



Record Profits in Europe Set the Stage for Expansion

In fiscal 2005, Nissan Europe delivered a record operating profit performance, going from 56 billion yen the previous year to 67.2 billion yen. There were three main reasons for the positive performance: a significantly improved product mix—we're selling more big cars compared to our total volume—lower manufacturing and purchasing costs, and tightly controlled general and administrative expenses.

We successfully launched several large cars such as the Pathfinder SUV, Navara pickup and the Murano, in 2005. These products, which did not exist in the lineup in fiscal 2004, made an important contribution to the expanded profit margin.

Manufacturing played a big role in these successful launches. The Barcelona plant in Spain produced a record number of vehicles in 2005, including Pathfinder and Navara as well as light commercial vehicles for our alliance partner, Renault. This performance has helped to substantially decrease our manufacturing cost per unit.

In the area of general and administrative expenses, we have been controlling costs better. We achieved significant benefits in the first year of implementation of the Global Service Efficiency program, which involves offshoring non-core tasks and simplifying and streamlining many of our support processes.

Our total sales volume for the year was flat overall—541,000 units compared to 544,000 in fiscal 2004. Very strong sales in Russia offset declines in Germany and Italy. Other countries were basically in line with our business plan, with a slight rise over the previous fiscal year.

In Germany and Italy we suffered from weak sales distribution networks. In both countries we found we had too many dealers, too many small dealers, and too many dealers performing poorly. Often, our dealers were not in the locations needed

to support the distribution of our new product plan.

As an example, in Italy, Nissan was over-represented in the south of the country, and poorly represented in the north where markets like Milan are very attractive for our premium cars.

In Germany, the situation was similar: we were overrepresented in rural and suburban areas and had a limited presence in major metropolitan markets like Munich. In January of 2006, we began a major restructuring of our German distribution capacity which should bring bigger dealers with a better capacity to invest in the Nissan franchise and therefore deliver a much higher level of satisfaction to our customers. The sales performance in the first months of 2006 is very encouraging.

In addition, we undertook several geo-marketing studies in 2005 to determine what our ideal distribution footprint should look like, consistent with the renewed product plan. The resulting map shows opportunities in major metropolitan areas across all countries in Western Europe.

Our growth has been very strong in Russia where our presence was very marginal only three years ago. Despite this early success, we believe that Nissan's potential is much higher. In early 2006, the decision was made to capitalize on our growing presence and build a new manufacturing plant in St. Petersburg to produce cars for the local market.

Additionally, as part of the Nissan Value-Up plan to expand Infiniti to a global tier-1 brand, we will launch in Russia in the fall of 2006. This decision is a stage-setter for a planned simultaneous launch of the Infiniti brand in all Western European markets in late 2008.

For a long time everyone has used the European market's complexity to justify having a complicated organization. We're trying to prove through several initiatives that this is unnecessary. For example, we've reduced our legal entities across Europe from



thirty-six to fifteen. That eliminates administrative overhang and frees up resources to better serve our customers with products and services that are relevant to them.

Regional business units are part of a new business model meant to cope with this complicated and costly market. The arrival of new countries from Eastern and Central Europe into the European Union only reinforced the necessity to create a new business model.

Instead of having a sales company in every national market, we decided to use regional hubs. The Central and Eastern European hub, which is located in Hungary, for example, oversees branch offices in Poland, Slovakia and the Czech Republic in addition to its own market. We implemented the same organization in the Nordic region—using Finland as a base for Denmark, Norway and Sweden. In the east, a company in Russia handles our business needs in the Ukraine and Kazakhstan.

In each of these cases we have increased our effectiveness in sales and marketing and, by operating with streamlined and standardized systems and processes, improved our administrative efficiency.

Nissan's brand recognition in Europe is still low, but improving. In the past, too many of our products attempted to copy mainstream European brands and fell short in expressing Nissan's personality. That's changing.

We've reinforced the 4x4 SUV side of our lineup with the Pathfinder and the Navara pickup, giving us the strongest and fastest-growing range in Europe. We are also the clear market leader in pickup trucks—four out of every ten pickups sold in Europe is a Nissan. Murano is highly successful as Nissan's first crossover in the European market and will soon be followed by other cars in this profitable segment.

In the fall of 2006 we will also launch an all-new light-duty truck, the New Cabstar. This is a real event for our chassis-cab plant in Avila, Spain, as well as for our expanding light-duty truck network.

In the passenger car segments, many of the more traditional models, such as Tino, Almera and Primera, entered into their last months on sale. But the renewal of the lineup has already started with the new Nissan Note, manufactured in Sunderland, UK and launched in February 2006. Its first months of sales have exceeded expectations.

The excitement and buzz surrounding the brand is growing as we approach the Paris Motor Show in September, where we will reveal the production version of the Qashqai crossover concept car. This vehicle will play an important role in defining the new face of Nissan in Europe.

Our Alliance with Renault continues to present valuable opportunities for expanding synergies in many areas ranging from shared services, IT, sales finance with Renault Credit International, light commercial vehicles and diesel engines.



Pathfinder



Murano



Note