

NIKE, INC.

CORPORATE RESPONSIBILITY REPORT

FY **07 08 09**



Coletta



Hurley



NIKE GOLF



DEDICATION

We dedicate this report to Neil Kearney, general secretary of the International Textile, Garment & Leather Workers' Federation and a champion of workers' rights. Neil died in November of 2009, at the age of 59, in Dhaka, Bangladesh.

For the last 15 years, Neil tirelessly represented labor to Nike on global supply chains. He taught us some of our most valuable lessons, sometimes painfully, but always constructively and with fairness. Neil's career and life will forever reflect the story of globalization and the evolution of corporate social responsibility from unknown practice to mainstream business model redesign.

I will give you a talisman. Whenever you are in doubt or when the self becomes too much with you, apply the following test. Recall the face of the poorest and weakest man whom you may have seen and ask yourself, if the step you contemplate is going to be of any use to him. Will he gain anything by it? Will it restore him to control over his own life and destiny? In other words, will it lead to Swaraj for the hungry and starving millions? Then you will find your doubt and yourself melting away.

— Gandhi

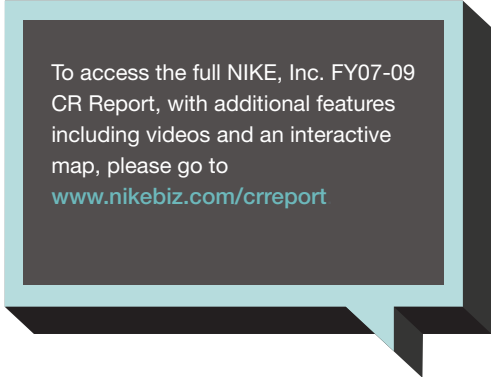
Neil Kearney's Facebook profile tells us this was his favorite quote. We're not surprised. In the 15 years that we knew him, he circled the world perhaps hundreds of times to fight for workers' rights. The nameless, powerless women workers in Bangladesh, Columbia, Egypt, Honduras, Senegal and Turkey. He was their advocate, their champion, their voice. On their behalf he lectured companies and governments, pushed the ILO and the EU, all from a small office in Brussels when he wasn't on a plane. In those early days, when codes of conduct were the debate, the Ethical Trading Initiative a dream, CSR a strange fictional name only a few had started to talk about, and CR Reports almost inexistent, Neil's voice helped shape what we now take for granted.

In those early days, Neil harangued us. But from that rocky beginning, we learned to see that his voice was our mirror. Because of that, his was a voice of a true friend: a friend to the worker, but also to those companies struggling to find solutions to the issues he raised. He knew that what he asked of us was difficult. He always gave us recognition when we'd moved something or made a difference. But he never let us forget that his expectations of us were always greater, always focused on a day when no worker in the world would face injustice or be unable to speak their mind.

This report is dedicated to Neil — with gratitude.

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To access the full NIKE, Inc. FY07-09 CR Report, with additional features including videos and an interactive map, please go to www.nikebiz.com/crreport

Letter from the CEO

To everyone,

First I was an athlete. Then a designer. Now a CEO. But I'm still an athlete and a designer. Like everyone, I view the world through the lens of my experiences. And so I'll talk about a few things I've learned along the way and why I am committed to building a more sustainable company and future.

Designers are curious. They scan and observe and notice what is unique rather than what is obvious. Their curiosity often shows an object or process to suffer some deficit – a lack of function or performance or style or relevance – and they are compelled to improve it. Just as often, designers see not a flaw but an opportunity – and they feel compelled to seek solutions.

Innovators are composers. They see connections where others see only dots. It's all about relationships and possibilities. They understand that the elements of invention are not the notes of the song but rather the spaces in between – new technologies, unique behaviors and unusual partnerships. And they have absolutely no fear of failure in exploring these possibilities.

Sports created Nike, but design and innovation made it grow. Our challenge – and our opportunity – is to use all three to help people reach their true potential.

We have always obsessed over performance – make it lighter, faster, tougher, more relevant – all to enhance the experience of sport for all. In the early days our “systems” consisted of only those things that helped us build better shoes and shirts, and ads and events. We are, after all, a consumer products company.

It took us a while, but we finally figured out that we could apply these two core competencies – design and innovation – to bring about environmental, labor and social change. We opened the aperture of our lens and discovered our potential to have a positive influence on waste reduction, climate change, managing natural resources, renewable energy and factory conditions. We saw that doing the right thing was good for business today – and would be an engine for our growth in the near future. With each new discovery and partnership, we willingly gave up old ideas to shift our thinking toward a better, smarter, faster and ultimately more sustainable future – financially, environmentally and socially.

There were many teachable moments along the way. I'll offer six:

1. In the early '90s, we came under intense scrutiny for labor conditions in our supply chain. Our critics were smart (and right) to focus on the industry leader. Our first reaction was to defend the practices prevalent in developing economies. Soon, however, we learned that the path to change that status quo is paved by collaboration with multiple stakeholders. We had a lot to learn, and there were people who could

coach us. In those days the Internet was brand new, but we began to see the power of instantaneous information and new communities enabled on a global scale. We suspected that a new model was being born – one that would tap into the wisdom of diverse contributors, where collaboration was more important than proprietary secrets. We learned to view transparency as an asset, not a risk.

2. Another hard lesson came after years of pushing our suppliers with monitoring and policing tools. We thought that we could be a unilateral force for systemic change. Instead, we learned that meaningful reform was not going to come from external pressure alone. Awareness and monitoring of any mandated Code of Conduct had to be embraced and enforced at the local level. And it had to be based on real business-based solutions driven by strong market signals. If we are to enable systemic change, we can't do it alone. We need partners. We need collaboration from industry, civil society and government. And we need to show the real benefits of lean manufacturing and human resource management.
3. For years we used SF6, a global warming gas, in our Air Soles. It was a legacy technology that had to change going forward. But it was incredibly difficult to engineer a solution that replaced SF6 with a benign gas without sacrificing the performance of our products. After much trial and error over several years, the Nike R&D team devised a way to replace SF6 with nitrogen, which virtually eliminated the release of CO₂ equivalent and actually improved the performance of our Air Soles. It was a moment of clarity that showed us a risk could become an innovation. It launched us on a continual search for similar advances in sustainable technology and performance.
4. As we thought about how to reduce the environmental impacts of our products, we realized it had to start with our design community. So we worked back upstream from the finished product to the earliest stages of design and development. From the first glimmer of a product concept, we would consider everything involved in bringing a shoe to market – from raw materials sourcing to transportation – all aimed at minimizing our environmental impact. This gave birth to our Considered Index that measures the effective use and management of resources. The focus on design as a key enabler of system change taught us that, while retrofitting the past or the present yields significant benefits, prototyping the future can unleash disruptive and scalable innovation.
5. These successes prove that Nike can be a catalyst with significant ripple effect. We have ambitious goals around

scaling environmental, social and labor-related change. But we know we can't do everything, and we can't do it alone. So we decided to focus on a few key areas where we know we can mobilize awareness and commitment - with our employees, our consumers, policy makers, civil society and among members inside and outside of our industry. And that has made all the difference.

6. And we continue to build and upgrade our facilities to leverage new technologies – solar arrays on the roof of our fitness center, windmills that power our distribution center in Laakdal, our LEED-certified daycare center, and much more. We're continually investing in a smart, responsible and sustainable home for Nike around the world.

This report is published at a tipping point. It's time for the world to shift. All companies face a direct impact from decreasing natural resources, rising populations and disruption from climate change. And what may be a subtle effect now will only become more intense over the next five to ten years. Never has business had a more crucial call to innovate — not just for the health and growth opportunities for our companies, but for the good of the world.

Ten years ago, few companies had a corporate responsibility team. Today, we're evolving beyond the words corporate responsibility to a "sustainable business and innovation team." We see sustainability, both social and environmental, as a powerful path to innovation, and crucial to our growth strategies.

I grew up in design and innovation. I grew up at Nike. And for all the athletic and cultural and financial successes of the company,

I believe our work in sustainable business and innovation has equal potential to shape our legacy. For that to happen, we have to focus on the lessons we've learned:

- *Transparency is an asset, not a risk.*
- *Collaboration enables systemic change.*
- *Every challenge and risk is an opportunity.*
- *Design allows you to prototype the future, rather than retrofit the past.*
- *To make real change, you have to be a catalyst.*

The challenges we face are huge, but the opportunity is even greater if we act now – new business models, new markets, new services and products – all based on our commitment to innovation.

There is now only one path and it leads to greater sustainability, equity, growth and prosperity.

Thanks,



Mark Parker
President and CEO, NIKE, Inc.



CH01

REPORT ELEMENTS

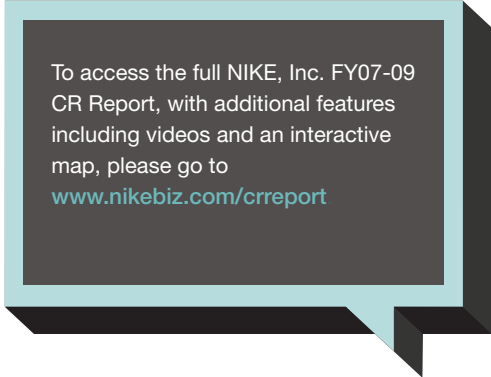
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NIKE, Inc. is the largest seller of athletic footwear and apparel in the world. We employ more than 33,000 people globally, including more than 5,500 at our worldwide headquarters in Beaverton, Oregon. We sell products in more than 180 countries around the globe and we reported revenues of \$19.2 billion for the fiscal year ending May 31, 2009.

Business Overview

Nike brand designs and sells products in three main product lines — footwear, apparel and equipment. The products are manufactured in approximately 600 contracted factories in 46 countries around the world. More than 1 million people, employed by suppliers, shippers, retailers and other business partners, work to help manufacture, distribute and sell products around the world.

This section includes facts and figures on NIKE, Inc., and its operations that provide perspective on our scope, scale, influence and impacts.

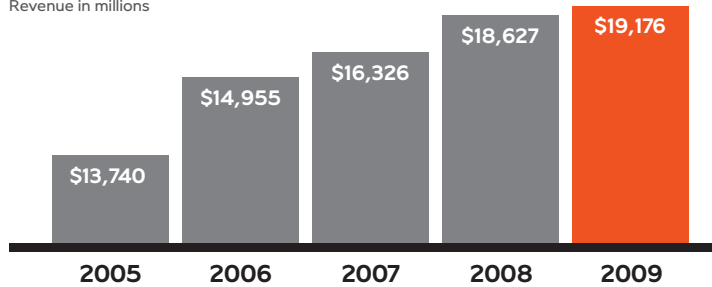
AFFILIATE BUSINESSES (PART OF NIKE, INC.)

- *Cole Haan, which designs, markets and distributes luxury shoes, handbags, accessories and coats*
- *Converse Inc., which designs, markets and distributes athletic footwear, apparel and accessories*
- *Hurley International LLC, which designs, markets and distributes action sports and youth lifestyle footwear, apparel and accessories*
- *Umbro Ltd., a leading United Kingdom-based global football (soccer) brand*

NIKE, INC. BUSINESS PERFORMANCE

NIKE, Inc. Revenue Performance

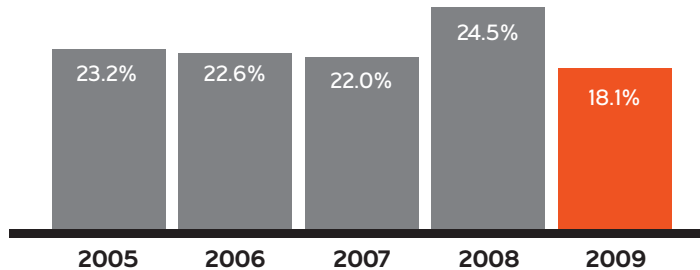
Fiscal Year 2005-2009
Five-Year CAGR 9%*
Revenue in millions



*Five-Year Compound annual Growth Rate (CAGR) based on Fiscal Year 2004 Revenue of \$12,253 million

NIKE, Inc. Return on Invested Capital

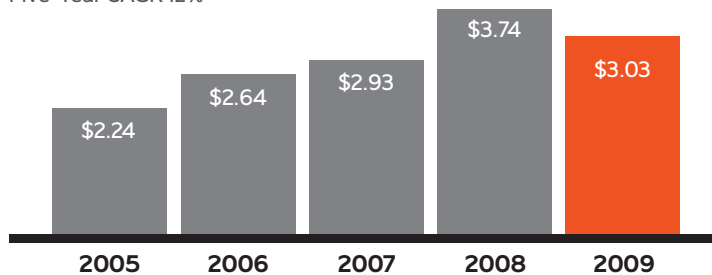
Fiscal Year 2005-2009



*Return on Invested Capital calculation available in the financials section of our Investor Relations Web site, www.nikebiz.com/investors

NIKE, Inc. EPS Performance***

Fiscal Year 2005-2009**
Five-Year CAGR 12%*



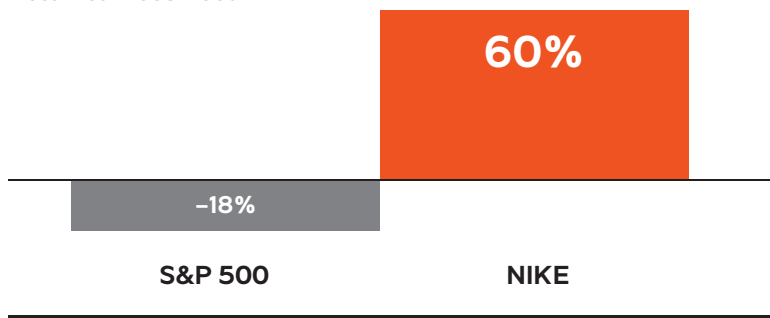
*Five-Year Compound annual Growth Rate (CAGR) based on Fiscal Year 2004 diluted EPS of \$1.75
** EPS amounts prior to Fiscal Year 2007 have been restated to reflect the two for one stock split that occurred in April 2007

***Reported EPS amounts include certain non-recurring expense and benefits, such as impairment and restructuring charges, tax settlements and other items. To see comparable annual EPS amounts, please refer to our prior press releases and SEC filings.

CH01 REPORT ELEMENTS

Five-Year NIKE, Inc. Stock Performance vs. S&P 500*

Fiscal Year 2005-2009



*Performance of the S&P 500 and NIKE stock is calculated by comparing the relative price of each as of 5/29/2009 to 5/28/2004, amounts do not take into consideration reinvestments of dividends.

SALES U.S./INTERNATIONAL BY PERCENTAGE

	FY05	FY06	FY07	FY08	FY09
U.S.	46%	47%	47%	43%	42%
International	54%	53%	53%	57%	58%

TOTAL RETAIL STORES

- FY07: 254 U.S., 232 International
- FY08: 296 U.S., 260 International
- FY09: 336 U.S., 334 International

EMPLOYEES

- 30,200 employees at May 31, 2007
- 32,500 employees at May 31, 2008
- 32,800 employees at May 31, 2009

LABOR

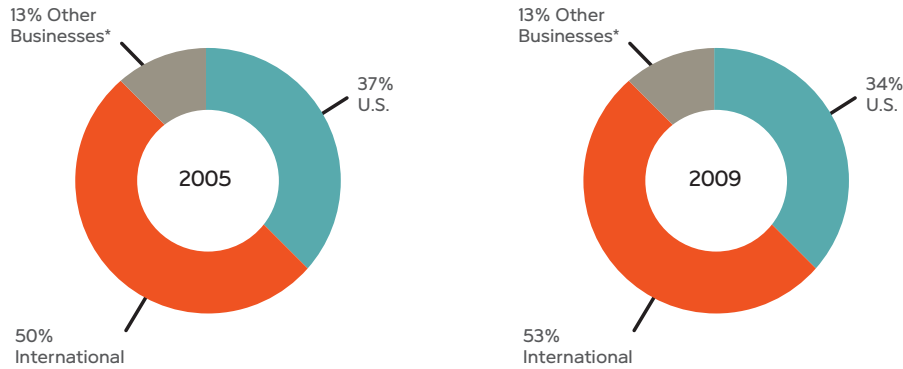
None of our employees are currently represented by a union, with the exception of about 20 employees in Mexico, the collective bargaining agreement for which expires in 2009. Also, in some countries outside of the United States, local laws require representation for employees by works councils (such as in the European Union, in which they are entitled to information and consultation on certain company decisions) or other representation by a organizations similar to unions, although collective bargaining agreements are not involved.

There has never been a material interruption of operations due to labor disagreements.

CH01 REPORT ELEMENTS

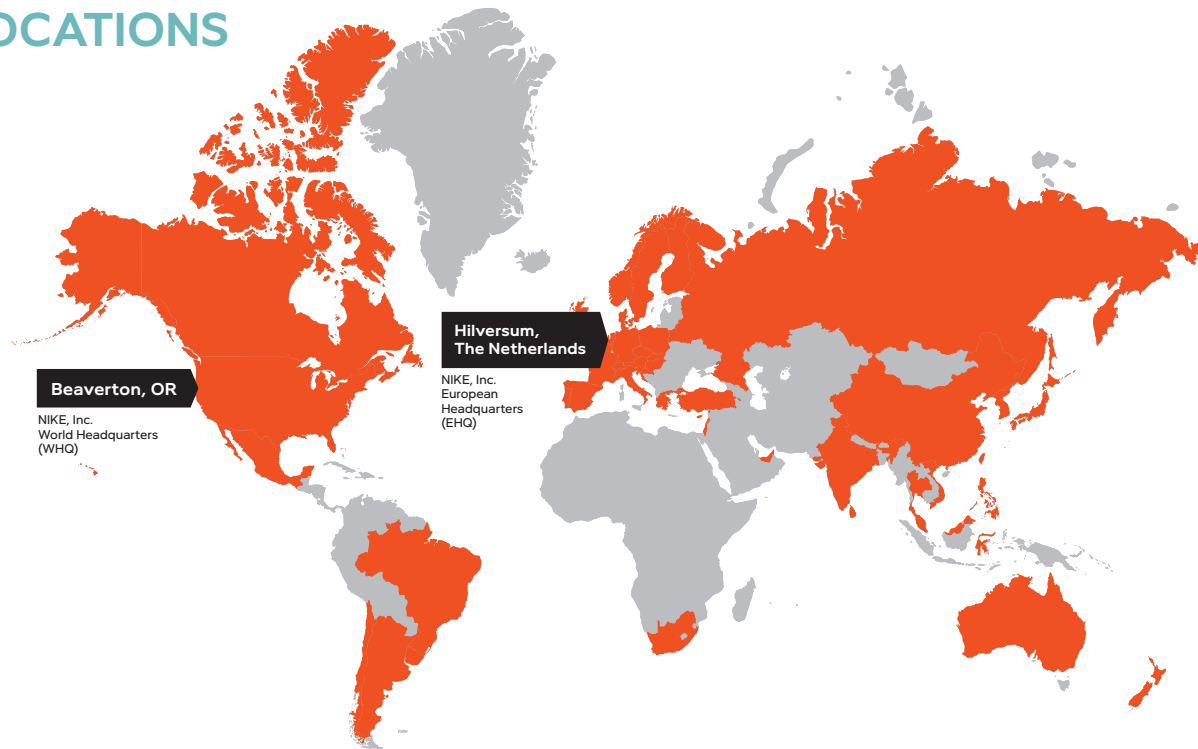
NIKE, Inc. Revenue Distribution

Fiscal Year 2005 vs. 2009



*The segment labeled "Other Businesses" for Fiscal 2005 represents revenues from Cole Haan, Converse Inc., Exeter Brands Group LLC, Hurley International LLC, Baur Hockey Inc., and NIKE Golf. Fiscal 2009 includes revenues for Cole Haan, Converse Inc., Hurley International LLC, NIKE Golf and Umbro Ltd. Bauer Hockey Inc., and Exeter Brands Group LLC. are not included in Fiscal 2009 as Bauer Hockey and the Starter Brand were sold in Fiscal 2008.

LOCATIONS



International branch offices and subsidiaries of NIKE, Inc. are located in Argentina, Australia, Austria, Belgium, Bermuda, Brazil, Canada, Chile, Croatia, Cyprus, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hong Kong, Hungary, Indonesia, India, Ireland, Israel, Italy, Japan, Korea, Lebanon, Macau, Malaysia, Mexico, New Zealand, The Netherlands, Norway, the People's Republic of China, the Philippines, Poland, Portugal, Russia, Singapore, Slovakia, Slovenia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Thailand, Turkey, the United Arab Emirates, the United Kingdom, Uruguay and Vietnam.

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PROPERTIES

NIKE, Inc. World Headquarters (WHQ) encompasses 17 buildings on 193 acres, totaling 1.9 million square feet of interior space in Beaverton, Oregon. We also lease more than 750,000 square feet of space in the surrounding metropolitan area.

NIKE, Inc. European Headquarters (EHQ) is located in leased office space of nearly 500,000 square feet in Hilversum, The Netherlands.

DISTRIBUTION

- *There are three significant distribution and customer service facilities for Nike-branded products: two in Memphis, Tennessee and one in Wilsonville, Oregon.*
- *Cole Haan also operates a distribution facility in Greenland, New Hampshire.*
- *Smaller distribution facilities for other brands and subsidiaries are located in various parts of the United States.*
- *We also own or lease distribution and customer service facilities in many parts of the world, the most significant of which are the distribution facilities located in Tomisatomachi, Japan, and in Laakdal, Belgium.*

MANUFACTURING

- *Nike Air-Sole cushioning materials and components are manufactured at Nike IHM, Inc. manufacturing facilities located in Beaverton, Oregon, and St. Charles, Missouri, and Nike (Suzhou) Sports Company, Ltd., facilities in the People's Republic of China.*

NIKE-BRANDED FOOTWEAR

FY07: China (35 percent), Vietnam (31 percent), Indonesia (21 percent) and Thailand (12 percent).

There are also manufacturing agreements with independent factories in Argentina, Brazil, India, Italy and South Africa to manufacture footwear for sale primarily within those countries. Largest single footwear factory accounted for approximately 6 percent of total fiscal 2007 footwear production.

FY08: China (36 percent), Vietnam (33 percent), Indonesia (21 percent) and Thailand (9 percent)

There are also manufacturing agreements with independent factories in Argentina, Brazil, India, Italy and South Africa to manufacture footwear for sale primarily within those countries. Our largest single footwear factory accounted for approximately 6 percent of total fiscal 2008 footwear production.

FY09: China (36 percent), Vietnam (36 percent), Indonesia (22 percent) and Thailand (6 percent)

There are also manufacturing agreements with independent factories in Argentina, Brazil, India and Mexico to manufacture footwear for sale primarily within those countries. Our largest single footwear factory accounted for approximately 5 percent of total fiscal 2009 footwear production.

NIKE-BRANDED APPAREL

FY07: 36 countries

Most production occurred in China, Thailand, Indonesia, Malaysia, Turkey, Honduras, Vietnam, Sri Lanka, Mexico, Taiwan, Cambodia, India and Bangladesh. The largest single apparel factory accounted for approximately 6 percent of total fiscal 2007 apparel production.

FY08: 34 countries

Most production occurred in China, Thailand, Indonesia, Malaysia, Vietnam, Turkey, Sri Lanka, Honduras, Mexico, Taiwan, Israel, Cambodia, India and Bangladesh. The largest single apparel factory accounted for approximately 8 percent of total fiscal 2008 apparel production.

FY09: 34 countries

Most production occurred in China, Thailand, Indonesia, Malaysia, Vietnam, Turkey, Sri Lanka, Cambodia, Taiwan, El Salvador, Mexico, India and Israel. The largest single apparel factory accounted for approximately 5 percent of total fiscal 2009 apparel production.

OTHER

- *Approximately six production offices outside the United States*
- *More than 100 sales offices and showrooms worldwide*
- *More than 70 administrative offices worldwide*

Governance, Accountability and Reporting

REPORTING PRACTICES

FROM REPORTS TO REPORTING

With this report we have made the decision to shift away from producing comprehensive reports every two to three years and move toward a more continuous stream of reporting. As a first step, this report is Web based. It is organized around the targets we set in our most recent report, which covered our 2005 and 2006 fiscal years. In it, we document our performance: where we've done well, where we've come up short, and where things stand now. We also trace and reflect on the evolution of our approach to key corporate responsibility issues. We look ahead to next steps, in "On the Horizon" sections found throughout this site. Moving forward, we plan to be less focused on reports and more on reporting timely and relevant data and perspectives.

THE VALUE OF REPORTING

NIKE, Inc. sees reporting as an important means of sharing information about its corporate responsibility strategy, targets, approach and performance. We prepare and report information, taking account of our business impacts and the desires of stakeholders, to provide an open, clear picture about our aims and progress in incorporating responsible practice into our operations. We also believe that reporting provides an indicator – to ourselves and others – of our ability to succeed and thrive as a company. We use sustainability as a lens to how we systemically address risk management, efficiencies, innovation and future-looking efforts all critical in positioning NIKE, Inc. for long-term growth.

We believe transparency is a central component to a responsible business strategy and that reporting is critical for delivering transparency. We are committed to measuring and reporting our performance. Reporting is the main tool we use to provide critical information to our stakeholders about how we manage corporate responsibility issues and impacts. We aspire to report in a way that is a tool for ongoing dialogue and continuous improvement. A broader discussion of why we report on our corporate responsibility performance was included in our [FY04 Corporate Responsibility Report](#), with additional information on our perspective on materiality included in our [FY05/06 Corporate Responsibility Report](#).

INTENDED AUDIENCE

Our primary audience for this report is those who seek a deeper understanding of the issues that NIKE, Inc. faces and our strategic response to them as we strive for long-term sustainable growth.

Among those who have shared this interest with us are analysts and investors representing the socially responsible investment (SRI) community, academics, and nongovernmental organizations and advocacy organization leaders. We know that other important stakeholders access and read our reporting, including employees, students, suppliers, contract manufacturers, customers, consumers and individuals with an in-depth knowledge of corporate responsibility. Writing for multiple audiences is a difficult task, as we must balance the range of understanding and exposure to the various issues we face.

SCOPE

Consistent with our previous reporting, for FY07-09 we focus primarily on activities and data related to the Nike brand, which comprised approximately 87 percent of NIKE, Inc. revenue at the end of FY09. The majority of the company's growth going forward is expected to come from the seven key categories in the Nike brand.

Except where noted, this report does not cover information related to the following NIKE, Inc. affiliates: Cole Haan, Converse, Hurley International and Umbro. As we stated in FY05/06 we have a long-term goal of incorporating affiliate companies into our efforts and reporting.

TIMEFRAME

This report covers three fiscal years: 2007, 2008 and 2009, ending May 31 of each year. Unless otherwise noted, all references to dates in this report are made on a fiscal-year basis. Some important events that took place after the close of FY09 are also covered here; their inclusion reflects the impact or influence the events may have on NIKE, Inc.'s future direction.

BOARD OF DIRECTORS, CORPORATE RESPONSIBILITY COMMITTEE AND CR LEADERSHIP

NIKE, Inc.'s Board of Directors is responsible for corporate governance in compliance with the U.S. Sarbanes-Oxley Act and other laws, and representing the interests of our shareholders. As of November 19, 2009, the board was composed of 13 members, 11 of whom are considered independent, non-executive directors under the listing standards of the New York Stock Exchange. For a full description of the Board membership, oversight and activity, please refer to [Corporate Governance Guidelines](#).

The Corporate Responsibility Committee of the Board of Directors was established in 2001 to review significant policies and activities and make recommendations regarding labor and environmental practices, community affairs, charitable and foundation activities, diversity and equal opportunity, and environmental and sustainability initiatives. Either the company chairman or the chief executive officer attends the Corporate Responsibility Committee meetings. The Committee met three times each year to review strategies and plans for corporate responsibility in FY07-09. Beginning in FY10, it will meet four times each year.

As of May 31, 2009, members of the Corporate Responsibility Committee of the Board were:

- *Jill Ker Conway, non-executive director, committee chair*
- *Douglas G. Houser, non-executive director*
- *Johnathan A. Rodgers, non-executive director*
- *John R. Thompson, Jr., non-executive director*

Board member Jeanne Jackson, who also served on the CR Committee, stepped down from the Board in late FY09 to become an executive of NIKE, Inc.

In FY09, the role of Sustainable Business and Innovation vice president became part of the NIKE, Inc. Strategic Leadership Team, chaired by CEO Mark Parker. This team is responsible for directing NIKE, Inc.'s mid- and long-term strategy.

For details about management of CR issues within the organization, including executive ownership, Business Leadership Team and integration of CR at the operational level see http://www.nikebiz.com/responsibility/cr_governance.html. Details regarding the linkages between compensation of Board members, senior managers and executives and CR performance are described in our [annual Proxy Statement](#), accessible at nikebiz.com.

Detail regarding employee and shareholder communication with the Board is in our [annual Proxy Statement](#) filed with the SEC. In addition, the process for submitting shareholder resolutions is described in the proxy statement, or Bylaws, and also under SEC Rule 14a-8. These are accessible at nikebiz.com and at the [SEC Web site](#).

ETHICS AND CONDUCT

NIKE, Inc. has a code of ethics for all employees called *Inside the Lines*. It defines the standards of conduct we expect employees to follow and includes a range of topics on employee activity, ethical behavior, product safety, legal compliance, competition and use of resources.

Each year, all NIKE, Inc. employees are required to verify that they have read and understand *Inside the Lines*. NIKE, Inc. also operates a global toll-free line called Alertline for employees to confidentially report any suspected violations of the law or our code of ethics. Any reported concerns around accounting, auditing or internal control are communicated to the Board's audit committee, which determines appropriate action.

We expect our suppliers to share our standards and operate in a legal and ethical manner. While *Inside the Lines* addresses the behavior of NIKE, Inc. employees, the [Code of Conduct](#) addresses contractors that manufacture Nike-branded products. It directs them to respect the rights of their employees and to provide them with a safe and healthy work environment.

STAKEHOLDER ENGAGEMENT AND REPORT REVIEWS

Our stakeholders help us prioritize key issues and develop our corporate responsibility policies. We learn a great deal from these interactions. We find that constructive engagement with stakeholders is most often the approach that brings about the best insight to the challenges we all have an interest in addressing.

Why do we engage? We learned early on in our corporate responsibility journey the dangers of not engaging and not listening. Today, we see engagement with multiple stakeholders as a key enabler of both risk mitigation and innovation.

As a consequence, Nike engages with a broad range of stakeholders on an ongoing basis, including civil society, industry, government, consumers and shareholders. We do this informally, through networks and organizations that we participate in, or are members of, and as a structured part of our outreach strategies on issues and challenges. We also do this through our formal partnership work.

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Each of our key partnerships is governed by agreements, contracts and/or operating principles, promoting the accountability and governance of each partnership. We have also worked to understand how multi-sector partnerships are best brokered, and how to make them succeed.

We believe that developing and refining skills of listening and sensing is critical to a company's success. This has been true for Nike's history of listening to and innovating for athletes to deliver performance product, and it is how we approach our corporate responsibility efforts. Recently we have begun to take engagement with the outside world to a new level.

Tapping social media and concepts such as "wikinomics" as defined by Don Tapscott, we have begun to leverage digital platforms and partnerships to enable and incorporate the wisdom of others in a variety of areas, including our newly launched employee engagement WE Portal, the innovation platform GreenXchange, our Considered Index and our changemakers.org partnership with Ashoka, a global nongovernmental organization supporting social entrepreneurship. More information on these and other types of new engagement are included in relevant sections of our reporting.

FEEDBACK ON REPORTING

NIKE, Inc. first held a formal multi-stakeholder forum in February 2004. We have continued that type of engagement through a number of meetings, some casually on specific topics, and some formal and facilitated.

One such meeting was held in December 2007, involving 13 participants from a range of nongovernmental organizations, government, academic, investor and business perspectives around Nike's energy and climate strategy. Participants met with Nike leadership to discuss themes including supply chain, public policy, disclosure and engaging consumers. They also encouraged the company to focus on target setting. Feedback from the session helped Nike establish long-term energy and climate targets.

We continued to formalize stakeholder feedback in 2007 as we brought together a range of interests to review and provide insight on our FY05/06 Corporate Responsibility Report. This committee was instrumental in providing feedback about the ambitious FY11 corporate responsibility business targets we set and have continued to manage against and report upon.

STAKEHOLDER REVIEW PANEL

NIKE, Inc. engaged Business of Social Responsibility (BSR) to facilitate a stakeholder engagement process around its FY07-09 Corporate Responsibility Report (with performance data from May 31, 2007 through May 31, 2009) in order to enhance the credibility of its report.

BSR, a nonprofit that advises its 250 member companies on corporate responsibility strategies and practices since 1992, played the role of a neutral facilitator in this process. In this capacity, BSR jointly selected stakeholders with Nike, coordinated the overall process, led stakeholder discussions and consolidated overall feedback. Nike's Sustainable Business and Innovation team managed the overall reporting process, and actively participated throughout the stakeholder engagement as an information provider and listener.

» Stakeholder Selection

Nike and BSR jointly developed a list of stakeholders for outreach balancing the need to meet the following different criteria:

- *Understanding and ability to comment on the company through previous interactions*
- *Ability to provide new and distinct perspectives*
- *Expertise and reputation in corporate responsibility strategy and specific content areas*
- *Geographic, gender and issue diversity*

Fourteen stakeholders were identified and invited to participate in the process, of which the following 13 participated in the process:

- *Anne Kelly, director of governance programs, CERES*
- *David Chen, founder and managing director, Equilibrium Capital; chair, Oregon Innovation Council*
- *Garrett Brown, compliance officer, Cal/OSHA; coordinator, Maquiladora Health & Safety Support Network*
- *Helio Mattar, president, Akatu Institute*
- *Jason Morrison, program director, Pacific Institute*
- *Kavita Ramdas, CEO, Global Fund for Women*
- *Kevin Carroll, author, speaker and agent for social change*
- *Ma Jun, director, Institute of Public & Environmental Affairs*
- *Melissa Brown, director, IDFC Global Alternatives (Hong Kong) Ltd.*
- *Paul Gilding, writer, advisor and advocate on climate change and sustainability*
- *Peter Graf, chief sustainability officer, SAP*
- *Tim Brown, president and CEO, IDEO*
- *Todd Moss, senior fellow and director of The Emerging Africa Project, Center for Global Development*

Sharon Burrow, president, ITUC / ACTU, and Neil Kearny, general secretary, ITGLWF, were invited to participate in this process in order to include a labor union voice. However, schedule misalignments prevented their participation in this process, despite several attempts to seek their input. Since then, Neil's life was tragically cut short. This report is dedicated to him.

» Engagement Process

In order to assure diversity of voices and reduce carbon impact, the stakeholder engagement process was run virtually. First NIKE, Inc. and BSR conducted an in-depth one-hour telephone interview with each stakeholder separately, after they had had a chance to read a report draft. In these one-hour conversations stakeholders were able to share their thoughts on overall report strengths and opportunities for improvement and hone in on specific content areas of interest. These individual conversations assured that each distinct stakeholder voice was provided an equal amount of time, was listened to and their feedback was taken into account.

Next BSR and NIKE, Inc. aggregated feedback and the Nike team addressed stakeholder input in one of the following three ways:

1. *Revamped certain sections of the report*
2. *Made language and tone changes to better clarify particular report sections*
3. *Flagged for future considerations in Nike's SB&I strategy and/or future reports*

Stakeholders were then invited to one of two virtual engagement sessions (to accommodate a variety of time zones). In order to facilitate an open and honest conversation these final panel sessions were aided by video conferencing software. BSR facilitated both discussions that included stakeholders and senior Nike staff.

During these panel sessions, Nike shared consolidated stakeholder feedback and resulting report changes. Stakeholder participants had the opportunity to comment on the stated changes and overwhelmingly were appreciative of the changes Nike had made as a direct outcome of stakeholder advice and insight.

» Engagement Outcomes

As a result of this process, significant changes were made to the report.

Key changes included:

- **Overall tone.** *While stakeholders found the report to be transparent and complete, many found the volume of information to be overwhelming. Given this feedback, Nike reworked the report structure to clarify and remove non-core information.*
- **Strategy.** *A description of the rapidly transforming global context and how this relates to Nike's business was added. Additionally, Nike's journey from having a corporate responsibility function toward becoming an integrated sustainable business and innovation model was further developed. The team also worked to better tie the overall SB&I vision and strategy to performance goals and activities based on stakeholder feedback.*
- **Environment.** *The discussion of water was expanded given stakeholder feedback on the overall importance of this issue. Additionally Nike's recent leather policy and the role of IT to reduce energy use were added.*
- **Workers and Factories.** *The overall tone was reworked to speak more candidly about lessons learned from both successes and failures. New content was added relating to Freedom of Association, Human Resource Management and the root causes of excessive overtime.*
- **Communities.** *This was improved upon through clarification of Nike's evolving approach from a less-targeted philanthropy strategy toward a sustainable investment strategy.*

The stakeholder engagement process did not attempt to dilute stakeholder commentary into one joint statement, but instead centered on Nike-addressed consolidated feedback and key recurring themes from across 13 divergent and rich stakeholder perspectives.

Overall, the stakeholders participating in this process appreciated the virtual nature of this process, the candor of discussion and the seriousness with which Nike responded to and acted upon their feedback. Nike was also pleased with the fresh and diverse perspectives and thoughtful input provided by the selected stakeholders. Nike believes it has benefitted greatly from this engagement process, and is most appreciative of participants for the time and energy they brought to this process.

CH01 REPORT ELEMENTS

ASSURANCE

Nike continues to seek quality and transparency in its management and reporting. As we do this, we have explored additional ways to provide assurance around our processes and reported data.

Various data points are confirmed internally through staff and systems established to collect and review data and externally through third parties such as the Fair Labor Association (FLA), CHWMEG and PATH.

With our FY05/06 report, we engaged NIKE, Inc. internal audit to conduct an assessment of the CR report process. Their report covered a range of issues for improvement and investment (detailed below). We felt, after focusing our reporting on key impacts and business targets, we had significant work to do internally on assurance.

HRM Program Evolution

Issue	Steps Taken
Validate and document key performance indicators (KPIs).	<ul style="list-style-type: none"> • We now track relevant KPIs owned both by the SB&I team and businesses with quarterly scorecards. Work is continuing in this area. • Moved to tracking through formal data requests and regular monitoring, store centrally and apply ongoing improvements to the process. • Broader ownership within business as part of regular operations, less reliant on key personnel. • Tying back-up documentation to final reporting. • Defining and implementing data retention policies to ensure quality trend and other possible analysis. • Better footnoting and information where estimates or factoring are used.
Address risks identified during review testing.	<ul style="list-style-type: none"> • Internal audit tested specific KPIs. Ongoing assessment is designed to mitigate errors and eliminate poor decisions or inaccurate reporting.
Formalize selection and process for Report Review committed.	<ul style="list-style-type: none"> • For our FY07-09 report we worked with Business for Social Responsibility to select a group of stakeholders that represent geographic and subject matter diversity that appropriately reflect NIKE, Inc. We asked for feedback around specific business targets and our draft reporting.
Engage investor relations in lifecycle of report.	<ul style="list-style-type: none"> • Met with investor relations to understand better the issues raised by shareholders, investors and analysts. Their input is invaluable in addressing the range of issues we face and the balance of business benefit. We continue to work with this department and others in areas including corporate responsibility strategic planning, reporting and reviewing the future of transparency.
Document general computer controls.	<ul style="list-style-type: none"> • Some controls were found to be out-of-date or nonexistent. We have committed resources in many of these areas. Areas of investment include: <ul style="list-style-type: none"> - Development of a community database tracking from request through the completion of grants. - Analysis of energy use tracking across all operations and development of a robust system for tracking and measuring.
Document IT system requirements.	<ul style="list-style-type: none"> • New IT platforms have been developed since the audit. Ongoing evaluation of IT architecture and systems requirements needed to support our operations.

CH01 REPORT ELEMENTS

In 2008 we explored long-term third-party assurance and audit systems with leading providers. At the time, available approaches appeared to be very cumbersome and had the potential to lock us into systems of reporting that are less nimble and less able to address the fact that this is an evolving practice area.

Our aim is to measure our performance and report accurate data. At times, that means systems and methodology for gathering information need to change even as we collect data, as we learn more about whether we are asking the right questions and whether we are getting the information that will help us to answer them rather than just information.

We still see value of external assurance around key areas of impact, but believe we have internal steps to complete before undertaking this kind of robust review. These steps include engaging a broad range of internal, and external stakeholders around the direction and value of such assurance and addressing issues raised in our internal audit.

REPORTING RECOGNITION

INVESTMENT COMMUNITY

Throughout this report we share elements of our commercial strategy that provide opportunities for corporate responsibility to create value for the company.

The socially responsible investment community and other research and rating organizations regularly request information from NIKE, Inc. and/or rank us using publicly available information. As such, these organizations are one of the intended audiences for this report. We engage with these communities by attending conferences and other gatherings to discuss best practice as well as through our regular response to surveys and profiles that are created by external research and rating organizations.

Some highlights of the recent rankings include:

- *The **Calvert Social Index** is a broad-based, rigorously constructed benchmark for measuring the performance of large, U.S.-based socially responsible companies. In September 2005, Calvert added Nike to its reconstituted Calvert Social Index and praised the company for its ongoing shareholder advocacy and disclosure efforts.*
- *The **Dow Jones Sustainability Indexes (DJSI)** assess the opportunities and risks deriving from a company's economic, environmental and social developments, based on a defined set of criteria and weightings. The indexes only select and rank companies that are among the sustainability leaders in their field. Sustainable Asset Management includes NIKE, Inc. as a component of the DJSI.*

- ***KLD Indexes**, a division of KLD Research & Analytics, Inc., constructs indexes for investors who integrate environmental, social and governance factors into their investment decisions. KLD's indexes are designed to be transparent, representative and investable. In 2008, KLD announced Nike had met criteria as a member of the following indexes: Domini 400 Social Index, KLD Catholic Values 400 Index, KLD Broad Market Social Index, KLD Large Cap Social Index, KLD Large-Mid Cap Social Index, KLD Global Sustainability Index, KLD North America Sustainability Index and KLD Select Social Index. KLD's scores draw on both financial and nonfinancial information and measure corporate environmental, social and governance (ESG) performance.*
- *The **FTSE4Good Index Series** measures the performance of companies that meet globally recognized corporate responsibility standards, and facilitates investment in these companies. Listed companies must be working toward environmental sustainability, developing positive relationships with stakeholders, and upholding and supporting universal human rights. NIKE, Inc. is a FTSE4Good-listed company.*

AWARDS AND RECOGNITION

The **Global 100 Most Sustainable Corporations in the World** is a project initiated by Corporate Knights Inc., with Innovest Strategic Value Advisors Inc. The annual Global 100 is announced each year at the World Economic Forum, and NIKE, Inc. was honored in this ranking each year from 2006 through 2009. Innovest Strategic Value Advisors is an international investment advisory firm specializing in analyzing nontraditional drivers of risk and shareholder value including companies' performance on environmental, social and strategic governance issues.

The **100 Best Corporate Citizens** list, created by *Business Ethics* magazine, is a ranking of leading ethical performers publicly listed in the U.S. Released every spring, the 100 Best Corporate Citizens list is designed to recognize firms that excel at serving a variety of stakeholders with excellence and integrity. Nike was honored in this ranking in each year from 2005 through 2009. KLD Research & Analytics, Inc. provides the information and analysis for this ranking, which is based on how well companies perform in eight stakeholder service categories: shareholders, community, governance, diversity, employees, environment, human rights and product. The rankings are created from both financial information and corporate social performance measures.

CH01 REPORT ELEMENTS

Nike ranked as one of the **World's Most Ethical Companies** each year from 2007 to 2009 in an analysis by *Ethisphere*. The annual ranking covers corporate citizenship, corporate governance, innovation that contributes to the public well-being, industry leadership, executive leadership, legal/regulatory and reputation track record, and internal systems.

In 2008, CERES ranked Nike top of the apparel category in its first-ever **ranking of consumer and technology companies on climate change strategies**. The analysis, conducted by RiskMetrics Group, examined 63 of the world's largest global companies. Nike scored 71 on a 100-point scale; half the companies analyzed scored less than 50 and the median score was 38.

Nike ranked in the top 10 of **Newsweek's 2009 first annual Green Rankings**, an exhaustive assessment of the 500 largest U.S. public companies' environmental performance, achievements and reputation. The rankings assess all 500 companies on three metrics — an environmental impact score, a green policies score and a reputation survey score. Nike placed seventh on the list with an overall score of 93.28 out of 100.

In 2009 NIKE, Inc. scored the highest in nonprofit organization **Climate Counts'** annual rankings. Rankings are created using a 22-criteria scorecard to track corporate climate action in four areas: measurement of impact; reduction of impact; engagement

on public policy related to climate change; and openness and transparency with consumers on corporate climate activities.

More details on these and other NIKE, Inc. awards are listed [online](#).

REPORTING GUIDANCE

As noted in our previous two reports, we support the Global Reporting Initiative (GRI) and continue to work with the GRI to develop specific guidelines for the apparel and footwear industries. We used these sector-specific draft guidelines as a pilot in our FY05/06 report.

We developed this report with reference to the Global Reporting Initiative's third generation of indicators. **Based upon our assessment of Reporting and the GRI criteria, we believe our reporting achieves B-level application of the GRI.** We also endorse the principles of CERES and the United Nations Global Compact. This report describes actions we have taken to implement these principles, and serves as our Communication on Progress as required for all companies that do so.

Please see the Guidelines and Principles Index for more information regarding our use of the Global Reporting Initiative Guidelines and United Nations Global Compact Principles.

CH 02

STRATEGY

CH02 STRATEGY

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To access the full NIKE, Inc. FY07-09 CR Report, with additional features including videos and an interactive map, please go to www.nikebiz.com/crreport

Innovation is at the heart of NIKE, Inc.'s business growth strategy. Our relentless focus to be better helps us create the world's most innovative products for consumers across the globe. This same philosophy and determination is driving change in how we approach corporate responsibility in today's marketplace.

CR Strategy

OVERVIEW

Years ago, when we started working to improve the labor, environmental and social impacts of our business model, we were largely driven by a need to manage risk. Today, our corporate responsibility approach has evolved from focusing on risk management, philanthropy and compliance to one that utilizes our natural focus on innovation to transition NIKE, Inc. into a business that is more sustainable, by which we mean that it brings people, planet and profits into balance for lasting success.

To be the leading athletic brand in the world – today and into the future – we have to deliver innovative new products and experiences in a more sustainable way. For NIKE, Inc., this is not about trading one business challenge for another. It's about recognizing that sustainability is a route to future profitability. As

we look ahead, we know that consumers across the world are creating new markets and demanding new services that require us to focus on getting close to market, to create new, digital solutions and to customize products for consumers more quickly than ever before.

To fulfill these demands, we must succeed in a world where natural and human resources are constrained. In the future, issues ranging from peaking oil prices, climate change mitigation and population growth to the decreasing availability of natural resources could impact our consumers and our business. As the world moves to a low-carbon economy, we see potential impact to labor forces, working conditions, communities, development, youth, sport, supply chains, products and more.

We believe that the businesses that consider these challenges early, even anticipating them as part of their day-to-day operations, will be best positioned to turn them into opportunity.

As with every consumer brand, NIKE, Inc. designs and sells products. Making these products currently relies on the availability of natural resources – from raw materials through to water and energy. The cost of competition for resources will increase as these resources become increasingly scarce. Coupled with emerging trends – such as customization, a push to be closer to multiple markets and shifting labor markets – we see a new opportunity to create business growth for the future.

Nike and our consumers also live and breathe the world of sport. That world is under threat from the impacts of climate change and the current decline in sport participation, particularly in the U.S. where sports programs are being reduced or eliminated altogether. Nike believes in the universal power of sport to create positive social change, to build teamwork, leadership, self-confidence and fitness and to break down barriers such as discrimination and racism. Nike understands we have the power to use our voice and our brand to fight for universal youth access to sport and to advocate for global action on climate change to protect playing fields around the world.

We have a choice. We can move fast, now, to prepare to thrive and seize the opportunities of a future sustainable economy. Or we can wait. Waiting means we risk facing a forced requirement to shift on someone else's timeline. For us, the choice is clear. We are always on the offense. That's why we are refocusing our efforts, increasing our investments in innovation, using our voice for stronger advocacy and looking at how we incubate new, scalable business models that enable us to thrive in a sustainable economy.

CHANGING WORLD: URGENT CHALLENGES

Over the past few years, we've been working at the senior-most levels of our company – board of directors, our CEO and our executive leadership team – to understand the potential implications to our business and examine ways to emerge not just as a survivor, but with a competitive edge. This work helped define three core strategic questions:

1. *What new business concepts could enable NIKE, Inc. to thrive in a sustainable economy?*
2. *How do we create a road map for evolving to a future state and solve the challenges preventing us from getting there?*
3. *How do we continue to evolve and improve our current model during the transition?*

In 2008, NIKE, Inc. became chair of the [World Economic Forum's](#) Consumer Industries Working Group on Sustainable Consumption. In this role, our goal has been to galvanize industry collaboration on solutions that will fast track the transition to a sustainable economy. In partnership with The Natural Step, Business for Social Responsibility (BSR), Deloitte & Touche and the World Economic Forum, we began working to answer these questions.

We helped lead a CEO-level dialogue about the importance of investing in sustainability-focused innovation. Deloitte & Touche published [The Business Case for Sustainability](#), a report that outlines the real business challenges on the horizon for consumer brands.

As part of this work, we tested the real business impact of our changing world on NIKE, Inc. and explored how our consumer brand could thrive in a sustainable economy. We concluded that we need to continue to refine our existing business model while simultaneously looking at new ways of doing business.

This work underlined two key challenges: that solutions will demand industry-level systemic change, and that the scale and complexity of changes needed demand new approaches to innovation and collaboration.

As we enter 2010 this work continues, with a number of ambitious goals:

1. *Put investing in sustainability as a key innovation/R+D priority on consumer brands' agendas.*
2. *Fast track innovation through investment and collaboration.*
3. *Launch the GreenXchange as a platform for enabling the sharing of intellectual property to fast track changes efficiently.*
4. *Build an advocacy agenda to push for large-scale policies and investments in sustainable innovation as a key enabler of global economic competitiveness.*

THE FUTURE: CLOSED-LOOP BUSINESS MODEL

The financial, social and environmental imperatives for moving to a sustainable economy will dictate how business models evolve over the next decade. We believe that we are entering an era of post-globalization, one in which new business models will emerge based on the overwhelming pressures fueled by regulation, scarcity, consumer behavior and innovation.

We think the future will demand closed-loop business models that move closer to achieving zero waste by completely reusing, recycling or composting all materials.

Our vision of a closed-loop business model includes up-front design of products that can be manufactured using materials reclaimed throughout the manufacturing process and at the end of a product's life.

To fully realize this new model, industry must find new answers to business challenges. Innovators must create new ways to recycle and reuse waste and turn that into new products. Designers must look at new sustainable raw materials. Leaders must examine the impact on supply chains and labor forces.

A NEW MODEL AND SHIFT TO SUSTAINABLE BUSINESS AND INNOVATION

During FY07-09, Nike announced and executed its shift to focus on categories of sport, prompting a company-wide organizational review. We completed a major reorganization at the end of FY09 and emerged a flatter, simpler organization aligned across geographies, categories, functions and retail. This new structure prepares Nike for the future by aligning our greatest strengths against our biggest opportunities.

As part of the review, we focused on two key areas for advancing "corporate responsibility" as part of this business plan.

1. *Help the company fast-track integration of corporate responsibility into its business.*
2. *Develop scalable solutions to enable Nike's evolution to a closed-loop business model.*

To support Nike's strategic evolution and better enable Nike to transition to sustainable business models, we have transformed the corporate responsibility function into something altogether different. It's now called Sustainable Business and Innovation (SB&I). SB&I's mission is to enable NIKE, Inc. to thrive in a sustainable economy.

HOW WE'RE ORGANIZED

We formed SB&I from several separate functions: the former Corporate Responsibility team, and the Lean, Energy and Compliance teams that work with our suppliers. SB&I focuses on our key business priorities – sustainable products, sustainable manufacturing and sustainable marketplaces – and on elements of our strategy. We do this through a matrix structure, with defined priorities for each team. The SB&I function reports to our vice president of Sustainable Business and Innovation, who reports directly to the NIKE, Inc. CEO and to the Corporate Responsibility Committee of the Board of Directors.

The SB&I team is made up of about 130 people who work closely with dedicated sustainability specialists who are integrated into other parts of the organization, such as retail, logistics and information technology.

OUR STRATEGY

Our vision for SB&I is to enable NIKE, Inc. and our consumers to thrive in a sustainable economy, one where people, planet and profit are in balance. To do this, we will:

1. **Innovate** to deliver enterprise-level sustainability solutions.
2. **Integrate** sustainability into the heart of the NIKE, Inc. business model.
3. **Mobilize** key constituents (civil society, employees, consumers, government and industry) to partner in scaling solutions.

