

NIKE, INC. FY10/11
SUSTAINABLE BUSINESS
PERFORMANCE SUMMARY



Note: The information in this report and NIKE, Inc.'s corporate responsibility/sustainability reporting and website, inclusive of charts, graphs and discussion, and all other information presented, may contain forward-looking statements, estimates or projections based on expectations as of the original date of those materials. Those statements, estimates and projections are subject to certain risks and uncertainties that could cause actual results to differ materially. These risks and uncertainties are detailed in our reports filed with the SEC, including Forms 8-K, 10-K and 10-Q. Presented information may also discuss non-public financial and statistical information and non-GAAP financial measures. All information content was current only as of the date originally presented. We do not update or delete outdated information contained in website materials, and we disclaim any obligation to do so. All content is the property of NIKE, Inc.

How to Use This Report

We report to share the journey of our strategy, approach and progress on sustainability issues: how we approach sustainability and innovation, how we work, where we have the greatest impacts on the environment and society, what we aim to do, and our progress and performance.

Information in this report is gathered and reported for the fiscal years 2010 and 2011. NIKE, Inc.'s fiscal year starts June 1.

The information in this report primarily reflects our operations associated with the NIKE Brand (which accounted for about 87 percent of revenue in FY11), but throughout the report we describe our progress in reporting across all of our brands, and where information is specific to the NIKE Brand. Data contained in our reporting is based on the best information available to us from various sources across our value chain, including primary data, as well as secondary data from contract

factories and estimates and extrapolations based on sampling or design specifications. We continuously work to improve our ability to capture data and report as systems and processes improve.

This printed version is only a summary of additional information and experiences available online that let users explore our value chain and impacts, find more stories, experience some of our tools and search for the areas they are most interested in. You can find that information at www.nikeresponsibility.com.

While we publish this report for a broad audience that includes our investors, it is not subject to the same internal controls and procedures as the sources used to report our financial reports. Please refer to the sections in the Appendix titled Reporting and Assurance & Validity of Data for more context.

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LETTER FROM THE CEO

NIKE, Inc.'s commitment to a more transparent and sustainable future is stronger than ever.

In the next decade the competition for new revenues, new markets, new products and new services will continue to intensify. To fulfill our potential we know we need to operate in completely new ways, making sustainability integral to our innovation and performance.

Sustainability at Nike means being laser-focused on evolving our business model to deliver profitable growth while leveraging the efficiencies of lean manufacturing, minimizing our environmental impact and using the tools available to us to bring about positive change across our entire supply chain. We've made significant progress in these areas. But as we all know at Nike, there is no finish line.

Our long-term goals are ambitious and present challenges that are substantial, complex and systemic. Put simply, they will demand disruptive innovation from business, civil society and government. We know that achieving our long-term vision requires us to hold ourselves accountable for real and meaningful short-term progress. This report is an overview of the gains and challenges of the past two years as well as a look into the short, mid- and long-term strategy we have for the future.

The Challenges We Face

Over the past 15 years, we have moved from an approach of simply reacting to criticisms to pursuing sustainability as an integral driver of our long-term growth.

It is clear to us that our long-term potential, and the long-term potential of virtually every other major company in the world, will be severely pressured by multiple external factors:

- > Traditional models of manufacturing and distribution need to evolve to offset rising energy costs and environmental concerns
- > Many more natural resources will become increasingly scarce, driving up competition and cost
- > Ongoing globalization, access to information and transparency will intensify the demand for equal access to economic opportunity

That's why we continue to invest substantial resources and management attention on innovating to get ahead of these challenges.

The Lessons We Are Learning

Nike succeeds because we're obsessed with innovation. We are relentlessly curious about our world and how we can make it better. We apply that curiosity to our sustainability efforts, and we continue to learn what is required for real, meaningful progress.

Three specific lessons stand out:

- > **Collaboration is essential.** Nike is a large company by most standards, but our ability to influence meaningful change at the systemic level has limitations. It is absolutely crucial that we work with other players to prompt real, sustainable system change.
We embrace partnerships and open-source collaboration. We have proactively shared our sustainable design tools to help create an industry standard and continue to look for ways to scale innovations at Nike and across our industry. And we work with global players including the United Nations Global Compact initiative to support its principles and to report our carbon data to the Carbon Disclosure Project.
- > **Transparency is a strategic advantage.** Understanding and acknowledging the facts enables us to set relevant targets. Only then can we take real action to achieve those targets. It also enables us to work far more productively with governments, NGOs and other companies. We're proud that Nike was first in our industry to disclose its contract-factory base and that our culture of transparency enables us to lead industry sustainability efforts.
- > **Sharing innovation does not require sacrificing competitive advantages.** When we share breakthroughs in materials business practices and processes with other companies – like our formula for environmentally-preferred rubber or our water-assessment tool – the impact of those innovations on the environment becomes much more significant, with little or no negative impact on our ability to compete in our industry.

These three lessons have been central to our progress. But the most important insight we have gained is this: Sustainability is not merely an addendum to our core operation. Sustainability can positively impact and improve our business and our growth potential.

Sustainability will be at the nexus of transformations in business, economies and markets, and we will continue to evolve our business to ensure we are able to grow profitably, and to lead.

Sustainability As a Driver of Growth

Looking through the creative lens of innovation, we aim to create breakthroughs that improve our world and are also better for our athletes and our investors. This is a fundamental re-writing of the old belief system in which sustainability was so often cast as a cost to business, or a drag on performance. The evidence tells us this simply does not need to be the case, and indeed, the combining of sustainability and innovation can trigger advances in both.

A great example is our Nike Flyknit technology. It's a new way to knit a shoe upper out of what is essentially a single thread. It's great for the athlete because it is lighter and offers a more custom fit. It's good for the planet because it drastically reduces waste from the upper production process. And shareholders benefit from the reduced cost of production and increased margins. It's a nascent technology that holds tremendous opportunity to be scaled over time.

You will see many specific targets and commitments in this report, but I want to call your attention to the three that best express the boldness of our long-term aspirations.

First, we have set our vision to ultimately decouple our profitable growth from constrained resources.

Second, we've committed to ensuring that our product innovation will meet the rigorous sustainability standards we established as part of our "Considered Design" ethos, which is detailed in this report.

Third, we know it is important for us to play a strong role in helping to accelerate improvement of responsible labor practices where we do business. To this end, we've set ambitious targets to improve the lives of workers at the factories we contract with, aiming to source exclusively from those that demonstrate commitment to workers and sustainability with a minimum Bronze-level achievement on our Sourcing and Manufacturing Sustainability Index by the end of FY20.

The complexity of culture and commerce suggest there are no easy solutions to addressing the challenges ahead. We will continue to push for improvement – to inspire progress, to take accountability for things we do control and to use our considerable influence to encourage others to do the same.

Unleashing Innovation

We cannot achieve our bold goals for sustainability simply by delivering incremental improvements. We will frequently need to deliver innovations that change the way things are done at Nike, and share our findings with others in our industry and throughout the business world to affect positive change in the form of newly developed materials, high-efficiency and low-waste manufacturing methods, and partnerships that inspire long-term growth, profitability and sustainability.

As innovators, we thrive on the challenge to redefine performance and unleash innovation. And we are gaining momentum. Here are three key examples:

- > **Waterless dyeing.** Driving innovation into our product creation process demands that we also invest in innovative technology. This past year we formed a partnership with a company that created a way to dye apparel using CO₂ instead of water. This partnership was facilitated by our new Sustainable Business & Innovation Lab, a team at Nike created specifically to identify external opportunities for collaboration to promote sustainable growth.
- > **Manufacturing Index.** We are changing the way we measure factory performance, adding environmental and labor-sustainability metrics to the traditional supply-chain measures of quality, cost and delivery. We are building incentives into our relationships with suppliers. Those that prioritize and focus on workers and sustainability in their planning and operations will benefit. Those that don't will feel the financial impact.
- > **Target setting.** We continue to push ourselves with aggressive aims, targets and commitments, and equally distribute the accountability for these across the business. That said, a goal is never a destination. It's a checkpoint where we reassess and recommit to new challenges and opportunities.

Future Performance

As I mentioned at the top of my note, this report outlines our progress against our goals – where we've met them, exceeded them and sometimes struggled with them.

As a young designer, I remember Bill Bowerman frequently asking the question: "Is that the best we can do?" That question, and the restless spirit behind it, drives us more than ever.

The age of abundance is over. The definition of business performance is expanding. Innovation is being redefined. Expectations are being redefined. At Nike, we believe the world must innovate faster for growth that is good for all.

It is in this spirit that we share our results. I am proud of the progress we have made. But I know we can and must do better, and we will.



President & Chief Executive Officer
NIKE, Inc.



PART I

STRATEGY

BUSINESS OVERVIEW

As the world's leading athletic footwear, apparel and equipment company, NIKE, Inc. is dedicated to inspiring every athlete to reach peak performance. Nike co-founder Bill Bowerman saw endless possibilities for human potential embodied through sport. His philosophy still guides our mission today: "To bring inspiration and innovation to every athlete in the world." (And if you have a body, you are an athlete.)

Through our commitment to innovation and design, we are continually challenging ourselves, and our customers, to reach that next level of achievement. We strive for:

- > Innovation to serve the athlete
- > Innovation to grow the company
- > Innovation to inspire the world

Company Portfolio

NIKE, Inc. includes seven distinct brands, each with a powerful connection to its customers:

- > **NIKE Brand** designs, develops and sells high-quality athletic performance gear and sport-inspired casual products, including footwear, apparel, equipment and accessories
- > **Cole Haan** designs, markets and distributes luxury shoes, handbags, accessories and outerwear
- > **Converse** designs, markets and distributes athletic footwear, apparel and accessories

- > **Hurley International LLC** designs, markets and distributes action sports and youth lifestyle footwear, apparel and accessories
- > **Umbro** designs, distributes and licenses athletic and casual footwear, apparel and equipment, primarily for the sport of football (soccer)
- > **Nike Golf** designs and markets golf equipment, apparel, balls, footwear, bags and accessories
- > **Jordan Brand** designs and markets premium footwear, apparel and accessories inspired by the dynamic legacy, vision and direct involvement of Michael Jordan

Cole Haan, Converse, Inc., Hurley International, LLC and Umbro International Limited are wholly owned subsidiaries of NIKE, Inc. These Affiliate businesses, as we call them, play a significant role in our future growth plans. At the end of FY11, NIKE, Inc.'s Affiliates, together with our Nike Golf division, contributed approximately \$2.7 billion of the company's \$20.9 billion in revenue.

NIKE, INC. CORPORATE OVERVIEW

NIKE IS HEADQUARTERED NEAR BEAVERTON, OREGON, U.S.A.



AROUND THE WORLD

170
COUNTRIES



OUR PRODUCTS ARE MAINLY MANUFACTURED BY INDEPENDENT CONTRACTORS AND ARE SOLD IN APPROXIMATELY **170 COUNTRIES** AROUND THE WORLD.

FY11

IN FISCAL YEAR 2011...

[June 1 - May 31]

OUR GLOBAL WORKFORCE

INCLUDING RETAIL AND PART-TIME WORKERS

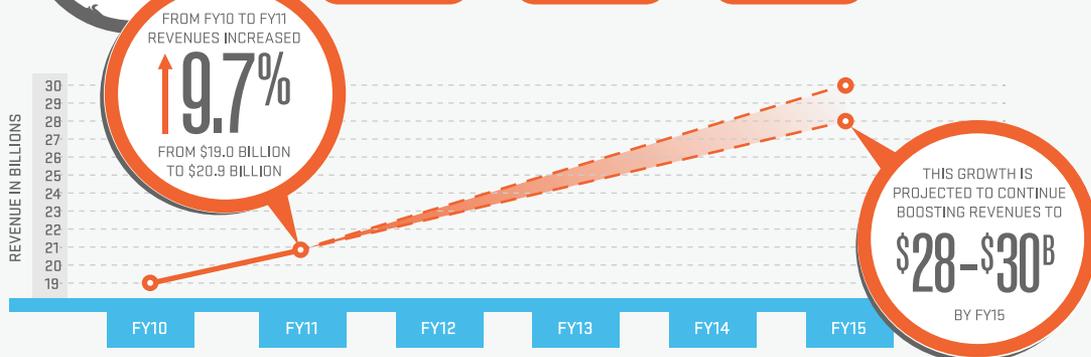
NEARLY
38,000
EMPLOYEES
WERE LOCATED IN

WORLDWIDE

AND MORE THAN
700
RETAIL
STORES

APPROXIMATELY
65
ADMINISTRATIVE
OFFICES

MORE THAN
100
SALES OFFICES
& SHOWROOMS



*All figures accurate as of close of FY11. Nike's fiscal year runs from June 1 to May 31. This graphic contains forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially. These risks and uncertainties are detailed from time to time in reports filed by Nike with the U.S. Securities and Exchange Commission (SEC), including Forms 8-K, 10-Q and 10-K.

Plan for Growth

Nike is a growth company. But we want to deliver growth in the right way. We seek growth that is:

- > Sustainable
- > Profitable
- > Capital efficient
- > Brand enhancing

Like many other businesses, Nike faced some significant headwinds in FY10 and FY11. Around the world, unemployment was high, especially among youth; and governments wrestled with high debt levels. Rising

costs for energy and labor sparked inflationary pressures. In turn, higher costs for materials, labor and freight were evident in our margins.

While the headwinds we faced were shared across our industry, the competitive advantages we have are unique to the Nike portfolio. In spite of ongoing macroeconomic challenges, we are well positioned to leverage our strengths – including scale, operational capabilities and pricing power – to help mitigate the risks beyond our control and capitalize on opportunities to grow the company.



Integrating Sustainability Into Our Game Plan

At Nike, one way we seek to deliver shareholder value is through sustainable growth. To us, *sustainable growth* means our long-term vision to deliver profitable growth decoupled from constrained natural resources, even as we work to deliver value to our shareholders in the near term. Meeting these two objectives requires a careful balance – one our stakeholders expect of us – and it remains our commitment. We attempt to strike this balance by leveraging our significant competitive advantages, including our authentic, emotional connections with consumers; innovative product and retail experiences that lead the industry; and a strong NIKE, Inc. portfolio that gives us tremendous opportunities for growth and profitability.

As we set aggressive goals in all areas of our business – financial, social and environmental – we are committed to sharing these goals and to reporting on our performance to consumers, the investment community and others interested in our commitments and progress, including the wider sports and apparel industry, community groups and academia. Over the past 15 years, we have moved from approaching sustainability as a risk management issue to viewing it as an innovation opportunity and a competitive advantage to be integrated into every aspect of our business.

A more holistic sustainability strategy that is fully integrated into the business enables Nike to create value, not just through risk mitigation, but also through top-line growth, cost avoidance and better access to capital. As an example, our next portfolio of sustainability targets is designed to improve Nike’s environmental and social impacts for us and across our value chain, while also avoiding costs across the value chain by reducing waste, energy and water expenditures.

In FY10, to help us further accomplish this transition, we launched a new business unit called Sustainable Business & Innovation, as well as a new business sub-unit called Sustainable Manufacturing & Sourcing. And in FY11, we launched Nike Better World, an online platform to engage consumers in our sustainability vision and our efforts to balance people, profit and planet.

See page 11 for more on Nike’s sustainability strategy.

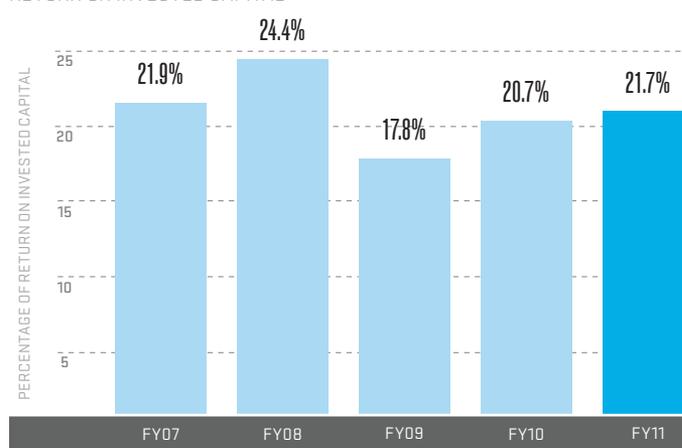
NIKE, INC. FINANCIAL PERFORMANCE

REVENUE PERFORMANCE



* 5-Year Compound Annual Growth Rate (CAGR) based on FY06 Revenue of \$14,955 million.

RETURN ON INVESTED CAPITAL



* Return on Invested Capital calculation is available in the financials section of our investor relations website, www.nikeinc.com/investors.

DILUTED EPS PERFORMANCE**



* 5-Year Compound Annual Growth Rate (CAGR) based on FY06 diluted EPS of \$2.64.

**EPS amounts are not directly comparable as they include non-recurring expenses 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.



Nike Value Chain

Companies often use the term “value chain” to refer to the actors and stages needed to bring their product or service to market and ultimately to its end of life. At Nike we use this term too, though we also find the “chain” metaphor a bit linear and limiting for something that is actually interconnected in multiple ways, like an ecosystem or a web.

The connections in this chain drive our decision making. For example, the quality of our planning shapes the choices we make for manufacturing. Efficient manufacturers create little to no scrap and turn what remains back into material inputs for new products. Nearly 85 percent of our footwear manufacturing waste is now diverted from landfill or incineration through recycling and other efforts. Also, insights we gain in the use phase impact how we design our products. Our design decisions, in turn, determine whether a product can be recycled at the end of its life. Design choices can also eliminate the need for toxics in the manufacturing process, and our ability to get

toxics out of products determines whether materials can be recycled in a closed loop. Working with the right manufacturers means better insight and control of quality and in performance for the environment and their workers. Choosing the right partners for moving our products around improves our ability to gather and track data on transportation emissions and to get products where they need to be at the right time. Each choice has financial, environmental and social impacts that are intertwined and mutually dependent.

These are just a few examples of the interconnections. We invite you to explore Nike’s value chain through the graphic below and online where you will find additional detail about impacts and relevant stories. This value chain outlines each phase, where the greatest impacts occur, and some of the key tools we are using to increase efficiencies, reduce impacts and improve working conditions throughout the system.

OVERVIEW OF THE NIKE, INC. VALUE CHAIN

Our business has many dimensions. Every product and partner, every decision, every gateway, every stage from concept to reclamation adds to a near-infinite ecosystem of cause and effect.

To offer as much clarity into this ecosystem as possible, we’ve distilled it down to seven fundamental stages: Plan, Design, Make, Move, Sell, Use, Reuse.

We believe these stages provide the best way to track, measure and report where we have influence, compared to where we have control, and how the decisions we make have impacts in terms of energy and climate, labor, chemistry, water, waste and community.



● PLAN

At the core of our business is a plan – our opportunities, our resources and our values. It’s who we are. What we believe. And how we get things done.

● DESIGN

Form. Function. Superior performance. Minimal impact. While our designers always strive to create products that are faster, lighter and stronger, they also pay close attention to smarter.

● MAKE

Ideas don’t become reality by magic. For a global business, it requires people, materials, tools, knowledge, skill and a whole lot of coordination. We contract with more than 900 factories globally to make products from our designs.

● MOVE

We ship products wherever and whenever they are needed, to get to thousands of partners and millions of consumers around the world. Airplanes, boats, trucks and trains are the tools our transport providers use to overcome the obstacle of distance every day.

● SELL

Nike operates more than 750 retail stores around the world across all our brands. Beyond selling products, each location strives to be a rewarding experience for its consumers and an asset to its community. The stores are in leased space. While NIKE and our Affiliate brands sell primarily through retail partners not owned by our company, our focus is on the impact of the selling we do in our own stores.

● USE

Once you bring home your new shoes, shirt or shorts, a different footprint starts to take shape. This one belongs to you.

● REUSE

Finding innovative ways to reuse our products – creating running tracks, sport courts and even new shoes and clothing helps minimize our impact on the environment. Good becomes better over time. And so do we.

See Impacts on page 43.

See online for stories at www.nikeresponsibility.com.



OUR SUSTAINABILITY STRATEGY

The game has changed, forever.

Sustainability used to be the exclusive domain of experts, activists and idealists. Then, it moved into a silo at the outskirts of the corporate landscape. Today, it is seen as an important, well-integrated part of any forward-thinking company – as one of the key drivers of success.

At NIKE, Inc., we are exploring new sustainable business models to prepare us for a fundamentally different operating environment. To do this, we must deftly navigate a quickly changing landscape. We see a future in which:

- > Competition for scarce natural resources affects the cost and availability of the inputs needed to make our products, and in turn, the price and availability of the products themselves
- > Rising energy costs and greenhouse gas emissions lead to increasing pressure on traditional models of product manufacturing and transportation
- > Persistent global disparity in access to financial and other opportunities influence workers throughout our supply chain
- > Continued urbanization and the growing middle classes create new demands for products and services, and new opportunities to meet them
- > Emerging regulations related to materials use, labor practices and other issues continue to shape our business environment

OUR VISION IS TO BUILD A SUSTAINABLE BUSINESS AND CREATE VALUE FOR NIKE AND OUR STAKEHOLDERS BY DECOUPLING PROFITABLE GROWTH FROM CONSTRAINED RESOURCES.

This is not just key to our sustainability strategy. It's part of our business strategy – and it guides us as we move forward. This report covers our performance during FY10/11, the time during which we developed and refined this vision. Much of our progress and what we learned during this period laid the foundation for how we're moving ahead to make the vision a reality.

This vision has been built on years of assessing trends and materiality for Nike and the changes that are impacting our business, our value chain, our consumers and the world. In 2007, we undertook an assessment (along with SustainAbility, a consulting firm) of some meta trends that have only become more relevant as we've shaped and defined our strategy (see findings on the next page). These meta trends highlight the areas of our value chain and our business that have the most potential for innovation. We use these filters in our work, our assessment of opportunity and the way we approach reporting.



SUMMARY OF FINDINGS META TRENDS

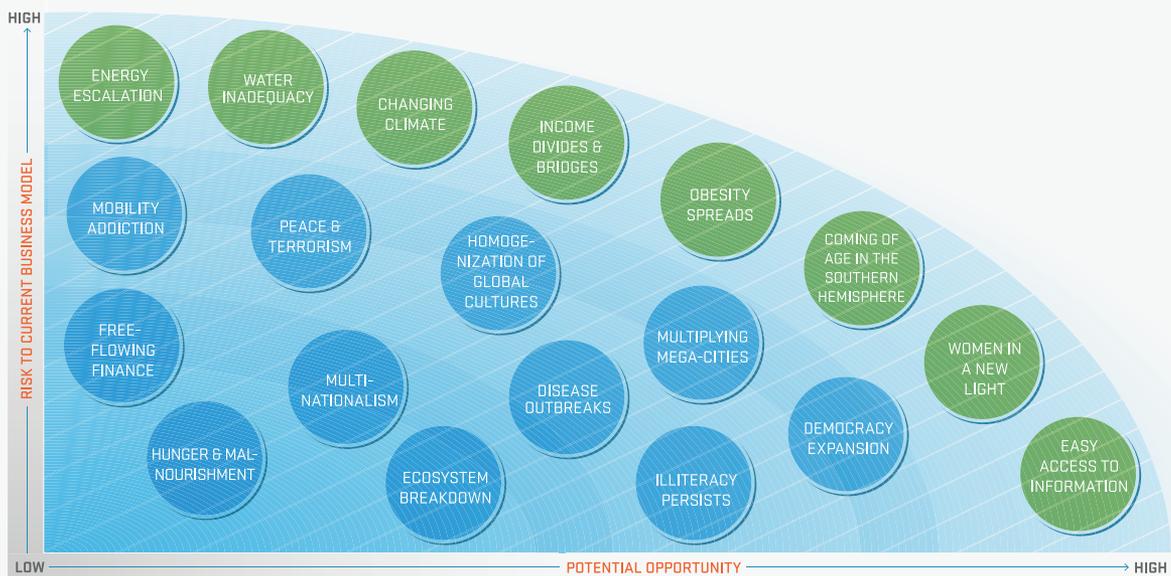
WE IDENTIFIED THE FOLLOWING META TRENDS - WHICH WE DEFINE AS TRANSCENDENT, GLOBAL IN SCOPE, AND WILL CONTINUE TO EMERGE OVER SEVERAL DECADES. THESE TRENDS STEER OUR THINKING AND APPROACH ON SUSTAINABILITY.



