



SUSTAINABLE INNOVATION IS A POWERFUL ENGINE FOR GROWTH

FY14/15 NIKE, INC.
SUSTAINABLE BUSINESS
EXECUTIVE SUMMARY





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LETTER FROM OUR CEO

We live in a time of unlimited opportunity and relentless change.

The connection between the digital and physical worlds is closer than ever. The design process is faster and more personal. And the challenge of climate change demands everyone's ingenuity.

At NIKE, we unite these forces through sustainable innovation – a powerful strategy that drives us to dream bigger and get better. But to achieve the impossible, we have to rethink the fundamentals. Everyday I challenge my team to do just that, guided by a single, moonshot question: “Can we double our business, while halving our environmental impact?”

Getting there means strengthening every aspect of our business. It means inventing closed-loop products. Moving to 100% renewable energy. Pioneering a manufacturing revolution that puts workers' voices in the heart of the business model. Fostering a diverse workplace and an inclusive culture that unleashes innovation.

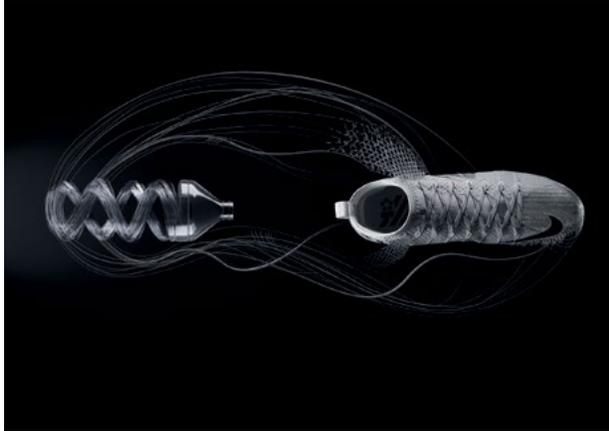
Incremental change won't get us there fast enough. We have embraced sustainable innovation as a powerful engine for growth and a catalyst for change – not only for our own business, but across industries.

That's why we're partnering with innovators who help us accelerate systemic change at scale. With Flex, we're taking a fresh approach to footwear manufacturing. With DreamWorks and their technology company NOVA, we're building a 3D digital design system to transform our product creation process. And with the Ellen MacArthur Foundation we're exploring new business models that keep materials in play through reuse and regeneration.

These partnerships help us realize our own potential – because if we dare to design the future, we must do it together.

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“WE KNOW THAT THE TRANSITION TO A LOW-CARBON GROWTH ECONOMY WILL BE DRIVEN BY A MIX OF BUSINESS INNOVATION, INDUSTRY COLLABORATION AND GOVERNMENT POLICIES.”

The NIKE, Inc. FY14/15 Sustainable Business Report, which details NIKE’s progress in multiple areas, shows where we exceeded expectations, and where we came up short.

There is much to be proud of.

We’ve worked for over 15 years to understand, track and decrease carbon across our value chain. Since 2008, our revenues have increased by 64% and we’ve limited our absolute emissions to only 20% growth across product manufacturing, logistics and our owned facilities. This represents a decrease of our per unit carbon emissions by 19%.

We continue to work with fewer and better factories that are committed to moving beyond compliance. We’re investing in green, equitable and empowered workplaces – even as our business grows. And we’re sharing the lessons we’ve learned across the industry, so everyone can work together to advance change.

We have continued our focus on decreasing waste dramatically. Today, Nike Grind – a palette of premium recycled materials – is used in 71% of NIKE footwear and apparel products, in everything from yarns and trims, to soccer kits and basketball shoes.

This work is challenging and we don’t have all of the answers. But, it starts with focusing on where we can drive change.

From an impact standpoint, materials matter the most. In fact, in one pair of NIKE shoes, 60% of the environmental impact comes from materials. One of the keys to our success will be to develop a new palette of sustainable materials. To do that, we’re innovating with others like the Sustainable Apparel Coalition and LAUNCH – a partnership with NASA, USAID and the State Department.

By creating low-impact and regenerative materials, we can continue to move towards a high-performance, closed-loop model that uses reclaimed materials from the start. Coupled with smarter designs, we can create products that maximize performance, lighten our environmental impact and can be disassembled and easily re-used.

We plan to take the next step in our closed-loop vision with a bold target for FY2020: zero waste from contract footwear manufacturing going to landfill or incineration without energy recovery.

But that’s just the start. We know that the transition to a low-carbon growth economy will be driven by a mix of business innovation, industry collaboration and government policies. That’s why we are reducing carbon emissions through increased efficiency and renewable energy. To support smart policies, we signed onto the American Business Act on Climate Pledge and co-founded We Mean Business – representing the voice of businesses at the global climate negotiations.

Over time, an impressive story has unfolded: as we reduce our carbon footprint, we continue to drive amazing growth. Looking ahead, we’re setting a target to reach 100% renewable energy in owned or operated facilities by the end of FY25.

But we’re not stopping there. One of NIKE’s most profound transformations is in how our products are made. We call it a Manufacturing Revolution.

It starts with our customers’ rising expectations. Powered by mobile, they want every experience to be personalized and at their fingertips. Meanwhile, technology is accelerating. New tools, like digital knitting and 3D printing, are rewriting the rules of performance engineering and manufacturing. This promises to increase

efficiency, customization and speed to market for consumers everywhere.

While NIKE's manufacturing model is rapidly evolving, our fundamental principles remain the same. None is more important than contract factory workers who are valued and engaged.

We have worked alongside others for over twenty years to improve labor standards in contract factories. We've learned a lot in that time.

And we've seen the limitations of the existing system. Compliance to our Code of Conduct is a foundational requirement, but it can't end there. We expect any contract factory partner we work with to understand that an empowered and engaged workplace is a productive and profitable business model. The factories that make these investments will be the ones that join the manufacturing revolution.

“AT NIKE, WE BELIEVE THAT DIVERSITY FOSTERS CREATIVITY AND ACCELERATES INNOVATION.”

A decade ago, NIKE was the first company in our industry to publicly disclose our factory base. It embodied one of our core beliefs: that progress starts with transparency and collaboration. As the next step, we are advocating for a convergence of compliance standards across the entire industry as a way to help factories to accelerate progress for workers. By joining together, we can raise standards in far more factories, and affirm far more workers are protected, valued and engaged.

We have ambitious business targets for the future. To make them happen, we know it's going to take creativity, passion and leadership from our own people.

At NIKE, we believe that diversity fosters creativity and accelerates innovation. We value the unique backgrounds and experiences everyone brings, and want all who join us to realize their full potential. Because different perspectives can fuel the best ideas, we are committed to a workplace that is increasingly diverse and inclusive. We are strengthening our recruitment, promotion and retention of diverse talent throughout the world,

with the goal of reflecting the diversity of the consumers we serve and communities where we live and work. While we've made progress, we will accelerate our efforts by expanding representation of women and people of color to start, while continuing to increase diversity of all dimensions across our business long term. And we're advancing inclusion in the U.S. through a new Family Care benefit that will support all new parents, and also those caring for sick family members.

I'm proud of what we have achieved and, in many areas, we've made major transformations in our business. In others, we're still at the starting line. No matter if we miss, hit or surpass our targets, we will never stop trying to achieve our ultimate vision of the future.

A future where we produce closed loop products – created with renewable energy and recyclable materials.