Building on what we've learned on our corporate responsibility journey, we're thinking in new ways about each element of our strategy.

» Innovate

NIKE, Inc.'s corporate responsibility strategy draws heavily from insights we've gained from our rich experience with innovation. Over the last three years, we have used these insights to experiment with innovative sustainability solutions including our Considered Design Ethos, which has enormous potential to drive sustainability best practices throughout NIKE, Inc. and our industry. Our long-term vision for Considered is to design products that are fully closed-loop: products produced using the fewest possible materials, designed for easy disassembly and capable of being recycled into new products or safely returned to nature at the end of their life. In the spirit of collaboration, during FY10, Nike intends to share our Considered Index with the intention of creating industry-wide scale.

CH02 STRATEGY

Our challenge now is to innovate consistently and systematically throughout our business; from design to manufacturing to marketplace to recapturing, recycling and reusing. To bring discipline and focus to this quest for systemic change, we've created our "Innovation Lab" with the mission to deliver enterprise- and industry-level sustainability solutions.

» Integrate

Integrating corporate responsibility into the Nike business has been a consistent effort since 2004. Integration requires everyone in the company to share a common understanding of Nike's corporate responsibility challenges, approaches and vision or aims. In essence, it requires a cultural change that inspires employees across the organization to consider how they can contribute to building a more sustainable organization. We are seeing some success. For example, our procurement function, which buys products and services for our corporate operations, is developing a system to rate suppliers' sustainability performance and include these ratings as a factor in making buying decisions.

Most importantly, we have continued to push further into upstream decision making, realizing that the more integrated sustainable thinking is at the point of strategic intent, the greater the impact. Today we are proud to see sustainability as a core component of NIKE, Inc.'s growth plans and corporate strategy and as a key priority for each of our affiliate companies.

» Mobilize

Considering the size, scope and complexity of the systems that create the world we live in, it is clear that collaboration is imperative to future success. Investment in innovation will realize the greatest returns if the results are shared and brought to scale – within Nike and across industries. As we've learned, without scale we simply cannot achieve systematic change. And scaling innovation means mobilizing those we touch – our employees, consumers and business partners – and collaborating with others who are committed to innovation.

Consider our efforts to improve working conditions across our supply chain. We have made incremental improvements but real, long-term solutions lie in changing systems. Systemic change requires fundamental shifts in working conditions across the entire apparel and footwear industry. The work of a single brand or manufacturer is not enough. Yet, as an industry leader, we can begin to change the behaviors and expectations of those who work in the industry through influencing policy and encouraging collaboration between civil society, industry and government.

We've also determined that we need a concentrated focus on collaboration, open source platforms, advocacy and consumers – all of which are required to create real system change. Our early work in each of these four areas has built our capabilities and understanding of creating scale. These include:

- **New forms of collaboration.** *We are part of the International Labour Organization's Better Work program, which provides a forum for developing a coordinated approach by multiple companies to improve conditions in their shared supply chain. Working with member companies, we hope to achieve improvements on a greater scale than our individual initiatives.*
- **More platforms.** *We have been working with Creative Commons as well as other brands to build a digital platform that enables the sharing of sustainability innovations on a global scale. Scheduled to launch in FY10, the GreenXchange creates a collaborative network promoting the creation and adoption of technologies that have the potential to solve important global problems and industry-wide sustainability challenges.*
- **More advocacy.** *We've helped create coalitions to advocate for key policies that will enable scale. For example, Nike is a founding member of **Business for Innovative Climate and Energy Policy (BICEP)**. Through BICEP, we have committed to calling for strong U.S. climate and energy legislation to spur the clean energy economy and reduce global warming pollution. We're advocating for the World Bank, International Finance Corporation and other global institutions to create safety nets for supply chain workers displaced due to the global recession.*
- **Engaging consumers.** *Through our brand, we have a powerful position of influence with young people. To help inspire consumers to take action around sustainability, we launched **nikegamechangers.com**, a digital platform for engaging and empowering consumers to join us and others in tackling social and environmental issues. Through this and other means of engagement, we hope to strengthen our relationships with consumers and help to multiply the impact of their individual actions.*

Our SB&I structure creates a dedicated team, which is building on these initiatives and using these tools to scale innovation across Nike, our industry and our global communities.

ON THE HORIZON

Nike's vision for Sustainable Business and Innovation is clear: to help NIKE, Inc. and its consumers thrive in a sustainable economy where people, profit and planet are in balance.

For Nike, this means a focus on sustainable manufacturing, sustainable product development and creating a sustainable marketplace. We will design products and influence our supply chain to create less waste; promote equitable and empowered workers in contract factories; and protect access to sport for everyone across the globe.

It's imperative to find new and innovative approaches to designing product and to managing energy and resources that are needed to run our global business. We will continue to identify closed-loop models and processes that increase sustainability throughout our supply chain – end to end.

Equally, we continue our steadfast commitment to improving working conditions in contract factories. We will maintain our investments in lean manufacturing and human resource training while addressing the root causes and challenges within the supply chain by promoting transparency and collaborating on solutions with the broader industry.

Moving forward, we will sharpen our voice to advocate for youth around the world to have access to fitness and sport. We will elevate the issue with key stakeholders, highlighting the serious decline in opportunities for youth participation with the aim of creating a movement for change.

NIKE, Inc. continues to be a growth company, aligning our strengths and opportunities. Our business strategies are clear and the need to focus innovation against creating sustainable business opportunities has never been clearer than it is today. We are focused on identifying new ways to create value and generate positive returns on investments for our business, shareholders, workers and the environment.

We know we can't achieve this alone and are committed to partnering and collaborating to find creative solutions. It will take new models of innovation, new forms of collaboration, new financial instruments and new business approaches. It will take changes in public policy. It will take engaged consumers driving new market forces.





Over the past few years, we've achieved much success with our efforts and are on track with the ambitious goals that we set for ourselves. It's clear however, that the more we achieve and the more we look ahead, the more opportunity we see for progress. We invite you to join us in this journey.






TARGETS AND PERFORMANCE

In our FY05/06 CR Report, Nike shared ambitious five-year goals against our key areas of focus: factories and workers, the environment, and communities. This chart outlines our progress toward our FY11 targets, including where we are on track, where there is still work to be done and where we have rethought our goals due to a change in strategy or better understanding of the challenges.

GOAL BRING ABOUT SYSTEMIC CHANGE FOR WORKERS IN THE FOOTWEAR, APPAREL AND EQUIPMENT INDUSTRIES.

Key

 Off track
  Obstacles
  On track
  Completed

TOPIC	FY11 TARGET	PERFORMANCE THROUGH FY09	PROGRESS
Human Resources Management	Human Resources Management program implemented in all focus contract factories.*	Making progress. Through FY09, 17 percent of focus contract factories had completed HRM training.	
Freedom of Association	Implement Freedom of Association education program in all focus contract factories.*	Making progress. Through FY09, 17 percent of focus contract factories had participated in HRM training including Freedom of Association education.	
Worker Survey	100 percent of focus factories complete statistically relevant sampling of employees.*	Making progress. Through FY09, 17 percent of focus contract factories had completed worker survey.	
Collaboration	Promote multi-brand collaboration on improving working conditions in the global supply chain, covering 30 percent of factory locations.*	On track. Nike has shared audit information on 40 percent of our factory base in FY09, via uploads to the Fair Factories Clearinghouse. We are still working to realize full business benefits of collaboration for Nike and suppliers.	
Excessive Overtime	Reduce Nike-caused excessive overtime incidents in contract factories.*	Making progress on evaluating Nike-caused overtime and addressing root causes including capacity planning by business and factory, shifting to lean manufacturing and reducing the number of SKUs produced.	

*Targets have been clarified or redefined from what was presented in FY05/06. For full discussion of targets, progress and our work in these areas please explore the relevant section.

GOAL CREATE SUSTAINABLE PRODUCTS AND BUSINESS MODELS.

Key



Off track













Obstacles



On track



Completed

TOPIC	FY11 TARGET	PERFORMANCE THROUGH FY09	PROGRESS
Considered Design Index	Footwear: 100 percent of all footwear products, newly developed out of WHQ, will reach baseline Considered standards by FY11.	On track. 10 percent of spring 09 models and 17 percent of seasonal production volume achieved baseline Considered ranking.	
	Apparel: 100 percent of all apparel products, newly developed out of WHQ, EHQ and Hong Kong, will reach baseline standards by FY15.	On track. Product teams actively using online Considered Index in design and development of Spring 2010 product season. Reporting starts in FY10 against yearly goals.	
	Equipment: 100 percent of top-volume retail product, newly developed out of WHQ, will reach baseline standards by FY20.**	On track. Manual Considered Index in place for Bags product type, FY10.	
Considered Index: Waste	Footwear: Achieve 17 percent reduction from FY06 baseline by FY11 (in grams of waste generated per pair, equates to 157 gpp in 2011).	On target, having achieved 24 percent reduction in FY09 over FY05.	
	Apparel: Set target in FY09.	Making progress. In FY09 we began tracking efficiency through the new Apparel Considered Index. We are setting a 2015 target based on number of products achieving baseline standards.	
	Packaging / Point-of-Purchase Materials: Achieve 30 percent reduction.	Making progress. Introduced light-weight shoe boxes in FY09. Extension of the innovation will be applied to shipping cartons in FY10.	
Considered Index: Volatile Organic Compounds (now known as Petroleum-Derived Solvents)	Footwear: Maintain current petroleum-derived solvents grams/pair amount (represents 95 percent reduction from a 1995 baseline).	Achieved 95 percent reduction from 1995 baseline in FY04; and have continued to improve, by dropping an additional 1.9 grams per pair from FY06 through FY09.	
Considered Index: Environmentally Preferred Materials	Footwear: Increase use of EPMS by 22 percent (as measured by average EPM score of 69 in 2007 to 84 in FY11).	Achieved. FY11 target was met in FY08. Achieved a 77 percent increase from FY06 to FY09.	
	Apparel: Increase use of EPMS to 20 percent by FY15.	Making progress. Preparing a new Materials Analysis Tool to be completed and tested in FY10. Tool will be released with version two of our Considered Product Index.	
	Equipment: Announce EPM use target in FY10.	Making progress. Evaluating target for FY10.	

**At a minimum, top-volume product includes socks, bags, inflatable balls and gloves.

CH02 STRATEGY

GOAL CLIMATE CHANGE

Key



Off track






Obstacles



On track



Completed

TOPIC	FY11 TARGET	PERFORMANCE THROUGH FY09	PROGRESS
Footwear Manufacturing	Footwear manufacturing CO ₂ emissions footprint: Goals to be announced by January 2008.	Did not set an external target. Achieved a 6 percent absolute CO ₂ reduction among factory groups participating in our program after seven months of work.	
Inbound Logistics	Deliver 30 percent absolute reduction in CO ₂ emissions from 2003 by FY20. (2003 baseline is 311,859 tonnes).	FY09 produced a 14 percent increase in CO ₂ Emissions from the FY03 baseline. Efforts to reduce this impact can be appreciated when the CO ₂ percent change is compared to the overall growth in business during this timeframe. Nike Brand revenue increased approximately 70 percent from FY03 to FY09.	
Facilities & Business Travel	Nike brand facilities and business travel climate neutral by FY11; NIKE, Inc facilities climate neutral by FY15.	Progress made but rethinking goal as part of larger Climate & Energy strategy.	

CH02 STRATEGY

GOAL LET ME PLAY. UNLEASHING POTENTIAL THROUGH SPORT

Key



Off track





Obstacles



On track



Completed

TOPIC	FY11 TARGET	PERFORMANCE THROUGH FY09	PROGRESS
Contributions	By FY11, NIKE, Inc invests an additional \$315 million into programs worldwide (starting in FY07).	On target. Making progress toward FY11 goal; invested \$168.82 million, 54 percent of goal, through FY09.	
Let Me Play/Social Impact	Social Impact: Nike will set targets and metrics around programs for excluded youth around the world by January FY08.	Missed target. In FY07 we defined a measurement and evaluation framework designed to assess and communicate social impact of investments, in consultation with internal and external stakeholders. In FY08-09 we developed and piloted the Women's Funding Network's Making the Case™ tool.	

A close-up, high-contrast photograph of a dark-colored sneaker, likely a Nike Air Max, showing the laces and the side panel. The image has a grainy, halftone-like texture.

CH03

**WORKERS AND
FACTORIES**

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To access the full NIKE, Inc. FY07-09 CR Report, with additional features including videos and an interactive map, please go to www.nikebiz.com/crreport

One of the most fundamental impacts NIKE, Inc.'s business can have is to improve working conditions in our global supply chain and the industry as a whole.

Overview

The three main product lines of the Nike brand — footwear, apparel and equipment — are made in approximately 600 contract factories that employ more than 800,000 workers in 46 countries around the world.

Our overarching goal is to help build an equitable and empowered work force. We have worked toward this goal for nearly a decade, pioneering a variety of approaches to influence positive change in our supply chain. We've learned from our successes and our shortcomings, and shared those findings through these reports and other means. And while we can point to many examples of improvements, challenging issues remain for our company and our industry in systemically identifying and tackling how to affect long-term system-wide change. We have begun to identify these root causes in our work and continue working to address them with contracted manufacturers and other brands.

Today we're in the starting blocks of a transformation in how we manage sustainability issues for our company and within our supply chain. We are working with contract factories to apply lean manufacturing processes, an approach that delivers the highest-quality product while eliminating all types of waste, including lost time and material.

Nike's deliberate approach to lean manufacturing includes worker empowerment — giving factory workers the skills and abilities needed to manage production and immediately address issues as they arise, such as quality or process improvements. These changes put decisions closer to the worker, and require a high level of support to ensure all workers have the skills

and confidence to consistently produce quality products. We believe our lean manufacturing approach holds great promise for worker empowerment and for building a more skilled and equitable work force.

We are also moving toward a more integrated approach to managing the complexity of our supply chain by merging our lean, energy, water, waste and compliance teams into a single effort: sustainable manufacturing and sourcing.

Our vision of sustainability remains the same as it always has: to bring people, planet and profits into balance. For Nike, this is not about trading one off against the other. It's about recognizing that sustainability is a route to future profitability, and that a sustainable economy or business model must lead to equitable supply chains: if we attend to the needs of the environment or profits, but not supply chains, we will not have succeeded.

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EXTRAORDINARY TIMES

As we began this substantial transition, the global economic crisis and recession kicked in. Our efforts began to take place against the backdrop of the economic downturn, which has resulted in substantial job losses across the industry. Official figures from the International Textile, Garment and Leather Workers' Federation report around 14 million jobs lost globally in 2009. In response to the labor crisis before us, Nike and the [Multi Fibre Arrangement Forum](#) helped kick start the Sustainable Apparel and Footwear Initiative, designed to mitigate immediate negative impacts to the industry as well as lay the groundwork for a new approach to competitiveness, founded in sustainability.

This section provides an overview of key issues in our supply chain, including wages and freedom of association, and in-depth discussion of the issues for which we set targets in FY05/06: excessive overtime, building supplier human resources management capacity and collaborating with others in the industry. We also discuss how our approach has evolved and report on our progress in monitoring factory conditions, and provide examples of our work on the ground in supplier factories around the world.

KEY ISSUES

Like almost every other global supply chain, Nike's global supply chain is a complex network that directly connects and impacts a wide range of people around the globe: consumers, buyers, suppliers, workers and communities. Each of these groups is vitally important to our success. In turn, we believe Nike has a powerful opportunity to engage with each of these stakeholders in working to create positive economic, social and environmental change.

At the center of our footprint stand more than 800,000 workers in our contracted supply chain. Most of these workers are young women, many of whom are the first women in their family to work in the formal economy. This phenomenon has the potential to lead to significant social change in families and their communities, yet these workers are typically poorly educated, living against a precarious backdrop of poverty and insecurity within emerging economies.

By monitoring conditions in the supply chain and engaging with a range of stakeholders, we have identified several key issues as the focus for our efforts to improve conditions in our supply chain. In our [FY05/06 report](#), we set targets relating to excessive overtime and freedom of association. We also set targets to help improve the capacity of suppliers to manage their human resources. We believe better management and stronger two-way communication will help address a wide range of worker concerns.

The suppliers themselves also face challenges including mixed messages and overlapping or conflicting requirements from diverse customers. To accelerate improvements in supply chain

working conditions and create a more efficient and effective system, collaborative action on the part of brands is a must.

In this report, as we update our progress against these, it's important to note that while we did not meet all of our targets, in some cases, we realized our targets were measuring the wrong things – what we learned and how we adjusted our targets are discussed here within.

FY07–09 EVOLVING BEYOND MONITORING

As we address the key issues we've identified, other issues continue to emerge. We were challenged in FY09 by migrant labor issues at a factory in Malaysia. And while contracted manufacturers have made progress in worker safety, a range of health and environmental issues are becoming increasingly important. We need to continue to adapt our approach to emerging challenges.

We have long believed that, when it comes to improving conditions for workers, monitoring alone is not the answer. Traditional monitoring — including the mindset behind some of our targets in this area — audits symptoms, rather than root causes. In evaluating where our targets fell short, we saw a consistent pattern: a focus on auditing against a set of criteria sometimes results in on-the-ground improvements for workers, but it rarely produces systemic change in the area of concern. On further reflection, we realized that, if we want to make sustainable improvements for workers, we need to significantly change the way we engage and interact with our supply chain as a whole.

There will always be a need for monitoring to protect the most vulnerable workers in our supply chain and identify areas of particular risk. However, we continue to find that by focusing on problems alone, we are not able to create models that lead to sustained, long-term improvements. As such, we are committed to decreasing the emphasis we place on monitoring in the coming years, directing increased resources to capacity building, establishing broad-based partnerships with a consolidated contracted manufacturing base and others who can partner with us in these goals.

We call this approach responsible competitiveness, and it has been an area of evolution at Nike for the last three years. It is based on our belief that:

1. *We need to go beyond issues and understand root causes.*
2. *We need to aim for systemic change, not just the resolution of incidents.*
3. *We need to foster systemic change by building responsible competitiveness into our entire business model and enabling a win-win for workers' rights, and for growth and profitability across our supply chain.*

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The graphic found [below](#) provides a view of what systematic change might look like in practice.

As we wrestle with defining the root causes behind the areas of greatest concern for workers, our focus continues to move toward improving working conditions in our contract factories by way of a holistic, integrated approach to our supply chain. Our learning journey and current thinking are discussed in the Evolving Approach section.

We invite you to explore each of these challenges, to see how Nike is focusing our efforts to bring about measurable change, and to join us in our ongoing journey to reach beyond measuring problems and advocate a better vision for the industry.

Evolution of Approach to Workers and Factories

	Generation 1: PRESENCE	Generation 2: INTERACTION	FY09 Generation 3: TRANSFORMATION	Generation 4: INTEGRATION
Main Nike Focus	Assessment, building understanding of conditions	Monitoring conditions and corrective actions	Monitoring plus capacity building, focused on root-cause analysis	Sustainable manufacturing
Nike capabilities	<ul style="list-style-type: none"> Establishing a function Fighting fires Building a global team Establishing partners 	<ul style="list-style-type: none"> Systematizing the work Building excellence in management audits Building a global EHS process Creating transparency Creating ratings 	<ul style="list-style-type: none"> Building excellence in remediation Sustainable sourcing strategy Business integration and accountability Factory ownership of CR Industry coalitions 	<ul style="list-style-type: none"> Integrated management of product development, working conditions, and EHS throughout supply chain
Supplier capabilities	Capacity to respond to brand inquiries	Understand core CR/HR functions	Human resources management capacity	Lean and sustainable production
Industry collaboration	Code of Conduct	Nike publishes supplier lists	Building coalitions	Common expectations, cooperative monitoring and capacity building

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OUR STRATEGY – EVOLVING APPROACH

Nike's evolving approach to addressing working conditions within our supply chain mirrors the evolution within the broader corporate responsibility movement.

Since we began our supply chain work, we've run the course – from establishing a code of conduct and pulling together an internal team to enforce it, to working with external bodies to monitor factories and engage with stakeholders.

After nearly a decade of work, we have learned (as documented in our FY05/06 report) that monitoring alone does not solve the problems. In fact, many of these problems are recurring in our industry.

Our focus is getting to the root of problems. We look end-to-end, from the first phase of our product creation process to the outcome measured in the lives of factory workers who manufacture our product. We seek systemic change by building the capacity of our contract manufacturers to establish and maintain high standards in their operations.

Nike is a strong advocate of creating market-driven incentives as a primary driver of change. We know we cannot solve the challenges that face us on our own. We believe that collaboration – with manufacturers, governments, industry partners and key stakeholders – will help generate solutions that will change the system for the better.

Our approach has evolved over three generations. We are now in the third generation; poised to move to a fourth.

EARLY EFFORTS

NIKE, Inc.'s **Code of Conduct** was a first step in our effort to improve working conditions in contracted factories. Drafted in 1991 and distributed to contract factories manufacturing Nike-branded products starting in 1992, it has been reviewed and updated over the years, and is a straightforward statement of values, intentions and expectations meant to guide decisions in product facilities. Nike directs contract factories to post the Code of Conduct visibly and in the appropriate local languages.

EVOLUTION IN FY07–09

In FY07-09 we continued to monitor contract factories for management practices against our Code Leadership Standards, our **Code of Conduct** and for their performance across environment, safety and health indicators.

We share results of these audits and the changing profile of our contract manufacturing base and their workers in the monitoring section. Additionally, in FY10 we will be reviewing and integrating the NIKE, Inc. affiliates into our current monitoring program.

During the first two years of the third generation (FY07/08), we methodically began evolving our approach from monitoring to capacity building with contracted manufacturers and business partners. This evolution required a shift from policing incidents to analyzing root causes and working together to identify and implement solutions.

We have learned that full integration with business needs is a critical factor for success. We introduced a human resources management (HRM) system fully integrated with our transformation to lean manufacturing. We believe that the new manufacturing approach has the potential to radically change the game for workers' empowerment and equity within the supply chain over the long term.

Our monitoring and ratings continue to evolve. We are piloting new compliance tools, reflecting the emphasis on assessing factories' human resource management systems. We are also upgrading our assessment tools, broadening and deepening the ways we assess risk and risk analysis in decision making. As a reflection of our ongoing commitment to help assess factory performance more holistically, Nike is partnering with the Fair Labor Association (FLA) along with participating brands across the industry to develop a single comprehensive tool that can assess human resource management at the factory level and unearth the root causes behind noncompliance issues. This shift will allow us to better understand and address root causes of noncompliance. It will also provide us with a baseline from which to measure moving forward.

As we said in our FY05/06 report, we know that monitoring alone does not resolve issues, it merely identifies them. Since then we have done additional analysis of contract factories and have found that nonperforming factories typically fall into two categories: a yo-yo pattern of performance in which factories respond to audit feedback while scrutinized and then return to pre-audit performance and a flat-line pattern in which factories fail to make material changes to their practices even when visited or monitored. In both cases, after addressing issues with steps agreed to in the master action plan, factories return relatively close to their pre-audit performance. Root causes are often not addressed through this process. This analysis is the best evidence we have to date that monitoring alone does not elevate performance.

Our vision is for a third kind of result. We anticipate that systemic change would result in a slow, steady upward progression to better performance. Over a series of years, there could be some spikes following monitoring, however, measured incremental progress would reflect the type of change that is sustainable. We believe the best way to bring about that kind of change is through fundamental shifts within factories brought about by

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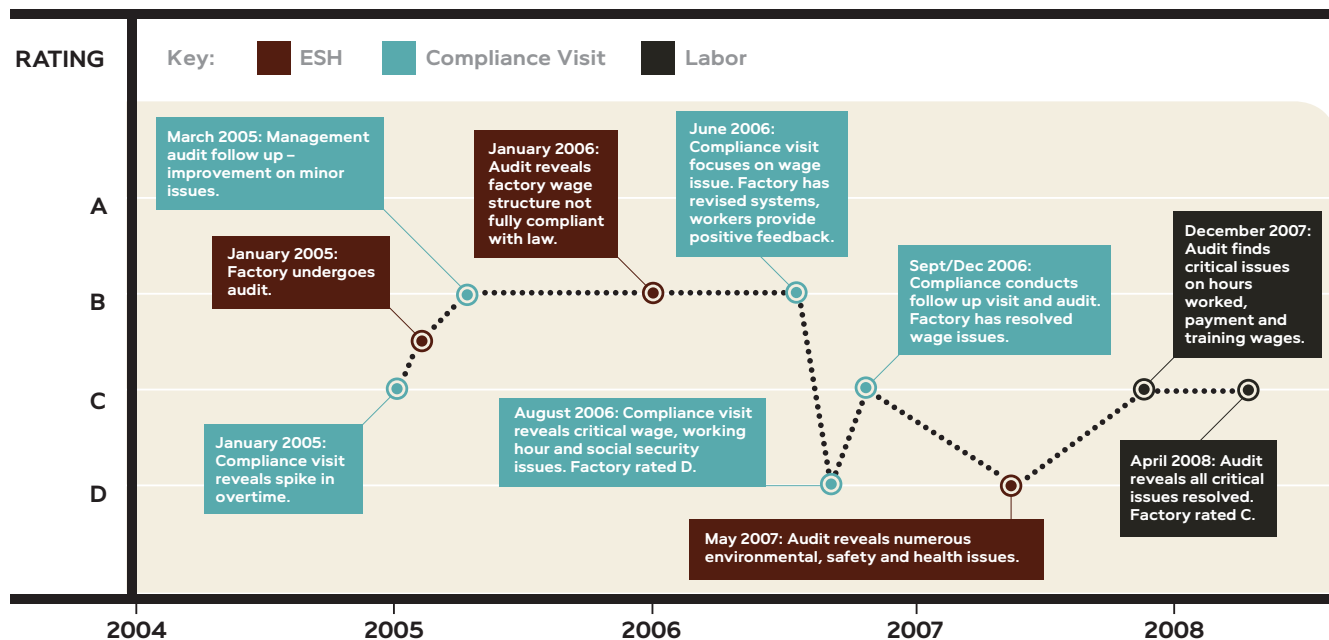
understanding and incorporating human resources management and environment, health, and safety practices. This is what the HRM training we are delivering to contracted factories is designed to deliver.

We are beginning this work with factories that are high performing, with whom we believe we can partner to push further improvements on workplace issues. In FY10, we will begin to evaluate HRM as a tool with factories that in general lack robust human resource management systems. We view HRM as a strategic tool to use for investing and capacity building.

Factories that participated in this training in FY09 have an average score of B. We will track their post-training progress in the coming years in hopes of seeing them achieve a steady upward trend.

Factory Performance following Monitoring

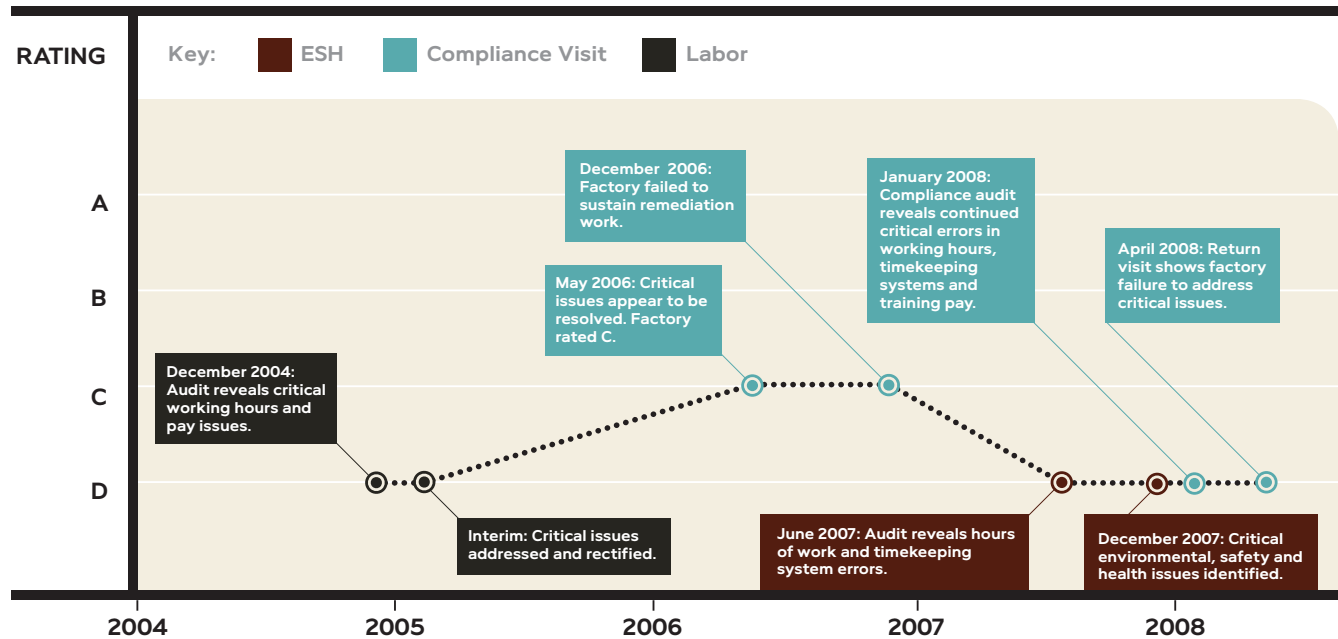
Yo-Yo



Note: One Nike-contracted factory monitored over three years had 18 different monitoring visits. While the factory responded to identified incidents, it failed to make sustained improvements.

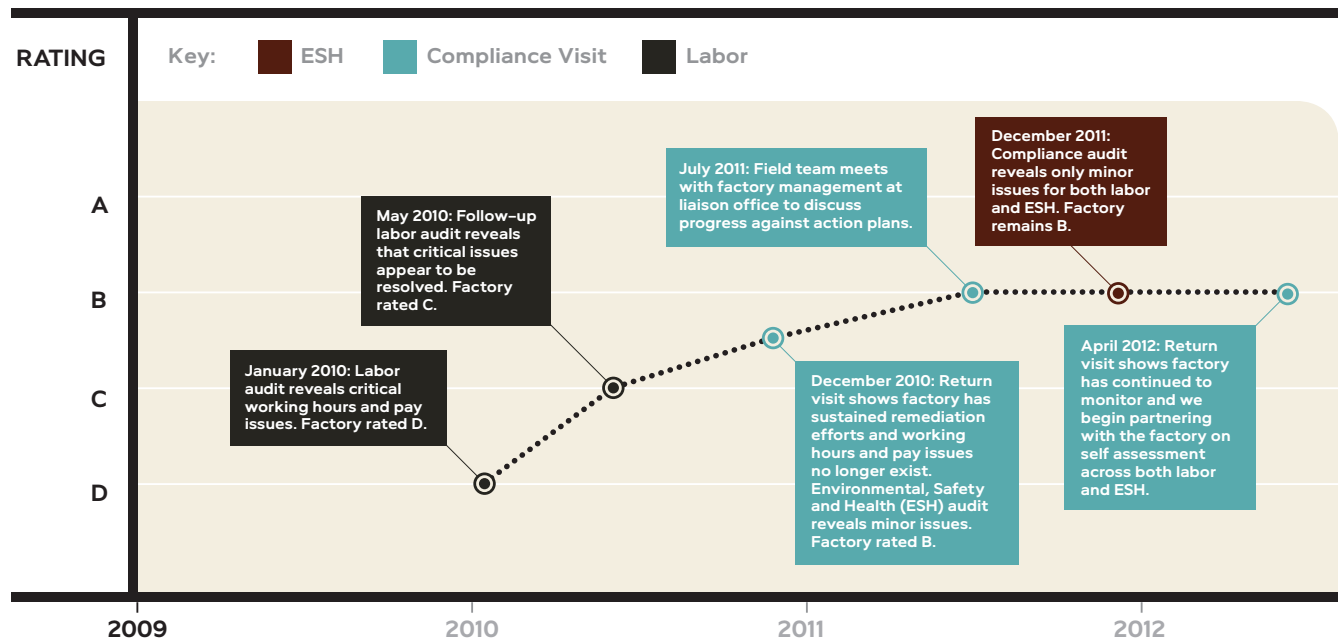
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Flat Line



Note: One Nike-contracted factory monitored over three years had nine different monitoring visits. Even with monitoring, it failed to make sustained improvements.

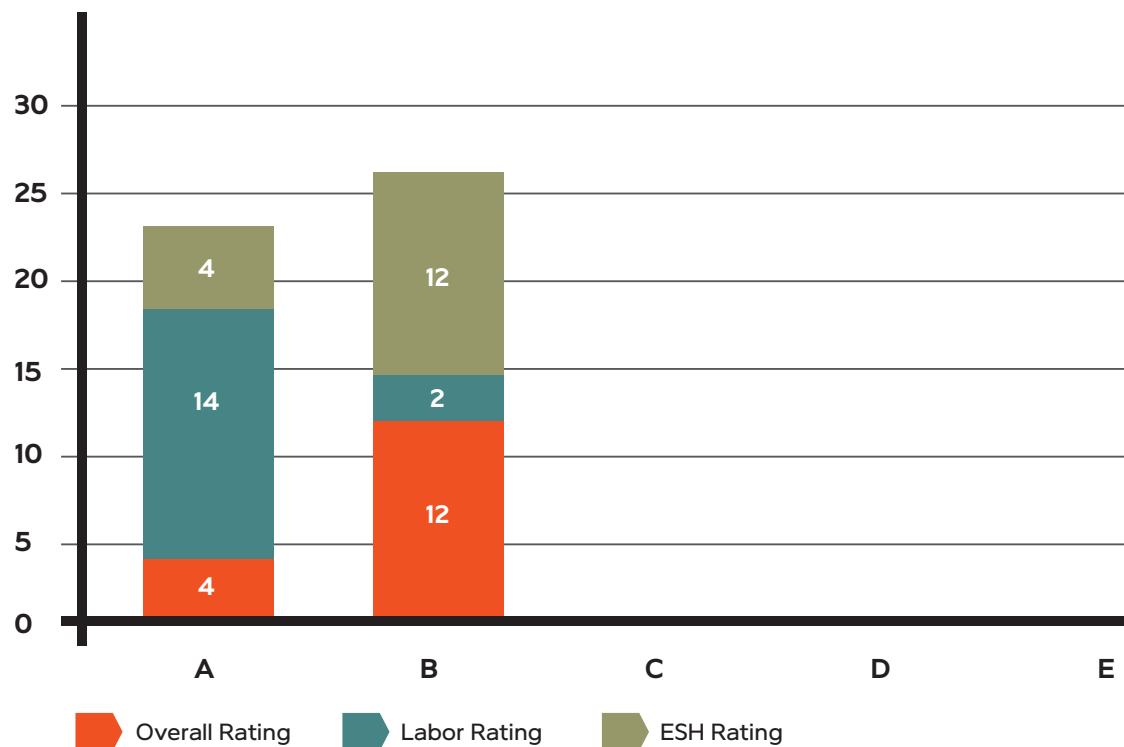
Desired Result



Note: factory engaged in systems management capacity building over a multiple-year period. With capacity building and measuring impact against consistent base assessment, factory achieves sustainable improvement and performance. Factory is able to move to a model of self governance in which oversight is characterized by less policing, and more checks and balances (supplemented with worker surveys and "checks" though qualified third parties and brand collaboration partnerships). Nike believes HRM training linked to lean has the best potential for accelerating these results.

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FY09 HRM Baseline Results (Number of factories attaining a given rating)



Note: The Human Resource Management program was mostly in pilot phase during FY09 and implemented in FY10 with plans to scale up the number of factories through FY11. Therefore, only 16 factories are included for FY09. We present this data as a baseline for HRM factories for comparison to future years. We began the HRM program with high-performing factories but will need to consider whether this approach continues to make sense as we move forward, as the current criteria assumes that participating factories have basic HRM systems in place.

» Affiliate Initiatives

In addition to our monitoring and education efforts within the Nike brand, FY07-09 also marked the beginning of our journey into building a robust approach to compliance into NIKE, Inc., affiliates, including Cole Haan, Converse Hurley and Umbro. Each of these companies has a different product mix and is at a different level of compliance to NIKE, Inc. standards. In FY09, the affiliates began integration into NIKE, Inc. standards with monitoring and Code compliance. In FY10 and beyond the affiliates will continue learning and applying lessons from the Nike brand on deeper capacity building, realizing a tremendous opportunity for each affiliate to position itself as an industry leader. There is work to be done and we are committed to working with the affiliates to evolve their practices and programs as they align more fully with the NIKE, Inc. approach. For further transparency we plan to publish their factory lists in FY10.

» Rewiring for the Future

For Nike, FY09 brought serious issues around migrant labor in Malaysia to light and prompted immediate investigation. The migrant issue, one not unique to Nike, the industry or Malaysia, prompted a wide-scale review of how we could influence improvements of working conditions in contracted factories.

The review, called “rewire” and commissioned by NIKE, Inc. CEO Mark Parker, took five months and led to core changes now being implemented across the company. Changes address key areas including approach, governance, accountabilities, incentives, and checks and balances both upstream (within Nike) and downstream (in contracted factories).

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We anticipate sharing results of these shifts in future reporting and embedding this new approach in future metrics. Today we can share what we have learned so far from our work: that we cannot address the future of supply chains through isolated issues and responses. As we have tested and built evidence and created approaches, we realize more than ever that they are fully interconnected and will need to combine all of our efforts around lean manufacturing, sustainability in product and the supply chain, equity and empowerment to produce a viable, profitable and productive model for business.

To start Nike on this transformation, at the end of FY09 we merged our lean, energy, water, waste and compliance teams into a single effort: sustainable manufacturing. We believe that viable manufacturing of the future will be “lean, green, empowered and equitable,” and that failing on any of these dimensions is not an option.

ON THE HORIZON

We envision a future state where all of these areas are intertwined and interdependent. Lean creates an empowering work environment where workers are able to reap the rewards of management investment strategies that emphasize skill building, teamwork, environment and quality over quantity. Compensation structures in lean factories evolve, with bonuses reflecting skills in quality and teamwork rather than just hours worked and overtime. Managers value workers and do what they can to retain and listen to them. Waste is removed from processes. Fossil fuels are seen as costs on both current and future balance sheets and drive new solutions in efficiencies and retrofits as well as incorporation of solar, wind and hydro.

This shift is massive. If we are to be successful in helping to shift the system and bring about real change, our efforts need to be a part of a broader push and more robust industry collaboration.

Profiles: Factories, Monitoring and Workers

We use three complementary approaches to advance our vision of an equitable and empowered work force. We monitor conditions in the factories we contract with – focusing on those that are most important to the business and where we believe the risks are highest – and require corrective action when we find shortcomings. We also work with manufacturing management to build their capacity to do it right in the first place, by helping them develop effective human resources and other management capabilities. Finally, we collaborate with others to promote a consistent, coordinated, effective approach intended to raise performance across the industry.

This section provides an overview of the factories we contract with and the workers they hire. It also discusses our monitoring approach and results of that monitoring.

- Profile of Factories
- Profile of Workers
- Factory Monitoring and Results

PROFILE OF FACTORIES

At the end of FY09, Nike contracted with approximately 600 factories in 46 countries to manufacture Nike products.

Our contracted manufacturing base is changing. NIKE, Inc. is executing a long-term sourcing consolidation strategy and streamlining its supply chain operations, which has, thus far, resulted in a 10-percent decrease in suppliers for the Nike brand from FY06 to FY09. In 2007 we began assessing the contract manufacturing base and undertaking a multi-year strategy to:

1. Streamline our supply chain to do business with a focused number of contract manufacturing groups.
2. Build a strong and sustainable sourcing base for greater operational efficiencies and future growth.
3. Align with contract manufacturing groups best positioned to deliver performance product and innovation that Nike consumers have come to expect.
4. Continue to partner with contract manufacturers committed to Nike's corporate responsibility principles.

Nike Brand Factories by Region and Product (at FY close, May 31 each year)

	 Footwear				 Apparel				 Equipment				Global			
	FY06	FY07	FY08	FY09	FY06	FY07	FY08	FY09	FY06	FY07	FY08	FY09	FY06	FY07	FY08	FY09
Americas	11	16	15	13	85	82	83	83	30	28	23	20	126	126	121	116
EMEA	4	2	2	2	59	58	45	37	18	19	16	14	81	79	63	53
N Asia	39	35	38	38	138	141	149	134	108	107	117	102	285	283	304	274
S Asia	19	23	19	18	155	151	163	137	21	17	20	20	195	191	202	175
TOTAL	73	76	74	71	437	432	440	391	177	171	176	156	687	679	690	618

Note: Nike contracted with 618 factories to manufacture product in FY09, down from previous years and reflective of our consolidation strategy that focuses on contract manufacturing group optimization to build a long-term sustainable sourcing base capable of delivering product, innovation and reinforcing relationships with factories committed to our corporate responsibility principles.

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When you look at the reach of Nike's contracted manufacturing base and the potential risk, it becomes clear why global supply chains face such serious issues around working conditions. Working in different countries, each with different regulations and operating environments means there is no one-size-fits-all approach.

CONTRACT MANUFACTURING BASE

Our overall manufacturing base is generally comprised of long-term partnerships, with some fluctuation based on product sourcing requirements, changing business and fashion trends or general factory performance.

CONTRACT FACTORY DISCLOSURE

In 2005, Nike was the first company in the industry to disclose its factory list. Nike is committed to supply chain transparency by updating public disclosure of the contract factories worldwide that are producing Nike-branded product. See detail down to the factory level at the NIKE, Inc., FY07-09 CR Report available online at nikebiz.com/crreport. We also disclose those factories that make [licensed collegiate apparel](#). Our goal in disclosing our factory base is to encourage transparency and collaboration with other companies to improve conditions across the industry.

All NIKE, Inc. affiliates are also working to increase transparency around their supply chains. This work will continue as we anticipate future reporting on all contracted factories serving NIKE, Inc. affiliates.

FOCUS FACTORIES

In FY07-09, we prioritized monitoring by focusing on the 20 percent of key contracted factories that account for approximately 80 percent of Nike's production by volume.

To identify focus factories, we rate high-volume factories using a risk index that assesses five primary factors designed to focus on the most vulnerable workers:

- *Country in which the factory is located*
- *Factory worker population*
- *Type of factory operation*
- *Manufacturing process*
- *Management and environmental, safety and health (ESH) compliance performance*

This index has evolved from FY05/06, as we continue to refine our approach to assessing risk. To further understand the full range and nature of risks across the NIKE, Inc., supply chain, in 2009 we partnered with [Maplecroft](#), a firm specializing in global risk assessment around areas such as climate change, pandemics, resource security, terrorism and human rights. The Maplecroft

work will supplement Nike's current risk criteria around focus factories by providing an additional geographic and specialized issue lens to our current analysis. We expect our relationship with Maplecroft will deepen our understanding of existing and emerging challenges in work force and environmental, health and safety management.

In FY09, approximately 180 factories met the criteria of focus factories. For many of our assessments and business targets, we report on efforts with these focus factories.

We continue to evaluate our risk-based monitoring approach. We anticipate revising our risk index to cover additional areas, including new source approval, new country approval and other factors.

NEW SOURCES

For new factories to enter Nike's supply chain, they must go through our new source approval process. Factories that have not actively produced with Nike in the past 18 months also must go through this process. In FY07, we added 67 new factories to our contract manufacturing base through this process. In FY08, we added 57 new factories and in FY09 we added 42.

The majority of new factories were in apparel, due mostly to additions by licensed and agent business and sources needed for the local market.

DISCONTINUED ORDERS

In FY05/06 we released details about our process for discontinued orders. In FY08, we created a more formalized process for discontinuing orders at contracted factories. We discontinue orders based on factory performance, compliance performance or business consolidation.

The process includes notice to relevant departments within Nike of the closure, assessment to determine an action plan or response, appointment of a factory exit response team, and development and execution of a Nike action plan.

In March of 2009, Nike announced it would discontinue orders with four footwear factories and a number of apparel factories within the year. In apparel contract factories, Nike is often one of several buyers and therefore does not comprise a majority buyer at any one factory. We anticipate further consolidation will occur across all product areas. As we implement these plans and respond to new and changing business needs, we continue orders over six to 12 months as we engage with stakeholders and government on a responsible transition out of these factories.

To evaluate where to discontinue orders, Nike considers a variety of factors such as innovation, overall performance, management, strategic capabilities, productivity, quality, craftsmanship and commitment to Nike's corporate responsibility principles.

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FACTORY MONITORING AND RESULTS

Over the past decade, our approach to addressing sound working conditions in contract factories has evolved from one focused on monitoring compliance with legal and Nike requirements – and requiring action if shortcomings are found – to one supporting the capacity of contract factories to manage operations and meet requirements as a matter of course.

As we make this transition, we continue to monitor both management/labor items and environmental, safety and health (ESH) items (details below) at focus factories. In addition to management and ESH audit visits, we make other factory compliance visits and meet on remediation and other issues. These visits might be sparked by a worker complaint, follow-up on an [FLA audit](#) or simply a Nike person being in the area of the factory. On average, we visit factories in our supply chain 1.77 times per year though the exact number of visits per individual factory depends on a factory's rating, its strategic importance and its performance history.

MANAGEMENT AND ESH FACTORY ASSESSMENT

Our intention is that all Nike-contracted focus factories receive comprehensive management audits every one to three years depending on their compliance record. Factories earn letter grades based on the lowest result observed, reflecting all relevant information about a factory's compliance performance and progress achieved in resolving items identified for remediation, including audit results. If a factory receives a C or D rating, we work with them to improve their performance and rating through specific steps outlined in a master action plan we develop together. If they fail to make progress against that plan, we elevate these concerns as part of reassessing our business relationship.

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Nike Monitoring Letter Grade Assessment Criteria

GRADE	ENVIRONMENT, SAFETY & HEALTH	MANAGEMENT
A	<ul style="list-style-type: none"> Fully compliant Demonstrates best practices Considered a leader 	<ul style="list-style-type: none"> Isolated violations of M standards which do not rise to the level of "Serious" or "Critical" issues No more than five minor issues outstanding on the Master Action Plan (MAP)
B	<ul style="list-style-type: none"> Mostly compliant Minor system failures are found Factory is making progress 	<ul style="list-style-type: none"> Isolated violations of M standards which do not rise to the level of "Serious" or "Critical" issues More than five minor issues outstanding on the Master Action Plan (MAP)
C	<ul style="list-style-type: none"> Noncompliant Serious system failures Factory is making no progress 	<ul style="list-style-type: none"> Factory not providing basic terms of employment (contracts, documented training on terms of employment, equal pay, discriminatory employment screening) Isolated use of workers under the minimum legal age or above the minimum legal age but under the minimum age of Nike's Standards Factory fails to honor a material term of signed collective bargaining agreement Isolated case of not paying the legally mandated minimum wage; not providing legally required non-income related benefits; or failure to provide required income-related benefits Isolated verbal or mental harassment or abuse Violation of local laws regarding the use of migrant labor Serious violation of hours of work standard: factory fails to provide verifiable timekeeping system to accurately record work hours; more than 10 percent of employees work between 60 and 72 hours each week or work seven or more consecutive days without a break
D	<ul style="list-style-type: none"> Noncompliant Demonstrates general disregard for Nike codes and standards Unwilling or unable to drive important change Deliberately misleads auditors Audit shows critical systemic and repeated problems 	<ul style="list-style-type: none"> Management specifically refuses, or continues to demonstrate it is not willing to comply with Nike Standards Any denial of access to authorized compliance inspectors Management provides false information (statements, documents or demonstrates coaching) Factory outsources to an unapproved or unauthorized facility or issues homework to employees Any use of bonded, indentured or prison labor Use of force to compel illegal work hours Systemic use of workers under the minimum legal age for work Factory denies workers freedom of association Systemically not paying the legally mandated minimum wage or not providing legally required income related benefits Factory conducts pregnancy testing as a condition of employment Systemically not providing legally required maternity leave A confirmed serious incident of physical or sexual abuse; or systemic harassment and abuse and/or failure to timely respond to complaint(s) Critical violation of hours of work standard: lack of verifiable timekeeping system results in workers not having hours or work accurately recorded; more than 10 percent of employees exceed daily work hour limits, work more than 72 hours each week or work 14 or more consecutive days without a break
E	<ul style="list-style-type: none"> Not enough current information to measure compliance performance 	<ul style="list-style-type: none"> Not enough current information to measure compliance performance

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Overall MESH Rating (Management and Environment, Safety and Health)

Rating	FY07				FY08				FY09			
	Management Rating Only				MESH Rating				MESH Rating			
	Q1 AVG	Q2 AVG	Q3 AVG	Q4 AVG	Q1 AVG	Q2 AVG	Q3 AVG	Q4 AVG	Q1 AVG	Q2 AVG	Q3 AVG	Q4 AVG
A	184	160	127	104	99	96	99	226	75	71	57	155
B	284	261	225	227	224	206	214	214	213	221	245	210
C	151	143	125	124	137	132	134	156	162	161	156	100
D	37	38	31	26	26	35	38	35	25	30	21	22
E	34	85	181	199	192	205	207	190	166	157	145	172

Notes: Factories contracted to manufacture product for Nike receive letter-grade ratings on their management and environmental, health and safety practices. Factories rated C or D on any element develop an action plan and are assessed against their progress in implementing it. Most factories contracted to Nike received B ratings in FY07-09. Factories receiving an E rating had insufficient information to rate the factory.

Management Audit Verification (MAV) Tool

In addition to periodic management audits, Nike conducts deeper studies called Management Audit Verifications (MAV), which are both an audit and verification built into one tool. MAV covers the full worker experience, delving deep into four core areas: hours of work, wages and benefits, labor relations and grievance systems. We developed the tool to help better understand and address both root causes and impact analysis of areas of noncompliance in labor management. Following visits, Nike and contract factories create action plans to remediate noncompliance issues according to local law and Nike's Code Leadership Standards.

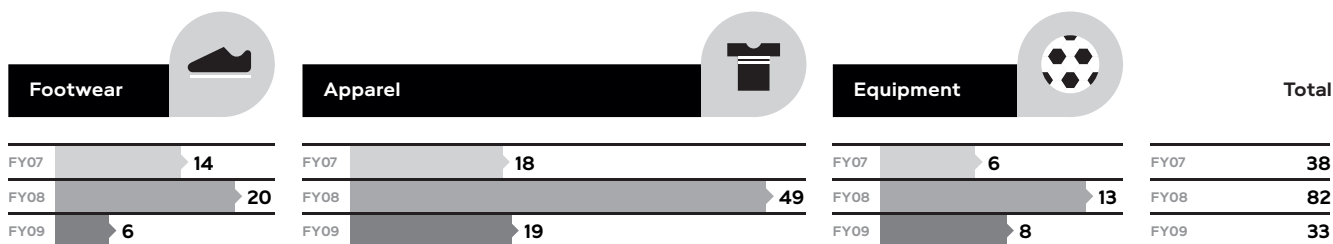
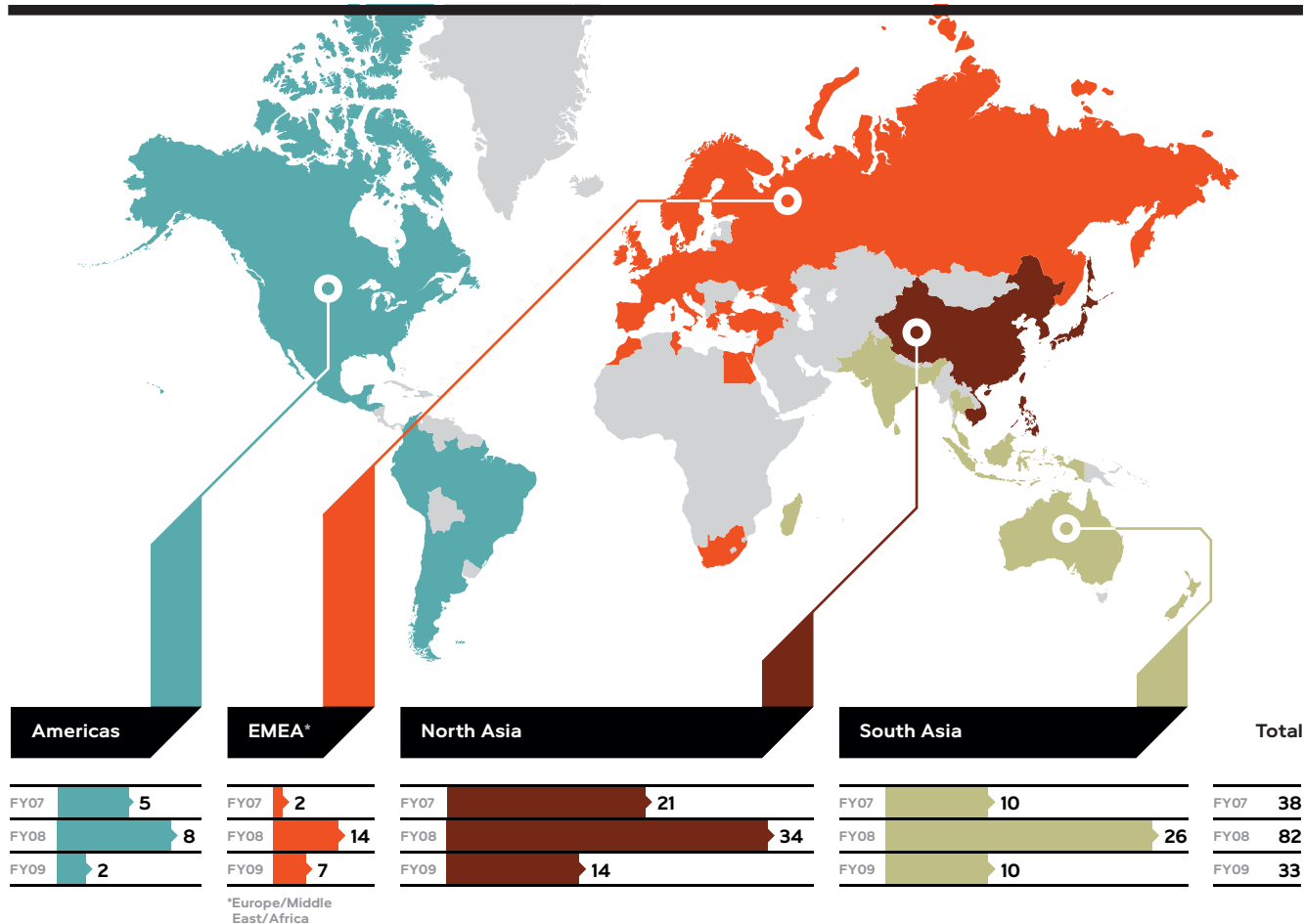
In FY07 we added the MAV tool to the various monitoring approaches and replaced some management audits. In that year we applied existing and revised tools, and the total number of audits conducted was lower as we made the transition. In FY08, Nike conducted 82 MAV audits in 80 factories, with the increase in audits corresponding to an increase in manufacturing for the

Olympic Games. In FY09 the number of MAV audits was 33. The majority of audits were conducted in North Asia and in apparel factories, reflecting the substantial number of apparel factories in the supply chain. The MAV audits themselves reflect the highest level, most in-depth analysis we conduct with factories, executed based on issues identified. The outputs of MAV audits are identification of specific compliance issues and a qualitative analysis of root causes of compliance issues identified. A finding of noncompliance with Nike's Code Leadership Standards or local law requires development of an action plan and subsequent reviews to monitor progress against the plan.