Developed with SustainAbility

SUMMARY OF FINDINGS RISK & OPPORTUNITY MATRIX

THROUGH OUR PRELIMINARY ASSESSMENT, WE ARRIVED AT EIGHT PRIORITY META TRENDS, WHICH WE WORK TO VALIDATE. EACH ONE HAS HELPED SHAPE OUR PRIORITIES AND APPROACHES.



Developed with SustainAbility



Sustainable Innovation

Sustainability is the world's greatest innovation challenge. Although incremental improvements play an important role, on their own they will fall far short of achieving the progress that's needed. Retrofitting and fine-tuning the approaches of the past will simply not solve the problems we face. The world needs new systems, new business models, new relationships and new ways of thinking. Sustainability requires transformation, and innovation lies at the heart of that process.

As we continue to successfully innovate across our entire value chain, sustainability will be an engine for growth. For example, we created jerseys for the 2010 World Cup that were made from recycled plastic bottles, and we have built tools such as the Nike Materials Sustainability Index (Nike MSI) to make it easy for designers to create products with lower environmental impacts. Through other initiatives, we hope to go much further, helping our supply chain become leaner, greener, more equitable and empowered. One example is employing fundamentally different processes to make

products, like Nike Flyknit's innovative manufacturing process, which reduces waste in knitting together the upper of the shoe. Another is exploring new materials and manufacturing processes through our Sustainable Business & Innovation Lab.

We launched our Lab as a business development and strategic partnership team within Nike that helps us drive innovation and collaboration, particularly as it relates to sustainability. The Lab is an expression of our culture and commitment to collaboration and innovation; we believe leveraging innovation in sustainability can be a vehicle for growth and will help us accelerate our vision for superior performance and minimum impact products. Recommendations that come from the Lab, as with any other area of the Nike business, are reviewed by management for alignment with our strategic and financial goals.

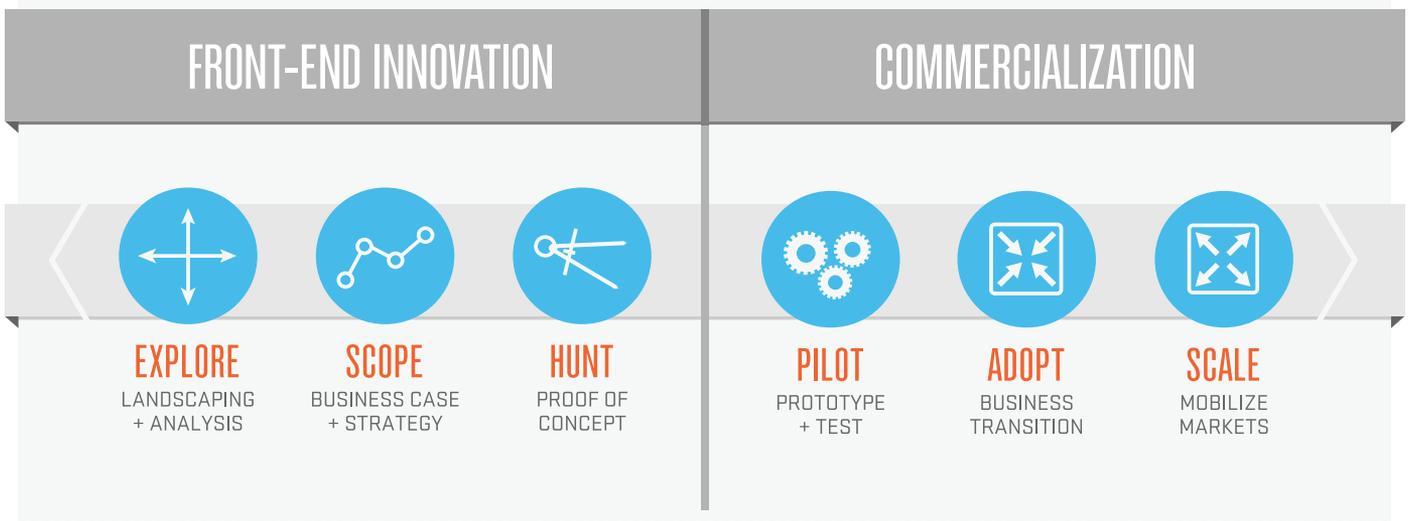
Opportunities for innovation are countless, so we prioritize our initiatives and investments. We consider potential environmental and social impacts; possible revenue; savings

WE ARE MAINTAINING A RELENTLESS FOCUS ON SUSTAINABLE INNOVATION, FROM EVOLUTIONARY ENHANCEMENTS TO DISRUPTIVE SHIFTS THAT CAN TRANSFORM THE INDUSTRY.

and risk reductions; our ability to bring the innovation to scale; and other factors. We then manage projects throughout our innovation pipeline from the kernel of an idea to its mass adoption (see graphic).

In 2011, we launched an executive-level Committee for Sustainable Innovation. This group is chaired by our CEO and oversees our innovation pipeline and portfolio. It helps to fully capitalize on opportunities by accelerating adoption and bringing these activities to scale.

NIKE'S SUSTAINABILITY INNOVATION PIPELINE



NIKE, INC.'S SUSTAINABILITY PILLARS

DRIVE DISRUPTIVE INNOVATION



OPTIMIZE TO DELIVER POSITIVE IMPACT



ENERGY



LABOR



CHEMISTRY



WATER



WASTE

- NEW PRODUCTS & MARKETS
- OPERATING LEVERAGE

DELIVER VALUE

- MITIGATE EARNINGS RISK
- PROTECT BRAND EQUITY

Our Sustainability Pillars

We drive sustainable innovation throughout our company across four strategic pillars (see above). These pillars do not stand alone – they are interconnected. The work we do today to optimize and deliver positive impacts also drives insights into disruptive innovations that will create our future.

Creating a portfolio of sustainable materials – the first pillar – addresses one area of our greatest potential impacts. The choice of materials for our products has a cascading effect across our entire value chain. From farms and factories to trucks and ships to stores and homes where our products are used and laundered, materials drive our footprint. For the past decade, we have worked to improve the

environmental attributes of the materials we use while maintaining the highest standards of product performance. We further propelled these efforts forward in 2011. Specifically, we upgraded our materials rating tool, the Nike Materials Sustainability Index (Nike MSI). The Nike MSI is embedded in the indexes that our designers and developers use to assess potential products, and it plays a pivotal role in product design. Materials are a substantial cost, so identifying long-term access to affordable materials that meet our environmental standards is key to our ongoing success and our ability to decouple materials from scarce resources. See page 23 for more information about our materials programs and progress.



The second pillar – *prototyping and scaling sustainable sourcing and manufacturing models* – directly affects the activities at the heart of our value chain. We are culminating more than a decade of work in this area with an initiative to transform our relationships with contract factories. Our vision is to create a sustainable supply chain across all of our brands that is lean, green, equitable and empowered. We expect this transformation to benefit our business as well as hundreds of thousands of workers worldwide. Our new Manufacturing Index, launching in 2012, will place a factory’s performance and sustainable manufacturing practices on equal footing and performance with the traditional measures of quality, delivery and cost, for sourcing evaluation. See page 40 for more detail.

Igniting and driving market transformation – the third pillar – is about creating the conditions for sustainable consumption to thrive. This requires mobilizing key constituents (such as civil society, employees, government and industry) to partner in driving solutions to scale. It depends on sharing knowledge and expertise across companies and entire industries to broaden the adoption of sustainable principles and practices (see sidebar on page 35 for examples). Above all, we must engage consumers in sustainability. Nike begins and ends with the consumer. We need to both inform and meet consumers’ growing expectations in this area, such as through Nike Better World, which is our brand commitment to serve the needs of athletes and the planet at the same time.

Creating digital services revenue – the final pillar of our sustainability strategy – describes our vision to extend our leadership in athletic footwear, apparel and equipment into the digital realm of fitness, coaching and training services. We see the potential to help every athlete get better and do more, as well as the potential for us to develop deeper relationships and insights with athletes. This will help grow our business while diversifying our company away from the natural resources we depend on today.

This sustainability framework informs the structure of this report. We include in-depth sections on materials and manufacturing, reflecting the proportionate impact of those first two pillars, and we also discuss our performance in the “impact areas” identified in the graphic on page 43.

Sustainability Governance and Management

Even the best strategy comes to nothing without the commitment, people and processes to make it happen. Continuing to integrate sustainability into our business, rather than layering it on top of how NIKE, Inc. and our brands currently operate, will increase and accelerate progress, drive scale and the proliferation of sustainable innovation, and enable broad employee engagement.

At Nike, dedication to and accountability for sustainability begins at the top. In 2001, we formed a Corporate Responsibility (CR) Committee as part of our Board of Directors committee structure. The CR Committee has oversight of environmental impact and sustainability issues, labor practices and corporate responsibility issues in major business decisions.

COLLABORATION TO INCREASE SCALE

The sustainability challenges we face, such as bringing to scale the use of innovative new materials and changing deep-rooted supplier behaviors, are much broader than Nike alone can address. We are seeking scale across our industry. We will play a role in changing the underlying systems and transforming the way that industry, government and citizens share data and responsibility, working together to enhance transparency and accountability. Unprecedented levels of collaboration are crucial to promoting system transformation and developing effective and lasting solutions, and are core to our strategy.

We focus much of our efforts on our suppliers, due to the scale of the opportunities in our supply chain. For example:

- > The H₂O* Insight Water Tool, which we developed for the Nike Water Program and have recently made available through subscription to other companies, enables our vendors and other brands worldwide to more effectively track water quantity, quality and efficiency indicators (see page 62).
 - > nongovernmental organizations (NGOs), academics and the U.S. Environmental Protection Agency to launch the Sustainable Apparel Coalition. We have shared our tools with them to help create an industry-wide index for measuring and evaluating product sustainability (see page 29).
- > In 2011, we worked with other footwear and apparel companies to create a roadmap for achieving the goal of zero discharge of hazardous chemicals* by our material vendors and contract manufacturers by 2020 (see page 57).
 - > We are working with other leading brands and the Fair Labor Association (FLA) to create key performance indicators linked to the FLA’s principles of fair labor and responsible sourcing. Common standards will increase consistency in measuring and reporting supplier performance and improve collaboration among brands.
- > Also in 2011, we joined with other leading apparel and footwear brands, retailers, manufacturers,

We also work across industries. GreenXchange, a web-based marketplace we founded with several other companies in 2006, is one example. GreenXchange was our first foray into open innovation with other businesses, set up to allow organizations to collaborate and share intellectual property. We have gained significant insights from this collaboration which continue to inform our strategy to bring sustainability innovations to scale.

*Hazardous chemicals are those that show intrinsically hazardous properties (persistent, bio-accumulative and toxic; very persistent and very bio-accumulative; carcinogenic, mutagenic and toxic for reproduction; endocrine disruptors; or equivalent concern), not just those that have been regulated or restricted in other regions.



In FY06, we created a management framework to ensure executive accountability for corporate responsibility across the company. The Vice President for Sustainable Business & Innovation reports directly to President and CEO Mark Parker, and co-manages dedicated teams with business and functional executives to develop and review policies with Board oversight, approve investments and evaluate and refine our approach and direction.

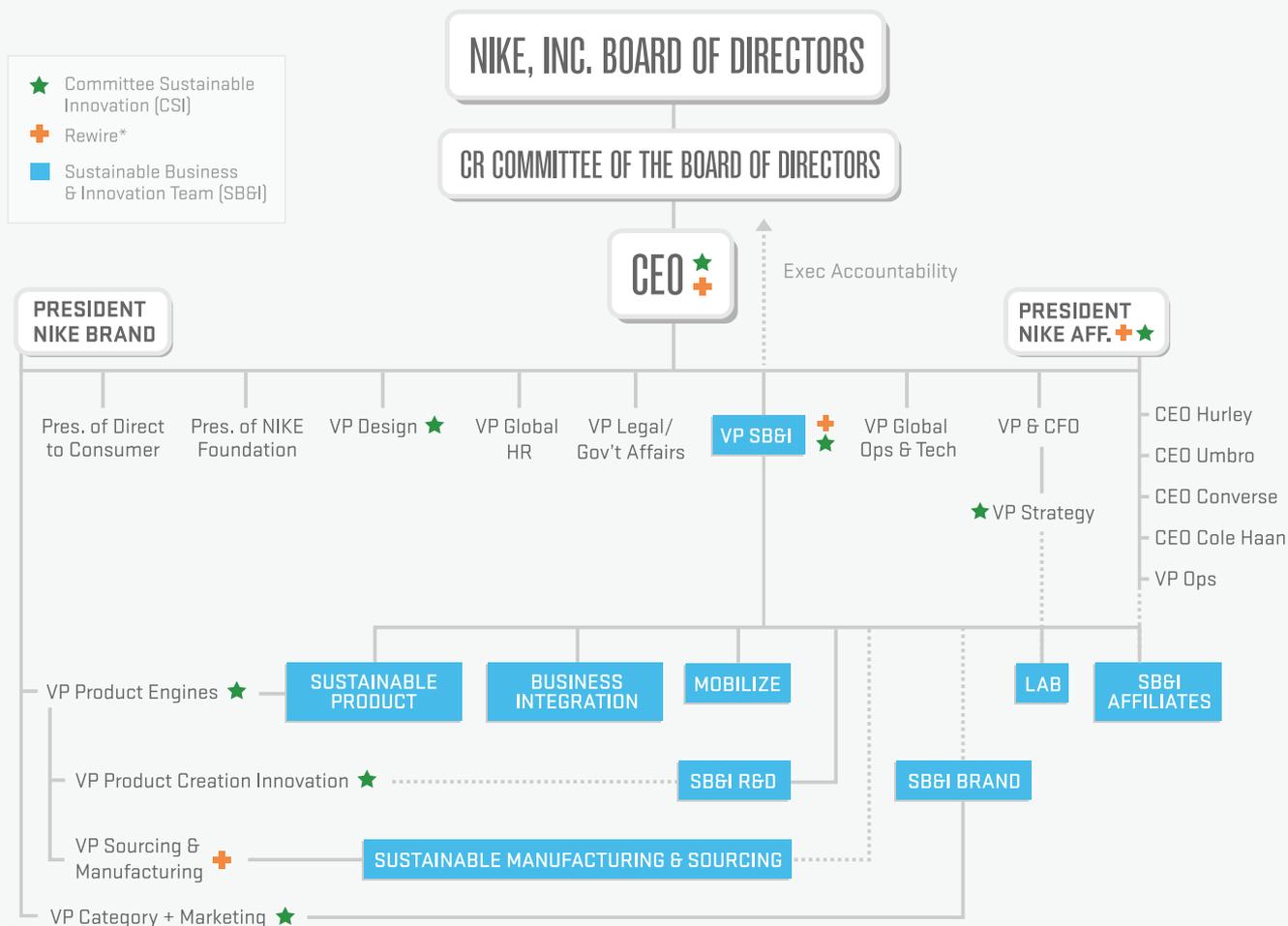
The SB&I team acts as a catalyst for sustainability companywide. Made up of about 130 people, the team leads sustainability strategy development; provides content expertise and consulting to teams

companywide; collaborates with sustainability specialists in other parts of the organization; drives sustainability integration; leads engagement with stakeholders; works to mitigate risk and facilitate compliance; and reports on our progress to scale the impact of sustainable innovation beyond Nike.

Our new executive-level Committee for Sustainable Innovation, described previously, also steers our efforts specific to innovation.

DEDICATION TO & ACCOUNTABILITY FOR SUSTAINABILITY RUNS ACROSS THE COMPANY

NIKE, INC.'S MANAGEMENT FRAMEWORK STRIVES TO ENSURE EXECUTIVE ACCOUNTABILITY FOR CORPORATE RESPONSIBILITY ACROSS THE COMPANY



SB&I is NIKE, Inc.'s Sustainable Business & Innovation team formed in 2009.

*Rewire is a process begun in FY09 to reorganize our sourcing and assessment of contracted manufacturing factories, providing more efficient allocation and governance and direct oversight within the business.

TARGETS & PERFORMANCE

We are clear on our ultimate destination: To decouple profitable growth from constrained resources.

Our vision of the future is a world in transition from an industrial economy to a sustainable economy – where renewable sources of energy flourish, water is borrowed responsibly and returned clean to communities, waste is a new asset, workers across the industry are consistently valued and environmental impact will be a critical metric of success.

This is a future that will be good for business, economies and communities, and citizens, workers and consumers. And we are determined to set Nike up to lead and thrive, in this environment.

In order to get there, we will need to move from incremental to disruptive innovation. Our aim of decoupling growth from constrained resources will require change at a systems-wide level. No single company can eliminate toxic chemicals from vast supply chains, nor improve living conditions of workers in low-income communities, nor eliminate waste from consumption. We need step change in collaboration to drive collective understanding of the systemic issues we face and agreement on the solutions. Competitive advantage should be built on a sustainable playing field where getting better faster than the competition raises the bar for everyone. That will require relentless focus on systems innovation and collaboration across government, industry, social influencers and even consumers. It also will require putting sustainability at the heart of innovation.

We operate in a globally competitive industry, where markets change, and where local, regional and national policies play into the impacts we have and the way we can address them. In some cases, the kind of large-scale systemic changes needed to make a lasting positive impact in the environment and society – while retaining vibrant communities and businesses – requires movement on all fronts: from government, industry, businesses, even consumers. It sometimes requires agreeing with and moving toward common approaches and definitions. One example is in our approach to sourcing and assessing factory performance by including the expectation of progress toward the Fair Labor Association’s definition of “fair wages” into what we consider compliance. But even that definition is tied to policies and realities such as minimum wage, inflation, community vitality and other things beyond our control. It speaks to the intersection – on all fronts – of efforts needed to bring about a joint vision of a better world.

But vision alone is not enough. Vision is long term. Getting there demands action. We need steps to get there – a plan. We need milestones along the way. We take our environmental and our social targets seriously. In the same way a company’s business targets are based on the planned, the real, the owned and the predicted,

we worked to develop targets that organize our efforts, drive our performance and help us to take account of what’s important and how we’re managing.

We know where we’ve been, and we know where we want to go. And we know that there is substantial work ahead. We continue to set the bar higher for ourselves and across our value chain.

We have evaluated our value chain and our impacts, assessed the coming scenarios and challenges, taken account of our progress against past performance, and worked across our business to set targets embedded deeply into the way we operate.

Many of the sustainability issues we seek to solve are still undergoing innovation. Others are firmly in place and moving forward with needed changes.

We deliver on our vision in two ways:

- > ***Make today better*** by taking account of our impacts and redefining business performance for the better
- > ***Design the future*** by unleashing innovation, embedding sustainability into our approaches to product and manufacturing, and solving challenges in business and sustainability for the world

Make Today Better

We can always do better by constantly refining the way we define our performance with greater focus and more attention. We are working to manage our impacts not only in our own business but in its reach across our value chain.

At Nike, we refer to this type of continuous improvement as seeking our “personal best.” It’s much like the one-mile race, with world records bested by fractions of a second over years or decades without a major breakthrough but ultimately resulting in significant cumulative change.

We recognize the bar can always be higher and that sometimes it seems just out of reach. We’re constantly asking ourselves what company co-founder and legendary track coach Bill Bowerman asked the company’s first designers: “Is that the best we can do?”

We have looked across our value chain, at the areas of greatest impact, and where we have solid information to assess, understand and drive performance. In these areas we have defined targets we’re working toward.



Design the Future

We see innovation as an engine, an accelerator, a disruptor, to get us to that future state. Great innovation has the ability to make the status quo obsolete. Like Dick Fosbury who went backward over the bar and changed the high jump forever. Nourishing innovation is both art and science. It demands creativity, patience and high tolerance for failure. It also demands dedication and rigor.

We need scalable system change to transform our business, the industry and markets. These are the breakthroughs, some visible on the horizon and some unseen, that will help us leap forward and turn assumptions about the way we think and operate on their heads.

These breakthrough opportunities are less defined than reliant on the willingness to set the path as we go and to fail along the way. We are sharing our aims and ambitions in this space to bring our stakeholders along in the journey. We have set our vision for what changes are needed in innovation, with our people and culture and in the way we work. We also have two areas of innovation – in product and in manufacturing – that build on our past achievements and on processes we have put in place to drive change.

Our aims, targets and commitments, outlined below, take into account what we've learned during the last five years in working toward our past targets. We achieved some, missed others and learned a lot in the process (see page 20). Now we have a laser focus on what is most relevant to our business and our various stakeholders, and our targets

reflect a deeper understanding of our impacts on the world and the integration of sustainability work across our business.

We've structured our plan in three levels:

- > **Aims** show what we aspire to do, even if we can't measure progress against these today. In this space we define our desire to find a solution and share our strategy and approach.
- > **Targets** specify our focus and determination to relentlessly improve our performance. We've focused targets based on materiality, our ability to measure and what role we can take in bringing about change.
- > **Commitments** are the promises we make that show where and how we focus our energy and effort by providing insight into how we intend to achieve our targets or address other relevant issues and set the structure for our ongoing reporting.

Together, these plan elements reflect our work, recognizing as well the great opportunity of partnering across brands and with other sectors to achieve deep and lasting change. We know that our success depends on others, and theirs depends on us.

We continue raising the bar and reaching new heights in innovation and performance, enabling long-term, sustainable growth of our business, and, in turn, a better world.



