

INDIA

CARLOS TAVARES
Executive Vice President



Strategic and Competitive Market

The Indian market is as strategic for Nissan as China was five or six years ago, and all our decisions are based on that view. It's a crucial market for the future and we are investing there for the long term. Driven by strong GDP growth in India, we expect the total industry volume to double to over two million units annually by 2011.

While India isn't the most competitive market in terms of number of players, it is perhaps the world's most price-competitive one. It's a very protected market, and highly strategic because of this huge country's potential. Due to the high import taxes, you cannot import finished vehicles unless they are near-luxury cars. We are now importing the X-TRAIL and the Teana. However, to achieve long-term growth and sustainability in a market like India, you clearly cannot sell high volumes unless you manufacture locally.

In the car world, the B and C segments still have the biggest growth potential. We will be facing Korean and other Japanese competitors at first, but also going up against strong local manufacturers that have been in business for decades. The market leader holds a 50 percent share and imposes pricing pressure on the other players.

For near-luxury cars the market is much more open, but the volumes are small—between 1,000 and 10,000 cars annually, even with four or five cars in your portfolio. You can begin building your brand strategy and image with near-luxury models, but that won't build a complete and profitable business. At some point you need to push the higher-volume cars by making them locally.

For that reason, we've signed a memorandum of understanding (MOU)—with Mahindra & Mahindra and Renault to create a manufacturing joint venture in Chennai. The three partners signed another MOU

with the Tamil Nadu government that secures an incentive package for the JV. Constructing such a deal ordinarily takes six to twelve months, but we did it in less than three. That was only possible because of the Renault-Nissan Alliance and the already strong dynamics between Renault and Mahindra.

We will be making two kinds of investments in Chennai, including some purely related to the JV and others in assets that Nissan will own. The JV's scope will probably be limited to manufacturing, the land, the power plant, and perhaps the stamping workshop. All three partners are investing in the welding lines, painting booth, trim and chassis lines, however, and to date we've jointly committed more than 900 million dollars.

The growth in exports will be much steeper than for domestic sales, so initially we're planning to use Chennai for exports. Our strategy is to pursue a two-step manufacturing approach, starting with one dedicated line at a plant capacity of 30 jobs per hour, which translates into 180,000 units per year. If everything goes well, we will go up to 45 or even 60 jobs per hour within three or four years. Although our plans for using India as an export base aren't finalized, potential targets are mature markets such as Europe, the U.S. and Japan.

Nissan will be entering a new price band through India. If we are frugal in the way we engineer, manufacture, and distribute our cars, we can compete effectively with Chinese manufacturers. That means leveraging the multiplier effect by combining excellent design-to-cost engineering with a well-designed supplier footprint, the most economical marketing and sales activity—in terms of fixed market expenses and direct incentives—and great logistics. In the entry-car world, only the people who excel in all those areas can survive.

Using the local supplier base is cost-competitive, and for vehicles sold locally, you're decreasing the



currency risk between your revenue footprint and your expense footprint. That's why it's so important to work with local people, and avoid shadow localization—just assembling parts from abroad.

Our dealership strategy is to build a dedicated Nissan network without buying the assets, so we're going to be making deals with specific partners that will own those dealerships. To meet our projected growth in India during the next decade, we will need to grow our dealer network significantly. We want to hedge the business risk in India by having one partner for manufacturing and a different one for distribution, because understanding local business practices and labor regulations, as well as managing union relationships and media relationships, are specific skills.

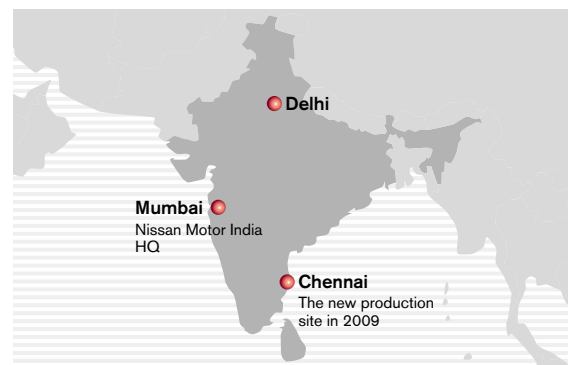
Using India as an LCC or leading competitive country is a huge challenge. First you need to have a localization rate of 90 percent or higher. That's possible if the powertrain is localized—at least the assembly and some core parts. Second, procure parts from the local supplier base. Third, don't just throw the specs on the table and ask your suppliers to build. That means leveraging the skills of our

engineers, who will continue to shift their mindset. To compete successfully in India, we need to redesign our vehicle parts to adjust for local factory tools, the local way of doing things, and even different materials.

We will be making cars at Chennai for the segment in which the price pressure is highest—compacts. We plan to bring a family of small cars based on one specific small platform and progressively expand it for both domestic sales and exports. There is risk, but if you don't go to India there's a certainty that you'll be out of the low-end market—the price band below ten or eleven thousand dollars worldwide—which is enormous. Look at Russia. The market is moving so fast there. When we made the decision to build the St. Petersburg plant, we were just on the limits of being too late. The foreign makers are doing well there by importing finished vehicles, and this could last for one or two more years. However, if you're not localized in Russia by 2009, you'll be out for everything between ten and twenty thousand dollars. India is a similar game.



The signing of MOU with Mahindra & Mahindra, Renault and Nissan



Geographic expansion – India