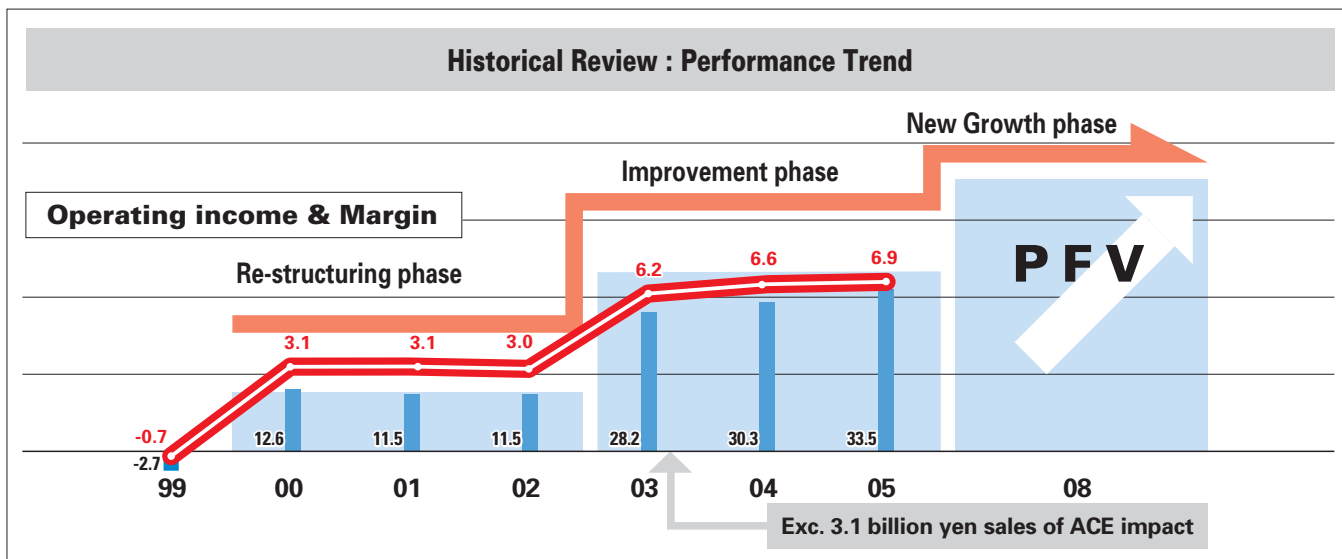
Carry out a life-cycle access of all trucks and buses (from a new vehicle coming off the production, through vehicle maintenance, and finally as a used vehicle) and aim to increase overall sales.

Expand overseas sales by adding to the product line, and develop new markets after South Africa and North America through the implementation of new projects.

In China, make a full-scale play into the high grade heavy-duty truck segment by strengthening the business foundation of Dongfeng Nissan Diesel Motor Co., Ltd., establishing our own sales network as early as possible, and introducing heavy-duty trucks to the market.

Actively engage in other efforts to develop new business.

Vigorously pursue cost reductions and productivity improvements in order to cover increases in development costs and depreciation



## Relationship with Volvo

In March 2006, Volvo, one of the world’s largest manufacturers of commercial vehicles, became the largest shareholder of Nissan Diesel through the assignment of 13% worth of shares by Nissan Motor. Since Volvo is a company that has a fully developed truck business throughout the world, a significant synergy effect is anticipated as a result of this move. The alliance with Volvo can also be seen a tailwind that will push Nissan Diesel towards achieving the goals set forth in the PFV.

Potential synergies will be discussed on the basic rule of achieving a win-win scenario for both companies. Discussions will not be limited to any specific business area. Rather the focus will be on finding the best opportunities in every operational area.

### The following summarizes discussions regarding potential synergies:

<b>Products</b>
Both companies plan to execute co-works to develop suitable and competitive product in global markets, and at the same time try to maximize product commonization including complementation of power-train components and parts.
<b>R&amp;D</b>
Making up collaboration scheme mainly in the area of efficient fuel consumption, safety and IT.
<b>Manufacturing</b>
Ensuring manufacturing competitiveness globally through the evaluation of each performance.
<b>Distribution</b>
Making up sales collaboration scheme globally by enhancing both strengths in the markets.
<b>Purchasing</b>
Trying to receive the full benefit from volume effect.



Press Conference in March 21, 2006

Nissan Motor President and CEO  
Carlos Ghosn

Nissan Diesel President  
Iwao Nakamura

Volvo President and CEO  
Leif Johansson

# 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.

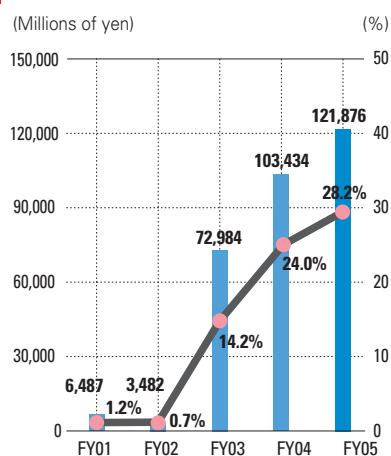
## Overview of Operations

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 continuingly robust global economy.

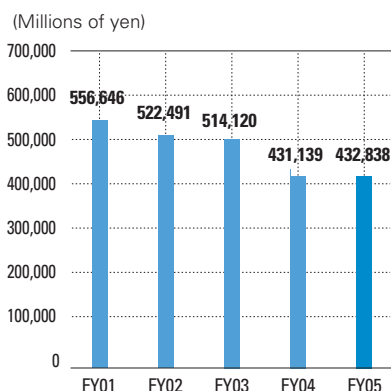
Under these economic conditions, Nissan Diesel's net sales for fiscal 2005 hit a new record of ¥482.8 billion, a 4.7% increase compared to fiscal 2004. This was mainly as a result of an increase in demand for medium-, and heavy-duty trucks (greater than 4-ton load capacity) in the metropolitan Tokyo 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.

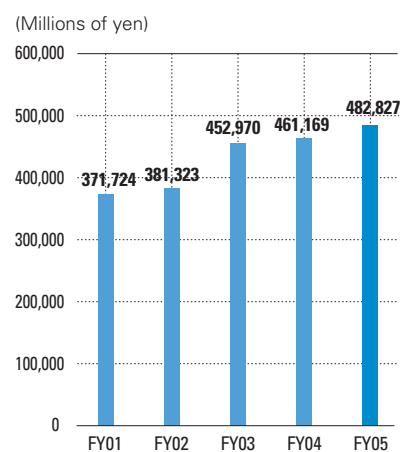
### Ordinary Income

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.

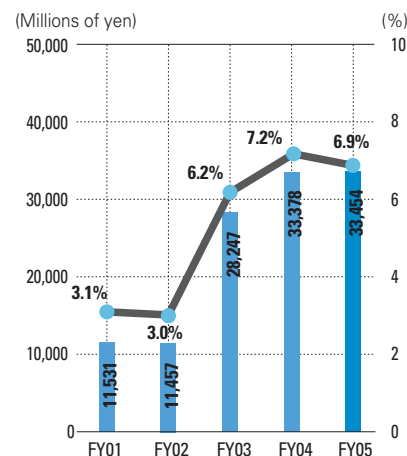
### Income (Loss) before Income Taxes and Minority Interests

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

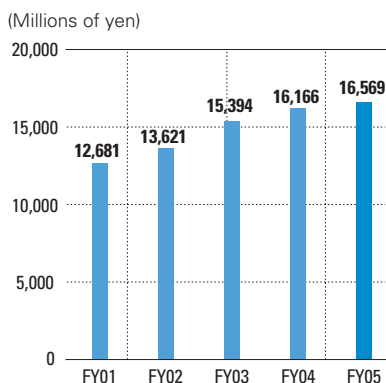


### Operating Income and Operating Margin

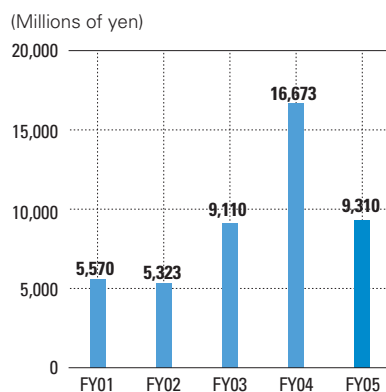


## Management's Discussion and Analysis

### 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 CO<sub>2</sub> (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.

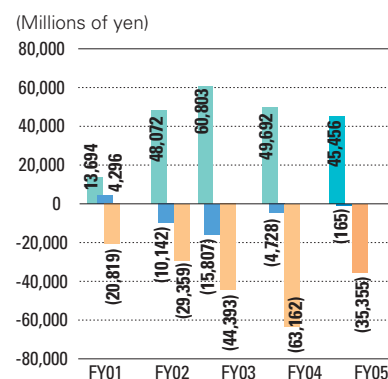
Net cash used in investing activities comprised of positive factors such as the ¥5.7 billion gain from the sale of property, plant and equipment including the former Gunma Plant site, and the ¥3.3 billion gain from the sale of investment securities. On the negative side, ¥9.7 billion was expended to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

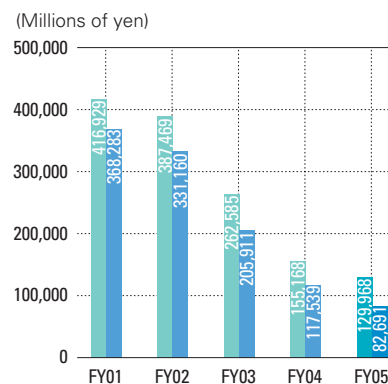
## Cash Flows

- Operating Activities
- Investing Activities
- Financing Activities



## Interest-Bearing Debt and Net Interest-Bearing Debt

- Interest-bearing debt
- Net interest-bearing debt



# B

## usiness Overview



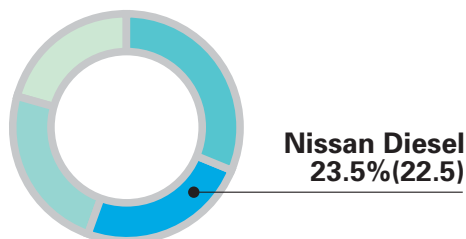
### DOMESTIC BUSINESS

Overall domestic demand for ordinary trucks in fiscal 2005 was up approximately 5.9% from the previous fiscal year to 105,504 units. Of this number, the Company recorded 19,750 registered vehicles (108.6% of the previous fiscal year), increasing its market share by 0.4% to 18.7%. In addition, the "Quon," a heavy-duty truck that is in compliance with Japan's new long-term diesel emissions regulation was added to the product line-up in July 2005. The Company took advantage of this opportunity to focus on the sale of heavy-duty trucks, and as a result, we were able to increase the number of registered heavy-duty Nissan Diesel trucks exceeding eight tons in weight by 17.5% to 11,118 units during the fiscal 2005. Moreover, the Company increased its share of this market by 1.0% to 23.5%, making us the third largest manufacturer in the industry. Also, the number of registered tractors increased by 20.2% from the previous fiscal year to 3,145 units, or an increase of 2.0% in market share to 31.5%. This makes the Company the second largest manufacturer in this business segment.



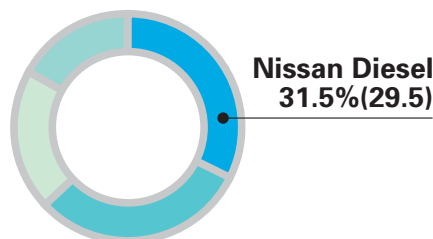
Keishi Abe  
Senior Managing Director

Number of Registered Trucks Exceeding Eight Tons  
FY05



Figures in parentheses are from last year

Number of Registered Tractors in 2005  
FY05



Figures in parentheses are from last year



The Quon Tractor

**Full line-up is completed with the addition of the heavy-duty truck, "Quon."**

With the addition of the Quon heavy-duty tractor in July 2005, Nissan Diesel completed the full Quon line-up, which also includes the 25-ton Quon truck that was put on the market in November 2004, the six-vehicle 151-combination system Quon truck that was put on the market in May 2005, and the Quon snowplow truck that was put on the market in June 2005. As a result, all heavy-duty trucks with payloads greater than 8 tons manufactured by the Company now fall under the Quon brand and these trucks all comply with Japan's 2005 new long-term diesel emissions regulation.

In fact, the Quon is Japan's first truck that complies with the 2005 new long-term diesel emissions regulation<sup>1</sup>, which was achieved by the installation of the world's first urea selective catalytic reduction (SCR) system, called "FLENDs<sup>2</sup>," that purifies exhaust emissions. The Quon also boasts a fully remodeled cab area.

<sup>1</sup> The levels for NOx and PM associated with Japan's 2005 new long-term diesel emissions regulation are as follows:  
NOx: 2.0g/kwh, PM0.027g.kwh  
<sup>2</sup> FLENDs stands for Final Low Emission New Diesel System

## The Quon heavy-duty truck receives numerous awards

Nissan Diesel's Quon heavy-duty truck has not only received praise from customers for its product performance, but has also received praise from various other parties as evidenced by the number of awards it has been presented with over the past year.

### Quon Receives Good Design Award 2005

#### The Quon Design Concept

The Quon was designed around the concept of a "smart worker – a truck that works intelligently to make money." The design fuses the "cleanness" borne from Nissan Diesel's tradition of environmental stewardship backed by superb environmental performance with the "smartness and stalwart power" of a next-generation working truck that boasts a high level of intelligence. The interior of the truck was created via a universal design strategy that achieves advanced levels of safety and comfort.

#### About the Good Design Awards

The Good Design Awards constitute Japan's only comprehensive system for evaluating and encouraging good design. The awards originate from the Good Product Design Selection System (popularly known as the G-Mark System) established in 1957 by the then Ministry of International Trade and Industry (currently the Ministry of Economy, Trade and Industry). This program continues the process of selecting a certain number of superbly designed items every year and recommending them to consumers, industries and others with the aim of contributing to the further enrichment of society as a whole.

### Quon Receives 2005 Nikkei Superior Products and Services Awards for Excellence

The Quon received the 2005 Nikkei Superior Products and Services Awards for Excellence at an event hosted by the Nihon Keizai Shimbun. The Nikkei Superior Products and Services Award is given out once per year to those new products and services that are selected on the basis of superior performance. This year's awards marked the 24th time they have been handed out since their start in 1982. The unique part of this program is that the products and services are not nominated for selection. Rather, members of Nihon Keizai Shimbun review approximately 20,000 new products and services and from these select a very few for the Nikkei Superior Products and Services Award.

## The sale of large buses equipped FLENDs that are in compliance with Japan's 2005 new long-term diesel emissions regulation

In June 2005, Nissan Diesel began the sale of the SPACERUNNER RA Series, a large bus that can be used as a route bus or a private bus designed, and is also Japan's first large bus with a single diesel engine which is in compliance with the 2005 new long-term diesel emissions regulation. In addition, the Company began sales in July 2005 of the SPACEARROW, a vehicle that can be used as an intercity highway bus or a tourist bus, and the SPACEWING, a tourist bus, both of which are the first in their class to comply with the 2005 new long-term diesel emissions regulation.