These monitoring efforts are backed by ongoing interaction with factories, including capacity building visits, remediation work and other activities. It is worth noting that our data only reflects the activity of our compliance team and may understate the level of engagement we have with contract factories. For example, we have staff in many factories and other business functions are frequently on-site as well. These businesspeople work with factories and the dedicated compliance team to resolve issues.

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Management Audits Conducted by Region and Product



Note: Nike conducted 33 MAV audits in FY09. Audits cover the full worker experience, delving deep into four core areas: hours of work, wages and benefits, labor relations and grievance systems. Nike has made this tool available for download.

Countries with the highest number of noncompliance issues arising were China, Indonesia, Malaysia and Brazil in FY07; Malaysia, China, Indonesia and Turkey in FY08 and Indonesia, Turkey and Moldova in FY09. Overall, the top issues identified in

MAV Audits were lack of systems, lack of knowledge and lack of commitment, with lack of systems surpassing lack of knowledge for the top spot.

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Incidents of Management Noncompliance

Type of issue	FY07	FY08	FY09
Factories Reported with Critical Issues	19	24	6
Factories Reported with Serious Issues	21	38	11
Factories Reported with Minor Issues	10	23	11

Note: A finding of noncompliance with Nike's Code Leadership Standards or local law requires development of an action plan and subsequent reviews to monitor progress against the plan.

Top Global Management Issues Identified in Contract Factories in FY07-09

FY07	FY08	FY09
<p>Critical Root Causes (Top 3)</p> <ol style="list-style-type: none"> LACK OF KNOWLEDGE Nike M-CLS and local labor law LACK OF COMMITMENT Legal requirement / Nikes CLS LACK OF SYSTEM Process 	<ol style="list-style-type: none"> LACK OF KNOWLEDGE Nike M-CLS and local labor law LACK OF SYSTEM Communication - internal / external LACK OF COMMITMENT Legal requirement / Nike CLS 	<ol style="list-style-type: none"> LACK OF SYSTEM Empowerment of compliance & HR LACK OF KNOWLEDGE Nike M-CLS and local labor law LACK OF KNOWLEDGE Human Resources mgmt & system
<p>Serious Root Causes (Top 3)</p> <ol style="list-style-type: none"> LACK OF KNOWLEDGE Nike M-CLS and local labor law LACK OF SYSTEM Process LACK OF COMMITMENT Legal requirement / Nikes CLS 	<ol style="list-style-type: none"> LACK OF KNOWLEDGE Nike M-CLS and local labor law LACK OF SYSTEM Communication - internal / external LACK OF COMMITMENT Legal requirement / Nike CLS 	<ol style="list-style-type: none"> LACK OF KNOWLEDGE Nike M-CLS and local labor law LACK OF KNOWLEDGE Human Resources mgmt & system LACK OF COMMITMENT Legal requirement / Nike CLS
<p>Minor Root Causes (Top 3)</p> <ol style="list-style-type: none"> LACK OF SYSTEM Process LACK OF KNOWLEDGE Training (conducted and effect) LACK OF SYSTEM Communication - internal / external 	<ol style="list-style-type: none"> LACK OF KNOWLEDGE Nike M-CLS and local labor law LACK OF SYSTEM Communication - internal / external LACK OF COMMITMENT Legal requirement / Nike CLS 	<ol style="list-style-type: none"> LACK OF KNOWLEDGE Nike M-CLS and local labor law LACK OF KNOWLEDGE Human Resources mgmt & system LACK OF SYSTEM Efficiency / Effectiveness

Note: Overall, the top issues identified in management audits of Nike-contracted factories were lack of systems, lack of knowledge and lack of commitment, with lack of systems around empowerment of compliance and HR staff the most often-cited issue in FY08.

CH03 WORKERS AND FACTORIES

Environment, Safety and Health Assessment

We assess environment, safety and health management and compliance program performance to provide protection for workers, the surrounding community and the environment at contracted suppliers. These assessments are conducted on site by Nike-certified compliance teams that review all available information including the contract manufacturer's support of the 38 Nike Code Leadership Standards, as well as the local regulations and/or national laws.

In FY09, we conducted 267 reviews. Eight percent – 21 reviews – included in-depth audits. The majority were conducted in North Asia at apparel factories. See chart on the following page.

In FY05/06, we also used a Safety Health Attitude, People and Environment (SHAPE) audit, which we transitioned in FY07 to a factory self-evaluation to focus on finding ways to address areas of need rather than a numeric score.

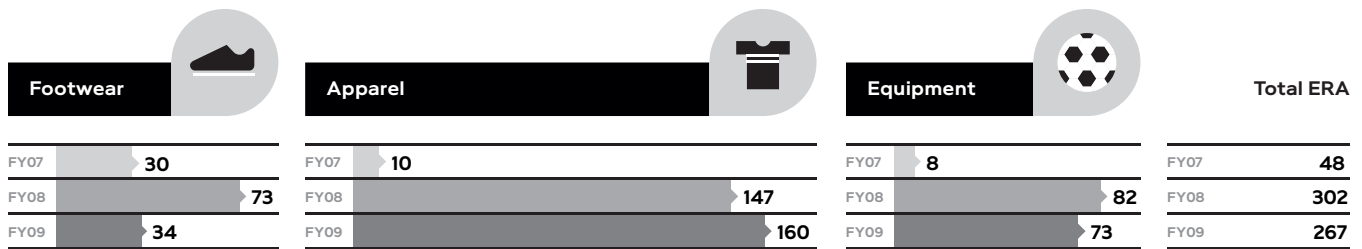
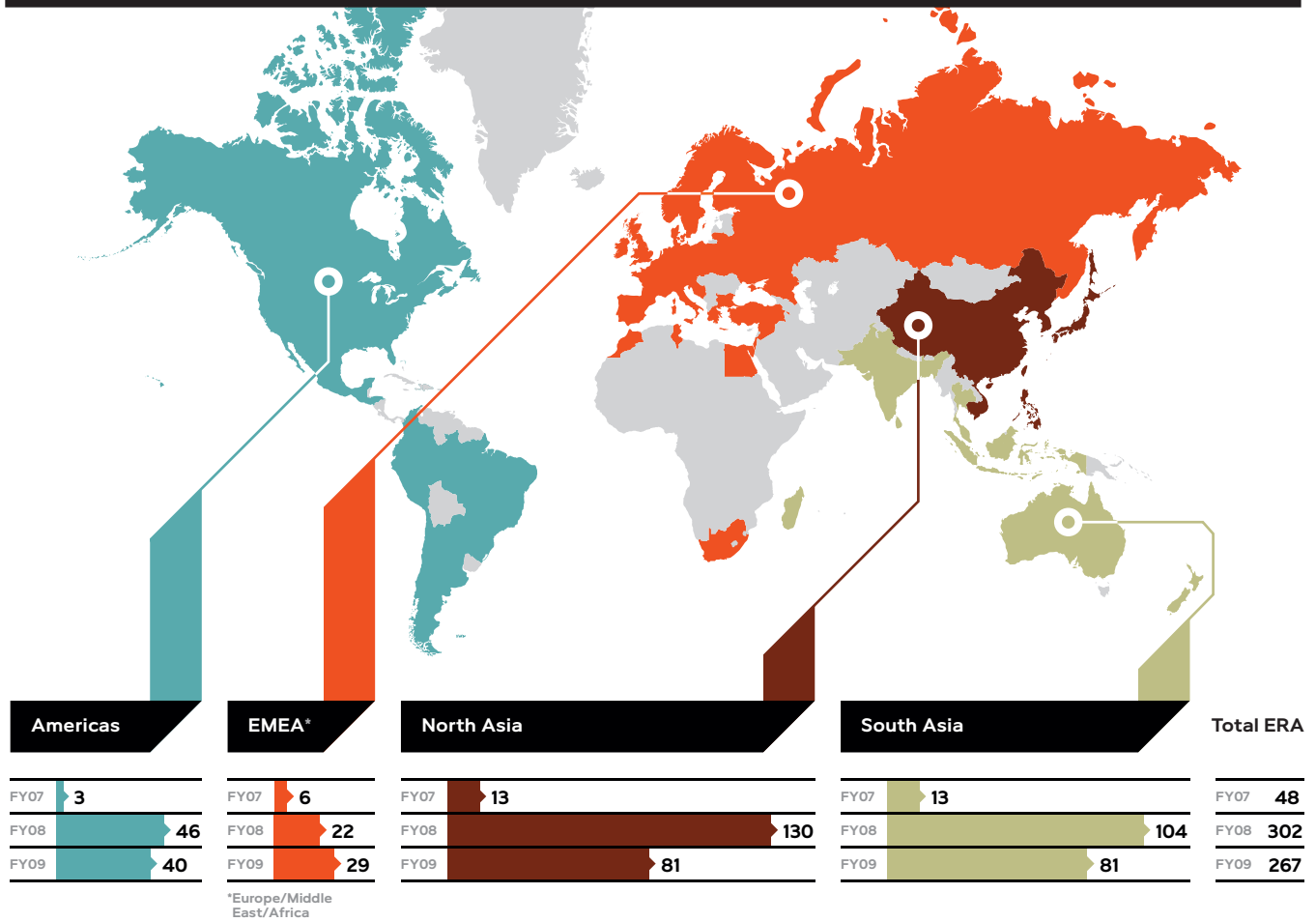
Our audit protocol focuses on the areas of greatest risk to workers and the environment, assessing both relevance and overall performance on the most critical environment, safety and health issues.

Audits show that the top environment, safety and health issues within contract factories generally reflect those areas where there is a lack of local laws or regulations. In some cases, Nike's Code Leadership Standards introduce ESH management standards to contract factories where regulation or practice have been absent, thus improving the capacity of factories to manage these issues effectively. Three such issues are managing confined space with a task permit required by Nike that assures basic working conditions and established procedures to provide protection from hazards; controlling hazardous energy, such as is found in machines or equipment, where we require control procedures, employee training and periodic inspections; and incorporating contractor safety into factories' assessments and responsibility.

The lowest-scoring environmental, safety and health issues across all contract factories in FY07 included hazardous materials, control of hazardous energy and fall protection. In FY08 the top three were confined spaces, control of hazardous energy and hazardous materials. FY09 top issues were hazardous materials, hazardous waste and machine guarding. Some changes in the top areas identified from FY07 to FY09 reflect concentrated efforts by Nike with contract factories to address recurring issues, including hazardous materials and occupational exposure limits.

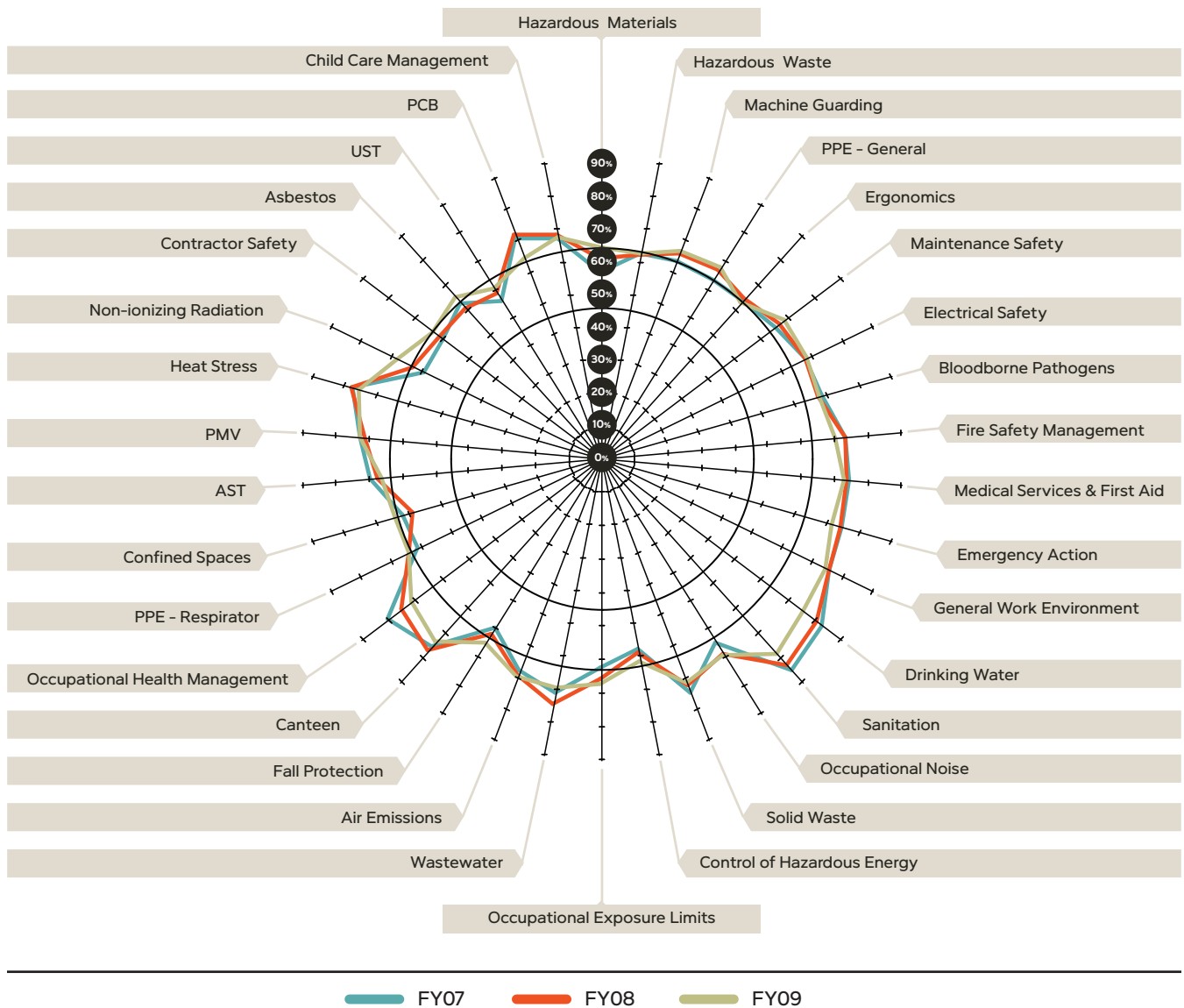
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Environment, Safety and Health Audits FY07-09 by Region and Product



Note: Nike implemented a new Environment, Safety and Health auditing methodology in FY07, conducting 48 audits in FY07, 302 in FY08, and 267 in FY09.

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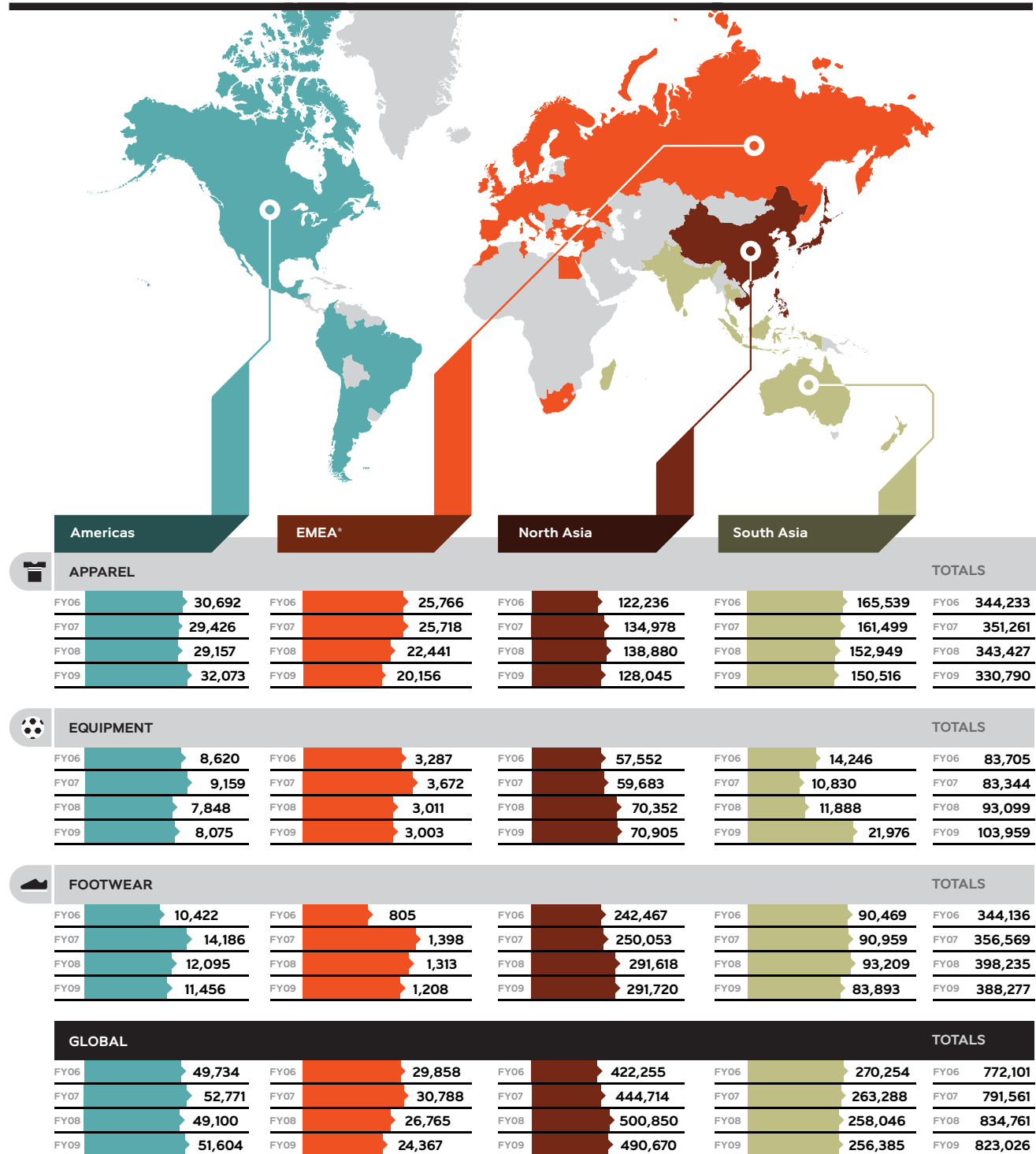


ESH CLS COMPLIANCE FY07-09

Note: FY09 results show a significant improvement in the management of the chemical management issues. Chemical Management, after two straight years as the number-one noncompliance issue, has dropped to number five. Factories are spending more resources to communicate the hazards of chemicals to their employees. Additionally, they're educating these employees on how to best protect themselves from the hazards associated with those chemicals. Among the successes, there is always room for improvement as is the case with wastewater noncompliance issues, which crept back onto the top-10 list in FY09 after falling off in FY08. Although factories generally are improving year after year, they must be vigilant in establishing sustainable systems to maintain momentum in identifying and managing their risks. Many factories were audited for the first time in FY09, one reason for the reduction in performance in fire safety, emergency action, drinking water, sanitation and occupational health management. For many of these factories, this audit was the first customer audit of their ESH performance

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Total Workforce of Contracted Factories by Region and Product



*Europe/Middle East/Africa

Note: Nike-contracted factories employed more than 820,000 workers in FY09. Sixty percent of that work force was in North Asia and 47 percent manufactured footwear.

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PROFILE OF WORKERS

At the close of FY09, factories that Nike contracted with employed 823,026 workers, nearly 7 percent more than in FY06. Nearly 60 percent of that work force is in North Asia, 31 percent in South Asia and nearly 50 percent work in footwear.

In FY07/08 we developed a wide-ranging survey covering topics most important to contract factory employees, ranging from benefits and compensation, to health and safety, to working conditions.

We explored the idea of releasing the survey instrument and results, but we cannot do this without compromising the integrity of future survey results. Publishing the survey would give manufacturers the ability to coach answers and invalidate results.


The survey is conducted at focus factories as part of transitioning into lean manufacturing, which relies on an empowered, valued work force. We anticipate that insights from the survey will help us to understand workers and better help factories address their needs. More detailed information on the survey and results is available in the worker survey section.

ON THE HORIZON

Throughout our contract manufacturing base, we see the potential and promise of delivering improvements in product and for workers as we work with contract factories to implement business improvement processes, such as lean, and we focus on sustainable manufacturing. This approach is helping us to address additional issues, including water and waste management, comprehensively and throughout our supply chain.

Excessive Overtime

Excessive Overtime Target

TARGET	PERFORMANCE	PROGRESS
<p>Workers Reduce Nike-caused excessive overtime incidents in contract factories.</p>	<p>Making progress on evaluating Nike-caused overtime and addressing root causes including capacity planning by business and factory, shifting to lean manufacturing and reducing the number of SKUs produced.</p>	 <p>On track</p>

Note: In our FY05/06 report we released a target of zero excessive overtime identified in contract factories. As we started working toward that goal we realized that this goal was measuring the wrong thing. The target of eliminating “identified” overtime could be achieved by incentivizing lower levels of identification and reporting whereas our overarching aim is to increase tracking and transparency. While we seek to reduce excessive overtime across the industry, the only items we can directly influence are those caused by Nike.

OUR APPROACH

All contracted suppliers are required to abide by NIKE, Inc.’s **Code of Conduct**. That Code includes standards for contracted manufacturers with regard to working hours, including:

- Compliance with legally-mandated work hours
- The use of overtime only when each employee is fully compensated according to local law
- Informing each employee at hiring if mandatory overtime is a condition of employment
- Regularly providing one day off in seven and requiring no more than 60 hours of work per week on a regularly scheduled basis or compliance with local limits if they are lower. Factories earn a C rating for a number of offenses, including more than 10 percent of employees working between 60 and 72 hours per week or exceeding number of excess days worked; a D when more than 10 percent of employees exceed daily, weekly or annual work limits. See discussion of ratings, including what goes into C and D.

In our FY05/06 report, we discussed excessive overtime and our work to identify root causes, including formation of an Excessive Overtime Task Force. That task force determined that in order to understand and address excessive overtime comprehensively, we needed data – information that is often difficult to come by especially in regions where this is not well tracked or managed.

Our focus ahead is on understanding and taking action; building on the education efforts of previous years.

WORKING TO UNDERSTAND CAUSES

In FY07-09 we did not have systematic processes for tracking the root causes of Nike-caused excessive overtime. The reasons for this are twofold: we were unable to create adequate dynamic systems to track incidents in real time (excessive overtime is identified after the fact), and our processes simultaneously were going through significant shifts as Nike underwent its organizational realignment and restructuring efforts. We did, however, begin to educate our teams, including designers, category managers and line developers, about actions that might contribute to Nike-caused overtime. We think of these supply chain inputs as “upstream” – or internal to Nike.

UNDERSTANDING APPAREL AND OVERTIME

One of the biggest root causes of excessive overtime in apparel manufacturing is the large number of styles factories produce. Every time a factory has to change a style it reduces productivity and overall efficiency, adding to the total number of hours of work required.

Our analysis shows that, among the variables we have direct control over, asking factories to manufacture too many styles is one of the highest contributors to factory overtime in apparel. We have an opportunity to reduce this pressure by reducing the number of apparel styles and partnering with the factories to improve efficiencies through lean production methods. Our business plans to reduce the number of styles in each of Nike’s categories, and aligning styles globally wherever possible, should also help to reduce this pressure. Additionally, in FY10

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we are systematically collecting the root causes of overtime identified, analyzing and increasing awareness and accountability upstream where decision making often triggers the downstream impact: overtime. Armed with this understanding, we are beginning to methodically address root causes and measure reductions in excessive overtime in contracted factories. We are also supplementing this effort with an educational program to enhance upstream root analysis and understanding around the drivers of excessive overtime.

Although style proliferation is one of the primary drivers of overtime, we have found that there are many other contributors including capacity miscalculations in sourcing, long approval processes in merchandising, last-minute changes in colors and fabrics in product development, and poor forecasting as well as changes in buying patterns in operations. These factors result in a broad range of impacts on how workers spend their time.

Longer term, we see an opportunity to reduce excessive overtime by helping factories become more efficient through the adoption of lean manufacturing principles and capacity building.

At the same time, there are a number of marketplace pressures that are driving volatility in orders and shortening lead times. The global marketplace is highly competitive, and retailers are responding to consumer demand for more styles and more customization, reducing lead times and cutting the amount of inventory they are willing to carry. All of this adds pressure on factories.

We anticipate that trends, including the global economic downturn and reduced apparel orders, will likely reduce the total number of overtime hours reported in the short term. While we feel we can make a positive impact on excessive overtime with both of the efforts described above, we also believe it will remain a challenging issue across our industry.

We do not have specific information on Nike-caused excessive overtime; however, we have analyzed all incidents of excessive overtime reported by contracted factories from FY06 through FY09. This analysis reveals that approximately 20 percent of factories had incidents of excessive overtime and 4 percent recorded incidents where overtime exceeded 72 hours per week. Reported incidents grew year on year, particularly in apparel. North and South Asia regions reported higher incidences of excessive overtime, reflecting fewer standards and enforcement than in other regions. Factories in the Americas region had the fewest incidents. The duration of excessive overtime incidents also increased across all product categories and several regions, most especially in North and South Asia.

Though we have not yet identified fully all the root causes for excessive overtime, some assumptions are guiding our analysis:

- **Transparency.** We often discover overtime violations after the incident occurs, when factory workers are completing orders for Nike and other brands. Nike is typically one of many customers for a factory, which may not disclose what brand or brands are causing overtime. This reflects a lack of transparency at the factory and demonstrates the importance of wider industry collaboration.
- **Factory contribution.** In some cases, factories themselves contribute to excessive overtime through poor capacity and production planning. We believe this reflects a lack of transparency with Nike, when factories are not accurately reflecting their ability to fulfill orders with existing workers.

Total Excessive Overtime Incidents Recorded by Factories*

	FY07	FY08	FY09
Weekly hrs >72 (D rating) (number of factories)	27	28	25
Weekly hrs > 60 < 72 (C rating) (number of factories)	110	121	125
TOTAL NUMBER OF FACTORIES	679	690	618
EOT AS % OF TOTAL FACTORIES	20%	22%	24%




*Note: See page 44 for explanation of ratings. This information does not establish a baseline against which we can measure Nike-caused incidents of excessive overtime. These figures provide information on all incidents of excessive overtime among our contracted manufacturing base.

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Excessive Overtime Incidents by Region (number of factories)*

	FY07	FY08	FY09
Americas	3	2	2
EMEA	7	8	7
N ASIA	36	46	49
S ASIA	91	93	92

Excessive Overtime Incidents by Category (number of factories)*

	FY07	FY08	FY09
 Footwear	10	11	13
 Apparel	103	107	104
 Equipment	24	31	33

**Note: See page 44 for explanation of ratings. This information does not establish a baseline against which we can measure Nike-caused incidents of excessive overtime. These figures provide information on all incidents of excessive overtime among our contracted manufacturing base.*

ON THE HORIZON

We believe we have a choice. We can continue to chase after occurrences of excessive overtime and perhaps – if we catch it in time – eliminate it while it’s happening. Or we can accelerate activity to address the root causes. We believe we can ramp up this effort in two areas: in policies and education with input from our new sustainable audit function and in partnership with the business units as we move to lean manufacturing and support broader goals of reducing the total number of unique shop keeping units (SKUs) of merchandise we produce.

Wages

OVERVIEW

Worker wages is a critical issue along the supply chain and we are working to address it.

Nike requires suppliers to pay workers at least the locally-mandated minimum wage and benefits, and any additional benefits outlined in individual employee contracts or collective bargaining agreements. We require contracted manufacturers to comply with a standard against which we can audit consistently. Where factories are found not to have met these standards, we require remediation action.

The issue of wages elicits debate on multiple fronts. There is debate on what constitutes fair, competitive wages around the world, and there is debate on how those wages are then paid in a way that does not negatively impact growth and jobs. The last 18 months of the global recession, and the peak in oil and commodity prices before that, both added new complexity and dynamics to that discussion.

The global economic crisis has had a devastating impact on worker welfare across the globe. In the apparel and footwear industry, millions of jobs have been lost. For those fortunate enough to maintain employment, many have seen their income decline. Industry-wide overtime work (and subsequently overtime pay) has often not been available due to decreasing orders. In an effort to control costs, some factories have eliminated optional benefits, such as transportation allowances or attendance bonuses. These have so far been short-term, recession-based industry trends; we are hopeful that many of these benefits can be regained through the ongoing economic recovery.

OUR APPROACH

We see four complementary work streams; three now and one into the future (see below):

1. *In the short term, Nike has been working with other brands, NGOs, MSI's and trade union representatives to advocate for the importance of the apparel industry to the global development agenda. While the Sustainable Apparel and Footwear Initiative of MFA Forum has not been able to deliver programs that extend employment through supplier assistance and social protection in the short term, the group's work has catalyzed renewed focus on the sector and critical employment issues.*

2. *In the mid term, we are exploring ways to partner with local nongovernmental organizations to assess the community development needs in targeted factory communities. We aim to determine whether Nike, in collaboration with others, might play a role in helping to tackle significant challenges that will further enable factory communities to thrive. With research still needed to be finalized, it is our belief that wages can go even further if significant obstacles, such as access to health care and clean water, are removed for contract factory workers and their communities.*
3. *Overarching both the first and second workstreams is Nike's long-term aim, which is that contract factory workers in the supply chain should be rewarded with compensation that is equitable, competitive and locally relevant. Yet we also acknowledge that the definition of what constitutes an "equitable" wage varies greatly from country to country. The issue of wages continues to be a source of discussion and debate within the footwear and apparel industry and other industries, as well as at the national and international levels. There is no single definition of a living wage that is commonly accepted or auditable; making an industry-wide approach challenging.*

Among the factors affecting the wage debate are the competing concerns of various constituents. Shareholders want to see strong returns on their investments. Consumers want products at competitive prices. Manufacturers need to earn a profit to sustain their business and grow. Governments want to attract and retain investment in order to fuel growth, jobs and revenue. Most important, workers want to earn wages that meet their basic needs and enable their families to take advantage of growing educational and economic opportunities.

Nike believes that local wage setting is best done by negotiations between workers, labor representatives, the employer and the government. Because the success of this process varies by country, Nike increasingly sees the need for further regional and global discussions among suppliers, governments, NGOs and – importantly – workers, about the degree to which wages across the industry are meeting workers' needs.

We believe there is ample room for innovation in this area, and that progress must occur throughout the industry, and at the governmental level, not only in Nike's supply chain. In the meantime, we are committed to deepening our understanding of workers' challenges and exploring different mechanisms for improving their welfare through new industry collaboration, public policy advocacy and other efforts aimed at positively impacting workers' ability to save and thrive.


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ON THE HORIZON

The fourth workstream goes beyond just meeting minimum requirements. Nike believes that a responsible, competitive industry which invests in its work force will bring about locally relevant wages for workers over the long term. And we're acting on that belief by partnering with contracted manufacturers in piloting education programs which combine initiatives such as lean and HRM to enable manufacturers to control costs and experience firsthand how investing in workers improves product quality and the health of their business. Even in areas where labor is in abundant supply, factories with high levels of productivity, efficiency and stable orders tend to provide attractive, equitable benefits to workers.

Freedom of Association

Freedom of Association Target

TARGET	PERFORMANCE	PROGRESS
Workers Implement freedom of association education program in all focus contract factories	Making progress. Through FY09, 17 percent of focus contract factories had participated in HRM training including Freedom of Association education.	 On track

Note: We measure performance based on focus factories taking part in human resources management training that incorporates a segment on Freedom of Association.

Going forward, the three targets tied to Human Resource Management training will be assessed with a single metric tracking the number of focus contract factories that have completed training.

OUR APPROACH

We believe in the rights of workers to associate freely and bargain collectively. However, protecting these rights remains a persistent and fundamental compliance challenge in the industry. We see three important opportunities for Nike to support improvements in this area:

- Working with contract manufacturers to encourage them to engage in worker-management dialogue
- Sharing best practices to improve factory grievance systems
- Directly intervening where specific Freedom of Association issues arise

Many challenges are beyond our ability to impact significantly, but we continue to address them when possible. These issues include:

- The complex and varied legal framework for Freedom of Association from country to country
- The varying degrees of effectiveness, transparency and good governance within union representation, and a need for local unions to build capacity to be effective and constructive partners with management
- The need to educate contract manufacturers – to varying degrees – on the role of freedom of association and collective bargaining

To address these issues, we are taking several important steps:

- 1. Clarify.** We have developed a deeper and more clearly defined position on Freedom of Association and the broader topic of worker-management dialogue on working conditions and worker grievances. Like others, we continue to grapple with the challenge of promoting free association in countries where legal or political constraints prohibit or limit these rights for workers.
- 2. Train.** We have developed Freedom of Association training for our compliance staff and identified mechanisms for delivering this training to factories. The training was based on stakeholder input as well as country-specific profiles we developed to capture a range of issues, including legal requirements, trade unions and NGO concerns regarding the country's practices, and information on specific Freedom of Association issues within the Nike supply chain. The training aims to increase understanding among our field staff of FOA requirements and to better equip them to work with contracted manufacturers to address FOA issues and improve labor relations.
- 3. Build.** In FY07-09 we integrated Freedom of Association content into the human resource management training being implemented with focus factories. The training segment also includes a discussion of ILO principles on FOA, the tripartite framework, and sharing best practices around grievance systems and worker-management communication. We believe that training for contract manufacturing management and the HR function is a key to improving conditions and the worker-management climate overall. We also believe that this type of training is the best available way to increase the overall capacity for contract factory employees – both current and future ones.


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ON THE HORIZON

We continue to offer training to contracted manufacturers on FOA as part of our Human Resources Management efforts. We also continue training our own staff and working with others in the industry, with governments and international organizations to improve understanding and application of Freedom of Association.


Human Resources and Worker Empowerment

Human Resource Management Training

TARGET	PERFORMANCE	PROGRESS
Human Resource Management program implemented in all focus contract factories.	Making progress. Through FY09, 17 percent of focus contract factories had completed HRM training.	 On track

Note: In FY05/06, we shared a target that would include tailored human resources management programs for factories. The tailored aspect of that training is crafted as a follow up based on factors including the worker survey and results of findings during the training. The target has been revised to reflect this.

Worker Survey

TARGET	PERFORMANCE	PROGRESS
100 percent of focus factories complete statistically representative sampling of employees.	Making progress. Through FY09, 17 percent of focus contract factories had completed worker survey.	 On track

Note: In FY05/06 we shared a target that 100 percent of workers in focus factories would be surveyed. However, due to worker turnover and best-case response rates, we realized that 100 percent participation was not possible. We created a survey for factories to measure a statistically valid sampling of workers and revised the target accordingly. Surveys must be complete in advance of participating in HRM training and are referenced in the training.

OUR APPROACH

The apparel, footwear and equipment industries have remained fairly low tech, employing low-skilled labor in emerging markets. This model, however, is being challenged to its core. One legacy of this model is immature local management systems for suppliers, with human resources policies that place a low value on workers.

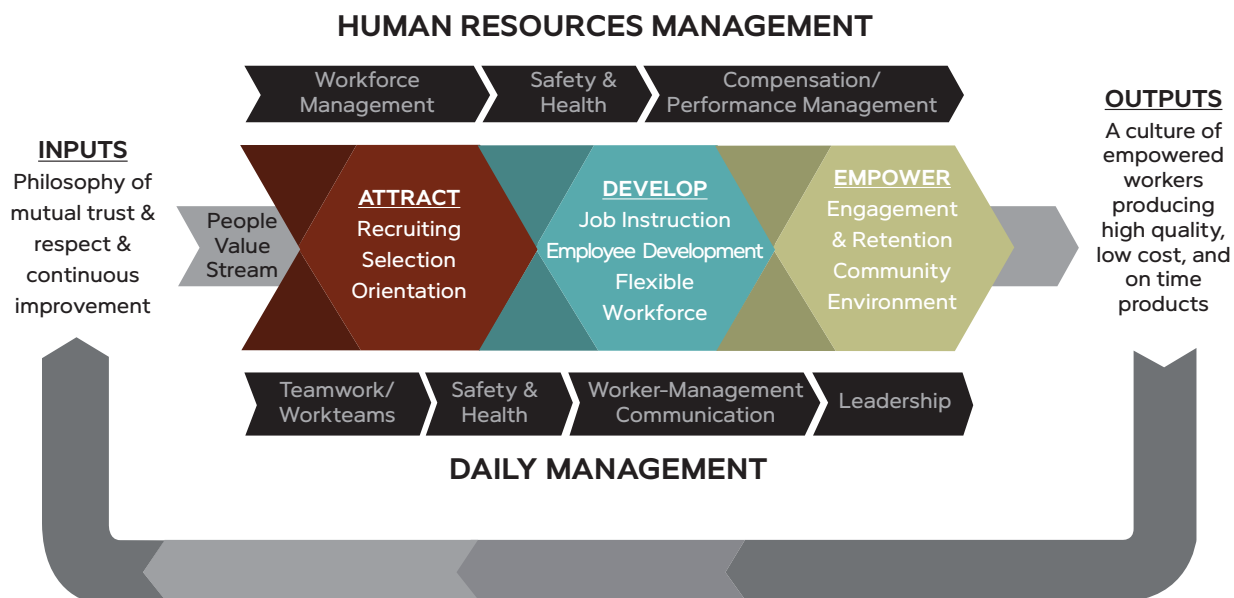
Today, that view is going through a fundamental shift, and Nike's supply chain is taking a lead on this transformation. We are working with contract manufacturers to apply lean manufacturing, an approach that delivers the highest-quality product while eliminating all types of waste, including lost time and material.

Nike's approach to lean includes worker empowerment — giving factory workers the skills and abilities needed to manage production and immediately address issues as they arise, such as quality or process improvements. These changes put decisions closer to the worker, and require a high level of support to ensure they have the skills and confidence to consistently produce quality products. We believe lean holds great promise for worker empowerment and provides opportunities for workers to increase their skills and contribute to continuous improvement.

Our work with manufacturers to promote lean manufacturing is part of our fundamental shift away from monitoring and toward building manufacturing capacity for self-management. We believe this will ultimately be a more successful and sustainable approach to stimulating systemic change and improving the lives of workers.

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Culture of Empowerment Model



Note: The HRM curriculum is based on the Culture of Empowerment Model, adopted from Toyota's Human Systems Model as described in "Toyota Culture, the Heart and Soul of the Toyota Way" (Jeffrey Liker and Mike Hoseus, 2008).

The curriculum contains 10 modules that each focus on a key area of the Culture of Empowerment Model. Each module is designed to share HRM best practices related to lean manufacturing, and contains interactive exercises that allow factory managers to assess their current state and identify improvement opportunities in areas including recruiting, selection, employee development, performance management, worker-management communication and retention.

The curriculum also contains instruction and exercises on lean problem solving and planning tools including PDCA (plan, do, check, act) and A3 reports, which facilitates knowledge sharing and collaboration in a concise document. These tools are used throughout the capacity building to define follow-up projects that factory managers implement after completing the training.

HOW WE BUILD CAPACITY

A key tool of lean manufacturing is human resource management (HRM). In FY07 we began a process to develop and pilot HRM programs with contract manufacturers. The programs, described in detail below, encompass training for contract manufacturing management on HRM best practices that are aligned with lean manufacturing, surveying workers to provide insight into key issues and learning what steps are needed to ensure we create an empowering work environment. The participatory training includes direct interaction with focus factories and identifies issues for further action through the development of action plans. Nike training establishes guidelines but does not set details. The details are determined by the needs of the factories and workers.

By working with contract manufacturing management, we aim to create a sustainable framework for improving working conditions by identifying and addressing the root cause of issues as they arise. We also address manufacturing management buy in,

cultivating a more skilled and competent work force and achieving a consistent approach to human resource management across all factories.

Our HRM program is designed to help manufacturers understand the benefit of lean manufacturing and the value of an empowered work force. It requires significant change for many contract manufacturers that lack fundamental HR systems or practices, are under-resourced in the HR function and/or lack comprehensive senior leadership understanding of and support for HRM.

We believe this approach is innovative: no other capacity-building program in our industry integrates HR and support of lean manufacturing in this way, addressing both the needs of the factories and workers, as well as the business. This is a new standard of factory self-governance. We describe the evolution of this approach and next steps here.

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HRM Program Evolution

TASK	TIMING	TACTICS
STRATEGIZE	FY07	<ul style="list-style-type: none"> • Develop and align overall strategy of lean/HRM
DEVELOP	FY07/08	<ul style="list-style-type: none"> • Form internal HRM Working Group • Meet with senior management of key factories to get early input/buy-in • Review existing research/studies and HRM programs • Collect and evaluate industry best practices • Coordinate with NOS/Nike Innovation Training Center (NITC) (Nike footwear lean implementation) and Lean Development Group (Nike apparel lean implementation) to integrate HRM into lean implementation initiatives • Develop workshop curriculum and worker survey for pilot workshops
PILOT	FY09	<ul style="list-style-type: none"> • Finalize curriculum and worker survey • Conduct initial workshops at the NITC, Vietnam and Southern China
INTEGRATE LEARNINGS	FY08/09	<ul style="list-style-type: none"> • Revise Nike's Code Leadership Standards, factory rating criteria and assessment tools to align with HRM • Conduct training/capacity building of Nike Compliance field teams
IMPLEMENT	FY10/11	<ul style="list-style-type: none"> • Conduct HRM for Lean Manufacturing Workshops with all strategic contract factories • Develop and facilitate ongoing learning communities

WORKER SURVEY

One important first step in improving the lives of factory workers is for factory management to hear directly from them. We have integrated worker surveys into our HRM training.

In advance of the training, factories conduct a statistically relevant survey among workers that asks 70 questions about demographic information, employees' perception of pay and benefits, health and safety, management culture, hours worked, their empowerment as employees and general job satisfaction.

We developed the survey in FY08, built on topics considered core to workers and validated with factories.

A third-party provider administers the survey through an on-site questionnaire, employee interviews and a factory tour. Results are reported confidentially to factory management and in aggregate to Nike.

In FY09, 24 factories in China and Vietnam participated in the training and conducted the worker surveys in advance of the training.

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WHAT WE'RE LEARNING: SURVEY RESULTS

The employee satisfaction survey has been administered by third-party service providers at 24 contract factories in Vietnam and China to date. The survey questions cover the following topics:

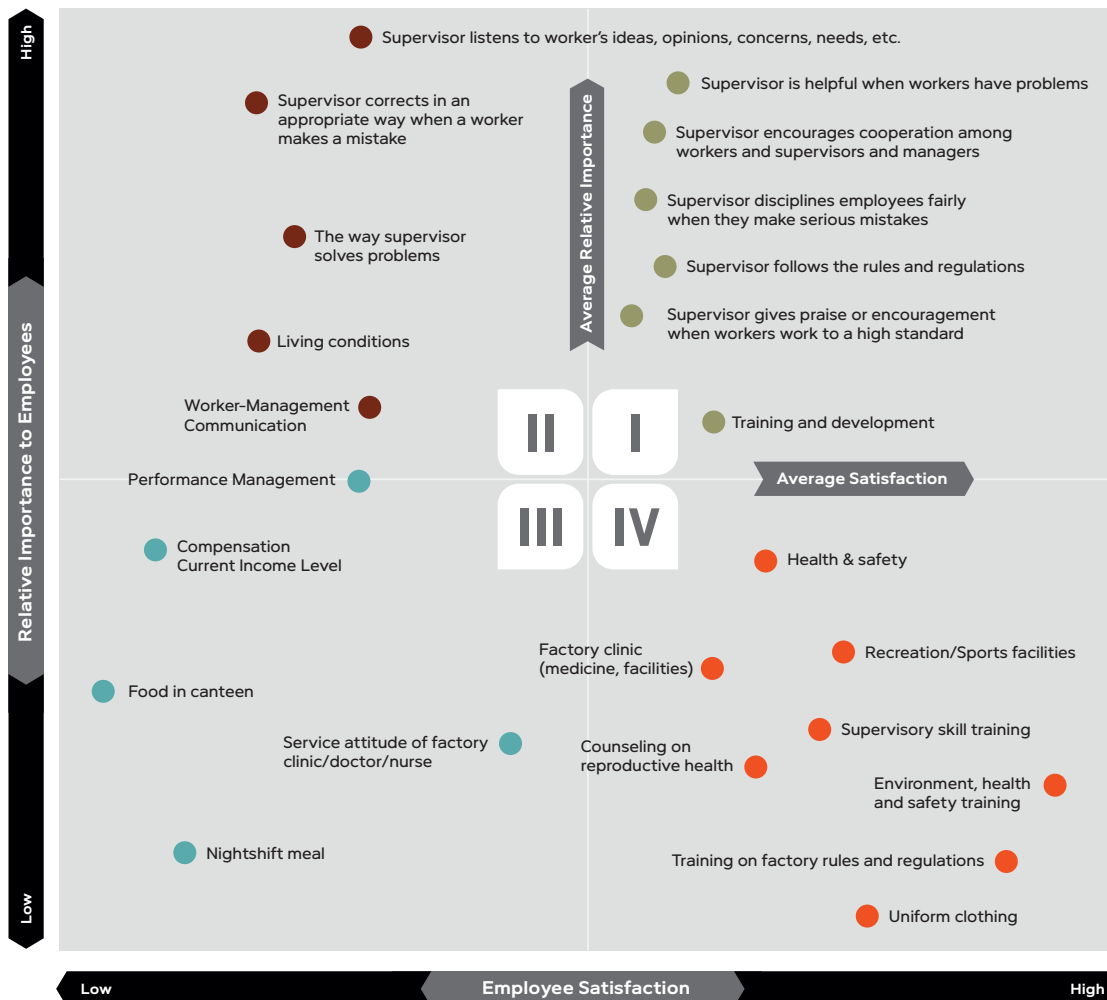
- *HR general status and factory regulation*
- *Recruitment and selection*
- *Training and development*
- *Living conditions*
- *Working environment*
- *Safety and health*
- *Work hours and overtime*
- *Compensation and benefits*
- *Performance management*
- *Teamwork and supervision*
- *Worker-management communication*

» Results Analysis

Overall analysis was conducted on the satisfaction scores of issues contained in the survey, and the correlation between these issues and overall employee satisfaction. The result can be summarized in order of priority as follows:

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Worker Survey Results



Issues of High Satisfaction & High Importance (Quadrant I)

Quadrant I covers the issues that the workers are quite satisfied with and need to be maintained, and they are also quite related to overall satisfaction. The issues include training and development, that is, job skill training, supervisory skill training, training on factory rules and regulations and environment, health and safety training.

Issues of Low Satisfaction & High Importance (Quadrant II)

Quadrant II, representing the highest priority, covers the issues that the workers are not very satisfied with but highly related to overall satisfaction. Making improvement on these issues helps to enhance worker satisfaction. The issues include: behaviors of direct supervisor, communication between workers and management and living conditions.

Issues of Low Satisfaction & Low Importance (Quadrant III)

Quadrant III covers issues of low scores regarding satisfaction and low correlation to overall employee satisfaction such as night shift meal, food in the canteen and service attitude of factory clinic.

Issues of High Satisfaction & Low Importance (Quadrant IV)

Quadrant IV covers the issues that workers were very satisfied with, but had a lower correlation to overall satisfaction such as safety and health, training on factory rules and regulations and recreation facilities.

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Ideally, all issues of poor performance should be addressed through improvement efforts. Due to limited resources, it is typically necessary for organizations to prioritize improvement activities to achieve maximum results. Analysis of employee satisfaction survey data and other sources of work force data can provide a valuable tool to maximize impact on overall employee satisfaction.

Results of the employee satisfaction survey have been incorporated into the HRM capacity building workshops, where factory HR, corporate responsibility and lean leaders worked together to prioritize and identify issues to address. During the HRM workshop, factory leaders learned about the Plan Do Check Act (PDCA) problem-solving technique. As part of this process, each factory created reports to clearly define gaps in current HRM systems and created action plans to address the gaps. Based on findings from the employee satisfaction survey and the HRM capacity building, factories have started to implement the following improvement efforts:

- *Improve team lead management skills (6 factories)*
- *Improve training systems (5 factories)*
- *Increase employee satisfaction with front-line managers (5 factories)*
- *Decrease turnover rate through targeted interventions (4 factories)*
- *Improve HR organization effectiveness; improve annual leave process*

Nike's Sustainable Manufacturing and Sourcing team and lean trainers are following up with the factory teams to provide coaching and feedback during bimonthly HRM Learning Community meetings. Progress on HRM system improvement is also being measured through a series of key performance indicators.

TIMING	TACTICS
<p>Before Training</p>	<ul style="list-style-type: none"> • Factories engage workers in surveys to better understand worker perspectives and develop programs to improve the working environment. • Factory management identifies leaders to participate in training from CR, HR and Nike Operating System/lean functions.
<p>Training</p>	<ul style="list-style-type: none"> • Two-week on-site training where factory management from different functions works together, often for the first time. • Training curriculum integrates with lean manufacturing process implementation. • Training modules include hiring practices, worker training and development, worker empowerment and retention, worker-management communication, compensation/performance management and building a strong HR function. • Factories establish a learning community to promote ongoing learning and sharing of practices.
<p>Post Training</p>	<ul style="list-style-type: none"> • Factories work with Nike NOS and compliance teams to establish further training on areas in most need of improvement. • Factories monitor and report progress. • Factories prepare and execute follow-up work. • Factories continue participation in learning communities.

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ON THE HORIZON

In this report, we provide baseline data on HRM factory performance. Beginning in FY10, we will evaluate HRM as a tool to improve the performance of factories where we have found significant issues. For factories with average performance, we view HRM as a strategic tool to use for investing and capacity building. For those factories that do not improve even with HRM training, we will have to reevaluate our relationships to determine the feasibility of continuing to work with them.

To support HRM as a long-term solution, we know that we have to improve our own competencies in facilitating the HRM workshops and learning communities. We also need to do more work to integrate with apparel's lean manufacturing implementation efforts.

We will also continue to evaluate the effectiveness of the HRM program in supporting systemic change, worker empowerment and the shift to lean manufacturing.

As an industry, we acknowledge that there is a long way to go, but we see promising signs that suppliers are becoming more sophisticated with regard to human resource management. The Pou Chen factory in China is an example of a Nike vendor that has made strategic investments in its workplace to beneficial effect. Despite a tough macroeconomic environment, Pou Chen has maintained strong factory performance thanks, in part, to a number of innovative practices, including: conducting a turnover analysis to learn why staff leave, providing open grievance and communication channels to help workers deal with hardship, merging CR and HR functions to highlight overlapping goals and priorities, providing trainings to help workers improve job skills as well as develop life skills such as personal financial management, and building a bonus system that recognizes individual contribution and encourages new ideas. We are hopeful that the industry as a whole will move to embrace effective management practices that retain and reward talented workers.