A future where supply chains are fueled by skilled and valued workers – all of them supported by industry's unified standards.

And a future where NIKE's creative, driven and diverse teams continue to push the boundaries of what's possible – while engaging deeply with local communities.

This represents a new business model, driven by sustainable innovation. I believe it will accelerate change like the world has never seen. It means leveraging all of our talents. It means taking the long view. And above all, it means embracing an innovation mindset, where we push the limits of our business – and our collective potential – in unprecedented ways.

Best,



Mark Parker
President & CEO
NIKE, Inc.





OUR AMBITION: DOUBLE OUR BUSINESS, WITH HALF THE IMPACT

This is NIKE, Inc.'s moon shot – a single, bold and audacious innovation ambition guiding our future. One that will fuel our creative design process, drive innovation to disrupt our own business model and propel us to rethink and transform our industry.

We won't always know how or when we'll get there, but our strategies, our investments and our targets are being set with this ultimate objective in mind.

Over the past 20 years, sustainability has become a game-changer for NIKE. It's a catalyst for revolutionizing the way we do business and an innovation opportunity that's been integrated across our business in policies, processes and products. Today, we are innovating at scale to deliver better solutions that benefit athletes, the company and the world. We call this sustainable innovation.

Now, more than ever, we know with absolute clarity that sustainable innovation is a powerful engine for growth. It is unlocking a new paradigm in which sustainability, athletic performance, factory worker empowerment and business growth go hand in hand, rather than being seen as trade-offs.

As we accelerate the pace and scale of sustainable innovation, we will always do it in service of the athlete. We will design footwear and apparel that delivers both performance and sustainability, by considering every aspect of how we create them. When we make, we will activate and scale new manufacturing approaches that are lean and green, where workers are valued and engaged, where waste is reduced and materials are used time and again.

NOTE: NIKE, Inc., and subsequent references to NIKE includes NIKE Brand, Hurley, and Converse.



ACCELERATING TOWARD A LOW- CARBON GROWTH ECONOMY

A sustainable economy is a low-carbon growth economy. NIKE uses carbon as a leading indicator to assess our sustainability, but we recognize sustainability goes way beyond carbon. It means addressing all our impacts on the environment and in the communities where we operate, supporting labor rights in supply chains, and continuing to serve the athlete* and to deliver value for our shareholders.

As the world's leading designer, marketer and distributor of athletic footwear, apparel, equipment and accessories, NIKE is already adapting to the current and future challenges that climate change triggers. Resource scarcity, fluctuations in the prices of raw materials and disruptions to supply chains are real concerns for business. Across the NIKE value chain, they have the potential to affect our suppliers and their workers, along with our assets and partners. And as a company that exists to serve athletes, we understand the broader impact that climate-related issues have, such as pollution and extreme weather, which can prevent access to sport and affect an athlete's ability to perform.

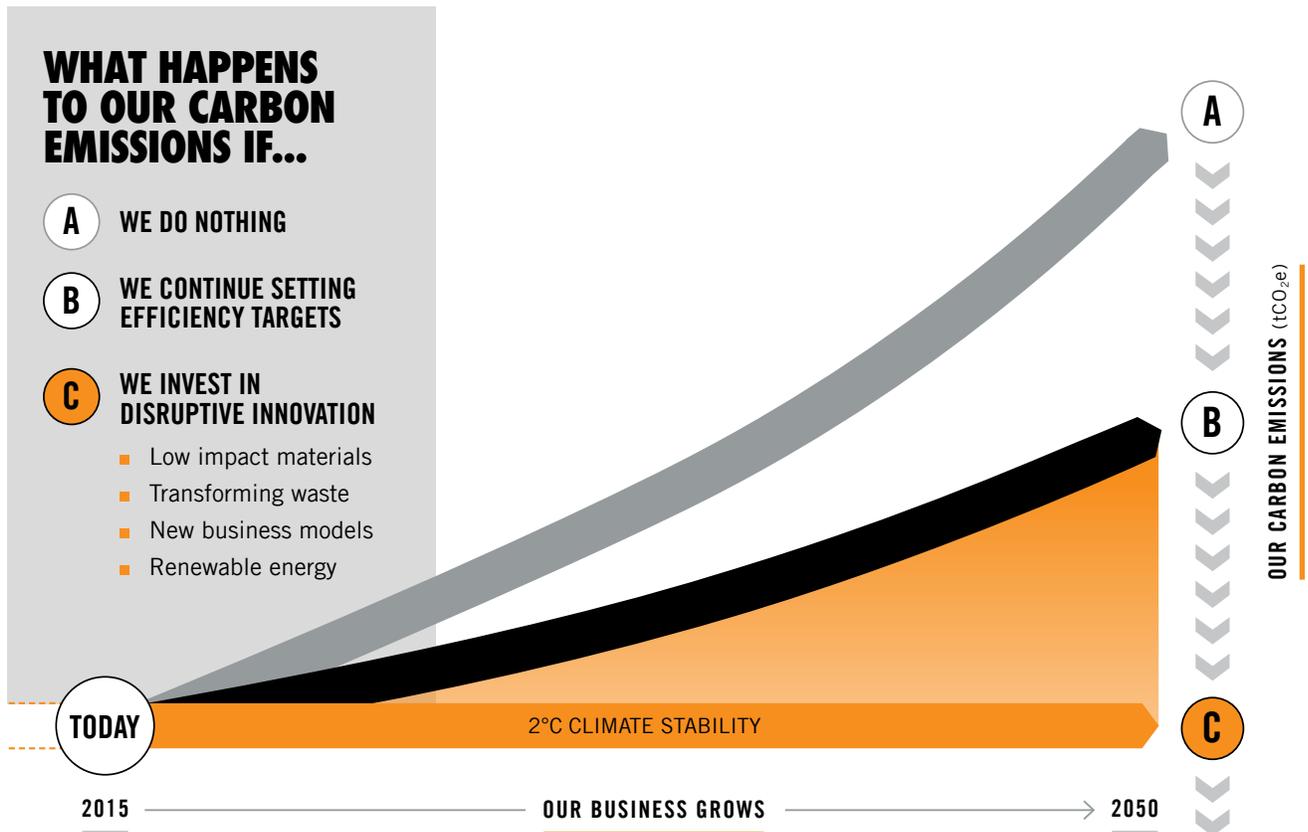
For nearly 15 years, we've publicly stated our belief that the science is right, climate change is real and the world will need to radically redesign industrial systems and economies. With the Paris Agreement (21st Conference of Parties – COP21) on climate action, we see strong emerging signs that we're at the dawn of a fundamental economic and societal shift. NIKE aims to be at the forefront of catalyzing new technologies and policies that have the potential to drive our industry closer toward a low-carbon growth economy.

*"If you have a body, you are an athlete."
– Bill Bowerman

THE INNOVATION IMPERATIVE

NIKE is committed to reducing our carbon emissions to a level that supports the global carbon budget (the total global carbon emissions possible to limit the average global temperature to a rise of no more than 2°C) agreed by 195 countries in December 2015 at COP21. We have forecast the rate at which our carbon emissions could increase if we were to follow a mindset of “business as usual” up to 2050, factoring in projected growth. What becomes abundantly clear is efficiencies alone will not suffice – for NIKE, or the world.