All of the above large buses are equipped with FLENDs, the urea SCR system that combines ultrahigh-pressure fuel injection with a urea SCR catalyst. In fact, all of large buses now sold by Nissan Diesel are in compliance with Japan's 2005 new long-term diesel emission regulations. Moreover, the SPACERUNNER RA, a heavy-duty fixed-route bus, was not only designed to meet new regulatory requirements but also designed around a universal



The Quon



Good Design Award 2005



The Quon Interior



The SPACEARROW

## Business Overview

DOMESTIC BUSINESS



SPACERUNNER RA

system that makes it user-friendly for anyone. For example, the step height of the bus was lowered and the non-step area was increased.

Also on the SPACEARROW, a vehicle that can be used as an intercity highway or tourist bus, and the SPACEWING, a tourist bus, a six-speed automatic transmission with a built-in retarder comes standard. This results in a quieter interior and less fatigue on bus drivers.

### Nissan Diesel establishes Crossnet Co., Ltd., a new company specializing in the sale of used vehicles

As outlined in the Company's medium-term business plan (PFV: Plan For Vision), Nissan Diesel is working to expand its value chain business including the sale of used vehicles in order to revolutionize the domestic business system. As part of this strategy, Nissan Diesel announced the establishment of Crossnet Co., Ltd. on February 2, 2006 with the goal to grow and expand revenues from the used vehicle business.

The new company will act as the control center for the Group's overall used vehicle business. It will combine sales functions such as buying, inventory management and exports in the past handled by direct sales companies and related companies with the used vehicle support functions handled by Nissan Diesel. Crossnet will place offices at every location in Japan where a direct sales company office exists. This is so that the most up-to-date market information can be received and accurate central control functions can be implemented, which enables the sale of optimal vehicles to customers.

In addition to the traditional sales method of using Customer Advisors (CAs), the new company will act as the main inquiry window for major clients for the buying and selling of used vehicles. The Company also plans to utilize the Internet to perform purchasing activities.

### The number of units sold with the "Genuine Custom Paint" system exceeds 10,000

Since beginning the "Genuine Custom Paint" service in February 2002, Nissan Diesel has sold over 10,000 units that utilize the service. The service allows customers to select a paint color before the cab is assembled at the plant. For truck users, the color and design of the cab paint are an expression of their corporate philosophy and corporate identity (CI). It also is a way of advertising their company on the road. It is a highly important issue for management strategy and can help differentiate companies from their competitors.

To mark this occasion, the Company held a celebration ceremony on February 24, 2006 at the Ageo Plant with 1,200 employees. Nissan Diesel plans to continue enhancing this original, revolutionary service in order to meet customer needs and expand vehicle sales.

#### Features of Genuine Custom Paint Service

- It is common to see truck painting done after the product is sold by the manufacturer. By including the cab painting process within the Company's production lines and storing customer cab colors in a database, custom vehicles can be painted with a consistent design using high quality paints, and those vehicles can be delivered to the client.

- Another feature of the custom paint process is that the actual painting is done prior to the parts being assembled. For this reason, a more thorough paint job can be achieved as compared to after-market paint jobs where not



Celebration Ceremony

all areas can be feasibly accessed. No unpainted areas are left over in such detailed places as the front lid and the door aperture.

- The painting process begins by electro-painting with a primer coat. Afterwards, a specialized second coat compound is painted on. The finish coat is where specified colors are utilized. Once painting is completed, the parts go through a high-temperature paint baking process for a significant amount of time. This ensures strong weatherability and rust-resistance for a long period of time without color fading.
- In addition to the 127 recommended colors that can be utilized, original color tones can be created if and when specified by the customer (approximately 2,300 colors are available). Orders for a single vehicle can also be accommodated.
- Furthermore, customers can request more than one color (two or three colors) or metallic paints, and have linear designs placed on the paint job. As one can see, the Genuine Custom Paint service is a flexible system that meets a variety of needs through the best tools and advanced technologies.



Genuine Custom Paint Line

## Quon participates in a variety of environmental-related events

### Challenge Bibendum Forum and Rally

The Challenge Bibendum Forum and Rally, which is hosted by Michelin, is one of the world's largest environmental-related events that bring eco-cars to the world's cities. The event revolves around the epic concept of "discussing sustainable mobility for the next hundred years."

The event was held in Kyoto from June 8<sup>th</sup> to 9<sup>th</sup>, 2005. Nissan Diesel participated as the first truck maker to attend such an event. Appropriately for an eco-event, the start of the rally was the Kyoto International Conference Hall where the Kyoto Protocol was adopted and the end point was the site of the Expo 2005 Aichi Japan. Under the critical eye of more than 140 journalists from around the world, the Company's diesel engine vehicles were praised for their low emission technologies and adoption of the urea SCR system.



Challenge Bibendum Forum and Rally

### Eco-Products 2005

The Eco-Products event is Japan's largest environment-related event where environment-friendly products and services are introduced to the public. The seventh annual event held in 2005 boasted 502 exhibitors (companies and groups) and brought in a record 140,000 visitors. This reflected the change in mood in recent years on environmental issues, from being an issue on the sideline to becoming one of the most important topics in society today.

Nissan Diesel exhibited its first heavy-duty truck at the event. The Company's exhibit also had an audio presentation and panel display that introduced visitors to the fact that over the last 100 years, the average temperatures at the arctic circle had increased by 5°C. The exhibit also called for the reduction of greenhouse gases, primarily CO<sub>2</sub>, which contributes towards global warming, and showed how the fuel efficiency of the Quon truck was a solution to the problem. Nissan Diesel's world leading technologies drew particular interest from visitors.



Eco-Products 2005

# B

## Business Overview

### OVERSEAS BUSINESS

In fiscal 2005, Nissan Diesel's overseas business showed signs of steady performance supported by a robust global economy. However, the surge in demand for steel, especially from China, made the acquisition of steel products difficult, and from a unit sales standpoint, the number of vehicles sold decreased by 686 units from the previous fiscal year to finish at 20,338 units. However, innovative strategies for specific countries and creative model mixes resulted in slightly higher net sales as compared to the previous fiscal year. Moreover, strong sales of heavy-duty vehicles in the Middle East and Africa, as well as price revision to cover cost increase during the year, resulted in improved earnings levels.

Nissan Diesel is focusing on improving ties with overseas markets in order to strengthen the UD brand image which it has developed over many years. As part of these efforts, the integration of Sales, Spare parts and Service areas is being implemented. Through the use of such methods, the Company has been 3S activities improving CSI (customer satisfaction index).

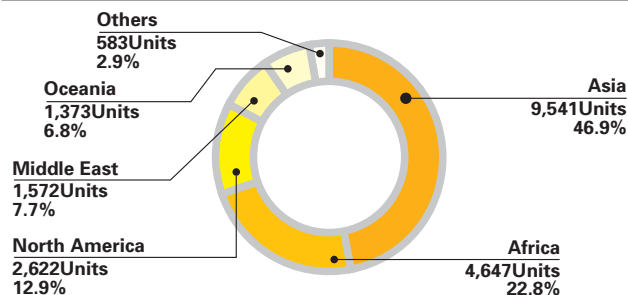
Sales of UD brand trucks and other vehicles continue to be strong in the Middle East and Africa mainly because of high brand image and backed by high crude oil prices. Sales are anticipated to increase further in the future.

In fiscal 2006, the Company plans to continue efforts to strengthen the operational base for its overseas markets and also aggressively implement strategies to develop new markets in response to the PFV.

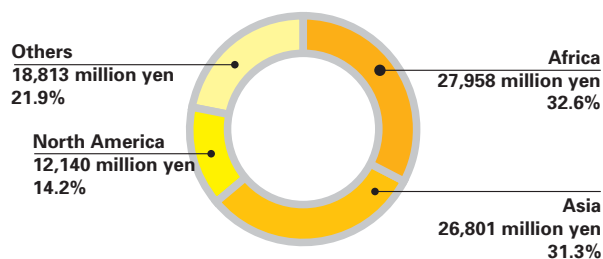


Shuichi Sugita  
Executive Officer

Composition of Export Sales Volume by Region



Composition of Overseas Net Sales by Region



New PKD211

#### Launch party for the new PKD211 in Karachi Pakistan

In December of 2005, Nissan Diesel held a launch party for the new Medium Duty Truck its named PKD211 in Karachi. Attendees at the event included Shuichi Sugita, Executive Officer and one other manager from Nissan Diesel. At the event, a commemorative gift was presented to Mr. Ahmed Kuli Khan, the CEO of Ghandhara Nissan Ltd.

This new truck complies with exhaust emission regulations enforced in Pakistan, thus making the model one that is environmentally friendly while achieving high output.

Due to Nissan Diesel's high market share in Pakistan and interest from customers, over 400 people attended what became an outstanding celebration.

## Overseas Business – China

The Nissan Diesel's operations in China for the fiscal year under review (fiscal 2005) were recorded a 10.3% increase in unit export volume compared to fiscal 2004. In addition, the Company focused on implementing strategies to ensure development in the future for the company's operational bases. The below paragraphs describe specific items that were pursued during the fiscal year under review.

### 1 Increase Capital Stake in Dongfeng Nissan Diesel Motor Co., Ltd. (DND)

Nissan Diesel had increased its capital stake in its core company DND to 50%, the maximum percentage permitted to be held by a non-Chinese entity. The purpose of this move is to improve the leadership capacity of DND and also to enhance the operating base of Nissan Diesel in China. The overall goal is to increase the competitiveness of DND.

The shares associated with purchasing an additional 25% stake in DND were acquired from Tan Chong & Sons Motor Co. (s) Pte. Ltd. of Singapore and Sumitomo Corporation of Japan. As a result, the selling entities no longer own any part of DND. In addition, Nissan Diesel dispatched president to the China-based firm as of July 2005.

DND is a joint venture corporation established together with the Dongfeng Motor Corp. and others in May 1996. The firm is responsible for the provision of heavy-duty trucks and buses to the Chinese market. In the future, DND plans to aggressively expand its product line-up; pursue a high level of quality that is parallel to those levels found in Japanese manufacturing plants; supply locally-manufactured, high-value added products to the region; and significantly increase the number of unit sales in China. Moreover, discussions on the idea of supplying components to Japan are being held.

### 2 Establishment of PK-UD Axle CO., Ltd.

PK-UD Axle CO., Ltd. was established to manufacture axles for heavy-duty trucks and buses in China and to sell those axles to DND and other Chinese bus manufacturers. The new joint venture firm is owned by Japan's Press Kogyo Co., Ltd. (55% stake) and Nissan Diesel (45%). The firm received its license to operate in November of 2005 and began construction on a new plant in March of 2006. As it prepares to commence production in January of 2007, the firm continues to aggressively pursue set-up activities to ensure that it will achieve initial quality and cost control goals.

### Release of New Bus Engines

- 3 Nissan Diesel released the new MD92 series of bus engines in March of 2006. This new engine boasts better environmental performance, improved fuel efficiency, and lower noise emissions compared to its predecessors. In China, the MD92 received much attention and positive feedback from industry groups at the Shanghai Bus Exposition that was also held in March of 2006.



Tadamichi Harada  
Senior Managing Director



Dongfeng Nissan Diesel Motor CO., Ltd.



Ground-breaking Ceremony of PK-UD Axle CO., Ltd.

1	<b>Company Name</b>	PK-UD AXLE CO., LTD.
2	<b>Capital</b>	US\$14.4 million
3	<b>Address</b>	Economic & Technology Development Zone, Xiaoshan, Hangzhou, Zhejiang, China
4	<b>Projected Start Date</b>	Projected to be January of 2007



The bus is equipped with MD92 Engine.

# B **usiness Overview**

## REGARDING THE NISSAN MOTOR BUSINESS



**Takahisa Oniki**  
Senior Managing Director

Nissan Diesel develops and sells diesel engines for Nissan Motor and manufactures small commercial vehicles and small diesel engines under contract for Nissan Motor. The small commercial vehicles the Company manufactures under contract, including ATLAS and Datsun trucks, are produced for domestic sale or export. The small diesel engines the Company builds include four engine models, with displacement ranging from the 2700cc class to the 4200cc class.

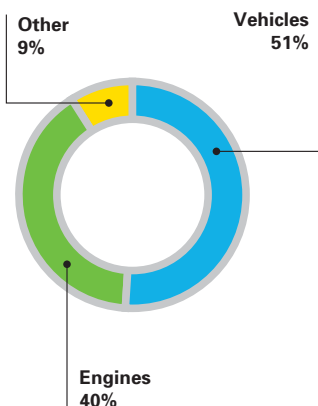
Nissan Diesel owns two production facilities: a production line located on the premises of the Ageo Plant that is dedicated to small commercial vehicles, including rear body construction, and a production line for small diesel engines that enables the Company to respond promptly to changes in demand. These plants are managed using the strict quality standards adopted by Nissan Motor. The Company responds to customer demands by strictly observing these quality standards. The product quality-related knowledge and experience gained at these plants also contribute to quality improvements throughout Nissan Diesel.

The Company began manufacturing small commercial vehicles under contract from Nissan Motor in May 1973. For the period ended March 2006, annual vehicle production was 34,000 units. The annual production run of small diesel engines during the period ended March 2006 was 134,000 units. Through Nissan Motor, the Company also has been delivering 15,000 small diesel engines annually to Renault Truck, a member of the Volvo Group.

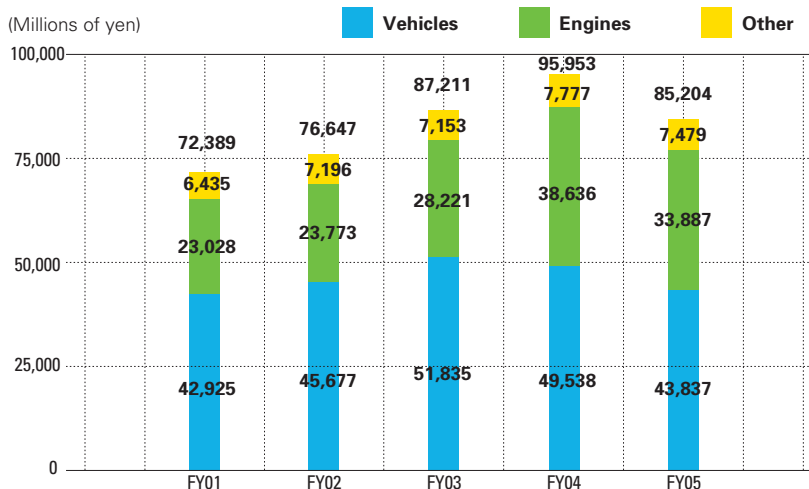
At Dongfeng Motor Co., Ltd., a manufacturing firm in which Nissan Motor has invested, the Company is engaged in the joint development of cabs offering superior aerodynamic characteristics, collision safety and riding comfort that are optimal for the Chinese market. These cabs are mounted on trucks of Dongfeng Motor Co., Ltd. in the so-called medium and heavy-duty class that are sold in China. The Company also provides assistance for the development of air suspension for buses, and technical guidance to the commercial vehicle section of Dongfeng Motor Co., Ltd. in areas such as production.

From a sales perspective, the national Nissan Diesel-affiliated sales companies

**Fiscal 2005 Net Sales to Nissan Motor by Category**



**Graph of Sales by Classification to Nissan Motor**



receive a supply of the light-duty trucks(payload capacities of one ton), which are manufactured under contract by Nissan Diesel, for sale from Nissan Motor.

For the 2006 consolidated fiscal year, sales to Nissan Motor accounted for 17.6% of the Company's net sales. These sales are positioned as a continually important business for maintaining the stable business base of the Company. Factors that caused net sales to Nissan Motor in fiscal 2005 to fall below the level of the previous year included a decrease in the number of vehicles for Japan, the Middle and Near East and Australia, and a decrease in the number of engines for Europe.