GOAL		MAKE TODAY BETTER	
TOPIC	AIM	TARGET	COMMITMENTS
CUT ENERGY	Drive innovation, collaboration and public policy advocacy to deliver carbon reductions across the value chain	Achieve 20% reduction in CO ₂ emissions per unit ¹ from FY11 levels through FY15 (in aggregate from assessed footprint in the built environment, logistics and footwear manufacturing)	<ul style="list-style-type: none"> > Increase contracted manufacturer participation in Nike's energy and carbon continuous improvement program > Expand use of renewable energy in our built environment (where available), including all new retail stores > Design new build to LEED standards > Assess and report energy and CO₂ footprint
EMPOWER WORKERS	Transform our working relationship with contract factories to incentivize changes that benefit their workers. 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	Source from factories that demonstrate commitment to workers by achieving minimum Bronze on our Sourcing & Manufacturing Sustainability Index by the end of FY20	<ul style="list-style-type: none"> > We will align sourcing decisions by the end of FY20 to prioritize sourcing in factories that have eliminated excessive overtime² > Require commitment to lean manufacturing and demonstrate progress toward a lean culture for contract factories to move beyond compliance by the end of FY15 > Develop and test new models of manufacturing by the end of FY15 that serve to improve worker compensation, skills and livelihood, and share findings to drive industry change
REJECT TOXICS	Minimize the impact of product ingredients throughout the lifecycle	Achieve zero discharge of hazardous chemicals* for all products across all pathways in our supply chain by 2020	<ul style="list-style-type: none"> > Establish industry-wide management coalition > Expand chemicals management and awareness training > Expand use of positive chemistries > Expand material traceability > Explore disclosure advancements
SLASH WATER USE	Borrow water and use it responsibly	Improve efficiency by 15% per unit in apparel materials dyeing and finishing and footwear manufacturing (from FY11 through FY15)	<ul style="list-style-type: none"> > Increase participation in Nike Water Program across NIKE, Inc. brands > Drive industry change through expanded access to the use of Nike-developed H₂O* Insight Tool > Assess geographic impact of water

¹Measuring energy and emissions based on footwear.

²Our Code of Conduct defines excessive overtime as: 1) more than 60 hours in a week; or 2) less than one day off in seven.

*Hazardous chemicals are those that show intrinsically hazardous properties (persistent, bio-accumulative and toxic; very persistent and very bio-accumulative; carcinogenic, mutagenic and toxic for reproduction; endocrine disruptors; or equivalent concern), not just those that have been regulated or restricted in other regions.

MAKE TODAY BETTER CONTINUED

TOPIC	AIM	TARGET	COMMITMENTS
REDUCE WASTE	Use less, buy less to reduce impact across the value chain	Achieve 10% reduction in waste from manufacturing across NIKE, Inc. and shoebox weight per unit (from FY11 baseline through FY15), building on reduction in footwear manufacturing of more than 35% per pair in first 10 years of program	<ul style="list-style-type: none"> > Reduce waste in manufacturing > Improve packaging > Increase recycling, reuse, repurpose & compost of waste (manufacturing, retail, distribution centers, offices)
SUPPORT COMMUNITIES	Deliver focused areas of impact through innovation, partnership, advocacy and movement making, with a stable source of funding to allow for a portfolio of innovation to scale and flourish	Invest a minimum of 1.5% of pre-tax income in communities annually	<ul style="list-style-type: none"> > Build and expand access to sport agenda > Tap the power of our brands to engage consumers and leverage support for the issues they care about > Through the Nike Foundation, continue to use insight, innovation and inspiration to equip adolescent girls in the developing world and transform their world, so that their full potential can be realized > Engage, encourage and enable employees to support communities

GOAL

DESIGN THE FUTURE



TOPIC	AIM	TARGET	COMMITMENTS
UNLEASH INNOVATION	Integrate sustainability principles into our innovation processes, governance and portfolios to generate innovation that delivers products and services that combine performance, innovation and sustainability		<ul style="list-style-type: none"> > We will build sustainable innovation capabilities across the business to drive a disruptive innovation agenda as we continue our endless pursuit of delivering performance products and services to athletes > We will develop and prototype an Index to drive and measure how sustainability is integrated into our innovation portfolios, decision making and processes. We will share a version of this Index and lessons learned with others in an effort to contribute to larger-scale adoption of approaches that link sustainability and innovation to drive business growth and performance > We will develop tools, processes and systems to establish metrics to measure impact that can be shared as part of the index, without compromising the competitive nature of innovation
REVOLUTIONIZE PRODUCT	Design products that provide superior performance and lower environmental impact across NIKE, Inc.	Understand and improve the environmental profile of our product designs by the end of FY15	<ul style="list-style-type: none"> > Footwear: New NIKE Brand global footwear product achieves minimum Silver rating on Nike Footwear Sustainability Index by the end of FY15 > Apparel: New NIKE Brand global apparel product achieves minimum Bronze rating on Nike Apparel Sustainability Index by the end of FY15 > Equipment: New NIKE Brand global equipment product achieves minimum Bronze rating on Nike Equipment Sustainability Index by the end of FY20 > Other Product: Expand reach of indexes to score other NIKE, Inc. product (i.e. products of Affiliate brands, licensees and carry over products) > Better Materials: Increase use of environmentally preferred materials
TRANSFORM MANUFACTURING	Drive improvement in factory sustainability performance by implementing sourcing systems that include measures of sustainability performance (as well as traditional performance metrics of cost, quality and delivery) in sourcing-evaluation processes when selecting factories with which to invest or divest over time	Source all products from factories that have achieved Bronze or better on our Sourcing and Manufacturing Sustainability Index by the end of FY20	<ul style="list-style-type: none"> > All product will come from factories that have achieved Bronze or better on our Sourcing & Manufacturing Sustainability Index by the end of FY20 > Incorporate factory labor and environmental performance criteria into production vendor sourcing selection and evaluation > Expand and optimize factory labor and environmental sustainability capabilities > Engage external partners to drive sustainability and transparency across industry
PEOPLE & CULTURE	Tap our people and our culture, our most powerful source for innovation and change		<ul style="list-style-type: none"> > Invest in employee development > Engage employees > Inspire ideas and ignite innovation
THE WAY WE WORK	Build sustainability into the DNA of our business model, into our operations and into our culture where innovation is unleashed, shared and scaled		<ul style="list-style-type: none"> > Hardwire sustainability in the way we do business > Be a catalyst of sustainable innovation > Measure the business value of sustainability > Participate in multi-sector efforts to drive system change and market transformation



Performance Against Past Targets

The following goals, set out in our FY05/06 report, describe our ambitions based on the world we knew, the way we were organized and what was important. Some things have changed. Some haven't. In some areas our focus is sharper, reflected in either adjusted or updated targets. In other areas, we have shifted as the world or our

approach has shifted – for instance, focusing on reducing the use of energy overall in our value chain rather than on achieving climate neutrality through offsets. Further discussion of our efforts is included in relevant sections of this report.

PERFORMANCE AGAINST PAST TARGETS

GOAL 1

BRING ABOUT SYSTEMATIC CHANGE FOR WORKERS IN THE FOOTWEAR, APPAREL & EQUIPMENT INDUSTRIES

STATUS KEY: ACHIEVED LONGER-TERM TARGET SIGNIFICANT PROGRESS CHANGED APPROACH DID NOT MEET

TOPICS	PAST TARGET	PERFORMANCE THROUGH FY11	STATUS
HUMAN RESOURCES MANAGEMENT TRAINING PROGRAM	▶ Implement Human Resources Management (HRM) training program in all focus NIKE Brand contract factories ¹	Implemented in 79% of focus factories (76 of 96) ¹ Covered 94% of footwear volume Covered 43% of apparel volume	SIGNIFICANT PROGRESS
FREEDOM OF ASSOCIATION	▶ Implement Freedom of Association education program in all focus NIKE Brand contract factories ¹	Implemented in 79% of focus factories (76 of 96) ¹ Covered 94% of footwear volume Covered 43% of apparel volume	SIGNIFICANT PROGRESS
WORKER SURVEY	▶ Have 100% of focus NIKE Brand contract factories complete statistically relevant sampling of employees ¹	Completed by 79% of focus factories. ¹ More than 25,000 workers [of 422,000] took part. We continue to offer this program, extending it to new areas and offering training and support to new and existing factories in Asia Covering 94% of footwear volume Covered 43% of apparel volume	SIGNIFICANT PROGRESS
COLLABORATION	▶ Promote multi-brand collaboration on improving working conditions in the global supply chain, covering 30% of factory locations	Shared 39% of Nike FY11 audits through Fair Factories Clearinghouse	ACHIEVED
EXCESSIVE OVERTIME	▶ Reduce Nike-caused excessive overtime incidents (Updated from FY05/06 when stated goal was to eliminate excessive overtime. We clarified what information we had and what we could deliver based on our causes)	Continued to assess root causes of excessive overtime in FY10 and FY11 By FY11, we were able to assess excessive overtime found in 128 factories and establish that 68% of incidents analyzed were due to factors that Nike could influence Worked with factories to address systemic approaches to excessive overtime. Did not have enough information to assess whether those have declined	DID NOT MEET

¹ "Focus factories" indicates factories that we had targeted to participate in the Human Resources Management program in FY05/06 based on volume of production and country of location. In many cases, these are footwear and apparel strategic partners, but we also targeted other factories that were compliant in labor, health, safety and environment, and started on their lean manufacturing journey.

Some targets were clarified or redefined from what was presented in FY05/06. For full discussion of progress and our work in these areas, please explore the relevant section of this report. Unless otherwise noted, target was through FY11.

GOAL 2

CREATE SUSTAINABLE PRODUCTS AND BUSINESS MODELS

STATUS KEY: ACHIEVED LONGER-TERM TARGET SIGNIFICANT PROGRESS CHANGED APPROACH DID NOT MEET

TOPICS	PAST TARGET	PERFORMANCE THROUGH FY11	STATUS
<p>CONSIDERED DESIGN INDEX</p> <p>(SEE DESIGN & MATERIALS SECTION FOR FURTHER DESCRIPTION)</p>	<ul style="list-style-type: none"> ▶ Footwear: Have 100% of new footwear products¹ reach baseline Considered standards by FY11 ▶ Apparel: Have 100% of new NIKE Brand apparel product² reach baseline Considered standards by FY15 ▶ Equipment: Have 100% of NIKE Brand equipment product³ reach baseline standards by FY20 	<p>Saw 97% achieve a minimum of baseline for the Spring and Summer seasons of FY11</p> <p>16% of the FY11 Nike Apparel line achieved the baseline level, outpacing the ramp-up schedule to the FY15 target</p> <p>Made progress in developing specialized indexes for different types of equipment. Developed a Considered Bags Index in FY10, and 24% met the baseline or better for Fall 2011. Created and tested a Considered Inflatables Index in FY11</p>	<ul style="list-style-type: none"> ACHIEVED LONGER-TERM TARGET LONGER-TERM TARGET
WASTE	<ul style="list-style-type: none"> ▶ Footwear: Achieve a 17% reduction from the FY06 baseline in grams of waste generated per pair (gpp) of footwear by FY11 (equates to 157 gpp by FY11) ▶ Apparel: Set target in FY09 ▶ Packaging/Point-of-Purchase Materials: Achieve a 30% reduction. Revised in FY09 to focus on footwear box 	<p>Achieved this target in FY09. Continued to improve, decreasing to 149 gpp during FY11 despite a 38% increase in production since FY06</p> <p>Did not set a target. Piloted training, on-site consulting and technical assistance in Apparel factories in FY10 and FY11 to segregate waste, build systems and establish new waste baselines</p> <p>Achieved a 23% weight reduction on our shoebox, the major contributor to our packaging waste footprint. While the new shoebox design was implemented in FY10 and FY11. In FY11, reverted to previous designs due to supply chain performance issues. Now researching new designs</p>	<ul style="list-style-type: none"> ACHIEVED DID NOT MEET SIGNIFICANT PROGRESS
<p>PETROLEUM-DERIVED SOLVENTS</p> <p>(FORMERLY KNOWN AS VOLATILE ORGANIC COMPOUNDS)</p>	<ul style="list-style-type: none"> ▶ Footwear: Maintain current petroleum-derived solvents grams/pair amount (represents 95% reduction from a 1995 baseline) 	<p>Achieved a 95% reduction from the 1995 baseline by FY04 and have continued to improve. Dropped an additional 1 gram per pair from FY09 to FY11, reaching 96.4% below the baseline</p>	<ul style="list-style-type: none"> ACHIEVED
<p>CONSIDERED INDEX: ENVIRONMENTALLY PREFERRED MATERIALS (EPMs)</p>	<ul style="list-style-type: none"> ▶ Footwear: Increase use of EPMs by 22% by FY11 (as measured by average EPM score of 69 in FY07 to 84 in FY11) ▶ Apparel: Increase use of EPMs to 20% by FY15 ▶ Equipment: Announce EPM use target in FY10 	<p>Achieved this target in FY08</p> <p>Achieved 9.8% in FY11. On track to meet the 20% FY15 goal</p> <p>Focused efforts on creating Considered Indexes during this time and, based on great difference in product lines across equipment as a whole, did not set equipment-wide EPM goals</p>	<ul style="list-style-type: none"> ACHIEVED LONGER-TERM TARGET SIGNIFICANT PROGRESS
CLIMATE STABILITY			
FOOTWEAR MANUFACTURING	Footwear manufacturing CO ₂ emissions footprint: Announce goals by January 2008	Reduced absolute CO ₂ emissions by 6% from FY08 through FY11 (983,015 tCO ₂ e to 919,700) despite a 20% increase in production. Did not publicly announce a target	<ul style="list-style-type: none"> SIGNIFICANT PROGRESS
INBOUND TRANSPORTATION	Deliver a 30% absolute reduction in CO ₂ emissions from 2003 by FY20. (2003 baseline is 311,859 metric tons)	<p>Have revisited this target as business conditions have changed from when we set it</p> <p>The emissions reductions we achieved through FY10 were offset by an increase in air freight in FY11, resulting in an absolute increase of 17.3% from FY08 through FY11</p> <p>We continue to work on reductions and will work on measuring on a per-unit basis. Also, we are working with our transport logistics partners to accelerate the adoption of cleaner fuels and vehicle technologies</p>	<ul style="list-style-type: none"> CHANGED APPROACH

¹ Refers to newly developed products coming out of world headquarters.

² Refers to newly developed consumer product coming out of Nike global design centers.

³ Refers to new, top-volume retail products coming out of Nike global design centers. ("Top-volume" products include headwear, socks, bags, inflatable balls and gloves.)

Some targets were clarified or redefined from what was presented in FY05/06. For full discussion of progress and our work in these areas, please explore the relevant section of this report. Unless otherwise noted, target was through FY11.



CLIMATE STABILITY CONTINUED

STATUS KEY: ACHIEVED LONGER-TERM TARGET SIGNIFICANT PROGRESS CHANGED APPROACH DID NOT MEET

TOPICS	PAST TARGET	PERFORMANCE THROUGH FY11	STATUS
FACILITIES AND BUSINESS TRAVEL	Make NIKE Brand facilities and business travel climate neutral by FY11. Make NIKE, Inc. facilities climate neutral by FY15	<p>Showed a drop in NIKE Brand facilities emissions of 29.4%, but this change was due largely to better accuracy of measurement over this time period</p> <p>Increased emissions from business travel 88.7% (from 30,307 to 57,200 tCO₂) over the same period; stopped purchasing carbon offsets in FY09. From FY08 to FY11, overall CO₂ emissions grew just 0.8%, even as NIKE Brand revenues increased 10.7%</p> <p>As discussed in our FY07-09 reporting, this target no longer aligns with our sustainability strategy, as it relied upon offsets but did not address overall energy use. For the greatest impact, we now prioritize investing in saving energy – including in our contracted factory base – instead of purchasing carbon offsets</p> <p>Note: Baseline year for comparison is FY08 because significant data improvements between FY07 and FY08 affected the data in some places by as much as 25%</p>	CHANGED APPROACH

GOAL 3

LET ME PLAY. UNLEASHING POTENTIAL THROUGH SPORT

STATUS KEY: ACHIEVED LONGER-TERM TARGET SIGNIFICANT PROGRESS CHANGED APPROACH DID NOT MEET

TOPICS	PAST TARGET	PERFORMANCE THROUGH FY11	STATUS
CONTRIBUTIONS	<ul style="list-style-type: none"> By FY11, have NIKE, Inc. invest an additional \$315 million into programs worldwide (starting in FY07) 	<p>Invested a total of \$268.7 million, about 85% of the targeted amount</p> <p>Also, focused on leveraging additional support for community activity through NIKE Brand initiatives and work, including \$100 million contribution into the Nike Foundation from the Novo Foundation to support its efforts, and broader reach through other campaigns such as LIVESTRONG, which has raised \$80 million since 2004</p>	SIGNIFICANT PROGRESS
LET ME PLAY/ SOCIAL IMPACT	<ul style="list-style-type: none"> Social Impact: Set targets and metrics around programs for excluded youth around the world by January FY08 	<p>In FY07, identified a measurement and evaluation framework designed to assess and communicate the social impact of our investments in consultation with internal and external stakeholders</p> <p>In FY08 and FY09, customized and piloted the online portion of The Women's Funding Network's Making the Case™ tool and continued evaluations through FY10 and FY11. In FY10 and FY11, further refined our focus on social impacts. While we are not currently using this tool, we are still using the data and concept to refine our methodology</p>	CHANGED APPROACH

Some targets were clarified or redefined from what was presented in FY05/06. For full discussion of progress and our work in these areas, please explore the relevant section of this report.

PART II

HOW WE DO BUSINESS

PRODUCT DESIGN & MATERIALS

The “age of abundance” is over. Conspicuous consumption, wanton waste of natural resources, cheap energy – those days are long gone. In this new world, resources are scarce, and sustainability is a business imperative.

At NIKE, Inc., we’ve taken a hard look at what we need to do to thrive in this new world. One key insight: Focus on *materials*.

The choice of materials for our products has environmental implications up and down our value chain – implications for water, land, energy and chemical use; greenhouse gas (GHG) emissions; wastewater discharge; and solid waste. We estimate that materials make up about 60 percent of the lifecycle environmental impacts of a pair of NIKE Brand shoes, whereas the manufacturing process accounts for about 25 percent. (The remainder is split between transport, retail, office facilities, packaging, use and disposal.¹)

Consider leather, for example. We design for product performance, and leather has some great performance attributes. In particular, it’s strong and flexible. Since it’s a natural material, people might assume that it’s environmentally benign. But cows require a lot of land, feed and water. The processing of hides into leather uses large amounts of energy, water and chemicals. And leather cutting scrap is the second-largest waste stream in Nike’s footwear value chain (in part because leather comes in the irregular shape of a cow, not in a uniform-edged roll like fabric). Many synthetic leathers have lower lifecycle impacts than natural leather. However, we know that some customers prefer leather over other materials, so in addition to designing with synthetic leathers where appropriate, we are working to encourage the development of lower-impact natural leathers.

¹For apparel, the use phase includes considerable water and energy impacts due to washing and drying.



NIKE TOP-VOLUME MATERIALS

NIKE BRAND FOOTWEAR AND APPAREL ARE PRIMARILY MADE FROM...



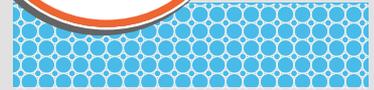
POLYESTER

Better options include recycled polyester. In FY11, 31.5 million Nike garments used recycled polyester, up from 3,400 in FY04.



RUBBER

Better options include new rubber formulations. Nike developed two such formulations now used in more than 30 finished rubber compounds.



EVA FOAM

EVA already scores well on sustainability criteria.



COTTON

Better options include cotton sourced from the Better Cotton Initiative and organic cotton. In FY11, we used more than 7 million kg of organic cotton.



SYNTHETIC LEATHER

Better options include those that reduce or eliminate solvents.



LEATHER

Better options include leather processed at facilities rated by the Leather Working Group.

WE HAVE WORKED TO DEVELOP ENVIRONMENTALLY PREFERRED VERSIONS OF THESE COMMONLY USED MATERIALS - EXCEPT FOR EVA, WHICH SCORES WELL ON SUSTAINABILITY CRITERIA AS IS.



To take an active role in defining the future of materials, our innovation agenda focuses on four areas:

- > **What materials we use** – including new choices for recycled and recyclable materials
- > **Better processes** – employing new ways of processing with less energy, water, chemicals or waste
- > **Better choices** – creating and applying indexes, restricted substance lists, policies and better ways of operating, and sharing them with vendors and suppliers
- > **Bringing choices to scale** – increasing the scale and availability of new material choices, including sharing intellectual property and enabling recycling of materials

The Materials We Use

We use a vast array of materials in Nike products – more than 16,000 in an average year. (As an example, a single pair of shoes, alone, uses an average of 30-plus materials.) These materials include everything from natural fibers such as cotton and wool to technical synthetic materials such as polyester, nylon, rubber, synthetic leather and ethylene vinyl acetate (EVA). As with leather, many of the natural materials we use have significantly higher environmental impacts than the synthetics.

Given the huge range of materials available, it's easy to see the difficulty involved in making informed decisions about what materials to use to design a product. In the past decade, we have developed a method for evaluating the environmental impacts of materials and have used that method to assess the more than 80,000 materials that might be used in products across our brands. Our product design teams work to integrate this information in their material selection processes.

AMAZON BIOME LEATHER SOURCING POLICY

In 2009, we established an Amazon Leather Policy, in which we commit not to use leather produced from cattle raised in the Amazon Biome, because cattle ranching in that region contributes to tropical deforestation.

We require all suppliers of Brazilian leather to certify in writing that the leather they supply for Nike products complies with this policy.



How We Drive More Sustainable Choices: Considered Design

The materials in just our NIKE Brand footwear and apparel products come from 900 different material vendors (i.e., supplier companies). We do not source directly with these vendors; they are independent companies that sell materials to our contract finished-goods manufacturers based on our design specifications. To drive sustainability improvements in materials, we focus on the part of the value chain over which we have the most control: product design.²

Decisions made in the product design phase determine the majority of a product’s environmental impacts. Nike teams design products with very detailed material specifications, and by providing those teams with the information they need to choose better materials from better vendors, we can improve the sustainability of our products.

To do this, in 2006 we introduced Considered Design. This design ethos – together with evaluation systems for footwear and apparel that we call the Considered Indexes – enables our product-creation teams to easily compare materials and make informed, sustainable choices during the design phase. The Considered Indexes represent years of research and analysis of materials and their environmental impacts (including energy use, GHG emissions, water use, land use, waste and chemical use) and consolidates that information with the major manufacturing environmental impacts (waste and solvents) into a decision-making tool that our teams can use to score their footwear and apparel designs in just minutes.

We provide our product creation teams with extensive training in how to use the Considered Indexes and on the importance of focusing on the sustainability of materials. The teams are given scoring targets for each season of products they design. In the current version of the Considered

Indexes, materials make up 35 percent of the score for footwear and 60 percent of the score for apparel, so it’s clear to the design teams that focusing on materials is an effective way to meet their goals.

While the Considered Indexes have been used primarily by the NIKE Brand, our Affiliate brands have also begun introducing and using them to evaluate their product designs and have committed to adopt the indexes by the end of FY15. For example, Hurley International scored selected apparel designs in FY11.

Next-Generation Tools

We are now working to take the Considered Indexes to the next level. We have been on a multi-year journey to refine the footwear and apparel Considered Indexes based on feedback from product creation teams. Updates are expected to launch in FY13 (see box below). Indexes for equipment are also under development.