WE KNOW EFFICIENCY ALONE IS NOT ENOUGH. THE WORLD NEEDS SYSTEMIC CHANGE AT SCALE. WE MUST INNOVATE.



THE FUTURE WILL BE CIRCULAR

Setting impact reduction and improvement targets continues to be a key foundation element in NIKE's mid-term strategy. Our 2020 targets demonstrate NIKE's commitment to setting aggressive efficiency measures across our entire value chain. They're based on sound science and data, and supported with robust controls and governance to monitor progress. Every NIKE business function is accountable for delivering against our sustainability goals.

At the same time, we are aggressively investing in a portfolio of sustainable innovations to take us beyond 2020 and on to our moon shot of doubling our business with half the impact. In order to achieve this, and propel ourselves into a low-carbon growth economy, we know product and business model innovation will be critical.



We envision a transition from linear to circular business models and a world that demands closed-loop products – designed with better materials, made with fewer resources and assembled to allow easy reuse in new products. This will involve up-front product design, with materials reclaimed throughout the manufacturing process and at the end of a product's life. We are re-imagining waste streams as value streams, and already our designers have access to a palette of more than 29 high-performance materials made from our manufacturing waste. Right now, materials left over from producing NIKE shoes are being reborn as tennis courts, athletic tracks and new shoes.

We are also focused on delivering the conditions for system change at scale. We are dedicated to catalyzing and incentivizing change that will help unlock access to flows of capital and level the playing field on standards across the industry. It is clear that no single company, organization or government has the ability to tackle the sustainable innovation challenge alone. It is an opportunity to think and act differently together. It needs collaboration among industry, civil society, policymakers, workers and business to deliver the financial, science and technology resources and capabilities that will accelerate system-level change.

OUR VISION: SUSTAINABLE INNOVATION IS A POWERFUL ENGINE OF GROWTH

OUR AIMS:

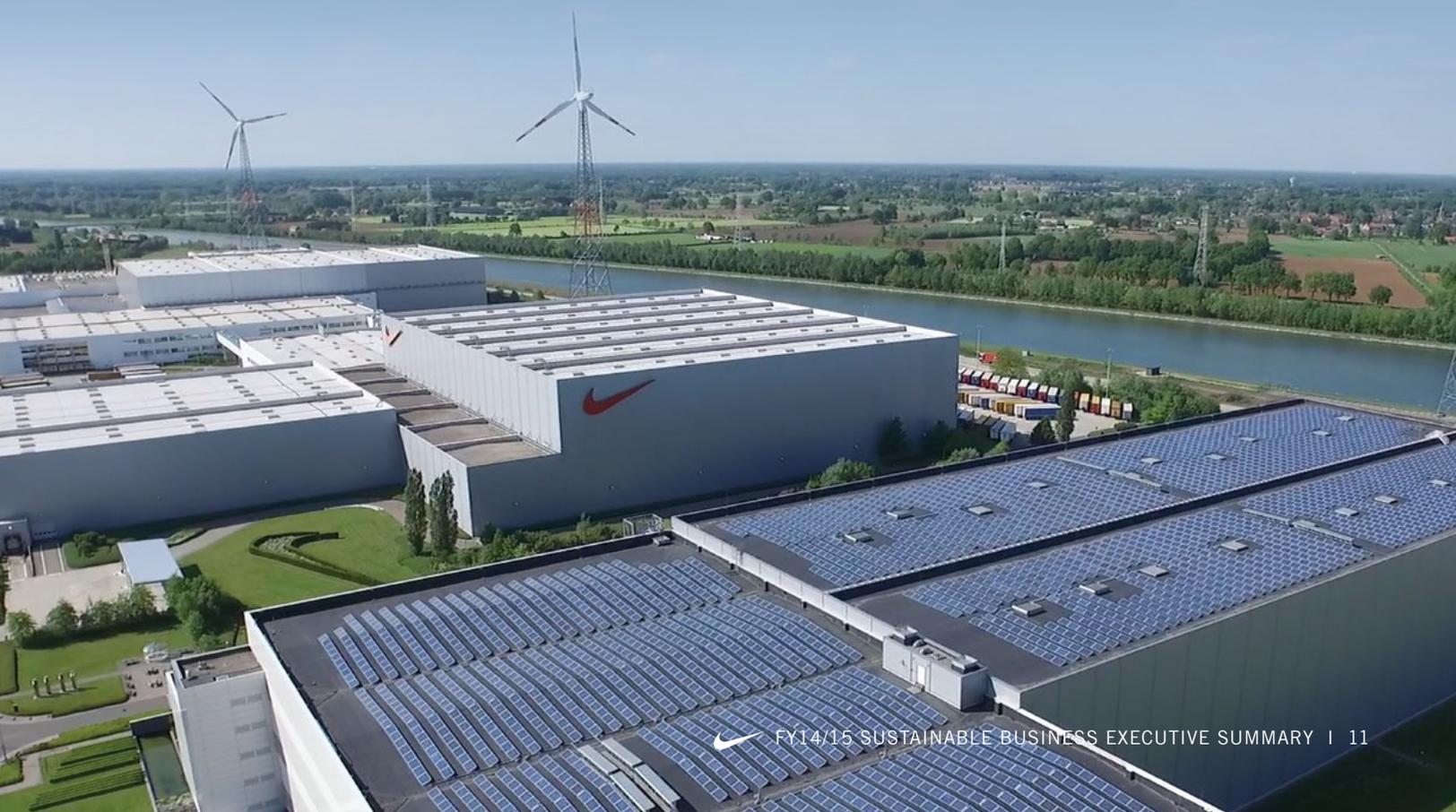
- ▶ Minimize environmental footprint
- ▶ Transform manufacturing
- ▶ Unleash human potential

DRIVERS OF SUCCESS:

- 2020 targets owned by business functions and implemented across NIKE
- Innovation to create closed-loop solutions across materials, products, business models and systems

ENABLED BY:

- Diverse teams unlocking change and innovation at scale
- Smart and consistent public policies that incentivize innovation, promote sustainability, protect supply chains and provide market certainty
- Flows of capital to innovators unlocking low-carbon growth economies



WHEN TO COMPETE AND WHEN TO COLLABORATE

Sustainable innovations are delivering a pipeline of sustainable products and services that unlock competitive advantage. That means we must hold some ideas close. At the same time, we believe there are pre-competitive spaces, where the entire industry can benefit from transparency, sharing innovation and the strategic open-sourcing of tools, data and insights.

When a sustainable innovation is competitive, we focus on building innovation partnerships, investing in start-ups, emerging technologies and new science. We test and prototype solutions, and then we take them to commercial scale. But when a sustainable innovation is pre-competitive, we apply a different set of strategies to scale them up: we collaborate, we share, we open-source, we help create coalitions and consensus, we drive market shifts, and we work to influence standards and public policy.



To advance innovation and drive behavioral change in our industry, NIKE commissions or participates in independent academic research, such as the Harvard case study on “Governance and Sustainability at NIKE;”¹ the Stanford case study on “NIKE: Sustainability and Labor Practices 1998–2013;”² and the report, “Does Lean Improve Labor Standards? Capability Building and Social Performance in the NIKE Supply Chain.”³ Another example is our collaboration with the Massachusetts Institute of Technology (MIT) Climate CoLab, which has sought new ideas on how to engage industries, designers and consumers to value, demand and adopt low-impact materials.