Brand Collaboration

Brand Collaboration Target

TARGET	PERFORMANCE	PROGRESS
Promote multi-brand collaboration on improving working conditions in the global supply chain, covering 30 percent of factory locations.	On track. Nike has shared audit information on 40 percent of our factory base in FY09, via uploads to the Fair Factories Clearinghouse. We are still working to realize full business benefits of collaboration for Nike and suppliers.	 <p>On track</p>

In 2005 we took the bold step of disclosing our supply chain. We anticipated this disclosure would spark collaboration between brands in the oversight of supply chains. We established a goal of increasing collaboration with other brands to cover 30 percent of Nike-contracted factories by FY11.

While 30 percent may appear to be a small number, it is a realistic target given that some contract factories produce solely for Nike and many factories serve other buyers that currently lack a robust compliance program, making a mutual exchange of information or partnership in capacity building unfeasible.

OUR APPROACH

Nike's strategy for auditing focuses internal resources and our deepest expertise on contract factories that represent a significant portion of Nike business by volume, dollar value and worker populations. We still seek, however, to have reliable, accurate data about all factories manufacturing branded, finished goods, so that these factories are held equally accountable for their compliance performance. In order to meet this need for information, licensees and agents are required to oversee their suppliers (either through dedicated internal compliance teams or third-party monitors) and Nike engages third-party monitors directly to provide audit information about non-focus factories that provide product directly to Nike.

URGENT NEED FOR EFFICIENCY

In the apparel industry, where working with multiple buyers is the norm for most factories, the collective costs of monitoring activities for both brands and suppliers have become exorbitant.

In an informal poll of suppliers manufacturing for Nike in Thailand and China, manufacturers said they responded to approximately 12 audit requests each year. One supplier in Thailand, however, reported accommodating 48 audits in a single year and we do not think this is unique. Extrapolate the impacts of this inefficiency to hundreds of suppliers for Nike.

Cost is not the only inefficiency. Not only are brands duplicating efforts through multiple audits, but we also are undermining each others' efforts to promote compliance by providing conflicting standards and proposed remediation approaches to factories. Finally, supplier support of industry collaboration is also undermined by differing business philosophies across the industry.

Though the industry has taken steps toward transparency and cooperation, the pace has been slow and cautious. Not all buyers share the same level of commitment to advancing workers' rights in the global supply chain. Brands that have invested in a decade's worth of work in monitoring, like Nike, have developed strong views about what works and what does not in the field.

Nike works to share resources with brands that share our aims of assessing management systems, have high compliance expectations for suppliers and are committed to partnership and rewarding continuous improvement. While it is fairly easy for us to provide audit information to interested brands, we are more challenged to fully leverage the scope of audits currently taking place in our supply chain. Given the importance placed on factory compliance ratings in our overall sourcing strategy, we use audits from other brands only after robust dialogue ensures us that they comprise a similar standard to our own. Furthermore, to ensure consistency, we also apply our own standards to any data collected and shared with us by other brands.

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THE COLLABORATION PROCESS

We identify opportunities for sharing by approaching brands as potential candidates based on two criteria: overlaps in the supply chain and their demonstrated commitment to conduct thorough assessments of factory performance. Generally, Nike jointly reviews code standards, audit tools and protocols with other brands interested in collaboration. This desk work is then followed by a joint audit in the field, where a Nike auditor and an auditor from the other brand go to a shared facility, simultaneously conduct separate investigations and then compare findings. Through this process we believe we have been able to share some of our best practices, while also incorporating learning from the work of other brands.

Once we have reached mutual agreement to accept audit information, audits that come in from other brands are reviewed by Nike field teams in each country. These external audits must be uploaded to our compliance database and factory ratings are assigned based on Nike performance criteria.

Until summer of 2008, we did most of this work manually. As [Fair Factories Clearinghouse](#) (FFC) attracts more members into its sharing platform, we are hopeful that assessing opportunities for sharing will be accomplished more quickly.

We upload all of our audits quarterly from our internal database to the FFC. Current FFC members represent approximately 30 percent of our supply chain. In terms of what we have shared, Nike is on track for meeting its collaboration target. It is important to remember, however, that not all contract factories are scheduled to receive an audit each year. The audits we provide are based on Nike's schedule of work for monitoring the supply chain through our focus factory filter and revised risk evaluations.

Ultimately, our goal is to have joint scheduling protocols with other brands, to embed the opportunity for collaboration into our schedule of work, creating maximum efficiency for the buyers and the suppliers.

Collaborative Audits with Other Brands (FY07-09)

	FY07	FY08	FY09
Number of factories where Nike accepted another brand's audit	13	52	24
Number of factories with another brand's audit impacting rating	2	8	19
Number of other brands sharing audits	4	6	4
Factories Reported with Minor Issues	-	-	40%

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ALIGNMENT

Audits are only one area of potential collaboration. We also focus on what happens as a result. When an audit reveals significant areas for improvement, there is potential for collaboration in remediation. Unfortunately, not all brands or suppliers are comfortable with joint remediation. We believe the best way to resolve this is through developing consensus in the industry in remediation philosophies and standardized code alignment.

We are focused more on promoting broader alignment between brands in remediation philosophies, rather than on a case-by-case basis. In many key manufacturing countries, auditors come together to discuss labor and ESH challenges, and possible approaches for addressing those concerns.

Nike's local teams participate in these meetings, and we believe there is a great deal of benefit for suppliers if we can promote increasing convergence around issues: whether it is the height of the fire extinguisher, the correct way to calculate overtime pay, or the safest way to manage hazardous waste. We hope to measure change in this behavior through ongoing dialogue with manufacturers about where they receive the greatest amount of conflicting information in remediation recommendations and focusing brand discussions in these areas.

CAPACITY BUILDING

Our long-term monitoring goal is to shift our efforts from repetitive auditing to capacity building, helping contract manufacturers develop knowledge and skills to address specific labor and ESH compliance issues and/or systems. (For more on capacity building, see collaboration with Levi's). We believe that collaborating with other brands holds great potential to improve our auditing and capacity building capabilities. As such, we are working informally with a group of brands and in partnership with the Fair Labor Association (FLA) to identify the types of supplier training that can jointly address factory needs.

As part of our ongoing monitoring, Nike regularly accepts audits from other brands and shared remediation efforts within FLA-participating companies as well as non-FLA brands. In general, however, we believe the opportunity to leverage brand collaboration is underdeveloped, and we will be focusing this year more intensively on this area directly with specific brands and/or via multi-stakeholder initiatives.

MEASURING THE BENEFITS

Nike is in the process of refining both the metrics and the underlying methodology in assessing the benefits of brand collaboration. Generally, we see the business benefits as follows:

BENEFITS TO THE BRAND

- **Increased coverage.** *In any given year, audits received in a timely manner (i.e., shortly after the audit has been conducted) that impact a factory's rating will reset the schedule of work for that factory.*
- **Lower audit costs.** *As Nike seeks to expand the scope of audits not covered by our own teams through third-party monitoring firms, audits provided by other brands (or an agreement up front to share the cost of a third-party audit) reduce resources required to meet our schedule of work.*
- **Lower capacity building costs.** *In a similar fashion, opportunities to share the costs of significant training activities with other brands, frees resources for us to either expand the number of trainings conducted, or use those resources to advance other parts of the Compliance strategy.*
- **Speed of factory approval.** *One of the greatest challenges for sourcing teams is the time required to get a new factory approved through the New Source Approval Process. Where recently conducted audits by other buyers can be used as a basis for approval, the timeline for bringing a new factory into the system is cut considerably.*

BENEFITS TO SUPPLIERS

- **Reduced audit costs.** *As noted earlier, a large majority of audits organized by brands are charged back to the supplier. Even in cases where the brand absorbs the costs of the auditors' time and travel, the amount of time spent by the supplier in organizing staff to respond to audit demands can be substantial.*
- **Streamlined management systems and remediation.** *As an example, under the current system, factory managers may organize different accounting systems for overtime, based on how brands interpret legal requirements or different approaches to code enforcement.*

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BENEFITS TO WORKERS

- **Better working conditions.** *While we certainly cannot guarantee that all brands will reinvest dollars saved from collaborative monitoring in either extending their auditing oversight to more factories, or shifting investments to new approaches to elevating conditions in the supply chain, the best in the industry will make that commitment. Equally, how manufacturers decide to utilize lower overhead costs as a result of more efficient monitoring will vary among management teams, but certainly some will take advantage of the savings in ways that benefit workers - either directly (such as enhanced incentives) or indirectly (such as investments in productivity).*

The ultimate test of the value of brand collaboration will be how much it is able to take efforts to catalyze transformation in the industry and bring those changes to scale.

ADDRESSING ONGOING SHIFTS IN THE APPAREL INDUSTRY

In 2005, the U.S., Canada and the European Union (EU) discontinued most of their limits on imports of yarn, fabric, and clothing from developing countries. Under the previous Multi Fibre Arrangement (MFA), trade in textiles — that is, yarn and fabric — and clothing were managed under a quota system. Under the auspices of the World Trade Organization, the MFA was phased out over a 10-year period, culminating in 2005. Impacts of the removal of the MFA were initially mitigated by other trade policies, such as ongoing tariffs of Chinese apparel exports.

Nearly five years after, due to the delayed impacts of the termination of the MFA and the ongoing economic downturn, the industry as a whole is seeing shifts in its supply chains and the use of contracted factories. To address this industry issue, Nike has continued its work with the Responsible Transitions Working Group of the **MFA Forum**. This multi-stakeholder group comprised of representatives of trade unions, nongovernmental organizations, multi-stakeholder initiatives (MSIs) and industry brands worked to create Responsible Transition Guidelines that outline expectations for each party involved in factory exits, either at the firm or country level.

These guidelines were developed in anticipation of structural changes to the industry following the removal of quota as a trade restriction in the apparel industry. Given the imposition of new trade barriers for China and the slow pace of industry consolidation, we did not observe significant change in the apparel industry until the onset of the global macroeconomic conditions deteriorated significantly at the end of 2008 and the beginning of 2009.

In May of 2009, participants in the MFA Forum developed the Sustainable Apparel and Footwear Initiative, focused on mitigating the short-term and longer-term implications of cyclical and structural shifts in the industry. In response to the devastating impact of the economic crisis on workers in the apparel and footwear sector, the MFA Forum encouraged the Bretton Woods institutions, bilateral donors and the U.N. organizations to work together with national governments to respond to the needs of workers at the bottom of the formal sector, and to partner with the sector in finding effective ways to invest in the future of the industry and community needs. Specifically, MFA participants have advocated for, and seek mechanisms for the following:

1. *Facilitate trade finance for suppliers that are getting orders, but have difficulty accessing credit, to protect current employment opportunities*
2. *Develop social protection programs relevant to the needs and opportunities of apparel workers*
3. *Begin defining the future needs of the apparel industry in terms of economic and environmental sustainability, and, where possible, designing immediate interventions that forward longer-term competitiveness strategies*

As of December 2009, the MFA Forum recognizes that for a variety of reasons, the opportunity to connect suppliers to effective financial mechanisms that enabled short-term trade finance has passed without much success. The work is now focused on the ongoing social protection needs of an industry that still faces significant under-employment, and also engages in longer-term policy shifts that will positively impact workers going forward.

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ON THE HORIZON

We are keen to see fewer resources directed to auditing – both for buyers and suppliers – ultimately leveraging the information from local stakeholders to identify issues in the supply chain. We hope to refine our ability to use balanced scorecards to go beyond sanctioning factories that fail to meet our compliance expectations, delivering stronger incentives to factories that exceed our expectations.

We share a common aim; have audits that deliver confidence in management processes and performance. But some improvements are needed to realize the benefits of collaboration:

- *A higher level of commitment across a wider set of players in the industry*
- *Alignment in philosophies as well as audits (depth and detail) and remediation*
- *Improvements in measuring impact. Evaluation of the benefits – to buyers and suppliers – of fewer audits, fewer auditors and improved quality will help make the case to others in the industry*
- *Development of master audit oversight calendars of shared suppliers. Detailed planning and shared calendars would allow brands to shift activities as a result of other brands' work*
- *Creation and application of consistent expectations for professional auditing firms about the scope, quality and approach to social and environmental audits*
- *Elevated focus on environment, safety and health dynamics. Today few brands dedicate equal resources to these areas as to social auditing. We believe that as an industry we need to improve the scope and scale of environmental work with the discipline that has been dedicated to social issues such as excessive overtime, nonpayment of wages and associational rights*
- *Improve systems for sharing information. New platforms for managing information have emerged with broad differences. Ultimately a single system or mechanism for linking systems would assist in promoting cooperation across the industry*

Nike is proud to participate in one program showing encouraging signs of taking collaboration to scale: the International Labour Organization's (ILO) Better Work program. Building on the experiences of its Better Factories program in Cambodia and the Factory Improvement Program in countries such as Sri Lanka, Vietnam and South Africa, the ILO is now merging a single approach to monitoring with critical capacity building activities for apparel factories in several key manufacturing countries.

Our own role in collaborative auditing may change as well, as we continue consolidation in our supply chain. Though this consolidation may decrease opportunities for sharing audits, we still believe that alignment on best practices in remediation and capacity building across the industry are important positive steps.

CASE STUDY:

Brand and Manufacturers Collaborate on Environment, Safety and Health

In FY08, Nike's Environment, Safety and Health, and Considered Chemistry (responsible for the safe usage of chemicals in Nike consumer products) teams co-hosted with Levi Strauss & Co an ESH/RSL Summit in Dongguan, China. The event marked the first time a group of this size and scale – 400 representatives from brands and contracted manufacturers – gathered to focus on worker, consumer and environmental protection.

Nike presented topics covering return on investment, chemical management, water conservation, product chemistry, waste stewardship and supplier ownership of these concerns. Guest speakers including Guangdong Province's director of workplace safety and a representative of the National Textile and Garment Quality Supervision Testing Center also shared trends around workplace and product safety.

This type of collaboration helps us to focus, reinforce and strengthen the industry's commitment to environment, safety and health. Our success has improved attitudes, increased understanding and cooperation, and raised awareness of the importance of these issues.

We planned a summit in Bangkok for FY09 and had registered 550 participants, but it had to be canceled due to political unrest. Later in FY09 we co-hosted smaller multi-brand ESH sessions in Mexico and El Salvador, bringing together 161 participants from 82 factories serving 16 brands. Sessions focused on top issues including ESH management, emergency preparedness, hazardous waste and communicable diseases.

We have planned further workshops to include other brands like Levi Strauss, Columbia Sportswear and New Balance, and speakers from organizations such as the International Labour Organization as well as nongovernmental organizations such as Program for Appropriate Technology in Health (PATH) and the Natural Resources Defense Fund to explore broader issues such as water use and conservation.

We are finding that the key to successful collaboration is participation of multiple brands, government agencies, NGOs and manufacturers. Together, we're focused on broader protection of consumers, workers and the environment.

CASE STUDY:

Hytex, Malaysia

It's a global trend; migrant workers increasingly play a role in industry. It's the case in footwear, apparel and equipment manufacturing, where laborers seeking work will move to another country where workers are in short supply. Nike is aware of this situation and works with contract manufacturers to stress that workers of all nationalities should be treated equally and with dignity, and that factories must adhere to either local labor law or Nike's Code Leadership Standards; whichever one is the more stringent.

UNACCEPTABLE CONDITIONS AT CONTRACTED FACTORY

In July 2008, an Australian television station reported that Hytex Apparel, Ltd., a Nike-contracted apparel factory in Malaysia, employed hundreds of migrant workers in unacceptable conditions. The report stated that workers from Bangladesh, China, India, Indonesia, Myanmar, Nepal and Vietnam, were housed in dormitories with overcrowded sleeping quarters, unhygienic toilet facilities and poor kitchen sanitation. It also reported on migrant workers' complaints that their wages had been garnished to pay for work permits, their passports taken and withheld by factory managers, and that they were not given a copy of their labor contracts in their local languages – all required by Malaysian law and expressed in the source country's memorandum of understanding (MOU) with Malaysia.

Nike investigated. Though the factory's hiring practices and safekeeping of passports were within bounds of Malaysian Immigration regulations, Nike found the overall situation to be unacceptable, especially the workers' temporary living conditions and the garnishing of wages to pay for permits.

Nike met with factory management to evaluate the allegations and found serious breaches of its code of conduct. Nike immediately demanded action to resolve these serious violations. Immediate corrective actions included providing workers free access to their passports, ceasing all deductions in connection to workers' levy/work permit fees, improving dormitory conditions and implementing a system to reimburse migrant workers what they paid agents for recruitment. Nike also provided workers the phone number of its local compliance team if they experienced further difficulties. Hytex began repayment of garnishes for work permit levies through an installment plan which began July 2008 and is expected to be complete in 2010.

Nike requested that within 30 days, management evaluate transferring workers to new apartment-styled dormitories that were intended to house migrant workers but had not been completed in time. Management met this goal: all migrant workers were transferred to the newly completed and inspected apartments. The factory also agreed to pay airfare of any migrant worker who wanted to return to their home country irrespective of reason, including breach of employment contract.

A LEARNING EXPERIENCE

Nike has learned a great deal from the Hytex experience. Though we have worked for more than a decade at improving labor conditions in contracted factories, we recognize significant work remains to be done. For one, Hytex highlighted the fact that Nike did not have internal policies specific to migrant labor. As a direct result of this experience, we do now.

Engaging with a range of stakeholders, especially local groups on the ground, is critical for us to determine the treatment of workers at contract factories. Robust engagement plays an important role in enhancing our factory auditing process. Moreover, we recognize our responsibility to advocate for greater local government engagement in our efforts to monitor contract factory conditions, both in Malaysia and globally.

We believe this experience has strengthened our overall work commitments to improve conditions for workers in our supply chain around the world. To help ensure the above corrective actions are maintained, Nike implemented a robust migrant worker policy that covers not only the issues found in Malaysia, but the employment of migrant workers throughout our global supply chain.

We aren't the only ones learning from the experience. The government of Malaysia is now much more acutely aware of the expectations of major global customers and brands related to providing fair and reasonable treatment to workers. The government witnessed the response of a buyer, heard from local factories, and participated in several meetings with Nike. These three channels of information provided them with valuable insight and perspective about how seriously we take the issue of treatment of workers when our standards are not met.

CASE STUDY:

Interview with Whanil Jeong, Chairman of Chang Shin Inc.

Chang Shin Inc. is a major footwear manufacturer for Nike, producing approximately 20 million pairs each year. It has been a leader in the industry, improving factory working conditions by embracing lean manufacturing concepts.

We sat down with Whanil Jeong, chairman of Chang Shin Inc., to learn from his experience in implementing lean manufacturing, enhancing worker-management relationships through training and education, supporting workers with special needs, protecting the environment, giving back to the community and still thriving in the highly competitive world of footwear manufacturing.

» Take us back to the time you learned about lean – when and how did you hear about lean?

It was about 11 years ago. We had factories in Vietnam and China and we were in bad shape; poor product quality, late deliveries – it wasn't comfortable. At a manufacturing seminar, an electronics company introduced me to a concept they'd learned from the Toyota automobile company, and I thought it might be applicable to the footwear industry. This of course, turned out to be lean manufacturing.

I learned more about it by reading a lot of books, and we went to Toyota to see first hand how it works. It was amazing. On our first visit we mainly paid attention to the tools of lean, such as 5S, Kanban, standardization, production line layout and changeover. We thought lean was about the use of these tools. We totally did not understand the culture changes required, but it was a first step.

» What did you think the initial benefits of incorporating lean into your business might be back then?

We were thinking primarily about cost reduction as our initial benefit. We thought we could also increase quality and decrease waste. We didn't know how much lean could impact these, but we knew we had to reduce costs and improve quality to make a profit and be competitive.

» What were the challenges of implementing lean into your operations?

We tried to implement lean techniques into our factory and failed because many of our staff did not agree with the changes. They said, "This is a footwear factory; not cars, not electronics." It took eight or nine months to start. We hired a consultant who was very good. He recommended we start very basic at first. The initial goal was to make the cleanest footwear factory in the world using 5S. It was tough, but we started. It took two or three months, but we became a very organized and very clean factory. Many Korean companies visited us and our employees liked it very much. This helped to change our attitude, that maybe we could change other things too. We started to change old bad habits one by one. We had a strong leader who was very good at lean thinking, and some leaders who couldn't accept it left the company. Without all employees deeply understanding and committed, it is hard to implement.

Along the way, we have been very lucky in getting good advice in terms of deciding how to invest in facilities and employee training based on lean concepts. We changed a lot of our layout and machinery based on the lean concept. We had to shed the old attitude that bigger and stronger was better. Now we have as little inventory as possible and the smallest machines possible. Instead of purchasing big machines, we collaborated with machine vendors to design and purchase machines that were properly sized, which saves energy and reduces waste. It also makes our production lines more flexible.

» So after 10 years on this journey, how would you describe the benefits of lean to your business?

We are certainly not the same company we were 10 years ago. We have had a 154-percent increase in orders. We're up 23 percent in productivity, which is pretty good considering the higher-tech models we're making and the variety of models we're making now.

Defective returns from our customers are down 67 percent, and B and C grade (lower quality) are down 82 percent.

In terms of worker empowerment, we get 500,000 suggestions a year from our employees to make us more efficient. That averages to 17 suggestions per employee per year. These suggestions have helped us save over \$2 million in one factory last year. Employees get a share of the money saved as a bonus. Also, various other

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small incentives and recognition are very important to express our appreciation for the employees' engagement.

In Human Resources, we have half the turnover rate of other footwear manufacturers and it's even better than the auto and electronics industry rates in the region. I believe our employees have pride in this company and the job they do based on mutual trust and respect. We have many programs for our employees that they really like. For example, last year inflation was very high in Vietnam, and at a lot of other companies there was a lot of labor unrest. We talked about this with our trade unions; that we can't always raise wages to adjust to this inflation, but we wanted to help ease the burden on our workers. One way we found to do this was to help with food costs. The main food in Vietnam is rice. We're supporting a fund to purchase rice directly from farmers and then sell it to employees without any markup. We were selling good rice to employees 15 to 20 percent below the market price. We also supported our labor union with funding to open a low-margin supermarket operated by the labor union at no profit. Both the company and the employees feel the company is taking care of them, and these efforts help us build trust and understanding.

While not every one of these benefits is completely from lean, the biggest enabler of all of this has been the lean philosophy, which emphasizes the importance of mutual trust and respect between workers and management.

» What advice would you give other companies that are starting their lean journey?

First you have to set a clear vision that lean is the way to run the business, and everyone must support this vision. Second is to invest in people and ensure all employees have the knowledge and skills to implement lean from the bottom up. Third is to seek help from experts – consultants, partners, other companies. Finally, have patience to let the process work. This includes listening to all the ideas of your employees as well as hearing and sharing the pains of your employees.

» How has Nike played a part in your journey?

Nike played a very powerful role. We were a small company and lean was a new tool in the footwear business. We were an early example of lean benefits. Nike was trying to find an efficiency program and they partnered with us to open the NITC (NOS Innovation and Training Center). The NITC is a training center open to all Nike contract factories and gives them in-depth training on how lean principles can enhance their business. We had a lot of our workers attend this training and it has been a very strong engine for building our lean efforts. We also share ideas with other Nike factories to learn what is working well. We are open with our information and are helping each other to improve.

NOS

Located just outside Ho Chi Minh City in Vietnam, the NOS Innovation Training Center (NITC) produces more than shoes. It grooms transition leaders who learn the ins and outs of lean manufacturing and return to factories to share the knowledge as they lead coordinated teams along their lean journey.

Serving students from at least seven different cultures, the 14-week Nike-led program makes use of the factory environment to allow the students to interact directly with the shop floor work teams where they learn by doing. The training breaks down to roughly one-third classroom instruction and two-thirds production-floor training.

Lean manufacturing's emphasis on people is causing suppliers to examine existing conditions in their factories. Lean demands people to know multiple parts of the job, rather than one repetitive task along the line.

Creating a work environment that is conducive to better morale has become a priority for the factories. They have addressed this in several different ways: better ergonomics, improved air circulation, frequent on-the-job training, predictable work schedules and worker incentive and recognition programs.

5S Basics

- **Sort.** *The 5S workplace organization process usually starts out by sorting the useful from the unnecessary. The only things that should remain in a work area are the parts, tools and instructions needed to do the job.*
- **Straighten.** *Everything has a place; everything is in its place.*
- **Sweep & Shine.** *Do an initial spring cleaning. Maybe painting, scouring, sweeping, washing, rinsing, scrubbing and whatever else is needed to make your workplace shine.*
- **Standardize.** *Routine cleaning becomes a way of life. Preventative maintenance is routinely performed, perhaps with planning and scheduling and some responsibilities done by your central maintenance department, and as much routine maintenance as possible performed by the people that know that work center better than anyone else.*
- **Sustain.** *When 5S becomes a routine way of life. Root causes are routinely identified and dealt with. This includes both supervisors and the workers who have come to appreciate the benefits of 5S and lean methods.*

Some companies have taken to calling their program a 6S program — with the inclusion of **Safety** issues.

CASE STUDY:

Footwear Factories Save Energy and Money

Two years ago, Nike began collaboration with five companies that contract with Nike to more fully integrate energy efficiency into their operations. The companies are part of MLS (Manufacturing Leadership), a group of strategic partner factory groups that Nike works with regularly on business and corporate responsibility issues.

Each company operates multiple factories. Together, the factories represent more than half of Nike's footwear production base, and account for 60 percent of resulting carbon emissions from the manufacture of the company's trademark footwear lines.

The project aims to link environmental and efficiency goals by focusing on both a reduction in carbon emissions and a reduction in overall energy use. The approach is strongly integrated into the factories' adoption of widespread lean manufacturing processes. In its essence, it is redefining the elimination of wasted energy as both a value proposition and a cost-cutting measure.

To establish a baseline, Nike conducted an energy-efficiency study of each facility, analyzed energy use, and created training programs with detailed targets. Nike also recommended specific equipment replacements to outdated steam and boiler systems as well as improved maintenance. A dedicated energy manager at each facility was tasked with following through on suggested changes. In addition, each manager developed a team of staff members to assist in ongoing program management. In a little less than a year, the project saw an average of nearly 10 percent energy savings in the participating facilities. Factory response to the time, cost and energy savings has been enthusiastic, and Nike plans further engagements with other contract manufacturing groups.

ENERGY EFFICIENCY: ON THE HORIZON

Nike is committed to partnering with contracted manufacturers to help them strive toward continual improvement in energy savings, carbon emissions and manufacturing efficiency. Some of the best improvement opportunities come with the construction of entirely new "greenfield" facilities.

To help envision the "factory of the future," Nike held a design workshop in December 2008 with two contract factories and again in April 2009 with another contract factory to assess how to achieve these goals. The workshop included general contractors, architects, green design consultants, construction representatives and lean process managers from Nike and the factories who literally drew up a blueprint for an optimal factory design. Of the designs envisioned, one has officially been registered to become Leadership in Energy and Environmental Design (LEED)-certified project. Nike looks forward to sharing these concepts with other factories in the years to come to further push the boundaries toward building the most efficient factories possible.

For more detail about energy efficiency efforts at the manufacturing level, see MAS videos and information in our online FY07-09 CR Report at nikebiz.com/

CASE STUDY:

HRM in Action

Since Nike developed Human Resources Management (HRM) training to strengthen contract manufacturers' HRM systems and support lean manufacturing implementation, two waves of factories have taken part: eight factories in Vietnam in November 2008 and eight factories in Southern China in March 2009. Prior to participating in the workshop, each factory completed an employee satisfaction survey to better understand the top issues facing workers and to measure mutual trust and respect in the factory.

Factories brought survey results along to the two-week training so they could apply their workers' insights to creation of action plans and HRM best practices. Each factory developed action plans to address core HRM areas, including supervisory skills, incentive structures, employee turnover and employee satisfaction.

Following the training, factories have begun implementing their specific action plans with six-month deliverables.

One factory set specific goals for reducing the number of workers reporting dissatisfaction with the behavior and attitude of their direct supervisor from 15 percent to 5 percent. The factory identified targeted training for supervisors including management, trust and respect, leadership, company policies and grievance systems, tying training completion directly to key performance indicators tracked within the factory. Another has set plans to increase the technical skill level among workers on the shop floor. Rather than focus only on building workers' technical skills, the plan requires supervisors to understand the importance of these skills among workers, which often had been overlooked. Plans also include reassessing skill levels, sharing with leadership and using findings to increase and improve training.

For both factories – and all those participating in the training – each step in the process had clear goals, responsibilities, timelines and methods for tracking progress.

Factories reported positive results. Statements from factories participating in the training include:

- *"The HRM workshop was able to highlight the importance of having a strong HR system."*
- *"Human resources is one of the most important assets of the company as a foundation of lean."*
- *"We now share best practice at our weekly meetings and include CR and HR."*

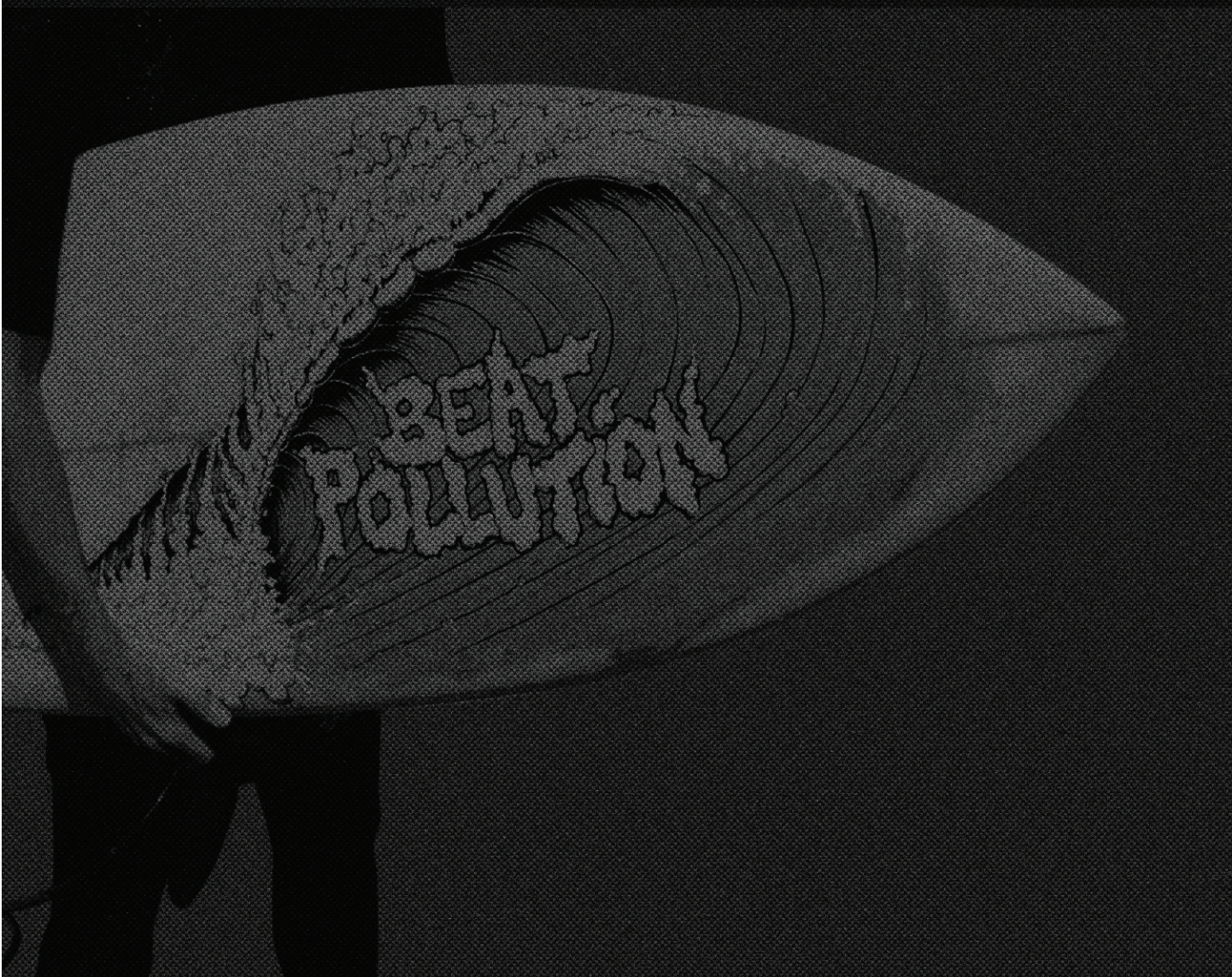
- *"I am confident that our goals will be achieved within the year."*
- *"HRM has helped us to have a better understanding of how strong HR supports lean. If HR is strong, we'll use effective processes to recruit the right people and develop them with a foreseeable career path. Skilled employees will stay with us longer. This means our turnover rate will be reduced and our recruiting efforts and training investment are not wasted."*
- *"The HRM tools we received are helping us follow our projects closely, followed up by responsible persons within specified timelines, giving a greater chance to realize measurable improvements."*
- *"HRM created a community where each factory set off the boundary of its own experience and knowledge. In return, each factory received many good practices – a great return on investment."*

Factories are not alone in this process. Factories are supported by the HRM Learning Community established in the training. The Learning Community brings together factories that shared the training and continue to share lessons learned and best practices meeting bimonthly.

The real measure of success will be the HRM training's ability to drive systemic and lasting improvement in working conditions. Nike is working closely with contract factories in their implementation of action plans and ongoing efforts to monitor workers' experience.

CH04

ENVIRONMENT



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To access the full NIKE, Inc. FY07-09 CR Report, with additional features including videos and an interactive map, please go to www.nikebiz.com/crreport

We believe that the looming crises of climate change, water scarcity and quality, and other resource constraints are even greater long-term challenges than today's financial turmoil. Natural resources and ecosystem services have been undervalued, and the environmental impacts of business have been regarded as externalities. All this is changing and rightly coming into view as a priority for inclusion in business planning.

Overview: Environment/ Sustainability

INNOVATION AS A DRIVER

In a resource-constrained world, we must use innovation as a driver to conserve water, increase our energy efficiency, reuse and recycle our products. We hear about the promise and potential of a sustainable economy; one that balances people, planet and profit. That vision requires a shift in thinking and approach.

OUR NORTH STAR

To guide us for the long term, we developed our North Star to define what sustainable products and a sustainable company would look like. We developed our North Star in consultation with The Natural Step, an international nonprofit organization dedicated to education and research in sustainable development.

Our North Star is grounded in addressing sustainability at the very core of our business, beginning with design. But it extends across everything we do. Our commitment is to create extraordinary performance products for athletes while managing our business within nature's limits.

This vision helps us focus our effort and resources where we can make the most impact. For instance, through innovative design, we can design out waste, chemicals and energy, and design in new materials and new approaches. We call this concept Considered Design. Nike Considered started as a product initiative that challenged designers to "Consider your impact. Consider your choices. Consider design, consider innovation, consider solutions." When we integrate this elevated consciousness into the design process, we maximize the value of our products and minimize the impact of their production. We reduce waste and CO₂ emissions across the whole supply chain.

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Nike's North Star



We anticipate a future that seeks out and rewards new models of consumption and growth, separated from material consumption. It's a transition from build, buy and bury – the common model of business to date.

We do not believe we have to make an “either/or” choice between addressing business needs today and attending to the impacts of the future. We must do both. Environmental issues and considerations are the pressing business issues for both tomorrow and today. Taking environmental issues into account is critical for future financial success and for the long-term sustainability of the business. Doing this in a manner which does not compromise the performance of today's products and today's business results is our challenge, but it is a challenge we are confident we can continue to overcome.

OUR APPROACH HAS DEEP ROOTS

Understanding and incorporating the need to reduce waste is not new to Nike. It was a founding principle driven by company cofounder and University of Oregon track coach Bill Bowerman. Bowerman understood improving runners' performance required eliminating excess. He envisioned runners' shoes that contained only those items necessary to complete the race: everything else was waste.

We embrace the same “eliminate what's not critical” approach today. We recently applied that approach in redesigning our shoe box. Like Nike's first recycled-content box in 1995, the new box is made from 100-percent recycled fiber but also features a new design that reduces fiber content by approximately 30 percent and is expected to save millions in packaging costs. We expect the new box to be fully adopted across the Nike brand by 2011.

PRODUCT DESIGN: CONSIDERED

Nike Considered Design creates performance innovation products that minimize environmental impact by reducing waste throughout the design and development process, using environmentally preferred materials and eliminating toxics. Nike designers make smart, sustainable design choices at the start of their creative process, working to achieve breakthroughs to solve the big problems that hinder progress toward a sustainable future.

We begin with comprehensive systems thinking around the domains of design, manufacturing and the life cycle of a product, including the possibilities for closing the loop on materials, product use and end of life. Innovation takes off after catching sight of radical technological shifts. We debuted a more sustainable product in 2005 with the Considered boot: a single shoe lace woven between the leather parts of the upper and stitching that secured the upper to the sole. This design eliminated adhesives and allowed for easier disassembly.

Design insights gained from this work helped inform future innovations such as the pinnacle Air Jordan XXIII, launched in January 2008, and the Nike Trash Talk, made from post-manufacturing waste.

We also began incorporating Considered Design in all of Nike's key categories: basketball, running, football (soccer), women's training, men's training and sportswear, as well as in tennis and ACG (All Conditions Gear).

Our long-term vision for Considered is to design products that are fully closed-loop: produced using the fewest possible materials and designed for easy disassembly, while allowing them to be recycled into new product or safely returned to nature at the end of their life.

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To make this vision a reality, we've broken it into a number of smaller attainable steps. The first step is having our entire product meet baseline Considered design standards. We aim to have all Nike footwear, newly developed out of WHQ, meet Considered baseline design standards by 2011; all apparel products, newly developed out of WHQ, EHQ and Hong Kong, meet Considered baseline design standards by 2015; and, in equipment, all top-volume retail product, newly developed, out of WHQ, meet Considered baseline standards by FY20. At a minimum, top-volume retail product includes socks, bags, inflatable balls and gloves.

Our vision:

- *We design for recycling.*
- *Consumers bring their products back to us to be recycled into new products.*
- *Waste that cannot be eliminated is recycled.*
- *Product is less reliant on oil and water.*
- *We all step lighter, faster into a future low-carbon sustainable economy.*
- *We use healthier chemistry to minimize the impact of product ingredients through the product lifecycle.*

To achieve this goal, we believe we need new modes of collaboration and new ways of thinking, making, delivering, reclaiming and processing derived from scientific advancements in fields far beyond our industry.

We understand this work can't be done by Nike alone and we value collaboration. That's why we turned to The Natural Step to help create our future vision.

Internally, we work across product teams and with groups ranging from the hub of product design and creation – our Innovation Kitchen – to our advanced materials research function to influence the development of short-, mid- and long-range projects that make progress toward closed-loop products. Beyond Nike, we seek to incorporate the latest thinking from others through open-source platforms – posting problems that need to be solved, and requesting solutions from outside inventors, universities and companies. We know we don't have all the answers ourselves, and realize future effectiveness hinges on an increasingly open-sourced and interconnected world.

CLIMATE AND ENERGY

We have worked across our operations – from design to delivery, manufacturing to travel – to identify our energy and climate footprint and understand where our actions will have the greatest impact.

As we have examined our energy footprint in more detail, we have gained a better understanding of where to focus our efforts. For example, in the absence of data, we might be tempted to focus immediately on transportation from our factories in Asia to retail. But in looking at our footprint more completely, we realize

that our largest energy impact is embedded in our materials. In a typical running shoe, 59 percent of our energy is in the materials, 22 percent is used during the manufacturing of the product, and only 10 percent of the footprint is attributable to shipping. This information allows us to focus our efforts where they will have the most impact: sourcing materials with a lower energy footprint.

We've calculated that an average pair of Nike running shoes has a CO₂ footprint of about 40 pounds (taking into account the embedded energy in all the materials in the shoe, the manufacturing of that shoe and the transport to our distribution center in the U.S.). To put this into context, every mile driven emits an average of one pound of CO₂.

Nike partnered with Levi Strauss & Co., Starbucks, Sun Microsystems and Timberland as a founding member of Business for Innovative Climate and Energy Policy (BICEP). We have committed to strategic collaboration through BICEP to push for U.S. energy and climate legislation and rule making.

BICEP members have agreed on nine guiding principles:

- *Set short- and long-term greenhouse gas reduction targets.*
- *Stimulate green job growth.*
- *Adopt a national renewable energy standard.*
- *Capture vast energy efficiency opportunities.*
- *Boost investment in renewable energy, energy efficiency and carbon capture, and storage technologies.*
- *Establish a cap-and-trade system with 100-percent auction of carbon allowances.*
- *Encourage transportation for clean energy economy.*
- *Limit construction of new coal plants to those that capture and store CO₂.*
- *Assist developing countries in adapting to climate change and reducing carbon emissions.*

WATER

Water scarcity is one of the central environmental and human health issues facing the world. It is also a key concern for our company.

Population growth and economic development are driving increases in demand for water for agricultural, domestic and industrial use. As the world's population grows and climate changes, apparel production begins to compete with the health, living and sanitation demands on water and land.

We have begun to see our impact on water – and its impact on us – in everything we do. Cotton is a water-intensive material. Finishing and dyeing are water-intensive processes fundamental to today's methods of apparel production. Even the production of leather for footwear demands water. And these impacts count

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only the raw material inputs. Workers in contracted factories also need fresh, clean water to drink and for sanitation. And communities without access to clean water cannot survive.

These realities lead to tough questions. How much of the world's water should be allocated to make and process textiles? What will be the cost of fresh water in the future? Price and availability may become increasingly volatile, so we intend to reduce our impact and our dependence on water throughout the supply chain.


We have incorporated water stewardship into our North Star, and defined it as borrowing water responsibly and returning it clean to communities. This means that where water-intensive production is needed we aim to contract with factories where water is abundant enough to support it. We also collaborate with factories to improve efficiency in order to avoid borrowing more water than is needed and to be able to return it as clean, or cleaner, than it was found.

Working with others in the industry, we have established a program that encourages suppliers' adherence to high water quality standards for all of their production, not just what they produce for Nike. We'll also achieve water stewardship through design and innovation, developing water-efficient processes and materials for Nike product.


Product Design: Considered Design Index

INDEX OVERVIEW


The Considered Design Index: Footwear Target

TARGET	PERFORMANCE	PROGRESS
<p>Footwear 100 percent of product reaches baseline standards by FY11.</p> <p><small>Refers to newly developed products coming out of the U.S. headquarters.</small></p>	<p>On track. 10 percent of spring 09 models and 17 percent of seasonal production volume achieved baseline Considered ranking.</p>	 <p>On track</p>

The Considered Design Index: Apparel Target

TARGET	PERFORMANCE	PROGRESS
<p>Apparel 100 percent of apparel product reaches baseline standards by FY15.</p> <p><small>Refers to newly developed products coming out of the U.S. headquarters, European headquarters and Hong Kong.</small></p>	<p>On track. Product teams actively using online Considered Index in design and development of Spring 2010 product season. Reporting starts in FY10 against yearly goals.</p>	 <p>On track</p>

The Considered Design Index: Equipment Target

TARGET	PERFORMANCE	PROGRESS
<p>Equipment 100 percent of product reaches baseline standards by FY20.</p> <p><small>Refers to new, top-volume retail products coming out of the U.S. headquarters. Top-volume categories of product include socks, bags, inflatable balls and gloves.</small></p>	<p>On track. Manual Considered Index in place for Bags product type, FY10.</p>	 <p>On track</p>

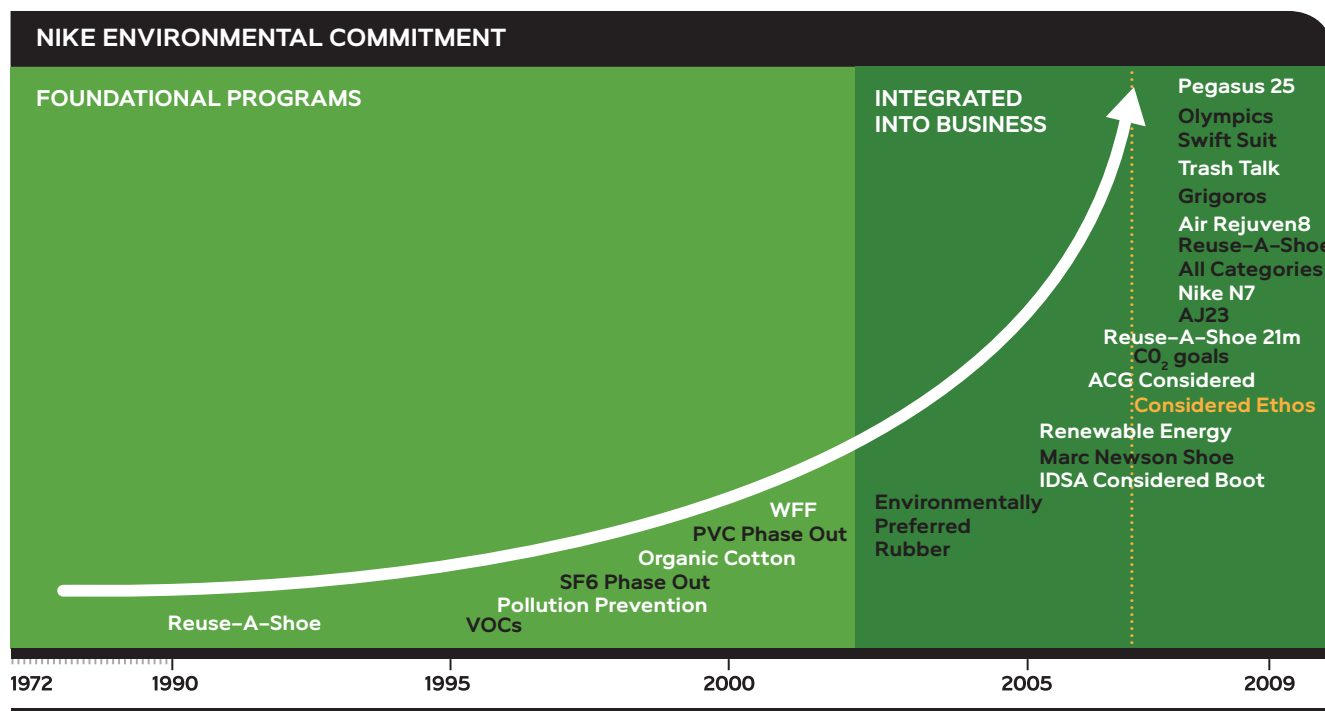
Note: This report provides further clarification of our Considered targets. The Considered Index tool helps Nike designers make good environmental choices when designing product, therefore it applies to newly designed product, rather than existing product lines.

Nike completed its inaugural Considered Footwear Index for spring 2009. Other activity in FY07-09 included sharing the index with senior leadership and rolling it out to all product categories, liaison offices and the footwear manufacturing base. We also trained all Nike global footwear development staff in the use of the Index.

In FY07/08, Nike created interim, manual indexes for fall 2008, spring 2009 and holiday 2009 product lines. In FY09, we rolled out the online, full Index to leadership, product creation teams and liaison offices. Spring 2010 will mark the first apparel product in the marketplace developed using the new, online Considered Index as well as progress reporting.

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Nike Sustainable Innovation Timeline



In FY08 we began assessing the need for an equipment index, including the challenges of vastly different products (from soccer balls to watches to golf clubs). We are working on the creation of a Universal Product Index for equipment.

BACKGROUND

Nike's Considered Design ethos combines the highest aspiration for sustainable design with detailed measurement to ensure that what we design and create, both as individual products and across our entire product line meet the exacting standards required to earn the Considered label. We know that one good waste-reduction effort or recycled-content shoe is not good enough. We're held accountable for making progress and applying sustainable innovation in every product.

Our Considered journey builds on foundational programs dating back to the early 1990s. We are now realizing benefits from integration into the business with new processes and products.

It is our design ethos that elevates Nike's approach. In order for a product to be identified as "Considered" it has to earn the label by meeting specific requirements. To measure how sustainable a product is we've created the Nike Considered Index. The Index metrics are based on more than a decade of innovation and research on materials, solid waste, fabric treatments and solvent use. It not only evaluates product sustainability, it serves as an educational tool for Nike's product creation teams. Environmental issues can be extremely complex and the Considered Index enables our teams to focus on understanding the impacts their product components have on the environment and how they can be reduced.


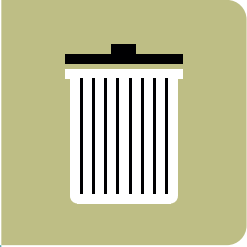
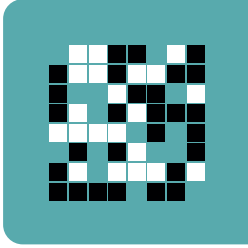

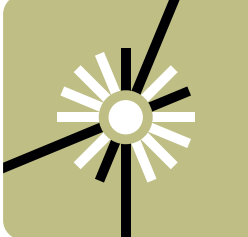
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NIKE CONSIDERED INDEX COMPONENTS

Fundamentally, the Index is a product creation tool, allowing Nike teams to focus on environmental sustainability as product is being taken through the design and development process.

As such, the tool does not currently evaluate elements such as packaging or transportation. These very significant environmental aspects (and others) are the focus of separate, but integrated initiatives discussed elsewhere in this report.

Considered Design Components Table

	Solvents Intensity of use of solvent-based cleaners, primers and solvents in footwear assembly and decorative applications. Based on the manufacturing process, on a model by model basis.
Waste Footwear, evaluated by model waste generated in the manufacturing processes for: Material cutting, Midsoles, Sockliners, Decorative applications, and Tooling use. Apparel evaluates the waste footprint created in fabric cutting scrap at the garment factory, for each product/style scored.	
	Materials Based on a life-cycle analysis of each material used, considering growing and extraction practices, chemistry, energy intensity, energy source, water intensity, waste, recycled content and end-of-life for both footwear and apparel. Materials scores are extracted from Nike R&D's online database. Index scores are automatically applied to the product based on the materials used.
Garment Treatments The use of energy, water, and chemical-intensive post-assembly garment treatments in apparel, such as garment laundering, distressing and garment dyeing. Index points are deducted from product undergoing these treatments.	
	Innovation Significant new solutions to product-related environmental impact issues that are not currently captured in the Index criteria for both footwear and apparel. Innovation points are applied for by product creation teams and awarded by a Considered product panel.

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- *The Index is a systems-integrated, online tool for evaluating the predicted environmental footprint of a product prior to commercialization. Wherever possible, the Index system retrieves product information automatically from Nike databases, increasing the accuracy and ease of using the tool.*
- *This system examines the largest environmental impacts for Nike products. The impacts were defined and prioritized starting in 2002, by assessing the environmental footprint of Nike footwear and apparel. The key impacts are solvent use, waste, materials and energy.*
- *The Index metrics are based on more than a decade of collecting solid waste and solvent use data in footwear, and the examination of waste footprints in hundreds of apparel and footwear products across all sport categories. The metrics also take into consideration the evaluation of the most common commercial materials used to manufacture Nike products using life-cycle thinking.*
- *Products are assigned a Considered score using the Index framework based on Nike's known footprint in these areas. Only products whose score is significantly better than the corporate average can be designated as Considered.*

Specifically, the Nike Considered Index evaluates solvents, waste, materials, garment treatments and innovation.

SCORING AND LABELING PRODUCT

Using the Index framework components described above, products are assigned a "Considered" score based on Nike's assessed footprint. This includes a baseline standard and a Considered standard.

The baseline standard, used for broad goal setting, recognizes steps already taken toward the environmental sustainability of the product. Products meeting the baseline are not part of the Considered line but their scoring helps designers understand and assess a starting point for that product.

The Considered standard is achieved by products with scores that significantly exceed the baseline. These products earn the Considered designation.

CONSIDERED INDEX: THE TOOL

To advance industry-wide adoption of best practice in sustainable product design, we will make a version of our Considered Index available widely for reference and to build upon. In FY10 we will post manual, non-systems-dependent versions of our Considered Footwear and Apparel Indexes online.

The Considered Footwear and Apparel Indexes that Nike uses to score products depend on product creation tools, systems and databases unique to Nike. By their nature, they are not transferable to other footwear or apparel companies. The non-systems-dependent versions will provide a greatly simplified version that provides a framework to allow product creation teams in other companies to review and assess the most critical aspects of a product's environmental footprint throughout their R&D process. These Excel-based versions do not provide the granularity and detail at which Nike evaluates and scores its own products.

We also anticipate sharing our full indexes through GreenXchange.

COLLABORATION

We believe that sharing what we have learned will unleash a faster pace for change across the industry. To build greater understanding and achieve real breakthroughs we need to address key issues more broadly, more collectively.