In addition, we have significantly upgraded the materials rating tool embedded in the indexes and are calling the new tool the Nike Materials Sustainability Index (Nike MSI). Development of the Nike MSI finished in FY11, and designers are beginning to use it in FY12 (see graphic on next page).

One major improvement in the Nike MSI is that it rates material vendors in addition to materials themselves, providing strong incentives for the vendors to become more environmentally sustainable. We score material vendors on criteria such as whether they are complying with the Restricted Substance List (RSL) testing requirements and the Nike Water Program requirements; if they take part in materials certification

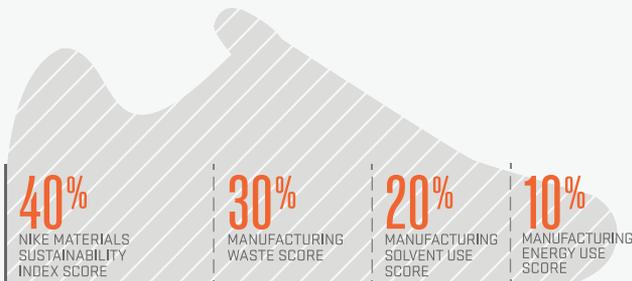
² While this section focuses on design, it’s important to note that we also train material vendors and collaborate to drive better performance.

THE EVOLUTION OF NIKE’S CONSIDERED INDEXES

WE ARE LAUNCHING NEW AND UPDATED EVALUATION TOOLS FOR RATING THE SUSTAINABILITY OF FOOTWEAR AND APPAREL DESIGNS IN FY13. DESCRIBED BELOW, THESE INDEXES REPRESENT THE NEXT GENERATION OF OUR CONSIDERED INDEXES.

NIKE FSI | FOOTWEAR SUSTAINABILITY INDEX

THE NIKE FSI WILL RATE FOOTWEAR DESIGNS AS FOLLOWS:



NIKE ASI | APPAREL SUSTAINABILITY INDEX

THE NIKE ASI WILL RATE APPAREL DESIGNS AS FOLLOWS:



THE NIKE MATERIALS SUSTAINABILITY INDEX

THE NIKE MATERIALS SUSTAINABILITY INDEX IS A TOOL FOR RATING THE SUSTAINABILITY OF MATERIALS AND THE VENDORS THAT PRODUCE THEM.



THE NIKE MSI WILL FEED INTO OUR UPDATED PRODUCT INDEXES:

NIKE FSI + NIKE ASI

It represents the next generation of the Nike Materials Analysis Tool, which has been part of our Considered Index.

UP TO
50 POINTS

A score for **the base material itself**, taking into account chemistry, energy and GHG emissions intensity, water and land-use intensity, and physical waste

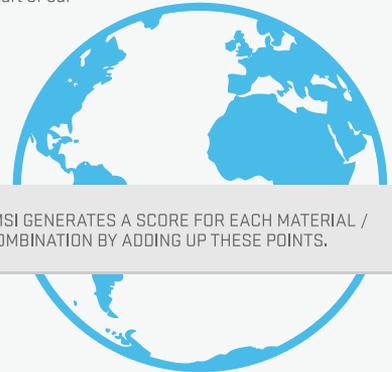
UP TO
+ 24 POINTS

A score for **additional key environmental criteria relating to the material**, including whether it has recycled or organic content, or is dyed with a low-water-use process

UP TO
+ 26 POINTS

A score for **environmental indicators relating to the material vendor**, such as participation in the Nike Water Program or Nike Green Chemistry Program, or use of certified-sustainable inputs

THE NIKE MSI GENERATES A SCORE FOR EACH MATERIAL / VENDOR COMBINATION BY ADDING UP THESE POINTS.



processes, such as the Global Recycle Standard; and whether they have ISO 14001 certification or operate out of certified “green” buildings. Rating higher on these types of criteria will increase a vendor’s overall Nike MSI score.

We also hope the Nike MSI will drive vendors to develop more environmentally preferred materials, which will score higher on the index.

We have collaborated with and trained material vendors to familiarize them with the new Nike MSI. As of the end of FY11, we had trained approximately 500 vendors.

Measuring Our Performance

We set a goal of having all newly designed NIKE Brand footwear models designed at world headquarters³ score at the baseline level on the Considered Index – meaning they meet Nike’s baseline sustainability criteria – by the end of FY11. We very nearly met that goal. In the last two seasons of FY11, 97 percent of footwear met this standard (see chart).

For NIKE Brand apparel, we’re working to reach 100 percent baseline for new global apparel styles through FY15. For the Fall ‘11 line, 26 percent of apparel achieved the baseline level, outpacing the ramp-up schedule to the 2015 goal. Hurley International also scored a selection of its apparel designs in FY11, with 40 percent reaching baseline or better.

³ The majority of NIKE Brand footwear (by volume) is designed at our world headquarters in Oregon.

CONSIDERED INDEX SCORING FOR NIKE BRAND FOOTWEAR BY SEASON

SEASON	FY09		FY10		FY11	
	% RATED	% BASELINE+	% RATED	% BASELINE+	% RATED	% BASELINE+
FALL	1%	<1%	17%	16%	82%	78%
HOLIDAY	1%	<1%	13%	12%	91%	86%
SPRING	9%	1%	22%	20%	100%	97%
SUMMER	6%	5%	60%	56%	99%	97%

We have also seen progress in specific equipment product areas, such as bags (where 24 percent scored baseline or better for Fall '11) and inflatable balls.

So, what does this mean in terms of the sustainability of our products? The truth is, it's a challenge to figure out how to measure that. Rather than working toward a certain percentage of, say, recycled content in a finished product, we have worked to improve our base materials, and we are now creating systems that allow us to better assess the impacts of the resulting products.

That said, we do already have some ways to measure our success. For example, over the past five years we have achieved a 19 percent reduction in waste related to the production of footwear uppers. Considered Design contributed to that gain, along with manufacturing process optimization and other best practices. That's the same as *not producing* 15 million pairs of shoe uppers over that time period. Our use of Environmentally Preferred Materials (EPMs) – ones that have lower environmental impacts throughout their lifecycles in terms of chemistry, water, energy use and waste – provides another strong indicator of our progress.

Environmentally Preferred Materials

Over the past decade, we have worked to develop environmentally preferred alternatives to our most-used materials, such as cotton, polyester and rubber. We have steadily increased our use of EPMs over time, with a 77 percent increase in our use of EPMs in footwear from FY05 through FY09. We have a current average of eight EPMs per shoe out of an average of 32 total materials.

We assess our use of EPMs based on the volume of production for each product design. Because contract factories typically source materials directly from material vendors, we do not have direct insight into volume of materials purchased or everything that happens to materials before they become final products. Some variables include the amount of waste generated between purchase and actual manufacturing, although much of the waste in factories is recycled or otherwise diverted from landfills. Our ability to assess the total amount of material in footwear also is complicated because the systems do not currently track the volume or percentage by weight of that material for given styles, which change seasonally. Because of this, the Footwear Considered Index counts incidents of material use as a proxy.

The following are some of our most commonly used EPMs, along with data on our progress in increasing their use. (See the performance summary table on page 21 for information on progress toward our overall EPM targets, and visit online for our Design Experience).

- > **Organic cotton:** Organic cotton is grown and harvested without the use of synthetic chemical pesticides, fertilizers or defoliants. Nike was the world's third-largest user of organic cotton in 2010, according to the Textile Exchange. The percentage of NIKE Brand cotton apparel that includes a minimum of 5 percent organic cotton

has grown from 47 percent in FY04 to 90 percent in FY11. All told, we used more than 7 million kg of organic cotton in FY11 – approximately equivalent to the amount used in 15 million T-shirts, and representing 10 percent of our total cotton use that year, up from 2 percent in FY04. While we remain committed to increasing our use of organic cotton, we are also moving toward the use of cotton grown to standards set by the Better Cotton Initiative (BCI). We signed on to the BCI's "Fast Track Program" in 2011 with the commitment to source 100 percent more sustainable cotton – Better Cotton or organic – by the end of FY20. The BCI establishes standards for the management of inputs such as pesticides, fertilizers and water; it also seeks to improve livelihoods and stability for farmers. Also, with the aim of making Better Cotton a truly mass-market commodity, the BCI intends for Better Cotton to be sold at the same market price as conventional cotton, making it more affordable for companies like Nike, and for consumers.

- > **Recycled polyester:** Recycled polyester textiles, which can be made from used beverage bottles, have lower energy use, less raw materials extraction and less waste compared to virgin polyester fiber. In FY11, we doubled our use of recycled polyester in apparel compared to FY10, the equivalent of removing more than 280 million plastic bottles from the waste stream. The number of NIKE Brand garments containing at least some recycled polyester fiber grew from 3,000 in FY04 to 31.5 million in FY11.
- > **Environmentally preferred rubber:** In the late 1990s, Nike researched environmentally preferred rubber and developed formulations suitable for performance footwear. We now have two environmentally preferred rubber base formulations, used in more than 30 finished rubber compounds that meet a range of sport performance requirements. (See the Chemistry section for details.) In FY11, 80 percent of NIKE Brand footwear designs used environmentally preferred rubber, up from 3 percent in 2004.
- > **Leather:** We have been working to ensure that the leather we source is as sustainable as possible. In 2006, we collaborated with tanneries and other footwear brands and retailers to establish the Leather Working Group (LWG). The LWG developed an environmental assessment protocol that was launched in 2007 and updated in 2012. The LWG protocol establishes standards for better environmental management of leather processing. We have made significant progress in sourcing from tanneries that have joined the LWG and certify their processing facilities to the LWG protocol. As of FY11, all active NIKE Brand leather supplier facilities achieved LWG certification, and we are making progress within our Affiliate brands.
- > **Synthetic leather:** There are many qualities of synthetic leather, but all are made with a textile substrate coated with a polymer. Typically, the polymer coating process requires the use of solvents. We've been working for more than a decade with synthetic leather suppliers to reduce and eliminate the use of solvents in the manufacturing process or switch to more environmentally preferred solvents. (See the Chemistry section for details.)



WHY NIKE, INC. USES INDEXES

At NIKE, Inc. we use a number of Indexes across our sustainability work. We use them because they work for us and the way we do business. They balance a number of important measures with proper weighting. They provide a consistent framework to assess performance. They provide a filter for us to make decisions.

We started with our Considered Index in 2005 and have evolved our approach and shared versions of our indexes with the industry, including the Sustainable Apparel Coalition to help drive systemic change toward environmental design and comparability. We have found that indexes can drive adoption, fit into a known way of working and can evolve to meet new needs.

TO SHOW OUR PROGRESSION IN USE OF THESE INDEXES, WE HAVE INDICATED AGAINST OUR INNOVATION PIPELINE: **[1] EXPLORE, [2] SCOPE, [3] HUNT, [4] PILOT, [5] ADOPT, [6] SCALE**

INDEX	WHAT IT MEASURES	PROGRESSION					
		1	2	3	4	5	6
CONSIDERED INDEX	Allows us to evaluate specific products (i.e. footwear and apparel) against environmental impacts of waste, water, energy and toxics						
NIKE FOOTWEAR AND APPAREL SUSTAINABILITY INDEXES (NIKE FSI & NIKE ASI)	Evolution of the Considered Indexes, incorporating Nike MSI scores as well as improved product evaluation metrics						
NIKE MATERIALS SUSTAINABILITY INDEX (NIKE MSI)	A component part of the Nike FSI and Nike ASI, measuring materials and material vendors against environmental impact metrics						
MANUFACTURING INDEX	Measures contract factory manufacturing performance on a balanced scorecard including costing, delivery, quality and sustainability						
SOURCING & MANUFACTURING SUSTAINABILITY INDEX	A component of Manufacturing Index, measures factory compliance with Code Leadership Standards and progression of continuous improvement of sustainable manufacturing behaviors and systems, and scores contract factory performance on key sustainability metrics: lean manufacturing, environmental performance, labor and health and safety beyond compliance						
COUNTRY RISK INDEX	Evaluates sourcing and manufacturing risk at a country level, taking into consideration political risk, social/compliance risk, economic risk and infrastructure and climate risk						
SUSTAINABILITY INTEGRATION INDEX	Serves as a common framework that outlines the attributes of a sustainable business. Assess how deeply sustainability is embedded into the Strategy, Structure, People and Operations across our company						
INNOVATION INDEX	Will measure how sustainability is integrated into our innovation portfolios, decision making and processes, linking sustainability and innovation to drive business growth and performance						

Sharing Our Tools With the Industry

We have made several of our scoring tools available to the industry in an effort to improve the sustainability of materials beyond our own value chain. For instance, we shared our Materials Analysis Tool with the Sustainable Apparel Coalition (SAC), which has used it in evaluating an approach to an industry-wide apparel index. (SAC estimates that its members represent approximately 30 percent of global apparel and footwear sales.) We have also shared the next generation of this tool – the Nike Materials Sustainability Index – with the SAC, which is now reviewing it as they build a public version scheduled to launch in 2012. Also, in 2010 we made available publicly, through the SAC, the Environmental Apparel Design Tool. This tool is a simplified version of our Considered Index, and can help any apparel designer quickly make design decisions that would reduce the environmental impact of their products.

These efforts are tied to our commitment to greater traceability and transparency. Our long-term vision is to have a widely adopted industry means of rating and reducing the environmental impact of products – a vision we share with the SAC. The complexity of this vision is recognized throughout our industry, which is why we're working together.

Looking to the Future

Our Considered Design ethos – and the belief that design processes adopted broadly can be a key driver of systems change – has been a corner stone of our sustainability strategy. Going forward, we believe our next-generation indexes will accelerate progress in product and materials sustainability throughout our value chain – particularly the Nike MSI, which will encourage material vendors to become more sustainable themselves and to create more environmentally responsible materials. Our vision is that through these efforts, our material vendors will be our sustainable innovation partners in pushing new and better materials to scale.

At the same time, Nike's R&D teams are working to accelerate the innovation of new materials and expand our palette of available EPMs across all NIKE, Inc. brands. For example, we have developed definitions for “good,” “better” and “best” EPMs for our strategic materials. But most of the “better” and “best” options remain theoretical at present – much more research must be done before they can be brought to market. Through innovations in these types of materials, we aim to create disruptive change in the industry and set new benchmarks for sustainability and performance.



MANUFACTURING

Our value chain is global:

- > More than 900 contract factories
- > More than 1 million workers
- > More than 500,000 different products – each with its own environmental and social footprint

Our ability to improve our own footprint and shape sustainability solutions at scale relies on fundamentally changing the nature of our relationships across the value chain, including – importantly – with the factories that make our products. Like many global companies that outsource production, our supply chain is complex, fragmented and often influenced by factors beyond our power and purview. That's what makes our work so challenging. We do not own these factories, so we cannot simply mandate change. Instead, we must build and influence positive change through our contracts.

As we work to maximize the positive impact of our influence, we also seek to help the contract factories and others in our value chain understand and take seriously their own impacts. We collaborate to address the issues central to our industry, issues that matter to Nike: worker rights and protections, living conditions for workers, wages and the environmental impacts of manufacturing processes. We've spent more than 15 years working with contract factories on these issues, setting high expectations for workers and the environment, providing training and tools to help factories meet those expectations, and assessing their performance. This approach has created clear baseline standards, improved oversight and helped some factories to move beyond compliance, especially in environmental performance and worker safety.

At the same time, some problems persist. While some factories meet or beat all of our standards, certain issues continue to arise. Issues around working hours, overtime and associated wages have made up the vast majority of violations found by audits of footwear, apparel and equipment factories. We've found ourselves devoting a lot of time and resources to addressing these types of issues in the poorer-performing factories, while having less time to engage with the higher-performing factories. That's why we have evolved our approach to building relationships with contract factories and why we have developed a new manufacturing vision.

Through this journey we have learned that monitoring does not bring about sustainable change. Often, it only reinforces a pattern of hiding problems. We have also recognized that one of the major barriers to factories embracing change is a lack of knowledge and relevant systems. So while compliance auditing with core standards is still a central feature of our relationship with factories, we are now moving from monitoring for minimum compliance against our Code of Conduct and Code Leadership Standards toward a model that rewards factories for their management practices, performance controls and commitment to continuous improvement. This represents a fundamental shift from a risk-reduction focus – which devotes time and attention on the lowest factory performers – to a strategy that invests time and attention to

strengthening relationships with the factories operating at the highest levels of performance. Overall, our aim is to build business partnerships characterized by long-term, trust-based, transparent interactions.

Our Manufacturing Vision

To enable this evolution in our supply chain relationships, we have articulated a new manufacturing vision: to create and to deliver great products through a sustainable, NIKE, Inc.-wide sourcing base. Our definition of a sustainable supply chain is one that's lean, green, equitable and empowered:

- > **Lean** with regard to our manufacturing philosophy
- > **Green** in our approach to design, product creation and sourcing
- > **Equitable** in our commitment to balance people and profit
- > **Empowered** by building a workforce that knows and can advocate for its rights

This vision is at the core of how we plan to source product moving forward. It is deeply rooted in what we have learned about the vital link between a factory's human resources management and environmental practices, and its overall performance. We are working to achieve this vision by:

- > Elevating product excellence and innovation at the factory level
- > Helping to lead industry efforts to integrate sustainability into product creation and manufacturing
- > Managing sourcing through a balanced approach, taking into account environmental, social, quality and cost impacts
- > Developing and testing new models of manufacturing that serve to improve worker compensation, skills and livelihood
- > Consulting with, coaching and building capacity with contract factories to optimize labor and environmental capabilities

In the past our processes were not consistent, which sometimes led us to make decisions in the wrong order. Our intention was to audit, then remediate, then source. However, at worst, we sourced, then audited, then remediated. To remedy this, during FY10 and FY11 we developed the "lean, green, equitable and empowered" strategic framework needed to drive consistent consideration of – and expectation for – total performance in sourcing decision making. Now, we are assessing minimum standards up front and rooting out issues at the start of the sourcing process, in line with our Code of Conduct. These decisions are not made separately from our other business decisions; they're now made as part of the business process. (We share more detail about the processes and performance in these areas in our online reporting, at www.nikeresponsibility.com.)

We have also been developing tools and approaches to provide contract factories with tangible business incentives to aim for higher performance and stronger management practices. Just as important, we're sharing with our contract factories what we've learned about how a *sustainable* business model can and must also be a *successful* business model.

NIKE, INC.'S REACH



Profile of Contract Factories

At the end of FY11, NIKE, Inc.'s three product engines – footwear, apparel and equipment – source product from more than 900 contract factories that employ more than 1 million workers in 50 countries. Factories represented are “above-the-line” NIKE, Inc. contract factories. Above-the-line refers to all product manufacturing sites directly contracted by NIKE, Inc., licensees or agents delivering finished goods ready for retail and/or public consumption bearing the NIKE, Inc. brand logos and marks. Excluded, for example, are material suppliers. We began including Affiliate data in FY09; we formerly reported only on NIKE Brand data.

Globally, we have made progress in optimizing our factory base by focusing on rigorous screening and by assessing the performance of contract factories. We have moved toward establishing long-term relationships with fewer factories as trusted partners, rather than having short-term transactional relationships with a larger number of factories. In fact, across Nike, we have reduced the number of contract factories by just over 10 percent since FY09, while increasing revenues nearly 9 percent over the same period.

We have worked to create a consistent approach across the NIKE, Inc. portfolio to assess on equal terms the performance of all contract factories. In FY09, just under half of factories across all of our brands

were audited. By the end of FY11, 80 percent were. Auditing is the first step toward working to improve factories that may meet minimum compliance standards but have opportunities to improve their sustainability performance. It's also the first step toward eliminating from our supply base those factories with serious, recurring violations.

By the time our tools and processes are fully implemented (over the next three years), we anticipate that our approach will have evolved significantly:

- > All factories that supply our product needs (for footwear, apparel and equipment) will be selected and assessed using an integrated and consistent approach.
- > Social and environmental sustainability will be systematically considered using a balanced scorecard that also weighs cost, delivery and quality and is the fundamental tool in our sourcing strategy. We will move from enforcing minimum compliance standards to defining a model of “good, better and best” with incentives for our contract factories, and from monitoring performance against the Code of Conduct to collaborating with factories as business partners.
- > Principles of sustainable manufacturing and sourcing will be further embedded in product creation, and will be part of ongoing reviews of factory performance.

PROFILE OF NIKE, INC. CONTRACT FACTORIES GLOBALLY BY PRODUCT ENGINE, REGION AND FISCAL YEAR

REGION	GLOBAL			APPAREL			EQUIPMENT			FOOTWEAR		
	FY09	FY10	FY11	FY09	FY10	FY11	FY09	FY10	FY11	FY09	FY10	FY11
AMERICAS	161	202	189	118	135	117	24	26	25	19	41	47
EUROPE, MIDDLE EAST AND AFRICA	115	99	78	70	67	53	33	26	18	12	6	7
NORTH ASIA	517	508	471	268	244	217	170	172	156	79	92	98
SOUTH ASIA	241	203	192	175	149	142	35	30	29	31	24	21
TOTALS	1,034	1,012	930	631	595	529	262	254	228	141	163	173

As of May 31.



Even as we have focused on our own supply chain, we have not forgotten the bigger picture. We know that we cannot, on our own, drive all the changes needed to achieve large-scale improvements for workers and the environment. We are still one player among many

in our huge industry. That's why we have practiced and advocated for transparency and collaboration, including the sharing of data and tools. (See case study on page 33.)

TRANSPARENCY AND COLLABORATION: TOOLS FOR A SUSTAINABLE SUPPLY CHAIN

TRANSPARENCY ENABLES COLLABORATION, AND COLLABORATION IS ESSENTIAL TO BUILDING SUSTAINABLE – AND SELF-SUSTAINING – SUPPLY CHAINS.

We share extensive data on our monitoring of factory performance. In 2005, we were the first company in our industry to provide a complete list of the factories that we contract with to make NIKE Brand products, detailing the number of employees, workforce information, as well as addresses and contact information.

WE REMAIN COMMITTED TO SHARING DATA ABOUT OUR SUPPLIERS.

[CLICK IMAGE TO LAUNCH MAP](#)

www.nikeinc.com/pages/manufacturing-map

We now have a full factory list across all NIKE, Inc. brands, with details by country, including types of products manufactured, and worker profiles, fully interactive and available online.



NIKE'S SUSTAINABLE MANUFACTURING EVOLUTION

When we began working to create a sustainable supply chain, the global manufacturing landscape was very different. Companies kept sourcing decisions highly confidential, and there was little public transparency about conditions for workers or environmental impacts.

Our sustainable manufacturing efforts have evolved through several "generations" (see graphic on page 35). We've had some notable successes. We know better the factories we work with, and they know better what we expect of them. We've defined our expectations clearly and regularly raise the bar.

Nike continues to push the rest of the industry to provide transparency about factories and facilitate more collaboration among multiple parties to support sound working conditions, strong environmental performance and resilient communities in the global supply chain. Through the Fair Labor Association (FLA), the Fair Factories Clearinghouse (FFC) and pilot projects of the Better Work Initiative, leading companies are converging on codes of conduct, common assessments and mechanisms for sharing performance data among each other and publicly.