We continue to promote legislative, regulatory and voluntary solutions that support and advance sustainability. We also support harmonized industry standards through organizations such as the Sustainable Apparel Coalition, BICEP (Business for Innovative Climate & Energy Policy) and We Mean Business.

We do all this because NIKE has the opportunity, as an industry leader, to influence industry convergence and systems change that helps enable a low-carbon growth economy.

WE MUST IMAGINE, INVENT AND DESIGN THE FUTURE TOGETHER

OPEN-SOURCING TO ENABLE SPEED AND SCALE ACROSS THE INDUSTRY

Over the past 10 years, NIKE has provided multiple open-source sustainable innovation tools to our industry and the public. In 2012, we shared our Materials Sustainability Index (MSI) to the Sustainable Apparel Coalition, where the data has fueled development of their Higg Index. We also used the MSI to launch our MAKING app. It has enabled the industry to measure the sustainability performance of materials and products in a consistent way for the first time, and helped designers – both inside and outside of NIKE – to make informed decisions about the materials they choose.

We have shared our restricted substance list to help create an industry-wide manufacturing restricted substances list (MRSL) and shared a water-based solvent formula to enable the industry to eliminate the use of toxic chemicals in a key footwear process. We were also the first brand to disclose our factory locations on our Manufacturing Map, in an effort to accelerate collaboration on labor rights in the supply chain.

In 2010, NIKE put 400 of our utility patents under a Creative Commons license to enable others to leverage them for sustainable innovation in multiple industries. We are founding members of LAUNCH, an open innovation platform designed to uncover breakthrough ideas in sustainable innovation, developed through a strategic partnership with NASA, the U.S. Agency for International Development and the U.S. Department of State.

¹ Written by Lynn S. Paine, Nien-he Hsieh and Lara Adamsons and published June 17, 2013. For reference, the case number is 313146-PDF-ENG and the case study can be downloaded at <https://hbr.org/product/governance-and-sustainability-at-nike-a/313146-PDF-ENG>.

² Written by Glenn Carroll, Debra Schrifin, David Brady in 2013. For reference the case number is IB106 and the case study can be downloaded at <https://www.gsb.stanford.edu/faculty-research/case-studies/nike-sustainability-labor-practices-2008-2013>.

³ Greg Distelhorst, University of Toronto Rotman School of Management and Massachusetts Institute of Technology (MIT) Department of Science; Jens Hainmueller, Stanford University Department of Political Science and Stanford Graduate School of Business; Richard M. Locke, Brown University and Massachusetts Institute of Technology (MIT) Department of Political Science. NOTE: Access full report at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2337601.

MINIMIZE ENVIRONMENTAL FOOTPRINT

A low-carbon growth economy is a sustainable economy, fueled by innovations that unlock closed-loop products and new business models.

NIKE has been working for over a decade to understand, track and reduce environmental impacts across our value chain. Much of our early work was focused on making significant incremental changes to processes already in place. Our 2020 targets push this work forward aggressively, in greater depth and with a wider scope than ever before.

But to address such fundamental issues as climate change and resource constraints, it's not enough to make existing models work better. Our sustainable innovation portfolio reimagines the roles of waste and renewable energy, disrupts how we think about our water footprint and rethinks chemistry to create a new generation of products that achieve maximum athletic performance with minimal environmental impact. There are no limits, only opportunities.

ACTING ON OUR IMPACTS

NIKE is a big company with an even bigger value chain. So, focusing on what matters most is crucial. We measure and assess our environmental footprint at every step of our value chain – upstream to raw materials and manufacturers, and downstream to consumers and end of product life. We access science and data to unlock insights, inform our decision-making and prioritize actions.



USE LESS, USE BETTER, INNOVATE NEW AND USE AGAIN

Focusing on energy, chemistry, water and waste, we go deeper into the supply chain than many others to understand where our impacts are significant and why. We then identify strategies to use less, use better, innovate new solutions and, where possible, close the loop and reuse. We build these strategies into our business plans and set targets, with measurable milestones, along the way.

ENERGY AND EMISSIONS

NIKE's two-fold energy strategy focuses on strong efficiency measures and a transition to renewable sources. Looking ahead, NIKE is committed to reaching 100% renewable energy in our owned or operated facilities⁴ by the end of FY25, and supporting contract factories to use clean energy solutions.

**WE REDUCED GREENHOUSE
GAS EMISSIONS BY 18% PER
UNIT ACROSS FOOTWEAR
MANUFACTURING, INBOUND
LOGISTICS AND THE BUILT
ENVIRONMENT SINCE
FY11, WHILE INCREASING
REVENUES BY 52%**

CHEMISTRY

Chemicals are a key component in fiber production, transforming fibers into fabrics and adding color and performance to a variety of materials. NIKE works to explore and test new chemistries, while also setting and implementing standards for chemicals used throughout manufacturing. That requires systemic change in partnership with the chemicals industry and our own industry. In 2012, we co-founded an industry initiative seeking to

achieve zero discharge of hazardous chemicals by 2020 (ZDHC program). We're also supporting the development of common performance measurement standards through coalitions and industry associations, such as the Sustainable Apparel Coalition. How we unlock real-time transparency in the chemicals used at each process stage continues to be an industry challenge that will require innovation and partnership.

WATER

Significant quantities of water are used to grow and process the materials that go into our product, which is why we focus on understanding, reducing and improving our water use across our value chain. NIKE's aim is to build a water-resilient source base with world-class water efficiency and innovative wastewater management. In FY15 vs. FY11, around 2.6 billion fewer liters of water were used in footwear manufacturing. We are working primarily with materials vendors, whose textile dyeing and finishing operations are particularly water-intensive, to innovate and encourage the adoption of new approaches that reduce water use in our supply chain.

WASTE

We estimate we waste around \$1.3 billion in materials per year through our product creation process. That's a huge business opportunity to improve efficiencies and to innovate. We are focused on eliminating waste through more efficient product design and manufacturing technologies. Where waste exists, we see it as new potential feedstocks, and are working to reuse materials in our own products and for other industries, thereby turning waste streams into value streams. Overall, we reduced manufacturing waste nearly 6% per unit compared to our FY11 baseline. Of the total waste we diverted in FY15, 52% was recycled, 17% was used for closed-loop reuse and 31% was incinerated for clean energy recovery.

⁴ The target scope includes electricity only, where we make energy purchase decisions on strategic assets.



DESIGNING TO THE FUTURE

Design innovation is in our DNA at NIKE. We believe designers can play a powerful role as disruptors of the status quo. It's why we engage creative communities around the world – challenging them to drive a new agenda that reimagines how we design products, how we create materials and how we direct capital to new opportunities. By inventing with sustainability as our design opportunity, we'll be designing to the future, not the past.

We've worked to embed sustainability as a core competency in NIKE product creation teams and to scale sustainability improvements across our entire product line touching every brand, every category and every product. We do this by bringing together different teams and different skill sets involved in the creative process – from design and sourcing to engineering – which drives greater innovation.

Decisions made in the product design phase determine a product's environmental and social impact significantly. This is why NIKE created sustainability scoring tools and indices that give our product creation teams the information they need to make better decisions about the materials they use and the processes they adopt. The NIKE Materials Sustainability Index supports our teams to choose better materials from better vendors by allowing them to compare the environmental impacts of 57,000 different materials, supplied by 741 vendors.