For example, water is a key concern on the global agenda. We know that the apparel industry in particular uses a considerable amount of water for dyeing and finishing processes. Two of the materials we use most rely heavily on natural resources: cotton on water and polyester on petroleum. We must be able to address future needs for materials, to find ways to use materials again and again.

But what if we could dye without water? How can we plant the seeds needed to move toward more sustainable products? These questions are not specific to Nike. They are dilemmas that face our industry and the world.

To this end, collaboration can help. The more people, the more companies working on these problems and seeking breakthroughs, the more likely we all are to find solutions that can be brought to scale and made viable.

We share what we have developed, as we have with breakthroughs such as formulations for environmentally preferred rubber. And we encourage others to share their insights and developments, to take ideas and run with them, to let us – and others – know what they've learned.

To facilitate this type of sharing we have partnered with [Creative Commons](#) to create and launch the [GreenXchange](#). This platform, which Nike and other business partners will release in

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2010, will encourage trial and innovation, as well as the opening and sharing of patents and other ideas, some on a fee-for-use basis and others in a manner that can be studied and built upon.

We are raising the profile of such work on the global stage, including the World Economic Forum, where leaders in government, business and others begin to understand the value of sharing information and solving problems together without continuously tapping the earth's resources.


ON THE HORIZON

Every season brings new learnings and feedback from our product creation teams on how we can improve the Considered Index from both interface and content standpoints. We anticipate the future will bring continual enhancement of the current index, as well as development of a more universal tool for evaluating the environmental aspects of all Nike products.


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ENVIRONMENTALLY PREFERRED MATERIALS

Use of Environmentally Preferred Materials in Nike Footwear

TARGET	PERFORMANCE	PROGRESS
Footwear Increase use of EPMs by 22 percent (as measured by average EPM score of 69 in FY06 to 84 in FY11).	FY11 target was met in FY08. Achieved a 77-percent increase from FY06 to FY09.	 Completed

Use of Environmentally Preferred Materials in Nike Apparel

TARGET	PERFORMANCE	PROGRESS
Apparel Increase use of EPMs to 20 percent by FY15.	Making progress. Preparing a new Materials Analysis Tool to be completed and tested in FY10. Tool will be released with version two of our Considered Design Index.	 On track

Date	Performance	% increase from FY08
FY08	4.2%	—
FY09	6.6%	57%
FY15	20%	

Use of Environmentally Preferred Materials in Nike Equipment

TARGET	PERFORMANCE	PROGRESS
Apparel Increase use of EPMs to 20 percent by FY15.	Making progress. Preparing a new Materials Analysis Tool to be completed and tested in FY10. Tool will be released with version two of our Considered Design Index.	 On track

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OUR APPROACH

Nike defines Environmentally Preferred Materials (EPMs) as materials that have significantly lower impact on the environment in one or more categories of chemistry, energy, water or waste. We can only achieve sustainable products if we address the materials used to make product. Therefore, we weigh the use of EPMs heavily in our product index system. Shifting to greater use of EPMs requires close partnership with suppliers to ensure they deliver against all of Nike's needs, including aesthetics, performance, price and compliance, as well as sustainability.

To bring more sustainable products from design to consumer we face a number of challenges, ranging from the variety of materials used to managing resulting waste. For each challenge, we have assessed the risks involved and have developed and applied an appropriate approach that seeks ways to reduce consumption of materials and handle them responsibly throughout the manufacturing process.

One way to optimize the use of materials is to continually assess and reduce the overall number used in our products. This focus also helps to manage cost and complexities in both the design phase and the supply chain. Replacing traditional materials with EPMs is rarely a straight-across exchange. It requires understanding characteristics of the material as well as its availability. Just because we find a material that works does not mean it is available at the quantity and price when and where we need it.

Impact Issues and Impact Metrics

Impact Issue	Impact Metric
Chemistry	Risk to human health A number of toxicology endpoints are considered including: <ul style="list-style-type: none"> • Carcinogens • Acute hazards • Chronic hazards • Endocrine disruptors/teratogens
Energy Intensity/CO ₂	MJ/Kg of material Energy source Kg CO ₂ /kg of material
Physical Waste	Recycled inputs Manufacturing waste Product end-of-life disposition
Water Intensity	>, =, < 100 liters/kg of material

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» How Nike Evaluates EPMS

To define Nike EPMS and quantitatively evaluate and rank our material choices, we developed a Material Analysis Tool (MAT) based on life-cycle thinking. Each material is assigned a numeric value that translates into a sustainability score for our products. The MAT framework is comprised of a set of environmental impact questions, in four categories (see chart).

Just as we did with our Considered Index tool, we have opened access to our MAT tools to help us define and measure sustainability of material choices and finished product. Our goal is to encourage collaboration across our industry and accelerate the use of EPMS.

We have simplified our complex metrics-based Material Analysis Tool (MAT) into a color-coded version that is accessible online. The red-yellow-green coding of environmental impacts provides an easy way to identify life cycle phases in which materials have relatively low impacts (green) or areas of opportunity for focused research and improvement (red). This version of MAT was completed in 2007 and is the basis for scoring environmentally preferred materials for apparel. We are currently working on the next version of MAT, which will include criteria that drive our material choices and move our supply partners toward our North Star goals.

» Working with Suppliers

In FY09 we developed and released Nike Considered Suppliers' Guide to Environmentally Preferred Materials (EPMS) that guides suppliers' research and development efforts for Nike EPMS. Common understanding helps us jointly set and manage EPM goals with our suppliers. The guide educates suppliers about Nike-defined EPMS, our goals and the metrics we use. The guide also explains Nike's expectations of our material supply partners and provides additional resources that suppliers can access to learn more about EPMS.

Early in FY09 we shared the Guide with our material managers and key external suppliers. Response has been very positive and has sparked additional dialogue about materials, our goals and the suppliers' own approaches. Based on feedback, we updated the Guide and have issued it broadly – at strategic meetings, through direct supplier contact with material managers and through our supplier Web site.

» Materials

We defined and discussed a range of EPMS in our [FY05/06 Corporate Responsibility Report](#). In this report we have provided updates some of the more significant materials:

- *Organic cotton*
- *Recycled polyester*
- *Leather*
- *Environmentally preferred rubber*
- *PVC and Phthalates*

Supply Chain Expectations (from Nike Considered Guide to EPMS)

Environmental Footprint	Hold a deep understanding of the environmental impacts of your products and business practices (i.e. environmental footprint analysis).
CR Reporting	Publish a Corporate Responsibility Report on a consistent basis.
Cost	Strategically manage material supply planning, optimize production efficiencies and leverage volumes to deliver the best possible price and value.
Nike Restricted Substance Program	Ensure Nike RSL/PRSL compliance for materials and finished products.
EPM R+D	Proactivity invest in research and development of Nike EPM alternatives. Actively develop closed-loop material/product take-back systems.
Supplier Footprint	Understand the origin, environmental footprint and impacts of raw materials you source.
Track + Trace	Ensure traceability of materials throughout the supply chain from raw material origin through finished product.
Verification	Integrate environmental standards, certifications and traceability systems to ensure Nike EPM integrity through the supply chain from feedstock/raw material to finished product.

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Nike Apparel Estimated Use of Organic Cotton

	FY99	FY04	FY05	FY06	FY07	FY08	FY09	FY11 (target)
% of cotton apparel containing minimum 5% organic	22	47	47	52	76	83	86	100
% of cotton fiber used that is organic		2	4	5	7	10	14	
organic cotton kg		975,000	1,745,000	2,645,000	4,306,000	6,436,000	9,603,000	
organic cotton lb		2,150,000	3,847,000	5,830,000	9,493,000	14,189,000	21,171,000	

Nike Apparel Containing Recycled Polyester

	FY04	FY05	FY06	FY07	FY08	FY09
% of polyester garments containing recycled polyester	0.00	0.32	0.75	1.58	1.36	2.74
Recycled polyester as a % of total polyester	< 1%	< 1%	< 1%	< 1%	< 1%	1.6%
Recycled polyester (lb)		121,000	215,850	451,500	452,400	1,942,500
Recycled polyester (kg)		57,600	97,900	204,800	205,200	881,000

Organic Cotton

Organic cotton is a natural fiber grown and harvested without the use of synthetic chemical pesticides, fertilizers and defoliants. It looks, feels and wears just like conventional cotton. Using organic cotton is a natural fit for Nike as we continually look for ways to integrate environmental responsibility in our products.

Since 1997, when we sourced 250,000 pounds of certified organic cotton, we have steadily increased the use of organic cotton in our materials. Nike set a long-term goal in 2001 of blending a minimum of 5-percent organic cotton in all cotton-containing apparel products by 2011. We are currently on track to achieve this ambitious goal. Based on estimates for FY09, 86 percent of the cotton-containing apparel we produced contained a minimum of 5-percent organic cotton. More than 14 percent of the cotton we used globally was organic, representing more than 21 million pounds of organic cotton fiber. This figure ranks Nike as the third-largest retail user of organic cotton in the world (according to the Organic Exchange, an NGO committed to increasing production and use of organically grown fibers).

Nike's support of organic cotton as a positive alternative to conventionally grown cotton remains strong. Looking to the future and ways we can continually increase our use of organic cotton, we have reset our blended organic goal and have initiated communication with our suppliers to begin making the transition.

Our refocused effort is to move to a minimum blend of 10-percent organic cotton in all cotton-containing apparel products by 2015. We have challenged ourselves by doubling the blend requirement in half the time required of our original goal. Benefits of our blended approach continue to be: ease of participation across our cotton supply base and product categories, planned and thoughtful increase in organic cotton demand over time, and growth that keeps pace with supply. Nike was the first major brand to adopt a 5-percent blended organic cotton goal. Since the yarn suppliers that we use to create the blends also supply to a wide variety of other brands, the 5-percent organic blend became the standard for the industry. We expect that the same will happen as we move to 10-percent organic cotton blend. Our greatest impact will be the change that we drive within the industry.

In addition to our blended organic goal, we continue to strategically expand our offering of 100-percent certified organically grown cotton apparel products across our range.

Nike's organic cotton supply chains use third-party accredited auditors to certify that the cotton has been grown and harvested according to recognized organic growing standards.

The organic cotton used in Nike products is sourced through supply chains across the globe, with sourcing primarily from China, India, Turkey and the United States. Details about organic agriculture standards, certification and accreditation can be found at: http://www.organicexchange.org/certification_info.php.

Recycled Polyester

We have incorporated recycled polyester into Nike's products for more than five years. Recycled polyester use results in fewer environmental impacts compared to virgin polyester because of reduced energy use, raw material extraction and less waste going to landfills or incineration. Nike's use of recycled polyester has grown 15-fold from FY05 to FY09. The number of Nike garments containing recycled polyester increased from 3,000 in FY04 to nearly 5.5 million in FY09 and included products designed for and inspired by the Olympics.

Leather

Nike is the one of the world's largest users of white leather for footwear. Waste from cutting leather constitutes one of our largest solid waste streams and we continue to seek ways to use this material as efficiently as possible.

Recognizing our impact in the athletic footwear industry, we collaborated with tanners and other footwear brands and retailers to establish the Leather Working Group (LWG) in 2006 (facilitated by BLC Leather Tech). The environmental assessment protocol developed by this group was peer reviewed in FY06. The LWG protocol was specifically developed for footwear tanners and is aimed at ensuring compliance and promoting best stewardship practices in the industry. In FY07, we actively supported the launch of the LWG protocol by recommending its use to tanners in our supply chain.

As of FY08, 14 footwear tanners had been audited against the protocol, representing approximately 25 percent of tanners in the Nike supply chain. In FY09, we mandated LWG screening of all of our tannery suppliers. Screening will help us to identify suppliers that meet our threshold for environmentally preferred leather manufacturing practices. By the end of FY09, 48 percent of Nike tanneries had completed the screening process.

At the end of FY09, Nike, in collaboration with our leather suppliers, created a sourcing policy related to supply chains to exclude hide sourced from within the Amazon Biome. This policy addresses the Greenpeace findings that Amazon deforestation is driven by cattle production. (See [Nike Press Release](#) for more on this).

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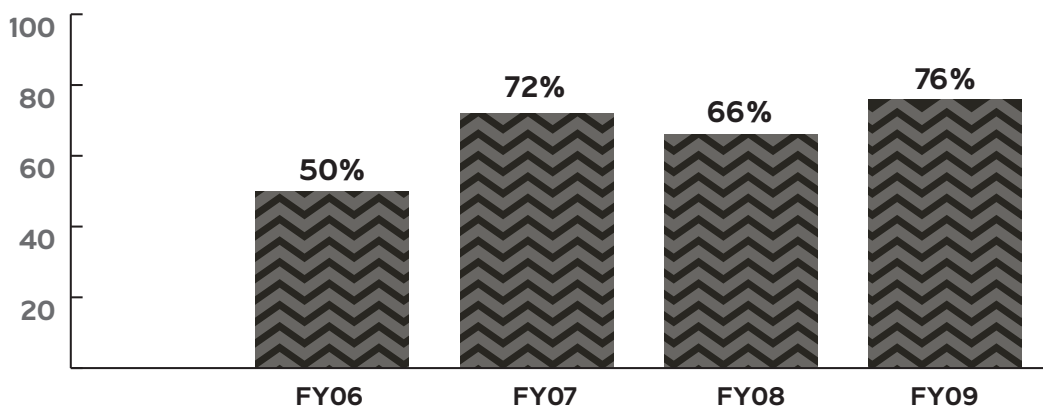
Environmentally Preferred Rubber

In 1998 Nike began researching environmentally preferred rubber and developing formulations that could be applied to footwear. By 2002, that work was ready for commercial use and was making its way into limited shoe production.

In FY04 Nike launched the first environmentally preferred rubber formulation for use in footwear products. We shared our formulations with the industry at the International Conference on Green and Sustainable Chemistry/9th Annual Green Chemistry and Engineering Conference. By FY07 we had expanded to three environmentally preferred compounds with different properties to meet a range of sport performance requirements for other products. In FY09, 76 percent of Nike shoes contained environmentally preferred rubber, up from 3 percent in FY04.

Environmentally Preferred Rubber Use in Nike Footwear

% of Pairs Containing Some Environmentally Preferred Rubber



PVC and Phthalates

Nike has been actively working to remove PVC from product since the late 1990s. By FY06, few PVC-containing product types remained in our apparel portfolio, and these were limited to screen print inks.


In FY09 we began implementing a detailed phase-out plan to eliminate PVC-containing screen-prints with alternative, non-PVC inks. We are working with printers and their ink suppliers to innovate, and new products are in development globally, particularly in the area of special effects inks. New regulations around use of phthalates have helped to expedite the phase-out and encourage new processes.

We require all contracted factories to test 10 percent of all screen prints strike offs and to begin random testing of screen print ink systems. Our phase-out process includes targets to eliminate PVCs and phthalates in all flat inks by FY10, and eliminate from all inks and all products in FY12.

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WASTE

Footwear Target


TARGET	PERFORMANCE	PROGRESS
Footwear Achieve 17-percent reduction from FY06 baseline by FY11 (in grams of waste generated per pair (gpp)) (equates to 157 gpp in 2011)	On target, having achieved 19-percent reduction in FY09 over FY05.	 On track

Stated as FY07 baseline and 155 gpp target in FY05/06 report. Reviewing data and matching reduction target and percentages revealed an error. Target should be, and has been restated as, a comparison to the FY06 baseline.

Apparel Target

TARGET	PERFORMANCE	PROGRESS
Apparel Set target in FY09.	Making progress. In FY09 we began tracking efficiency through the new Apparel Considered Index. We are setting a 2015 target based on number of products achieving baseline standards.	 On track

Packaging Target

TARGET	PERFORMANCE	PROGRESS
Packaging / Point-of-Purchase materials Achieve 30-percent reduction.	Making progress. Introduced light-weight shoe boxes in FY09. Extension of the innovation will be applied to shipping cartons in FY10.	 On track

Note: Point-of-purchase means the packaging the consumer takes home with the product. The vast majority of our consumer packaging is corrugated cardboard, this caused us to focus the 2007 reduction target on corrugated cardboard point-of-purchase packaging, where our standard shoebox is already composed of 100-percent recycled cardboard. Corrugated cardboard is also used for all shipping packaging. We have now expanded on the original target to include a reduction in the weight of shipping cartons.

BACKGROUND

We define waste as any product or material purchased anywhere in the supply chain that does not ultimately end up in the consumer's closet. This definition includes non-product waste (such as packaging), manufacturing waste (such as scrap material in contract factories) and product waste (such as samples).

By reducing this waste, we believe we can both considerably reduce our impact on the environment and realize significant cost savings. We focus on both reduction and reuse/recycling in eliminating solid waste.

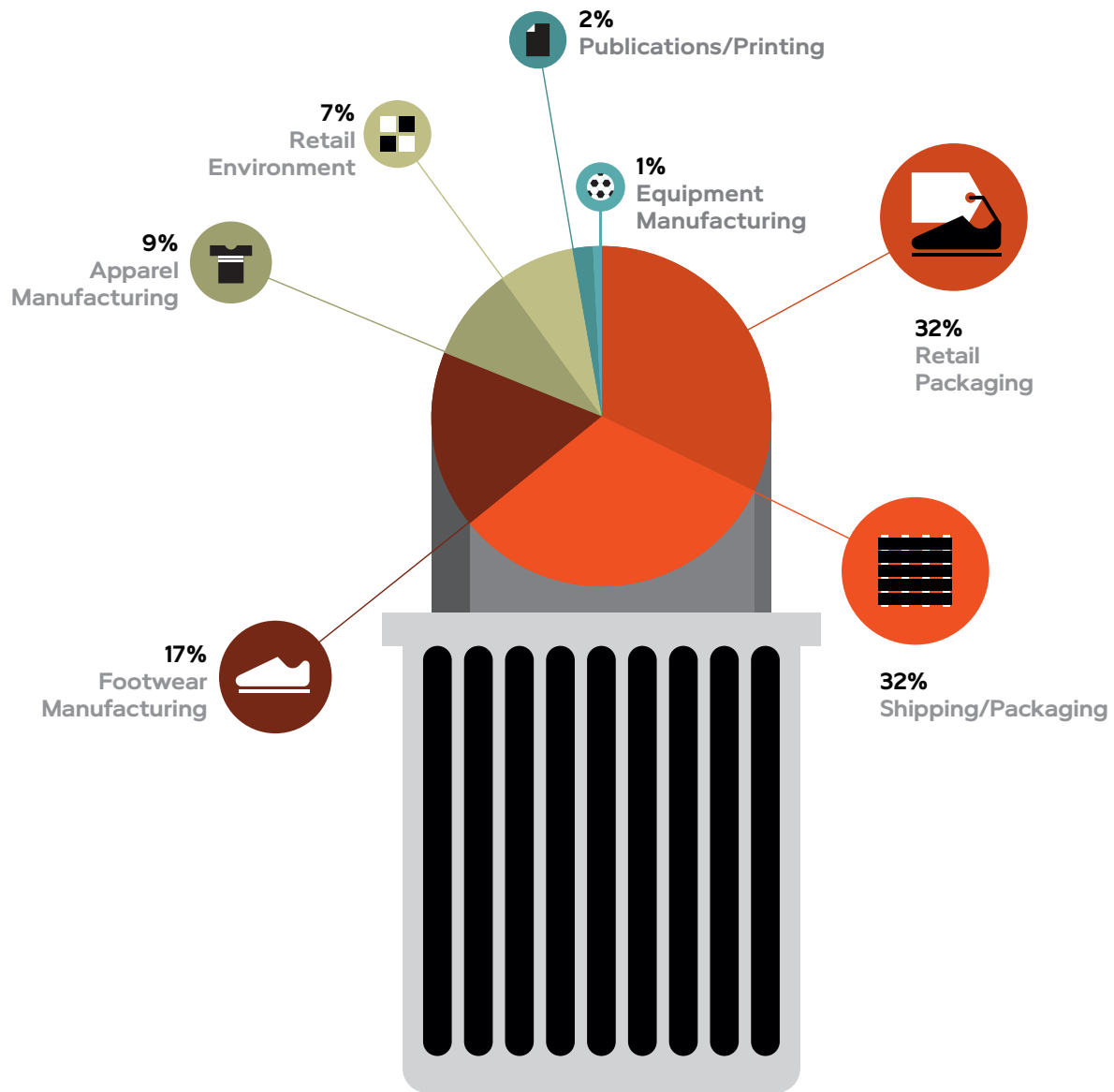
Waste is created at every step of our supply chain. No individual or Nike group oversees all waste streams from corporate offices to manufacturing to shipping and retail.

In FY06, we began to understand the physical waste across our entire company by performing a waste mapping study of more than 100 sources. We found that nearly 75 percent of all waste came from parts of the supply chain outside of the factory. When measured by weight, we found that more than 40 percent of the materials and products that we buy ended up as waste by our broad definition.

This analysis has helped us understand our waste impact and set targets for reduction in the areas that have the greatest impact. We incorporate waste measures into our Considered Index, assessing the waste of each product and providing guidance and tools for reducing it. In FY05/06, we shared targets for reductions in footwear manufacturing and packaging, two of our greatest areas of impact. In FY07-09 we increased our focus further on high-volume materials to concentrate our reduction efforts on those items that have the most impact.

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Our Waste Picture



Note: Nearly one-third of our waste footprint comes from retail packaging and the same amount from shipping and packaging. Nike is focusing effort on reducing all waste streams, especially in the greatest areas of impact.

WASTE MANAGEMENT CENTERS

Knowing the value of measuring and managing waste streams, we have worked with contract manufacturers to help them play an active part in assessing waste from their processes and understanding the lost value represented by waste. Beginning in 2000, we led the development of waste management centers near clusters of contract factories, which we began in 2000. We did this to provide critical mass for efficient recycling of wastes that could not be reduced or reused in factories.

By FY06, five waste management centers operated in four countries, serving more than 85 percent of Nike-contracted footwear factories in Asia. The waste management centers consolidate more than 50 factory waste materials that are shipped back to the materials vendors to be recycled back into the materials that we buy. Waste rubber from making shoe outsoles and foam-backed materials are processed and shipped to sports surfacing manufacturers. New recycling markets are continually being investigated to divert even more waste from shoe production to more sustainable uses.

SOLUTIONS IN DESIGN

We have found it is more effective to reduce waste at the design stage rather than use resources to manage unnecessary materials downstream in the supply chain. In apparel, for example, waste reduction is achieved largely through increased efficiency in pattern cutting at the factory. Products that achieve waste reductions score points in the Considered Index tool, boosting their overall score. Reducing designed-in waste also cuts costs and the quantity of waste materials created.

Designers have also found ways to reduce packaging by using less and different materials. In some cases, such as sunglasses, we have found ways to reduce both packaging material costs and the end-of-life recycling costs – a clear example of an exponential return on investment.

We continue to look for solutions that can be applied across our products, and can be tested and proven. We also aim to find solutions that offer clear cost savings.

» Closed-Loop Materials

The waste management centers consolidate factory waste of more than 50 materials that are shipped to the materials vendors to be recycled back into the materials that we buy. Nike has worked with seven vendors to create closed-loop materials used in footwear manufacturing including heel counters, toe boxes, strobels and lining. Between FY06 and FY09, closed-loop materials and take-back programs within footwear increased by 51 percent, to a total of more than 4.6 million kilograms. In FY09, 11 percent of manufacturing waste was recycled back into closed-loop materials.

» Recovered Product: Nike Reuse-A-Shoe

Nike processes defective returns, counterfeits and post-consumer shoes into Nike Grind, a material used to resurface playing fields. Since Reuse-A-Shoe was established in 1990, we have recycled more than 23 million pairs of shoes and contributed to 320 sport surfaces.

We are seeking ways to improve the viability of recycling used and defective shoes. The volume of processing is limited and the cost of collection and shipping can be high. We are exploring new partnerships and technologies that will make the process more efficient. The recycling of used shoes will continue to improve as designers use fewer materials. We are hopeful that other brands in the industry follow Nike's lead in adopting Restricted Substance Lists, reducing the toxicity of materials going into footwear and making their way into Nike Grind.

» Footwear

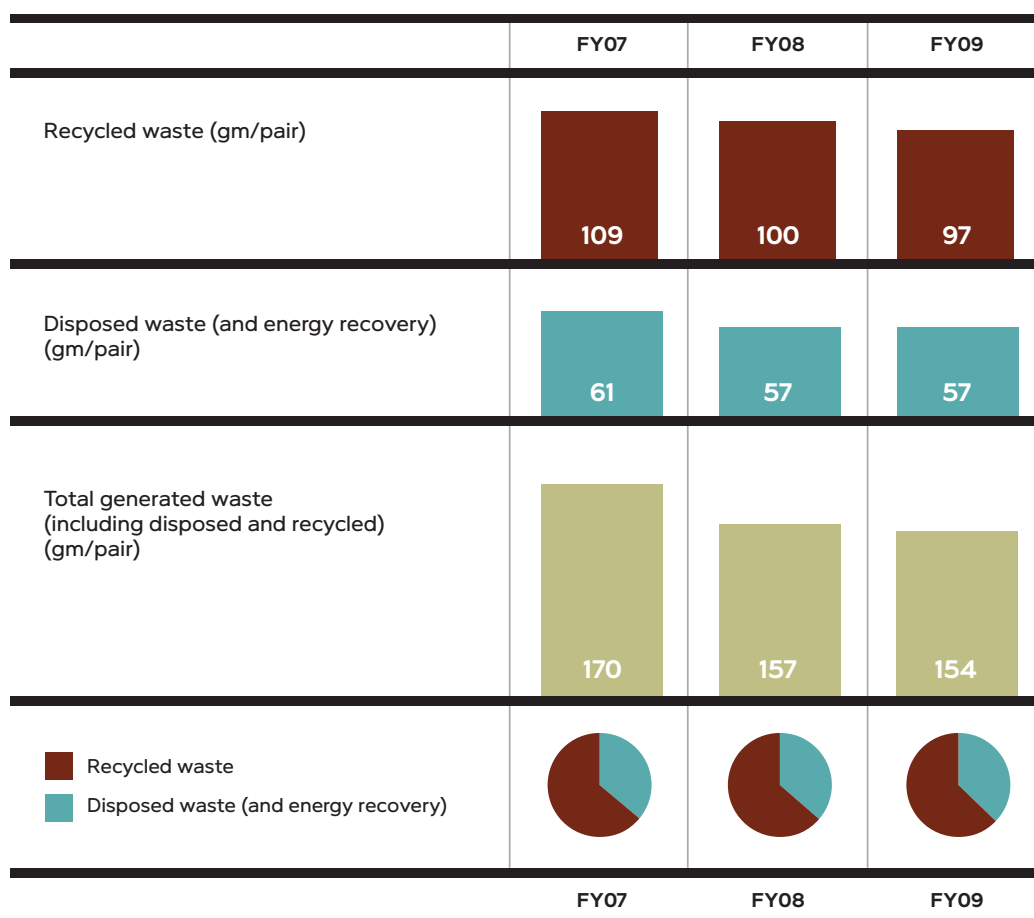
Representing 17 percent of our overall waste footprint, footwear manufacturing has potential for improvement.

Some highlights of our performance include:

- *In FY09 we saw a 9-percent reduction in grams per pair of solid waste over FY07 and 24 percent reduction over FY05.*
- *When measured in total waste, rather than grams per pair, we saw reduction in FY09 of 2 percent over FY07, a large reduction against the backdrop of an 8-percent increase in production.*
- *Waste delivered to landfill declined from 25 percent of total in FY07 to 13 percent in FY09.*
- *Waste processed through in-house factory recycling programs increased from 8 percent of solid waste per pair in FY07 to 10 percent in FY09.*

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Solid Waste and Waste Management Efforts in Footwear



Footwear Waste Management Methods (gpp)

	FY07	FY08	FY09
In-house recycling	12.76	14.02	15.40
Closed-loop	14.03	15.67	16.94
Nike-sponsored program	19.24	5.80	4.62
Downcycling	63.41	64.41	60.06
Energy recovery	12.01	24.99	32.34
Landfill	41.72	27.94	20.02
Incinerate	6.52	4.06	4.62
TOTAL WASTE	169.69	156.89	154.00

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SOLUTIONS IN SYSTEMS

Our approach to identifying and addressing all types of waste has led to systems improvements as well. The Considered ethos is not only removing waste from product design but is also helping Nike examine waste at every step of our business processes.

What we learned from our packaging and corrugated cardboard project caused us to rethink the shoebox. But we also applied that thinking to our business systems. We began to look at our purchase of corrugated cardboard across Nike, not only in footwear but in apparel and equipment, and not only in Nike-branded product but across our affiliates. In each of these areas, we purchased various cardboard products separately for different needs.

We came to see that, viewed together, corrugated cardboard was one of NIKE, Inc.'s largest materials purchases. By buying separately, we failed to share developments in design and waste reductions, and unnecessarily limited the scale to which we could apply new findings and approaches.

Combining these areas and purchasing cardboard as a commodity we believe will allow Nike to achieve scale and to influence our supply chain to consider using new materials and a lighter-weight construction.

ON THE HORIZON


Our experience in measuring, managing, recycling and eliminating proves what we've said before regarding our sustainability efforts: there is no finish line. We can always improve. We can continually improve every process: in design we can use materials more efficiently; in packaging we can further reduce or find ways to eliminate over time. These are incremental improvements. We also continue to work on more radical approaches to reach our North Star: What are the ideal materials, ones that can be created in ways that allow them to become the feedstock for future products? How can we get just the pieces and parts that we need, without cutting them from a roll of material? What closed-loop systems are needed in a society where waste is not acceptable and how do we help to develop them? We are asking these questions and seeking out answers, in our business and in our industry to help move toward a sustainable society.

PETROLEUM-DERIVED SOLVENTS

(Formerly Volatile Organic Compounds)

TARGETS AND PERFORMANCE

Petroleum-Derived Solvents: Footwear Target

TARGET	PERFORMANCE	PROGRESS
Footwear Maintain current volatile organic compounds (petroleum-derived solvents) grams/pair amount (represents 95-percent reduction from a 1995 baseline).	Achieved 95-percent reduction from 1995 baseline in FY04; and have continued to improve, by dropping an additional 1.9 grams per pair from FY06 through FY09.	 On track

Note: In one place in Nike's FY05/06 report, the incorrect baseline was used. The 340 grams per pair baseline from 1995 is correct.

Petroleum-Derived Solvents in Footwear

	FY95	FY05	FY06	FY07	FY08	FY09
Performance (grams per pair)	340	41.8	15.3	14.8	13.6	13.4
% of baseline	100%	12%	5%	4%	4%	4%

BACKGROUND

The use of Petroleum-Derived Solvents (PDS) in manufacturing can expose workers to potentially harmful chemicals and often requires them to use expensive and uncomfortable personal protective equipment. If released to the environment, these solvents also have undesirable environmental impacts.

PDS are a processing aide used to manufacture products, not the products themselves. To better understand our potential for reducing solvents in footwear manufacturing, we undertook a study in 2008 to determine where in the assembly process solvents are most used, with the aim of designing processes to eliminate solvents at the source.

We found the most solvents were used in primer and cleaning processes [see chart].

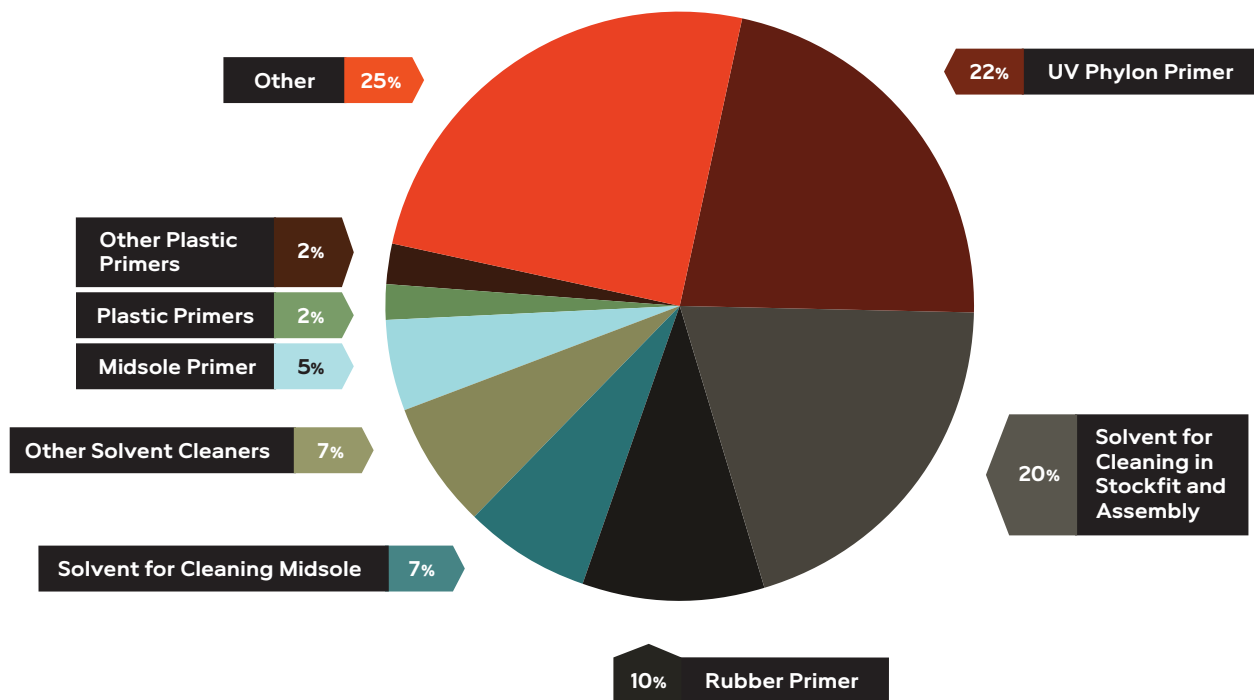
That insight has helped us to direct our efforts toward innovations that will deliver the greatest reductions for time invested.

For example, the carbon fiber shank in our iconic Jordan XX3 shoe would normally require assembly with priming and solvent-based cements. We encouraged the shank vendor to innovate to reduce solvent use. They developed a dry adhesive film system that allowed water-based assembly. We have applied this solvent-reducing process in the assembly of some cleated and other basketball footwear products as well and will continue to work with other suppliers to develop new processes and approaches.

In addition to our efforts in footwear, we are working with equipment manufacturers to assess areas for reducing PDS in other product.

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Total PDS Consumers by Process/Material
(% of total PDS consumption)



RESTRICTED SUBSTANCE LIST

In FY07-09 Nike continued its work to discourage and restrict a wide variety of substances in potentially harmful materials, minimizing exposure for consumers, workers and the environment. Information on the evolution of our approach is included in past reports.

Nike manages this effort through its Restricted Substance List (RSL) program which is updated regularly and posted online to help Nike suppliers and affiliates stay current with compliance.

We continue to see value in cooperative efforts in the industry to reduce or eliminate these materials by sharing our lists through working groups such as AFIRM (Apparel and Footwear International RSL Management). These efforts help track the use of restricted substances and share best compliance practices. AFIRM also conducts joint training programs with suppliers that cover restricted substance list concerns.

Climate and Energy

OUR CLIMATE STRATEGY

To ensure faster and more long-standing impact, we have reestablished the way we organize and manage our climate and energy work to align with NIKE, Inc.'s value chain and the way our business operates. We also recognize the widely different strategies and tasks involved in reducing the footprint we own compared to the footprint we influence. Collaboration and partnerships, both in and outside the company and the industry, will be critical to our success.

OUR MISSION

MISSION ➤ Reduce our consumer and our businesses' energy footprint to enable both to thrive in tomorrow's low-carbon economy.				
PRODUCT CREATION Reduce embedded energy in product	MANUFACTURING <ul style="list-style-type: none"> • Focus on energy efficiency • Facilitate design and construction of green factories 	DELIVERY Optimize product flow to retail partners to reduce logistics emissions	NIKE RETAIL Design, construct and operate green facilities	WHERE WE WORK <ul style="list-style-type: none"> • Moving people • Reduce travel miles through distance collaboration
MOBILIZE ➤ Vision, Strategy, Advocacy				
ROI² ➤ Metrics, Finance & Reporting Systems				

OUR FOCUS

NIKE, Inc. has evolved the way we address the climate change issue and where we spend our time and resources. In FY02 we assessed our footprint and set out to meet ambitious goals around the reduction of greenhouse gas emissions. We eliminated the potent greenhouse gas SF6 (sulfur hexafluoride) from our footwear. We achieved our World Wildlife Fund Climate Saver's Program goal of reducing CO₂ by 18 percent in owned facilities and business travel from 1998 to 2005 – even as facilities grew by 6 percent. In FY07-09 we began focusing deeper in our value chain.

We have evaluated our overall energy use and our overall greenhouse gas emissions. We have also drawn a distinction between what we own and control and what we can influence.

This insight has helped us identify the areas of greatest emissions and focus our efforts where they will have the greatest impact: in manufacturing, logistics and the materials that make up our products.

When the footprint is expanded to include embedded energy calculations (which accounts for the energy used to make a material, for example), we see even more clearly that our products and the process of manufacturing are the areas of greatest impact. We are now focusing on those areas in which we have influence and are extending the lessons we have learned from our owned operations.

In our owned footprint we focus on energy use reductions and procurement of renewable energy. In our larger supply chain (that we don't control directly), we focus on advocacy and collaboration to ensure that suppliers and factories have the right tools and incentives to make sustainable choices.

For years, our focus on climate change has been in step with growing scientific evidence and awareness externally. But to designers, factory owners, facility managers, transport partners and others, climate change can be an abstract concept. Our focus on energy, on the other hand, is more tangible and measurable; something everyone is familiar with. Our major climate impact, carbon footprint and greenhouse gas emissions almost all trace back to energy use.

On the public policy front, we've joined with key allies in the business community and with members of Congress to advocate for meaningful energy and climate change legislation that is consistent with a set of core principles.

OUR FOOTPRINT

To assess our overall footprint and provide consistent comparisons year-over-year, we continue to apply the reporting structure and methodology used for our commitment to the WWF Climate Savers program.

Highlights:

- In FY09, overall CO₂ emissions across Nike and its supply chain returned to FY07 levels, representing a 4-percent decrease from FY08's high.
- The CO₂ emissions from Nike-owned and operated facilities declined 15 percent in FY09 from FY07 levels, though the overall footprint from facilities rose compared to FY08 given a decrease in purchases of renewable energy certificates in FY09.
- CO₂ emissions from inbound logistics declined 9 percent between FY07 and FY09.

HIGHLIGHTS OF OUR WORK

» Advocacy

We recognize that climate change is a global issue and will require global solutions that involve players not accustomed to working together. A global approach requires strong, joined-up thinking and voices, including those of business.

We see legislation as a key lever in reaching [Intergovernmental Panel on Climate Change](#) (IPCC) goals. One new foray into advocacy has been our work with [Business for Innovative Climate and Energy Policy](#) (BICEP) coalition, which is hosted by CERES, a nonprofit, national network of investors, environmental organizations and other public interest groups working with companies and investors to address sustainability challenges. Work began in FY08 with founding partners Timberland, Levi Strauss & Co., Starbucks and Sun Microsystems. Additional partners have since joined, including Symantec, eBay, Gap, Aspen Ski Company, Cliff Bar and Seventh Generation. BICEP members believe that climate change will impact all sectors of the economy and that diverse business perspectives are needed to provide a full spectrum of viewpoints for solving the climate and energy challenges facing America.

BICEP's goal is to work directly with key allies in the business community and with members of Congress to pass meaningful energy and climate change legislation that is consistent with a set of core principles.

» Collaboration

The key to our approach – in energy, climate emissions and across the corporate responsibility agenda – is collaboration, both inside our business and outside. Our external collaborations include work with governments, NGOs and business coalitions.

For example, our work with Business for Social Responsibility's (BSR) Clean Cargo Working Group, an industry collaborative, demonstrates that shippers and carriers can work together to create transparent industry standards for measuring and reporting emissions from logistics. Industry collaborative groups have enabled a wider circle of agreement on standards and reporting between business partners. Because our relationships are built upon mutual benefits, we are able to use the results from BSR reporting to engage our key business partners in meaningful follow-up discussion and detailed project planning. Results from the emissions tool inform better dialogue between carrier and shipper regarding strategies and projects that will further reduce emissions from transportation.

We recently developed a partnership with the World Federation of the Sporting Goods Industry, which is working alongside the U.S. Department of Energy, U.S. State Department and the National Association of State Energy Officials to establish energy efficiency tools that can be incorporated into supply chains.

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We also presented at the World Economic Forum (WEF) 09, seeking to highlight to world government and business leaders the need for breakthrough change – climate policies, incentives for innovation and a forum for sharing ideas, and projects that work to speed adoption and implementation. One idea that we presented at the WEF is the [GreenXchange](#). The GreenXchange is a project of Nike, Creative Commons, Best Buy, Mountain Equipment Co-Op, Yahoo, nGenera, IDEO, 2degrees, and the University of Washington that will launch publicly in 2010. It is a system for licensing patents related to sustainability and other socially desirable goals at a very low transaction cost. By making this private intellectual property visible and usable, we aim to accelerate the development of green technology.

NIKE, Inc. also is working on creative collaborations that engage consumers on climate change through connection to sport. Since 2007, we have been supporting Focus the Nation, an organization that empowers young leaders to accelerate the transition to a more just and prosperous clean energy future through education, engagement and action. In 2009 we supported the Focus Roots Fellowship program. Together with Climate Ride, Youth Noise and the Danish Embassy to the United States of America, Focus the Nation selected two fellows and awarded a \$10,000 grant in the community action categories of sport and art.

In addition, recipients participated in a 300-mile, multi-day bicycle ride from New York City to Washington DC called Climate Ride to share their progress with 200 other riders. In late 2009, recipients traveled to Copenhagen, Denmark, to present their projects to the international communities participating in the [COP15 Climate Treaty](#) negotiations.

» Product Creation

Across all our efforts, we work to design sustainability into our products from the outset. The value of addressing energy at the design phase is enormous – eliminating energy-intensive materials and processes has the most potential to reduce our overall carbon footprint. It is the most effective place to intervene in the overall system.

In FY07 we began working to identify the carbon footprint and embedded energy of our products. For example, an average pair of Nike running shoes – the Nike Air Pegasus 25 – results in the use of a total of 42 kWh of energy and 18 kg of CO₂ throughout its life. More than 50 percent of that energy and CO₂ came from materials and materials waste. That's a surprising amount when compared to manufacturing processes (less than 30 percent) or logistics (less than 10 percent), both often cited as carbon culprits.

When we analyze our Nike footwear lines, we see that the embedded energy of the materials in a shoe averages 26 to 30 kWh per kg. But a shoe's energy and carbon footprint can improve based on material choices. Recycled materials can reduce embedded energy by up to 50 percent. While leather

materials carry similar embedded energy as other typical shoe materials, its CO₂ footprint is about three times higher due to the methane produced from cows at the source.

We have begun applying this type of analysis to other areas, including apparel, to help us understand energy use throughout the product's life cycle, from the materials chosen through to what's used to launder and maintain the garments. We are investigating incorporating energy components in our Considered Index, our measurement of product sustainability which already evaluates materials, chemicals and waste. By providing our product designers and developers with the Considered Index at the very start of process, we help them choose less energy-intensive materials and manufacturing processes.

This significant progress in accurately quantifying and prioritizing actionable areas of our footprint has helped guide development of the next stage of our strategy. Currently, when we guide designers and developers to choose materials with lower embedded energy, a limited palette of materials is available. In the next stage, we plan to progress to creating a whole new array of choices. We are investing in groundbreaking collaborative innovations to develop new materials that can be recycled or have significantly lower embedded energy, at a commercially-viable scale.

» Manufacturing

Manufacturing represents our greatest category of impact after materials. Our work to reduce this impact relies on partnering directly with contracted manufacturers.

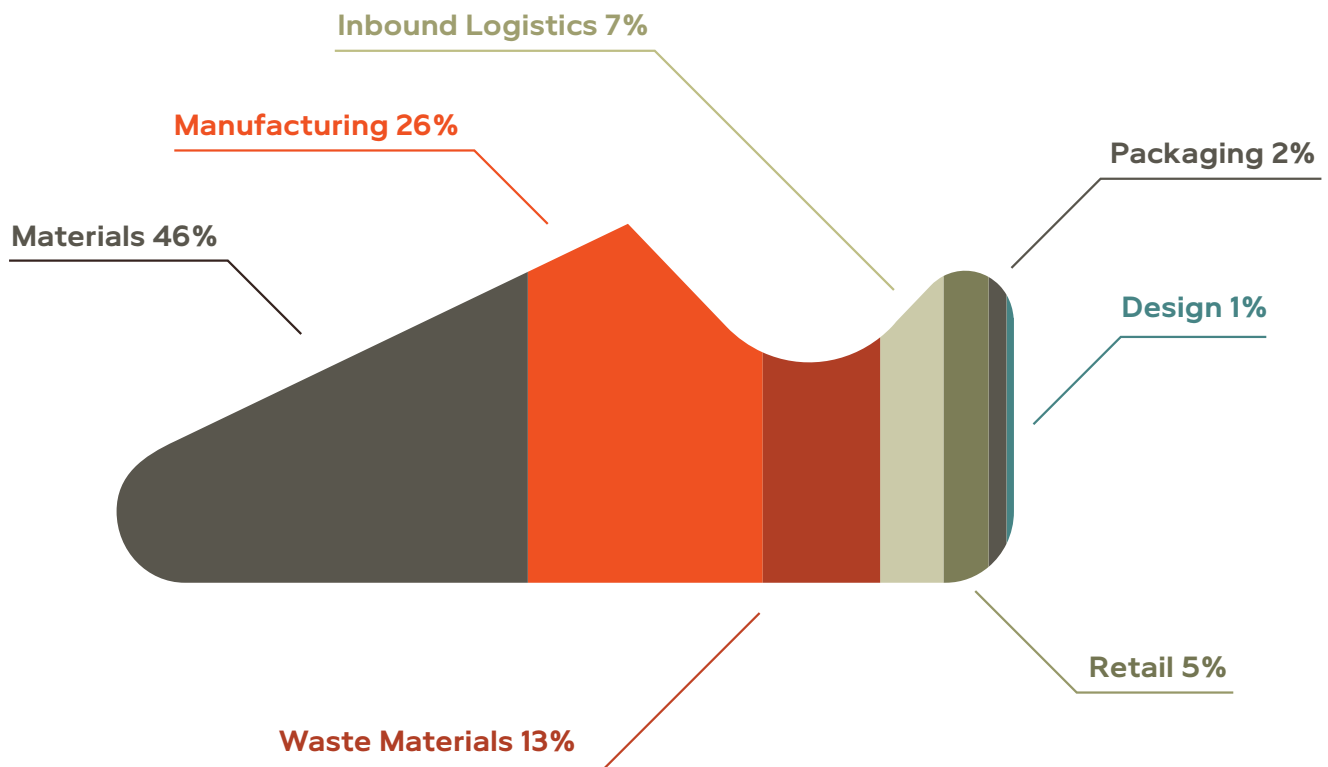
Footwear manufacturing accounts for approximately 90 percent of our manufacturing footprint. Almost all of our energy and climate work is focused on these processes. We focus further on the locations of greatest impact (China, Vietnam and Indonesia), and on our largest manufacturing partners (the top five, which together represent 60 percent of our footwear production by volume).

In 2007 and early 2008, we conducted detailed evaluations of the energy use at two footwear factories to understand the financial and CO₂-reduction opportunities. These two pilot projects revealed significant opportunities to reduce the environmental and financial impacts of energy use on contract footwear factories. Buoyed by these results, in November 2008 we officially launched our footwear energy efficiency program with five of our largest manufacturing partners. In the first seven months of the program, these five factory groups achieved a 7-percent absolute reduction in CO₂ emissions even as production increased in those facilities by 10 percent. (See Footwear Target.)

We have learned that to achieve sustainable reductions in our manufacturing footprint, we need to invest in capacity building and making it easier for contracted factories to adopt the latest clean technology innovations. We have transformed the way we address changes in manufacturing with contracted suppliers. As

CH04 ENVIRONMENT

Embedded CO₂ in Nike Air Pegasus 25 Running Shoe



CH04 ENVIRONMENT

part of the creation of our Sustainable Business and Innovation group, NIKE, Inc. created a team focused on sustainable manufacturing. In part, that team is dedicated to partnering with factories to develop customized strategies, business cases and process innovations for energy efficiency retrofits and new builds.

» Delivery

Most of our delivery operations, which include logistics and distribution, are not NIKE, Inc.-owned. Capturing and tracking accurate data on our impacts is a challenge outweighed only by the need to collaborate to achieve results. In recent years, the increasing cost of energy and public pressure has begun to inspire innovations to reduce the amount of oil used to get goods from a factory dock to a retailer's shelf. However, tapping these opportunities and scaling them up requires coordinated efforts and investments across the chain – from manufacturers, distributors, carriers and retailers. Our work with BSR's Clean Cargo Working Group is the vanguard of our plans to accelerate cross-industry collaboration and innovation in this space.

» Nike Retail

In Nike retail stores, we have worked to adopt and incorporate energy efficiency measures in both new build and existing facilities. We are incorporating LEED-CI (commercial interior) certification standards into newly built Nike Factory Stores, resulting in measurable reductions in water (45 percent) and energy (25 percent) compared to standard designs. We are also extending the certification to new factory stores. In addition to the stores themselves, we have been addressing the way that we use materials and their impacts in retail. Eventually we hope to apply what we've learned to other retail settings across the range of brands in the NIKE, Inc. portfolio.

» Where We Work/Moving People

The work we undertake at our own sites has included energy efficiency projects, renewable energy projects and the purchase of carbon offsets and Renewable Energy Certificates.

Highlights include a platinum LEED-NC (new construction)-certified building at our world headquarters, other building innovations, and some new on-site production of renewable energy in the United States and EU. Specific examples are provided with the discussion of our facilities/travel target.

ON THE HORIZON

As we continue to make strides across all areas of our climate and energy impact, we also continue to face challenges.

Data collection and accuracy remains a significant issue. For some areas, such as apparel and equipment manufacturing, we use historic factors applied to production numbers to estimate energy use and emissions. For others, such as footwear manufacturing, we rely on factories and others in our supply chain to provide accurate information. To improve our evaluation and accounting, we have implemented an enterprise carbon accounting project that will begin in FY10.

Our supply chain depends on business partners who make and distribute our products. Our ability to partner with them – and their commitment to achieving reductions – is critical to our success. Through these partnerships, we influence and educate but do not own the programs or outcomes. This reality makes planning, goal setting and resourcing particularly complex.

In the United States and Europe, many of our achievements are leveraged by national- or state-level legislation and incentives. In the United States, we see a critical need for a national price on carbon to level the playing field and enable us to continue to reduce our carbon footprint through the deployment of energy efficiency, green building and renewable energy.

CH04 ENVIRONMENT

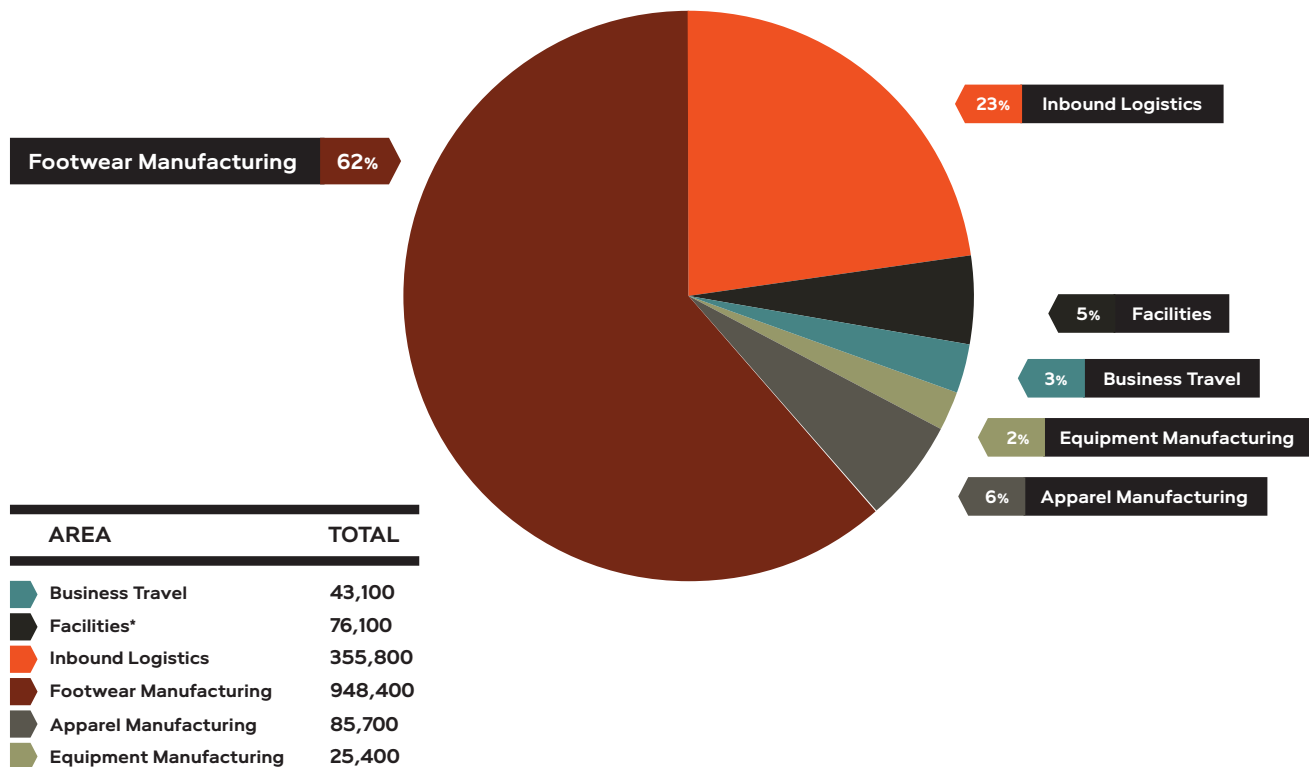
CHARTS

Total Energy Use Footprint – Nike and Supply Chain, excluding Materials (tJ)

FY06	FY07	FY08	FY09
13,400	14,300	15,400	14,300

Notes: Facilities data is only included in FY07 thru FY09, making up 8 percent of total annual usage.