### Nissan Motor Light Truck

Nissan Motor Light Truck Co., Ltd., a light-duty truck development company established jointly with Nissan Motor in September 2003, is developing a competitive, attractive new truck that will target not only Japan, but also markets around the world. Specifically, this company will develop, manufacture and sell light-duty trucks in the payload capacities one-ton to two-ton class, plus the drive train and parts. The light-duty trucks market is a sector that is expected to grow in the future not only in Japan but globally as well, in regions such as China and Europe. The new company will seek to strengthen its cost competitiveness based on synergy effects achieved by integrating the product development capabilities of the two partner firms with the purchasing and cost control-related know-how of Nissan Motor and plans to introduce high-quality, price competitive products successively to the global market beginning in 2006. The new company has equity capital of 4.5 billion yen, with Nissan Motor owning an 85% stake and Nissan Diesel holding the remaining 15%.

In the future, Nissan Diesel plans to build a WIN-WIN relationship by improving its corporate capabilities and expanding various possibilities that will enable it to create benefits for Nissan Diesel and Nissan Motor, while simultaneously developing and producing high-quality small commercial vehicles and diesel engines, and supplying high-quality, attractive products to its customers through Nissan Motor.



Production line for small commercial trucks

# R esearch and D evelopment



Satoru Takeuchi  
Senior Managing Director

## Supporting customers' businesses through technology

With unusual weather conditions caused by global warming now a problem, the Kyoto Protocol to reduce greenhouse gases (GHG) in the earth's atmosphere went into effect in February 2005.

At the same time, exhaust emission regulations for trucks have been strengthened around the world and in Japan, new long-term diesel emissions regulation also were enforced in October 2005.

Based on such circumstances, as a truck and bus maker that supports daily life and economic activities, Nissan Diesel is progressing with the development of economical, stable, and appropriate truck production that is compatible with the global environment. The Company is also working to develop environment-friendly products based on preventing air pollution (greening of exhaust gases) and global warming (improved fuel efficiency).

Nissan Diesel also is working on the development of vehicles and communications systems products to provide total support for its customers' businesses.



The Quon

## Nissan Diesel's Urea SCR system technology

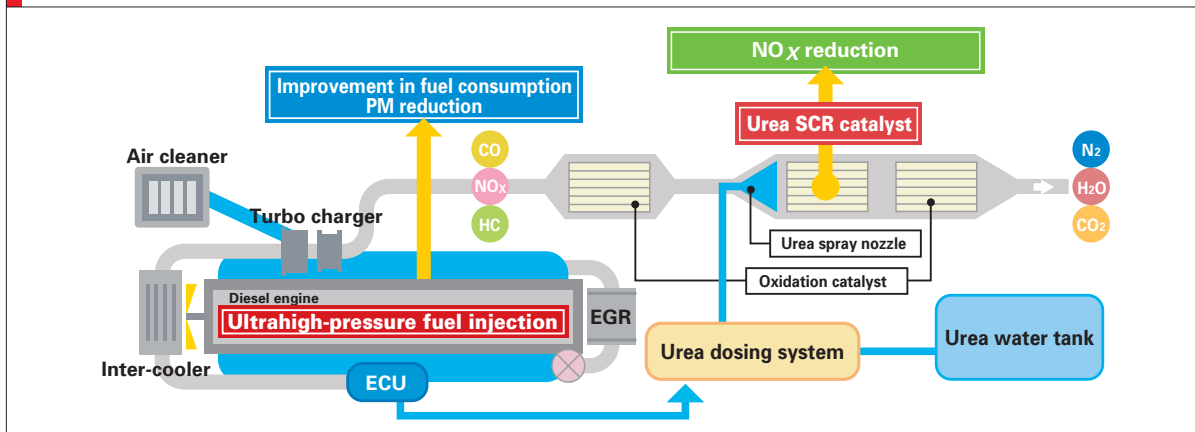
In November 2004, Nissan Diesel began selling its Quon heavy-duty trucks equipped with the Urea SCR system, and orders have been growing steadily since the full model line was completed in July 2005. The Company also has added buses that conform to the new long-term diesel emissions regulation.

The Urea SCR system uses a catalytic reduction between the NO<sub>x</sub> (nitrogen oxide) generated by combustion and urea, an odorless, harmless substance injected into the exhaust pipe, to substantially reduce particulate matter within the main engine by breaking the PM down into harmless water and nitrogen. Because the reduction of NO<sub>x</sub> (nitrogen oxide) occurs in the Urea SCR catalyst, the unique feature of this system is improved fuel efficiency resulting from maximized combustion efficiency within the main engine body. Furthermore, as environmental awareness increases -- whether the strengthening

of future regulations, including the obligation to reduce CO<sub>2</sub> emissions in accordance with ratification of the Kyoto Protocol, for example, or study of the introduction of fuel consumption regulations -- increasingly promising technologies are available. As global exhaust emissions standards are strengthened, the urea SCR system offers the most powerful technology for meeting this challenge, and even in Europe, various firms have begun to adopt this system. The urea SCR system has received high marks for contributing substantially to solving the environmental problems caused by large-scale commercial vehicles, and in 2005 the Society of Automotive Engineers of Japan awarded the system its Technical Development Award.

"AdBlue," the urea solution used with this system, currently is available at 1,080 truck stops and 192 Nissan Diesel locations throughout Japan.

### Urea SCR System Configuration



## Alliance with Mitsubishi Fuso Bus & Truck Corporation. to supply urea SCR system technology

Nissan Diesel has provided Mitsubishi Fuso Bus & Truck Corporation with the component technology patents and know-how for parts -- such as the urea solution injection system, urea solution tanks and catalysts -- and the two

companies have entered into an alliance to share parts. By reducing component development and manufacturing costs through this arrangement, both firms seek to provide customers with products at easy-to-purchase prices.

## Research and Development

### DME (dimethyl ether) truck research and development

Together with the CNG trucks and capacitor hybrid trucks on which Nissan Diesel has focused its efforts up to now, the Company also is conducting research and development on DME (dimethyl ether) trucks as an environment-friendly alternative.

DME is an alternative to petroleum-based fuels that can be produced from various carbon resources such as natural gas, coal, coal bed gas and biomass. It liquefies at a rather low pressure, contains no sulfur, and emits no black lead. Because of these properties, DME has been the focus of attention as a clean energy substitute for diesel. Nissan Diesel participated in the

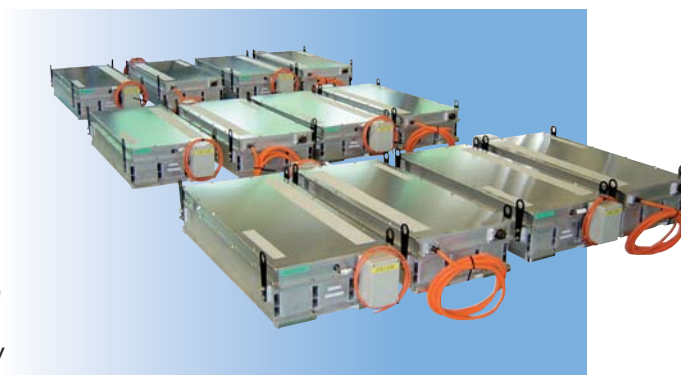
development project for the next generation of low-pollution vehicles sponsored by the Ministry of Land, Infrastructure and Transport, and through this program, and in conjunction with the National Traffic Safety and Environment Laboratory, developed the world's first large DME truck that achieved exhaust emission levels that are 10% of the standards set forth in the new long-term diesel emissions regulation or lower. Nissan Diesel exhibited this vehicle at the International Symposium held in Washington DC (in March 2006), creating extensive PR coverage for the Company's efforts with this project.



DME Truck

### Nissan Diesel launches sales of the Super Power Capacitor system for use with wind power generator stabilization devices

Nissan Diesel has developed its Super Power Capacitor system as a power storage facility (electrical storage device) for electric power stabilizers for wind power generation, which has attracted attention as an environment-friendly power generation alternative using natural energy, and delivered its first device to Fuji Electric Systems Co., Ltd. Under a technical cooperation agreement with Nissan Diesel, Fuji Electric Systems has combined the storage device with other equipment -- including an electric power stabilization system controller and two-way converter, to create an electric power stabilizer -- and has completed a performance study. This is



Super Power Capacitor system capacitor module for use in wind power generator electric power stabilization devices

the first time an electrical double layer capacitor has been adopted for an electric power stabilization device for an operational wind power generator anywhere in the world.

The Super Power Capacitor system sold to Fuji Electric Systems consists of the capacitor modules for six medium-duty hybrid trucks and a capacitor system controller developed for use as a wind power generator electric power stabilizer. The long-life design technology and control technology for continuously managing high-output electrical charging and discharging over an extended period were developed based on the technology Nissan Diesel has cultivated for its Super Power Capacitor

system for vehicle use. The new cells (2.7V, 2050F, 6.4Wh/kg) adopted for this system are a product Nissan Diesel has developed on its own.

Since achieving the world's first practical application of the Super Power Capacitor system for vehicle use in 2002, Nissan Diesel has sought to convert the technology, which it developed to contribute to conservation of the earth's environment, to practical applications other than vehicles. In the future, the Company will broaden its variations of the wind power generation electric power stabilization device and proceed to study utilization of electrical double layer capacitors in various fields.

### **Nissan Diesel and Komatsu to jointly develop a telematics system designed for commercial vehicles**

Nissan Diesel and Komatsu Ltd. agreed in July 2005 to collaborate on the joint development and commercialization of a telematics system, a comprehensive vehicle management tool incorporating an internal communication module, for commercial vehicles.

The two companies have decided to jointly develop a next-generation telematics system for commercial vehicles, based on the KOMTRAX telematics system Komatsu has installed on its construction equipment, and utilizing the technology of the NENPIOH system, which Nissan Diesel has commercialized for vehicle management. Through this collaboration, Nissan Diesel will seek to shorten the development period and reduce component development and manufacturing costs. The pursuit of these benefits will enable Nissan Diesel to provide this telematics product to its customers more quickly,

and at more affordable prices, as an advanced response to needs such as efficient fleet management and a reduction of vehicle operation and maintenance costs, including fuel costs.

In addition to real-time voice guidance provided by NENPIOH during vehicle operation, the system applications will include a digital tachograph, GPS positioning capability, a vehicle data collection function and other capabilities. By implementing this telematics system, businesses that oversee fleet operations will gain the advantage of being able to manage a variety of information collectively in real time.

Nissan Diesel will adopt the telematics system for commercial vehicle use for its trucks sold in Japan, and also is considering selling the system as a separate component.

# Financial Activities

In November 2005, Nissan Diesel announced a new medium-term business plan for fiscal 2006-08 called "Plan for Vision (PFV)" and began implementing the activities specified in the plan in April 2006 with the aim of securing profitable growth. Nissan Diesel's financial strategy for the future will be to continue strengthening the Company's financial foundations while promoting qualitative improvements in its capital structure. At the same time, the Company plans to avoid interest rate hike risks and control financing costs while raising the capital necessary to fund its growth strategy in a timely manner.

In March 2006, Nissan Diesel announced a change in its major shareholders. This move formed a capital alliance advantageous to the launch of the PFV, and the Company is projecting further growth in the future as a result of this change.



Yusuke Sakaue  
Senior Managing Director

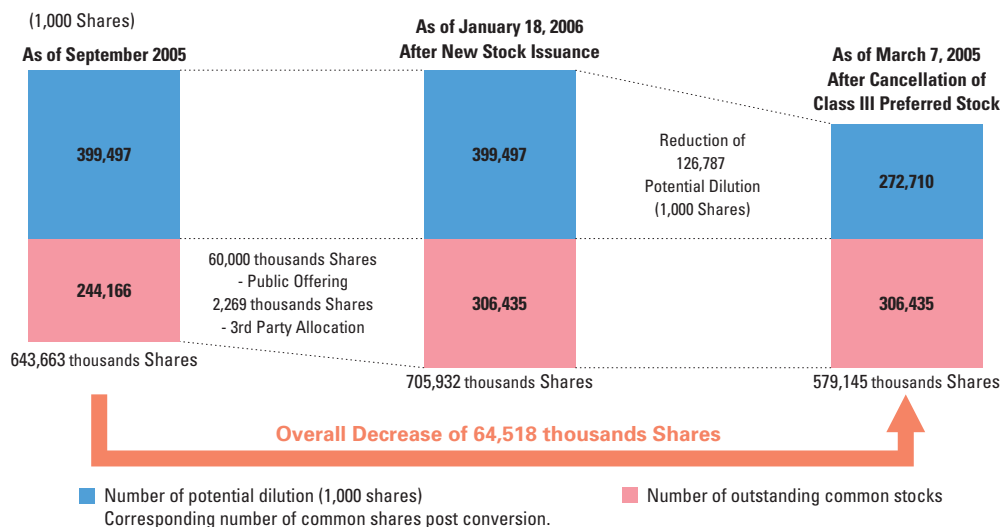
## Capital Reduction and Cancellation of Class III and Class IV Preferred Stock

In regards to Class I to Class IV preferred stock (worth a total of ¥106 billion) issued in December 2003, Nissan Diesel decided to acquire and cancel all Class IV preferred stock (excluding the shares held by Nissan Motor) by converting it to treasury stock in August 2005. Subsequently, the Company also canceled all outstanding Class III preferred stock in March 2006 by means of compulsory cancellation.

Through the cancellation of such stock, the number of potential dilution shares (representing the increase

in the amount of common stock that would occur if such preferred stock were converted at the initial conversion price) decreased by 234,436 thousands shares (equivalent to approximately 96% of all outstanding common stock as of the end of March 2005) from 507,146 thousands shares. Accordingly, this cancellation of preferred stock is regarded as having a substantial effect on reducing the dilution of common stock.

## Restraining the Dilution of Common Stock



## Increasing Capital Stock via Issuance of Shares at Market Price

In order to supplement the cancellation of Class III preferred stock and the associated reduction in capital that was carried out in March 2006, Nissan Diesel moved to increase its capital stock by issuing shares at market price. This step was taken from the perspective that the Company would be able to raise the capital necessary to cancel the preferred stock under favorable terms and conditions.

Increasing capital stock via share issuance at market

price is believed to be the most effective method to clearly show shareholders the significance and effect of canceling the preferred stock as quickly as possible. As a result of that move, the Company was able to raise ¥48.9 billion, while the amount of common stock increased by 62,269 thousands shares to 306,435 thousands. It is noteworthy that the amount exceeding the ¥31.7 billion required to cancel the preferred stock was applied to the repayment of debt.

## Issuance of Straight Corporate Bonds

In December 2004, Nissan Diesel issued its ninth series of unsecured corporate bonds. This marked the first time the Company issued unsecured straight corporate bonds. The tenth series of unsecured corporate bonds was then issued in November 2005

with the goal of raising long-term funds at a lower interest rate. These funds are earmarked for repayment of debts associated with directly managed domestic sales companies.

## Change in Major Shareholders

On March 22, 2006, the Company's largest shareholder, Nissan Motor, finalized an agreement to sell 40,000,000 Nissan Diesel shares (out of a total of 58,211,787 shares) to Volvo. Notice regarding the effective date of this change (March 27, 2006) was received by the Company.