“IF ALL WE DO IS CREATE A SINGLE LINE OF GREEN PRODUCTS, WE WILL HAVE FAILED. SUSTAINABILITY MUST BE A DESIGN ETHOS ACROSS ALL OUR PRODUCTS.”

CEO Mark Parker



INNOVATING A NEW PALETTE OF SUSTAINABLE MATERIALS

Our biggest environmental impacts occur in the growing, processing and finishing of materials. These represent a significant portion of our environmental footprint, accounting for 46% of CO₂e emissions and 58% of water use. Materials and manufacturing together account for 55% of the greenhouse gas emissions of our entire value chain.

We focus on scaling lower-impact materials – for example, we’re sourcing recycled polyester and certified Better Cotton (cotton grown according to the Better Cotton Initiative Standard System). These high-volume materials drive energy efficiency and water efficiency in our supply chain.

We are also focused on innovating a new palette of sustainable materials. We’re developing innovative, low-carbon impact materials; and we’re turning waste into new materials. We see this work as a critical enabler for a closed-loop future, given that the loop begins with the need for materials that can be used and reused, repeatedly.

**IT IS ESTIMATED THAT
IN 2015 THE GLOBAL
APPAREL INDUSTRY
PRODUCED MORE THAN
400 BILLION SQUARE
METERS OF FABRIC**

Massachusetts Institute of Technology

WHAT IF THE WHOLE INDUSTRY USED A PALETTE OF SUSTAINABLE MATERIALS?

NIKE has already learned that if we can get smarter about the materials we choose and the way we use them, we can not only reduce our environmental impact, but also set a new bar for strong product performance and drive growth for our business.

After understanding our own footprint, we also wanted to learn how much our industry contributes to climate change and how much of a difference we can make by collaborating together. We recently worked with MIT’s Materials Systems Laboratory to better understand the impacts materials have on climate change. While NIKE’s volume is significant, it is only a small fraction of an enormous industry. To drive meaningful change, we need others to join us in pursuit of reducing impacts through more sustainable material development and use.

And so, we are partnering with educators, designers and makers to build a materials movement, beginning with a shared understanding of the importance of transformational innovation and system change. It will take radical and creative thinking to change the materials system into one that equally considers the inputs and end-of-life. We need to get inspired together by the possibilities that exist for materials and to rethink the way we use and interact with them.

CLOSING THE LOOP

We recently signaled our commitment to accelerating our innovation efforts toward a closed-loop future by partnering with pre-eminent Circular Economy thought leader the Ellen MacArthur Foundation as a global partner of the Foundation.

NIKE will work closely with the foundation and other partners to advance both our own business and sector-specific goals, and also will collaborate on the cross-industry, pre-competitive efforts necessary to enable the transition to more circular economic and business models, which are fundamental to reconciling continued growth with reduced environmental impact.

**RECYCLED
WASTE**

NIKE Grind materials are used in nearly 3,820 apparel trims.

54 million pounds of manufacturing scrap was transformed and reused in FY15.

MAKING OUR PRODUCTS

MANUFACTURING SCRAP

TODAY, NIKE GRIND MATERIALS ARE USED IN 71% OF NIKE FOOTWEAR AND APPAREL PRODUCTS*

CHOOSING SUSTAINABLE MATERIALS

NIKE has transformed more than 3 billion plastic bottles into recycled polyester for use in footwear and apparel from 2012 through May 2016.

Our designers have access to a palette of more than 29 high-performance materials made from our factory scrap.

DESIGNING OUR PRODUCTS



SHOES DON'T DIE. SOLES LIVE ON...

NIKE Grind is a premium materials palette born from a regeneration process of original materials and products. We are redirecting millions of pounds of manufacturing scrap and old shoes into new uses. Waste streams – including rubber, foam and textile scrap – are transformed into new, premium materials. NIKE Grind delivers on NIKE's expectation that materials and products will perform beyond a single use, living on from one product to the next.

Since 1990, NIKE's Reuse-A-Shoe program has collected and recycled more than 30 million pairs of used shoes.

PRODUCT END OF LIFE

NIKE Grind materials have been incorporated into more than 1 billion square feet of sports surfaces, such as running tracks, soccer and American football fields, gym room floors, and playground surfaces.



* Percentage of Nike Grind varies by individual product and style

TRANSFORM MANUFACTURING

It's time for a manufacturing revolution.

Over the past 20 years, we've learned a lot – grappling with how to apply and enforce labor standards, seeing the limitations of policing and monitoring, and encountering entrenched behaviors and old ways of thinking. As a result, we've come to realize that real progress only happens when factory management understands that a lean, green, equitable and empowered workplace is a productive, profitable and successful business model.

Compliance with our Code of Conduct is a non-negotiable requirement for our contract factories. Our future contract factory partners must be those that go beyond the foundation of compliance to come with us on this manufacturing revolution, in pursuit of uncompromising product excellence.

Historically, the industry has been low-tech and low-skilled – we're at the forefront of changing that dynamic. As demand expands for quicker-to-market products and we transition to leaner, more sustainable, technology-driven manufacturing, factories will require new skills from their workers, with higher-value roles. The path to a low-carbon growth economy will be achieved by evolving and disrupting the current industry supply chain model, and transitioning to one that sees sustainability and valued workers as competitive differentiators rather than compliance requirements.

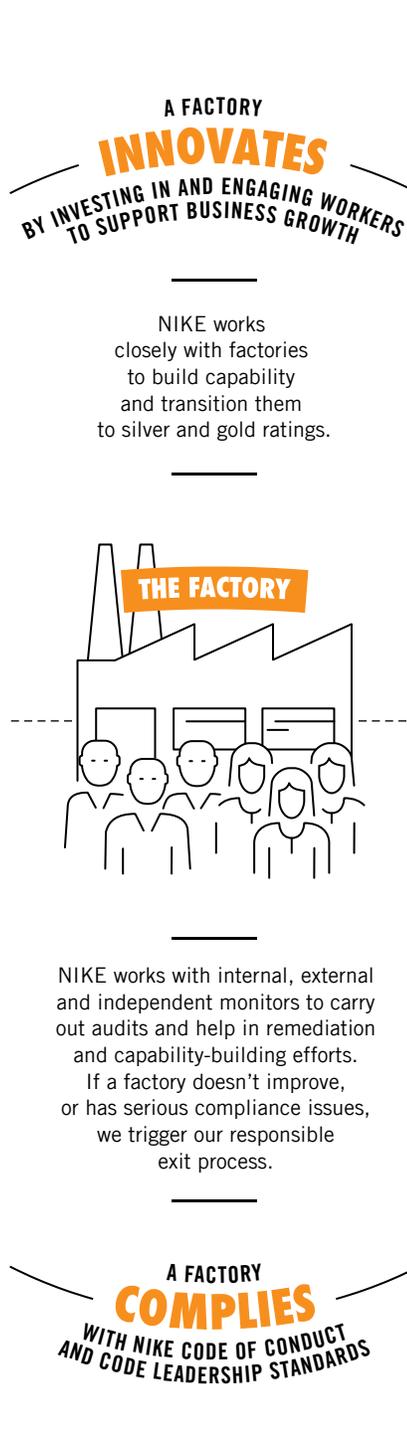
REDESIGNING THE SUPPLY CHAIN MODEL

NIKE is applying transformative thinking across our supply chain. We're rethinking methods of making, catalyzing technology and labor innovations, and incentivizing implementation with our supply chain partners in order to deliver the highest quality performance product to our consumers. We are driving changes at every level and transforming manufacturing by changing the way we work, who we work with and what we expect of our partners.