WORKING ACROSS THE INDUSTRY

The Fair Labor Association's Sustainable Compliance Initiative: Formed in 1999, the Fair Labor Association www.fairlabor.org is a collaborative effort among NGOs, colleges and universities, and socially responsible companies to improve working conditions in factories around the world. The FLA has developed a beyond-compliance Workplace Code of Conduct based on International Labour Association (ILO) standards, as well as a practical process of monitoring, remediation and verification to achieve those standards. Nike is one of 16 companies whose labor compliance program is accredited by the FLA; this accreditation indicates the presence of systems and procedures required for successful labor standards compliance.

We have supported the work of the FLA since its founding. Nike is now one of a small group of companies that are advancing the FLA's Sustainable Compliance Initiative (SCI). The philosophy behind the SCI is quite compatible with Nike's own: The Initiative recognizes that "policing" factories, while useful in certain instances, is not sufficient to create a self-governing approach within factories that maintains sound working conditions over time. Through the SCI, the FLA is developing an assessment methodology that uncovers the systemic causes of labor-code violations and identifies sustainable ways to improve conditions and reduce risks. It does this through the use of an assessment tool that focuses on factory capabilities to manage these issues proactively.

The FLA is converting its assessments to the SCI format beginning in 2012. As other companies do the same, assessment results will become more comparable. All SCI assessment results will eventually be made public on the FLA website. Nike has been testing the SCI assessment methodology and will incorporate sections of the SCI tool into our own labor audits, as well as our environment, health

and safety audits. We believe these are important steps toward industry-wide transparency, comparability of data and accountability to standards that seek to achieve more than simple compliance.

The Fair Factories Clearinghouse (FFC): Nike has been working with the Fair Factories Clearinghouse www.fairfactories.org to further enhance our Brand Collaboration Program and commitment to transparency. The FFC, a nonprofit organization, uses technology to provide a platform for brands to work together by identifying factory overlap among them. Sharing compliance documents, utilizing a shared calendar to proactively identify collaboration opportunities, and working together on a shared corrective action plan on the same audit, are a few features that FFC's application provides. Nike has been a member of the FFC since 2007. In FY11, we shared 39 percent of our audit results through the FFC and look forward to increasing our capabilities on their platform in the future.

Association for Retail Technology Standards (ARTS): ARTS, the technology-support division of the National Retail Federation, has joined with Nike and a select number of brands, auditing companies, and multi-stakeholder initiatives to standardize the sharing of audit data for brand collaboration. This global innovation solution seeks to translate audit data provided in different formats from different companies into one that can be assimilated into any system. This has been the missing ingredient in efforts to enable data-sharing between companies that need to take raw data into their systems as opposed to linking documents as attachments. The combined strengths of the FFC and the ARTS solution will allow Nike's multi-brand collaboration program to evolve with our new systems, metrics and tools for measuring audit performance.



The Better Work Initiative: The Better Work Initiative is a unique partnership, launched in February 2007, between the ILO and the International Finance Corporation. Better Work builds on the learnings of the Better Factories Cambodia Program and is based on the premise that improved compliance with labor standards will not only improve workers' livelihoods and promote decent work, but also unlock business opportunities to facilitate job creation and strengthen participating countries' competitiveness in the global supply chain.

Better Work's national programs seek to replace the patchwork of company-driven audits and remediation programs in each country in which it works with a single, comprehensive program of independent compliance assessments and advisory and training services. Better Work also supports publicly reporting results for any factory that has been part of the program for a year or more. Nike engages with the program stakeholders at both local and global levels, and participates in Better Work factory monitoring and remediation programs in countries including Cambodia and Vietnam, and is moving into Indonesia. In these countries, Nike uses better work assessment data rather than conducting Nike's own audits. This system is more efficient for companies and factories alike.

The Sustainable Apparel Coalition:

Complementing our work to improve factory conditions, Nike is exploring ways to evaluate and communicate the environmental and social performance of individual products, in cooperation with the Sustainable Apparel Coalition (SAC). The SAC is an industry-wide group of leading apparel and footwear brands, retailers, manufacturers, NGOs, academic experts and the U.S. Environmental Protection Agency, working to reduce the environmental and social impacts of apparel and footwear products around the world. Its core initiative is developing the Sustainable Apparel Index, a common, industry-wide tool for measuring the environmental and social

performance of apparel products and the supply chains that produce them. The SAC believes a common approach for measuring and evaluating sustainability performance is essential for driving a "race to the top" in the apparel supply chain. Apparel retailers and brands can compare the performance of products and upstream supply-chain partners, and those partners will have a single standard for measuring and reporting performance to their downstream customers. Eventually, this approach can provide a foundation for reporting to consumers on the environmental and social footprint of the products they purchase.

The Institute of Public and Environmental Affairs:

In China, Nike is participating in an innovative, NGO-driven effort to use public data to hold companies accountable for their environmental performance. The Beijing-based Institute of Public and Environmental Affairs (IPE), has developed the China Pollution Map Database. This publicly available information resource brings together environmental supervision records from government departments, at all levels and regions. The IPE is a member of a coalition of 41 environmental non-profit organizations throughout China. This Green Choice Alliance (GCA) initiative promotes a global green supply chain by encouraging organizations to concentrate on responsible procurement. The GCA has been able to assist multi national corporations to regularly screen the supply chain for environmental compliance issues with suppliers - encouraging companies to provide explanations, to submit corrective action plans and to complete on-site audits or off-site document reviews, thus providing assurance that environmental management systems are in place. Nike signed a pledge to participate in the IPE initiative, and we require our contract factories in China to take part. We have compared our footwear contract factory base to the list of polluting factories, and we are reviewing apparel contract factories as well. (For more information on the IPE, see page 59.)



NIKE, INC.'S APPROACH TO A SUSTAINABLE SUPPLY CHAIN

PRESENCE	INTERACTION	TRANSFORMATION	INTEGRATION
<p>MAIN NIKE FOCUS</p> <ul style="list-style-type: none"> -Assessment, building understanding of conditions 	<p>MAIN NIKE FOCUS</p> <ul style="list-style-type: none"> -Monitoring conditions and corrective actions 	<p>MAIN NIKE FOCUS</p> <ul style="list-style-type: none"> -Monitoring & capacity building focused on root-causing analysis 	<p>MAIN NIKE FOCUS</p> <ul style="list-style-type: none"> -Sustainable manufacturing
<p>NIKE CAPABILITIES</p> <ul style="list-style-type: none"> -Establishing a function -Fighting fires -Building a global team -Establishing partners 	<p>NIKE CAPABILITIES</p> <ul style="list-style-type: none"> -Systematizing the work -Building excellence in management audits -Building an Environment, Health & Safety global process -Creating transparency -Creating ratings 	<p>NIKE CAPABILITIES</p> <ul style="list-style-type: none"> -Building excellence in remediation -Sustainable sourcing strategy -Business integration & accountability -Factory ownership of CR -Industry coalitions 	<p>NIKE CAPABILITIES</p> <ul style="list-style-type: none"> -Integrated management of product development working conditions -Health, Safety & Environment throughout supply chain -Increasing focus beyond compliance toward improvement
<p>SUPPLIER CAPABILITIES</p> <ul style="list-style-type: none"> -Capacity to respond to brand inquiries 	<p>SUPPLIER CAPABILITIES</p> <ul style="list-style-type: none"> -Understand core Corporate Responsibility/HR functions 	<p>SUPPLIER CAPABILITIES</p> <ul style="list-style-type: none"> -Human resources management capacity 	<p>SUPPLIER CAPABILITIES</p> <ul style="list-style-type: none"> -Lean & sustainable production
<p>INDUSTRY COLLABORATION</p> <ul style="list-style-type: none"> -Code of Conduct 	<p>INDUSTRY COLLABORATION</p> <ul style="list-style-type: none"> -NIKE Brand published supplier lists and audit tools 	<p>INDUSTRY COLLABORATION</p> <ul style="list-style-type: none"> -Building coalitions 	<p>INDUSTRY COLLABORATION</p> <ul style="list-style-type: none"> -Common expectations, cooperative monitoring & capacity building

Destination: A Truly Sustainable Supply Chain

We have developed innovative processes and tools to move our supply chain vision toward reality. That's the *how*, discussed later in this section. But first, let's take a closer look at exactly *what* we mean by a "sustainable supply chain." Each of the following four elements, when taken together, form our sustainable supply chain vision.

Lean: Better Manufacturing

Lean manufacturing has been a hallmark of our approach with factories and is the foundation of how we advance sustainable manufacturing. Lean manufacturing is a business system and continuous improvement philosophy that aims to deliver the highest-quality product while eliminating waste, including lost time and material. At Nike, we also believe lean can empower workers and teams. Our journey toward lean manufacturing has helped reinforce the need for a deeper understanding by factory management of the cultural differences between management and the predominantly female workers in the workplace. Worker surveys indicate a significant increase in the satisfaction of workers in factories that have implemented lean

manufacturing, which we attribute to increased awareness among factory managers of what good human resources (HR) management looks like and better capacity to implement it.

The success of the lean approach depends on the implementation of physical changes to production processes, increased leadership capabilities and the development of an empowered workforce. Lean manufacturing seeks to engage the minds of those closest to the work to solve the problems that prevent them from delivering quality product on time, every time.

Since FY09, Nike has provided resources to contract factories to support their transition to the lean approach, including training, coaching and technical assistance (see the Labor section for a discussion of progress in this area). By the end of FY11, within the NIKE Brand, 80 percent of footwear, 57 percent of apparel and 11 percent of equipment was made using processes meeting our minimum baseline definition of *lean*.



BENEFITS OF LEAN MANUFACTURING AT NIKE, INC.

THE IMPLEMENTATION OF LEAN PRINCIPLES IN NIKE FOOTWEAR & APPAREL CONTRACTED MANUFACTURING HAS PRODUCED A RANGE OF BENEFITS SINCE IT BEGAN IN FOOTWEAR IN 2002. FOR EXAMPLE:

APPAREL FACTORIES DEEP INTO IMPLEMENTING LEAN HAVE SHOWN DEFECT RATES **50%** LOWER THAN NON-LEAN FACTORIES.



MANY LEAN FOOTWEAR FACTORIES HAVE SEEN INCREASES IN THEIR PRODUCTIVITY OF **10 TO 20%**.



ON AVERAGE, LEAD TIMES HAVE BEEN REDUCED BY



MANY FOOTWEAR FACTORIES HAVE REDUCED THE TIME IT TAKES TO INTRODUCE A NEW MODEL BY



Green: Improving Performance at Every Step

Factories that make footwear, apparel and sports equipment have a wide variety of environmental impacts, including their use of energy, water and diverse materials; the related creation of waste, greenhouse gases and other emissions; and the use and release of toxins. Many of these environmental issues are also social issues. Water used in footwear manufacturing, for example, could compete with local community needs in water-scarce areas.

We expect the factories that make our products to comply with all legal and Nike requirements set out in our Code of Conduct and Code Leadership Standards and to be good stewards of the environment. As natural resources come under increasing pressure, a factory's capability to use resources efficiently and reduce its environmental footprint is an indicator of its potential for long-term success.

We have worked with contract factories for several years to improve their management of energy, water, waste, toxic materials and water discharges, as described in the Impact Areas sections of this report. Recently, we committed to a goal of zero discharge of hazardous chemicals* by our material vendors and contract manufacturers by 2020. We measure and report on our contract manufacturing base's performance across environmental impacts such as greenhouse gas emissions and waste generation – recognizing that their impacts are part of our own.

Equitable: Toward Economic Security

Wage concerns among workers continue to be among the top issues identified in our factory audits. We believe this is an important issue, and we've spent years studying and exploring total compensation, including pay and benefits, that workers in contract factories receive.

In many cases, jobs in Nike contract factories are among the most sought-after locally. But more can be done. Achieving an equitable supply chain is a key piece of our sustainable manufacturing vision. We encourage contract factory management to view workers as valued partners who can help achieve the factory's business goals. Working with contract factories to help their workforce gain valuable skills is also consistent with our long-term strategy. We sell high-performance products, and to grow sustainably, we need access to an experienced and motivated workforce. We believe that a highly valued workforce can improve quality and productivity by reducing turnover and absenteeism. In turn, higher worker productivity – measured in skill, craftsmanship and quality, not just units produced – may enable higher compensation for workers.

*Hazardous chemicals are those that show intrinsically hazardous properties (persistent, bio-accumulative and toxic; very persistent and very bio-accumulative; carcinogenic, mutagenic and toxic for reproduction; endocrine disruptors; or equivalent concern), not just those that have been regulated or restricted in other regions.

Equity is about each party – workers, contract factories and Nike – investing in manufacturing and getting a return. Nike wants to invest because it is both a smart business move and the right thing to do. Factories that invest in their workers can reduce turnover and increase their ability to produce quality products, profitably.

We recognize that, to date, factory workers are not consistently recognized as a valuable part of the business value chain. And we know some workers feel that they are not fairly compensated in return for their work and this can lead to a lack of morale, low self-esteem and reduced productivity. To address this, we are exploring ways that our contract factories can reward their workers for obtaining higher skill levels through supported training and more focused investment at the factory level. We believe this will lead to an increase in productivity that will allow factory partners to transition to a more complex wage model and still maintain profitability.

In the communities where our contract factories are located (and where their workforce lives), poverty can be pervasive despite the availability of local jobs, and it affects the quality of life of everyone in the community. To contribute to solutions, we are piloting a new approach that we hope will begin to get at the fundamental local drivers that affect poverty in these communities. We are studying approaches to address issues beyond compensation that affect quality of life, such as access to basic services, personal financial management tools and payment vehicles, and the kinds of training and services that might improve workers' lives.

These approaches link directly to our increasing focus on helping contract factories build their capacity for good management practices. Our aims include coaching factories to better address workers' needs, training workers for high levels of performance, and aligning pay to the skills that workers bring to the job rather than just the number of hours worked. We have developed additional expectations for factories around these areas, as described in the Labor section of this report. And we will be sharing more of our journey as we continue to study and test responses to these issues.

Empowered: Workers Unlock Value

As brands that believe in the power of human potential, we believe that one of the greatest impacts we can have is to help give a voice to the million people who work in our supply chain. For many years, footwear and apparel manufacturing was considered an inherently low-tech, low-skill and low-wage job. The move to lean manufacturing models challenges that assumption: To participate in lean production, workers need knowledge, skills and decision-making authority. However, when we first started working with our contract manufacturing partners on the implementation of lean manufacturing principles, many factories lacked the capability to develop these skills in their workforce.

In FY07, we began to offer human resources management (HRM) training and other support to our contract factories to help them invest in the potential of their people. Research shows that satisfied workers are more productive workers, and that investments in workers will yield long-term value for factory owners. We are now transitioning to an integrated training model – Sustainable Manufacturing Training – that addresses a full range of issues, including lean manufacturing, HRM, health and safety, environmental compliance, energy management, environmental sustainability and freedom of association. Worker surveys are an essential part of this model and help to establish feedback loops between factory management and workers.

We believe this training to be some of the most important work going on in our industry's supply chain. As noted above, worker surveys suggest that increasing awareness among factory managers of what good HR management looks like and helping them develop related capabilities leads to significant increases in worker satisfaction in those factories. As of June 2011, contract factories employing nearly half the workers in our manufacturing base have benefited from participation in our HRM program, which includes training on freedom of association and worker survey responses. The Labor section of this summary (starting on page 49) and our online report provide further detail on the HRM program. See graphic on the following page.



NIKE, INC. HUMAN RESOURCES MANAGEMENT GLOBAL TRAINING WITH CONTRACT FACTORIES – FY09-11



ALL COUNTRIES

PARTICIPATING FACTORIES



100% refers to the total number of factories trained.

WORKERS

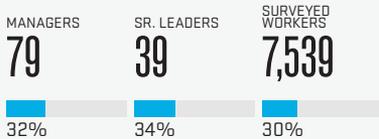


CHINA

PARTICIPATING FACTORIES



WORKERS

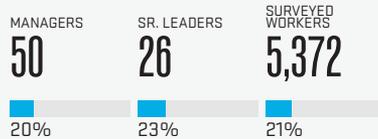


VIETNAM

PARTICIPATING FACTORIES

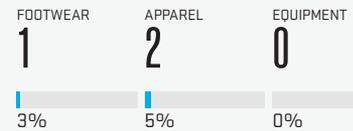


WORKERS

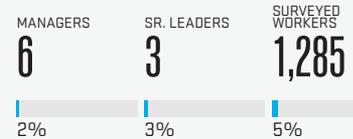


INDIA

PARTICIPATING FACTORIES



WORKERS

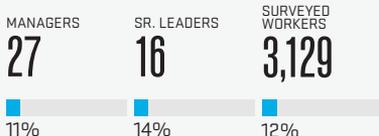


SRI LANKA

PARTICIPATING FACTORIES



WORKERS



THAILAND

PARTICIPATING FACTORIES



WORKERS

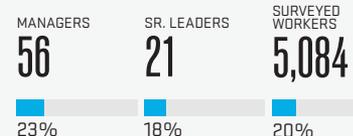


INDONESIA

PARTICIPATING FACTORIES



WORKERS



How We Will Build a Sustainable Supply Chain

Achieving our vision of a sustainable supply chain requires fundamentally rethinking every stage of our relationship with factories: how we choose which factories to work with, what we ask of them, how we engage with them and how we assess their performance. Some of this work has been accomplished already, and some is underway. Ultimately, we seek to do business with self-governing factories, capable of monitoring and assessing their own performance, that function more effectively across a range of business practices.

Setting Consistent Expectations

We have defined and implemented expectations for the factories with which we contract, through a companywide Code of Conduct. The Code covers working conditions, health and safety, and environmental

performance. Our Code Leadership Standards (CLSs), available online and widely to the industry, describe those expectations in much more detail. Both the Code and the CLSs have been translated into multiple languages.

In FY11 and FY12, we introduced a new version of the Code and the CLSs, bringing them more closely in line with Fair Labor Association standards. The revisions reflect a significant evolution, as shown in the table below. In FY11, for the first time, all NIKE Affiliate Brands began using the same Code and CLSs, with preambles tailored to each brand's strong and unique culture. The revised Code and CLSs – which continue to be updated and communicated to factories – provide a baseline, while encouraging factories to do more.

NIKE, INC. CODE OF CONDUCT AND CODE LEADERSHIP STANDARDS EVOLUTION

TOPIC	OLD	NEW
Consistency of NIKE, Inc. - Wide Standards	1 Lack of common standards across NIKE, Inc.	Common Code standards and implementation of Code Leadership Standards at all factories contracted to NIKE Brand and Affiliate Brands
Clarity of Code and Standards	2 Code outdated – lacks clarity between standards and aspirations/preamble	-Code with key provisions clarified and strengthened (e.g. FOA, migrant workers, 'regular employment,' environment) -Updated preamble reflects new Sustainable Manufacturing / factory ownership approach -Industry-wide standards supported by adopting common language to the extent possible
Alignment of Code Leadership Standards (CLSs)	3 Outdated CLSs, misaligned with Code CLSs not transparent outside Nike supply chain	-CLSs updated and aligned to Code -Examples of best practice called out CLSs translated and made available in factories & online

HIGHLIGHTS OF UPDATED CODE OF CONDUCT & CLSs

- ▶ Requires factories to pay employment eligibility fees for foreign workers
- ▶ Harmonizes minimum age standards to 16 for all manufacturing; 18 or over if employed in hazardous conditions
- ▶ Requires factories to fully fund and pay statutory severance; CLS contains provisions on closure and retrenchment (where factories cut back)
- ▶ Restricts excessive use of temporary workers and short-term contracts
- ▶ Requires that overtime be consensual and paid at a premium rate (at least 125%)
- ▶ Increases emphasis on minimizing environmental impact
- ▶ Strengthens Code implementation, systems approach and transparency requirements



Defining What “Good” Looks Like: Our Manufacturing Index

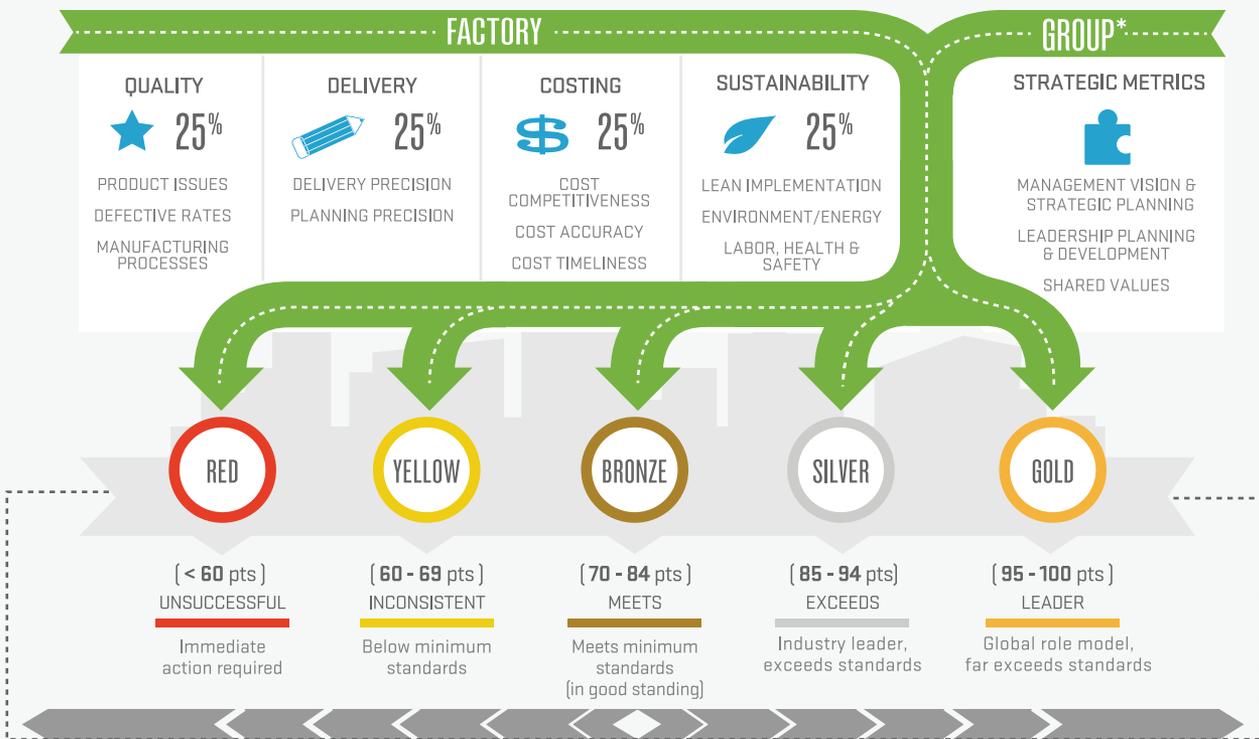
In FY11, we developed a single evaluation system across all types of products and all of our brands that redefines what “good” looks like for factories that supply to NIKE, Inc. A new Manufacturing Index (MI) is being implemented in 2012 that integrates scores from key performance areas into a single dashboard rating that groups factories as Gold, Silver, Bronze, Yellow or Red. Contract factories that are able to consistently exceed Nike requirements in the equally weighted areas of Quality, Cost, Delivery and Sustainability performance management, and show consistent performance leadership in the industry, will achieve a Silver rating in the MI. Contract factories that go beyond our industry and are demonstrating innovation and benchmark performance within the broader manufacturing landscape will achieve Gold. At a minimum, factories in our supply chain will be expected to achieve and sustain a Bronze rating, indicating that they meet our baseline standards and can self-govern through integrated systems and a lean approach.