As a result of this transaction, Volvo now owns 13% of Nissan Diesel's total outstanding shares and Nissan Motor's stake in the Company decreased to 6%. Under the terms and conditions of the agreement, Volvo has the option to purchase the remaining 6% held by Nissan

Motor within four years.

Nissan Diesel anticipates that this capital alliance with one of the world's leading manufacturers of commercial vehicles will lead to various synergies with the traditional Nissan Motor business. Furthermore, the Company believes that the new partnership will substantially benefit the implementation of the PFV medium-term business plan for fiscal 2006-08 and will help the Company attain its growth and earnings goals.

## Expansion of the Cash Management System

In April 2004, Nissan Diesel instituted a cash management system (CMS). During the fiscal year under review, the Company introduced a netting function that allows cashless settlement of internal group transactions and established a central paying agent to integrate Company payments to external parties. With these measures, the Company increased capital efficiency while significantly reducing transfer fees.

Moreover, all loans remaining at some directly managed domestic sales companies were repaid to the respective financial institutions in March 2006. Subsequently, all funds procurement and management activities of the Group have been consolidated at Nissan Diesel. The Company plans to strengthen these functions in the future in order to further increase its capital efficiency.

# Corporate Social Responsibility

**The Company's goal is to build a high level of trust with all types of stakeholders. This statement is the core component of our corporate governance philosophy.**



Hiroshi Masuda  
Senior Managing Director

At the Company, we have defined "Compliance" to be those activities undertaken in full compliance with all laws and regulations and with the purpose to achieve sustainable growth while meeting the expectations entrusted in us by stakeholders. More specifically, a Compliance Committee led by the President has been formed to establish compliance manuals that take into account any necessary revisions of laws and regulations, and deliberate over employee training programs. In addition, the Chief Compliance Officer who sits on the Committee is responsible for implementing the policies across the Company.

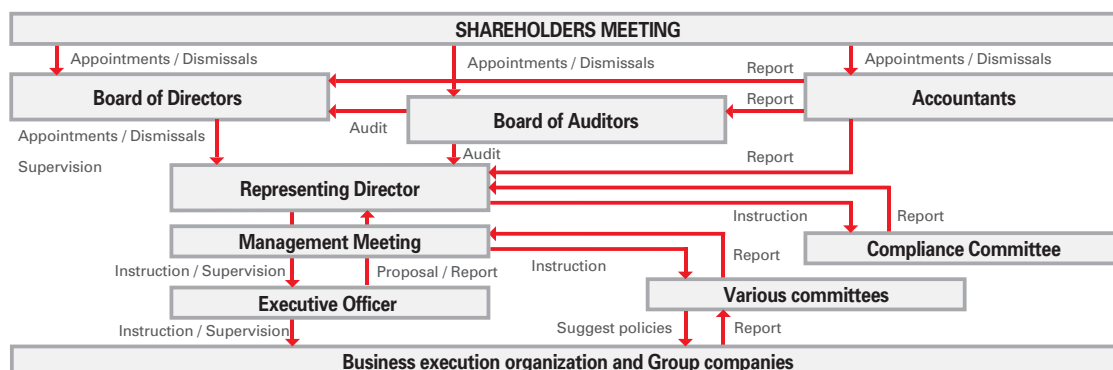
Furthermore, we define "Risk Management" to be the process of identifying, assessing, responding and controlling risks and opportunities that face the Company. The concept of risk management is formed around the fundamental policy of being accountable to stakeholders. The system in place ensures that if any risks to compliance or corporate reputation are discovered within the Company, the Chief Compliance Officer is immediately notified of the incident.

The Company also holds the Management Meeting in order to improve and maintain the efficiency of our management activities. Moreover, we inform all directors and employees of management plans and objectives, and evaluate each division and department employee based on an operational goal. State-of-the-art information technology is also being utilized to support these activities.

In terms of the corporate audit process, the President of the Company periodically meets with four corporate auditors to ensure that effective audits are being carried out. Also, the Internal Audit Office works closely with the auditors. Appropriate rules and procedures are in place to ensure that if an issue relating to an important risk is discovered, the Board of Auditors is immediately notified.

Finally, we believe that in order to maintain accountability towards stakeholders, it is necessary to disclose any important decisions and incidences in a timely manner. For this reason, the Company has established and properly maintains an information network that is designed to transmit items that require disclosure quickly to stakeholders.

## Corporate Governance of Nissan Diesel



## Environmental Philosophy: "Feel the Warmth"



Tadamichi Harada  
Senior Managing Director

To continue its pursuit of sustainable development that will enable human beings to live in harmony with our precious earth's environment in the future Nissan Diesel has adopted the slogan "Feel the Warmth" for its environmental philosophy. The Company has positioned efforts to actively conserve the global environment as one of its most critical management issues, and in every aspect of its business strives to protect the environment.

Nissan Diesel established an Environmental Committee in 1993, when it prepared the Code of Conduct for the Environment and actively began environmental conservation activities. The Company followed up by formulating its Voluntary Plan in 1996, and since then has promoted systematic, medium to long-term activities. One measure was introduction of the ISO14001 environmental management system; the Company obtained ISO certification for its Ageo Plant in fiscal 1998, followed by the Product Development Division in fiscal 2002 and the Kounosu Plant and Hanyu Plant in fiscal 2004. The Company has broadened environmental conservation

activities from its production plants to every Company division, and also has begun expanding these programs to other Nissan Diesel Group firms.

Recently the Company summarized its approach to reducing the environmental impact of the entire Nissan Diesel Group in its 2004-2008 Nissan Diesel Group Long-term Environmental Plan, and is promoting environmental activities throughout the entire life cycle of the Company's products and in its relationship with society.

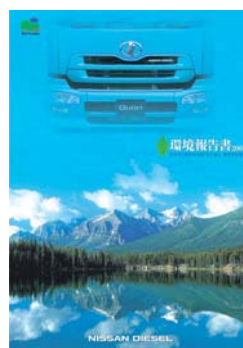
## Environmental Activity in Fiscal 2005

From the standpoint of environmental measures for its automotive products, the Company has adopted the world's first urea SCR system, combining environmentally friendly enhanced fuel efficiency and low emissions performance, for Nissan Diesel's entire new model line of Quon heavy-duty trucks. The new vehicle is extremely popular with customers who are using it and has been awarded a Nikkei Superior Product and Services Award in 2005.

In April 2005, the Company combined its Recycling Promotion Office and Environmental Section and established an Environmental Management Section in its Production Control & Engineering Department. This section is responsible for conducting the Company's environment-related activities, including plans and proposals, support for Group firms and contact with ISO secretariats. During Fiscal 2005, the section focused on activities such as promotion of automobile recycling, receipt of ISO14001 certification for two affiliated companies based on the Company's support, reduction of CO2 as pledged under the Kyoto Protocol and control of chemical substances based on the PRTR Law. Nissan Diesel also remained acutely aware of its position as a corporate citizen, and provided opportunities for dialogue

to encourage communications with local residents, environmental groups and government organizations that made it possible to deepen mutual understanding regarding local environmental conservation.

The Nissan Diesel Group will continue promoting environmental conservation activities in the future, in conjunction with the Nissan Diesel Group Long-term Environmental Plan.



Environmental Report 2005

# Risk Factor

## Business-Related and Other Risks

The forward looking statements in the following paragraphs are based on the judgments of the Nissan Diesel Group, as of June 28, 2006.

### 1 Economic Conditions

The sale of trucks, which are a principal product of the Nissan Diesel Group, is significantly influenced by economic conditions in Japan. The trucks that are purchased by customers are viewed as industrial goods and in most instances they are used for commercial purposes. Hence, any economic downturn in the Japanese market decreases the demand for trucks, and subsequently sales figures are impacted negatively. In addition to its domestic business, the Company exports its products to a variety of locations, mainly to Asia, but also to North America, the Middle East, Africa, Central and South America, and Oceania. Therefore, any unanticipated recessions in the domestic and export markets, and the subsequent fall in demand will have the potential to negatively impact the earnings and financial standing of the Group.

### 2 Price Competition

Price competition has become extremely fierce in the truck sales market, in which the main competitors are Japanese truck makers and their sales agencies. In response to customer demand for price cuts, the Nissan Diesel Group is working to lower manufacturing and selling costs as well as to develop and provide high-value-added products and services to differentiate itself from the competition. Nevertheless, any further intensification of price competitors has the potential to hinder the Group's ability to maintain market share, a pre-requisite to ensuring stable earnings.

### 3 Principal Transaction Partners

The Nissan Diesel Group sells diesel engines to the Nissan Motor and undertakes commissioned production of Nissan Motor's light-duty trucks and light-duty diesel engines. As of March 2006, Nissan Motor is no longer a parent company of Nissan Diesel but transactions between the companies are confirmed to continue into

the future. The Group's net sales and proportion of sales to Nissan Motor was ¥95.9 billion (20.8%) in fiscal 2004, and ¥85.2 billion (17.7%) in fiscal 2005. For this reason, the business strategies and management policies that Nissan Motor develops has the potential to affect earnings and the financial standing of the Group.

### 4 Transaction Partner Credit Risk

The Nissan Diesel Group carries out business with multiple transaction partners. For this reason, the Group focuses on managing trade receivables and sets credit ratings according to each customer's financial conditions while assessing their credit status on a continual basis with the overall goal to minimize the generation of bad debt. Nevertheless, unanticipated circumstances that impact customers have the potential to negatively impact the earnings and financial standing of the Group.

### 5 Risks Related to Intellectual Property Rights

The Nissan Diesel Group possesses the technology and know-how to differentiate its product from rivals' products. In addition, the Group holds intellectual assets including the product, patents, designs and trademarks. Such assets are a vital part of the Group's overall growth strategy for the future. While we are doing our best to protect intellectual property, ensuring complete protection by enforcing intellectual property rights is difficult, and in some situations, the protection granted by such rights is limited in nature. Subsequently, it is not possible to completely prevent the sale of copied products that have been manufactured illegally by third parties using the Group's intellectual property.

### 6 Risk of Business Interruption Due to Natural Disasters, Power Outages, Etc.

To ensure the continual operation of manufacturing lines, the Nissan Diesel Group conducts periodic disaster prevention and maintenance inspections at all of its facilities and has set up a counter-crisis team that will respond in the event of an emergency or other disaster.

Regardless of such measures, there is no way of ensuring complete protection against disasters, power outages, and other events that have a negative effect on manufacturing lines and other operations. Moreover, since the majority of the Group's development and manufacturing facilities are concentrated in its Head Office Plant in Ageo, Saitama Prefecture, any interruption of operations as a result of unforeseen circumstances such as earthquakes or accidents has the potential to negatively impact the earnings and financial standing of the Group.

### **7 Response to the Environment and Related Regulations**

The Nissan Diesel Group develops, manufactures and markets trucks and buses that conform to such environmental regulations as restrictions on emissions, and standards for noise and safety. In the future, it is likely that such regulations will become even more stringent as the concern and public awareness for the environment increases. The investment and development costs to enable compliance with tighter regulations equates to a substantial amount and failure to compensate for these costs by increasing net sales has the potential to negatively impact the earnings and financial standing of the Group.

### **8 Interest Fluctuation**

The Nissan Diesel Group is focused on reducing interest-bearing debt through cash flow management. The balance of interest-bearing debt and the associated interest-bearing debt ratio (balance of interest bearing debt divided by net sales) fell from ¥155.1 billion (33.6%) in fiscal 2004 to ¥129.9 billion (26.9%) in fiscal 2005. Nevertheless, should interest rates suddenly spike, such change has the potential to negatively impact the earnings and financial standing of the Group.

### **9 Currency Exchange Rate Fluctuation**

Sales generated outside of Japan accounts for 17.8% (as of March 31, 2006) of consolidated net sales of the Nissan Diesel Group. In general, the appreciation of the yen against other currencies has a negative effect on the business of the Group and the depreciation of the yen against other currencies has a positive effect.

### **10 Quality Assurance**

The Nissan Diesel Group engages in activities that fully emphasize quality in all things as part of its corporate culture and manufactures truck and buses based on globally recognized quality control standards. However, in the event of a large-scale recall, this would result in substantial expenses and has the potential to negatively impact the earnings and financial standing of the Group.

### **11 Procurement of Raw Materials and Parts**

The Nissan Diesel Group purchases raw materials and vehicle parts from multiple transaction partners. A natural disaster or changes in market conditions that is outside the control of the Group may result in a situation where the continuous procurement of parts and raw materials from transaction partners is interrupted. Such an incident has the potential to negatively impact the earnings and financial standing of the Group.

### **12 Major Litigation, Etc.**

The Nissan Diesel Group currently has no legal action entered against it that may have a significant effect on future earnings. However, any major legal action in the future has the potential to negatively impact the earnings and financial standing of the Group.

# C orporate Governance

## ■ Corporate Governance Basic Thinking on Corporate Governance

Nissan Diesel's basic policy on corporate governance is to ensure transparency of its management decisions by promptly disclosing the Company's corporate objectives and policies as well as the degree of its accomplishments, to strive for quick and effective decision making by the Board of Directors, and to foster compliance, appropriate risk management and proper auditing at the Group level. The aim of this policy is to establish a high level of trust with stakeholders and to ensure sustainable growth for the Nissan Diesel Group.

### 1. Corporate bodies and internal control systems

#### (a) Explanation of corporate bodies

Composed of eight directors, the Board of Directors receives progress reports from directors concerning the execution of their duties. At the same time, the Board makes important decisions based on such reports. Nissan Diesel also has established a management committee that assists in the execution of strategies for the board of directors. This committee, which is comprised of all the directors, has the authority to make decisions up to a certain level, and also carries out prior deliberation on items that will be put forth at board meetings.

In addition, Nissan Diesel has established a Board of Auditors which consists of four members, three of whom are outside auditors. Moreover, full-time auditors attend management committee.

#### (b) Internal control systems

Nissan Diesel institutes internal compliance through a Compliance Committee that falls under the responsibility of the president. In addition, based on internal deliberations of the committee, a Chief Compliance Officer improves the internal compliance system across all parts of the Group. Directors are also tasked to implement necessary measures to ensure compliance at the divisional level. On an organizational basis, the Compliance Committee is included within the Legal & Risk Management Office.

In order to ensure the efficient execution of business strategies by directors of the Group, Nissan Diesel utilizes IT to conduct a performance check on such activities on a monthly or quarterly basis. Also, the Company has developed "Rules for Division of Business Duties" which outlines the specific scope of business affairs that each division is permitted to participate in. In addition, the Company developed the "Rules for Delegation of Authority" which outlines the approval authority for each director and manager.

In order to ensure an appropriate level of management at the subsidiary and group company level, Nissan Diesel developed the "Rules for Group Companies Management," which outlines the items that must be reported by a group subsidiary to the parent company. At the same time, Nissan Diesel ensures compliance at such levels through the implementation of a systematic compliance system at all of its group subsidiaries. Moreover, the executives and employee at the Group company level are provided with a Code of Conduct, and an integrated compliance helpline is available to anybody within the Group.

#### (c) Risk management system

Nissan Diesel has established a Risk Management Manual in an attempt to prevent unforeseen events and to minimize losses (loss prevention) in the event of a catastrophe. Risk Management at the divisional level is handled by the director who is responsible for that area, with the Legal & Risk Management Office supporting such risk management functions.