Every contract factory in our supply chain is subject to a rigorous set of compliance requirements. This starts with our Code of Conduct, supported by an internal team of over 150 trained experts who monitor, remediate and provide improvement tools to the factories.

We know that our ability to influence supply chain partners relies in part on building the right incentives and sanctions into our business relationship. Our Sustainable Manufacturing and Sourcing Index (SMSI), a component of our Manufacturing Index, assesses factories based on sustainability – including labor practices – cost, quality and on-time delivery. The index has become a critical tool during factory selection, encouraging performance improvement, eliminating underperformance in factories and driving more business to those factories with the best performance.

If we are alerted to an issue by an outside organization, we investigate it immediately and, where improvements are required, NIKE works with factory managers to see that corrective actions are taken and problems are remediated.



GOLD
GLOBAL LEADER
World-leading manufacturing standards and innovation.

SILVER
EXCEEDS
Industry-leading manufacturing standards and innovation.

BRONZE (base level)
MEETS
Compliance with our Code of Conduct and shows a commitment to lean manufacturing.

YELLOW
INCONSISTENT
Remediation plans in place to meet compliance.

RED
UNSUCCESSFUL
Under review for exit.

CREATING PERFORMANCE INCENTIVES

In partnership with the International Finance Corporation (IFC), part of the World Bank Group, we have established a pilot project where certain NIKE contract factories will be invited to join the IFC's Global Trade Supplier Finance program. Under the program, contract factories will be able to leverage tools available in the financial markets to obtain short-term financing with progressively lower cost of capital tied to a higher sustainability rating, as assessed by NIKE's Sustainable Manufacturing and Sourcing Index (SMSI). We will be testing this approach to incentivizing performance improvements, as one element of our overall strategy to improve business and sustainability performance with contract factories. The IFC's decision to use NIKE's SMSI, which assesses sustainability across the environment and labor practices, as a factor in underwriting credit is an indication of the robustness of NIKE's performance measurement tools and commitment to continuous improvement in manufacturing practices.

INNOVATING THE ROLE OF THE WORKER

We believe that a skilled, valued and engaged workforce is key to achieving our ambitious goals for growth and sustainability. We rely on a source base that must be high-performing, resilient and agile, which requires that workers are motivated and compensated to deliver high productivity and world-class products.

A factory that reaches a bronze performance rating demonstrates compliance with our standards for workers' rights and that legal wages are being paid. However, when a contract factory is below a bronze rating, we often find that it's in part because factory management is not effectively engaging its workforce and that workers are not enabled to perform well at their jobs.

We are innovating around what makes workers show up at factories on time every day, feeling focused, motivated, supported and rewarded for their contribution.

We are piloting new approaches and embedding key insights into our standard best practices. We initiated pilot research programs across multiple countries, starting in Indonesia in 2012. Initially

we sought to improve the quality, consistency and management of data so we could have an accurate baseline from which to measure performance. Next, we focused on upskilling and managing absenteeism to build workforce stability. Without these two efforts, the factory was simply firefighting issues on a daily basis, rather than working from a stable foundation. Then we worked with the factory management team to create a problem-solving and communication culture in the factory. This meant seeking out workers' ideas on improving their wellbeing and production processes, building management capabilities for listening and standardizing escalation processes. The results were strong and we've built those learning points into an implementation program we call Lean 2.0, which is currently being scaled across our contract factory partners that are bronze rated and above.



Subsequent pilot research programs in Indonesia and China have tested, and are now scaling, holistic solutions that seek to substantially change workers' experience of their workplace and life outside work. We are connecting contract factories with third parties that provide workers with a range of support services. Inside the factory, services include digital technology to support management communications, job and skills-training, pay and leave management, and grievance systems. Outside the factory, services to workers include access to lower-cost daily necessities, information about financial management and life skills, and health coaching. Results show tangible improvements for workers with regard to their health, financial stability, free time and relationships with contract factory management.

We continue to partner with additional contract factories to pilot further areas of research, including compensation and benefits. With each set of results, we work with our contract factories to enable scaling across our supply chain by co-investing in innovation and setting business-based incentives.

We know that if workers are engaged and valued, then issues of compensation, overtime, workplace conditions and management approach will fundamentally shift. This investment in testing and piloting new approaches is the bedrock to transforming manufacturing. With it, contract factory partners will be able to respond nimbly to changing production and market demands.

WE KNOW THAT IF WORKERS ARE ENGAGED AND VALUED, THEN ISSUES OF COMPENSATION, OVERTIME, WORKPLACE CONDITIONS AND MANAGEMENT APPROACH WILL FUNDAMENTALLY SHIFT



INNOVATING THE ROLE OF TECHNOLOGY

For hundreds of years, making shoes meant cutting materials into pieces and sewing those pieces together, often resulting in wasted scrap material. Factories made products with traditional assembly lines, requiring a low-skilled workforce with little training, and factory management saw little benefit to investing in human resource systems or in measuring turnover. The industry model was that quality, low cost and on-time delivery were the leading indicators of success for factory management and the brands that bought from them.

Since then, and in partnership with our strongest-performing contract footwear factories, we've invested in a significant portfolio of work that is reinventing what a footwear factory looks like and how footwear is made. Demonstrating clearly the impact of our sustainable innovation work, in 2012, we launched NIKE Flyknit technology. Developed after more than 10 years of research, NIKE Flyknit enables designers to microengineer every stitch of a shoe upper – scientifically tuned to meet the exact specifications of athletes – while also shaving ounces off each of them. Flyknit reduces waste by about 60% on average compared to cut and sew footwear, and from FY12 through FY15 has eliminated nearly 2 million pounds of waste. Just like the technology needed to manufacture Flyknit, the next performance technology innovation will require higher-skilled workers that are invested in and trained. We continue to scale Flyknit across the business, expanding from a single model in 2012 to 28 models across six categories in 2015.

TO TRANSFORM OUR INDUSTRY, COMPLIANCE NEEDS TO BE A GIVEN

We are proud of our approach to enforcing standards and incentivizing new business models. But we know it is not enough.

Most factories supply to multiple brands and NIKE may be as little as 5% of a factory's total business. There is no single code of conduct for the industry, so requirements can vary, and there is no agreed protocol for how monitoring is done, or for assuring the quality of internal and external monitoring. Each brand and each factory is approaching this differently, with varying degrees of rigor and investment. At the same time, local, national and international laws may not always align and, while activists and watchdog institutions play a critical role in highlighting issues, surfacing a problem is not the same as enabling the solution.



NIKE'S APPROACH...

