

Managing Through the Global Crisis



A Streamlined Recovery in Preparation for Greater Growth

The objective of our recovery plan is to restore both positive free cash flow and operating profit. To achieve that, we are taking extensive measures during fiscal 2009 to align our cost base with the estimated 18 percent decline in net revenues from the previous year. As soon as business circumstances improve, we will ease these measures.

My role as Chief Recovery Officer is to implement this plan, which the Executive Committee approved and has a collective responsibility to deliver on. The recovery plan requires constant tuning, because the unexpected happens virtually daily.

Operationally, we have reorganized our markets into three regions: the Americas, including the U.S., Nissan's paramount market; Asia, including Japan and China; and what we call AMIE, meaning Africa, the Middle East, India and Europe, including Russia. All countries near to each other were combined geographically. This allows us to maximize regional synergies within each region. For example, vehicles manufactured at a certain plant would be sold in

countries nearby. Furthermore, we can exchange information on excellent suppliers and minimize logistics costs.

One primary goal in fiscal 2009 is a 5 percent cut in *monozukuri*-related costs. Our *monozukuri* functions—Engineering, Purchasing, Manufacturing, and Supply Chain Management—are developing concrete action plans with suppliers to reduce parts diversity and complexity and exchange rates. During fiscal 2009 we will cut vehicle and service parts complexity by 35 percent compared to the end of fiscal 2007. By fiscal 2012, we intend to double the average volume per part and cut parts complexity in half. We are also on track to localize over 90 percent of parts for new vehicles built in Leading Competitive Countries (LCC), starting with the global entry car.

We are also putting greater rigor into the new model and minor change review process. Starting with R&D, upstream involvement will include early-phase cost analysis and afterservice as we make sourcing decisions.

In addition, we are radically reducing G&A costs. We've also instituted work sharing, cut overtime and minimized hiring, which reduced our overall wage bill.



We temporarily reduced salaries here in Asia—corporate officers by 25 percent, general managers by 20 percent, and other staff by around 15 percent—and eliminated variable compensation and bonuses. This is balanced between the regions and implemented in accordance with local laws, taking into consideration respective customs and cultures. Everyone is sharing the pain.

The recovery plan rests on reducing costs, because you cannot guarantee revenues. Optimizing working capital is the best way to conserve cash, and we've reduced our capital expenditures from about ¥500 billion in fiscal 2007 to ¥350 billion in fiscal 2009. From a product lineup standpoint, we refuse to sell tomorrow for today. We are maintaining strategic initiatives and keeping key models, including the new global entry car and the electric vehicle. We're still investing in our plant in India, too, but have adjusted corporate initiatives in response to this crisis. For example, we were planning on utilizing Renault's plant in Morocco to produce LCVs. However, we've moved production to Barcelona, because we have existing capacity there.

Inventory is also at an all-time low. At the first sign of market decline we downshifted production at all our vehicle and powertrain plants worldwide, reducing our global volume for fiscal 2008 by 772,000 units—a 20 percent decrease from planned volumes. By March 2009, inventory was 26 percent lower than last year. We plan to keep inventory flat through tight control in a wider range of areas, including used cars, parts and materials.

Our Recovery Committee regularly discusses "car flow"—where our stock is and types of cars—and new sales and revenue opportunities. For example, Germany, Spain, the UK and other countries are offering scrap

incentive deals to help counteract the slack economy. We also need to track segment shifts as people move from big cars to small ones, because our core business is selling automobiles.

Our main areas of concern now are the TIV and exchange rates, as these factors are beyond our control. Global TIV was the biggest shock in that there were 70 million new cars sold in fiscal 2007 and in fiscal 2009, this decreased sharply to only 54 million units.

The exchange rate is hampering the entire Japanese automobile industry. Today, a ¥1.4 trillion gap exists between our costs in yen versus our revenues in yen. Since 55 percent of our yen exposure is mainly related to purchases from suppliers, we are working to decrease our sourcing of parts, materials and services from Japan-based suppliers and increase our sourcing from suppliers who can be paid in currencies other than yen. This action will allow us to minimize the current gap and continue our strategy of producing vehicles in Japan.

One positive outcome of this crisis is a tighter bond with Renault. Any proposed action or expenditure is now aligned to benefit the Alliance. That's good for our competitiveness, because together with Renault, we intend to maximize efficiencies and grow the business dramatically as the economy recovers.

Colin Dodge
Chief Recovery Officer