The Manufacturing Index creates one overall score for each contract factory, enabling a consistent and comprehensive conversation about Nike’s business with that factory. We are developing incentives and sanctions based on the MI ratings. For example, Silver- and Gold-rated factories will be able to self-audit and calibrate with Nike staff and will have access to a range of Nike technical assistance, leadership and education resources, as well as possible innovation or community co-investment, and priority consideration for orders.

Importantly, the MI will provide a consistent, transparent, objective rating for use in sourcing decisions. The MI itself will evolve and improve over time as we learn more through implementation and as the tools that feed the Index evolve.

NIKE, INC. MANUFACTURING INDEX: METRICS ROAD MAP

ACHIEVING OUR VISION OF A SUSTAINABLE SUPPLY CHAIN REQUIRING FACTORIES TO BALANCE PERFORMANCE ON EVERY DIMENSION AS A CORE TO OUR BUSINESS RELATIONSHIP



SANCTIONS

- ▶ PERFORMANCE ISSUES REVIEWED & MANAGED BY APPLICABLE PRODUCT ENGINE/SOURCING TEAM
- ▶ ESCALATED TO SENIOR LEADERSHIP
- ▶ POTENTIAL IMPOSITION OF ONE OR MORE SANCTIONS (including reduction in orders)
- ▶ CONSIDERATION FOR REMOVAL FROM SOURCE BASE

INCENTIVES

- ▶ PUBLIC RECOGNITION
- ▶ ACCESS TO LEADERSHIP/RESOURCES
- ▶ PRIORITY CONSIDERATION FOR ORDERS (assuming sourcing requirements are met)

*Factories that operate as one of a group of many factories under one owner. (Factory scoring prior to FY12 was based on a letter-grade assessment. All factory scores were converted to the new index, with typically A and B becoming Bronze, C becoming Yellow and D becoming Red.)



Assessing Performance

Even as we have been developing our MI, SMSI and Risk Index, we have continued to monitor factory performance in labor, health, and safety and environment areas against our Code of Conduct and Code Leadership Standards. Our team of auditors includes about 70 Nike employees and a set of approved third-party auditors, who audit factories every 12 to 18 months based on our schedule of audits. That schedule takes into account timing considerations, relative risk associated with individual factories and their overall ratings.

In FY10 and FY11, factories received a letter grade based on the lowest result observed, reflecting all relevant information about their compliance performance and progress in resolving items identified for remediation, including previous audit results.

If a factory received a C (noncompliant/serious) or D (noncompliant/critical) rating, we worked with them to improve their performance and rating through specific steps outlined in a master action plan that we developed together with the factory leadership. If they failed to make progress against that plan, we elevated these concerns with Nike senior leadership in Manufacturing and Sourcing as part of reassessing our business relationship. As we implement the new SMSI standards in FY12 and FY13, factories formerly rated C or D would typically fall below our Bronze requirement which equates to full compliance with all standards. These factories will move into the Yellow or Red rating, which will require them to pay for their own third-party audits and demonstrate an ability to achieve and sustain Bronze-level performance.

In FY11, C ratings made up 37 percent of total factory scores, while D ratings made up 5.5 percent. These numbers have increased compared to FY09, owing largely to the work involved in getting all Affiliate Brands aligned on a single Code of Conduct standard and conducting audits at factories across all brands.

GLOBAL CONTRACT FACTORY RATINGS – NIKE, INC.

RATING	FY09	FY10	FY11
A	70	60	40
B	261	337	418
C	172	258	344
D	33	75	51
E	498	282	77
TOTALS	1,034	1,012	930

Note: More detailed discussion of factory performance trends is available in the Labor section of this report and online.

Notes to chart: Contract factories represent aggregate across all NIKE, Inc. production including NIKE Brand and Affiliates. "A" denotes "fully compliant" and demonstrates leadership best practices. Scores are incremental down to "D" level, which indicates serious, repeated violations. "E" indicates a lack of data. Detailed description of letter grades available online.

Achieving Consistency Across Our Brands

Achieving our vision of a sustainable supply chain requires us to bring our Affiliate Brands and licensees under the same manufacturing strategy and processes we've developed for the NIKE Brand. During FY10 and FY11, one of our major areas of concentration was addressing our sourcing practices across the entire business. This transition includes the steps discussed above – aligning our Code and CLSs, using the MI and SMSI as tools for identifying and engaging with factories, and utilizing the Risk Index and new source-selection process.

Over the past few years, we laid the groundwork for this transition by working with our Affiliate Brands to establish consistent sustainability ratings for their factories. The Affiliate Brands have made a fairly rapid transition into auditing and addressing noncompliances, facilitated by a focus within Converse and the addition of Nike-trained resources at Hurley. Differing business models, some with higher concentrations of licensees, have added to the complexity of this transition. Once factory ratings are complete, each brand can participate fully in our sustainable sourcing strategy and its implementation.

From FY09 to FY11, we reduced the number of factories working under contract for our Affiliate Brands by nearly 17 percent, while revenues among our other businesses, which includes our Affiliate Brands, grew by more than 13 percent. We also worked to audit these factories using a consistent approach across NIKE, Inc. The numbers tell the story here: E ratings at our Affiliates, indicating "no information available," went down from 350 in FY09 to 36 in FY11.

GLOBAL # FACTORY VISITS/AUDITS – NIKE, INC.

	FY09	FY10	FY11
# VISITS/AUDITS	515	1,030	1,161
% THIRD PARTY	60%	68%	59%

Visits/Audits include full Labor, HSE, Collaboration, FLA Audits and Remediation Visits. Full Affiliate visit/audit reporting initiated in FY09 Q4. Some factories visited more than once.

GLOBAL CONTRACT FACTORY RATINGS – NIKE, INC. AFFILIATES

RATING	FY09	FY10	FY11
A	9	13	10
B	12	55	107
C	14	87	141
D	11	52	35
E	350	178	36
TOTALS	396	385	329

Notes to chart: Contract factories represent aggregate across Nike Affiliates: Cole Haan, Converse, Hurley International, Umbro.

"A" denotes "fully compliant" and demonstrates leadership best practices. Scores are incremental down to "D" level, which indicates serious, repeated violations. "E" indicates a lack of data. Detailed description of letter grades available online.

PART III

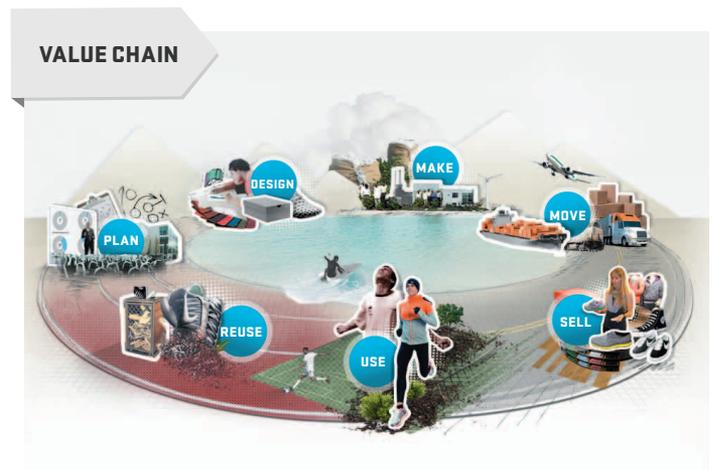
IMPACT AREAS

IMPACTS OVERVIEW

Through a variety of processes, including stakeholder consultation and lifecycle assessment, we have identified NIKE, Inc.'s most significant impact areas. These include climate/energy, labor, chemistry, water, waste and community. Our approach to managing these issues and performance in FY10 and FY11 is discussed in detail in the following sections and in our expanded reporting online.

The graphic at right provides an overview of several of these impacts within our value chain. For some impacts – greenhouse gas emissions, for example – we have good information about where they occur, and at what magnitude. For others, such as water use, we are only beginning to get a sense of the distribution of impacts across the value chain.

As we evaluate and manage these impacts, we develop a better understanding of how interrelated they are and how an integrated approach to product design and process innovation can yield benefits across multiple impact areas. A prime example of this is the strategic partnership we announced in 2012 with DyeCoo Textile Systems B.V., a Netherlands-based company that has developed and built the first commercially available waterless textile dyeing machines. DyeCoo's process virtually eliminates water consumption and the use of auxiliary chemicals and reduces energy use, in part because it avoids the need for drying. In addition, the process is twice as fast and improves quality. Implementing this process at scale will conserve natural resources and reduce multiple impacts in our value chain, including water and energy use, waste generation and potentially worker and community exposure to chemicals used in conventional dyeing processes.



Climate & Energy Labor Chemistry Water Waste Community



ENERGY & CLIMATE

Climate change is perhaps the ultimate system-wide challenge, in that the “system” is our entire planet. Indeed, climate change and the related issue of ever-increasing energy demand pose challenges to our business, our industry and society as a whole.

We believe that we need strong energy and climate policies to protect our supply chains and ensure market certainty, as well as to help create jobs, level the playing field among businesses, enhance economic development and ensure our global competitiveness as we move into the future.

We recognize the recommendations of the majority of leading climate scientists that the global economy needs to see greenhouse gas emissions reduced 80 percent below 1990 levels by 2050. We recognize that there are a number of ways to reach this level of mitigation. And that includes us.

At NIKE, Inc., reducing our own contributions toward climate change is a primary aim of our sustainability strategy. But we know that doesn't go far enough, so we also work to provide leadership in the business community (and beyond) toward climate stability.

To do this, we have been working for well over a decade to understand, track and decrease energy use and greenhouse gas (GHG) emissions across our value chain and to share what we've learned with others in industry. We also advocate for strong and effective climate-related legislation and regulation.

Our Approach

The energy use and GHG emissions under our direct control – i.e., our office buildings, distribution centers, retail stores and a portion of business travel – represent a small slice of the lifecycle carbon footprint of our products. We report⁴ our energy use and GHG emissions from those sources, as well as from finished-goods contract manufacturing facilities and inbound transportation.⁵

There are 6 Greenhouse gases - SF₆, CO₂, CH₄, NO₂, HFCs, PFCs. We have phased out of SF₆ and no longer use it. The majority of our measured emissions are CO₂. Facilities and Footwear includes CH₄ and NO₂ and are rolled up into a reported CO₂e calculation. For simplicity we speak to all of our measured emissions in tons of CO₂ since it is the predominant unit of measurement.

We are still working to identify the full lifecycle energy and GHG impacts of individual Nike products. So far, we understand that substantial amounts of energy are needed to create the materials that go into our products and to maintain them in the use phase (i.e., the washing and drying of apparel). We have developed a methodology to assess impacts across the value chain and are working to scale up this effort across our wide array of products. (For additional information on our progress, please see our website.)

⁴ In addition to sharing data and information in sustainability reports like this one, we report our energy use and GHG emissions annually to the Carbon Disclosure Project. See www.cdproject.net.
⁵ In this section, “inbound transportation” refers to emissions from the transport of our products from manufacturing facilities to distribution centers. “Facilities” include Nike World Headquarters and all major NIKE, Inc. distribution centers, as well as U.S. Niketown stores and stores for employees. For consistency, other retail locations are not included.

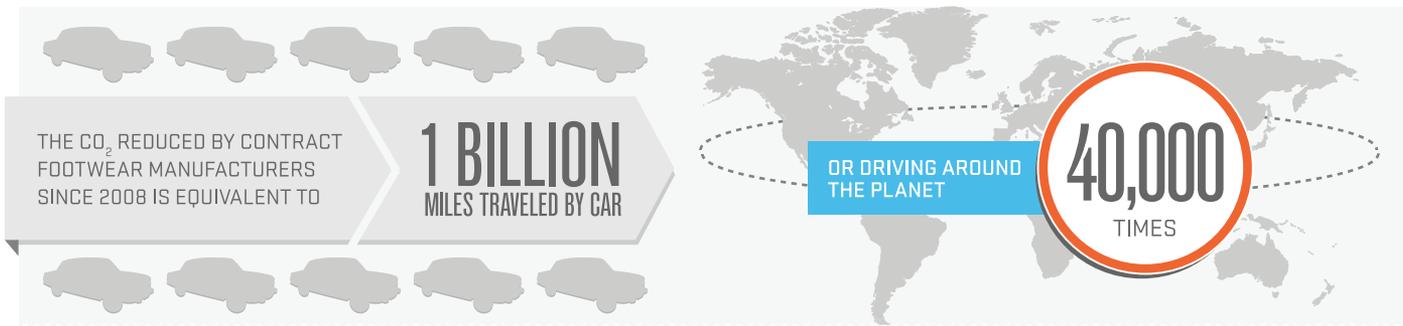
IMPROVING OUR DATA MANAGEMENT

AS PART OF THIS PROCESS, WE HAVE AUTOMATED THE COLLECTION OF 85% OF OUR CLIMATE AND ENERGY DATA FOR OUR NORTH AMERICAN OWNED AND OPERATED LOCATIONS

85%

WE EXPECT THIS IMPROVED RIGOR & ACCURACY TO HELP US BETTER UNDERSTAND AND ULTIMATELY REDUCE OUR GHG EMISSIONS.

We employ the World Resources Institute/World Business Council for Sustainable Development's GHG Accounting Standard for the measurement and reporting of our GHG emissions. Enterprise-wide, we have been implementing data-quality initiatives that put more emphasis on primary measured data, and reduce the need for estimates and extrapolations, in conjunction with changes set forth in the new GHG Accounting Standard for Scope 3 emissions. SEE OUR PROGRESS ONLINE: www.nikeresponsibility.com.



Contract Manufacturers

Finished-goods footwear manufacturing is our largest measured source of GHG emissions. In FY08, we launched the Nike Energy and Carbon Program with contract footwear manufacturers to help reduce these emissions. In FY10, we expanded the program to include apparel and equipment manufacturing, and in FY11 we further expanded it to include select material vendors. Based on lean-systems thinking, this program trains, consults with and coaches our manufacturing partners in strategies for making short- and long-term energy and carbon-efficiency gains.

The Nike Energy and Carbon Program has proven effective already. NIKE Brand contracted footwear factories' absolute carbon dioxide (CO₂) emissions were down 6 percent from FY08 through FY11 – despite a 20 percent increase in production.

Our new factory rating indexes (described in the Manufacturing and Materials sections) provide incentives for factories – as well as our material vendors – to implement the Energy and Carbon Program and show progress. Simply put, we hope that factories' and vendors' efforts to score higher on these indexes (and thus have a better opportunity to grow their relationships with Nike) will promote competition and innovation among them.

The new indexes will also provide incentives for our designers to make choices in the design phase that ultimately will reduce energy use in contract factories. For example, our analysis of energy use in footwear factories showed that the majority of energy is used to heat metal molds to create footwear components. Through their designs, our product designers dictate the number of molds used to create a product. The new Nike Footwear Sustainability Index, to be released in FY13, includes an energy score based on the use of molds. This thus provides a scoring incentive for designers to reduce design-driven energy use in factories. See our Design Experience online.

We are also helping contract manufacturers to embed sustainability – including energy efficiency – into the design and construction of new factories. We have a design workshop covering factory layout, energy-efficiency technologies, water-reclamation strategies, Leadership in Energy and Environmental Design (LEED) “green” building certification and more. About a dozen such workshops have been held. Already, a new factory has opened in Indonesia that is anticipated to be 50 percent more energy and carbon efficient than existing factories, earning a LEED Gold certification. The Nike Apparel Innovation and Training Center in Sri Lanka also earned this recognition. A factory in Vietnam is seeking LEED certification, and we are working with two other factory groups that may seek such certification in the future.

Inbound Transportation

While we have worked with our shipping partners to optimize transportation choices, this effort has not resulted in an absolute reduction in emissions. From our baseline year (FY03) through FY10, we achieved a 12 percent reduction in emissions per unit. In FY11, continued revenue growth coupled with factory capacity constraints required additional air freight to meet customer demand. This change resulted in FY11 emissions well above our target zone. We now know that in order to significantly reduce emissions from transportation, we need three things: better planning, better carbon accounting tools and a commitment from our key logistics partners to accelerate their adoption of cleaner vehicles and cleaner fuels. We are fully engaged with our strategic logistics partners and are addressing emissions on a per-unit basis on all three fronts.

We are also currently migrating to a new, more accurate carbon accounting tool for inbound product transportation and plan to extend the emissions accounting to outbound transportation in FY13. We believe that our old tool has been materially overstating our transportation-related emissions based on best-available averages at the time.

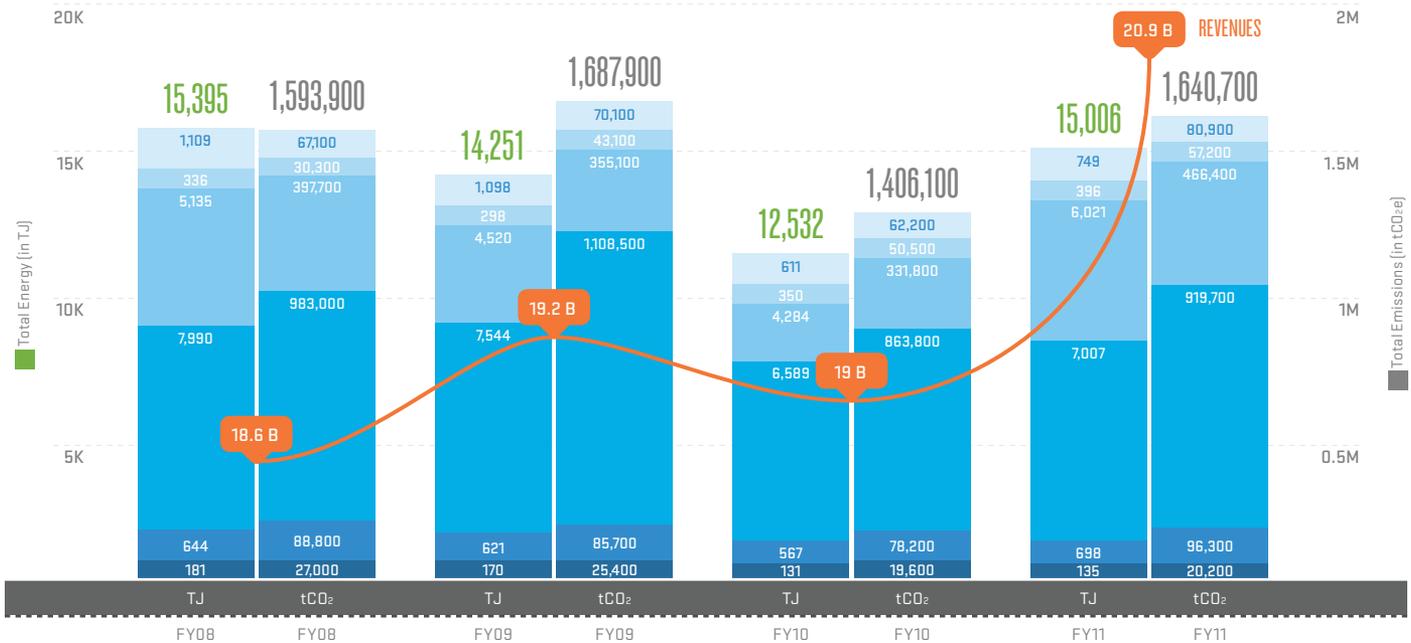


Progress and Performance

Our absolute energy use and CO₂ emissions have risen and fallen in recent years in line with production levels. For example, our energy use was down in FY09 and FY10 due to the global recession and

resultant decreases in production. In FY11, production (and energy use) was back up.

NIKE, INC. TOTAL ASSESSED ENERGY AND tCO₂e EMISSIONS COMPARED AGAINST REVENUES (FY08-11)



SEGMENT	COMMENTS	NOTES
FACILITIES [1, 2]	Better data accuracy applied in FY10 and FY11.	For Nike-owned and-operated facilities, FY06 through FY09 energy use reporting is based on calendar years. For FY10 and FY11, we converted to fiscal year reporting. World Headquarters and all major Global Distribution Centers are included, along with U.S. Niketown locations and Employee stores. All other retail locations are excluded at this time for consistency. Reported GHG is in tCO ₂ e instead of tCO ₂ .
BUSINESS TRAVEL [1, 3]	No more use of carbon offsets; new methodology applied in FY09. See the table on page 22 for a broader discussion of change in approach.	Includes all commercial air travel, majority of global car rentals and all owned aviation.
INBOUND TRANSPORTATION [3]	Increased due to unexpected demand increase; moving to more accurate carbon accounting methodology.	Noted in previous years as "inbound logistics." Covers shipment from finished goods factories to distribution centers globally.
FOOTWEAR MANUFACTURING [3]	Energy-efficiency program and new methodology applied in FY09; expanding into apparel and materials vendors.	Finished goods manufacturing, with 90 percent factory-reported primary data and 10 percent extrapolated. Reported GHG is in tCO ₂ e instead of tCO ₂ .
APPAREL MANUFACTURING [3]	Calculated using extrapolations based on lifecycle analysis data.	This enhancement improved the data and our ability to extrapolate to other facilities with more accuracy. For perspective, the energy used across the entire cut-and-sew contract base for our production is estimated to be equivalent to a single footwear factory.
EQUIPMENT MANUFACTURING [3]	Calculated using extrapolations based on lifecycle analysis data.	

Facilities [1, 2] Business Travel [1, 3] Inbound Transportation [3] Footwear Manufacturing [3] Apparel Manufacturing [3] Equipment Manufacturing [3]

Note: "TJ" is terajoules (a measurement of energy use) and "tCO₂e" is metric tons of carbon dioxide equivalents. Reporting is in alignment with WRI scopes 1, 2 and 3. Baseline year for comparison is FY08 because significant data improvements between FY07 and FY08 increased quality as much as 25 percent in some places.

NIKE BRAND RETAIL STORES

BY THE END OF FY11, WE HAD IMPLEMENTED ENERGY MANAGEMENT SYSTEMS...

BY THE END OF 2011,
THIS INITIATIVE HAS SAVED

ROUGHLY

3.1

MILLION KWHs
OF ELECTRICITY

IN

36%

OF OUR 187 NIKE BRAND
RETAIL STORES IN
NORTH AMERICA

ROUGHLY

425

CARS OFF
THE ROAD

WHICH EQUATES TO TAKING

AND THE SYSTEM SHOWED

AN
IMPRESSIVE

20%

RETURN ON
INVESTMENT

THESE SYSTEMS ARE NOW BEING
ROLLED OUT ACROSS NIKE BRAND
RETAIL STORES IN THE UNITED STATES.

Expanding Our Impact

Climate stabilization – i.e., reducing global emissions enough to avoid the most serious consequences of climate change – is a huge challenge for all sectors of society, but it also presents enormous opportunities to decouple economic activity from energy use and GHG emissions. We are working with like-minded companies and other institutions to encourage operational and public policy changes that help achieve climate stabilization.