A strategy to move to fewer, better factories where NIKE is a long-term partner

First to disclose factory base, publishes NIKE Manufacturing Map

Requires factories to meet or exceed highest international standards through NIKE Codes*

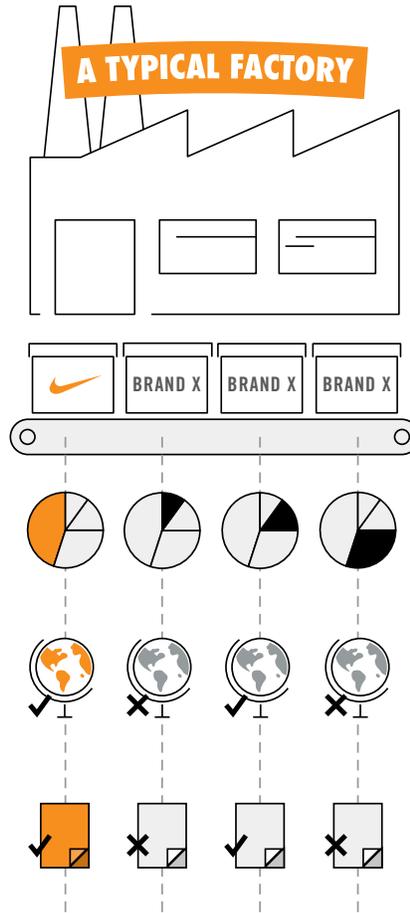
Aligns labor and sustainability to business incentives for the factory with a team focused on monitoring and helping factories go beyond compliance

Trains and retains third-party auditors to monitor against NIKE Codes*

Coordinates with ILO Better Work and FLA for audits

NIKE responds quickly and transparently to information shared

*Nike Code of Conduct and Code Leadership Standards



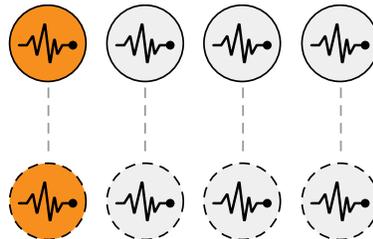
THE BUYING BRANDS WILL...

Represent a varying percentage of the factory's business

Vary in their disclosure of factory location

Have varying codes of conduct

THE FACTORY IS SUBJECT TO...

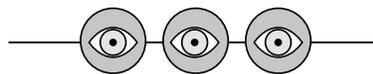


Varying approaches to internal monitoring by brands, from none to robust approaches

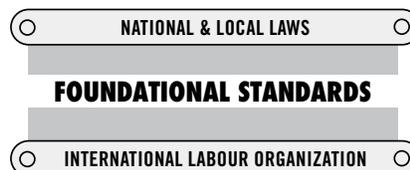
Inconsistent protocols within the industry for external monitoring



Not all brands are members of the Fair Labor Association (FLA) or work with ILO Better Work program



Activist, watchdog and campaigner scrutiny



A CALL TO ACTION TO CREATE CHANGE



A SINGLE CODE OF CONDUCT

It is increasingly clear that enabling convergence towards a single Code of Conduct across the footwear and apparel industry is critical. If each brand is holding a factory to a different standard, imagine the confusion for the factory and the wasted time attempting to comply with each, rather than investing in one. NIKE has been a part of discussions throughout the years, and commits to partnering further with our industry and other stakeholders to accelerate this conversation and move towards action.



INDUSTRY-WIDE PROTOCOLS IN AUDITING

To ensure the independence of monitors, the right checks and balances need to be in place, with auditors trained against a common protocol to deliver uniform depth and quality of work. Auditing to the NIKE Code of Conduct, which is backed by the NIKE Code Leadership Standards, demands specific skills and auditing expertise. We commit to engaging in multi-stakeholder discussions on this, and enabling independent research to help us find common ground.

WE MUST RAISE THE BAR AS AN INDUSTRY THROUGH A UNIFIED CODE OF CONDUCT AND STANDARDIZED AUDITING PROCESS



DRIVING TRANSPARENCY & TOOLS

We believe greater levels of transparency across the industry – around the factories where all companies source – will enable coordinated enforcement of a standard Code of Conduct and joint remediation efforts where issues of non-compliance are found. We also believe it leads to more innovative, better crafted and higher quality product.



NIKE'S COMMITMENT TO TRANSPARENCY

The NIKE Manufacturing Map discloses the names, locations and demographic information about the workforce at the factories we contract to make our product. We have also implemented a balanced scorecard approach to evaluating factory performance – where sustainability is assessed at an equal measure with cost, quality and delivery. The metrics for success are openly shared with factory management teams, and the scorecard is directly linked to NIKE's sourcing strategy, delivering incentives for factories to elevate their sustainability performance beyond the foundation of compliance. When a factory hears the same message from all its buyers, we have far more chance of seeing change happen. When the industry converges on a common code of conduct and standardized protocols for monitoring, we stand ready to disclose our audits of factories.





UNLEASH HUMAN POTENTIAL

We believe breakthrough innovations happen when teams are inclusive and diverse. To serve every athlete individually and completely, across hundreds of countries where we do business, we need teams that truly reflect the diversity of our consumers and a culture of inclusivity that respects the communities in which we live and work.

We also believe in the power of sport to change the world. Today's youth are part of the least physically active generation ever. Together with our employees, partners, consumers and athletes, we are helping to shift this trend by helping kids get active early and for life.

DIVERSITY UNLEASHES INNOVATION

To support our growth model, NIKE will ensure our culture of innovation, competition and excellence remains front and center of all we do. We want all people who join our team to realize their full potential. We know the best ideas often come from unexpected places and our individual differences bring new perspectives to the table – so we are committed to fostering a workplace that is increasingly diverse and inclusive. NIKE will accomplish this through recruitment, development and retention of diverse talent, with a specific focus on women and on people of color to start, with the goal of expanding representation across all dimensions of diversity over the long term.

We have made positive progress, but we recognize there is still work ahead.

We are making our leaders across the company accountable for representation. We have created an Executive Diversity Committee comprised of NIKE's most senior leaders to oversee our diversity and inclusion initiatives. We're building the inclusive leadership capabilities of our most senior leaders by providing them with an Inclusive Leadership Experience centered on unconscious bias. Our diversity and inclusion strategy includes a strong set of initiatives that focus on how we recruit, develop, promote and retain our employees. We recently launched a new Family Care benefit in the U.S., which provides up to eight weeks of additional paid time off for eligible employees, enabling all new parents to bond with their newborn or adopted child, while also supporting employees caring for a sick family member.



OVER
50%

PERCENTAGE OF NIKE U.S. EMPLOYEES IDENTIFYING AS NON-WHITE OVER 50%

+5%

RACIAL AND ETHNIC DIVERSITY IN NIKE'S MANAGEMENT INCREASED BY 5% SINCE 2012

41%
FEMALE

GLOBAL RATIO OF FEMALE TO MALE PEOPLE MANAGERS HAS REMAINED STEADY (41% FEMALE/59% MALE)

60%

RACIAL AND ETHNIC DIVERSITY ACCOUNTED FOR 60% OF THE GROWTH IN NIKE'S LEADERSHIP/ MANAGEMENT POSITIONS IN THE U.S. SINCE 2011

INVESTING IN TALENT

Our employees have the power to deliver our ambitions and amplify our impact. NIKE seeks to attract, develop and retain the best people. We're recognized time and again as a great place to work. NIKE strives to imagine, invent and deliver the future of sport – a mission facilitated by workspaces that support rapid iteration and creation through collaboration. The NIKE World Headquarters expansion in Oregon is adding approximately 3.2 million square feet for office, mixed-use and parking facilities. The building designs aim for LEED platinum certification, with a targeted completion of 2018.

We reward results through competitive and performance-related pay. Capability-building takes place through our online training platform, with 115,605 courses taken in the past year.

