

GENERAL OVERSEAS MARKETS

KATSUMI NAKAMURA
President & CEO,
Dongfeng Motor Co., Ltd.



China

Great Growth and Great Challenges in China

China is a huge, crowded market—the world's second largest—and the competition is fierce. Ten makers currently have shares around 5 to 10 percent, and Dongfeng Nissan was at 4.8 percent and ranked ninth in 2006. The total industry volume exceeded seven million units, including 4.2 million passenger vehicles and 2.8 million commercial vehicles. Between 2005 and 2006, the TIV for passenger vehicles went up a million units.

We projected sales of 484,000 units for fiscal 2006—including passenger vehicles, LCVs, and heavy-duty trucks—and sold 482,500. Our numbers for larger commercial vehicles were down, but passenger vehicle sales accelerated, reaching 200,000 units. Our LCVs—light commercial vehicles—were also moving well, and we are now number two in the Chinese LCV market. Our new heavy-duty truck developed at Dongfeng Motor Co. was named both Truck of the Year and most fuel-efficient high-performance vehicle.

The price competition in China is intense. Of the 156 models currently being offered, just ten sold over a hundred thousand units. Prices are down even in the top-end D segment. This top-down pressure influences C segment prices, which presses down on the B segment. For example, in the case of the Sylphy, our focus was on introducing the 2.0-liter model first. But the drop in price of D segment vehicles affected sales, so we've already introduced the 1.6-liter Sylphy to recover volume. Those are the kinds of situations we're dealing with.

We introduced two new products last year, the Sylphy and the Livina Geniss. Sales of both models are virtually in line with our plan. We're always busy launching new cars, as are other makers, because the Chinese customer's eye is constantly being drawn to new products. The market is growing, but

because this growth is driven by frequent launches from various makers it's very difficult to get major volumes for each car.

A primary objective of our business plan for China to date has been to increase brand recognition. We've established the Nissan brand with Chinese customers through three years of efforts. Nissan is a relative latecomer to the market, however, and the younger generation in particular doesn't know us well enough. I'm happy to say that our brand recognition is continually improving—we were second in the J. D. Powers Customer Satisfaction Index in 2006, just a bit behind the leader. While we ranked sixth in the Sales Satisfaction Index or SSI ratings, there was only a small difference between number two and number six. Nissan Tiida, our number one seller, with sales of around 110,000 units, was number one in the entry midsize segment—one of the most competitive segments—in both the 2006 J. D. Powers Initial Quality Study and the 2006 China Automotive Performance, Execution and Layout (APEAL) Study. Our objective is to be among the top three in all of these evaluations in 2007.

To enhance Nissan's reputation we are also doing product promotions and some social activities and making donations to the less fortunate. Through these activities and good relations with local people, I believe our image is improving at a grassroots level as well.

This year is the last one of our first-generation business plan, which started in 2004 and has mainly focused on establishing our business base for Dongfeng Nissan and Dongfeng Motor Co. Ltd. We were establishing the production site and the new management method, as well as our new sales network. We are now developing a second-generation three-year business plan for 2008 to 2010 based on that foundation. It is essential for



manufacturers in the Chinese market to invest in offering new products here, and in the sales networks and services and so on. Many manufacturers are developing new services for customers. If we don't do the same, our sales volumes and customer support will shrink.

In fiscal 2007 we have a target of 300,000 units for Nissan-branded vehicles, which is 50 percent more than last year. In terms of our passenger vehicle business, since we plan to introduce more new products, we'll be expanding production capacity at the Guangzhou plant from 270,000 to 360,000 vehicles by 2008. We will also be expanding our dealer network from the current 300-plus outlets to four hundred. Over 70 percent of our dealers were profitable in 2006, and many earn enough on services to pay virtually all fixed dealership fees. Our expansion efforts are now focused on establishing mid-sized dealers in each province.

Our first-quarter results for LCVs show we increased sales volume by 30 percent, even though the TIV is only growing by around 10 percent, and we are trying to improve our sales performance by using Dongfeng-badged LCV products. We have plans to

bring in a Nissan-branded LCV product for customers who would like even better quality and performance.

We have no plans to export passenger vehicles we make, because China is the only market with a 20 percent sales volume increase and more than four million units. Our Dongfeng-badged commercial vehicle operation, however, is exporting trucks to emerging countries such as Pakistan, Africa and Afghanistan, and to the Middle East. We exported more than 10,000 units in 2006, and we're aiming for 12,000 units in 2007.

This April at the Shanghai Motor Show we introduced the new Livina. This is a very strategic vehicle for Dongfeng Nissan because it is priced between 80,000 and 100,000 yuan, a range affordable to first-time customers who would ordinarily buy Chinese makes. The Livina is Nissan-branded, has Nissan quality and almost the same interior space as the Tiida. It should appeal to first-time buyers, especially ones with families. We already have 4,000 orders in hand one month after its debut, which is 50 percent more than our expectations. We hope to use this new vehicle to generate even greater sales volume.



Tiida



Sylphy



Auto Shanghai 2007 (April, 2007)