

LETTER FROM THE COO



My role and responsibilities as COO are very clear: to fully implement the Nissan Value-Up business plan and achieve all stated commitments. If we are not progressing as planned, we determine why, and take the measures necessary to get us back on track.

There were no major problems after Mr. Ghosn became joint CEO of Renault and Nissan—we had been planning for this transition for three years. Several factors made the smooth changeover possible. First is the way we structure our global management team: a three-dimensional matrix with a business axis, functional axis and product axis. Each senior executive within this matrix has both functional and regional responsibilities.

The business axis has four chairmen overseeing regional management committees for Japan, North America, Europe and General Overseas Markets. They are responsible for bottom-line operating profit and net income. Leaders in the functional axis,

covering R&D, manufacturing, purchasing and so on, are responsible for elements such as cost reduction and resource management. For the product axis, each platform has a director.

Disagreements are inevitable with such a complex management setup, but we believe in healthy conflict at Nissan, not easy compromises. When conflicts occur, we shift to a higher decision-making mode. The management committees and the Executive Committee, chaired by the CEO, have the final say on management issues such as strategy, policy, business plans, and so on.

The mindset and actions that we have cultivated since the Nissan Revival Plan—what we call the Nissan Way—also eased the CEO transition. We work hard to instill this thinking throughout the company, encouraging employees to challenge, participate, and commit to objectives. After Mr. Ghosn became Nissan's CEO, our HR strategy began focusing on executive training and promoting people with high potential. Reflecting this, the average age of Nissan's current executive committee members is 53, very young when compared to most Japanese firms.

One of my primary tasks as COO is to oversee implementation. I concentrate on the “PDCA” cycle—plan, do, check, action—examining quality issues, profitability, cost reductions, and sales and marketing expenses. Our cultural imperative is to tackle issues and problems at the earliest possible stage, because when small problems get big, simpler solutions often disappear. For example, I continually monitor our KPIs—key performance indicators—in our monthly Value-Up status report. These include external and internal KPIs, and are closely linked to our Value-Up objectives and commitments.

Another variable is our return on invested capital or ROIC. That breaks down into several KPI, such as accounts receivable and inventory. If inventory is

overflowing somewhere, we want to know why. Just waiting for results is not management—we need to be proactive. That's the Nissan Way in action.

In addition to my role and responsibilities as COO, I serve as the chairman of the GOM countries. I also oversee quality, human resources, and treasury. My priority now, however, is the Japanese market. None of us is satisfied with the results we're getting. Although we derive much of our profitability from overseas, we remain vulnerable to exchange rate fluctuations, so we still need to deliver solid revenues from Japan.

Japan's market remains highly competitive. Since the early 1990s, total industry volume has gone from 8 million to under 6 million. In this diminishing market, many manufacturers have maintained multiple sales channels as a way to try to retain customers and increase market share.

Nissan had two different sales channels until 2005. Now we sell our entire lineup through both. This is the right long-term strategy for us, because it is both customer-driven and profit-driven. However, we still need to rationalize our dealership network. Of our 150 dealers and 2500 outlets, 52 are Nissan subsidiaries representing around 1200 outlets. Each subsidiary had its own management, business plan and assets, including non-core assets like driving schools.

This is clearly inefficient, so in April we separated the asset management business and the dealer business. We put all assets—land, buildings and showrooms—into one new company called Nissan Network Holdings (NNH). We will close some

unprofitable outlets, but NNH can invest if we consider one salvageable.

My three strategies for improving profitability in Japan are to improve the efficiency of our product range, further strengthen the effectiveness of the dealer network, and deliver superior customer satisfaction. Given a choice of profit or volume, we choose profit.

Providing agile, responsible, and personalized customer treatment, based on the Nissan Sales and Service Way, is also essential. We have hundreds of supervisors observing and giving feedback on how well our salespeople interact with customers. We constantly evaluate customer and sales satisfaction indices and conduct surveys at every outlet. As a result, our customer satisfaction scores in Japan are very high.

In fiscal 2006, the second year of Nissan Value-Up, we are focusing on four breakthrough areas globally: Infiniti, LCVs, geographic expansion, and sourcing from leading competitive countries. The first six months will be tough, since we will have fewer new models. Yet even in this enormously competitive industry, we are confident that our products, discipline and customer-driven approach will deliver profits and sustained value to our shareholders.



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