Our professional development programs are designed to create world-class managers equipped to lead, coach, drive and inspire their teams. Investing in our employees and unleashing their potential translate into a pipeline of new ideas, methods and products that drive the future of our business and industry.

GETTING KIDS ACTIVE

NIKE has always believed in the power of sport to change the world. This belief is at the core of who we are as a brand, and it has been an essential part of our community work from the very beginning.

Today's youth are part of the least physically active generation ever, with consequences for health, education and whole economies. NIKE is shifting this trend by fueling a movement and working with others to raise awareness about the physical inactivity epidemic. We are also committed to shifting this trend by providing kids with early positive experiences in sport and physical activity at a time when they are forming their lifelong habits. Research shows that the window between ages 7 and 12 is key to setting kids on a path to more active lives. Together with our employees, partners, consumers and athletes,* we are helping kids get active early and for life – helping them to realize their full potential.

A team has been created to oversee this important global mission, with a focus on:

- **Creating early positive experiences in youth sports and schools around the world in communities where we live, work and play**
- **Harnessing the collective passion of our employees to volunteer and connect with their own communities**
- **Leveraging the visibility of our brands to amplify our work, and give consumers and other stakeholders an opportunity to connect with causes they care about**
- **Collaborating with governments, non-governmental organizations, companies and multi-stakeholder partnerships to create a more active world**



ACTIVE SCHOOLS

Working with experts and partners to develop the “Active Schools Guide,” we learned kids respond positively to physical activity options as part of their school day – before, during and after.

That is why we work with schools to help get kids moving. We're supporting efforts in the U.S., China, Russia, the U.K. and other places around the world. And, it is working. For example, as of 2015, more than 10 million students across America were enrolled in schools participating in Let's Move! Active Schools, a public-private partnership supported by NIKE to help get America's kids moving.

In China, our Unlock School Gates pilot – where school doors remain open after hours – was named the 2014 “Best Social Practice” by the Jing'an District of the Shanghai Government.

*“If you have a body, you are an athlete.” – Bill Bowerman

**WE ARE
DESIGNED
TO MOVE.**



NIKE'S SUSTAINABLE BUSINESS PERFORMANCE AND 2020 TARGETS

FOCUS	FY15 TARGETS	FY15 PROGRESS	FY20 TARGETS
 ENERGY AND EMISSIONS	20% reduction in CO ₂ e emissions per unit, FY11–15	18% reduction in CO ₂ e emissions per unit, FY11–15	Reach 100% renewable energy in owned or operated facilities through FY25 and encourage broader adoption, as part of our effort to control absolute CO ₂ e emissions ⁵
	Expand use of renewable energy in our built environment	Purchased 37,360 MWh in Renewable Energy Certificates, offsetting 49% of energy used at NIKE Headquarters	
 WASTE	10% per unit reduction in waste from finished goods manufacturing across NIKE, Inc. and 10% in shoebox weight per unit, FY11–15	6% per unit reduction in waste from finished goods manufacturing across NIKE, Inc. and 6.3% in shoebox weight per unit, FY11–15	Eliminate footwear manufacturing waste to landfill or incineration, while continuing to reduce overall waste ⁶
	Increase recycling, reuse, repurpose and compost of waste	8% footwear manufacturing waste to landfill	
 WATER	Improve water efficiency by 15% per unit in apparel materials dyeing and finishing, and in footwear manufacturing, FY11–15	Improved water efficiency by 18% per unit in apparel materials dyeing and finishing, and 43% in footwear manufacturing, FY11–15	Innovate and adopt new approaches to reduce water use in our supply chain, with a 20% reduction in freshwater use in textile dyeing and finishing (l/kg) per unit of production
 CHEMICALS	Achieve zero discharge of hazardous chemicals by 2020	<p>95% of materials contained no restricted substances in 479,000 supplier chemical test results</p> <p>96% reduction in the average use of petroleum-derived solvents per pair, to 12 grams, from FY95</p> <p>Industry engagement, including developing a manufacturing restricted substances list with ZDHC and making the bluesign® bluefinder available to our entire textile supply chain</p>	Enable zero discharge of hazardous chemicals
 PRODUCT	Understand and improve the environmental profile of our product designs by the end of FY15	98% of our new footwear products rated silver or better in our Footwear Sustainability Index. 80% of our apparel products scored bronze or better in the Apparel Sustainability Index	Deliver products for maximum performance with minimum impact, with a 10% reduction in the environmental footprint
 SOURCING	By end FY20, 100% contract factories achieve bronze or better rating on our Sustainable Manufacturing and Sourcing Index	86% contract factories achieved bronze or better rating on our Sustainable Manufacturing and Sourcing Index	Source 100% from factories that meet our definition of sustainable

⁵ The target scope includes electricity only, where we make energy purchase decisions on strategic assets.

⁶ Incineration does not include waste to energy recovery unless otherwise noted.

FOCUS	FY15 TARGETS	FY15 PROGRESS	FY20 TARGETS
 LABOR	By end FY20, prioritize sourcing in factories that have eliminated excessive overtime	96% of factories reported no excessive overtime, a 7% improvement year over year	Ensure contract factory workers share in productivity gains
	Instill changes in our code, instigate innovation, educate to build management capabilities, address root causes in our own processes, work with the industry and reward factories' progressive achievement	Pilot projects in Indonesia, China, Thailand and Vietnam that improve factories' approach to workers, their skills and livelihoods, and shared findings NIKE is aligning with the Fair Labor Association's monitoring approach	Establish partnerships that support the needs of workers both inside and outside the factories
 MATERIALS	Understand and improve the environmental profile of our product designs by the end of FY15	Average apparel NIKE MSI score increased 58% compared to FY13, to 39 out of 100 Average footwear NIKE MSI score increased 76% compared to FY13, to nearly 29 out of 100	Increase use of more sustainable materials in footwear and apparel
	Sourcing 100% of our cotton more sustainably by end FY20	24% of NIKE Brand cotton met our definition of sustainable (BCI, organic or recycled) in FY15	
 COMMUNITY INVESTMENT	Invest a minimum of 1.5% of pre-tax income in communities annually	NIKE invested 1.7% of pre-tax income in FY14, and 1.9% in FY15, to drive impact in communities Worked with experts, partners and school leaders to raise awareness about the physical inactivity epidemic and fuel the movement to get hundreds of thousands of kids moving before, during and after school Increased employee giving match with 2x sport match, where NIKE doubles the dollar amounts of employee contributions to non-profits that support sports and physical activity in their communities, and increased employee giving match to \$10,000 annually. Instituted a volunteer rewards program and, in September and October 2015, volunteer hours grew nearly 400% Girl Effect launched as independent organization	Invest a minimum of 1.5% of pre-tax income to drive positive impact in our communities
 EMPLOYEES	Invest in employee development	About 160,000 online courses taken through our online training platform, FY14/15 Enhanced feedback and development tools	Attract and develop an increasingly diverse, engaged and healthy workforce

 For a detailed description of our FY20 target parameters and a closer look at our performance toward our FY15 targets, please see our FY14/15 Sustainable Business Report.



**WE BELIEVE
SUSTAINABLE
INNOVATION IS
THE FUTURE OF
INNOVATION**

NIKE, Inc. One Bowerman Drive, Beaverton, Oregon 97005
about.nike.com/sustainable-innovation