In March 2011, for example, Nike sponsored a two-day, multi-stakeholder Climate & Energy Summit at our world headquarters in Oregon. The Summit brought together key participants in Nike's sustainability efforts, peer companies, NGOs with climate expertise and academics to discuss Nike's strategy, approach and opportunities, as well as the new GHG Accounting Protocol. All told, 78 individuals took part. The event enabled us to share the best practices we've discovered and hear feedback from others.

NIKE, Inc. is a founding member and currently holds a Steering Committee position on the Clean Cargo Working Group, an industry collaboration of carriers and shippers, which developed the standard for measuring and reporting emissions from ocean transportation.

In November 2008, we helped to establish the Business for Innovative Climate and Energy Policy (BICEP) as a project of Ceres. BICEP is an advocacy coalition of businesses committed to working with policy makers to pass meaningful energy and climate legislation that will enable a rapid transition to a low-carbon, 21st century economy. BICEP aims to create new jobs and stimulate economic growth while stabilizing our planet's fragile climate. BICEP membership now includes 21 major brands, covering sectors from apparel and personal products to IT, sports and real estate. During the 2009-2011 time period, BICEP conducted multiple activities and outreach on important climate and energy policy. In particular, BICEP worked to advocate for comprehensive climate legislation, mobilized voices to defend the Clean Air Act and the U.S. Environmental Protection Agency, and organized in opposition to California Proposition 23, which would have undermined California's groundbreaking climate bill (AB 32). For more information on BICEP, visit www.ceres.org/bicep.

In addition to our work with BICEP, we have worked with the Climate Group, and participated actively in business-related forums at the Copenhagen, Cancun and Durban United Nations Conference of the Parties.



Looking Ahead

We have been actively measuring and reducing our greenhouse gas footprint for some time. Many have noted our leadership in this area. While setting targets for continued reductions, we note that a lot of the “low-hanging fruit” is gone. We recently set new targets for energy use and CO₂ emissions. Achieve 20 percent reduction in CO₂ emissions per unit from FY11 levels through FY15 (in aggregate from assessed footprint in the built environment, logistics and footwear manufacturing). We also aim to achieve LEED certification in all new Nike retail stores.

We realize that some areas of our energy and carbon footprint have yet to be measured. The new World Resource Institute’s Scope 3 standard has expanded our understanding of our footprint and sets

a framework for Nike to assess the complete lifecycle impacts of our products, packaging and operations across our full value chain. We have identified a number of these areas and have set targets to measure new baselines. For example, we are developing new baselines in our materials and manufacturing supply chain, packaging, waste, distribution centers, logistics and retail. For more on the scopes and our progress in these areas, please see additional information online. We look forward to seeing similar efforts across our industry.

Nike is continually upping its game. The Scope 3 standard responds to the effects of globalization and, viewed through the lens of sustainable innovation, sets the context for much of what we’re about to do including setting the pace for others to follow.

LOGISTICS CENTER: SHANGHAI

OUR NEW LOGISTICS CENTER IN SHANGHAI, CHINA, IS THE LARGEST WAREHOUSE GLOBALLY TO DATE TO RECEIVE

LEED PLATINUM

CERTIFICATION (THE TOP HONOR) FROM THE U.S. GREEN BUILDING COUNCIL.



LABOR

NIKE, Inc. has worked to improve labor conditions in our footwear, apparel and equipment supply chains for more than 15 years. Key issues in which we have engaged include the health and safety of the workers who make our products, excessive overtime, the ability of workers to freely associate, and child labor and forced labor.

Our Approach

In our FY05/06 Corporate Responsibility Report, we identified an overall goal to bring about systemic change for workers in the footwear, apparel and equipment industries, and we set five targets for FY11.

During FY10, we “rewired” our approach to managing risks and opportunities within our supply chain. We launched new sourcing and manufacturing tools that are embedded within product creation (discussed in the Manufacturing section), and created an integrated, multi-disciplinary team to support sourcing selection and performance. We also created a new organizational structure within the company that brought together labor compliance, health, safety and environment, lean manufacturing, human resources management, climate and energy, waste and water management. More recently, we identified the creation of a “sustainable supply chain” – i.e., one that includes sustainability on equal footing with cost, on-time delivery and quality – as one of the pillars of our sustainable business strategy and developed a vision of

what success looks like. The vision and steps we are taking to achieve this strategy going forward are described in the Manufacturing section of this report. In this section, we take a look back and report on key indicators and our progress toward the targets we set for the FY07 to FY11 period.

We have been working with contract factories to build their human resources management skills and help them reach even higher levels of economic, social and environmental performance. Our work has centered around three fronts:

- > Working conditions in factories: environment, safety and health
- > Labor rights, freedoms and protections
- > Workers’ lives outside of the factory, and living conditions in their communities

LESSONS WE HAVE LEARNED

Today, when a company suddenly receives intense public scrutiny for practices in its value chain, comparisons are often drawn to Nike. In the late 1990s we were one of the first companies to deal with the challenges of a global supply chain. Because we were among the first companies and industries to experience such scrutiny, we did not have the benefit of an established roadmap. Instead, we had to learn a great deal through taking action based on our best instincts, evaluating the results of those actions, and then modifying our course based on what we learned through those experiences.

Consequently, we have moved through several distinct phases in how we have engaged, both when it comes to the specific issue of responsible labor practices within our supply chain, as well as the broader overall issue of sustainability. Nike’s track record of learning and changing is an almost textbook example of how sustainability experts describe the transformative steps organizations must take to evolve from reputation management toward real change.

In the early years of our evolution, we took the approach of “**risk mitigation**,” viewing our

situation as a reputational problem that we needed to manage through compliance and better communication. We quickly learned that the issues were indeed genuine and substantial, and that we needed to go further. We dedicated significant resources and created new programs focused on monitoring and environmental improvements.

Those efforts produced real benefits, but their impact was relatively limited because they did not really address the deeper, systemic causes of the issues. And despite the fact that we were a large company by most standards, we simply did not, on our own, possess the scale or influence required to exert meaningful impact on the market forces driving the dynamics of our supply chain. To go beyond merely addressing the symptoms of the problems, we realized that we had to actively **collaborate with others**, including governments, NGOs, activists and, yes, our long-time competitors.

That required us to become far more open. Nike realized that **transparency and collaboration** are competitive advantages. They are enablers of long-term growth. Opening up and collaborating has significantly accelerated our learning,

and today we operate with a great deal more insight into what consumers expect of us and what will be required for us to thrive in a world of increasingly constrained resources.

This insight and awareness is something that has changed the way we think about sustainability. It has quietly but purposefully shifted from a peripheral concern to a **deeply integrated** component of our business strategy, designed into the way we think about what we produce and how we produce it. In fact, today we assume that our ability to consistently create **sustainability breakthroughs through innovation** will be a key factor in our long-term growth.

Innovation is at the very heart of our culture at Nike. One of the cornerstones of innovation is a willingness and desire to learn. And, while we have learned much from our past and others have learned much from our experience, we believe the next era in the evolution from an industrial economy toward a sustainable economy will teach greater lessons than learned before.



Our approach employs three main tools: audits, human resources management (HRM) training and lean manufacturing (discussed in the Manufacturing section). In addition, we have established collaborative efforts with other brands and civil-society organizations to develop common approaches for raising and sustaining standards in footwear, apparel and equipment manufacturing.

A centerpiece of our work in the past few years is our HRM program, which combines multi-stakeholder workshops, training for factory managers and the surveying of workers. We have found that factory managers aiming for full and consistent compliance with labor requirements sometimes lack the systems and skills to achieve it. By building the capabilities of contract factory management, we strive to create a sustainable framework for improving working conditions overall. In addition, the training supports the transition to lean manufacturing powered by a skilled, empowered workforce. (See the Manufacturing section for more detail on the lean approach)

We piloted the first wave of this program in FY09 with contract factories in Vietnam. During FY10, HRM evolved into Sustainable Manufacturing Training, which takes an integrated approach to sustainability capability building. Sustainable Manufacturing Training has an expanded focus (beyond just HRM), including modules on health, safety and the environment (HSE), environmental sustainability and energy/greenhouse gas management. The training also covers how to protect workers’ freedom to associate.

Where appropriate and possible, government officials, trade union representatives, representatives from the International Labor Organization and other key local stakeholders participate in the training program. Following an initial workshop, there is a six-month follow-up process in which the factories implement an action plan under the supervision of Nike compliance staff and the factory’s lean production lead (or “sensei”). The factories are then expected to participate in “learning communities,” in which they continue to share best practices on a regular basis.

Global Contract Factory Worker Profile

The factories that supply the brands of NIKE, Inc. employ more than 1 million people. The workforce is 67 percent female, with an average age of 31 (as of the end of FY11).

Progress and Performance

We collect and analyze substantial amounts of data on our contract factory base. A deeper dive into that data is available as part of our full web-based reporting, www.nikeresponsibility.com. Below we provide some key performance data, with a focus on summarizing long-term trends.

As described in the Manufacturing section, Nike’s approach to ratings and scoring will change in FY12 and beyond with the introduction and implementation of new tools and indexes. In particular, a new Risk Index will help us identify, at the outset of a sourcing relationship – whether with a new factory or one already in our supply chain – the potential for low performance. The Risk Index, which is being rolled out in FY12

and will evolve over time, assesses such areas as political risk, social/compliance risk, economic risk and infrastructure and climate risk. The ultimate goal is to significantly reduce the amount of time required on the front end to assess a potential factory for a new work order.

GLOBAL CONTRACT FACTORY COUNTRY AND WORKER COUNT

	FY09	FY10	FY11
FACTORIES	1,034	1,012	930
COUNTRIES	55	55	50
WORKERS	1,220,288	1,146,207	1,079,137

Data at last day of fiscal year, May 31.

GLOBAL CONTRACT FACTORY WORKERS BY REGION

	FY09	FY10	FY11
AMERICAS	77,097	81,150	76,942
EUROPE, MIDDLE EAST AND AFRICA	34,000	26,890	17,896
NORTH ASIA	758,627	726,707	684,497
SOUTH ASIA	350,564	311,460	299,802
TOTALS	1,220,288	1,146,207	1,079,137

Data at last day of fiscal year, May 31.

GLOBAL CONTRACT FACTORY WORKERS BY PRODUCT ENGINE

	FY09	FY10	FY11
APPAREL	491,209	428,314	397,380
EQUIPMENT	186,618	185,820	145,882
FOOTWEAR	542,461	532,073	535,875

Data at last day of fiscal year, May 31.

FACTORY RATINGS AND TRENDS

RATING	NIKE, INC.					NIKE BRAND					NIKE AFFILIATES				
	FY07	FY08	FY09	FY10	FY11	FY07	FY08	FY09	FY10	FY11	FY07	FY08	FY09	FY10	FY11
A	15%	13%	7%	6%	4%	16%	12%	9%	7%	5%	0%	23%	2%	4%	3%
B	32%	32%	25%	33%	45%	32%	33%	39%	45%	52%	16%	23%	3%	14%	32%
C	18%	24%	17%	25%	37%	19%	24%	25%	27%	34%	11%	17%	3%	22%	43%
D	4%	5%	3%	7%	5%	3%	5%	3%	4%	2%	5%	7%	3%	14%	11%
E	31%	26%	48%	28%	8%	30%	26%	24%	17%	7%	68%	30%	89%	46%	11%

Data at last day of fiscal year, May 31.

Note: Ratings and audits formally included NIKE Affiliates at the end of FY09; some factories contracted to NIKE Affiliate brands were included earlier.

Note: Average scores at year end. These ratings are comprised of labor ratings and environmental, health and safety ratings, rolled into one. This functions as an overall factory rating. Additional data is available online. "A" denotes "fully compliant" and demonstrates leadership globally. Scores are incremental down to "D" level, which indicates serious, repeated violations. "E" indicates a lack of data. For a detailed explanation of the ratings, see additional detail online.

Factory Ratings

We audit factories in our supply chain and evaluate their compliance across a range of labor and HSE factors. During the period covered by this report, findings were rolled up into overall ratings on a scale of A through E, where A is the best and E represents "unrated." Full details on the letter grades are available online.

Key trends have included the following:

- > The number of audits showing serious, repeated violations has remained low, at 4 percent or fewer over the past three years

- > The proportion of the most severe issues has decreased
- > The number of factories with unknown conditions (i.e., E-rated on the chart above) has decreased from 48 percent in FY09 to 8 percent in FY11, as transparency has expanded

As we transition to the new Sourcing & Manufacturing Sustainability Index, all factories rated at the A and B level will typically convert to "Bronze" standing, setting a high bar for performance.

KEY TRENDS IN CONTRACT FACTORY RATINGS

WE AUDIT FACTORIES IN OUR SUPPLY CHAIN AND EVALUATE THEIR COMPLIANCE ACROSS A RANGE OF LABOR AND HEALTH, SAFETY AND ENVIRONMENT (HSE) FACTORS.

DURING THE PERIOD COVERED BY THIS REPORT, FINDINGS WERE ROLLED UP INTO OVERALL RATINGS ON A SCALE OF A-E. KEY TRENDS HAVE INCLUDED THE FOLLOWING:

D
RATING



THE NUMBER OF AUDITS SHOWING **SERIOUS, REPEATED VIOLATIONS** HAS REMAINED AT...



OVER
THE PAST
5 YEARS

THE PROPORTION OF THE MOST SEVERE ISSUES HAS DECREASED.

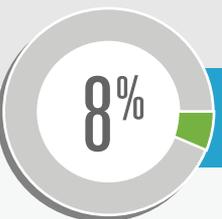
E
RATING



THE NUMBER OF FACTORIES WITH **UNKNOWN CONDITIONS** HAS DECREASED FROM...



TO



OVER THE PAST
2 YEARS



Labor

Beyond the breakdown of factory ratings, we also look at trends in the types and severity of violations found through our auditing processes. We made a significant shift with the incorporation of NIKE, Inc. Affiliate brands in our auditing and reporting. We moved from 68 percent non-rated factories in FY07 to 89 percent *rated* in FY11 (see previous table). By comparing the percentage of C (serious) and D (critical) rated incidents found during factory audits, over time we can see where changes are taking place.

Over the five years from FY07 through FY11, the most common issues were those related to hours worked and wages.

In FY11, 41 percent of overall noncompliance incidents were related to hours, down from 52 percent in FY07. Hours issues entail the serious (C-rated) incidents of contract factories with workers putting in between 60 and 72 hours per week or not providing one day off in seven. Other issues in the general category of hours include critical (D-rated) issues of no verifiable timekeeping systems, exceeding daily work hour limits, working more than 72 hours per week, or not providing one day off in 14.

Wages represented 17 percent of noncompliance incidents in FY07, when assessing NIKE Brand only, compared with 36 percent of incidents found in FY11 with inclusion of all brands across NIKE, Inc. Most wage-related incidents were miscalculations of wages or benefits, rather than an overall failure to pay workers the agreed wage for work performed. These kinds of incidents are systemic within factories across the industry, as understanding and correctly paying social security-type benefits can mean navigating confusing and complex laws and standards. We recognize the complexity of and interest around the broad issue of wages, and we address our efforts in this area both below and in the Manufacturing section of this report.

TOP ISSUES OF LABOR NONCOMPLIANCE

	FY07	FY10	FY11
AGE	1%	1%	1%
FREEDOM OF ASSOCIATION & COLLECTIVE BARGAINING	0%	2%	2%
HARASSMENT	7%	4%	3%
HIRING	3%	4%	4%
HOURS	52%	38%	41%
OTHER	20%	19%	13%
WAGES	17%	32%	36%
TOTALS	100%	100%	100%

Note: FY07 includes NIKE Brand only; Affiliate brands were incorporated in FY09 and reported here in FY10 and FY11. Percentages are used to show the relative rate of type of incident.

Other categories tracked have remained relatively steady over the five-year period and the inclusion of Affiliate brands. Age-related incidents remained steady at 1 percent. Freedom of Association remained relatively low, from 0 percent to 2 percent of incidents. Harassment decreased from 7 percent to 3 percent of noncompliance incidents, which we believe to be partly due to the HRM training.

The category of “other” – which includes issues of dishonesty, such as coaching workers to lie about conditions, denial of auditor access, falsifying statements and unwillingness to comply with standards – has decreased from 20 percent to 13 percent of incidents over five years. We believe this indicates increased transparency in the supply chain.

We have continued to analyze the root causes of noncompliance. The three main causes we saw in FY10 and FY11 are broadly consistent with previous years: lack of systems, lack of commitment and lack of knowledge.

Wages

We have undertaken research and continue our engagement with stakeholders including non-governmental organizations, academics and factories – to better understand the impact of wages on overall quality of life for workers and our role in wages.

While we neither own contract factories nor employ their workers, we can influence their business practices – including wages – through our own sourcing and assessment processes.

Wages are complex, affected by a market economy of global supply and demand, including trade and social stability. But complex issues sometimes call for complex responses. We continue to take positive steps and we recognize there’s more to be done.

Over the past 10 years, wages paid to workers in factories contracted by Nike have been increasing at a rate higher than inflation. These changes mostly align to growth in minimum-wage standards, changes in pay structures and increased demand for labor. And as a component of our total cost of finished footwear goods in China, Vietnam and Indonesia, wages have increased.

We are also working with other brands and on multi-stakeholder initiatives to improve the industry as a whole and we are innovating our own supply chain (see Manufacturing section) in a number of ways related to wages and other issues important to factory workers.

One such area is with the Fair Labor Association, to develop a new “fair-wage” standard that identified 12 dimensions to fair wages. (More information is available online at www.fairlabor.org). The dimensions span areas covering systems, comparability (e.g. to other industries, to inflation, to minimum standards, to cost of living), overtime, tying wages to skills, protecting the factory’s financial health and communication. The FLA sets out the dimensions and provides a gradual way of addressing each one, some based on information not readily available. We have begun addressing these dimensions through our Code and work with factories but other areas will take considerably more time and study.



As a leader in our industry, in FY11 we incorporated updates into our Code of Conduct and Code Leadership Standards to tackle some of the more pervasive wage problems, such as full funding and payment of statutory severance by factories and confirming that overtime is consensual and paid at a premium rate of at least 125 percent.

These changes are backed by updated Code Leadership Standards on factory closures and retrenchment (downsizing), which provide full detail of our expectations regarding pay, benefits and factory responsibilities. The Standards call for detailed actions in the case of factory closure or retrenchment in addition to what is required by country law or collective bargaining agreement, and factory management is encouraged to work directly or in coordination with governmental, nongovernmental or other third parties.

In addition, we have begun to define the actions we expect for contract factories to make progress toward better wage systems – that is, wages that meet the FLA definition of “fair wage.” Examples of these actions include: consistent payment of wages and benefits; standardized pay systems, policies and procedures; communication and dialogue around wages, training and development; monitoring and remediation; and wage self-assessments. The systems call for methods to track legally required minimum wages as well as different levels of worker education, skill, training and experience; monitoring against inflation and consumer prices; and equal-pay policies. These changes are being introduced in 2012.

We are addressing wages on several fronts. We know that standards are important: they communicate intent, they reinforce our position, they serve to heighten attention at factories for management and workers, and they form a rigorous and necessary baseline for performance. But standards themselves do not drive change; they set only a minimum bar that can help to identify and remove the worst performers.

We are also beginning to test with factories how they can increase workers’ wages while maintaining a financially competitive business. Our theory is that when factories invest in their workforce, they will see higher productivity and returns that can be shared across Nike, contract factories and their workers. We do not know the answers but are working with nongovernmental organizations, academics, factories and other businesses to find out how this can work and are committed to sharing the results to drive broader industry change. We discuss this theory and our approach in the Manufacturing section of this report where we define what “equitable” means for a sustainable supply chain.

Going forward, we are further studying wages and working with contract factories to explain our expectations and source from factories that make progress toward the FLA definition of “fair-wages” using our assessments in our Sourcing & Manufacturing Sustainability Index and Manufacturing Index to factor this issue more directly into our sourcing decisions.

Excessive Overtime

We continue to evaluate why excessive overtime is a persistent issue in contract factories. During FY11, more than two-thirds (68 percent) of the excessive overtime incidents identified and analyzed through audits of 128 factories were attributable to factors within Nike’s control, primarily forecasting or capacity planning issues, shortened production timelines and seasonal spikes. However, it is unclear how often these factors are directly linked to one of our brands, as some factories also produce products for many other brands. In factories for which multiple brands place orders, it is very difficult to isolate the root cause of production-capacity planning bottlenecks. As a result, we will begin to explore ways to create internal systems that allow us to isolate Nike-caused capacity spikes and imbalances that can contribute to a factory’s inability to effectively manage production planning. In addition, we will begin the process of creating new tools and reporting mechanisms for apparel factories to proactively communicate with Nike when their production team is approaching overtime limits that would be in violation of our standards. We have instituted these reporting requirements in NIKE Brand footwear factories already, and have seen marked improvement in the management of excessive overtime as a result.

We recognize that excessive overtime is a serious issue – in terms of both hours worked and days on the job without a break. We are focusing on these areas through continued analysis of root causes, which has led us to identify and address key business processes upstream from the factory. Variability is one of those root causes. Some of the key variables we have assessed include: seasonality in styles, the lack of predictability in consumer or product demand, and the impact of global economic challenges. We are working to develop our abilities to successfully respond to these real variables without negatively impacting factories or workers.

We are addressing these issues throughout our product-creation process, including via improved forecasting alignment, which involves coordination across geographies, categories and product engines to get the right information and decisions made at the right time. We’re also optimizing our sourcing base in footwear and apparel to handle fluctuations in capacity and to adopt and implement the technologies needed to respond to the demand for emerging styles and products.

Outside of those items influenced by Nike, in some places overtime is expected by both workers and factories, tied to broken models of compensation in which the only way workers can earn more is by working more hours. We recognize that excessive overtime is not sustainable from a worker or business point of view, as the costs are high for both. We are working with factories to build an understanding of these costs in terms of workers’ health and safety, productivity and quality of life, and as a contributing factor to labor turnover. We will continue to track our impact on excessive overtime at factories and believe that the inclusion of excessive overtime in our Sourcing & Manufacturing Sustainability Index will elevate the issue and help us to recognize where and when these issues arise and to factor this aspect of factory performance into our sourcing decisions.



Freedom of Association

While factory noncompliance on issues of freedom of association (FOA) and collective bargaining have remained steady at a low rate of about 1 percent of all noncompliance issues, these issues are serious and important. Our Code states that both FOA and collective bargaining are to be respected and, to the extent permitted by the laws of the manufacturing country, that a contracted factory respects the rights of its workers, including the right to form and join trade unions and other worker organizations of their own choosing without harassment, interference or retaliation.

In countries where law restricts free association, we call upon factories to facilitate alternative means to individually and collectively engage with workers and to enable workers to express their grievances and protect their rights regarding working conditions and terms of employment.

We have included further information on expectations for factories in our Code Leadership Standards, and we address FOA training in our HRM training at factories.

A powerful example of how we have encouraged freedom of association can be seen in the work Nike and other brands have done over the past two years with the Play Fair Alliance (local union representatives and factory owners) to create the Indonesia Freedom of Association Protocol. This historic agreement, endorsed by the Indonesian government, has created a platform for the advancement of free association rights in Indonesia.

