

EUROPE

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Staying Profitable and Picking Up the Pace

The European market is both mature and saturated. Overall volume in the region was flat in fiscal 2006, with Western Europe down. The exception was Russia, which again enjoyed excellent TIV growth. We ended the year at 539,000 units, almost in line with our retail sales performance last year.

Nissan's market presence in Western Europe, however, has eroded. One major reason is that we're changing the model lineup, with three models—the Almera, Almera Tino and Primera exiting most markets. The one model we launched in 2006, the Note, couldn't fully compensate for the loss of those three vehicles. However, we capitalized on strong growth in Russia to maintain our total volume and market share. Our final sales figure for Russia was around 76,000 units.

Despite the sales challenges, Nissan Europe reached a record consolidated operating profit again, becoming the only Nissan region to meet its profit commitment. We could have improved our sales performance, but chose to concentrate on profitable sales rather than chase volume.

Fiscal 2006 saw some significant restructuring, including revamping the distribution network. In January we gave one year's notice to all dealers in Germany, for example, keeping the best and dropping those too small or financially insecure to grow with us. We're now attracting investors who are able to offer professionally qualified sales staff in the stores, a higher quality and wider range of services

for the customer and much better locations.

In the four Nordic territories—Norway, Denmark, Sweden and Finland—we established a new regional business unit to replace previous importers, and restructured the dealer network. We did the same in Central and Eastern Europe with Hungary, the Czech Republic, Slovakia and Poland.

A high point for us in 2006 was the launch of our Infiniti brand in Russia. We did this through three large dealers, with two showcase showrooms in Moscow and another in St. Petersburg. All three meet the IREDI global standard. The launch was very successful—we were able to deliver around 750 vehicles to customers before January. Sales have accelerated since then, particularly of the FX. Having a signature vehicle like the FX, which is very visible in both cities, got us off to a quick start.

In Western Europe, we plan to launch the Infiniti brand at the Geneva Motor Show next March—the G series saloon and coupe, the FX, and a new small luxury crossover, with sales starting in the last quarter. We'll offer a petrol-only line-up initially but introduce diesel engines later. We plan to open a large number of sales points in fall 2008, covering between 15 and 20 countries.

Our two major launches this year are the Qashqai and the new X-TRAIL. We believe the Qashqai will be emblematic for the brand, demonstrating that Nissan can offer something different to the mainstream. The launch has been very successful, with sales ahead of our expectations and a large order bank.



Through the Alliance with Renault, we have secured high quality diesel engines that have allowed us to be very competitive and follow the growing diesel trend in Europe. That's very noticeable in the case of the Qashqai, which we offer with either a 1.5 dCi diesel or the fantastic 2.0-liter with 150 horsepower.

We're launching the X-TRAIL in most markets around September. The initial press is very positive. The car is regarded as an evolution on the outside but a revolution inside—almost 50 percent more trunk space and a big increase in the perceived quality.

In fiscal 2007, we aim to grow both profit and volume—something we have not done since the formation of the Alliance.

Much of that growth is linked to the launch of the Qashqai. Our brand is still relatively weak in Europe; our image attributes are predominantly the traditional rational ones of value for money and reliability, and we haven't achieved a significant breakthrough in the more "emotional" attributes. We plan to capitalize on cars with a point of difference, like the Qashqai, using their road presence to alter people's perception of Nissan. The Qashqai is already picking up awards. For instance, it recently scored the maximum five stars in the European New Car Assessment Programme (Euro NCAP) adult occupant safety test.



New X-TRAIL



Navara



Infiniti FX launch in Russia