Cost Leadership at Nissan

We made a significant improvement in our purchase cost competitiveness during the Nissan Revival Plan (NRP), NISSAN 180 and NISSAN Value-Up years. Strong value-added activities with our suppliers—known as 3-3-3 activity—have supported all three plans. Approximately half of the cost reductions made were the result of this type of activity.

Our Alliance with Renault has been another major driver through our common purchase organization, the Renault Nissan Purchasing Organization (RNPO). The RNPO has increased its coverage from 30 percent of the total purchase amount 2001 to 70 percent in 2004. That rose to 90 percent in April 2008, and this organization now covers all parts and materials. We can now enjoy the huge economies of scale that come from the Alliance's combined production of over six million vehicles throughout most of our scope of purchase activity.

During the NISSAN Value-Up period, we made strong efforts to develop sourcing from leading competitive countries (LCCs). We have also increased competitive localization to more than 60 percent in our major LCC manufacturing operations, and we expanded purchases from LCCs for our manufacturing operations in high-cost countries from 12 to 24 percent during that three-year period.

Economic environment and outlook

LCC sourcing development has been closely associated with the rapid growth and evolution of the automotive industry in those emerging countries in recent years. We see this evolution itself as a huge business opportunity in terms of both market expansion and also competitive industrial base development. At the same time, however, we have been hit by sizable increases in raw material and energy costs over the last three years—as much as 300 billion yen on a global basis.

Those two clear and correlating trends—combined with the continuous economic growth of emerging countries, natural resource-oriented inflationary pressures on material costs, and the sluggishness of mature markets such as the U.S., Western Europe and Japan—will be factors for at least the first several years of NISSAN GT 2012.

Under these circumstances, it is obvious that optimizing cost reductions will be a crucial element to protect our healthy business growth in coming years. We are devising a plan to boost our cost reduction pace to 5 percent per annum. I believe this is the minimum level of performance needed in the present business environment.

NISSAN GT 2012's five challenges

To achieve the reductions mentioned, we need to boost productivity and 3-3-3 activity to the maximum level, which will require strong support from our suppliers. Observing the magnitude of the task at hand, I am convinced that we must radically improve the efficiency of our whole manufacturing and supply chain system. I would like to share with you our main challenges in this regard.

The first is to radically increase our production volume per part or part number, which will provide significant cost efficiency to supplier operations. This volume increase will have two sources. One is our planned business growth in Russia and GOM. The second will be a reduction in part complexity and product diversity. We are aiming to double our production volume per part, which will place us at the industry's top level of efficiency. The Alliance figures into this prominently, and we are already working with Renault teams on related aspects.

The next challenge is deeper localization with suppliers in the LCCs—the second step in our LCC sourcing challenge. We are aiming for 90 percent localization, and the same level for tier 2 and tier 3 components and materials. We will achieve this by generating design specifications that can be easily met in local markets. This activity will cover raw material specifications as well.

An important milestone related to this activity occurs in 2010, when we launch our newly developed small-platform vehicles. Our current plan is to have five LCC manufacturing sites covering worldwide markets, including mature markets. In that regard, superior quality is a mandatory condition for success on top of cost competitiveness.

HIROTO SAIKAWA
Executive Vice President

The third challenge is to reduce inbound logistics costs. We are focusing on improving supply chain efficiency, from packaging to transport distance, assembly site location, and production volume fluctuations. We also want to eliminate double handling by suppliers and our plants. We plan to reduce transport distance in our Xianghan plant in China by 40 percent and at our Mexico plant by 45 percent through localization, near-site supplier parks, and supplier onsite enhancement.

The next element is the cost of raw materials. We will tackle all aspects of this, from material usage reduction, scrap recycling expansion to material specifications. We see this challenge is becoming more and more important under the current economic circumstances.

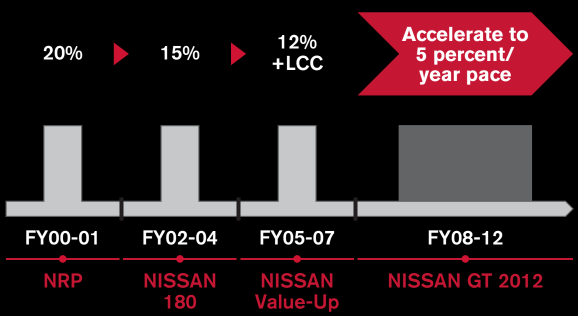
Beyond these improvements in operational efficiency, we are also working hard on technical breakthroughs. We have already made major reductions in the precious metals used in our catalytic converters, and our usage of precious metals as catalysts per vehicle will be cut in half by 2010. We are also focusing on recycle and re-use policies to cope with the volatile and inflationary levels of raw material prices.

The last challenge is to optimize the specifications themselves. We will do this during the planning phase of projects—and the preparatory phase as well—to avoid any over-specification or "cost creep" resulting from specification changes in the middle of project preparation.

That summarizes our major challenges during NISSAN GT 2012 related to cost leadership. We began all the activities mentioned with our suppliers last year in preparation for the launch of this midterm plan, and we are running at full speed to deliver the projected results from the first year onward. We are even extending its scope to all expenditures—including sales and marketing expenditures and G&A expenses—to reap the full benefit of this strategy.

Finally, I must stress that our activities should all start from genba—the operational area or supplier floor. The steps include identifying the problems and issues, extracting opportunities for improvement, pushing breakthroughs in Nissan's system, returning to the genba with viable solutions, and then ensuring the improvements are made. I am convinced that staying with this principle—and using transparent processes and clear, timely communications—will reinforce mutual trust with our suppliers and be a driver for Nissan's success.

**COST LEADERSHIP:
PURCHASING COST REDUCTIONS**



A-platform vehicle launched in 2010: 30% lower costs than current March (Micra)