Total Greenhouse Gas Emissions (tonnes CO₂ equivalents) FY09



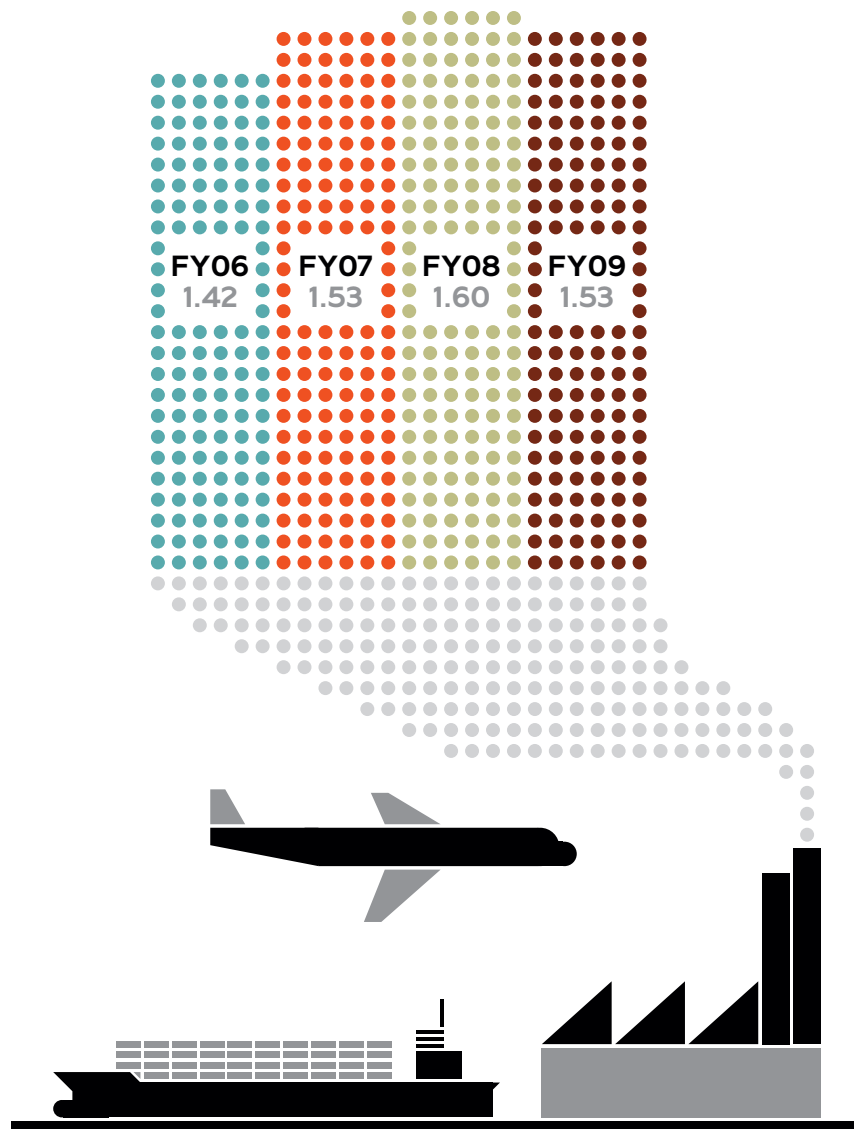
Notes: Reporting aligns to WWF Climate Savers structure and uses the Climate Savers emissions factors for business travel, facilities and inbound logistics

*Facilities based on calendar year figures, all others on fiscal year. Facilities include corporate offices as well as Niketown and employee stores, but not Nike Factory Stores. FY09 includes energy data from additional distribution centers (Japan, Northridge, Mexico, Canada, Golf, and Cole Haan).

**Footwear emission totals were calculated based on actual energy use and fuel types reported by contracted factories, using a tool developed by the WRI/WBCSD GHG Protocol Initiative team (www.ghgprotocol.org), based in part on relevant aspects of the first edition of the "CO₂ emissions from stationary combustion" calculation tool and guidance document. Apparel and Equipment totals were calculated by applying a factor to production numbers, rather than actual energy and emission figures.

CH04 ENVIRONMENT

Total Greenhouse Gas Emissions Footprint – Nike and Supply Chain, excluding Materials
(million tonnes CO₂ equivalents)

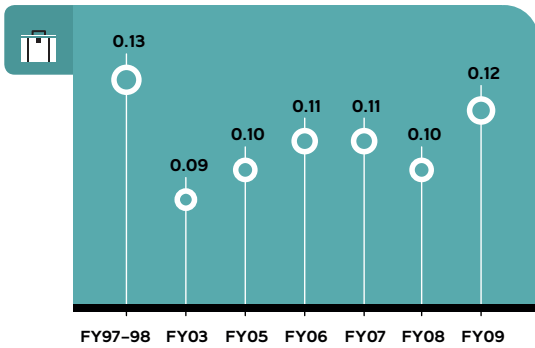


Note: Facilities data is only included in FY07 thru FY09.

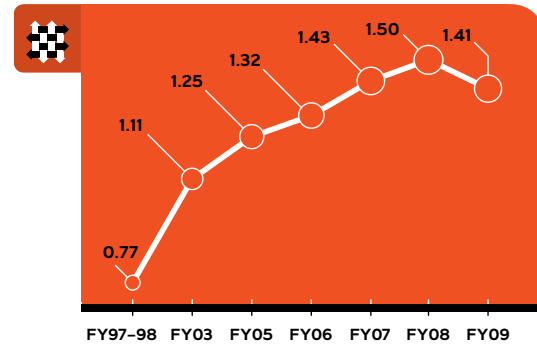
CH04 ENVIRONMENT

GHG Footprint / In Million Tonnes CO₂ equivalents

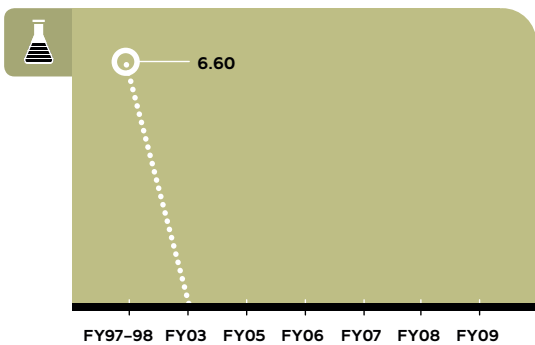
Nike-owned and-operated operations* and business travel



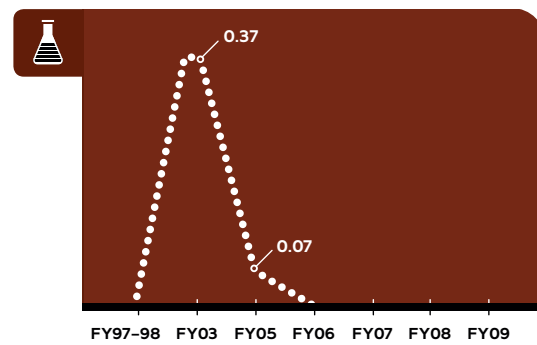
Manufacturing and logistics**



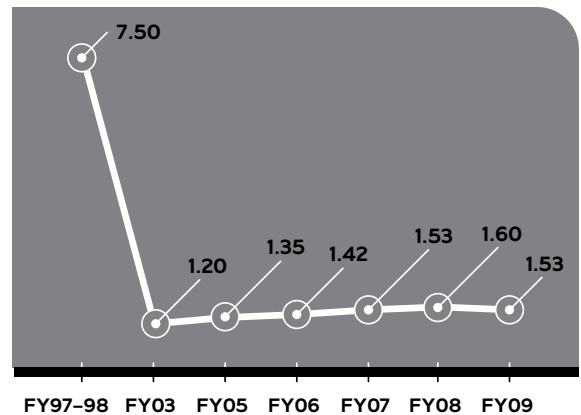
SFG Sulfur hexafluoride***



PHP Perfluoropropane***



Total Greenhouse Gases Footprint In Million Tonnes CO₂ equivalents



Note: Reporting aligns to WWF Climate Savers structure and uses Climate Savers emissions.

*Owned operations covers U.S. corporate facilities, distribution centers and Niketown stores but does not yet cover Nike Factory Stores. FY09 includes energy data from additional distribution centers (Japan, Northridge, Mexico, Canada, Golf and Cole Haan).

**Footwear emission totals were calculated based on actual energy use and fuel types reported by contracted factories, using a tool developed by the WRI/WBCSD GHG Protocol Initiative team (www.ghgprotocol.org), based in part on relevant aspects of the first edition of the "CO₂ emissions from stationary combustion" calculation tool and guidance document. Apparel and Equipment totals were calculated by applying a factor to production numbers, rather than actual energy and emission figures.

The logistics footprint is for CO₂ only.


***Nike eliminated SF₆ and PFP from product in 2006.

****Discrepancy due to rounding

FOOTWEAR MANUFACTURING

TARGET AND PERFORMANCE

Footwear Manufacturing Target

TARGET	PERFORMANCE	PROGRESS
Footwear Footwear manufacturing CO ₂ emissions footprint: Goals to be announced by January 2008.	Did not set an external target. Achieved a 6-percent absolute CO ₂ reduction among factory groups participating in our program after seven months of work.	 On track

Percentage Changes FY08 to FY09 for participants
(represents 60 percent of Nike footwear production volume)

Total kWh	Total CO ₂	Pairs	kWh/pair %	CO ₂ /pair
-9%	-7%	+9%	-16%	-14%

Note: Emission totals were calculated based on actual energy use and fuel types reported by contracted factories, following the WRI/WBCSD GHG Protocol (www.ghgprotocol.org).

OUR APPROACH

Through our work in assessing and addressing Nike's overall climate impact, we have come to focus on footwear manufacturing as the area of greatest impact. Footwear manufacturing represents 62 percent of Nike's overall carbon footprint (excluding energy embedded in materials) and nearly 90 percent of Nike's manufacturing footprint.

We are focused on the regions and factories where our production is concentrated. These include the locations of greatest impact (China, Vietnam and Indonesia) and our largest manufacturing partners (the top five of which represent 60 percent of our footwear production by volume).

» Energy Efficiency Program

In 2007 and early 2008, we conducted detailed evaluations of the energy use at two footwear factories to understand the opportunities for cost savings and CO₂ reduction. These pilot projects revealed significant potential to

reduce the impacts of energy use on contract footwear factories, both environmentally and financially. Our next step was to understand how to integrate these energy savings opportunities into the lean manufacturing program and fully integrate the energy savings program into manufacturing practices.

In November 2008 we officially launched our footwear energy efficiency program with five of our largest manufacturing partners. These five manufacturers represent approximately 60 percent of Nike footwear manufacturing volume and operate 19 factories between them, with production primarily in China, Vietnam and Indonesia and one factory in India. Early reviews are showing excellent results: absolute CO₂ footprint was down 6 percent despite a 9-percent increase in production. Energy intensity as measured by kWh per pair improved by 16 percent.

Assuming that nonparticipating contract manufacturing groups operated at the same level of efficiency in FY09 as they did in FY08, we estimate that our total footwear energy use footprint decreased from FY08 to FY09 by 4 percent.

FOOTWEAR MANUFACTURING ENERGY EFFICIENCY PROGRAM

» Targets

We thought long and hard about CO₂ emission reduction targets. Our ideal was to set a baseline of energy used per pair – how much energy it should take to produce a shoe, but we realized such a baseline does not exist. Two factors influence the energy used to produce a shoe: production volume – the number of shoes each facility produces – and the type of shoe produced. For example, a sandal requires less energy to make than an Air Force One basketball shoe. If we established targets, we would have to constantly adjust them based on volume and consumer preferences.

Our second choice was to set a global footwear percentage reduction target. We believe that it is important for our contract manufacturing partners to own the target because they ultimately implement the changes. Most of our partners are already managing toward their own internal targets. However, there was a lot of uncertainty about what could be achieved, with some contract manufacturing groups setting conservative targets and others being very aggressive. Reaching a consensus was difficult and, after several rounds of discussions, we realized that the attempt to set targets was distracting us from the real work of reducing energy consumption.

The ROI on energy efficiency is high and the financial incentive assures that contracted manufacturers will continue to invest in this area. The results from the first seven months of our footwear energy efficiency program speak for themselves. For the next few years, rather than focusing on a target, we are focusing on implementing a world-class energy management program and bringing all of our contracted factories to the same relative energy performance level. After these factories have made the necessary investments in training and energy savings equipment, we will introduce targets to keep the factories focused on saving energy and reducing carbon emissions.

Our manufacturing climate strategy is driven by science. We have a responsibility to move toward the levels identified by the Intergovernmental Panel on Climate Change. We will do this through efficient manufacturing processes and facilities, integrating energy analysis into product design through the Considered Index, and using financially feasible renewable energy sources.

» Highlights

Some of our efforts to reduce energy use and emissions at contracted footwear factories during FY07–09 include:

- **Developing an energy training program.** *Through this program, factory management evaluates and understands energy efficiency opportunities and how to make changes to save energy.*
- **Developing a lean energy mapping process.** *This project will allow our manufacturing partners to understand how their processes use energy and how they can improve process integrity while saving energy.*
- **Monitoring whole factory electricity use as well as individual processes.** *This provides a complete picture of how each factory uses electricity and allows our contract factories to see how changes made to equipment and processes save energy.*
- **Designing optimal green production buildings.** *We are developing a conceptual design of a production building that will optimize natural ventilation and daylighting while reducing water use for new factory sites.*
- **Designing efficiency into factories.** *As suppliers build new factories, we are working with them to identify efficiencies and incorporate best practices. In addition to reduced energy use, benefits include improved safety and quality of life for workers, better traffic and product flow through the site and other direct benefits.*

ON THE HORIZON

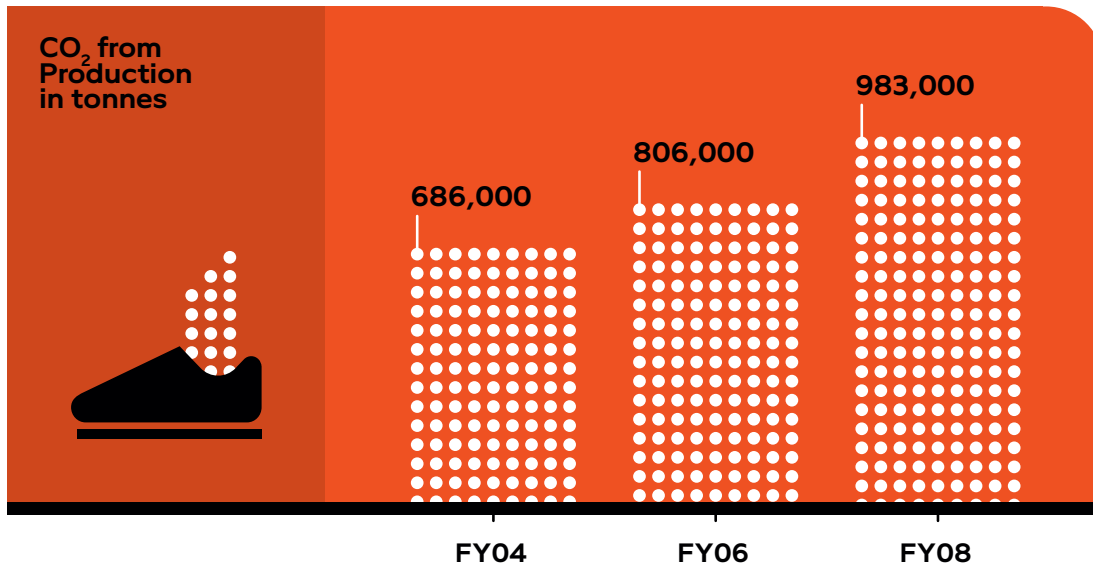
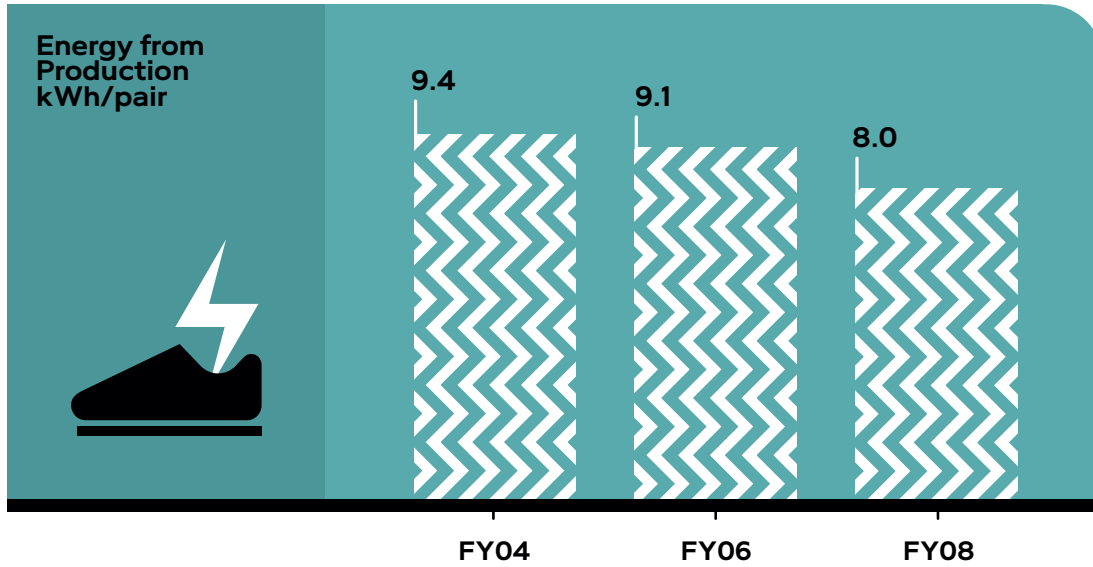
We have assigned dedicated staff to oversee the formal footwear manufacturing energy program. This program includes projects with our largest contract manufacturers and with good financial returns.

As suppliers plan for new factories or expansions, we are working with them on factory designs that can deliver significant energy savings while optimizing production, water use and health, safety and quality of life for workers.

We continue to focus on factories with the greatest impact. Once we demonstrate results and streamline our process, we will roll out the program to the rest of our footwear base. We anticipate that the lessons we are learning in footwear manufacturing can be shared and applied in factories producing Nike apparel and equipment.

CH04 ENVIRONMENT

Footwear Energy and CO₂ from Production (FY04-FY08)




Note: Footwear emission totals were calculated based on actual energy use and fuel types reported by contracted factories, following the WRI/WBCSD GHG Protocol (www.ghgprotocol.org).

The reported values are estimates calculated every other year based on our best available information at the time. The FY08 scope changed as more information became available. FY04 and FY06: Inline production for Thailand, Vietnam, China and Indonesia. FY08: Global production, excluding B-grades, overruns and promo orders.

INBOUND LOGISTICS

TARGET AND PERFORMANCE

Inbound Logistics Target

TARGET	PERFORMANCE	PROGRESS
<p>Deliver 30-percent absolute reduction in CO₂ emissions from 2003 by FY20. (2003 baseline is 311,859 tonnes)</p>	<p>FY09 produced a 14-percent increase in CO₂ emissions from the FY03 baseline.</p> <p>Efforts to reduce this impact can be appreciated when the CO₂ percent change is compared to the overall growth in business during this timeframe. Nike brand revenue increased approximately 70 percent from FY03 to FY09.</p>	 <p>On track</p>

OUR APPROACH

Our overall aim for logistics is to improve the carbon intensity of our operations — in other words, achieving growth in revenue and units while decreasing emissions. Our aim is for each of Nike’s geographical business units to thoroughly understand and take responsibility for the climate impact of its logistics. We also ask business units to provide data so that we have central oversight and the ability to note trends and shape the way we operate. It’s an ambitious task, given that this requires local ownership, coordinated efforts, collaboration with transport partners in our supply chain and new systems for tracking all variables in shipping decisions.

Our analysis shows that inbound logistics accounts for 23 percent of Nike’s climate impact. It is the largest single area of impact in our supply chain outside of manufacturing. Inbound logistics, getting product from factories to distribution centers, typically across continents, is largely managed by transportation partners. We continue to measure our logistics CO₂ emissions with a first-generation carbon calculator tool co-developed with the University of Delaware.

While Nike brand net revenue grew 70 percent, CO₂ emissions increased only 14 percent from FY03 to FY09, largely as a result of better container utilization and a significant reduction in the use of air freight. This resulted in a 4-percent improvement in emissions intensity (number of units shipped per tonne of CO₂). These results are largely the result of business-driven shipping decisions focused on optimizing cost, not a direct effort to reduce carbon emissions.

We need to be able to understand the carbon impact of decisions we make as part of forecasting. And to realize our goal of an absolute reduction, we need to do more.

In addition to realizing CO₂ reductions by using better forms of travel, we can reduce or eliminate emissions by shipping smarter. That includes optimizing the use of containers. In FY09 our U.S. group realized more than \$8.2 million in savings through better container utilization, eliminating unnecessary trips and reducing air freight.

» Assessing Our Impact

Prudent planning will require a new generation of scenario planning tools. We are scoping and testing tools that will enable us to analyze factors including the number of miles, type of transport (e.g. air, rail, sea) and number of containers, all of which we track now. We are pursuing solutions that measure these alongside assessing impacts of process changes such as consolidation and location of distribution centers.

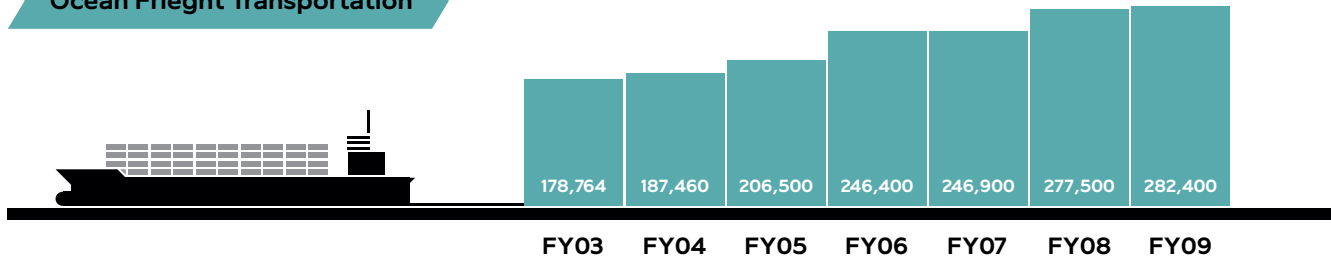
Our data collection and work to date is helping us understand the greatest areas of impact and define regional ownership, understand the variables affecting emissions and incorporate NIKE, Inc. affiliates.

We are piloting new systems in our Western Europe and Central and Eastern Europe business units, which face multi-continental shipping challenges. Our teams are sharing their experiences to help develop our global roll-out. One of our key logistics

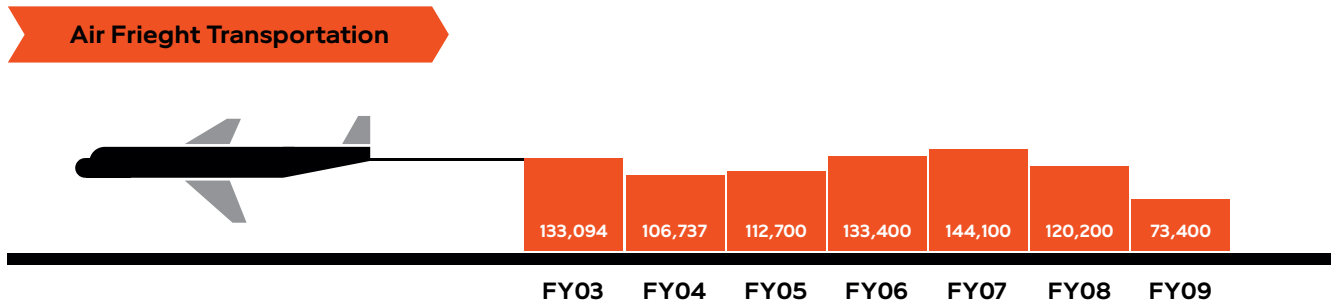
CH04 ENVIRONMENT

Nike Inbound Logistics CO₂ Emissions

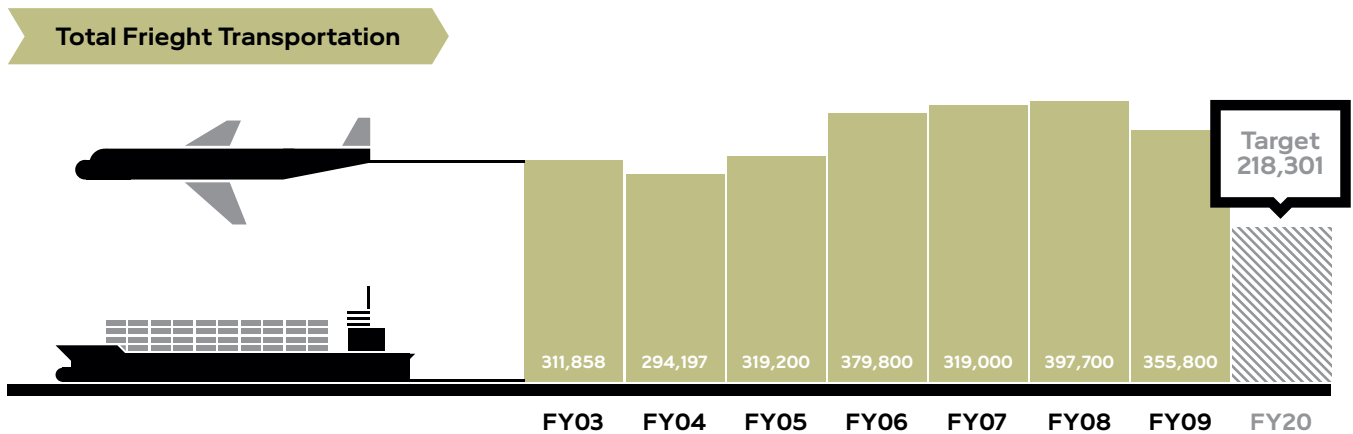
Ocean Freight Transportation



Air Freight Transportation



Total Freight Transportation



CH04 ENVIRONMENT

partners, Maersk Logistics, developed a tool, provided Nike early access to it and is working side-by-side with our team to improve our collective ability to measure and report emissions. This tool will help us better connect the results from project execution to the overall reduction in logistics emissions in each business unit. Additionally, it gives us the capability to measure and report emissions from outbound logistics (from our distribution centers to the retail store). We will gain experience, skill and scenario planning competencies as we roll out this program to additional business units and connect the results from project execution to the overall reduction in logistics emissions in each region. Additionally, it gives us the capability to measure and report emissions from outbound logistics (from our distribution centers to the retail store). We will gain experience, skill and scenario planning competencies as we roll out this program to additional regions.

» Collaboration

Because we work closely with shipping partners and others to get product from A to B to C, we do not control all the impacts in our logistics operations. To make real change, we need to collaborate with key partners who share our commitment to carbon reductions. We have affirmed this commitment with each of our key logistics providers.

Our work with these key suppliers brings us closer to a transparent industry standard for measuring and reporting the emissions from logistics. We are collaborating to assess the joint impacts to on-time delivery, cost and emissions and to share accountability in reporting. Additionally we are exchanging strategies and program plans at the senior level to improve the potential for emissions abatement.

In addition to partnering with those in our own supply chain, we are working with others in the industry and business to share findings. Bodies including Business for Social Responsibility's Clean Cargo and EPA's Smart Way bring us together with companies as diverse as Wal-Mart, The Coca-Cola Company, Nordstrom, Ikea, Starbucks and all of which realize the value of improving shipping even without owning the fleet. We are committed to sharing developments.

ON THE HORIZON

We expect further advances in measurement and reporting tools. We are actively working with key partners on next-generation tools that will improve our ability to measure and report emissions from outbound logistics. We are working collaboratively with key logistics partners on long-range road maps which will outline specific projects aimed at reducing emissions. In addition, we will continue to use productive industry working groups to solidify a common set of measures and accountabilities for carbon reductions, and reporting, and we will work to integrate emissions metrics into our scorecards and reward business, in part, on reduction results.

FACILITIES AND TRAVEL

TARGET AND PERFORMANCE

Facilities and Travel Target

TARGET	PERFORMANCE	PROGRESS
Nike brand facilities and business travel climate neutral by FY11; NIKE, Inc. facilities climate neutral by FY15.	Progress made but rethinking goal as part of larger climate and strategy.	 Obstacles

OUR APPROACH

We began our path toward climate neutrality with an ambitious target made in 2001: to achieve a 13-percent reduction in emissions from our owned facilities and business travel from 1998 through 2005. We met that target, and more, achieving an 18-percent reduction.

Since that time, we have continued to track and reduce our footprint. We have accomplished this through energy efficiency measures as well as carbon offsets and Renewable Energy Certificate (REC) purchases.

Currently, there is substantial scrutiny of the use of RECs, in particular related to whether they in fact help create new renewable power, or whether they are simply payment to a project that would have existed anyway. We have operated under the belief that our purchase of RECs has been in good faith and that we are helping create incentives for the production of renewable energy through the use of these certificates. Moving forward, however, our preference is to achieve climate neutrality through a combination of energy efficiency and the purchase of more direct forms of renewable energy, through on-site applications and other means. During FY10 we will be exploring a range of new options.

We historically tracked our facilities information on a calendar-year basis but have transitioned to fiscal year in FY09 for comparability with our other tracking and reporting.

» Facilities

In FY09, we saw a 15-percent decline from FY07 in the carbon impact of our owned facilities, while the reported square footage of the reported facilities grew by 41 percent. Savings realized through energy efficiency projects such as HVAC and lighting systems at NIKE, Inc.'s World Headquarters in Oregon funded the purchase of RECs.

» Business Travel

From FY07 to FY09, we saw a 7-percent increase in emissions from business travel. In 2008, we counterbalanced 37 percent of those emissions through offsets we purchased from Climate Clean.

In FY09 we made a strategic decision to move away from offsets and instead focus on reducing miles flown. Nike is a global company, and our deep connections with employees, customers and suppliers around the world are a key part of our success. While reducing miles flown and maintaining these deep connections may seem at odds, we feel investing in teleconferencing and remote meeting capabilities is a solution that presents a number of potential benefits:

- *Reduced business travel greenhouse gas footprint*
- *Less time spent traveling can positively impact employee productivity at work*
- *Lower travel expenses result in bottom-line savings*
- *Employees have greater opportunity for work/life balance when they travel less*

In FY10 we are increasing our investment in new teleconferencing systems by 15 percent over FY09. By FY11 we anticipate a total of 200 videoconferencing systems in Nike offices around the world.

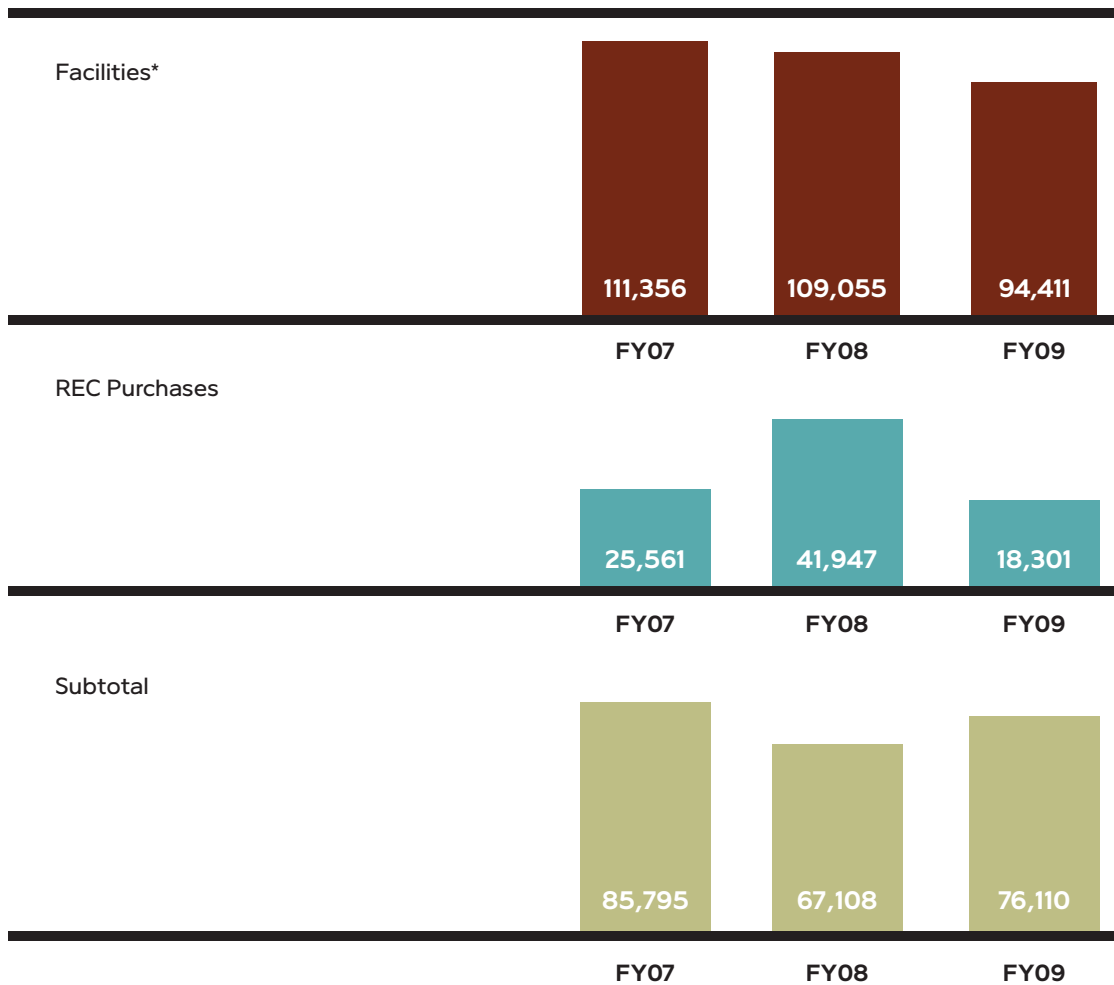
» Performance Highlights

Travel Program

From 1998 through 2008, even as Nike's business grew, we kept CO₂ emissions from business travel at 1998 levels, largely by purchasing offsets. During that time, we offset 41 percent of all business travel by purchasing 179,000 tonnes of CO₂ offsets. In FY09 we changed our approach. While we achieved a decline in CO₂ emissions from travel before offsets between FY08 and FY09, our net impact grew.

CH04 ENVIRONMENT

CO₂ Emissions (tCO₂) at NIKE, Inc.-Owned Facilities (>20,000 sq ft)



Notes: *Facilities data includes information from WHQ, U.S. Niketown retail stores, and Nike's 10 larger DC's over 20,000 square feet. FY09 includes energy data from additional DC's (Japan, Northridge, Mexico, Canada, Golf and Cole Haan).

The net carbon impact of NIKE, Inc.'s owned facilities from FY07 to FY09 declined 15 percent even as the reported square footage of facilities grew 41 percent.

CH04 ENVIRONMENT

NIKE, Inc. Business Travel CO₂ Emissions (tCO₂)



Notes: Data captured by Nike's global travel vendor and includes global business travel. Business travel emissions were externally verified by David Shearer, chief scientist at California Environmental Associates.

NIKE, Inc. emissions from business travel increased 7 percent from FY07 to FY09. The net impact increased 88 percent from FY07 to FY09 with the cessation of travel offset purchases in FY09.

Corporate Facilities

Efforts made at NIKE, Inc.'s world headquarters in Oregon and in other key locations continue to showcase innovative examples of energy savings and renewable technologies.

Some highlights completed during FY07–09 include:

- *Upgraded lighting in three main buildings at NIKE, Inc.'s world headquarters (WHQ) with high-efficiency, low-mercury bulbs. The lighting change resulted in no effect in productivity or lighting quality but delivered significant energy savings.*
- *The C. Vivian Stringer Center, a new childcare facility at Nike's WHQ, was designed incorporating energy efficiency measures and solar panels that reduce the total energy needed for the building by 35 percent, as well as recycled materials, a heat recovery system and a system that recycled 85 percent of construction waste. It is expected to earn a LEED-NC platinum rating for green building design, the highest possible rating, joining the WHQ's LEED-EB gold-certified Ken Griffey, Jr. building.*
- *Nike built and opened a new footwear distribution center in Memphis, Tennessee, using 40 percent less energy than older facilities. We have taken insights from the newly-built center to retrofit our existing apparel and equipment distribution center where lighting and HVAC systems have been upgraded to high-efficiency equipment.*
- *We installed hybrid solar thermal/solar electric panels onto the WHQ's Lance Armstrong Fitness Center which both heat water for the swimming pool and provide some of the electricity needed to power the building.*
- *NIKE, Inc. has purchased renewable energy certificates from Sterling Planet to balance the carbon footprint of WHQ to net zero. RECs were purchased to balance emissions from distribution centers in the U.S. for FY07 and FY08.*
- *Nike's European distribution center in Laakdal, Belgium, produces electricity from six on-site wind turbines that generate power equivalent to the use of the 2 million-square-foot facility.*
- *NIKE, Inc.'s European Headquarters in Hilversum, The Netherlands, runs on 100 percent renewable energy.*

Distribution Centers

In FY09 we updated our distribution facilities; decommissioning an older facility in Oregon and opening a new facility in Tennessee (Northridge). The new facility was designed for sustainability and has been awarded LEED Silver certification by the U.S. Green Building Council (USGBC).

This facility features many environmental innovations, including:

- *high-efficiency lighting and environmental controls*
- *roofing material that reflects sunlight while better insulating the building*
- *recycled denim for insulation in the walls*
- *solar-tracking sky lighting*
- *a water management system that reclaims ground water for site irrigation*

Where possible, we are retrofitting existing apparel and footwear distribution facilities in Tennessee with improvements demonstrated in the Northridge facility. The results from sustainability projects from FY06 to FY09 at U.S. distribution centers are an achievement considering a 23-percent net increase in square footage: energy consumption levels increased only 3 percent, CO₂ emissions increased 5 percent and carbon intensity (CO₂ emissions per unit processed) improved 14 percent.

We now operate four distribution facilities in the U.S. that collectively have a much higher capacity for growth. We saw significant reductions in each of our centers, due to projects aimed at reducing our consumption of energy and other resources.

Retail

Nike-owned retail, including Niketown and employee stores, has also made progress, though our tracking to date does not incorporate factory stores. In Nike retail stores, we have worked to adopt and incorporate energy-efficiency measures in both newly-built and existing facilities.

In Houston, we built a new Niketown to LEED-CI (commercial interiors) certification standards. Measures incorporated into the design and construction delivered sizable reductions from standard plans: 45 percent less water use and 25 percent less energy. In addition, 96 percent of construction waste was recycled and we used low-VOC paint and finishes throughout. We are beginning to apply what we have learned to other newly-built Niketown and factory stores.

We participated in the LEED-CI for Retail Portfolio program with the goal of integrating LEED standards into our factory store construction program. We are still working to fully integrate LEED documentation requirements into the program and are continuing work with our key partners to implement the program across the U.S.

CH04 ENVIRONMENT

Eventually we hope to share findings across the range of brands in the NIKE, Inc., portfolio to apply to other retail settings.

Information Technology

We began looking at information technology (IT) separately from facilities in FY08. Our strategy for technology is two-pronged: run NIKE, Inc.'s information technology business unit more sustainably and use information technology as an enabler for the rest of Nike to achieve their sustainable business goals. We are still developing our overall strategy. We know that running IT more sustainably means addressing two main categories: data centers and end-user computing.

Some efforts in FY07–09 include:

- *Data Centers.* NIKE, Inc. has at least 18 data centers worldwide. These data centers are co-located; either within Nike office buildings or in multi-tenant third-party data centers and are of a size that warrant a review of energy consumption and CO₂ emissions footprint. Measuring and improving the power consumption and carbon intensity is challenging, even more so because the facilities do not stand alone. Even still, we are working to develop sustainability plans for all of our IT data centers. Though IT represents a relatively small percentage of Nike's overall footprint, we know it is growing quickly. Between 2005 and 2008, power consumption at Nike's main data center in Oregon grew 15 percent faster than Nike's revenue (measured by compound annual growth rate).
- *End-user computing.* We believe there are many opportunities to make our end-user computing more sustainable, including asset recovery and disposal (aka "e-waste"), PC power management and printing.
- *Asset recovery and disposal.* For a number of years, NIKE, Inc. has used third-party companies to handle computing equipment that has reached the end of its useful life here. These companies refurbish and resell usable computing equipment and de-manufacture and recycle/dispose of the equipment that's no longer usable. Our new help desk and end-user support provide offer a new asset recovery provider and process. As we roll out our help desk provider globally, they will also provide asset recovery services, extending proper handling for all our computing assets globally.
- *PC power management.* In FY08 we selected a third-party tool for managing energy consumed by the 27,000 laptops and desktops across Nike. Based on pilot testing, we learned that Nike already managed its end-user computing power very well; but we expect to reduce average daily computer power consumption by 15 percent or more.

- *Printing.* To reduce the impact of printing documents, two years ago NIKE, Inc. began setting all printers to double-sided printing by default.
- *Distance Collaboration.* To support NIKE, Inc.'s aim to reduce travel miles through distance collaboration, we partnered with travel and sales to select a video conferencing solution, improve audio conferencing, and procure video streaming capabilities. We have begun using these technologies across the business and have seen not only reduced travel but also better product quality, and quicker and better decision making.

Over the next two years, we will explore a number of areas including education across all of NIKE, Inc. IT on sustainable business thinking in process and technology, partnership with procurement in surveying major suppliers on their sustainability practices, establishing standards for computer purchases and continued efforts at data centers and in printing.

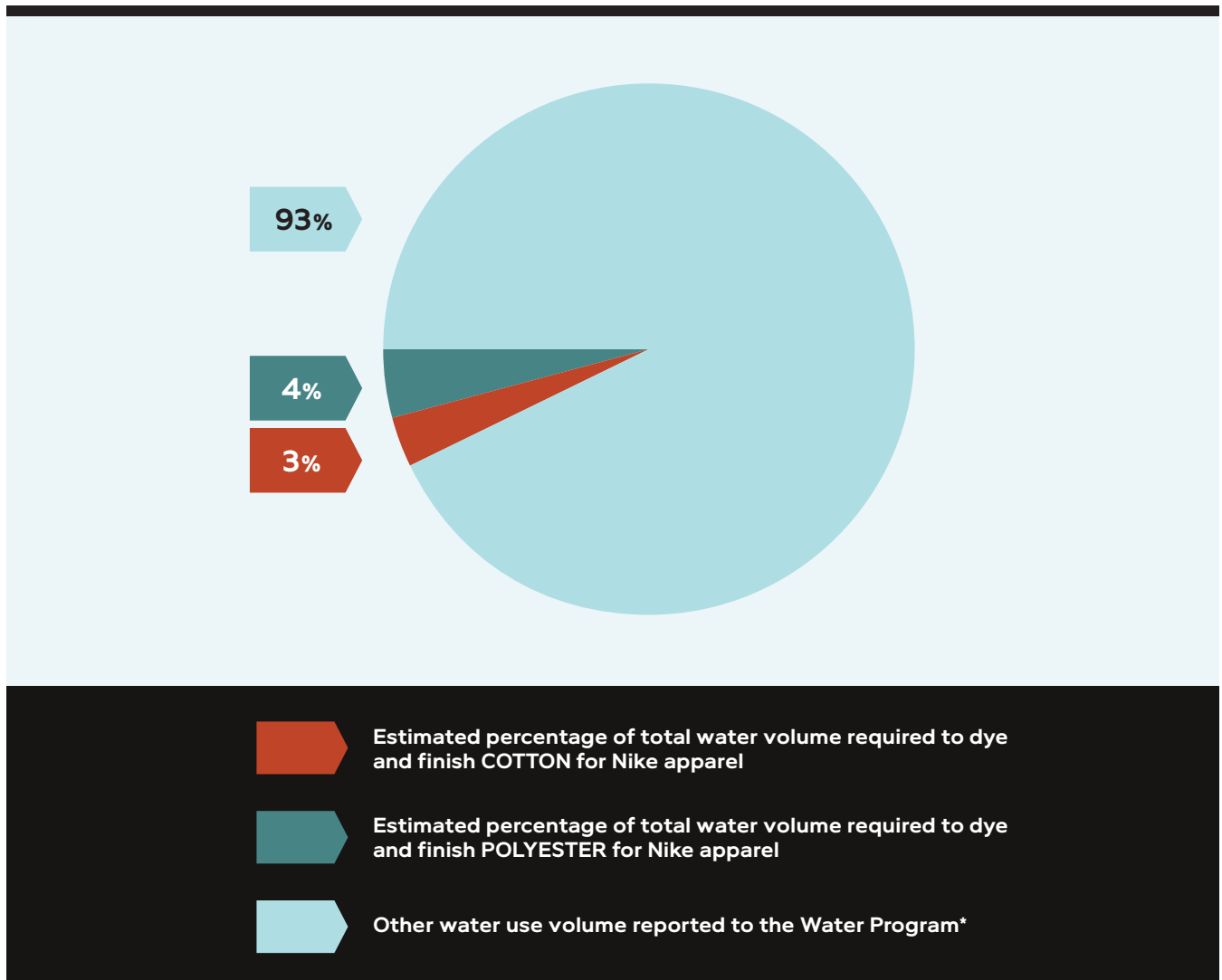
ON THE HORIZON

We have reexamined our goal of climate neutrality in light of the following:

- *Materiality:* Embedded energy in materials and manufacturing are the largest part of our footprint so we are focusing resources on them.
- *Investment strategy:* Rather than purchase renewable energy certificates to achieve climate neutrality, which have become increasingly controversial, we believe it is more meaningful to invest in energy efficiency and in distributed energy projects that reduce our reliance on grid energy and help stabilize energy costs for the long term.
- *Clarity:* Climate neutrality is not a scientifically agreed upon term or standard.
- *Access to renewable energy:* the lack of a market price for carbon has limited NIKE, Inc.'s ability to access and deploy clean energy across our operations. Our approach to addressing this is through advocacy with coalitions including BICEP. Specifically, we support a cap-and-trade system with 100-percent auction of allowance and a suite of other elements such as science-based targets, renewable portfolio standards and investment in clean energy jobs. Together, we believe that these changes will enable a transition to a low-carbon economy.

CH04 ENVIRONMENT

Estimated Contribution of Nike Polyester and Cotton Processing to Total Water Use Reported by Suppliers



**Other water use is related to fabric production for other brands, fibers other than cotton and polyester, manufacturing processes other than dyeing and finishing, and production of miscellaneous sundry items.*

Note: Suppliers participating in Nike's Water Program report all their water use, including that not directly related to Nike product.

WATER

Rapid population growth, industrialization and economic development are putting unprecedented pressure on the world's freshwater resources. Many of the world's regions are already experiencing dramatic social and environmental impacts from water scarcity and pollution. These realities lead to tough questions for businesses. What will be the cost of fresh water in the future? How will the price and the availability of water, both of which may be volatile, impact supply chains? With this in mind, it is increasingly important for Nike to understand our dependence on water resources in areas where we do business and to take steps to reduce our impact wherever possible.

While the volume of water used by agriculture and consumers is much larger than the volume used for the dyeing and processing of textiles, the water used and discharged by textile mills can have a significant local impact. NIKE, Inc. seeks to directly influence the water-use behaviors of suppliers to minimize the impact on local water supplies while developing a holistic long-term strategy that also encompasses water use by agriculture and consumers.

OUR APPROACH

Water stewardship is an important part of our North Star. Since FY01, we have continued to grow the Nike Water Program, expanding on our original goal of improving water quality to include improving our water efficiency.

We define good water stewardship as borrowing water responsibly and returning it clean to communities. Borrowing water responsibly means aiming to have water-intensive production take place where water is abundant and that we push suppliers to use water more efficiently to avoid borrowing more than needed. Returning it clean means the water used is returned to the community as clean, or cleaner, than originally found.

The Nike Water Program started with a handful of apparel dyeing and finishing facilities. The program has since grown to include more than 400 suppliers. The program is also expanding to include NIKE, Inc. affiliates, Nike footwear and Nike equipment facilities. Along the way, we have upgraded our reporting tools to simplify the process for ourselves and our suppliers, and to provide more detailed insight into opportunities for improvement. The Water Program now collects more specific production and water use data, and we are beginning to develop metrics to critically evaluate water use and improve water management. As we continue to improve our tools, we plan to share them and encourage their use by retail brands across apparel, footwear and other industries that utilize textile dyeing and finishing.

APPAREL

Textile production requires water during many stages, including fiber production, textile processing and consumer use. Dyeing and finishing facilities alone can use 12 to 24 gallons of water per pound of textile produced.

Most textile mills produce fabrics for several brands, so the total water use reported to our program cannot be attributed solely to the manufacturing of Nike-branded products. But as an industry leader, even acting alone, we can improve the quality of the total wastewater discharge volume, increase overall water efficiency, and reduce the social and environmental impacts of water use throughout the supply chain. In addition, we regularly collaborate with other global brands and retailers, participating in the development of wastewater quality guidelines, evaluating process efficiency, and sharing our findings to inspire water-related initiatives across the apparel and footwear industry.

In our FY05/06 report, we shared some details about water quality compliance among facilities that supply contract apparel factories. We remain one of the few companies in our industry to hold suppliers to high standards for wastewater quality.

All new Nike apparel suppliers enroll in the Water Program during our new source approval process. Existing suppliers and their subcontractors are participating in the program in greater numbers each year. The program began with 55 facilities in FY01 and has grown to include 403 facilities in FY09. That's nearly two-thirds of the manufacturing facilities in Nike's apparel system. It includes the most water-intensive facilities such as textile mills, dyeing and finishing facilities, and vertically integrated factories.

Nike Water Program guidelines for standard water quality indicators (pH, biochemical oxygen demand (BOD), chemical oxygen demand, total suspended solids and color) were developed with Business for Social Responsibility's Sustainable Water Group. As participation has increased, 80 percent or more of the participating suppliers have achieved full compliance for the last three years, while the rate of noncompliance has declined and remained low, at less than 1.5 percent for FY09.

Rather than move production elsewhere, our strategy is to work with suppliers to achieve continuous improvements. Partially-compliant suppliers are encouraged to take steps to improve wastewater quality beyond what's required by local regulations to meet Nike's more stringent guidelines. Facilities found to be noncompliant submit a plan and timeline for improvement, which typically includes installation of new or improved on-site wastewater treatment facilities. New apparel suppliers are not approved without at least partial compliance.

CH04 ENVIRONMENT

In FY09, the Water Program introduced a Web-based reporting system to make enrollment and participation more convenient for suppliers. Virtually all participating facilities use the system to submit data online during annual reviews and to communicate improvements in water quality and efficiency throughout the year. The system collects production data, water use, discharge volume and wastewater quality lab test results for evaluation against Nike Water Program guidelines and locally regulated environmental standards.

FOOTWEAR

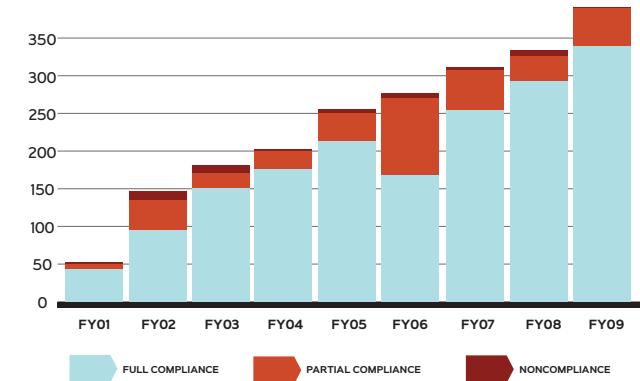
In contrast to water-intensive textile processing, most water use at contract footwear facilities is for domestic purposes. In our [last report](#), we shared some details about the ongoing footwear wastewater compliance program.