#### (d) Internal audits and auditor monitoring

Nissan Diesel has an Internal Audit Office which is separate from the rest of the organization and is

under the direct control of the president. The Office carries out internal audits of group subsidiaries and affiliates with the goal to objectively assess the legal compliance and appropriateness of their business activities. The results of these audits are reflected in future decisions made by Nissan Diesel management.

Auditors share the auditing work according to the policies determined by the Board of Auditors. As part of their procedures, the auditors attend important meetings such as the Board of Directors meetings, listen to business reports from directors and officers, investigate the operational and financial conditions at the Head Office and major office locations, and monitor the directors on their execution of their duties. All auditors receive audit reports from the Internal Audit Office and financial auditors on a periodic basis or whenever necessary, and discuss and exchanges opinions on such reports.

**(e) Corporate auditors**

Nissan Diesel has appointed Ernst & Young ShinNihon to serve as its corporate auditor as required by Japan's Commercial Code and Securities and Exchange Laws. There are no special interests between Nissan Diesel and the corporate auditor or the employees of the corporate auditor who are engaged in auditing the Company's account. Nissan Diesel has entered into a contract with the corporate auditor to carry out audits based on the Commercial Code and Securities and Exchange Law and pays compensation as set forth in the contract to the corporate auditor. The names of the certified public accountants (CPAs) and staff who conducted the audits for the fiscal year under review are as follows:

- Names of the lead CPAs who conducted the audits  
Designated auditors: Kazuo Suzuki and Yoji Murohashi
- Composition of assistants involved in the audits  
CPAs: 11                  CPA assistants: 7                  Other: 1

**2. Personal relations, capital ties, business dealings or other interest between the Company and its external auditors**

There are no special interests between the Company and its external auditors.

**3. Implementation of activities during the last fiscal year (extending back one year from the last day of the most recent fiscal year) to improve the Company's corporate governance**

Nissan Diesel carried out employee education and training in the area of Corporate Law for directors, Corporate Governance for management staff, and compliance to the compliance officers of sales companies.

**4. Director compensation**

Compensation paid to directors: ¥184 million  
Compensation paid to auditors: ¥33 million

**5. Auditor service fees**

Fees paid for auditing services as prescribed in Article 2, Paragraph 1 of the Certified Public Accountants Law (Law No. 103 of 1948) totaled ¥41 million. An additional ¥7 million was paid to the corporate auditor for services other than those stipulated above.

# Financial Section

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## Financial Summary

Fiscal year
Net sales .....
Cost of sales .....
Selling, general and administrative expenses .....
Operating income (loss) .....
Income (loss) before income taxes .....
Net income (loss) .....
Capital investment .....
Depreciation and amortization .....
Research and development expenses .....
Total assets .....
Shareholders' equity .....
Interest-bearing debt .....
Per-share data
Net income per share (¥/U.S.dollars) .....
Shareholders' equity per share (¥/U.S.dollars) .....
Dividends (¥/U.S.dollars) .....
Net sales by market
Domestic business .....
Nissan Motor business .....
Overseas business .....
Total .....



	Millions of yen						Thousands of dollars (The rate of ¥117=US\$1.00)
	FY00	FY01	FY02	FY03	FY04	FY05	FY05
.....	404,666	371,724	381,323	452,970	461,169	<b>482,827</b>	<b>4,126,726</b>
.....	321,349	292,879	300,023	348,245	355,833	<b>378,949</b>	<b>3,238,880</b>
.....	70,672	67,313	69,841	76,477	71,956	<b>70,423</b>	<b>601,906</b>
.....	12,644	11,531	11,457	28,247	33,378	<b>33,454</b>	<b>285,932</b>
.....	3,612	2,138	(376)	(44,655)	34,523	<b>34,066</b>	<b>291,162</b>
.....	604	610	(3,347)	(40,273)	30,020	<b>29,089</b>	<b>248,624</b>
.....	4,752	5,570	5,323	9,110	16,673	<b>9,310</b>	<b>79,573</b>
.....	18,853	18,193	17,181	16,556	8,944	<b>10,534</b>	<b>90,034</b>
.....	12,520	12,681	13,621	15,394	16,166	<b>16,569</b>	<b>141,615</b>
.....	587,195	556,646	522,491	514,120	431,139	<b>432,838</b>	<b>3,699,470</b>
.....	5,992	6,487	3,482	72,984	103,434	<b>121,876</b>	<b>1,041,675</b>
.....	437,758	416,929	387,469	262,585	155,168	<b>129,968</b>	<b>1,110,838</b>
.....	2.34	2.36	(12.94)	(159.61)	117.00	<b>108.73</b>	<b>0.93</b>
.....	23.16	25.07	13.46	(136.95)	(18.20)	<b>209.58</b>	<b>1.79</b>
.....	-	-	-	-	3.00	<b>3.00</b>	<b>0.026</b>
.....	271,779	261,233	252,599	301,378	282,455	<b>311,908</b>	<b>2,665,880</b>
.....	83,034	72,389	76,647	87,211	95,953	<b>85,204</b>	<b>728,239</b>
.....	49,854	38,101	52,077	64,380	82,759	<b>85,714</b>	<b>732,598</b>
.....	404,666	371,724	381,323	452,970	461,169	<b>482,827</b>	<b>4,126,726</b>

# Consolidated Balance Sheets

Nissan Diesel Motor Co., Ltd. and Consolidated Subsidiaries  
As of March 31, 2006 and 2005

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2005 Mar. 31, 2006	2004 Mar. 31, 2005	2005 Mar. 31, 2006
As of			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	¥ 47,258	¥ 37,573	\$ 403,915
Short-term investments (Note 15)	43	80	368
Notes and accounts receivable (Note 7):			
Trade	88,248	105,827	754,256
Allowance for doubtful receivables	(5,961)	(5,869)	(50,949)
	82,287	99,957	703,308
Inventories (Note 5)	45,306	34,476	387,231
Deferred tax assets (Note 9)	6,772	5,135	57,880
Other current assets	10,096	9,624	86,291
Total current assets	191,764	186,848	1,639,009
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 6, 7 and 13):</b>			
Land	146,783	152,728	1,254,556
Buildings and structures	89,297	88,114	763,222
Machinery and equipment	165,238	162,347	1,412,291
Construction in progress	944	373	8,068
	402,263	403,564	3,438,145
Accumulated depreciation	(199,557)	(193,914)	(1,705,615)
Property, plant and equipment, net	202,706	209,649	1,732,530
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 7 and 15)	17,603	14,860	150,453
Investments in unconsolidated subsidiaries and affiliates	3,869	1,828	33,068
Long-term loans receivable	132	297	1,128
Deferred tax assets (Note 9)	9,065	5,804	77,479
Other	7,696	11,850	65,778
Total investments and other assets	38,367	34,641	327,923
	¥ 432,838	¥ 431,139	\$ 3,699,470

**LIABILITIES AND SHAREHOLDERS' EQUITY**

As of	Millions of yen		Thousands of U.S. dollars (Note 4)
	2005 Mar. 31, 2006	2004 Mar. 31, 2005	2005 Mar. 31, 2006
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings (Note 7) .....	¥ 9,019	¥ 47,590	\$ 77,085
Commercial paper .....	20,000	7,000	170,940
Current portion of long-term debt (Note 7) .....	38,554	18,857	329,521
Notes and accounts payable – trade .....	101,231	93,538	865,222
Accrued income taxes (Note 9) .....	7,664	6,195	65,504
Accrual for warranty costs .....	2,616	3,156	22,359
Other current liabilities .....	29,089	26,736	248,624
Total current liabilities .....	208,176	203,076	1,779,282
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt (Note 7) .....	62,395	81,720	533,291
Accrual for warranty costs .....	1,722	2,205	14,718
Accrued retirement benefits for employees (Note 10) .....	7,739	7,595	66,145
Deferred tax liabilities (Note 9) .....	1,423	1,268	12,162
Deferred tax liabilities on land revaluation account (Note 6) .....	7,255	4,704	62,009
Payable relating to defined contribution plans .....	19,382	25,081	165,658
Other .....	429	423	3,667
Total long-term liabilities .....	100,348	122,997	857,675
MINORITY INTERESTS .....	2,437	1,631	20,829
<b>SHAREHOLDERS' EQUITY (Notes 6, 8 and 20):</b>			
Preferred stock, without par value:			
Authorized — 94,994,000 shares in 2005 and 176,656,000 shares in 2004			
Issued — 94,994,000 shares in 2005 and 176,656,000 shares in 2004 .....	28,498	52,996	243,573
Common stock, without par value:			
Authorized — 1,423,344,000 shares in 2005 and 2004			
Issued — 306,435,106 shares in 2005 and 244,166,106 shares in 2004 .....	10,098	12,838	86,308
Capital surplus .....	30,915	6,459	264,231
Land revaluation account .....	2,926	6,910	25,009
Retained earnings .....	43,257	20,680	369,718
Net unrealized holding gain on securities .....	5,349	3,156	45,718
Translation adjustments .....	853	405	7,291
	121,900	103,448	1,041,880
Less common stock in treasury, at cost .....	(23)	(14)	(197)
Shareholders' equity, net .....	121,876	103,434	1,041,675
Contingent liabilities (Note 14)			
	¥ 432,838	¥ 431,139	\$ 3,699,470

See notes to consolidated financial statements

# Consolidated Statements of Operations

Nissan Diesel Motor Co., Ltd. and Consolidated Subsidiaries  
 Years ended March 31, 2006, 2005 and 2004

For the years ended	Millions of yen			Thousands of U.S. dollars (Note 4)
	2005 Mar. 31, 2006	2004 Mar. 31, 2005	2003 Mar. 31, 2004	2005 Mar. 31, 2006
NET SALES (Note 18) .....	¥ 482,827	¥ 461,169	¥ 452,970	\$ 4,126,726
COST OF SALES (Notes 11 and 18) .....	378,949	355,833	348,245	3,238,880
Gross profit .....	103,877	105,335	104,724	887,838
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11) .....	70,423	71,956	76,477	601,906
Operating income .....	33,454	33,378	28,247	285,932
OTHER INCOME (expenses):				
Interest and dividend income .....	1,316	1,635	2,284	11,248
Interest expense .....	(1,841)	(4,410)	(5,332)	(15,735)
Gain on sales of property, plant and equipment .....	859	49	12	7,342
Loss on disposal of property, plant and equipment .....	(1,061)	(485)	(2,864)	(9,068)
Loss on impairment of property, plant and equipment (Note 3) .....	(876)	—	(12,599)	(7,487)
Loss on disposal of inventories .....	—	—	(3,821)	—
Gain on transfer of development rights for small-sized truck (Note 18) .....	—	—	1,200	—
Gain on sales of investment securities .....	2,231	1,399	80	19,068
Loss on devaluation of investment securities .....	(3)	(14)	(871)	(26)
Provision for allowance for doubtful receivables .....	—	—	(12,748)	—
Provision for warranty costs (Note 3) .....	—	—	(3,443)	—
Loss on return of substitutional portion of Welfare Pension Fund Plans (Note 10) .....	—	—	(2,636)	—
Equity in earnings of unconsolidated subsidiaries and affiliates .....	24	164	131	205
Amortization of net retirement benefit obligation at transition .....	—	—	(2,232)	—
Loss on partial termination of tax-qualified pension plans and lump-sum payment plans (Note 10) .....	—	—	(28,743)	—
Gain on dissolution of the Welfare Pension Fund Plans .....	—	4,730	—	—
Cancellation fee for real estate lease contract .....	—	(1,684)	—	—
Other, net .....	(36)	(239)	(1,318)	(308)
Income (loss) before income taxes and minority interests .....	34,066	34,523	(44,655)	291,162
INCOME TAXES (Note 9):				
Current .....	11,019	6,259	2,195	94,179
Deferred .....	(6,793)	(2,434)	(6,769)	(58,060)
	4,225	3,825	(4,573)	36,111
Minority interests .....	(751)	(678)	(191)	(6,419)
Net income (loss) (Note 12) .....	¥ 29,089	¥ 30,020	¥ (40,273)	\$ 248,624

See notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

Nissan Diesel Motor Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2006, 2005 and 2004

For the years ended	Millions of yen			Thousands of U.S. dollars (Note 4)
	2005 Mar. 31, 2006	2004 Mar. 31, 2005	2003 Mar. 31, 2004	2005 Mar. 31, 2006
<b>PREFERRED STOCK:</b>				
Balance at beginning of year .....	¥ 52,996	¥ 52,996	¥ –	\$ 452,957
Private placement (Note 8) .....	–	–	52,996	–
Cancellation of shares of preferred and common stock (Note 8).....	(24,498)	–	–	(209,385)
Balance at end of year .....	¥ 28,498	¥ 52,996	¥ 52,996	\$ 243,573
<b>COMMON STOCK:</b>				
Balance at beginning of year .....	¥ 12,838	¥ 12,838	¥ 13,603	\$ 109,726
Issuance of common stock (Note 8) .....	24,471	–	–	209,154
Cancellation of shares of preferred and common stock (Note 8) .....	(27,211)	–	(765)	(232,573)
Balance at end of year .....	¥ 10,098	¥ 12,838	¥ 12,838	\$ 86,308
<b>CAPITAL SURPLUS:</b>				
Balance at beginning of year .....	¥ 6,459	¥ 75,361	¥ 21,599	\$ 55,205
Private placement (Note 8) .....	–	–	52,996	–
Issuance of shares of common stock (Note 8) .....	24,456	–	–	209,026
Cancellation of shares of common stock (Note 8) .....	20,000	–	765	170,940
Elimination of accumulated deficit (Note 8) .....	–	(68,901)	–	–
Disposal of treasury stocks (Note 8) .....	(20,000)	–	–	(170,940)
Balance at end of year .....	¥ 30,915	¥ 6,459	¥ 75,361	\$ 264,231
<b>LAND REVALUATION ACCOUNT:</b>				
Balance at beginning of year .....	¥ 6,910	¥ 6,852	¥ 10,652	\$ 59,060
Net changes during the year .....	(3,984)	58	(3,799)	(34,051)
Balance at end of year .....	¥ 2,926	¥ 6,910	¥ 6,852	\$ 25,009
<b>RETAINED EARNINGS (ACCUMULATED DEFICIT):</b>				
Balance at beginning of year .....	¥ 20,680	¥ (78,183)	¥ (41,708)	\$ 176,752
Adjustments to retained earnings for reversal of land revaluation account ..	853	(58)	3,799	7,291
Elimination of accumulated deficit (Note 8) .....	–	68,901	–	–
Net income (loss) .....	29,089	30,020	(40,273)	248,624
Cash dividends .....	(2,616)	–	–	(22,359)
Loss on disposal of treasury stocks (Note 8) .....	(4,748)	–	–	(40,581)
Balance at end of year .....	¥ 43,257	¥ 20,680	¥ (78,183)	\$ 369,718
<b>NET UNREALIZED HOLDING GAIN (LOSS) ON SECURITIES:</b>				
Balance at beginning of year .....	¥ 3,156	¥ 3,046	¥ (682)	\$ 26,974
Net changes during the year .....	2,193	110	3,728	18,744
Balance at end of year .....	¥ 5,349	¥ 3,156	¥ 3,046	\$ 45,718
<b>TRANSLATION ADJUSTMENTS:</b>				
Balance at beginning of year .....	¥ 405	¥ 76	¥ 20	\$ 3,462
Adjustments arising from translation of foreign currency financial statements ..	447	329	56	3,821
Balance at end of year .....	¥ 853	¥ 405	¥ 76	\$ 7,291

