

The sole purpose of a public company is to create growing sustainable value. At Nissan, we are totally focused on this purpose.

However, for the first time in eight years, we missed our performance objectives in fiscal 2006. As a result, we have extended the delivery period for all Nissan Value-Up commitments by one year.

The stock market recognized this shortfall and our share price mirrored our performance. However, we believe we are well below our potential.

Fiscal 2006

This past year, all the headwinds we anticipated materialized and were more severe than expected. This happened the lowest point of our product cycle. Although we successfully launched new models, such as the Altima and G35, they were introduced late in the fiscal year and did not lead to overall annual volume growth. And the sales decline in our existing models offset these successful launches. In addition, our short-term profit potential was offset by our heavy investments for the future.

In order to re-boost our profitability, we have implemented several measures in Japan, U.S., Europe, and South Africa to address various issues including production capacity, dealer networks, and human resources. Yet, it is important to understand how our situation today is different from 1999, when Nissan underwent a major recovery. Today, we are fine-tuning our operations in order to boost our performance.

Progress toward long-term value creation

Addressing our short-term issues is important, but we also believe it is important to achieve long-term profitable growth that is measurable in the context of a solid long-term plan.

In our long-term planning, the priority is to maximize free cash flow. The key drivers will be

top-line growth, profitability, future investment and economies of scale through the Alliance. We have made significant progress in each area as shown below.

The first driver of top-line growth will come from our future product pipeline and geographical expansion.

Once we complete the 28 model launches for Nissan Value-Up this year, we will introduce over 33 new products during the next three years. As we embark on this product offensive, we are focused on “smoothing out” the product-launch cadence in order to avoid a new-product drought, such as those we experienced in 2005 and 2006. This should reduce the likelihood of profit fluctuations and increase the possibility for sustainable growth.

Regarding geographical expansion, one of our breakthroughs under Nissan-Value Up, we have successfully expanded our geographic presence in emerging markets as evidenced by the recent partnership with Renault and Mahindra in India. We expect significant growth in these markets.

Infiniti, another breakthrough, has also been successful in accelerating its geographical expansion. After its introduction in Korea in 2005 and Russia in 2006, Infiniti will enter the Chinese and Ukrainian markets in 2007 and during 2008 extend across Western Europe.

Top-line growth must be achieved with profitability. Growing volumes without an appropriate contribution to profit does not make good business sense. Profit is also key to maximizing cash flow. In this regard, brand and product value are crucial. Several third-party non-financial leading indicators have exhibited our improvement in brand and product value.

J. D. Power and Associates APEAL Study in the U.S. measures owner delight with the design, content, layout and performance of their new vehicles. In the 2006 survey, Nissan and Infiniti were

the segment leaders in five out of nineteen categories. Nissan has three segment-leading models, more vehicles than any other brand; Murano, Titan, and Armada. The Infiniti QX56 and M ranked at the top of their respective segments.

In a recent text, Consumer Reports, an influential magazine for new car buyers in the U.S., ranked our new Altima near the top, as it tied for the number-one vehicle in the family sedan segment. And in Consumer Reports' "Ten best cars in America," Infiniti's G35 and M were both recognized as the top picks for safety and reliability in their respective categories.

Although improvement in these indicators is not immediately reflected in our financial results, this is an engine of our profitable growth for the future. There is a direct correlation between customer satisfaction and profits.

But sustaining profits means preparing for the future today. We are investing massively, especially in R&D. Since 1999, our annual R&D expenditures have doubled and will come to nearly ¥500 billion in fiscal 2007. And through the Alliance, we now have extensive collaboration with Renault's R&D.

Our most urgent technical challenge today is to meet society's environmental expectations. That's why 40 percent of our budget for advanced engineering is devoted to the Nissan Green Program 2010, our five-year environmental blueprint.

For our industry, environmental sustainability represents the biggest engineering challenge. And no matter what you may hear or read, there is no silver bullet and no quick fix. In this race, the finish line is nowhere in sight. So along with Renault, we are pursuing every possible avenue of environmental progress – from hybrids to fuel-cells to electric and clean diesels.

In April, we announced that Nissan will introduce a clean-diesel passenger car for all fifty states in the



U.S. in 2010. We will launch a Nissan Maxima powered by a clean-diesel engine co-developed by Nissan and Renault.

A focused technology strategy will once again be a pillar of Nissan's competitive strength and the core of our brand identity.

Our alliance with Renault, the last driver of profitable growth, is another pillar of future strength. This model is unique and although not widely understood, its effectiveness is unparalleled in the automotive industry.

Together, we now rank fourth in sales volume and second in total profitability in the global industry. We share platforms, technologies and best practices in order to improve our investment efficiency. And we continue to achieve greater purchasing synergies each year.

Our collaboration in R&D allows us to cover every potential avenue of environmental progress. Together, we advance on all fronts.

As for purchasing, the Alliance has supported our breakthrough to develop new supply sources in "Leading Competitive Countries," especially in Eastern Europe. We will also accelerate progress in India with the Alliance.

There are still more areas of cooperation that have yet to be realized.

Outlook

In fiscal year 2007, we will launch 11 new products globally. The most important of these introductions will be the five models for the U.S. We will launch an all-new version of the Altima coupe, an all-new version of the Infiniti G37 coupe, the all-new compact crossover Rogue, the new compact luxury crossover Infiniti EX, and an all-new version of the Murano. Although we will again face a challenging environment, I believe that we will get back on track in terms of profit growth with these new models.

Long-term value creation

Despite our commitment to long-term value creation, in recent years, our market-adjusted total return to shareholders has been negative. In addition, our key valuation multiples, including PER, have been lower than our main competitors. Of course, multiples are only rough estimates and the differences may be attributed to various factors, including accounting differences. However, given the size of this gap to our competitors, it's obvious that the market is discounting the value of Nissan.

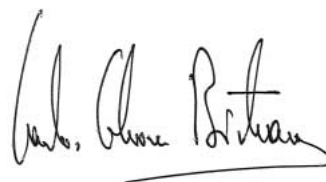
Based on our analysis, a significant part of this gap is due to investor perceptions regarding our long-term performance. To a lesser extent, our recent short-term performance has also contributed to this gap. Since the two perceptions are strongly interrelated, our weak short-term performance has negatively influenced perceptions regarding the viability of our long-term performance.

In order to close this gap, we must first deliver strong short-term results. And we must do this without being short-term oriented because the market always rewards companies that perform over the long-term. When we can demonstrate strong short-term performance, the long-term performance perceptions should improve. What will close it is consistently delivering strong short-term results.

Of course, we will not stop there. We will further improve perceptions of our long-term potential via transparent investor communications. After we successfully put ourselves on a solid track of profitable growth, investors' desires for more transparency increased significantly. They want to know more about our future strategy and vision and have a better understanding of how we will deliver our plans.

Performance and transparency make for credibility and that is what it takes to convince the market of our future potential. In this uncertain business environment, a company is required to not only consistently deliver strong performance, but also communicate to the market in a transparent manner.

A company cannot completely avoid all the ups and downs in its performance. But it should learn from past mistakes and never make them twice; this behavior is part of Nissan's DNA. We are committed to gaining the trust of the market and delivering superior performance.



Carlos Ghosn
President and Chief Executive Officer