For FY07-09, more than 80 percent of footwear factories were fully compliant with all parameters for local wastewater discharge standards. Every Nike-contracted footwear factory is required to have an on-site wastewater treatment plant or to discharge wastewater to a central wastewater treatment facility.

ON THE HORIZON

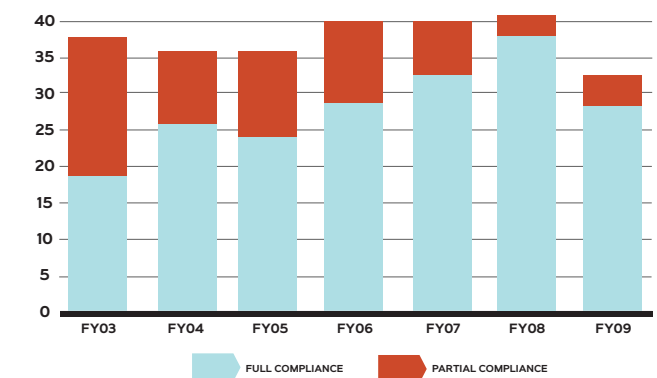
In the years ahead, Nike's Water Program will continue to monitor the performance of apparel supplier facilities and increase participation of other textile producers supplying footwear and affiliates in order to make our company-wide water use analysis more complete. We will conduct targeted facility audits to evaluate the validity of supplier-reported data and develop a strategy to achieve measurable overall improvements in water efficiency. We will identify suppliers that face the greatest water-related risks and share best practices for water management. Finally, increasingly accurate benchmarking data will help us evaluate emerging wastewater treatment and recycling methods, and pursue innovation in water-efficient textile processing to further reduce our impact on water resources.

Apparel Supplier Participation and Compliance with Water Program Guidelines



Full Compliance:	Meets local/national discharge standards and Nike guidelines for wastewater quality, or produces less than 50 cubic meters of wastewater per day.
Partial Compliance:	Meets local/national wastewater discharge standards, but does not meet stricter Nike Water Quality Guidelines.
Noncompliance:	Does not meet all parameters for local or national wastewater discharge standards.

Number of Contract Footwear Factories Compliant with Local Wastewater Standards



Full Compliance:	Meets all parameters for local wastewater discharge standards.
Partial Compliance:	Does not meet all parameters for local wastewater discharge standards.

Source: Data self-reported by factories.

CASE STUDY:

Rethinking the Box

Corrugated cardboard is Nike's single-largest material purchase. The shoebox and its shipping carton account for half of Nike packaging. So to reduce packaging waste, Nike took a fresh look at the shoebox.

We applied innovative design to the challenge and came up with various alternatives to the traditional shoe box in order to reduce materials used, thereby reducing weight and cost in shipping.

But examining this solution through a wider lens, we realized many ultimately had a negative overall impact. Consumers anywhere in the world can recycle corrugated shoeboxes. In most markets, however, most of the materials in the innovative designs would not be recyclable. Rather than settle for the win in reduction only, we realized the loop was not closed. Without a universal means of recycling, this was a net addition to waste, not a reduction.

So we went back to the drawing board, with the box's full lifecycle in perspective. We started again, focusing on ways to reduce weight and materials. Through innovative reengineering, we developed a shoe box that is anticipated to use 30 percent less material than a 1995 vintage box, our first 100-percent recycled-content box.

Nike will begin using these shoe boxes in 2011, saving the equivalent of 200,000 trees annually.

The reengineered shoe box is fully recycled and recyclable, lighter weight and stronger. The weight reductions translate to reductions in greenhouse gas and overall embedded energy.

Nike launched the box on Earth Day 2009 with the introduction of Steve Nash's Nike Zoom MVP Trash Talk. The box held a classic hoop shoe designed for performance and using scrap materials.

We have also applied this innovative thinking to shipping cartons. The new lightweight shoe boxes will be shipped in cartons that are nearly 20-percent lighter than their predecessors.

We anticipate the new footwear and shipping boxes will be released throughout Nike brand by FY11 and will translate to an annual savings of nearly 12,000 metric tons of cardboard or the equivalent of 200,000 trees annually.

We are exploring other reductions: changing shoe box sizes to better fit the shoes they hold, reducing wrapping tissue and reducing other packaging such as polybags used for samples.

The pouch concept may be viable in the future, so we are keeping the idea on hold. Someday, as material availability and recycling systems improve, the shoebox may be a thing of the past.

We continue to look for solutions that can be applied across our products and can be tested and prove results. We also aim to find solutions that deliver clear cost savings.

CASE STUDY:

GreenXchange

NIKE, Inc. & Creative Commons Create a System for Sharing Innovation

Over many years of working on sustainability, NIKE, Inc. has come to understand the value of collaboration and shared knowledge. Without it, companies replicate efforts, reinvent wheels and often only make incremental progress. NIKE, Inc. and collaboration nonprofit Creative Commons believe in the power of open innovation and share a vision of creating a digital platform and system that promotes the creation, sharing and adoption of technologies that have the potential to solve important global or industry-wide sustainability challenges. We call it the GreenXchange.

GreenXchange was born in conversation leading up to the World Economic Forum in Davos in 2009, and will launch in 2010. By using a set of standardized, free, legal tools, patent owners can make portions of their intellectual property portfolio available under a set of terms between the current choices of “all rights reserved” and “no rights reserved.” With GreenXchange patent licensing tools, patent owners open up a wide swath of technologies for research, development and innovative commercial uses. Patent users receive the rights they need to innovate, and patent owners receive credit for their works — as well as the option to receive annual licensing payments.

GreenXchange builds on a culture to create common spaces for innovative reuse, as well as standardization efforts for biological materials and scientific data. It also bridges some key gaps in the way that green technologies are developed and utilized.

Many active R&D companies create green technologies that are not core to their business: they may represent good practices

shareable across a large set of companies — sometimes even including competitors — but lack the business infrastructure to make those patents available for wider use.

Existing attempts to address this problem rarely address the desires of patent owners to receive credit for their work, or the need to create sustainable revenue streams to fund new green technology development.

GreenXchange (GX) provides solutions to these issues:

- *The license tool kit requires attribution.*
- *It enables the creation of sustainable revenue streams that are friendly to entrepreneurs and that work for use in the developing world.*
- *Over time the GX will create a pool of patents available under a “some rights reserved” system, where innovators can investigate the early stages of research for their markets and calculate what their costs will be if successful, or where companies can easily perform gap analysis and identify areas of green tech in need of collaborative investment in new technology.*

The GreenXchange provides an infrastructure for the goal of creating and scaling innovations focused on sustainability. To learn more, read the GreenXchange booklet.

CASE STUDY:

Integrating Sustainability into Nike's Procurement Process

A key element of NIKE, Inc.'s corporate responsibility strategy is integrating knowledge and values across our organization. It's a marathon, not a sprint. One example of integration comes from Global Procurement, which sources non-product suppliers for Nike (processes for selecting and monitoring product suppliers are described in the Workers and Factories section).

Over the past five years, Global Procurement has partnered with several NIKE, Inc. functions to increase the sustainability of the goods and services they buy. The team leverages NIKE, Inc.'s purchasing power by communicating sustainability objectives to suppliers and potential suppliers, and challenges them to deliver innovative goods and services to meet our objectives.

We think this is an important way to help build markets for more sustainable – and affordable – choices. We saw this dynamic play out in a multi-year project to shift toward more environmentally friendly materials and processes in Nike's retail bag program in the United States. Building on this and other lessons learned, we began evaluating the CR performance of current and prospective suppliers.

A BETTER BAG

When we began looking into improving the sustainability of retail bags, we first awarded business only to printers that were third-party certified by the Forest Stewardship Council (FSC). At that time, FSC-certified paper was available but too costly. We encouraged printers to work on Nike's behalf to find acceptable FSC-certified materials.

Four years have passed since this process started, and we now source bags using 100-percent FSC-certified paper printed at FSC-certified printers using soy-based inks and distributed by an FSC-certified fulfillment company. The complete chain of custody allows Nike to use the FSC certification number and logo on all retail bags in North America and Singapore. We will roll other regions into the program as materials and providers are available.

FROM EVERY ANGLE: LIGHTS, ROADS, FORMS

We aim to tackle every addressable area to improve sustainability, including looking at angles not commonly assessed or addressed. In FY07-09 some areas we have improved include reduced energy

waste in retail stores by adopting remote lighting management, reduced traffic and miles traveled by implementing a pooled distribution network and reducing long-distance shipping by finding a body form supplier who uses sustainable materials and delivers from manufacturing plants located near Nike centers.

A BETTER PROCESS

Through these projects, we learned that one of our biggest challenges has been a lack of common indicators to evaluate potential suppliers. Though each category and project has unique attributes, we needed a consistent process for ranking suppliers' sustainability performance in order to fairly and systematically integrate sustainability as a factor in our procurement process.

To achieve this goal, we developed a supplier scorecard to assess the match between Nike's CR values and those of existing and potential suppliers. Several yes/no questions ask about the policies, metrics, goals and performance on relevant topics, including: compliance, Considered, climate, community and competition. The competition section, for example, asks about employee and supplier diversity practices.

Questions are universal enough to apply to all suppliers and are provided online, enabling us to review each supplier's profile and establish baselines for peer groups and our overall supply base.

This process is helping us to establish a baseline of Nike's current non-product goods and service suppliers, evaluate potential new suppliers against that baseline, and analyze and learn from the collected data to inform future purchasing decisions.

Through FY09, we had requested more than 100 suppliers to complete the survey. To date, responses have showed wide variation in the effort on the part of suppliers and reveal significant differences between large and small companies. Only one large company indicated they had no corporate responsibility strategy or plan, compared to half of the small suppliers.

Moving forward, we expect to establish a minimum acceptable corporate responsibility standard required for suppliers to do business with Nike. We also plan to establish a supplier partner forum to share innovations and solutions, and to work with smaller suppliers, developing a set of tools to help companies that do not have the resources or the knowledge to make a strategic approach to building their corporate responsibility capabilities.

CASE STUDY:

Considering the Pegasus

At its core, Considered Design is about reducing or eliminating toxics and waste, increasing the use of environmentally preferred materials and using Nike's innovation to create more sustainable products. But the true beauty of Considered Design is revealed when it achieves those goals while also improving how the product performs for athletes. Such is the case with the Pegasus 25.

With a dedicated following of elite and everyday runners, the Pegasus has been an iconic, top-selling shoe for 25 years. The challenge with the Pegasus was how to make it better. The answer was to make it Considered.

A big focus of Nike's Considered Design philosophy is reducing materials – both in the final product and in the material left over. With the Pegasus 25, fewer materials in the upper reduced the shoe's weight by 1.4 ounces, making it an impressive 13-percent lighter than the previous Pegasus. Less weight means less waste; less wasted material when it is made; less wasted energy when it is used. And that's a win for sustainability and performance.

We used Environmentally Preferred Materials (EPMs) wherever possible. The EPMs in the shoe's upper have a high recycled content. The outsole uses Nike's environmentally preferred rubber and recycled Nike Grind. And the Nike Air-Sole units, which provide cushioning in the sole, have 83-percent recycled content.

Speaking of Nike Air-Sole units, by designing a hyper-efficient, "nested" pattern for Air-Sole production, we were able to further reduce post production waste. And we didn't stop innovating with the Air-Sole material and manufacturing process; we developed a more sustainable way to install them too. By using best-practice manufacturing, the Air-Sole and midsole components of the Pegasus 25 are attached using water-based adhesives.

From elite running champions to your next-door neighbor, the Pegasus has been a favorite performance running shoe for more than a quarter century. The Pegasus 25 continues that tradition of leading – both on the track and as an example of how Considered innovation can drive both sustainability and performance.

CH 05

COMMUNITIES



CH05 COMMUNITIES

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To access the full NIKE, Inc. FY07-09 CR Report, with additional features including videos and an interactive map, please go to www.nikebiz.com/crreport

Overview

Nike has a long history of engagement in communities around the world, investing in our backyards, key markets, manufacturing communities and on specific issues that we champion.

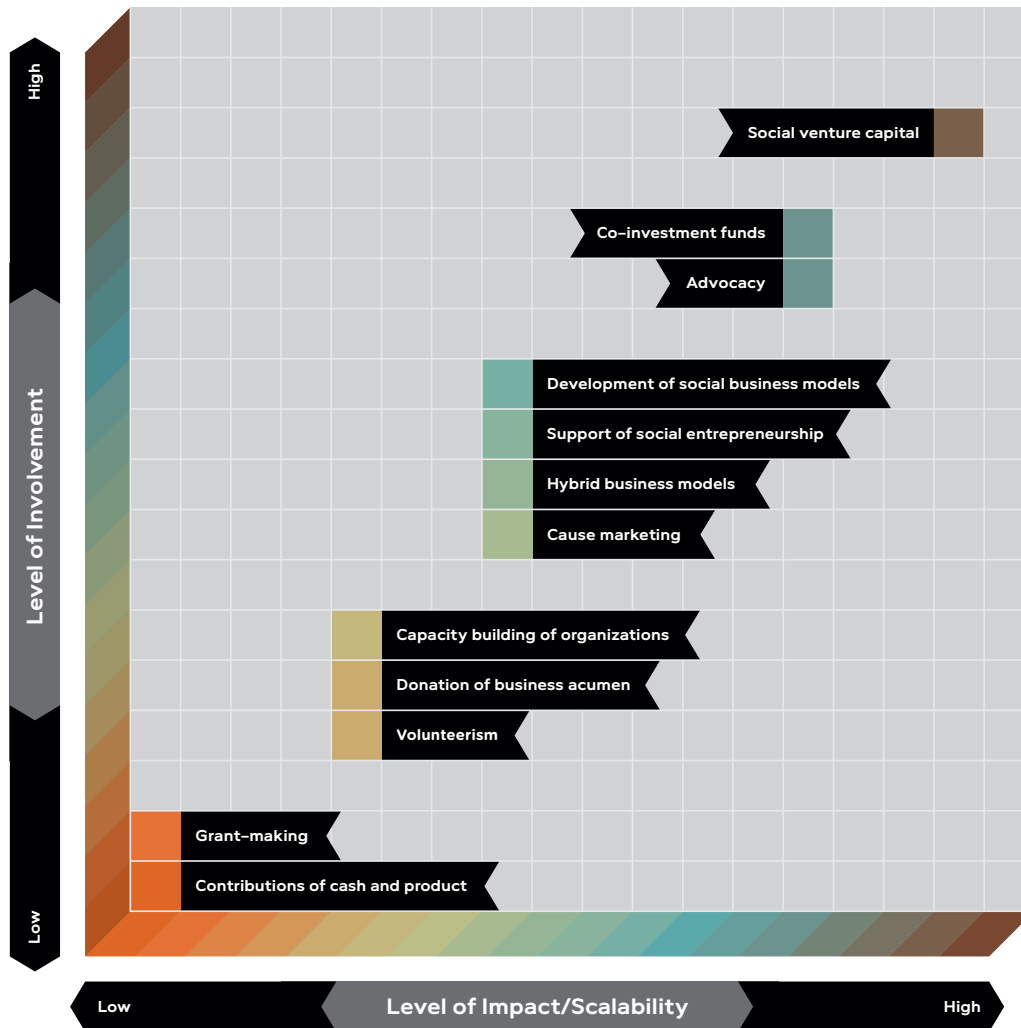
Over the past three years, NIKE, Inc. has invested in communities through a combination of cash, product and in-kind contributions. While far from the finish line, we are on target to achieve our FY11 goal of \$315 million in contributions. In FY07-09, our direct community investment totaled \$168.8 million. But dollar figures alone do not tell the whole story.

OUR APPROACH

Our investment in communities extends beyond writing checks and making financial contributions. It involves contributing a broad range of expertise and support across the full spectrum of modern philanthropic activity. We detail the history of our community involvement approach, including our response to international crises and our community giving guidelines in our FY05/06 CR Report and online at nikebiz.com/responsibility.

In FY07-09 we worked across the entire spectrum, particularly in ways that tap innovation and will create deeper social impact.

Our community investment strategy has three primary areas of focus: the Nike Foundation, brand and retail engagement, and innovating for a better world through sport.



CH05 COMMUNITIES

1. *As a separate nonprofit organization (a 501(c)(3)), the Nike Foundation focuses on adolescent girls in the developing world as powerful agents of change in their communities, capable of unleashing a ripple effect that will change the course of poverty. The Foundation manages a portfolio of investments and strategic approaches in support of this mission, including: Community Investment grant making, donation of business acumen, capacity building of organizations, support of social entrepreneurship, advocacy and co-investment of funds. Over the last three years, the Nike Foundation invested \$41.9 million against this strategy. Over the six-year life of the Nike Foundation, it has committed more than \$100 million to benefit adolescent girls.*
2. *We leverage the power of our brands (Nike as well as affiliates Cole Haan, Converse, Hurley and Umbro) to connect with our consumers on issues they care about deeply. We manage a portfolio of investments in custom product lines, marketing campaigns, events and athlete engagements that have triggered donations from consumers, amplifying our initial investments. Some notable projects include Nike's commitment to LIVESTRONG and the Human Race, Hurley's H2O water initiative, Cole Haan's Penny Harvest and the Converse (Product) RED.*
3. *Our commitment to channel innovation for a better world includes tapping the power of sport for social change. Nike believes that every young person in the world should have access to sport and have partnered to develop and deliver programming and activities, including the Homeless World Cup and ninemillion.org toward this end.*

ON THE HORIZON

As the vibrancy and vitality of communities around the world relies on support and involvement of all players – government, business, NGOs, individuals – economic pressures constrain the available resources. This is where sport can show its tremendous value and provides opportunity.

We estimate that in the U.S. alone, \$2 billion in funding for sport has been eliminated. On a daily basis, we hear stories of kids who are no longer able to access sport due to these cuts, and who do not have the means to pay for the same access once provided through schools and sports bodies. Meanwhile, in the debate on health care and wellness, we see research that shows that for every \$1 invested in sport, \$4 is saved in health care costs.

Sport has a positive impact on economies around the world. As such, it has the potential to be a powerful lever in sustaining or rejuvenating communities. But today its potential is undervalued.

In response to these challenges, Nike sees an opportunity. We are driven by our passion and commitment for sport, and we use this to uncover, support and elevate people, ideas and opportunities that demonstrate how sport can change the world.

In FY07-09, we began transitioning our community programs to focus on efforts that call attention to replicable, scalable projects and programs that serve as inspiration for community-based sports organizations and governments. Many of these programs are multi-year commitments, recognizing that systemic change is not a 12-month endeavor but an opportunity to accelerate and amplify the work of organizations that are active and making a difference within communities.

We challenge ourselves to embed these initiatives more deeply into our consumer-facing brand experiences, to ensure that consumers have greater opportunity to take action.

To meet these goals, in the future, we will be mobilizing more of our funding to focus on the higher-value areas of involvement, including support of social entrepreneurship, development of social business models, advocacy and co-investment of funds.

As we look to the future, some elements of our strategy will continue, while others will evolve. We expect the Nike Foundation to continue on its trajectory of putting girls on the global agenda, pushing for investments and policies that will ultimately lift millions of girls – and therefore their families – out of poverty.

Within all our investment strategies, as we seek to make lasting positive change, we will explore further two core approaches:


1. *A focus on creating new models to provide young people access to the power of sport (be it in unleashing their confidence, leadership, health, education or employment).*
2. *Leverage philanthropy mechanisms that enable our partnerships to scale without limits and create financial flows that ensure long-term success.*

We will push for models of success through our community work that delivers both social and economic returns. Economic sustainability of our partner programs is very important to us. We want them to thrive without reliance on one funding source or partner. Where we can, we work to help our partners become self-sustaining by creating new services and experiences that spark the development of models that can be shared and scaled.

To support organizations working to address critical challenges at the community level through sport, we aim to introduce new innovation models to our investment portfolio that are targeted toward the creation of new social capital, helping to bring innovative ideas or perspectives to old problems. We want to seek and apply innovative solutions and strategic business models to our partnerships, incorporating technology and other tools as appropriate.

As we create partnerships around these leading-edge innovations, we will hold ourselves and our community partners accountable to measure and report our progress.

Community Investment

TARGET	PERFORMANCE	PROGRESS
<p>Community Investment By FY11, NIKE, Inc invests \$315 million into programs worldwide (starting in FY07).</p>	<p>On Target. Making progress toward FY11 goal; invested \$168.8 million, 54 percent of goal, through FY09.</p>	 <p>On track</p>

In FY07, our total community investment totaled \$51.3 million, in FY08 our total was \$58.6 million and in FY09, \$58.9 million, including contributions of product, cash and in-kind services. The greatest percentage growth during the period FY07-09 was in what was then our Asia region and in Affiliates and “global” giving, which includes funds for programs that span multiple regions. From FY07-09, our cash contributions decreased slightly and in-kind/product contributions increased.

OUR APPROACH

A more indicative measure of the effect we are having is the outputs and their impacts, resulting from what is invested. Measuring impacts is very difficult. However, in 2007 we began creating a system for evaluating and measuring the social impact of the donations that we make.

In addition to the financial investment, we report on the broader support given through:

- *Employees*
- *Our product and brand*
- *Programs*
- *The Nike Foundation*

OUR EMPLOYEES

One of our most powerful assets is our people. NIKE, Inc. employees regularly participate in delivering inspiration by donating their time and talent to community organizations.

In FY09, NIKE, Inc. employees volunteered more than 74,000 hours in their communities. U.S.-based employees also contributed more than \$2.4 million, generating company-matched contributions of \$3 million to more than 1,500 organizations.

NIKE, Inc. employees contribute time and money to community causes important to them. Many contributions qualify for a corporate match.

In FY08 we began developing new processes for engaging the more than 30,000 people who work for NIKE, Inc. worldwide. We piloted a system that links employees to causes and programs that matter most to them, providing direct opportunities for them in a way that allows Nike to support their efforts. This initiative is a true evolution in the way we support our employees’ passion and commitment to communities globally.

One way we’re leveraging employees’ skills as well as company commitment is through the Nike School Innovation Fund (NSIF), which complements and builds on our larger advocacy strategy around funding and support for public schools in our backyard community. The fund launched in 2007 as a five-year, \$9 million commitment to help school districts near the company’s world headquarters in Oregon. Strong public schools in healthy, vibrant communities help businesses attract and retain executives and a diverse, creative employee base. The fund supports innovation in education and leadership.

School funding has been relatively unstable in many Oregon school districts, given Oregon’s dependence on personal income tax to fund schools and efforts to equalize funding across districts in the state. This instability has impacted schools’ ability to innovate, provide additional assistance to students in need, and provide high levels of support for teachers, principals and leadership teams.

In the 07/08 and 08/09 school years, the NSIF provided \$3.3 million over the two-year period for initiatives that:

1. *Create and fund summer academic programs to assist more than 1,500 young students (kindergarten through second grade) who needed extra assistance to be successful in school.*
2. *Fund leadership academies for teachers, principals and school leadership teams, as well as funding an aspiring leader program to support more diverse leadership in schools.*
3. *Pilot an innovative school business manager program in Portland high schools that provided principals with more time to be the instructional leaders and coaches in their schools.*

CH05 COMMUNITIES

NIKE, Inc. leaders are engaged by committing time and expertise to assist with leadership development, coaching, out-of-the-box thinking, strategic planning and effective communications. Nike executives and employees supported public school students by volunteering more than 3,000 hours.

We believe good ideas should be shared and support and fund the cross-pollination of ideas and initiative across school districts and state lines.

The Fund has a broad cross-section of partners at national, state and local levels including foundations, business partners, universities, labor and school staff and leaders. NSIF operates under the umbrella of the Portland Business Alliance Charitable Institute, a registered nonprofit organization (501(c)(3).

OUR PRODUCT AND BRAND

NIKE, Inc. leverages athletes, designers and the power of our brands – including retail locations and new product innovation – to support communities and causes. Tangible examples of this work through FY07-09 are LIVESTRONG™, the N7 Fund and our investments in the work of the Nike Foundation, discussed later in this section.

» LIVESTRONG™

In 2004, Nike co-developed the yellow LIVESTRONG™ wristband that has sold more than 70 million units and delivered proceeds of \$1 each to the Lance Armstrong Foundation, which, since 1997 has united people in the effort to fight cancer.

In FY08, we built on this successful program with the launch of the Nike LIVESTRONG™ Collection, featuring apparel and footwear, with 100 percent of Nike profits donated to the Lance Armstrong Foundation. As Lance Armstrong continues his comeback to professional cycling in order to raise awareness of the global cancer burden, Nike has introduced the Nike LIVESTRONG™ Collection in select markets beyond the United States as well.

Through FY09, proceeds and sales from the Nike LIVESTRONG™ Collection and an earlier apparel collection, 10//2 Collection, have raised more than \$17 million for cancer research and community programming.

» N7 (Native American Business)

Nike has a long-term commitment to building partnerships with Native American communities and in September 2007 launched the Air Native N7 footwear product. This unique athletic performance shoe was designed specifically for Native Americans to help reduce Type 2 diabetes and increase participation in sport through the promotion of a more active and healthier lifestyle.

Since November 2007, Nike has made the shoe available to more than 225 Native American communities participating in the Nike Native American Business Program. Profits from the sale of the shoe support programs on Native American lands through the Native Lands Fund that is guided by an advisory board and managed by the Charities Aid Foundation of America (CAFA). More than \$160,000 for sports programs on reservations across the United States has been raised to date.

In addition to this initiative, Nike supports the Native Vision program, an unprecedented youth enrichment and empowerment initiative for American Indian children, administered by the Johns Hopkins Center for American Indian Health in partnership with the National Football League Players Association.

The program uses sport to help keep American Indian youth healthy and productive into adulthood. Youth participate in sports as well as a summer camp that includes sport activities coached by pro and collegiate athlete-mentors. The camp promotes fitness and healthy lifestyles as well as leadership, education and cultural awareness.

PROGRAMS

During FY07-09 we managed a wide portfolio of community investments using sport for social change. These programs were spread geographically across many sports, but all united in a common goal to create and inspire social or environmental action.

Many of these programs are multi-year commitments, recognizing that systemic change is not a 12-month endeavor but an opportunity to accelerate and amplify the work of organizations that are active and making a difference within communities.

» Homeless World Cup

Homeless World Cup is an organization that supports homeless people by helping them change their life circumstances through the inspiration of sport and providing a framework through soccer that creates local programs that build self-esteem and community participation.

Our goal through our contributions to the HWC is to expand their capacity to elevate, expand and deliver the HWC organization's commitment to eliminate homelessness throughout the world.

The social impact of the HWC is consistently significant; every year, around 73 percent of players report to organizers in a post-event survey that it has helped to change their lives for the better by quitting drugs and alcohol, moving into jobs, education, homes, training, reuniting with families and even going on to become players and coaches for pro or semi-pro football teams.

» ninemillion.org

Nike is a founding partner of the United Nations High Commission for Refugees (UNHCR) ninemillion.org initiative, which aims to focus global attention on the world's refugee youth, and to raise funds to provide education and sports programming for the more than 9 million youth who are living in refugee camps today.

In FY07 Nike designers created a multi-sport ball made in part with recycled materials that withstand the harsh surface conditions of refugee camps. We donated 40,000 of these balls together with a curriculum to support children who otherwise would not have access to a sports program.

NIKE, Inc. supported the United Nations High Commission for Refugees by developing the overall concept and content for ninemillion.org. We developed a public service campaign led by Ronaldo supported with stories of the challenges faced by refugee youth in Azerbaijan, Uganda and Thailand. The Nike Foundation also established a \$1 million matching grant for the program.

» Stand Up Speak Up (SUSU)

Nike cosponsored the "Stand Up Speak Up" campaign to empower soccer fans to voice their opposition to racism in and around the game of football ("soccer" in the U.S.).

Nike mobilized resources in retail, marketing and with our athletes from top leagues across Europe to fight racism in soccer. The symbol of this support was created in the form of two interlocking wristbands; one black, one white to symbolize the connectivity of our communities.

The support by consumers to fight this issue was demonstrated through the sales of the wristbands that raised awareness and more than \$6 million over three years for a fund managed by the King Baudouin Foundation. This fund supported 238 youth-based football projects across Europe that raised awareness, increased advocacy and built networks and partnerships to continue the fight to eliminate racism in football.

The bringing of the movement to life by Nike has ensured that many of the programs that benefited from initial support from the campaign have secured long-term government funding to continue their programming based upon the significant positive impact it has made in local communities.

» Let Me Play in China

China's more than 200 million migrant workers have contributed to the nation's economic miracle. However, under the Hukou (residency registration) system, migrants cannot access public welfare or subsidized housing, and receive substandard health care and education.

Through its supply chain, Nike promotes working and living conditions, and health services that contribute to the health and well-being of workers at contract factories, an estimated 70 percent of whom are migrants.

Beyond our manufacturing base, Nike has sought to champion the inclusion of migrant youth in their new communities. For many of them, their education is not only inferior but also a humiliating experience due to discrimination against migrants.

Nike has partnered with the China Children and Teenagers' Fund, a division of the All China Women's Federation, on a program that empowers migrant youth and introduces more child-centered, participatory teaching methods through sport. The program, 让我玩 (Let Me Play), provides teacher training, curriculum and sports equipment for use in physical education classes. Nike also sponsors interschool competitions, which have resulted in greater cooperation between schools.

Since its launch in FY07, the program grew to reach more than 235,000 youth in 360 schools in seven cities (Beijing, Guangzhou, Zhongshan, Nanjing, Chengdu and Wuhan) by the end of FY09. Furthermore, it promotes social understanding between migrants and the urban population by engaging hundreds of university students annually as volunteer PE teaching assistants. The program, and Nike's involvement of renowned athletes such as LeBron James, has raised awareness about the situation for migrant youth and the power of sport to help them.

The program is well received by the local Education Bureaus for improving the youths' confidence, communications and teamwork skills, creativity and gender equity. The Ministry of Education has also acknowledged that 让我玩 s (Let Me Play) is helping to meet the unique needs of migrant youth.

» Fighting HIV/AIDS through Soccer

HIV/AIDS affects communities in all parts of society throughout the world. It has had particular impact on communities in Africa where it has devastating effects on families, communities and the ability of local economies to thrive.

To affect an issue as pervasive globally as HIV/AIDS, we committed throughout FY07-09 to investing in partnerships that support multiple communities that fight HIV/AIDS by delivering educational materials through soccer.

These programs have been led through our partnership with Grassroot Soccer in South Africa, Zimbabwe and Malawi and have been supported by similar programs, including the Kalusha Bwalya Foundation in Zambia, The Kids League in Uganda, AKWOS in Rwanda, the Mathare Youth Sports Association in Kenya and other partnership programs in these same countries as well as in Liberia, Ghana and Egypt.

CH05 COMMUNITIES

Another Nike partnership is in South Africa where half of new HIV infections occur before the age of 25, taking a toll on individuals and severely slowing the economic growth of the country.

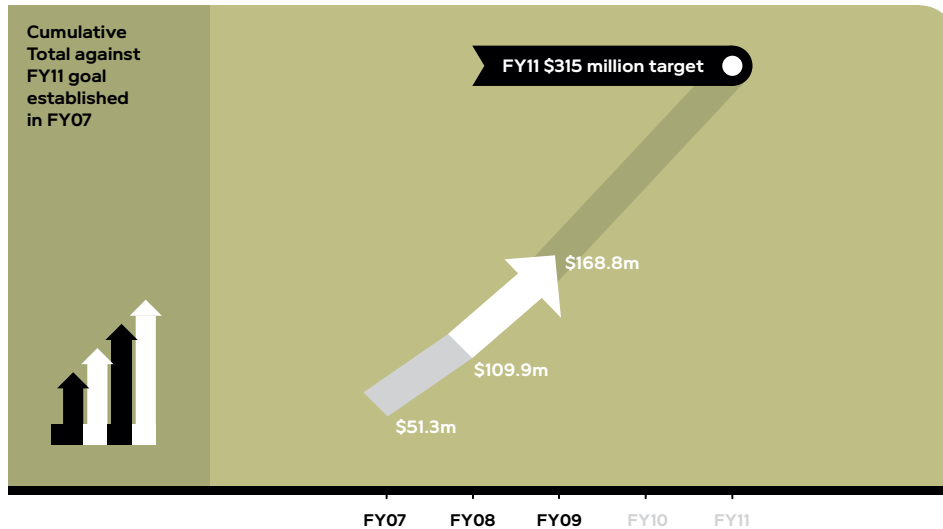
HIV/AIDS prevention messages must reach youth and children as attitudes and behaviors are being shaped. With this goal in mind, Nike and the Gauteng North Sports Council launched KickAIDS to teach HIV/AIDS-related life skills to youth and children in schools through soccer. Integrating HIV prevention into sporting programs helps young people learn they must remain HIV free to reach their goals. Those exposed to these messages are more likely to abstain from sex, delay sexual activity and use condoms.

Each of these programs and partnerships provides us with an opportunity to engage with our consumers to educate and invite them to support the fight against HIV/AIDS – not just in Africa but wherever they are experiencing the Nike brand globally.

We are looking to expand on this work as we enter into 2010 – the year of the World Cup in South Africa.

CH05 COMMUNITIES

NIKE, Inc., Total Cumulative Community Investment (\$m) (Cash, product and in-kind)



Note: NIKE, Inc., annual community investment and FY11 target.

NIKE, Inc. Total Community Investment (\$m) by Region

	FY05	FY06	FY07	FY08	FY09
Americas	1.6	0.6	0.9	1.4	0.3
Asia Pacific	3.2	3.2	2.5	5.5	5.6
EMEA	11.2	12.3	15	12.5	5.8
U.S.	11	17.6	18.5	19.9	28.8
Global	17.5	10.9	14	19.1	17.8
Affiliates	0.1	0.25	0.4	0.2	0.7
TOTAL	44.6	44.9	51.3	58.6	58.9

Note: Global includes contributions from NIKE, Inc. to the Nike Foundation, the Lance Armstrong Foundation and a portfolio of partnerships and programs managed by the Nike community investment.

NIKE, Inc. Total Community Investment (\$m) by Type

	FY05	FY06	FY07	FY08	FY09
U.S. employee contributions	\$3.2	\$2.6	\$3.6	\$3.9	\$2.4
Employee hours	76,000	81,200	133,800	171,700	74,300
Total company match	\$3.6	\$3.2	\$3.4	\$3.5	\$3.0

CH05 COMMUNITIES

Top 10 Projects/Programs Funded (by size)


RANK	FY07	FY08	FY09
1	Mercy Corps	Nike Foundation	Lance Armstrong Foundation
2	NIKE, Inc. Employee Matching Gift	Mercy Corps	Nike Foundation
3	United Nations High Commission for Refugees	Nike, Inc. Employee Matching Gift	China Children and Teenager's Fund
4	Nike Foundation	Lance Armstrong Foundation	Nike, Inc. Employee Matching Gift
5	Portland Business Alliance Charitable Institute Inc.	Tides Foundation	Mercy Corps
6	Jordan Fundamentals	The Boys and Girls Club	Nike School Innovation Fund
7	City of New Orleans	China Foundation for Poverty Alleviation	United Nations High Commission for Refugees
8	China Foundation for Poverty Alleviation	Jordan Fundamentals	Jordan Fundamentals
9	Homeless World Cup	Nike School Innovation Fund	YMCA
10	U.K. Football Foundation	Architecture for Humanity	Boys and Girls Club of Indian Country

NIKE, Inc. Employee Contributions and Company Match (\$m)

	FY05	FY06	FY07	FY08	FY09
Cash	21.0	15.0	21.9	36.6	35.1
In-Kind/Product	23.6	29.9	29.4	22.0	23.8
TOTAL	44.6	44.9	51.3	58.6	58.9

Note: NIKE, Inc. employees contribute time and money to community causes important to them. Many contributions qualify for a corporate match.

Social Impact

TARGET	PERFORMANCE	PROGRESS
<p>Social Impact Nike will set targets and metrics around programs for youth excluded from sport around the world by January FY08.</p>	<p>Missed target. In FY07 we defined a measurement and evaluation framework designed to assess and communicate social impact of investments, in consultation with internal and external stakeholders. In FY08-09 we developed and piloted the Women's Funding Network's Making the Case™ tool.</p>	 <p>Obstacles</p>

OUR APPROACH

We recognize that lasting change requires more than investment. It requires results. That's why we aim to measure the social impact of our community investments. We aim to move away from measuring inputs and outputs alone.

We had expected that during the two years since we announced our intent to create social impact targets we would have been able to uncover the learning needed to universally apply valid targets and metrics to our social impact work around the world. Though we are heartened that many experts around the world are working to better define social impact, we are disappointed in missing this target.

In our work to develop better metrics for our community investments, we sought the counsel of NGOs, academics and other experts in the field. Many offered valuable suggestions. Nevertheless, from our work and these meetings we realized that there is to date no common methodology that we could adopt and apply to our work. As we continue to wrestle with the best ways to define and capture our social impacts, we believe that our investment in tracking systems and ongoing work with our partners and grantees during FY07-09 will ultimately yield fruit and increased understanding as we measure results over time.

MEASURING IMPACT

We are working on understanding how to be sure that we are bringing about real change where it matters most: at the individual and community level with long-term, tangible results. We want to comprehend the full impact that sport can have, and why it has such an impact.

Our work to measure impact and demonstrate value has focused on creating best-of-class assessments of social impact. We also wanted to grasp the impact that any such assessment has on our partners, who are often not resourced to handle the burden of new reporting or tracking requests. We sought solutions that could serve as tools to help our partners discern their impacts and tell the story around their success, as a tool for capacity building. Possible solutions could include further Nike funding or reaching out to a broader audience of contributors and partners.

We have made strides in developing a global measurement and evaluation framework for our community investment that we believe holds great potential for future measurement. We created a high threshold for the system: one that would help us manage the way from grant request or idea inception to results.

CH05 COMMUNITIES

Making the Case™



EVALUATION FRAMEWORK

In FY07 we identified a measurement and evaluation framework created by the Women's Funding Networks' Making the Case™. We launched a global pilot with grantees in FY08.

This framework allows us to:

- Provide our partners a methodology to communicate their accomplishments, needs, impact and stories using a common or shared language
- Standardize evaluations to more effectively manage our social investment portfolio
- Assess our global portfolio for its overall impact
- Communicate and share the social impact created through our investments and the work of our partners
- Consider a diverse body of work (i.e. social investments spanning a wide range of issues)
- Share learning among and between our partners and our organization
- Evaluate programmatic, operational and capacity-building investments

Social change is complex and includes many variables. It can bring about both expected and unexpected results. We have sought to find a way to capture both planned and unplanned results, believing we can learn from both. These results can be captured/categorized into five indicators of social change, or shifts, the core of the Making the Case™ framework. (See chart on following page).

These five shifts provide a way to consistently and effectively measure and communicate the impact.

Our measurement system involves grantees reporting on the details of their programs and expected results, catalogued in the

shift categories. We are working toward the goal of assessing information from all our partners to see what meta-trends are emerging, what can be applied across our investment strategy, what lessons we could share between partners and what we can share more broadly to improve global knowledge around effective and impactful business and community partnerships.

WHAT WE'RE LEARNING

Through the end of FY09, we completed 53 Making the Case™ formal evaluations of key Nike-supported programs. The greatest measurable shifts occurred within behavior and engagement, the least in policy.

Three key examples help to illustrate our journey of social impact and how we've adapted our strategy while seeking to remain relevant locally:

PARTNERING WITH THE LA84 FOUNDATION

Writing checks alone is easy but not sustainable, neither for Nike nor for our partners. When we mobilize our other Nike resources – athletes, brand building and marketing – our partners are able to reach new populations and gain visibility and exposure for our programs that will encourage other partners to support the work. A great example is our work with the LA84 Foundation in Los Angeles.

In July 2007 we began working with the foundation, which engages low-income and at-risk youth through sport, and increases knowledge of sport and its impact on people's lives. We partnered with the Foundation to transform 22 sport surfaces across the city of Los Angeles using Nike Grind™ surfaces, made from shoes recycled through Nike's [Reuse-A-Shoe program](#). In addition to financial and product support, Nike engaged star athletes including Serena Williams, Paul Rodriguez and Kobe Bryant to inspire young people and raise awareness.

Indicators of Social Change

Shift	Definition	Example
Shift in Definition	The issue is defined differently in the community or larger society.	Help communities see that urban dance is an art benefiting children. Advocate that premises owned by authorities and local associations allow dance lessons to occur in their facilities to expand access to local children. Dance is reframed or redefined.
Shift in Behavior	People are behaving differently in the community or larger society.	In a community where women are rarely seen unaccompanied outside of the home and who suffer from diseases related to lack of physical activity, a partnership created and launched a weekly running program. Over time, women encouraged their neighbors to join the one-hour program. In addition to learning to exercise, the group has taken on an influential peer role — encouraging women to take control of their lives and health. Women change their behavior, leading to greater control and healthier lives.
Shift in Engagement	People in the community or larger society are more engaged.	Professionally produced videos position participants as subjects rather than creators. Films made by people in their own voice and engaging them in the process build self-esteem and positive attitudes. It allows participants to play an active role in improving the quality of their own lives as they redefine issues for themselves and others. Participants engage in the process directly, allowing them to realize positive and effective outcomes.
Shift in Policy	An institutional, organizational, or legislative policy or practice has changed.	To help young people recover from the traumatic effects of emergencies, community leaders provide a sports kit and training alongside other relief and recovery efforts. The organized sports programs promote healthy physical, social and emotional development essential to rebuilding communities affected by emergency and disaster. The toolkit supports mainstream approaches to emergency response programming.
Maintaining Past Gains	Past gains have been maintained, generally in the face of opposition.	More than 250,000 children have taken part in sports programs in the past three years. Participation has broken down barriers and allowed kids from different social, economic and religious backgrounds and life circumstances to interact through play while learning about health and education. To maintain these gains, we now are focusing on a school-based program to help institutionalize sports programs while generating revenues that will fuel program expansion. A practice is institutionalized to maintain past gains.

CH05 COMMUNITIES

The program also included social marketing via a guerilla marketing campaign to highlight the theme of unleashing human potential through sport. The program showed increased community and youth engagement in all sports when measured by our new Making the Case™ impact investment tool.

Through this partnership we have seen more than 2,500 young people step onto the new sport surfaces each year for basketball, dodge ball, jump rope and other activity. Moreover, girls who had not participated in sport had access to a local team.

The sport and life skills participants acquired through the program, such as leadership, teamwork and problem solving, have paid off: one child was given a sport scholarship at a private school and others are playing for university teams or are being scouted by colleges. Even some of the parents have benefited — inspired by their kids, some mothers have started their own women's basketball games, aerobics and yoga classes, further utilizing the athletic surfaces that had been transformed under this program.

PARTNERING WITH THE CHINA CHILDREN AND TEENAGERS' FUND

In 2006 Nike joined with [China Children and Teenagers' Fund](#), Save the Children U.K. and local schools to establish a sport program for migrant kids in China.

Those migrating from China's rural, often remote areas to its rapidly growing cities have a difficult time, facing new urban and work environments, lack of knowledge about their rights, with little or no social support network, in addition to dealing with prejudice.

Children of migrants are especially vulnerable. They are often alone as their parents work long hours. And the gap in their education makes them the targets of ridicule and isolation by peers and sometimes teachers as well.

Together, the partnership created programs in 255 schools serving 135,000 migrant students in FY07-08, expanding from a successful pilot in Beijing also reaching migrant kids in Guangzhou, Nanjing and Shanghai. The program uses a specially developed curriculum, teacher training and donated equipment so through sports, migrant kids enhance their self esteem, team communication skills and nurture creativity, social resilience and gender equity.

We have improved our work with partners on delivering programs that value the targeted audience. We also have learned that sustainability in sport programs relies on more than just equipment or access to sport. In fact, it relies on broader community engagement and on giving the tools — in this case training — to those implementing programs. We are applying these lessons, as well as others including the importance of government support, the need for a variety of delivery

mechanisms to reach broad audiences, and capacity needs of local staff, in program expansion.

PARTNERING WITH ASHOKA

In 2007, Nike joined Changemakers' founder [Ashoka](#) to launch a platform exploring the idea that sport is a catalyst to create a better world. Called "Sport for a Better World," the platform was designed to identify entrepreneurial talent who use sport to solve social or environmental challenges, and link partners to enable creative solutions to come to life. We launched a global Sport for a Better World competition to encourage anyone with experience or ideas to post a competition entry [online](#).

We rewarded top programs as voted by viewers with grants and recognition, and created a storehouse of ideas and potential partners, accessible by anyone. Nearly 400 entries were submitted, representing a broad range of community-changing sports programming in 69 countries. Winners included Grassroot Soccer from South Africa, Sport4Kids from the United States and a program involving sports and social transformation via mobile phones, from Brazil.

More detail about winners and other programs may be found [online](#).

Sport for a Better World was the first in a series of planned contests and collaborations using social networking to share and explore social innovations in sport. We have learned the value of open source solutions, where power comes from sharing ideas from programs and projects that work and making them accessible. Those that work may be replicated or scaled. Finally, we discovered networking to be a valuable tool in sharing innovation and linking programming.

ON THE HORIZON

We are working to understand the indicators of social change and to measure these shifts. For example some shifts may be a function of the length of a commitment. Policy changes, for example, may require a considerable amount of time to come into fruition.

Ultimately we hope not just to measure the shifts but to plan programming targeted to specific needs. As we pursue tracking of broad measurements, we continue to learn from our investments.

CASE STUDY:

Homeless World Cup

Since 2003, the Homeless World Cup (HWC) has mobilized and supported locally-run soccer programs for homeless community members in more than 60 countries globally. In addition, 34 of these nations either plan or already have active national street soccer leagues running throughout the year.

Nike's partnership with the HWC runs from direct financial support, consulting with HWC on brand management and marketing, creating and donating HWC product and merchandise, and employees volunteering at events. Our goal as a partner is to expand HWC's capacity to have a positive social impact on more people in more countries.

HWC training programs include technical training as well as an extensive engagement with each player to help them deal with drug or alcohol dependency, moving into jobs, finding homes, getting educated and/or repairing relationships. Most HWC street leagues are formed through the local street newspaper as they are closely connected to the process of identifying and working with local homeless people to help reintegrate them into their local community.

In 2007, more than 25,000 players participated in the training programs globally with 382 going on to represent their country

in the HWC tournament. Each player was interviewed by HWC to establish the impact their participation in the program had on their lives:

- 93 percent reported a new motivation for life.
- 83 percent reported improved social relations.
- 38 percent reported improved housing situations.
- 32 percent reported reentering the education system.
- 29 percent reported they had found employment.
- 71 percent say they now play regularly.

Statistics do not always provide the full context of the impact of these statements. There are many great stories of individual players who have dramatically changed their lives through the support they received in this program. David Duke from Scotland was a player on the winning side of the 2004 tournament in Gothenburg, Sweden. By the 2007 tournament in Copenhagen, Denmark, Duke had addressed his alcohol issue, passed a qualification in community development, qualified as a football coach and bought his own home. Duke is now the coach of the Scottish Homeless World Cup team and inspires others who are homeless to grasp this opportunity for change.

CASE STUDY:

ninemillion

In 2006, NIKE, Inc., in partnership with the United Nations High Commissioner of Refugees (UNHCR) and Microsoft, launched the ninemillion campaign through ninemillion.org to give more than 9 million children living in refugee camps better access to education, sport and technology.

Our goal is to work with UNHCR and the ninemillion campaign as a partner to help build their capacity to provide refugees with access to meaningful education, increase opportunities for employment and improve the general well-being of refugee youth and children by:

- *Providing financial and marketing support to help ninemillion build awareness of their effort and increase funding*
- *Facilitating increased access to quality protective services, education and sport for refugee children, with a special emphasis on girls, through direct investment and product donations*
- *Strengthening the capacity of community organizations to design, implement and monitor children's programming*

Through the ninemillion campaign, more than 80,000 children and youth from 13 countries have been enrolled in school, graduated from primary education, participated in sports activities and/or received employment opportunities from vocational training.

Uganda, Panama and Venezuela have implemented projects that use sport to help prevent sexual- and gender-based violence. The reduction in such violence is related to girls being seen in their communities as stronger, healthier and more confident due to their participation in sport. Refugee camps in 14 countries have thus been given sports apparel from Nike to enhance their participation in sports and play activities.

Out of the total beneficiary population, approximately 50 percent of adolescent girls have participated in the ninemillion.org campaign activities. Some of the activities and projects included increasing higher education opportunities and participation, increasing the involvement of girls in sports and increasing the ability for single mothers to access work opportunities through vocational skills training.

Ninemillion's capacity to have a major social impact on children in refugee camps is growing; in 2010-2011, ninemillion aims to expand into nine more countries and will target approximately 124,000 girls in refugee camps.

CASE STUDY:

The Nike Foundation

Investment Philosophy: In 2004, the Nike Foundation reshaped its vision to focus on the alleviation of global poverty. After investigating where they could make the greatest impact on that highly complex issue, the Nike Foundation found that answer in adolescent girls. The theory is to invest in a girl and unleash a powerful ripple effect of positive change. The Nike Foundation has invested exclusively in girls ever since.

Girls are often the most at-risk and neglected segment of the population in impoverished communities. Throughout the developing world, they are more likely to be out of school, malnourished, and HIV-positive than their male peers.

Yet it's been shown that when a girl gains educational and economic opportunities, the benefits ripple beyond her - to her brothers, her sisters, her parents, her community, her future children and grandchildren. Girls and women tend to give back to their families and communities a significantly larger percentage of what they earn than their male peers. So this potential is unique to girls and is practically untapped. From 2005-2006, Official Development Assistance figures show that less than two cents of every international aid dollar was directed to supporting girls.

The Nike Foundation's mission is to change that picture through innovative programs that offer solutions on the ground for girls, amplifying their results to the broader international aid community, and partnering with larger organizations and agencies to get girls' issues on the international agenda and mobilize resources to support them.

Our Investors and Investments: In addition to the contributions

of NIKE, Inc., the Nike Foundation is generously supported by the NoVo Foundation. Since May 2008, the NoVo Foundation has granted \$45 million to the Nike Foundation to benefit adolescent girls. The NoVo Foundation has also made commitments to contribute an additional \$56 million to the Nike Foundation to fund the work of the Girl Effect over the next four years (FY10-13).

The Nike Foundation has distributed \$41.9 million to benefit adolescent girls over the past three years (FY07-09). Over the six-year life of the Nike Foundation it has committed more than \$100 million to adolescent girls. The Nike Foundation supports more than 60 grantees throughout Africa, Asia and Latin America.

Events and Building the Girl Knowledge Base: The Nike Foundation actively advocates for investment in adolescent girls through a number of mediums. These include participation in events such as the World Economic Forum and the Clinton Global Initiative.

In 2008, the Nike Foundation, in partnership with the NoVo Foundation, launched the Girl Effect on girleffect.org. The Girl Effect is a communications platform that describes how the 600 million girls in the developing world have the power to transform their societies.

Over the last three years, the Nike Foundation has also supported the publication of extensive research on adolescent girls, their lives, and the critical interventions needed to ensure girls reach their potential as economic agents of change. This work can be found at CoalitionforAdolescentGirls.org.