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Nissan Diesel Motor Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2006, 2005 and 2004

For the years ended	Millions of yen			Thousands of U.S. dollars (Note 4)
	2005 Mar. 31, 2006	2004 Mar. 31, 2005	2003 Mar. 31, 2004	2005 Mar. 31, 2006
<b>OPERATING ACTIVITIES:</b>				
Income (loss) before income taxes and minority interests	¥ 34,066	¥ 34,523	¥ (44,655)	\$ 291,162
Depreciation and amortization	10,534	8,944	16,556	90,034
Loss on impairment of property, plant and equipment	876	–	12,599	7,487
Interest and dividend income	(1,316)	(1,635)	(2,285)	(11,248)
Interest expense	1,841	4,410	5,332	15,735
(Reversal of) provision for accrual for warranty costs	(1,024)	(100)	4,471	(8,752)
Provision for employees' retirement benefits, net of amounts paid	143	(31,288)	33,130	1,222
Equity in earnings of unconsolidated subsidiaries and affiliates	(24)	(164)	(131)	(205)
Loss on devaluation of investment securities	3	14	871	26
(Reversal of) provision for allowance for doubtful receivables	(2,811)	(3,154)	8,088	(24,026)
Loss on sales or disposal of property, plant and equipment	202	436	2,852	1,726
Gain on sales of investment securities	(2,231)	(1,399)	(80)	(19,068)
Changes in operating assets and liabilities:				
Notes and accounts receivable	20,699	17,308	18,750	176,915
Inventories	(10,181)	(1,545)	(1,457)	(87,017)
Notes and accounts payable	7,487	1,197	11,107	63,991
Payable relating to defined contribution plans	(5,698)	23,027	–	(48,701)
Other	3,258	3,929	1,894	27,846
Subtotal	55,824	54,502	67,044	477,128
Interest and dividend income received	1,000	868	990	8,547
Interest paid	(1,783)	(4,465)	(5,233)	(15,239)
Income taxes paid	(9,585)	(1,212)	(1,997)	(81,923)
Net cash provided by operating activities	45,456	49,692	60,803	388,513
<b>INVESTING ACTIVITIES:</b>				
Decrease in time deposits	36	850	391	308
Purchases of property, plant and equipment	(9,693)	(17,463)	(19,149)	(82,846)
Proceeds from sales of property, plant and equipment	5,734	5,329	3,306	49,009
Purchases of investment securities	(94)	(36)	(710)	(803)
Proceeds from sales of investment securities	3,276	2,780	311	28,000
Increase in loans receivable	(74)	(227)	(141)	(632)
Proceeds from sale of subsidiaries' stock resulting in the change in the scope of consolidation (Note 16)	–	2,311	–	–
Other	649	1,726	186	5,547
Net cash used in investing activities	(165)	(4,728)	(15,807)	(1,410)
<b>FINANCING ACTIVITIES:</b>				
Decrease in short-term borrowings	(38,570)	(123,683)	(51,340)	(329,658)
Increase in commercial paper	13,000	7,000	–	111,111
Proceeds from issuance of long-term debt	5,000	54,400	10,586	42,735
Repayment of long-term debt	(19,627)	(15,869)	(14,635)	(167,752)
Proceeds from issuance of bonds	15,000	15,000	–	128,205
Redemption of bonds	–	–	(5,000)	–
Proceeds from issuance of common stock	48,927	–	–	418,179
Proceeds from issuance of preferred stock	–	–	15,998	–
Acquisition of preferred stock	(56,458)	–	–	(482,547)
Purchases of treasury stock	(9)	(10)	(1)	(77)
Cash dividends	(2,617)	–	–	(22,368)
Net cash used in financing activities	(35,355)	(63,162)	(44,393)	(302,179)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>				
Net increase (decrease) in cash and cash equivalents	(250)	2	153	(2,137)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	37,573	55,769	55,012	321,137
CASH AND CASH EQUIVALENTS AT END OF YEAR	¥ 47,258	¥ 37,573	¥ 55,769	\$ 403,915

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Nissan Diesel Motor Co., Ltd. and Consolidated Subsidiaries  
Fiscal year 2005 (Year ended March 31, 2006)

## 1. Basis of Preparation

The Company and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its overseas subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Securities and Exchange Law of Japan and, therefore, have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

As permitted by the Securities and Exchange Law, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

## 2. Summary of Significant Accounting Policies

### (a) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and significant companies which it controls directly or indirectly. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost or less.

The difference between the cost and the underlying equity in the net assets at fair value at the respective dates of acquisition is amortized over a period of five years on a straight-line basis.

### (b) Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

### (c) Securities

Securities other than equity securities issued by subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

### (d) Inventories

Finished products are stated principally at cost determined by the specific identification method. Other inventories are stated principally at cost determined by the last purchase price method.

### (e) Allowance for doubtful receivables

The allowance for doubtful receivables is provided at an amount determined based on the historical experience of bad debt with respect to ordinary receivables, plus an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers which are experiencing financial difficulties.

### (f) Depreciation and amortization

Depreciation of property, plant and equipment at the Company and its domestic consolidated subsidiaries is calculated principally by the declining-balance method at rates based on the estimated useful lives of the respective assets. Depreciation at the overseas consolidated subsidiaries is calculated principally by the straight-line method over the estimated useful lives of the respective assets. The useful lives of property, plant and equipment are summarized as follows:

Buildings and structures	3 to 50 years
Machinery and equipment	4 to 10 years

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income.

Costs of computer software intended for internal use are capitalized and amortized over a period of five years.

### (g) Stock and bond issuance costs

Stock and bond issuance costs are charged to income as incurred.

*(h) Foreign currency translation*

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet dates. All revenues and expenses denominated in foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gain or loss is credited or charged to income.

The revenue and expense accounts of the overseas consolidated subsidiaries are translated at the average exchange rates prevailing during the year, and, except for the components of shareholders' equity, the balance sheet accounts are translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates.

*(i) Research and development costs*

Research and development costs are charged to income as incurred.

*(j) Income taxes*

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

*(k) Warranty costs*

An accrual for warranty costs is provided to cover the cost of all services anticipated to be incurred under the terms of the contracts during the constructive warranty periods.

*(l) Retirement benefits*

Accrued retirement benefits for employees are provided principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of balance sheet date, as adjusted for the unrecognized net retirement benefit obligation at transition and unrecognized actuarial gain or loss. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees.

The net retirement benefit obligation at transition is being amortized over a period of 15 years by the straight-line method. Actuarial gain or loss is amortized over 13 years commencing the year following the year in which the gain or loss is recognized by the straight-line method. Prior service cost is fully charged or credited to income as incurred.

See Note 10 for the method of accounting for the separation of the substitutional portion from the corporate portion of the benefit obligation under the Welfare Pension Fund Plans and the partial termination of certain tax-qualified pension plans and lump-sum payment plans.

*(m) Leases*

Noncancelable leases are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases) except that leases which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

*(n) Derivatives*

The Company enters into forward foreign exchange contracts and interest-rate swap agreements in order to manage the risk arising from adverse fluctuation in foreign exchange rates and interest rates. Derivatives are carried at fair value, with any changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting.

*(o) Appropriations of retained earnings*

Under the Commercial Code, the appropriations of retained earnings with respect to a given financial period are made by resolution of the shareholders at a general meeting to be held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. See Notes 8 and 20.

**3. Accounting Changes**

(a) Effective the year ended March 31, 2004, the Company has early adopted a new accounting standard for the impairment of fixed assets which requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Companies are required to recognize an impairment loss in their statement of income if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of future cash flows of the asset. The standard states that impairment losses should be measured as the excess of the book value over the higher of (1) the fair market value of the asset, net of disposition costs and (2) the present value of future cash flows arising from ongoing utilization of the asset and from disposal after asset use. The standard covers land, factories, buildings and other forms of property, plant and equipment as well as intangible assets. Fixed assets are grouped at the lowest level for which there is identifiable cash flows that are independent of cash flows from other groups of assets.

As a result of the adoption of this new accounting standard, a loss on impairment of property, plant and equipment in the amount of ¥12,599 million was recognized and loss before income taxes and minority interests increased by the same amount for the year ended March 31, 2004 as compared with the corresponding amount under the previous method.

(b) Until the year ended March 31, 2003, the Company provided an accrual for warranty costs to cover the cost of services relating products sold for the following fiscal year based on their historical experience to fulfill their liability under the terms of their warranty contracts. Effective April 1, 2004, the Company changed its method of accounting for warranty costs to provide an accrual to cover the cost of all services anticipated to be incurred during the warranty period including those incurred for services provided for free as a goodwill to customers in order to achieve a better matching of revenue and expenses and to establish a solid financial position from a more long-term and international point of view. The cumulative effect of this change amounted to ¥3,443 million as of April 1, 2003 and was recorded as a loss for the year ended March 31, 2004. The effect of this change in method of accounting was to increase selling, general and administrative expenses by ¥359 million, to decrease operating income by ¥359 million and to increase loss before income taxes and minority interest by ¥3,802 million for the year ended March 31, 2004 as compared with the corresponding amount under the previous method.

#### 4. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥117 = US\$1.00, the exchange rate prevailing on March 31, 2006. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

#### 5. Inventories

Inventories at March 31, 2006 and 2005 consisted of the following:

As of	Millions of yen		Thousands of U.S. dollars
	2005 Mar. 31, 2006	2004 Mar. 31, 2005	2005 Mar. 31, 2006
Finished products .....	¥ 38,378	¥ 27,723	\$ 328,017
Work in process .....	4,417	4,663	37,752
Raw materials and supplies .....	2,509	2,090	21,444
	¥ 45,306	¥ 34,476	\$ 387,231

#### 6. Land Revaluation

Pursuant to the "Law Concerning the Revaluation of Land" (the "Law"), land used for the Company's business operations was revalued on March 31, 2000. The income tax effect of the difference between the book value and the revalued amount has been presented under liabilities as "Deferred tax liabilities on land revaluation account" and the remaining balance has been presented under shareholders' equity as "Land revaluation account" in the accompanying consolidated balance sheets.

The revaluation of land was determined based on the official notice prices published by the Commissioner of the National Tax Authorities in accordance with Paragraph 4, Article 2 of the "Enforcement Ordinance Concerning Land Revaluation," with certain necessary adjustments.

The carrying value of the land after revaluation exceeded its fair value by ¥21,113 million (\$180,453 thousand) and ¥20,229 million at March 31, 2006 and 2005, respectively.

#### 7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings represent loans from banks and other financial institutions at the weighted average interest rates of 0.5% and 1.7% at March 31, 2006 and 2005, respectively.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

As of	Millions of yen		Thousands of U.S. dollars
	2005 Mar. 31, 2006	2004 Mar. 31, 2005	2005 Mar. 31, 2006
Unsecured bonds:			
0.83% due 2005 .....	¥ -	¥ 15,000	\$ -
0.83% due 2007 .....	15,000	-	128,205
0.92% due 2008 .....	15,000	-	128,205
Loans from banks and other financial institutions maturing through 2012:			
Collateralized .....	31,950	34,886	273,077
Unsecured .....	39,000	50,691	333,333
	100,950	100,577	862,821
Less current portion .....	(38,554)	(18,857)	(329,521)
	¥ 62,395	¥ 81,720	\$ 533,291

The average interest rate on the loans from banks and other financial institutions was 0.9% and 1.3% for the years ended March 31, 2006 and 2005, respectively.

The aggregate annual maturities of long-term debt subsequent to March 31, 2006 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007 .....	¥ 38,554	\$ 329,521
2008 .....	39,973	341,650
2009 .....	16,800	143,590
2010 .....	622	5,316
2011 .....	-	-
2012 and thereafter .....	5,000	42,735
	¥ 100,950	\$ 862,821

The assets pledged as collateral for short-term borrowings and long-term debt of ¥2,930 million (\$25,043 thousand) and ¥31,950 million (\$273,077 thousand), respectively, at March 31, 2006, and of ¥31,070 million and ¥34,886 million, respectively, at March 31, 2005 were as follows:

As of	Millions of yen		Thousands of U.S. dollars
	2005 Mar. 31, 2006	2004 Mar. 31, 2005	2005 Mar. 31, 2006
Trade notes and accounts receivable .....	¥ -	¥ 7,829	\$ -
Property, plant and equipment, at net book value .....	71,213	153,218	608,658
Investment securities .....	1,914	5,790	16,359
	¥ 73,127	¥ 166,839	\$ 625,017

The Company has entered into loan commitment agreements amounting to ¥1,357 million (\$11,598 thousand) with two banks. There were no borrowings outstanding under these loan commitment agreements as of March 31, 2006.

### 8. Shareholders' Equity

In accordance with the Commercial Code of Japan (the "Code"), the Company provides a legal reserve which is included in retained earnings. The Code provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the total of the legal reserve and the capital surplus account equals 25% of the common stock account. The Code provides that neither capital surplus nor the legal reserve is available for the payment of dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The Code also provides that, if the total amount of capital surplus and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders.

Pursuant to a resolution made by the general shareholders' meeting held on June 25, 2004, the accumulated deficit of ¥68,901 million was

eliminated by using capital surplus of the same amount.

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Code, went into effect on May 1, 2006. The Law stipulates requirements on distribution of earnings which are similar to those of the Code. Under the Law, however, such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met.

On December 16, 2003, the Company issued 176,656,000 shares of preferred stock (44,164,000 shares for each of Class I, II, III and IV) to three banks and Nissan Motor Co., Ltd. for ¥600 per share. As part of this issuance of preferred stock, short-term borrowings of ¥89,995 million were converted into 149,992,000 shares of preferred stock.

Pursuant to resolutions approved by the shareholders' meetings of common stock and preferred stock held on June 28, 2005, the Company reduced its common stock and preferred stock by ¥20,000 million (\$170,940 thousand) in the aggregate that resulted in an increase of capital surplus by the same amount and repurchased 37,498,000 shares of Class IV preferred stock for ¥24,748 million (\$211,521 thousand). Those shares of Class IV preferred stock were cancelled in August 2005. In this connection, capital surplus was reduced by ¥20,000 million (\$170,940 thousand) and loss on disposal of treasury stock of ¥4,748 million (\$40,581 thousand) was recorded for the year ended March 31, 2006. As of March 31, 2006, 6,666,000 shares of Class IV preferred stock are issued and outstanding.

Pursuant to resolutions approved by the extraordinary shareholders' meeting of common stock and the shareholders' meetings of each class of shares of preferred stock held on February 3, 2006, the Company cancelled its 44,164,000 shares of Class III preferred stock. As a result, preferred stock account and common stock were decreased by ¥31,709 million (\$271,017 thousand) in the aggregate.

The holders of the Company's preferred stock are entitled to noncumulative dividends calculated based on TIBOR as defined, preference in liquidation over holders of common stock of ¥600 per share, and call options to redeem the preferred stock if certain conditions are met. On the other hand, the Company can redeem the shares of preferred stock after September 1, 2005 at its option. In addition, the preferred stock is convertible, at the option of the holders, to shares of common stock of the Company. The conversion price and periods are summarized as follows:

	Conversion price per share at March 31, 2006	Period (up to and including)
Class I .....	¥ 209	From April 1, 2008 to March 31, 2028
Class II .....	209	From April 1, 2010 to March 31, 2030
Class IV .....	209	From April 1, 2014 to March 31, 2034

The conversion price is subject to adjustment in certain cases which include stock splits. A sufficient number of shares of common stock is reserved for the conversion of all outstanding shares of preferred stock.

