

"Sustainability" is a key challenge of our time. How can humanity and nature both continue to coexist on this planet over the long term?

Discussion of this issue usually invokes other matters and concepts: environment, diversity, disparity, social justice, cultural understanding and globalization. For many thoughtful people today, these concepts are central to a passionate critique of modern consumer society and corporate enterprise. Taken to an extreme, this critique holds that a global corporation—especially one that makes automobiles—is an inherently malign force bent on depleting Earth's resources for short-term gain. We should not dismiss or ignore this critique, especially because it is current among intelligent and concerned young people around the world. Nor should we try to lull it away with soothing advertising telling the world that "we care."

Instead, we should accept the challenge and its consequences. We must continually prove in transparent and measurable ways that if we are a part of a problem we are also a key to its solution; that we are passionately committed to achieving real progress toward a sustainable future. Sustainability is not, however, merely a question of altruism. Negligence in matters of safety or the environment; unfair treatment of customers or workers; discrimination on the basis of race or gender; dishonest or unethical practices—any one of these can destroy the value of a company. The value destruction can occur overnight with a crisis or by slow poisoning if root causes are left unresolved.

So for Nissan sustainability represents fundamental good business sense, the path to creating long-term value for all our stakeholders—customers, employees, shareholders, business partners and the societies to which we all belong. In other words, we have to *create sustainable value* by enriching people's lives. To achieve this, we must work systematically to preclude the possibility of negative factors in every facet of our operations and at the same time strive to attain leadership in every aspect of sustainability.

This Sustainability Report charts our progress toward these goals via three main pillars.

Corporate Governance, Corporate Citizenship and Environment

Corporate Governance is the first and fundamental pillar. Ethical behavior can only function as an instinctive reflex at all levels of the company if it is clearly demonstrated in values at the top. Senior management must accept ultimate accountability for the company's behavior worldwide, and communicate clearly that only the highest ethical standards will do. It is not enough, however, to issue ethical commandments from the head office and expect compliance

to the letter throughout a vast global enterprise. To ensure that a company the size of Nissan lives up to its stated principles and commitments there is no substitute for *transparency*—both internal and external.

Internally, management needs the ability to monitor and measure the activities of each business area around the world in order to identify issues of concern *before* they become problems. Partly, this can be achieved through systematic organization, but much depends on cultivating a corporate culture in which transparency is reflexive.

Externally, transparency is an obligation we have to all our stakeholders. Investors deserve accurate, transparent measures of our business performance. Employees deserve transparent processes in hiring, compensation and promotion. Customers deserve transparency in pricing, in service and, when problems arise, with solutions. Governments and nongovernmental organizations deserve transparent measures of our progress with safety and environmental challenges. So, with the exception of competitive secrets and the personal data of individuals, it is in the interest of all stakeholders that Nissan's operations be highly transparent. This is a fundamental aid to navigation.

Corporate Citizenship is the second pillar of sustainability. Much more than simply making donations to worthy causes, corporate citizenship involves the correct conduct of a multitude of relationships with our stakeholders around the world. Nissan has an extremely broad "citizenship footprint" that has become steadily more complex in recent years. Around the world, literally hundreds of millions of people each day use our products—products that do not just sit quietly in customers' kitchens. As vehicles move they interact dynamically with people and the environment.

On top of this, over the past 25 years Nissan has evolved from an exporter of vehicles primarily made in Japan by Japanese employees to a truly global manufacturer that employs 180,000 people around the world. Nissan is now, for example, one of the largest private-sector employers in Mississippi, the United States, a state that has struggled to achieve social progress. We take seriously our role as a progressive employer, giving Mississippians the opportunity to show the world the tremendous strides they have made. China poses challenges even more complex as our operations there grow rapidly. In a society where the rule of law, labor standards and environmental norms are evolving, we must be extremely vigilant in ensuring we meet the highest possible standards.

These are but two examples of the complexity of Nissan's corporate citizenship in nations around the world. There are many more, and in each case they demand great cultural awareness and sensitivity. That is the challenge of corporate citizenship—and why we take it very seriously.

Environmental Concerns are the third pillar of sustainability—and by no means the least pillar, because society urgently demands environmental progress from our industry. Not since the race to put a man on the moon in the 1960s has a community of engineers faced such a stark challenge. But as engineers thrive on competitive challenge, everyone in our industry is motivated to win the race.

Nissan starts in “the middle of the pack” of this race. In the late 1990s as Nissan struggled, first to survive and then to recover, investment in advanced innovation took a back seat to more immediate concerns. But with annual investment in R&D now set at 5% of revenues many promising initiatives are in process, both at Nissan and in concert with Renault, our Alliance partner.

Our view is that no single technology has yet proven itself as the environmental panacea and, further, that it is customers who will decide which technology is most relevant and useful.

At present, the world's major markets are all moving in different directions. In Europe, advanced-diesel technologies are the clear favorite. In Brazil, Thailand and many other nations bio-fuels are leading. In the United States and Japan, hybrids have enjoyed a high profile that has yet to be matched by significant mass-market penetration. Further in the future is the prospect of viable electric vehicles and, eventually, hydrogen-powered fuel-cell vehicles. There are also promising but less high-profile technologies that stand to deliver important incremental gains. The continuously variable transmission (CVT) is a good example. Next year, Nissan is on track to build 1 million new CVT-equipped vehicles that will yield an environmental benefit equivalent to 200,000 hybrids.

I am on record as a skeptic where hybrids are concerned because I do not believe current technology delivers sufficient benefit to justify the additional cost. Still, hybrids are significant proof that just as there are customers who will pay a premium for “sportiness” others are willing to pay for “greenness.” It is crucial that customers send signals of this type to automakers, because more than anything we respond to market demand. If customers demand large vehicles or small and inexpensive vehicles, that is what we must deliver.

Taking that perspective, I am pleased that in early 2007 we will launch a hybrid version of our best-selling Altima in the United States. As we continue to pursue all promising avenues to environmental progress, the Altima Hybrid is but the first of a stream of environmentally innovative products Nissan will introduce over the next 10 years.

In this report you will find evidence of many other environmental and social initiatives. However, I must say transparently that there is more work in progress to show than final results. In all areas of sustainability much work remains to be done. The women and men of Nissan are committed to meet this challenge and demonstrate our contribution to long-term sustainable value creation.



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