

NORTH AMERICA

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Building on a Strong Product Plan in a Shifting Market

The automotive market in the United States was a tale of two halves in fiscal 2006. In the first six months of the year the industry was relatively healthy, but we lacked new product offerings. When we launched products in the second half, the economic environment was not as inviting as fuel prices started rising and housing starts slowed. As a consequence, total industry volume fell rapidly.

As volumes declined, so did the vehicle mix. People were moving from traditional SUVs to crossover vehicles and from light trucks to sedans and small cars. Our sedan lineup performed relatively well, particularly the cars we launched, but a drop in the truck segments overshadowed a lot of their success.

Although the U.S. market is still one of the most vibrant markets in the world, TIV fell to about 16.5 million units last year. This year it's hovering between 16 and 16.2 million. In January 2007, we projected the market would fall to 16 million during the fiscal year. Unfortunately, to date, we were right. In two years, the U.S. market will have lost close to a million units.

The introduction of our new small car, the Versa, was well timed as fuel prices are climbing. This product answers the needs of the marketplace, although admittedly the margins for that segment aren't as high as larger cars. Still, it's better for us to capture those customers than lose them to somebody else.

The competition in the U.S. market remains fierce, and that's reflected by high levels of incentives and rapid product introductions. Incentives are a constant in the marketplace now—the only thing that changes is how fast they're announced and how big they are. There was a time during 2006 when some makers, after reducing their prices were attempting to go without incentives. By the end of the fiscal year, though, they'd reversed that trend and

were bringing back the incentives again, on top of the lowered prices, particularly for trucks.

The constant barrage of new products that we're planning over the next several years will be the fuel for our growth in this difficult environment. For the Nissan Division, we launched the Versa, Sentra and an all-new Altima sedan. In the summer, we launched our first-ever coupe version of the Altima. Later in the year, we will release the Rogue, our new entry in the midsize crossover segment. Between those two cars, we're entering segments that we had no offer in before. Virtually all those sales should be incremental.

In the second half of fiscal 2006 our sedan sales were up significantly, driven by the Altima, which is our Nissan brand volume leader. In the past, the Sentra covered both the entry-level segment and the compact car segment. With the introduction of the Versa to the entry-level market, we elevated the Sentra's stature to cover solely the compact car segment.

The Altima coupe is a line extension, and an exciting one. There are a few other coupes out there, but none really fulfills the word properly. A coupe shouldn't be just a two-door version of the sedan. Altima will be the first true coupe in that segment. Of the nine body panels on a vehicle, for example, it only shares one with the Altima sedan, and we've also shortened the wheelbase. While there's still a family resemblance, it's a dramatic departure from the sedan.

The Rogue is entering the fastest-growing segment in the market today, and one that so far has been dominated by a few other models. With fuel prices so high, some people are migrating from traditional SUVs to mid-sized crossovers, while others are going to the small SUVs. This is a real opportunity to further expand our volume.

On the Infiniti side, we'll be launching the G37 coupe later in fiscal 2007. This is a replacement vehicle for a model that was very successful and in fact, the press coverage has already been very positive.



At the New York Auto Show we also unveiled the Infiniti EX35, our first entry into the small luxury crossover segment. Those sales will also be virtually all incremental. The migration from traditional SUVs to mid-sized crossovers and small SUVs in both divisions is probably the biggest opportunity we have in the short run, because those are rapidly growing segments where we haven't had a presence before.

Trucks represent a declining segment in which the competition is very brutal. We're not shying away from that challenge, but we're also not resorting to deep incentives just to maintain a bigger presence in a shrinking market. Our number one goal is profitability, not chasing volumes.

From a brand perspective, our goal on the Nissan side is to increase customer brand opinion. A lot of new-car buyers consult Consumer Reports magazine before deciding what to buy, so we were really pleased to see that after a recent test by the magazine, they gave the new Altima a very good review.

On the Infiniti side, the short-term goal is to enhance brand recognition, because in relative terms we're a new brand in the U.S. luxury market. Consumer Reports recognized Infiniti's G35 and M as two of the ten best cars in America for safety and reliability in their respective categories. In the long term, our goal is to become one of those Tier 1 luxury players. That's something that has to be earned—it's not something you can just claim.

You have often heard Nissan talk about the importance of good, competitive products. It's what customers see and, ultimately, what makes them choose the brand they buy. But for products to be competitive in the marketplace, Nissan must also be profitable. In the automotive industry, that means cost competitive.

Cost competitiveness means first and foremost having the right people, but also the right purchase costs, efficient processes and an effective organization. It is with this necessity in mind that

NNA moved its corporate headquarter in 2006 to Nashville, Tennessee.

Customers see one product at the end of a complex design, manufacturing and sales process. For the customer to get the best product at the most competitive cost, NNA must operate as one team. Moving the sales, marketing, finance and all of the administrative functions to be with manufacturing, supply chain management and purchasing gave us the opportunity to gain in efficiencies and better understand the needs of customers.

The move went smoothly and the disruption was minimized by good advanced planning. A corporate regional headquarter building, Nissan Americas, is under construction and everyone will relocate in the summer of 2008.

This building will also help NNA manage more effectively across the vast and complex region of the Americas which stretches from Canada to Argentina. The opportunities to better leverage our infrastructure are big.

Products made in Mexico, such as Versa and Sentra are exported within the region, primarily the United States and also to more distant markets like Russia. In Brazil, Nissan leverages the alliance with Renault where we share manufacturing facilities, sales and distribution as well as administrative functions.

NNA will continue to evolve as a regional entity with the sole purpose of delivering better, more competitive products for our customers with a higher return for all our stakeholders.



Rogue