The shares of preferred stock outstanding at the end of each conversion period shall automatically be converted into shares of common stock of the Company on the date designated by the Company's Board of Directors.

During the year ended March 31, 2006, the Company issued 62,269,000 new shares of common stock for ¥48,927 million (\$418,179 thousand).

Pursuant to a resolution approved at an extraordinary meeting of the shareholders held on November 27, 2003, the Company acquired 14,552,947 shares of common stock of the Company from Renault free of charge and these shares were retired on December 30, 2003. In this connection, the common stock account decreased by ¥765 million and the capital surplus account increased by the same amount for the year ended March 31, 2004. In addition, the number of authorized shares of common stock was increased from 800,000,000 shares to 1,423,344,000 shares.

## 9. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprised corporation tax, enterprise tax and inhabitants' taxes which, in the aggregate, resulted in statutory tax rates of approximately 41% for 2006 and 2005 and 42% for 2004. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The effective tax rates reflected in the consolidated statements of operations for the years ended March 31, 2006, 2005 and 2004 differ from the statutory tax rates for the following reasons:

For the years ended	2005 Mar. 31, 2006	2004 Mar. 31, 2005	2003 Mar. 31, 2004
Statutory tax rates .....	(40.5)%	(40.5)%	(41.8)%
Effect of:			
Expenses not deductible for income tax purposes .....	(1.1)	(1.2)	1.0
Changes in valuation allowance .....	26.1	29.4	30.3
Inhabitants' per capita taxes .....	(0.4)	(0.4)	0.3
Other, net .....	3.5	1.6	0.0
Effective tax rates .....	(12.4)%	(11.1)%	(10.2)%

The significant components of deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

As of	Millions of yen		Thousands of U.S. dollars
	2005 Mar. 31, 2006	2004 Mar. 31, 2005	2005 Mar. 31, 2006
Deferred tax assets:			
Accrued bonuses .....	¥ 1,702	¥ 1,533	\$ 14,547
Allowance for doubtful receivables .....	3,993	4,980	34,128
Accrued retirement benefits .....	12,740	14,573	108,889
Accrual for warranty costs .....	1,685	2,131	14,402
Unrealized profits of inventories .....	1,972	1,450	16,855
Impairment loss on property, plant and equipment .....	640	1,387	5,470
Net operating loss carryforwards .....	3,205	4,610	27,393
Net unrealized holding loss on securities .....	2	4	17
Other .....	3,050	1,649	26,068
Gross deferred tax assets .....	28,992	32,321	247,795
Valuation allowance .....	(9,332)	(18,896)	(79,761)
Total deferred tax assets .....	19,660	13,425	168,034
Deferred tax liabilities:			
Reserve under Special Taxation Measures Law .....	1,598	1,592	13,658
Net unrealized holding gain on securities .....	3,647	2,161	31,171
Total deferred tax liabilities .....	5,245	3,753	44,829
Net deferred tax assets .....	¥ 14,414	¥ 9,671	\$ 123,197

#### 10. Retirement Benefit Plans

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., Welfare Pension Fund Plans ("WPPF"), tax-qualified pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs. The Company and certain domestic consolidated subsidiaries have also defined contribution plans.

The following table sets forth the funded and accrued status of the plans and the amounts recognized in the consolidated balance sheets at March 31, 2006 and 2005 for the Company's and the consolidated subsidiaries' defined benefit plans:

As of	Millions of yen		Thousands of U.S. dollars
	2005 Mar. 31, 2006	2004 Mar. 31, 2005	2005 Mar. 31, 2006
Retirement benefit obligation .....	¥ (9,114)	¥ (9,226)	\$ (77,897)
Plan assets at fair value .....	269	242	2,299
Unfunded retirement benefit obligation .....	(8,845)	(8,984)	(75,598)
Unrecognized net retirement benefit obligation at transition .....	(7)	(8)	(60)
Unrecognized actuarial loss .....	1,114	1,397	9,521
Accrued retirement benefits.....	¥ (7,739)	¥ (7,595)	\$ (66,145)

The components of retirement benefit expenses for the years ended March 31, 2006, 2005 and 2004 are as follows:

For the years ended	Millions of yen			Thousands of U.S. dollars
	2005 Mar. 31, 2006	2004 Mar. 31, 2005	2003 Mar. 31, 2004	2005 Mar. 31, 2006
Service cost .....	¥ 999	¥ 1,511	¥ 3,275	\$ 8,538
Interest cost .....	190	709	1,569	1,624
Expected return on plan assets .....	–	(149)	(745)	–
Amortization of net retirement benefit obligation at transition .....	2	475	2,232	17
Amortization of actuarial gain or loss .....	102	556	948	872
Additional retirement benefits paid .....	191	168	269	1,632
Subtotal .....	1,486	3,271	7,551	12,701
Loss on return of substitutional portion of the WFPF .....	–	–	2,636	–
Loss on partial termination of tax-qualified pension plans and lump-sum payment plans ..	–	–	28,743	–
Gain on dissolution of the WFPF .....	–	(4,730)	–	–
Contribution made to defined contribution plans and others .....	1,650	1,144	–	14,103
Total .....	¥ 3,136	¥ (314)	¥ 38,931	\$ 26,803

Effective April 1, 2004, the Company and certain domestic subsidiaries amended their tax-qualified pension plans and lump-sum payment plans so that a portion of the benefits under these plans was transferred to newly established defined contribution plans. In this connection, the Company and these domestic consolidated subsidiaries recognized a loss of ¥28,743 million for the year ended March 31, 2004. The assets of ¥51,766 million are being transferred to the defined contribution plans over a period of eight years.

On April 15, 2003, the Company received approval from the Minister of Health, Labor and Welfare with respect to its application for an exemption from the obligation for benefits related to future employees' services under the substitutional portion of the WFPF. In accordance with the transitional provision stipulated in "Practical Guidelines for Accounting for Retirement Benefits," the Company accounted for the separation of the substitutional portion from the corporate portion of the benefit obligation under its WFPF as of the date of approval of its exemption, assuming that the transfer to the Japanese government of the substitutional portion of the benefit obligation and the related pension plan assets had been completed as of that date. Consequently, the Company recognized a loss of ¥2,636 million for the year ended March 31, 2004. This WFPF was dissolved that resulted in recognition of a gain of ¥4,730 million for the year ended March 31, 2005.

The assumptions used in accounting for the above plans were as follows:

For the years ended	2005 Mar. 31, 2006	2004 Mar. 31, 2005
Discount rate .....	2.3%	2.3%
Expected rate of return on plan assets .....	–	Principally 3.5%

## 11. Research and Development Costs

Research and development costs included in selling, general and administrative expenses and manufacturing costs for the years ended March 31, 2006, 2005 and 2004 amounted to ¥16,569 million (\$141,615 thousand), ¥16,166 million and ¥15,394 million, respectively.

**12. Amounts per Share**

For the years ended	Yen			U.S. dollars
	2005 Mar. 31, 2006	2004 Mar. 31, 2005	2003 Mar. 31, 2004	2005 Mar. 31, 2006
Net income (loss) per share:				
Basic .....	¥ 108.73	¥ 117.00	¥ (159.61)	\$ 0.93
Diluted .....	42.15	39.93	—	0.36
Cash dividends:				
Class I preferred stock .....	7.86	—	—	0.07
Class II preferred stock .....	9.80	—	—	0.08
Class III preferred stock .....	11.73	—	—	0.10
Class IV preferred stock .....	13.28	—	—	0.11
Common stock .....	3.00	—	—	0.03

As of	Yen		U.S. dollars
	2005 Mar. 31, 2006	2004 Mar. 31, 2005	2005 Mar. 31, 2006
Net assets per share .....	¥ 209.58	¥ (18.20)	\$ 1.79

Basic net income (loss) per share is computed based on the net income (loss) attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year, and diluted net income per share is computed based on the net income attributable to the shareholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of preferred stock.

Cash dividends per share represent the cash dividends declared as applicable to the respective years together with the interim cash dividends paid.

Amounts per share of net assets is computed based on net assets available for distribution to the shareholders of common stock and the number of shares of common stock outstanding at the year end.

No diluted information is presented for the year ended March 31, 2004 because net loss was recorded for this year.

**13. Leases**

*(a) Lessees' accounting*

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property as of March 31, 2006 and 2005, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

As of	Millions of yen		Thousands of U.S. dollars
	2005 Mar. 31, 2006	2004 Mar. 31, 2005	2005 Mar. 31, 2006
<b>Acquisition costs:</b>			
Machinery and equipment .....	¥ 7,271	¥ 7,308	\$ 62,145
Other assets .....	4,515	6,126	38,590
	¥ 11,786	¥ 13,434	\$ 100,735
<b>Accumulated depreciation:</b>			
Machinery and equipment .....	¥ 5,372	¥ 4,734	\$ 45,914
Other assets .....	2,652	3,620	22,667
	¥ 8,024	¥ 8,355	\$ 68,581
<b>Net book value:</b>			
Machinery and equipment .....	¥ 1,898	¥ 2,573	\$ 16,222
Other assets .....	1,863	2,505	15,923
	¥ 3,762	¥ 5,079	\$ 32,154

Lease payments relating to finance leases accounted for as operating leases amounted to ¥2,005 million (\$17,137 thousand), ¥2,256 million and ¥2,176 million for the years ended March 31, 2006, 2005 and 2004, respectively. Depreciation of the leased assets computed by the straight-line method over the respective lease terms and the interest portion included in the lease payments amounted to ¥1,719 million (\$14,692 thousand) and ¥162 million (\$1,385 thousand), respectively, for the year ended March 31, 2006, ¥2,009 million and ¥222 million, respectively, for the year ended March 31, 2005, and ¥1,966 million and ¥224 million, respectively, for the year ended March 31, 2004.

Future minimum lease payments subsequent to March 31, 2006 on noncancelable operating leases and finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen		Thousands of U.S. dollars	
	Finance leases	Operating leases	Finance leases	Operating leases
2007 .....	¥ 1,643	¥ 39	\$ 14,043	\$ 333
2008 and thereafter .....	2,464	26	21,060	222
Total .....	¥ 4,108	¥ 66	\$ 35,111	\$ 564

*(b) Lessors' accounting*

There were no leased assets relating to finance leases accounted for as operating leases at March 31, 2006 and 2005.

Lease income relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥9,748 million for the year ended March 31, 2004. Depreciation of the assets leased under finance leases accounted for as operating leases and the interest portion included in lease income amounted to ¥7,584 million and ¥1,343 million, respectively, for the year ended March 31, 2004.

**14. Contingent Liabilities**

At March 31, 2006, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars	
As endorser of documentary export bills discounted with banks .....	¥ 29		\$ 248	
As guarantor of indebtedness of affiliates .....	2,187		18,692	
As guarantor of employees' mortgages and vehicle loans from banks and others .....	3,059		26,145	
As guarantor of notes receivable sold .....	809		6,915	
	¥ 6,086		\$ 52,017	

**15. Securities**

(a) Information regarding marketable securities classified as held-to-maturity debt securities and other securities as of March 31, 2006 and 2005 is as follows:

Marketable held-to-maturity debt securities

Fiscal year 2005(As of Mar.31,2006)	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value .....	¥ 0	¥ 0	¥ 0	\$ 1	\$ 1	\$ 0
Securities whose carrying value exceeds their fair value .....	21	21	(0)	179	179	(0)
Total .....	¥ 21	¥ 21	¥ (0)	\$ 179	\$ 179	\$ (0)

Fiscal year 2004 (As of Mar.31,2005)	Millions of yen		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value .....	¥ 1	¥ 1	\$ 0
Securities whose carrying value exceeds their fair value .....	21	21	(0)
Total .....	¥ 22	¥ 22	\$ (0)

**Marketable other securities**

Fiscal year 2005 (As of Mar.31,2006)	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stocks .....	¥ 5,719	¥ 14,905	¥ 9,185	\$ 48,880	\$ 127,393	\$ 78,504
Other .....	-	-	-	-	-	-
Subtotal .....	5,719	14,905	9,185	48,880	127,393	78,504
Securities whose acquisition cost exceeds their carrying value:						
Stocks .....	593	462	(130)	5,068	3,949	(1,111)
Subtotal .....	593	462	(130)	5,068	3,949	(1,111)
Total .....	¥ 6,313	¥ 15,368	¥ 9,054	\$ 53,957	\$ 131,350	\$ 77,385

Fiscal year 2004 (As of Mar.31,2005)	Millions of yen		
	Acquisition cost	Carrying value	Unrealized holding gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stocks .....	¥ 3,724	¥ 9,610	\$ 5,885
Other .....	44	47	2
Subtotal .....	3,769	9,657	5,888
Securities whose acquisition cost exceeds their carrying value:			
Stocks .....	3,401	2,907	(494)
Subtotal .....	3,401	2,907	(494)
Total .....	¥ 7,170	¥ 12,564	\$ 5,394

(b) Information regarding sales of securities classified as other securities for the years ended March 31, 2006, 2005 and 2004 is as follows:

For the years ended	Millions of yen			Thousands of U.S. dollars
	2005 Mar. 31, 2006	2004 Mar. 31, 2005	2003 Mar. 31, 2004	2005 Mar. 31, 2006
Sales amount .....	¥ 3,193	¥ 2,720	¥ 308	\$ 27,291
Aggregate gain on sales .....	2,231	1,399	80	19,068
Aggregate loss on sales .....	¥ 0	¥ -	¥ -	\$ 4

(c) The redemption schedule for securities with maturity dates which were classified as other securities and held-to-maturity debt securities at March 31, 2006 is summarized as follows:

Fiscal year 2005 (As of Mar.31,2006)	Millions of yen		Thousands of U.S. dollars	
	Due in one year or less	Due after one year through five years	Due in one year or less	Due after one year through five years
Bonds .....	¥ 25	¥ 30	\$ 214	\$ 256
Total .....	¥ 25	¥ 30	\$ 214	\$ 256

#### 16. Supplemental Cash Flow Information

The following is the summary of the transferred assets and liabilities from the sale of stock of Ace Leasing Co., Ltd. and its subsidiary in the year ended March 31, 2005:

	Millions of yen
Current assets .....	¥ 28,677
Noncurrent assets .....	25,443
Total assets .....	54,121
Current liabilities .....	50,641
Noncurrent liabilities .....	7
Total liabilities .....	¥ 50,648

During the year ended March 31, 2004, the Company renewed its land securitization transactions and accounted for such transactions as a collateralized financing transactions rather than sales of land. As a result, land and corresponding long-term debt of ¥25,500 million were recorded upon the renewal.

During the year ended March 31, 2004, short-term borrowings of ¥89,995 million were converted to shares of preferred stock. See Note 8.

#### 17. Derivatives

The Company utilizes derivatives for the purpose of hedging its exposure to adverse fluctuation in foreign exchange rates and interest rates, but does not enter into such transactions for speculative or trading purposes.

The Company is exposed to credit risk in the event of nonperformance by the counterparties to the derivative transactions, but any such loss would not be material because the Company enters into transactions only with financial institutions with high credit ratings.

At March 31, 2006 and 2005, the disclosure of fair value information for derivatives has been omitted since all derivatives have been accounted for as hedges.