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PEOPLE AND CULTURE

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To access the full NIKE, Inc. FY07-09 CR Report, with additional features including videos and an interactive map, please go to www.nikebiz.com/crreport

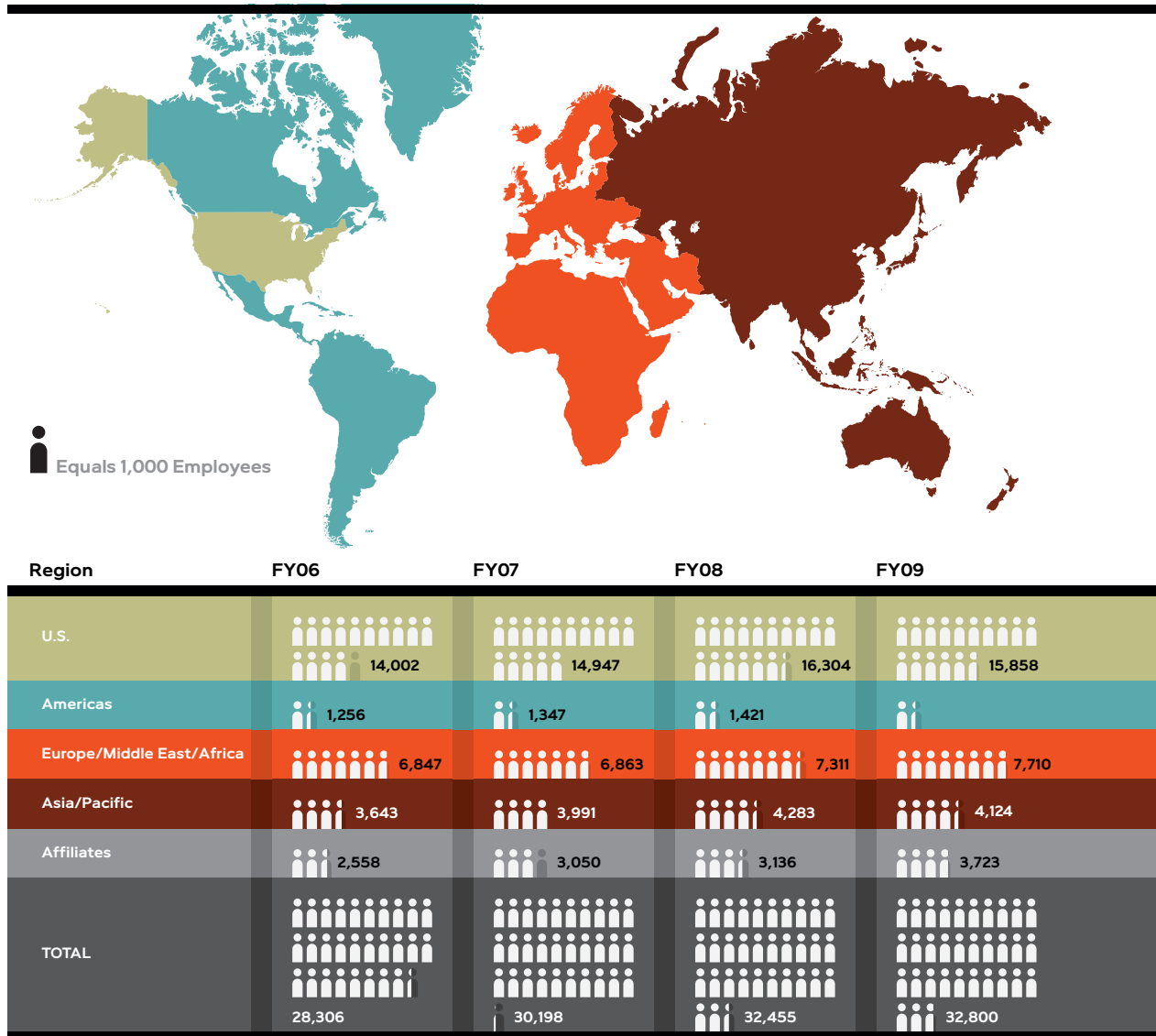
Our Workforce

NIKE, Inc. directly employs more than 30,000 people across the globe, from designers and marketers, to compliance monitors and accountants, to retail employees. In addition, Nike contracts with manufacturers that employ more than 800,000 workers.

At the end of FY09, NIKE, Inc. employed 32,800 people. From FY06 to FY09, our global work force grew by 16 percent.

Every two years we conduct a global employee survey to measure what motivates and engages employees. Our last survey was conducted in FY09 (October 2008) and focused on measuring employee engagement and manager effectiveness. All NIKE, Inc. employees were invited to participate in the Web-based survey, which was available in 29 languages.

Total NIKE, Inc. Employees by Region



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The survey instrument used was different than past years and for the first time included part-time employees and employees of NIKE, Inc. affiliates, so direct comparison to previous reporting is not available. Our response rate grew to 69 percent in FY09. Previous surveys generated response rates of 62 percent (FY06) and 51 percent (FY04) with only Nike full-time employees participating. Our key findings in FY09 were generally consistent with results from previous surveys:

- *NIKE, Inc. has an energized, engaged work force with a passion for the company, their consumers and their jobs.*
- *Employees are connected to the strategy and vision of NIKE, Inc. More than three-quarters reported that they see a clear link between their work and company objectives.*
- *Employees feel valued, that they are treated with respect, and would like to be more involved and empowered.*
- *Employees generally feel that someone at the company has made a personal investment in their growth and development, however, they want more career development, support and preparation.*
- *Employees reported having a good overall relationship with their managers and our people-management results were average for a large global company.*

In addition, employees were asked to rate their level of satisfaction in two measurements that are considered to be factors for attracting and retaining talent at NIKE, Inc.: “I am satisfied with the actions my company is taking to be socially responsible,” with 78-percent satisfied and 86 percent of the most engaged employees satisfied, and “I am satisfied that my company is responding appropriately to address the impact of our business activities on the environment,” with 74-percent satisfied and 83 percent of the most engaged satisfied.

Looking ahead, key areas of focus for NIKE, Inc. include helping employees and managers understand how to build successful careers through formal and informal training and development, improving management development, and welcoming new ideas.

Human Resources

BUILD AND EMPOWER THE WINNING TEAM

NIKE, Inc. has unlimited opportunities to fuel profitable growth and to drive competitive advantage. Our leaders work every day to ensure NIKE, Inc. realizes its potential by inspiring every one of our more than 30,000 employees to realize their potential. Human Resources professionals at NIKE, Inc. operate as stewards of organization effectiveness, talent and change. The function works to ensure that NIKE, Inc. has talented, diverse and inclusive teams organized effectively against our biggest opportunities of driving innovation and business performance.

DEEPENING OUR BENCH TO REALIZE POTENTIAL

In building our teams, we focus on Nike's future business needs, deepening the "bench strength" of our talent through deliberate leader development.

Our talent strategy focuses on critical assignment planning, manager accountability for coaching and mentoring, and structured learning via individual- and team-based classroom and online learning.

Our commitment to growing the potential of our people and building leadership capability is carried out in organization and talent reviews directly linked to the business strategic priorities. In these reviews, leaders are held accountable for improving the performance, potential, diversity, position continuity and cost of their bench. This thoughtful and robust career management approach deepens the bench with globally diverse talent who gain the critical experiences and leadership skills they need to achieve business objectives and to realize their potential.

To ensure that we have the leadership required for NIKE, Inc. to continue to grow, our HR function is investing significantly in the areas of sustainable talent practices and infrastructure.

We continue to develop our premier talent brand via the relentless Human Resources focus on talent and by working closely in partnership with Diversity and Inclusion on our culture.

Diversity and Inclusion

OUR CULTURE

NIKE, Inc.'s heritage is deeply rooted in innovation and we believe diversity and inclusion are key levers in continuing to drive creativity and innovation. It takes every one of our more than 30,000 employees working at the top of their game for NIKE, Inc. to reach its highest potential. And we know that outstanding teams are composed of people with diverse backgrounds, perspectives and skill sets.

In FY05/06, we shared information about the development of our approach to diversity and inclusion. Since that time, it has become even clearer that our ability to lead in innovation hinges on our ability to maintain and amplify a culture in which diverse perspectives are welcomed and leveraged.

To better understand what diversity and inclusion means to our company and to our employees, we asked them. The responses of NIKE, Inc. employees around the world centered on four themes that build a strong business case for diversity:

- *Diversity drives recruitment of the most dynamic people*
- *Diversity enriches the creativity and innovation that shapes the brand*
- *Diversity grows our competitive advantage*
- *Diversity heightens the stature and belief in the brand within our culturally diverse consumer base*

OUR APPROACH

To focus on Diversity and Inclusion, in 2006 NIKE, Inc. appointed its first VP of Diversity. In FY08, we formed a new global diversity and inclusion team focused on three areas:

- *Engaging Employees*
- *Providing Business Consultation*
- *Developing Innovative Tools, Models and Designs*

To broaden this work across all brands and corporate functions, in 2009, the VP of Diversity and Inclusion moved from reporting to the Nike brand president to reporting directly to the CEO of NIKE, Inc. The position works in partnership with the VP of Human Resources to ensure diversity is considered in all talent decisions. The approach of focusing on culture and innovation has been lauded by external diversity professionals as a best

practice and has been highlighted at several global innovation conferences, including The Medici Summit and InnoTown.

Our Diversity and Inclusion team drives global strategy and policy development assessment and measurement, communications, and integration with other business units to leverage diversity and inclusion as a competitive advantage. Across NIKE, Inc., we support six employee networks, a Global Women's Leadership Council, and numerous councils that promote cultural understanding and awareness and employee growth. These include:

- *Asia Pacific Employee and Friends Network*
- *Black Employee and Friends Network*
- *Disabled Employee and Friends Network*
- *Gay, Lesbian, Bisexual Transgender and Friends Network*
- *Latino and Friends Network*
- *Native American and Friends Network*
- *Global Women's Leadership Council*

NIKE, Inc.'s vision is to create a culture of open innovation. To achieve this vision, our diversity and inclusion strategy focuses on three areas:

- 1. Focus on the Fundamentals.** *We aim to cultivate an inclusive culture and inspire individuals and teams to find surprising connections and intersections that ultimately fuel business solutions and drive new innovation. A powerful and experiential workshop was piloted in FY09 and will launch for all employees in FY10. The workshop helps teams reveal real life intersections that provide the basis for how diversity drives creativity and innovation.*
- 2. Embrace a Culture Remix.** *Diversity and inclusion (D&I) are keys to amplifying Nike's creativity and innovation. One way we do this is by creating venues and environments for open dialogue that encourage diverse opinions and a multitude of perspectives. For example, in FY08, the D&I team created an experience we call "Culture as Offense" (CAO). CAO started out as an exploration of how we leverage Nike culture as a competitive advantage. It began with a full-day workshop with the members of the Corporate Strategy Review team and a group of young NIKE, Inc. employees in the early stages of their careers with us dubbed the "New Crew."*

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The CAO session provided the New Crew an opportunity to connect with other diverse and passionate employees and empowered them to share their perspectives with high-level decision makers. The result was also a thoughtful and eye-opening experience for the senior leaders who participated. The one-day session is now being delivered to several other groups within NIKE, Inc., each with their own New Crew. With our New Crew community constantly growing, there is tremendous opportunity to incorporate session findings into decision making, while continuing to expand CAO as a model for expanding collaboration and intergenerational dialogue.

- 3. External Exchanges.** *We seek to find and create unique and surprising combinations, intersections and connections within NIKE, Inc., and then to share these insights with academia, industry and government. In FY09, we partnered with Georgetown University and the University of London to contribute to a groundbreaking master's degree program focused solely on diversity and inclusion. We participate in innovation conferences such as InnoTown to share examples of how NIKE, Inc. uses diversity and inclusion to drive innovation and thereby encourage others to see the value in diversity and inclusion in their disciplines. NIKE, Inc.'s D&I team has worked with governmental bodies focusing on geopolitical issues and has contributed to discussions such as the U.S.-Brazil Joint Action Plan to Promote Racial and Ethnic Equality, where we presented Nike's approach to valuing diversity and how the power of the collective can be a powerful agent of change.*

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DIVERSITY PROFILE

This report marks the first time we have been able to share data across our operations. While we have begun with gender, the breakdowns for race and ethnicity and among management are not yet available in every region.

GENDER

Our global work force is half male, half female. In FY09, NIKE, Inc. employed slightly more females than males in Europe, the

Middle East and Africa (EMEA) and our affiliates, and slightly more men than women in the Americas and U.S.

Gender in overall management was 60-percent male and 40-percent female, and among executives and senior managers was 70-percent male and 30-percent female. At the Board level, women held one of the positions at the end of FY09, down from two in previous years after Director Jeanne Jackson transferred from a Board to staff position as president of direct to consumer. In November 2009, Phyllis M. Wise, PhD, was appointed to the Board. The gender proportion has remained relatively consistent from FY06 to FY09.

Global Gender Breakdown by Region*

	FY07		FY08		FY09	
	#	%	#	%	#	%
EMEA	6,863		7,311		7,710	
Women	3,567	52%	3,801	52%	4,022	52%
Men	3,296	48%	3,510	48%	3,688	48%
Affiliates	3,050		3,136		3,723	
Women	1,561	51%	1,797	57%	2,071	56%
Men	1,321	43%	1,339	43%	1,652	44%
Unknown	168	6%	-	-	-	-
Asia/Pacific	3,991		4,283		4,124	
Women	2,014	50%	2,140	50%	2,006	49%
Men	1,976	50%	2,143	50%	2,118	51%
Unknown	1	0%	-	-	-	-
Americas	1,347		1,421		1,385	
Women	626	47%	659	46%	636	46%
Men	721	53%	762	54%	749	54%
U.S.	14,947		16,304		15,858	
Women	7,084	51%	7,692	47%	7,602	48%
Men	7,863	43%	8,612	53%	8,256	52%
TOTAL	30,198		32,455		32,800	
Women	14,852	49%	16,089	50%	16,337	50%
Men	15,177	50%	16,366	50%	16,463	50%
Unknown	169	1%	-	-	-	-

Note that all of the numbers in the charts above represent aggregated raw data and not a statistical analysis. Variations will occur when comparing like jobs within the general categories mentioned and the numbers do not consider work force ability.

*The region-based structure was reorganized into business units during the FY07-09 reporting period. Reporting by region is provided to reflect operations during the majority of this reporting period. Future reporting will be aligned to NIKE, Inc.'s structure.

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Global Management Breakdown by Gender

Gender	Execs & Senior Managers	Managers & Supervisors	Total Management
	FY07 # / %	FY08 # / %	FY09 # / %
Women	194 / 28%	1,849 / 42%	2,043 / 40%
Men	511 / 72%	2,505 / 58%	3,016 / 60%
Total	705 / 100%	4,354 / 100%	5,059 / 100%

Changes in systems allowed more sophisticated global management tracking beginning in FY09.

U.S. Management Breakdown by Gender

Gender	Execs & Senior Managers			Managers & Supervisors			Total Management		
	FY07 # / %	FY08 # / %	FY09 # / %	FY07 # / %	FY08 # / %	FY09 # / %	FY07 # / %	FY08 # / %	FY09 # / %
Women	120/ 29%	150/ 30%	135/ 30%	835/ 43%	888/ 43%	813/ 43%	955/ 41%	1,038 40%	948/ 40%
Men	299 / 71%	351/ 70%	321/ 70%	1,097 / 57%	1,185/ 57%	1,080/ 57%	1,396 / 59%	1,536/ 60%	1,401/ 60%
Total	419 / 100%	501 / 100%	456 / 100%	1,932 / 100%	2,073 / 100%	1,893 / 100%	2,351 / 100%	2,574 / 100%	2,349 / 100%

Board of Directors Breakdown by Gender

Gender	FY06	FY07	FY08	FY09
Female	2	2	2	1
Male	9	9	10	10

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ETHNICITY

We have detailed ethnicity information reported by our U.S. work force. More than half our work force (55 percent) is Caucasian. Our proportion of minorities has increased from 40 percent in FY05 to 45 percent in FY09. In FY08 we changed our tracking system, allowing employees to more accurately identify their ethnicity by choosing more than one category if applicable.

Among management, ethnically diverse employees made up 27 percent of the total in FY09, up from 22 percent in FY06. Among executives and senior management, the ethnic diversity profile was 18 percent of the total, an increase from 15 percent in FY06. At the Board level, two of 12 members identified themselves as ethnic minorities.

U.S. Employee Breakdown by Ethnicity

		FY05	FY06	FY07	FY08	FY09
American Indian	Percentage	1%	1%	1%	1%	1%
	Figure	91	79	95	152	146
Asian/Pacific Islander	Percentage	10%	9%	9%	9%	9%
	Figure	1,286	1,340	1,405	1,540	1,457
Hispanic	Percentage	10%	11%	11%	12%	13%
	Figure	1,355	1,499	1,702	1,965	1,998
African American	Percentage	19%	20%	21%	22%	22%
	Figure	2,420	2,798	3,096	3,585	3,458
Caucasian	Percentage	60%	59%	58%	56%	55%
	Figure	7,828	8,286	8,649	9,062	8,799

U.S. Management Breakdown by Ethnicity

Ethnicity	Execs & Senior Managers			Managers & Supervisors			Total Management		
	FY07	FY08	FY09	FY07	FY08	FY09	FY07	FY08	FY09
	# / %	# / %	# / %	# / %	# / %	# / %	# / %	# / %	# / %
White (non-Hispanic)	354/ 84%	412/ 82%	376/ 83%	1,450/ 75%	1,504/ 72%	1,345/ 71%	1,804/ 77%	1,916/ 74%	1,721/ 73%
African-American (non-Hispanic)	28/ 7%	33/ 7%	34/ 7%	200/ 10%	254/ 12%	231/ 12%	228/ 10%	287/ 11%	265/ 11%
Hispanic	15/ 4%	19/ 4%	18/ 4%	151/ 8%	163/ 8%	177/ 9%	166/ 7%	182/ 7%	195/ 8%
Asian Pacific Islander	21/ 5%	32/ 6%	24/ 5%	123/ 6%	138/ 7%	127/ 7%	144/ 6%	170/ 7%	151/ 7%
American Indian*	1/ 0%	5/ 1%	4/ 1%	8/ 1%	14/ 1%	13/ 1%	9/ 0%	19/ 1%	17/ 1%
TOTAL	419/ 100%	501/ 100%	456/ 100%	1,932/ 100%	2,073/ 100%	1,893/ 100%	2,351/ 100%	2,574/ 100%	2,349/ 100%

Percentages are rounded to achieve 100 percent. Actuals for American Indian ethnicity in FY07 are: 0.2% for Execs; 0.4% for Managers; 0.3% for Total.

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Board of Directors Breakdown by Ethnicity

Ethnicity	FY06	FY07	FY08	FY09
Hispanic	0	0	0	0
African American	1	1	2	2
Caucasian	10	10	10	9

While numbers help to reflect the profile of our global work force, our work focuses less on diversity numbers and more on creating an inclusive culture that leverages diversity and mines the wealth of talent and experience across the organization.

SUPPLIER DIVERSITY

NIKE, Inc.'s commitment to diversity extends beyond its employee base to the work we undertake with our suppliers. Our U.S. Supplier Diversity Program supports U.S. supply purchases from women and minority business owners including sexual minorities (GLBT). NIKE, Inc. works with several national and regional partners on its supplier efforts, including the National Minority Supplier Development Council, the Oregon Association of Minority Entrepreneurs and the Women's Business Enterprise National Council. To help expand our minority and woman-owned business enterprises (MWBE) and GLBT supplier base Nike also engages several chambers of commerce. This program provides NIKE, Inc. better visibility to MWBE and GLBT-owned businesses that provide goods and services at competitive prices, and an opportunity to support a variety of businesses.

We have seen and expect to continue to see significant progress in the area of supplier diversity. To assess the proportion of our business and financial impact on minority suppliers, we evaluate the amount of addressable spend on indirect goods and services – that which our procurement department is able to influence directly, such as general office supplies – and the proportion of that spend that goes to MWBEs. NIKE, Inc. spends approximately \$3.7 billion annually in the U.S. on indirect goods and services, of which \$1.4 billion is classified as addressable spend. In FY09, NIKE, Inc. spent approximately \$97 million (of which \$33 million is attributed to one direct supplier whom we influence), or 5.8 percent of total addressable spend, with MWBEs. Our second-tier supplier diversity program strongly encourages our primary suppliers to subcontract with GLBT, woman- and minority-owned suppliers for goods and services supplied to Nike. As

a result, this program yielded approximately \$17.5 million for a total of \$88 million in diverse spend.

During the period from 2007, NIKE, Inc. has been named top company for GLBT workers by the Human Rights Campaign, has been nominated as Supplier of the Year by the Fulfillment Corporation of America, rated three consecutive years by diversitybusiness.com as America's top organization for multicultural business opportunities, awarded Corporation of the year by the Oregon Association of Minority Entrepreneurs, won the Pioneer Award from the Northwest Minority Business Council and was one of 142 American companies cited as best place to work for GLBT employees by the Human Rights Campaign Foundation.

ON THE HORIZON

Our work in diversity and inclusion in the years ahead focuses on building a common platform where leaders, employees and partners will see the value in leveraging surprising combinations, connections and intersections to solve everyday business challenges. We will measure key shifts in definitions of diversity and inclusion. In FY10, the team will launch programs that reward and recognize employees who consistently create welcoming and inclusive environments where a rich diversity of people and ideas lead to greater innovation. From a quantitative perspective, we will measure these shifts in relation to future cultural assessment results.

CH07

PUBLIC POLICY AND ADVOCACY

*Know the game.
Build your team.
Make your move.*



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NIKE, Inc. engages in public policy advocacy on a range of issues affecting our business, the industry and other areas of concern. We use our voice to advocate, promote and protect our business objectives with stakeholders around the world.

Advocacy in Action

While our government relations team around the world is small by design, we maximize our impact by drawing from resources around the company. We have focused the power of our brand to drive legislative and public policy initiatives that reflect our commitment to both our business and corporate responsibility goals. Because of the nature of our business model, we currently have several key public policy issues that we focus on around the world: trade, taxation and intellectual property, employment, supply chain, sustainability and sport.

We believe the key to public policy for a global company like ours – operating in complex, interrelated markets, with numerous stakeholders – is to be consistent. Policies set need to be consistent around the world and across the company. That

sounds easier than it is. We see intersections between different policy areas. The intersections, for example, between trade and labor, or environmental standards, trade and poverty alleviation, are complex. It takes a rigorous process of education, debate and discussion to develop policies that find the balance between different interests, and that take into account local, regional, global interests, culture and political dynamics. At the end of the day, consistency is simplicity; and simplicity is good for business.

Sometimes, we take policy stances that seem to be at odds with our industry, with business or with civil society. Our process for taking a strong stance on something is based on extensive internal and external consultation. We see public policy as an integral part of business strategy, success of which also relies on consistency.

NIKE, Inc. Public Policy Position Highlights

We take a stand on a wide range of issues. Some highlights include trade, taxation, intellectual property, workplace, employment, sustainability, climate and sport.

TRADE

INTERNATIONAL TRADE

International trade, and the ability to move our product around the world without barriers, remains a cornerstone of NIKE, Inc.'s success as a company. While the global economic crisis has resulted in a significant slow down in international trade for every major economy, in some countries the crisis has also led to a sharp rise in trade defense actions.

Despite calls by G-20 leaders to avoid protectionist measures during the economic crisis, the World Trade Organization reports that most developed and developing countries have implemented broad measures that either bail out significant sectors with government subsidies and/or loans, or protect domestic sectors from import competition through imposition of a wide range of trade restrictions. These trends in global trade policy impact many sectors, including global manufacturing and sporting goods.

Along with protectionism, trade-liberalizing measures such as bilateral trade agreements or multilateral negotiations remain mired down in political uncertainty and, in some cases, controversy.

We remain active in the trade debate for two primary reasons: to challenge protectionism that impacts our business and to advocate for trade liberalization. We do so by arguing our firm belief that the greatest driver for economic growth and prosperity is when producers and consumers have open access to goods and services on a global basis. We believe that open access creates an economic climate that encourages growth, investment and innovation – all key factors in moving the global economy forward.

Our challenge is to ensure that all stakeholders are willing to promote and commit to open trade in a way that also improves people's lives, encourages long-term sustainability and delivers environmental benefits.

TRADE AND LABOR/ ENVIRONMENTAL RIGHTS

One of the most difficult issues contributing to the stalemate in the passage of bilateral trade agreements, including the Doha Round of the World Trade Organization, is the debate surrounding the linkages of trade to labor and environmental enforcement. The dispute is a philosophical one. Some believe that labor and environmental enforcement (traditionally through sanctions) ought to be part of trade agreements because weak enforcement from developing countries creates a competitive advantage that injures industry in developed countries. Others believe that the link is a disguised protectionism, an effort by developed countries to imposing their standards on the rest of the world.

We believe the discussion, while vigorous, has been unfortunate and unnecessary. The difficulty we see in the past debates is that the proposed remedy for failure to enforce tends to be sanctions: if the developing country has poor enforcement, the developed country has the right to trade retaliation. While many countries do not fully enforce their labor and environmental laws, the reasons for them not doing so are more complex. Many countries don't have the resources, expertise or, in some cases, the desire (such as countries with high unemployment that are working to attract foreign investment for job creation). Imposition or threat of sanctions won't change this; in fact, they are counterproductive.

NIKE, Inc. has long believed that the debate needs to be turned on its head. Rather than sanctions, trade incentives ought to be used for enforcement.

We don't have many answers yet, but would like to be part of a broader discussion with a wide-ranging group of stakeholders about how governments can include strong labor and environmental standards in trade agreements and, instead of trade restrictions, develop incentives for countries to abide by those standards. Some possibilities include greater development aid, capacity building or training, or greater market access for those who take enforcement seriously. Additionally, we believe that governments from developed countries ought to be more creative in how they fashion their unilateral trade preference programs while providing greater market access to those developing countries that have mechanisms in place and have the desire to enforce core labor and environmental standards. Finally we would like to find creative ways, consistent with the

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WTO, for governments to closely examine existing tariff codes and create incentives that encourage sustainable product development and reward those products that use sustainability as a foundation for development and manufacturing through tariff or tax preference.

TAXATION

As a multinational company, we are subject to income tax and a variety of other taxes in the U.S. and numerous foreign jurisdictions. As a result, we closely monitor proposed changes in tax laws and, where appropriate, advocate on these proposals to ensure they do not expose us to double-taxation or unfairly and adversely affect our profitability, especially when compared to our competitors in other countries.

We recognize that we must comply with all tax laws and regulations. However, we are proactive where we believe that legislation or practice unfairly impacts NIKE, Inc.

As such, we seek to support efforts to create an efficient tax system by identifying and securing tax legislation that allows Nike to be competitive in the global marketplace. Part of this effort includes analyzing and utilizing incentive-based or other programs. We understand that taxes on corporations such as Nike ultimately fall as a burden on working families in the form of higher prices of our products. Our objective is to minimize these costs and, as a result, benefit our consumers, employees and shareholders.

In all of our efforts to promote tax efficiency, we prefer to work in broad coalitions with other businesses and through trade associations where our views are aligned. Some recent examples of such efforts include work with Retail Industry Leaders Association (RILA), Oregon Business Association, Smart Growth Coalition, and American Chamber of Commerce (AmCham) in the Netherlands.

INTELLECTUAL PROPERTY (IP)

Intellectual Property Rights (IPR) is one of the most vital assets any business owns. IP encompasses a wide range of rights and responsibilities, designed to protect business investment in creativity, research and development, and innovation. It is also the intellectual capital and future for many companies. Trademarks, patents and design are all examples of essential IPR.

Businesses make significant investments in brand equity and brand promotion, the value of brands, and the trust consumers place in branded products and services. Nike and other brands account for millions of jobs in today's global economy and are the catalyst for the creation and health of upstream and downstream industries, from manufacturing to advertising, communications

and retail. The value of consumer brands is huge, estimated to be more than U.S. \$2.2 trillion for the top global 500 brands (Brand Finance, 2009 report).

NIKE, Inc. believes there is a genuine need for policymakers, and other stakeholders to understand issues such as innovation and creativity, brand protection and brand building. They also need to understand how to integrate understanding of the building blocks of the brands into specific IPR and more general public policy decision making.

Our four specific policy objectives on IPR are:

- *Contribute to greater awareness and understanding of IPR and brand issues, and their significant contribution to the global economy.*
- *Work toward more coherent, consistent and "joined up" IP policy at national, regional and global levels. Nike believes there is a strong need for policymakers to take a broader, holistic view of IP, brands and their overall socioeconomic significance, and contribution to economic growth and innovation.*
- *Recognize of IPR as a cornerstone of the knowledge-based economy. IP protection is one the core enabling conditions for creativity, innovation and development of the information society and digital economy. To this end, we have partnered with Creative Commons to develop the GreenXchange, a platform for sharing IP for innovation.*
- *Support policymakers' efforts to create a supportive, consistent global legislative framework to fight counterfeiting and piracy across the globe. The economic and social impacts of counterfeiting and piracy have taken on a phenomenal global dimension in the past decade. Trade in counterfeit and pirated goods now represents an estimated 7 percent of world trade.*

NIKE, Inc. has constructively worked with many policymakers, governmental IPR authorities and enforcement bodies, coalition partners and industry leaders to contribute to policy development and support responsible IP legislative change around the globe.

For example, in the U.S., NIKE, Inc. was a vocal supporter of the passage of the Pro-IP Act signed into law in 2008. In addition to increasing penalties for certain forms of IP infringement, this Act will increase resources for the U.S. Department of Justice to enforce federal criminal laws protecting IP and seek to promote better coordination among various federal and state agencies in combating counterfeiting and piracy. The law also mandates that the President appoint the first Intellectual Property Enforcement Coordinator, informally known as the Copyright Czar.

In the European Union, NIKE, Inc. is a member of the multi-stakeholder Observatory on Counterfeiting, established after agreement by EU member states in early 2009. We are

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contributing to the Observatory's work program, in particular on future directions for IP policy and legislation, data collection and raising consumer awareness.

Through our membership of FESI (EU Sporting Goods Association), Nike has also been engaging with a number of national EU governments on national IPR legislative initiatives and improved IP enforcement, particularly in France, Italy, U.K. and the Czech Republic. In 2008, FESI hosted the first meeting between the sporting goods sector and representatives from EU and Turkey to help launch the start of a formal IPR dialogue with the goal of IPR legislative alignment and improved mutual cooperation.

In China NIKE, Inc. is a founding member of the Quality Brands Protection Committee (QBPC), a brand-owners' coalition with more than 180 company members. QBPC was founded in 2000 and has since worked effectively and cooperatively with the Chinese government, and multinational and domestic companies in the fields of IPR and brand protection. Through this platform, Nike has strengthened its position and status by participating with QBPC in the revision of various Chinese IPR laws and regulations, and speaking at IPR-related seminars and forums. In 2008 NIKE, Inc. received an award for success in IPR enforcement from QBPC.

NIKE, Inc. is also an active member of the International Anti-Counterfeiting Coalition (IACC), whose mission is to combat counterfeiting and piracy by promoting laws, regulations and directives designed to render the theft of intellectual property undesirable and unprofitable. The IACC serves as an umbrella organization, offering anti-counterfeiting programs designed to increase protection for patents, trademarks, copyrights, service marks, trade dress and trade secrets. NIKE, Inc.'s Director of Corporate Security is chair of the IACC board and takes the industry lead working with key global stakeholder on enforcement matters and works closely with Nike on global legislative and policy issues.

EMPLOYMENT

NONDISCRIMINATION

At NIKE, Inc., we believe diversity and inclusion is about respecting our differences, leveraging our strengths and maximizing opportunity for everyone. NIKE, Inc. is passionately supportive of its employees, respectful of our consumers and committed to equality for our athletes. As a result, these values make us a better company and more competitive in our industry.

In this spirit, NIKE, Inc. has been a strong advocate toward passage of the [U.S. Employment Non-Discrimination Act of 2009](#) (EDNA).

EDNA would prohibit employers, employment agencies, labor organizations and joint labor-management committees from firing, refusing to hire, or discriminating against those employed or seeking employment on the basis of their perceived or actual sexual orientation or gender identity.

Such protections are already in place prohibiting discrimination based on race, religion, gender, national origin, age and disability in the United States. However, in 29 states, it remains legal to fire or refuse to hire or promote someone because of their sexual orientation; in 38 states, it is still legal to do so based on gender identity or expression.

As an advocate of EDNA, NIKE, Inc. recently joined members of the U.S. Congress in support of the bill's reintroduction in the U.S. House of Representatives and testified before the U.S. Senate at the bill's reintroduction hearing. Also, to build coalition support, Nike has worked with the [Human Rights Campaign's Business Coalition for Workplace Fairness](#), a group of more than 80 leading companies that support EDNA's passage.

Nike also works with the [Human Rights Campaign](#) as a member of the [Business Coalition for Benefits Tax Equity](#). The coalition is a group of leading U.S. employers that support legislative efforts to end the taxation of health insurance benefits for domestic partners and treat them the same as health benefits for federally recognized spouses and dependents.

GAINING GOVERNMENT SUPPORT IN NIKE'S SOURCING CONSOLIDATION AND EXIT

In March 2009, Nike announced plans to consolidate parts of our global sourcing base as part of our strategic partnership and restructuring goals. NIKE, Inc. provided a minimum of six-months advance notice to impacted factories; located primarily in China, Indonesia, Thailand and Vietnam. We developed a government and public affairs strategy based on proactive outreach to key government entities across the region. Outreach objectives included assuring governments that NIKE, Inc. remained committed to the country and region, providing transparency and insight into NIKE, Inc.'s strategies and decisions, and welcoming government support and oversight with factories and communities during the transition period. While many factories found additional customers, we worked to help ensure impacted workers received legally mandated benefits from their employer as well as any benefits or support available from the government. Our strategies are working with and reminding our partners of the relevant legal and regulatory obligations regarding workers severance and consulting with government for job opportunities.

NIKE, Inc. believes these outreach and education efforts reduced the impact of our consolidation efforts on both workers and communities. Our actions also demonstrate NIKE, Inc.'s commitment to being transparent with key stakeholders.

SUPPLY CHAIN

FREEDOM OF ASSOCIATION

We are updating Nike's Code and Code Leadership Standards to make clearer the responsibility of contracted factories to respect their employees' right to freedom of association and collective bargaining to the extent permitted by local law. This includes the right to form and join trade unions and other worker organizations of their own choosing without harassment, intimidation, interference or retaliation. Where national law restricts freedom of association, the contracted factories are required to facilitate alternate means to individually and collectively engage with their employees and for employees to express their grievances and protect their rights regarding working conditions and terms of employment.

The updated requirements will also address the obligation to comply with any local laws providing special protection to employees or worker representatives engaged in union activities, a prohibition on disciplining employees having engaged in legal strikes, the duty to bargain in good faith and honoring the terms of any negotiated collective bargaining agreement.

RESPONSIBLE TRANSITIONS

We are updating Nike's Code Leadership Standards to include worker protections in the event of factory closure or retrenchment. These steps include standards for factories that include, at a minimum, notice, consultation, severance and collective bargaining.

Contracted manufacturers are also required to make payment to workers of retirement or severance funds, in compliance with local law. This requirement includes contracted manufacturers facilitating payments of social security provisions to which the employee may be entitled, such as unemployment insurance, and accurate record keeping on payment into and maintenance of funds to ensure workers are protected.

In addition, contracted manufacturers are encouraged to go beyond what is required by law or collective bargaining to provide outplacement or retraining assistance, additional financial support, medical benefits and assistance in obtaining government benefits. The contractor is encouraged to provide these either directly or in coordination with governments, NGOs or third parties.

DEVELOPING/ENABLING COMPETITIVE SUPPLY CHAINS

NIKE, Inc. recognizes the need for a well-coordinated and efficient supply chain for its business and the industry. Because the supply chain spans multiple jurisdictions from raw materials, production, shipping, retail and, ultimately, to consumers, a consistent and mature public policy position is needed.

We support policies that deliver efficient, cost-effective delivery of NIKE, Inc. products in a responsible manner. Our efforts concentrate on ensuring efficient transport, security and safety of NIKE, Inc. products throughout the supply chain. In addition, we advocate for policies that help to ensure that NIKE, Inc.'s supply chain – from factory to consumer – operates in a manner that considers both people and the environment at each step of the way. We work with a number of bodies to advocate for these policies. These include national governments, industry associations and NGOs.

INFRASTRUCTURE IN VIETNAM

Nike has played a leadership role, along with other businesses and multilateral development organizations, in supporting infrastructure development in Vietnam. Nike created and led a public-private partnership that offered an Infrastructure Exchange Program for Vietnamese government officials. The first component of the program involved having key Vietnamese government officials visit a Nike footwear factory in Vietnam and subsequently physically follow the movement of finished products from the factory to the port. The group traveled to southern China, an area well-known for its development of physical infrastructure. They also visited Singapore to see world-class port facilities and operations and learn about infrastructure planning and financing. Each component included presentations and dialogue with experts in various fields.

We believe improved infrastructure, specifically roads and ports, will lead to additional investment and job creation in Vietnam, thereby improving economic opportunities and the standard of living.

Improved roads and related infrastructure lead to more efficient transport of goods, contribute to a decrease in traffic congestion, and reduce emissions and related pollution. These improvements benefit businesses, including Nike, that contribute to job creation and economic development. This model of cooperation is an example of how the private sector can work with other key stakeholders on important development issues and opportunities.

SUSTAINABILITY

CREATING SUSTAINABLE MODELS FOR CONSUMPTION AND GROWTH

Nike's commitment is to create extraordinary performance products for athletes while managing our business within nature's limits. We anticipate a future that seeks out and rewards new models of consumption and growth, separated from material consumption. It's a transition from build, buy and bury – the common business model today – to a future of sustainable business models for consumption and growth.

As we embark on this journey, it's clear to us that government will play an important role. Not only in setting the policy framework and legislative environment for emerging business models and sustainable products but also as a key partner to help drive innovation, collaboration and partnership with other stakeholders in the clothing and footwear sectors.

Our engagement with government on sustainable consumption and growth is still evolving as we, and others in our industry, face up to these new challenges. However, we already have an agreed set of policy objectives:

- *Partner with governments on defining and shaping public policies that encourage, incentivize and reward innovation for sustainable materials, product and business models in the footwear and clothing sectors.*
- *Create partnerships with government, industry, academia and NGOs to share these common challenges and to agree on how best to leverage and deliver agreed policy goals through sharing best practice and identifying incentives for innovation to achieve our common shared policy outcomes.*
- *Engage with government and other stakeholders in specific policy forums and where legislative change is being discussed to ensure our voice and experience is part of the debate on the challenges to move forward toward our common goal of sustainable production and consumption.*
- *Focus on key policy issues of climate change, sustainable materials and product and post-consumer waste.*

Government policy on sustainable business models for our sector is still emerging, posing both an opportunity and a challenge. The examples below illustrate NIKE, Inc.'s commitment to partner with government and take a leadership role to help drive change and policy outcomes aligned with our Considered goals.

UNITED KINGDOM – Sustainable Clothing Action Plan

Since early 2008, Nike has been a lead member of the United Kingdom's (U.K.) Sustainable Clothing Action Plan (SCAP). Through SCAP, we are partnering with the U.K. government to improve the environmental and social impacts of the clothing supply chain. SCAP launched in February 2009 at Estethica, London Fashion Week's sustainable fashion show. Main areas of focus for the action plan are the reuse, recycling and development and use of sustainable fibers.

Nike is working with several SCAP project teams to provide data, best-practice examples and expertise on materials analysis and assessment, and to share Nike's Considered Design principles. Nike also shares the goal of combining innovative sustainable design, development and manufacturing practices to create performance products for athletes with other SCAP stakeholders. We have also been involved strategically, through our membership of the SCAP Steering Group and by committing to a number of key deliverables by 2010.

Nike believes this partnership is a valuable opportunity to work together with other stakeholders in the apparel industry and to share best practice and findings. We are also building a stronger relationship with the U.K. and European governments as they consider legislation that will shape the future of the clothing industry in areas such as recycling, environmental labeling, consumer awareness and sustainability. Nike clearly supports these policy goals and we believe that through this kind of partnership we can help create market-based, realistic solutions to drive greater sustainability throughout our supply chain.

BRAZIL AMAZON BIOME – LEATHER SOURCING POLICY

In June 2009 Nike was approached by the international environmental group Greenpeace about leather sourcing from the Brazilian Amazon Biome. Greenpeace had just issued an extensive report detailing how cattle farming in the Amazon Biome basin caused significant deforestation issues, a leading cause of Brazil's contribution to climate change. Greenpeace asked Nike and other companies to join it in agreeing to stop working with leather suppliers who were unable to ensure that their cattle farms in their supply chain were not located on deforested, indigenous or protected lands. NIKE, Inc. signed on to [Greenpeace's commit or cancel policy](#) and is currently working with Greenpeace, the Brazilian Government, our suppliers and other brands through the [Leather Working Group](#) to deliver an effective traceability program to meet the goals of zero deforestation.

CLIMATE

For almost 20 years NIKE, Inc. has recognized that climate change is an important challenge requiring urgent, meaningful action. We have developed and pursued a number of initiatives to reduce our impact on the climate. In 2007, we moved beyond focusing solely on NIKE, Inc.'s impact and invited environmental stakeholders to our headquarters to discuss current efforts and brainstorm around public policy advocacy. At that point, climate change legislation had already moved through most European capitals, but was stalled in the United States.

Having realized no existing trade or business coalition represented our perspective on climate change, we helped create our own business coalition to advocate for climate change legislation, [Business for Innovative Climate and Energy Policy](#).

Made up of like-minded companies and working in close consultation with the [Coalition for Environmentally Responsible Economies](#) (CERES), BICEP started by developing a series of key principles that we believed were required in any legislation that passed the U.S. Congress. Once BICEP's initial principles were drafted, we recruited other companies to join, started reaching out to members of Congress and built a public relations campaign. We believe our advocacy work made a significant difference in gaining House passage of climate change legislation, and we plan to do the same when the Senate considers the legislation. What makes BICEP's voice unique is our ability to make the business case for the passage of climate change legislation. BICEP members believe it is directly related to the ongoing success of our businesses. This business perspective is important in the political debate, as most businesses and trade associations are opposed to the legislation because they fear it would be too costly to implement. While we don't minimize these concerns to businesses that are major carbon emitters, we believe delaying the legislation and undercutting the U.S.'s ability to move toward an international agreement on climate change would become more costly in the long run.

We will continue expanding the work of BICEP after the U.S. passes climate change legislation and use our voices to promote and achieve an international agreement on climate change. We will then press for implementation of that agreement in key countries around the globe. We intend to duplicate and use the BICEP model of building and working in broad coalitions with other companies as a model in other public policy areas that are important to NIKE, Inc. CR initiatives.

SPORT

NATIVE AMERICAN MEMORANDUM OF UNDERSTANDING

Nike is committed to helping Native American youth to realize their full potential through the power of sport. We launched [Nike Air Native N7 footwear](#) to not only provide footwear specifically designed to fit the Native American foot, but also to return 100 percent of profits directly to the Let Me Play on Native Lands Fund. This fund supports sports and physical activity programs for Native American youth. Over the last six years, Nike and the Indian Health Service (IHS) have built a historic partnership by executing a Memorandum of Understanding beginning in 2003 to collaborate in promoting the health of Native American and Alaska Native individuals and communities.

PASSAGE OF TITLE IX

Since Title IX's enactment in 1972, NIKE, Inc.'s has leveraged athletes, milestones and events to champion this important legislation. Working with coalition partners like the Women Sports Foundation, National Women's Law Center and the NCAA, Nike has continued to champion our quest to keep the playing field fair by lobbying key federal officials to keep Title IX strong.

The achievements of girls and women following the passage of Title IX, both in sports and education, have been extraordinary. Title IX has enabled one of the greatest movements of our time by opening the door for female athletes to pursue their dreams through sport, and it has simultaneously improved gender equality.

Research has shown that since 1972, female participation in high schools sports has increased by 940 percent. Female participation in sport at American universities has outpaced the number of male participants.

As the number of female athletes sponsored by Nike continues to grow, we have made it a priority to draw attention to their abilities and achievements.

Nike respects the power of the voices of our athletes to inspire and motivate, and they have spoken loud and clear about their support for Title IX. We are committed to providing our athletes opportunities to join in our efforts to play fair and to keep the mission of Title IX alive.

Disclosure/Transparency in the Government World

POLITICAL CONTRIBUTIONS

As part of our advocacy work in the United States, NIKE, Inc. makes federal-, state- and local-level political contributions.

At the state and local level, the primary focus of NIKE, Inc.'s political giving to both issue ballot measures and candidates is in Oregon, the state where our World Headquarters is located. Oregon law requires full and timely reporting by all candidates as well as all ballot measure campaigns receiving contributions. Oregon contribution reporting can be found at www.sos.state.or.us. On a limited basis, NIKE, Inc. also contributes to some state and local candidates and to ballot measure campaigns in California, Missouri, Tennessee and Washington when there have been particular business issues in those states that potentially impact NIKE, Inc.

At the federal level, under current U.S. election law it is illegal for corporations to give money to elected federal officials and/or candidates running for federal office. However, the law allows for employees of corporations to jointly contribute to candidates through the creation of political action committees (PACs). Since 1981, NIKE, Inc.'s PAC has supported federal candidates from both political parties who are sensitive to and supportive of NIKE, Inc.'s business interests and goals. The NIKE, Inc. PAC is modest and limited in scope compared to other U.S. companies. Contributions made by the NIKE, Inc. PAC to federal office candidates can be found on www.fec.gov.

EUROPEAN TRANSPARENCY INITIATIVE

As part of its ongoing efforts to improve transparency, accountability and public confidence, the European Union's European Commission has launched a voluntary online register for interest representatives (groups and bodies who seek to influence policy formulation and decision-making processes of EU institutions). NIKE, Inc. has been strongly committed to transparency in government advocacy for many years. As such, we view this initiative as an opportunity to encourage greater transparency and we registered on December 18, 2008.

On the Horizon

The public policy work we do becomes increasingly important in the light of fast moving changes and trends. Three key trends that cause us to pause and think about how we elevate public policy work to be a key strategic asset for NIKE, Inc.:

- *With the global recession has come a substantial increase in trade protectionism across the world.*
- *In many of our emerging markets government plays a very important role in enabling business.*
- *We see the world of public policy evolving rapidly, with new approaches to coalitions, new advocacy strategies, new public/private partnerships developing. We think this is exciting, and ripe with opportunity.*

Traditionally, the government affairs function can be heavily focused on reactive, risk abatement strategies. Increasingly, we have sought to develop our public policy and advocacy work as a strategic asset for the company. We are still in the early days of this work, but we see that policymakers have a key role in enabling the right conditions for scaling better business practices, value creation and new business models.

GUIDLINES AND PRINCIPALS INDEX

To view the Guidelines and Principals Index, please visit [our website](#).

GLOSSARY ACRONYMS + TERMS

Acronyms

AFIRM	Apparel and Footwear International RSL (Restricted Substances List) Management
BICEP	Business for Innovative Climate and Energy Policy
BOD	Biochemical (biological) oxygen demand
BRAC	Bangladesh Rural Advancement Committee
BSR	Business for Social Responsibility
CAFA	Charities Aid Foundation of America
CAMFED	Campaign for Female Education
CCTF	China Children and Teenagers' Fund
CDP	Carbon Disclosure Project
CERES/Ceres	Coalition for Environmentally Responsible Economies
CLS	Code Leadership Standard
CO ₂	Carbon dioxide
COC	Code of Conduct
COD	Chemical oxygen demand
CR	Corporate responsibility
EDNA	U.S. Employment Non-Discrimination Act of 2009
EHQ	NIKE, Inc's European Headquarters
EMEA	Europe, Middle East and Africa
EOT	Excessive overtime
EPA	Environmental Protection Agency
EPM	Environmentally preferred material
ESH	Environment, safety and health
EU	European Union
FCPA	Foreign Corrupt Practices Act
FESI	Federation of European Sporting Goods Industry
FFC	Fair Factories Clearinghouse
FLA	Fair Labor Association
FOA	Freedom of association
FSC	Forest Stewardship Council
FY	Fiscal year (Nike's begins June 1 each year)
G-20	Group of 20

GLOSSARY ACRONYMS + TERMS

GHG	Greenhouse gas
GLBT	Gay, lesbian, bisexual, transgender
GRI	Global Reporting Initiative
GX	GreenXchange
HR	Human resources
HRM	Human resources management
HWC	Homeless World Cup
HVAC	Heating, Ventilating and Air Conditioning
IBLF	The Prince of Wales International Business Leaders Forum
ICRW	International Center for Research on Women
IACC	International Anti-Counterfeiting Coalition Inc.
IFC	International Finance Committee
IHS	Indian Health Service
ILO	International Labor Organization
IP/IPR	Intellectual Property / Intellectual Property Rights
IPCC	Intergovernmental Panel on Climate Change
IT	Information technology
J-PAL	Abdul Latif Jameel Poverty Action Lab (Massachusetts Institute of Technology)
KPI	Key performance indicators
LEED-EB	Leadership in Energy and Environmental Design for Existing Buildings
LEED-CI	Leadership in Energy and Environmental Design for Commercial/Industrial
LEED-NC	Leadership in Energy and Environmental Design for New Construction
LWG	Leather Working Group
kWh	Kilowatt-hour
M-Audit	Management Audit
MAP	Master action plan
MAT	Material Analysis Tool
MAV	Management Audit Verification
MDG	Millennium Development Goals
MFA	Multi Fibre Arrangement
MOU	Memorandum of understanding
MSI	Multi-stakeholder initiatives
MSP	Multi-stakeholder partnership

GLOSSARY ACRONYMS + TERMS

MWBE	Minority- and Women-Owned Business Enterprise
NGO	Non-governmental organization
NITC	NOS/Nike Innovation Training Center
NOS	(lean)
NSAP	New Source Approval Process
NSIF	Nike School Innovation Fund
OECD	Organization for Economic Cooperation and Development
PAC	Political action committee
PATH	Program for Appropriate Technology in Health
PBAS	Partnership Brokers Accreditation Scheme
PDS	Petroleum-derived solvents (formerly referred to as Volatile Organic Compounds (VOCs))
PFP	Perfluoropropane
PVC	Polyvinyl chloride
QBPC	Quality Brands Protection Committee
RAS	Reuse-A-Shoe
REC	Renewable Energy Certificate
ROI	Return on investment
RSL	Restricted substances list
SAFI	Sustainable Apparel and Footwear Initiative of the Multi-Fibre Arrangement
SAY	Shaping America's Youth
SB+I	Sustainable Business and Innovation
SF6	Sulfur hexafluoride
SCAP	Sustainable Clothing Action Plan
SHAPE	Safety, Health, Attitude, People and Environment
SKUs	Shop-keeping units
SPARK	Sports, Play and Active Recreation for Kids
SRI	Socially responsible investment/investor
SUSU	Stand Up Speak Up
TSS	Total suspended solids
UNGC	United National Global Compact
UNHCR	United Nations High Commissioner for Refugees
USGBC	U.S. Green Building Council
VOC	Volatile organic compound

GLOSSARY ACRONYMS + TERMS

WEF	World Economic Forum
WFN	Women's Funding Network
WFSGI	World Federation Sporting Goods Industry
WHQ	NIKE, Inc's World Headquarters
WTO	World Trade Organization
WWF	World Wildlife Fund

GLOSSARY ACRONYMS + TERMS

Terms

Baseline Standard A measured level of performance, across certain criteria, at a given point in time.

Business Unit A part of the business that performs specific tasks, develops strategies, and manages performance.

Closed-Loop Closed-loop products are designed and built for reuse and recycling. Imagine running shoes made with only environmentally preferred materials that can be disassembled into their parts, recycled into new materials and used to produce new running shoes. Nike is extending Closed-Loop thinking to manufacturing and other business processes.

Considered Design A company-wide design ethos and a team focused on sustainable product innovation, dedicated to increasing the use of environmentally preferred materials and decreasing waste and toxics in Nike branded products.

Considered Index Evaluates Nike product against Considered Design Ethos on five criteria: materials, waste, materials, garment treatments, innovation

Creative Commons Nonprofit organization that increases sharing and improves collaboration; NIKE, Inc's partner with other businesses in launching GreenXchange

Culture of Empowerment A cornerstone of lean manufacturing, pioneered by Toyota. Model illustrates overlap in those areas identified for creating a culture of empowerment and those showing the most need for improvement from factory management audits.

Downstream Parts of the value chain closer to the end consumer.

Embedded energy Energy investment in a product; energy used in the work of making a product

Funnel The Natural Step visual construct demonstrating the transition from today's economy to a sustainable economy.

GLOSSARY ACRONYMS + TERMS

GreenXchange New platform for enabling the sharing of intellectual property established by NIKE, Inc, Creative Commons and partner businesses.

Inside the Lines NIKE, Inc's Code of Ethics

Lean A philosophy of delivering the most value to the customer while consuming the fewest resources.

Let Me Play Nike programming for global youth excluded from access to sport.

Making the Case™ Measurement and evaluation framework created by the Women's Funding Network

The Natural Step A nonprofit environmental education organization working to build an ecologically and economically sustainable society.

Nike Grind Material used in sports surfaces, playgrounds and other product made from recycled shoes through Nike's Reuse-A-Shoe program.

North Star Our aim, defining what sustainable products and a sustainable company would look like.

Responsible Competitiveness Increasing business and industry competitiveness through responsible practices across the supply chain.

Rewire A Nike-wide review of how we could influence improvements of working conditions in contracted factories.

ROI₂ Business strategies that generate a combination of financial, environmental and/or social returns on investment.

Scorecard A mechanism for measuring progress against vision and strategy that provides a comprehensive view of performance.

GLOSSARY ACRONYMS + TERMS

Sustainable Venture

A social or environmental partnership that is self-sustaining financially.

Title IX

1972 U.S. legislation, the Patsy T. Mike Equal Opportunity in Education Act, that opened the door for female athletes to pursue sport and improve gender equality.

Upstream

Parts of the value chain closer to concept and design.

WE Portal

Collaborative digital tool for employees to connect with community organizations and one another and take on issues that are important to them. It enables employees to volunteer, donate and give their voice to the organizations and communities they care about.

Wikinomics

Open-sourced mass collaboration.