**18. Related Party Transactions**

The Company was a 19.4%-owned affiliate of Nissan Motor Co., Ltd. ("NML") until March 27, 2006 when NML sold the Company's 40 million shares of common stock representing approximately 14% of voting rights. As a result, the Company is no longer an affiliate of NML. The transaction amounts presented below for the year ended March 31, 2006 represented those for the period from April 1, 2005 to March 27, 2006.

Consolidated net sales included those to NML which totaled ¥85,204 million (\$728,239 thousand), ¥95,953 million and ¥87,211 million for the years ended March 31, 2006, 2005 and 2004, respectively. In addition, the Company purchased parts from NML for aggregate amounts of ¥25,904 million (\$221,402 thousand), ¥32,349 million and ¥30,373 million during the years ended March 31, 2006, 2005 and 2004, respectively.

During the year ended March 31, 2005, the Company purchased certain tangible assets from a subsidiary of NML for ¥8,458 million.

The Company sold its small-sized truck development rights to NML for ¥1,200 million and recognized a gain of the same amount for the year ended March 31, 2004.

On December 16, 2003, the Company issued 26,664,000 shares of preferred stock to NML for ¥15,998 million or ¥600 per share. See Note 8.

The terms of the transactions referred to above were negotiated on, and have been determined at, an arm's-length basis.

**19. Segment Information**

*Business segment information*

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sales of products (i.e., vehicles, engines, parts and related components) in the vehicle business segment. As these operations constitute a single area of business, the disclosure of business segment information has been omitted.

*Geographical segment information*

As net sales and total assets of the foreign consolidated subsidiaries constituted less than 10% of the consolidated totals for the years ended March 31, 2006, 2005 and 2004, the disclosure of geographical segment information has been omitted.

*Overseas sales information*

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of its foreign consolidated subsidiaries, for the years ended March 31, 2006, 2005 and 2004 are summarized as follows:

Fiscal year 2005 (For the year ended Mar.31,2006)	Millions of yen					Thousands of U.S. dollars				
	North America	Asia	Africa	Other	Total	North America	Asia	Africa	Other	Total
Overseas sales .....	¥ 12,140	¥ 26,801	¥ 27,958	¥ 18,813	¥ 85,714	\$ 103,761	\$ 229,068	\$ 238,957	\$ 160,795	\$ 732,598
Consolidated net sales .....					482,827					4,126,726
Overseas sales as a percentage of consolidated net sales .....	2.5%	5.6%	5.8%	3.9%	17.8%					

Fiscal year 2004 (For the year ended Mar.31,2005)	Millions of yen				
	North America	Asia	Africa	Other	Total
Overseas sales .....	¥ 12,646	¥ 26,066	¥ 25,887	¥ 18,159	¥ 82,759
Consolidated net sales .....					461,169
Overseas sales as a percentage of consolidated net sales .....	2.7%	5.7%	5.6%	3.9%	17.9%

Fiscal year 2003 (For the year ended Mar.31,2004)	Millions of yen				
	North America	Asia	Africa	Other	Total
Overseas sales .....	¥ 9,960	¥ 25,078	¥ 15,742	¥ 13,599	¥ 64,380
Consolidated net sales .....					452,970
Overseas sales as a percentage of consolidated net sales .....	2.2%	5.5%	3.5%	3.0%	14.2%

## 20. Subsequent Events

- 1) Pursuant to a resolution by the Board of Directors of the Company on March 31, 2006, the Company issued 1.45% unsecured bonds due 2008 in the amount of ¥10,000 million (\$85,470 thousand) on June 23, 2006.
- 2) At the shareholders' meeting held on June 28, 2006, it was resolved that the Company reduce its capital surplus by ¥25,000 million (\$213,675 thousand) and that the Company repurchase 37,498 thousand shares of Class II preferred stock (representing 84.9% of the shares of Class II preferred stock issued) for the maximum purchase price of ¥30,000 million (\$256,410 thousand) for cancellation.
- 3) The following appropriations of retained earnings of the Company were approved at a shareholders' meeting held on June 28, 2006:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends:		
Class I preferred stock (¥6.11 = \$0.05 per share) .....	¥ 269	\$ 2,299
Class II preferred stock (¥7.61 = \$0.07 per share) .....	336	2,872
Class IV preferred stock (¥10.31 = \$0.09 per share) .....	68	581
Common stock (¥3.00 = \$0.03 per share) .....	919	7,855
	¥ 1,593	\$ 13,615

## Report of Independent Auditors

The Board of Directors  
Nissan Diesel Motor Co., Ltd.

We have audited the accompanying consolidated balance sheets of Nissan Diesel Motor Co., Ltd. and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2006, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nissan Diesel Motor Co., Ltd. and consolidated subsidiaries at March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006 in conformity with accounting principles generally accepted in Japan.

### *Supplemental Information*

As described in Note 20, at the general shareholders' meetings held on June 28, 2006, it was resolved that the Company reduce its capital surplus and repurchase its shares of Class II preferred stock.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4.

*Ernst & Young ShinNikon*

June 28, 2006

## PRINCIPAL SUBSIDIARIES AND AFFILIATES

Name	Address	Principal Business	(As of July 1, 2006)
<b>Domestic</b>			
Nissan Diesel Asahikawa Sales Co., Ltd.	Asahikawa, Hokkaido	Sales of truck, bus and parts	
Nissan Diesel Doto Sales Co., Ltd.	Obihiro, Hokkaido	Sales of truck, bus and parts	
Nissan Diesel Hokkaido Sales Co., Ltd.	Sapporo, Hokkaido	Sales of truck, bus and parts	
Tohoku Nissan Diesel Co., Ltd.	Sendai, Miyagi	Sales of truck, bus and parts	
Nissan Diesel Iwate Sales Co., Ltd.	Shiba-gun, Iwate	Sales of truck, bus and parts	
Nissan Diesel Tochigi Sales Co., Ltd.	Utsunomiya, Tochigi	Sales of truck, bus and parts	
Gunma Nissan Diesel Sales Co., Ltd.	Maebashi, Gunma	Sales of truck, bus and parts	
Nissan Diesel Niigata Sales Co., Ltd.	Niitsu, Niigata	Sales of truck, bus and parts	
Kanto Nissan Diesel Co., Ltd.	Koto, Tokyo	Sales of truck, bus and parts	
Tokai Nissan Diesel Co., Ltd.	Yokohama, Kanagawa	Sales of truck, bus and parts	
Hokuriku Nissan Diesel Co., Ltd.	Kanazawa, Ishikawa	Sales of truck, bus and parts	
Chubu Nissan Diesel Co., Ltd.	Nagoya, Aichi	Sales of truck, bus and parts	
Kinki Nissan Diesel Co., Ltd.	Osaka, Osaka	Sales of truck, bus and parts	
Chugoku Nissan Diesel Co., Ltd.	Hiroshima, Hiroshima	Sales of truck, bus and parts	
Shikoku Nissan Diesel Co., Ltd.	Takamatsu, Kagawa	Sales of truck, bus and parts	
Kyushu Nissan Diesel Co., Ltd.	Fukuoka, Fukuoka	Sales of truck, bus and parts	
CROSSNET Co.,Ltd.	Saitama,Saitama	Sales of used car	
Nikko Co.Ltd	Ageo,Saitama	Insurance agent, Tour arrangement, Service of printing and cleaning, Gas station management	
Nissan Diesel Logicom Co.,Ltd.	Ageo,Saitama	Packing and delivery of KD parts for export sales, Transportation	
Texas Co.,Ltd.	Ageo,Saitama	Factory and machine maintenance, House builder, Realty business	
Nippon Career Service Co.,Ltd.	Ageo,Saitama	Guard	
Capital Trading Co.,Ltd.	Ageo,Saitama	Export trucks, Import automotive parts and accessories	
Sun Co.,Ltd.	Ageo,Saitama	Sales of automotive accessories, Retail sales	
System Brain Co.,Ltd.	Ageo,Saitama	System development, System operation, Sales of used parts	
Create Center Co.,Ltd.	Kawaguchi,Saitama	Training center	
Japan Vehicle Co.,Ltd.	Ageo,Saitama	Truck body build and maintenance	
DRD Co.,Ltd.	Ageo,Saitama	Design,tracing,proto-type production and test for trucks and machines, Dispatching the engineers	
N-Tech Co.,Ltd.	Ageo,Saitama	Automotive parts manufacturer	
Sun work Co.,Ltd.	Ageo,Saitama	Outsourcing direct workers	
Sakurai SSS Co.,Ltd.	Kawagoe,Saitama	Machining of industrial parts, Assemblies of functional components	
<b>Overseas</b>			
COLUMBIAN MOTORS CORP.	Manila, Philippines	Sales of truck, bus and parts	
GHANDHARA NISSAN DIESEL LTD.	Karachi, Pakistan	Sales of truck, bus and parts	
NISSAN POWER TRAIN CO.,LTD.	Samutprakarn, Thailand	Production of engine	
DONG FENG NISSAN DIESEL MOTOR CO., LTD.	Hangzhou, China	Sales of truck, bus and parts	
PK-UD AXLE CO., Ltd.	Hangzhou, China	Production of axles for heavy-duty trucks and buses	
PT.ASTRA NISSAN DIESEL INDONESIA	Jakarta, Indonesia	Sales of truck, bus and parts	
NISSAN DIESEL SOUTH AFRICA(PTY)LTD.	Pretoria, South Africa	Sales of truck, bus and parts	
NISSAN DIESEL AMERICA INC.	Irving, Texas, U.S.A.	Sales of truck	

## OVERSEAS DISTRIBUTORS

Algeria	SARL ELSECOM	Lebanon	Rasamny Younis Motor Co.
Angora	TDA COMERCIO E INDUSTRIA, LDA.	Malawi	CFAO Malawi LTD.
Antigua	F.E.Hadeed & Sons, Motor Division	Malaysia	Auto Dunia Sdn.Bhd.
Australia	UD TRUCKS(OCEANIA)PTY, LTD.		Tan Chong Industrial Equipment Sdn.Bhd.
Bahrain	Y. K. Almoayyed & Sons, B.S.C.(C)	Mauritius	ABC Motors Co., Ltd.
Bangladesh	PACIFIC MOTORS LTD.		ACE Motors Co., Ltd.
Bermuda	HWP GROUP	New Zealand	UD Truck Distributors (NZ) Ltd.
Bolivia	NIBOL Ltda.	Oman	Al-Hashar & Company
Brunei	BORNEO TAN CHONG INDUSTRIAL	Pakistan	Ghandhara Nissan Ltd.
	MACHINERY SDN.BHD.	Panama	PANAMENA DE MOTORES S.A.
Chile	CIDEF	Papua New Guinea	Boroko Motors Ltd.
Colombia	Distribuidora Nissan Ltda.	Paraguay	Tokyo Motors S.A.
Commonwealth of Dominica	Auto Trade	People's Republic of China	Dongfeng Nissan Diesel Motor Co.,Ltd.
Costa Rica	Agencia Datsun, S.A.	Peru	Nissan Maquinarias S.A.
Djibouti	Anciens Comptoir Ries	Philippines	Columbian Motors Corporation
Dominican Republic	Santo Domingo Motors	Qatar	Jaidah Motors and Trading Co.
Ethiopia	Nyala Motors Share Company	Saipan	Joeten Motor Company, Inc.
Fiji	Carpenters Motors	Saudi Arabia	Rolaco Trading & Contracting
Ghana	Japan Motors Trd Co.,Ltd.	Sierra Leone	Datsun Motor Co., Ltd.
	Auto Parts Limited	Singapore	Tan Chong Industrial Machinery (Pte) Ltd.
Guatemala	Auto Mercantil S.A.	South Africa	Nissan Diesel South Africa (Pty) Ltd.
Haiti	Universal Motors S.A.	Sri Lanka	Senok Trade Combine Ltd.
Honduras	SEMPE	Taiwan	Yulon Motor Co.,Ltd.
Hong Kong	Reliance Motors Ltd.	Thailand	Nissan Diesel (Thailand) Co.,Ltd.
Indonesia	PT. Astra Nissan Diesel Indonesia	Trinidad & Tobago	Neal & Massy Motors
	PT. United Tractors Tbk	Uganda	The Cooper Motor Corporation (U) Ltd.
Republic Cote d'Ivoire	COMAFRIQUE S.A.	United Arab Emirates	Al Masaood
Jordan	The Commercial & Industrial Co.		United Diesel
Kenya	CMC Motors Group Ltd.	United States of America	Nissan Diesel America, Inc.
Kuwait	Boodai Trading Company Ltd.	Republic of Yemen	Adhban Trading Corporation
		Zimbabwe	Duly Holdings Ltd.

## CORPORATE DATA

### NISSAN DIESEL MOTOR CO., LTD.

#### Head Office/Ageo Plant

1-1, Ageo-shi, Saitama 362-8523, Japan  
TEL:+81-48-781-2301

**Date of Establishment** December 1, 1935

**Major production Sites and Facilities**  
Hanyu Plant  
Kounosu Plant  
Motegi Proving Ground

**Paid-in Capital** ¥38,597 million

**Common Stock** 306,435,106 shares (All issued)

**Preferred Stock**

Class I	44,164,000
Class II	44,164,000
Class IV	6,666,000

**Number of Shareholders** 25,307

**Preferred Stock:**

Class I	4
Class II	4
Class IV	1

(As of March 31, 2006)

### Major Shareholders

AB Volvo	13.05 %
Nissan Motor Co.,Ltd.	5.94
The Master Trust Bank of Japan, Ltd.	4.72
Mizuho Corporate Bank, Ltd.	3.97
Japan Trustee Services Bank, Ltd.	3.83
Trust & Custody Services Bank, Ltd.	2.69
Nippon Life Insurance Co.	2.54
Japan Securities Finance Co., Ltd.	2.32
Resona Bank, Ltd.	1.94
Barclays Global Investors Japan Trust & Banking Co., Ltd.	1.57

**Securities Traded** Tokyo Stock Exchange

### Transfer Agent and Registrar

Mizuho Trust & Banking Co., Ltd.  
2-1 Yaesu 1-chome, Chuo-ku, Tokyo 103-8670, Japan

For further information, please contact the Public Relations & Investor Relations Department, the Finance Department, the Overseas Operations Department.

■ Public Relations & Investor Relations Department  
TEL: +81-48-726-7601 FAX: +81-48-726-7629

■ Finance Department  
TEL: +81-48-726-7605 FAX: +81-48-781-6349

■ Overseas Operations Department  
TEL: +81-48-726-7443 FAX: +81-48-726-7498

URL : <http://www.nissandiesel.co.jp/>

E-mail Address : [ud\\_ir@nissandiesel.co.jp](mailto:ud_ir@nissandiesel.co.jp)

## BOARD OF DIRECTORS



Jorma Halonen Iwao Nakamura Itaru Koeda



From left : Keishi Abe, Takahisa Oniki, Satoru Takeuchi, Hiroshi Masuda, Yusuke Sakaue, Tadamichi Harada

**Chairman**  
Itaru Koeda

**Vice Chairman**  
Jorma Halonen

**President**  
Iwao Nakamura

**Senior Managing Directors**  
Satoru Takeuchi  
Hiroshi Masuda  
Takahisa Oniki  
Yusuke Sakaue  
Keishi Abe  
Tadamichi Harada

**Corporate Auditors**  
Takeo Ohkusa  
Ikuo Shishido  
Isamu Kuwako  
Kenzo Itoh

(As of June 28, 2006)



1-1, Ageo-shi, Saitama 362-8523, Japan



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