We also are including FOA in the assessment of risk in our sourcing selection process. We include country-based assessments, including the likelihood of violations based on FOA and other core International Labour Association standards.

Human Resources Management Program Implementation

As an extension and elevation of lean manufacturing, the development and delivery of our HRM program had, through the end of FY11, been delivered in 76 factories in Vietnam, China, Indonesia, Sri Lanka, India and Thailand, representing more than 422,000 workers, 94 percent of total footwear volume and 43 percent of total apparel volume. Some results of the training have included the following:

- > Factory groups developed short- and long-term HR strategies
- > Factory groups recruited and hired better-qualified HR directors and managers
- > Factory groups allocated budget resources to HR and worker development
- > 408 factory leaders completed advanced-level training on lean, HRM, HSE, environmental sustainability and energy issues

Our HRM training builds from, and on, our investments in lean manufacturing training at the factory level. Lean is a journey that begins with technical skills, reorganization and training, and then advances to changing workplace behaviors and mindsets. The

empowerment of workers is a critical part of the implementation of lean manufacturing principles in a factory. In our HRM program, a key feature is a survey of factory workers that further helps to establish a focus on building dialogue and skills. The survey helps establish a feedback loop between workers and management and provides factory leaders with valuable data to improve retention and productivity.

In advance of the HRM training, factories conduct a survey among workers that asks 70 questions about workers' perception of pay and benefits, health and safety, management culture, hours worked, their empowerment as workers and general job satisfaction. Nike developed the survey in FY08, built on topics that were considered core to workers and were validated by factories. A third-party provider administers the survey through an anonymous on-site questionnaire, worker interviews and a factory tour. Results are reported confidentially to factory management and in aggregate to Nike.

Through FY11, 25,468 factory workers participated in worker satisfaction surveys; the workers selected represented a statistically relevant sampling. The results of these surveys are used in HRM capacity-building workshops, where factory HR, corporate responsibility and lean leaders work together to prioritize and identify issues to address. Each factory defines gaps in its current HRM systems and creates action plans to address them. In FY10 and FY11, all participating factories had completed the survey and implemented HRM system improvements.

In FY11, factories participating in the HRM initiative began conducting follow-up worker satisfaction surveys using the same questions and methodology as the original survey. A comparison of pre- and post-HRM workshop responses from 16 factories in Vietnam showed increases of 9 to 15 percent in each of six key areas of satisfaction, including perceptions of management and morale (e.g., "I am very satisfied with my job," and "I am treated with respect.") An area with less improvement was worker perceptions of performance appraisals. This area improved only 3 to 4 percent (e.g., "I think performance appraisals are fair," and "I think performance appraisals motivate employees.")

Health, Safety and Environment

Our audits and reviews of health, safety and environmental performance assess 35 different factors. The audit tool used for this area differs from the labor tool, and global totals are assessed as an overall score rather than number of incidents of noncompliance. Results from HSE assessments help to inform training areas and the approach to working with contract factories and addressing issues. In FY11, contract factories scored 68 percent on average, globally, across all areas of HSE performance.

The top issues of concern to Nike are those areas of noncompliance associated with the highest risk to workers. Hazardous materials and electrical safety are high risk, especially within footwear manufacturing, due to the number of manufacturing machines and chemicals involved in the processes. We make it a high priority to



assess these risks, and auditors have additional training in these areas, making them more likely to identify these issues in an audit.

More information on each area and the detailed Code Leadership Standards that outline our expectations for each is available online, along with the audit tool that provides information on how assessments are conducted. On average across all HSE factors, each region has similar average performance, ranging from 67 percent in our Europe, Middle East and Africa region and 69 percent in our South Asia region. In FY11 there were no areas that scored below 60 percent on any single element.

Across Nike globally, our HSE team includes 31 employees who conduct audits and provide training. This staff provides technical assistance through workshops and helps to teach factories how to chart their own safety-risk activities and use case studies to focus on the highest-risk noncompliance issues.

Going forward, health and safety assessments will be a component of the Sourcing & Manufacturing Sustainability Index.

Expanding Our Impact

We believe that collaboration with other companies and other sectors of society is the only way to achieve systemic change in global supply chains. It is an essential element of our approach and complements our direct engagement with factories in our own supply chain.

We are collaborating with a variety of organizations on new initiatives, some of which aim to develop common approaches to assessing and sharing data on factory performance. We have made considerable progress in this area, as described in the Manufacturing section.

In FY07 we set a target to promote collaboration by using other companies' audit results. We discovered, however, that this is labor-intensive in practice, because our information systems are not set up to handle them. Our work, and that of other leading companies, has helped to spur the development of platforms that we believe are more effective for industry collaboration, such as the Fair Factories Clearinghouse (FFC). Accordingly, we chose to support that initiative by using it to share audits in FY11. A current FFC focus is developing technology that will make it easier for companies to use one another's audit results and work together on a co-created corrective action plan.

MOST FREQUENTLY IDENTIFIED INCIDENTS OF HEALTH, SAFETY AND ENVIRONMENT NONCOMPLIANCE AMONG CONTRACT FACTORIES

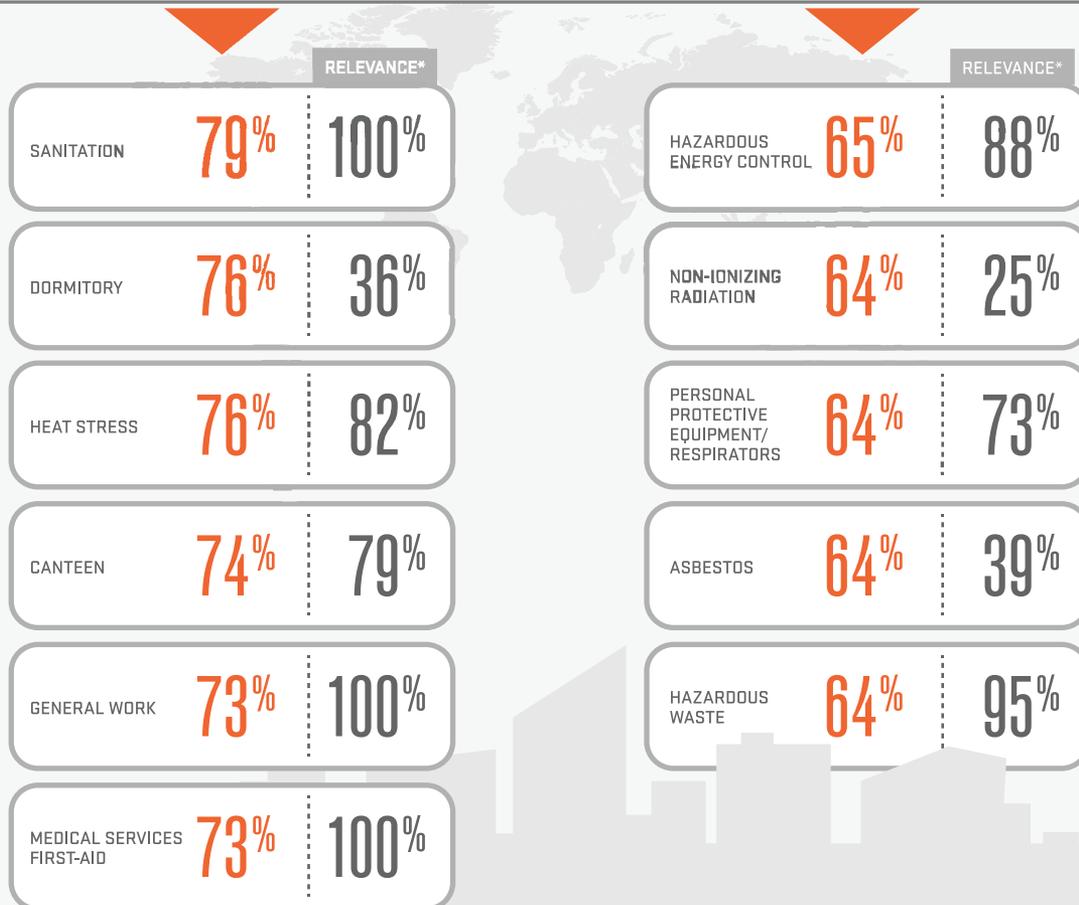
FY07	FY09	FY11
<ul style="list-style-type: none"> ▶ CHILDCARE ▶ CONFINED SPACES ▶ ASBESTOS ▶ ELECTRICAL SAFETY ▶ HAZARDOUS MATERIALS 	<ul style="list-style-type: none"> ▶ ELECTRICAL SAFETY ▶ UNDERGROUND STORAGE TANKS ▶ HAZARDOUS MATERIALS ▶ HAZARDOUS WASTE ▶ CONTRACTOR SAFETY 	<ul style="list-style-type: none"> ▶ UNDERGROUND STORAGE TANKS ▶ HAZARDOUS MATERIALS ▶ ELECTRICAL SAFETY ▶ HAZARDOUS WASTE ▶ CONFINED SPACES



CONTRACT FACTORY HEALTH & SAFETY PERFORMANCE-GLOBAL (FY11)

↑ HIGHEST-PERFORMING AREAS

↓ LOWEST-PERFORMING AREAS



*Average % of factories where issue is relevant

Looking Ahead

We are continuing to expand our Sustainable Manufacturing Training. In FY12, we will present the first workshops in Brazil and Mexico. We are also evolving the training model in Asia, where factories are now choosing to enroll and fund their own participation. We will continue

to conduct workshops in Indonesia, China, Sri Lanka and Vietnam. We are also rolling out our new systems and tools for evaluating factory performance and influencing sourcing decisions, as discussed in the Manufacturing section.

CHEMISTRY

We are committed to making our products in ways that protect workers, consumers and the environment – all while delivering the high quality and performance for which we are known. One aspect of this commitment is to eliminate, reduce and responsibly manage hazardous chemicals in our supply chain.

Our Approach

Our material vendors use chemicals in dyeing and other processes, and our contract manufacturing facilities use them in making footwear, apparel and equipment. We have programs in place that restrict the use of certain chemicals, promote the use of “green chemistry,” encourage better choices in the design of products, and empower and encourage our vendors and contract factories to identify toxics in their processes and find alternatives.

Restricted Substances

Our Restricted Substance List (RSL) – publicly available since 2001 – details chemical compounds that cannot be present in any finished products sold by NIKE, Inc. The RSL includes substances that are banned by law, as well as chemicals we’ve restricted voluntarily. To ensure compliance, we incorporate the RSL into agreements with all of our contract manufacturers. We then monitor compliance through a risk-based testing program that employs analysis by third-party laboratories.

We also have RSLs specific to manufacturing (the MRSL) and packaging (the PRSL). The MRSL identifies substances that cannot intentionally be used in the manufacture of our products. The PRSL, publicly available since 2003, restricts certain chemicals and materials from use in packaging.

OUR SUSTAINABLE CHEMISTRY GUIDANCE ENCOURAGES SUSTAINABLE PRACTICES AND TRANSPARENCY THROUGHOUT OUR SUPPLY CHAIN.

Green Chemistry

The RSLs tell suppliers what they cannot use. At the same time, we want to encourage our material vendors and contract manufacturers to use and develop the *right* kinds of chemistries – i.e., more sustainable options. So, in 2010, we established our Sustainable Chemistry Guidance (SCG). The SCG is a platform for highlighting preferred chemistries, defining better chemistry and empowering our supply chain partners to more closely align with Nike’s sustainability goals around fewer toxics, less water use and less energy use.

The SCG includes a list of “positive” or preferred chemistries and is a resource for vendors and contract factories as they select alternative chemistries for use. We have made it clear to our vendors and contract factories that we will include in the SCG proven, open and accessible innovations that they develop. The goal is to provide contract factories with a resource for helping to choose positive chemistries and to provide an incentive to chemical vendors to research and develop such innovations. The positive chemistries list is short now, but we are hopeful it will expand aggressively.

ROAD TO ZERO

IN AUGUST 2011, WE COMMITTED TO AN AGGRESSIVE GOAL OF ZERO DISCHARGE OF HAZARDOUS CHEMICALS* FOR ALL PRODUCTS ACROSS ALL PATHWAYS IN OUR SUPPLY CHAIN BY 2020.

AND IN NOVEMBER 2011,

WE RELEASED - JOINTLY WITH OTHER FOOTWEAR & APPAREL MANUFACTURERS - A ROADMAP FOR ACHIEVING THIS GOAL.

See www.nikeresponsibility.com for more on this commitment.

BY 2020

ZERO
DISCHARGE
OF HAZARDOUS
CHEMICALS*

*Hazardous chemicals are those that show intrinsically hazardous properties (persistent, bio-accumulative and toxic; very persistent and very bio-accumulative; carcinogenic, mutagenic and toxic for reproduction; endocrine disruptors; or equivalent concern), not just those that have been regulated or restricted in other regions.



Both the RSLs and Green Chemistry are part of our broader guidance, which is designed to drive innovation in our supply chain and is inspired by the widely recognized “12 principles of green chemistry.”⁶ Through this program, we assess chemical hazards based on a benchmarking tool called the Green Screen for Safer Chemicals⁷ (version 1.0). We also evaluate exposure potential in order to prioritize toxics for elimination and/or restriction.

Our material vendors can participate in the Green Chemistry Program in several ways. As a first step, they can make a formal commitment to self-evaluate the chemicals they use. Vendors can also engage in a more advanced effort by submitting data that would validate their material-specific green chemistry innovations. The Nike Material Sustainability Index (MSI) – the tool for rating the sustainability of materials and the material vendors that produce them (discussed in the Materials section) – rewards material vendors for taking part in the Green Chemistry Program. Using the Nike MSI, our material vendors can engage in a measureable way in green chemistry: The deeper the engagement, the greater the reward through the Nike MSI.

Better Choices in Design

The Nike MSI does more than rate our material vendors, however. It also scores materials according to (among other things) the chemicals required to make or process them. These scores enable Nike product-creation teams to make more sustainable, less-toxic choices during product design.

Working with Contract Manufacturers

Our efforts to responsibly manage, reduce and ultimately eliminate toxic chemicals in the contract supply chain also include work conducted by our Sustainable Manufacturing & Sourcing (SM&S) team with manufacturers. The SM&S team provides hands-on consulting to contract manufacturers to drive the elimination of toxics through substitution, improved production practices and process modification.

The team also provides incentives for action through implementation of the Nike Sourcing & Manufacturing Sustainability Index (SMSI). Our contracted finished-goods factories have significant influence through their purchasing power and material vendor choices – decisions that make a difference in the toxics footprint of Nike’s extended supply chain. By defining what “good” looks like, the Nike SMSI – described in detail in the Manufacturing section – serves as a powerful incentive for contract factories to reduce their own use of toxics, as well as that of their sub-vendors.

⁶ See www.epa.gov/sciencematters/june2011/principles.htm. The 12 principles include, for instance, the use of renewable feedstocks and the design of chemicals so that they break down into innocuous components in the environment.

⁷ See www.cleanproduction.org/library/cpa-fact%20grscreen_Jan09_final.pdf.

Progress and Performance

We have significantly reduced the use of several kinds of toxic chemicals in our value chain in recent years.

As discussed in the Materials section, for example, we have developed two types of environmentally preferred rubber. Version 1 targeted the most toxic chemicals compared to a typical rubber formulation. We shared the patent for this version with our industry via GreenXchange. Version 2 built on the advances in Version 1 by reducing total zinc content by 80 percent and leachable zinc content by more than 90 percent. In FY11, NIKE Brand footwear designs used environmentally preferred rubber in 80 percent of shoe pairs, up from 3 percent in 2004.

We have also replaced solvent-based chemistry in all NIKE Brand footwear with water-based chemistry, which has reduced the use of petroleum-derived solvents in our shoe designs by 96 percent per pair since 1995.

Further, we have significantly reduced hazardous-waste generation in all NIKE Brand footwear through materials substitution, operational improvements and process modification. As a result, hazardous waste generated per pair of shoes is estimated to be down by more than one-third since FY05.

Expanding Our Impact

Industry collaboration is an important part of our efforts to reduce toxics, because many of our material vendors and manufacturing facilities are also part of the supply chains of other brands. We have worked within a variety of industry associations to discuss chemicals management and share insights and best practices. For example, we are members of the Apparel & Footwear International RSL Management Group, the Sustainable Apparel Coalition and the Outdoor Industry Association’s Chemicals Management Working Group. We also belong to the Green Chemistry and Commerce Council and the American Chemical Society’s Green Chemistry Institute.

Looking Ahead

We are now firmly focused on meeting our commitment to zero discharge of hazardous chemicals* by 2020. With our RSLs and Green Chemistry Program – and incentives embedded in the Nike MSI and Nike SMSI – we know we have the right tools in place to help us get there. At the same time, we know it will require continued collaboration by multiple players in the industry and the cooperation of our material vendors and contract manufacturers to drive progress forward and meet the goal.

*Hazardous chemicals are those that show intrinsically hazardous properties (persistent, bio-accumulative and toxic; very persistent and very bio-accumulative; carcinogenic, mutagenic and toxic for reproduction; endocrine disruptors; or equivalent concern), not just those that have been regulated or restricted in other regions.

TO DATE, 373 NIKE BRAND FOOTWEAR & APPAREL MATERIAL VENDORS HAVE PROVIDED A SIGNED COMMITMENT TO THE NIKE GREEN CHEMISTRY PROGRAM.



373
VENDORS

LET'S BE CLEAR: CHINA ENVIRONMENTAL TRANSPARENCY PROGRAM

At Nike, we understand the value of relentless teamwork. So when we were approached to link up with one of China's most influential environmental NGOs – the Institute of Public and Environmental Affairs (IPE) – we rose to the challenge. By joining the IPE's Green Choice Alliance, we knew our factories in China would be held to higher standards of environmental compliance and transparency because their performance would be monitored and shared publicly.

The IPE has developed a "China Pollution Map," which lists factories that are out of compliance with environmental regulations. We use this online database to track the environmental compliance status of approximately 350 factories in China every year – including Nike contract factories and key material suppliers.

When we find one of our contract factories on the IPE list, we immediately communicate with that factory or supplier to determine the root cause of the problem, develop corrective action and remediation plans with them, and require them to post corrective actions on the IPE website. We also use this database to screen any new factory that will be entering the Nike supply chain. If a new factory is on the noncompliance list, corrective action and disclosure is required. We train and require factories to be in compliance with local law and regulations, require them to track their own compliance status through the IPE database, and also highly recommend that they use the database to screen their own supply chains.

In our three years with the program, we have gained increased insight into factory noncompliance and have

seen more rapid responses to problems. All told, we have used the information to encourage 31 factories to make improvements.

For example, we found out that Fujian Lifeng Footwear Co., Ltd. – one of our contract footwear factories, which belongs to Fengtay Group – was listed on the noncompliance list because of a wastewater issue in 2006. Even though it was a historical issue, we informed Lifeng about it to make sure the factory had taken corrective actions and was now in compliance. Lifeng contacted IPE at once to report that they had indeed already taken corrective actions to resolve the problem. At the same time, Fengtay Group realized that the IPE database could provide them with an opportunity to "green" their own supply chain. In October 2010, they began using the list to screen their sub-vendors in China. Fengtay has since checked about 80 sub-vendors; they found two factories with noncompliance records in 2010 and another three in 2011. Fengtay urged all factories on the IPE list to make improvements and also to report actions on the IPE website.

The IPE database helps to alert Nike about environmental violations in our supply chain. Also, the engagement with NGOs reinforces factories' environmental accountability, which is a great step for factories building their environmental compliance capabilities.

Recently, we introduced this program to NIKE Affiliate brands – Cole Haan, Converse, Hurley and Umbro. Screening for factories producing global product against the China Pollution Map was completed by February 2012.



WATER

Water stewardship – including attention to water quantity and quality – is an essential part of our sustainability strategy. Freshwater supplies around the world are under pressure, which is pushing costs up. Since water is essential for communities to survive and thrive, water scarcity has potentially far-reaching effects.

Some parts of our value chain can be water-intensive. Dyeing and finishing facilities that supply fabric for our apparel, for example, use and discharge 12 to 24 gallons of water per pound of textile. Therefore, we are working to design products from materials that require less water to produce, help material vendors and contract factories to reduce their water-related impacts, and eliminate hazardous substances from discharging into water.



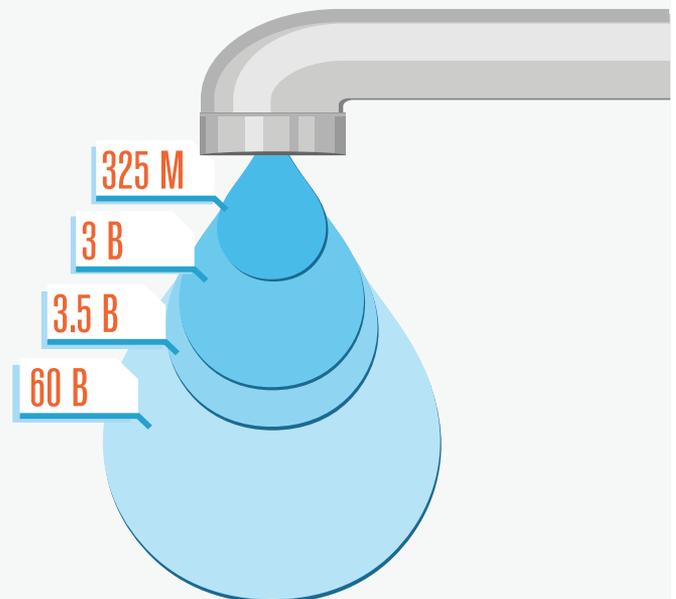
Our Approach, Progress and Performance

In all of our sustainability efforts, we focus on the areas in our supply chain where we have the greatest potential to make significant improvements. For water, that's primarily in the growing, production and processing of materials, followed by contract manufacturing. Our greatest opportunity to change use is in materials processing and contract manufacturing.

ASSESSING NIKE, INC.'S WATER FOOTPRINT

WE ARE CURRENTLY WORKING TO ASSESS THE TOTAL WATER FOOTPRINT OF NIKE'S VALUE CHAIN. SO FAR, WE ESTIMATE THAT:

- ▶ Annual water use at Nike-owned and-operated facilities such as offices, distribution centers and retail stores is approximately **325 MILLION** gallons
- ▶ Textile mills use roughly **3 BILLION** gallons each year to process cotton and polyester for NIKE Brand apparel
- ▶ Our contract footwear manufacturers use approximately **3.5 BILLION** gallons of water annually
- ▶ The Nike Water Program is currently tracking more than **60 BILLION** gallons of water use annually, but only about one-tenth of that volume is likely related to fabrics used to make NIKE or Affiliate brand apparel



Material Vendors

We launched the Nike Water Program in 2001 to help our material vendors address their wastewater quality. In the first year, about 50 vendors participated; in FY11, more than 500 took part⁸ (see chart).

Vendors enrolled in the Water Program must supply detailed data regarding the processes they employ, the materials they produce and how much water they use and discharge. If they discharge more than 50 cubic meters of wastewater per day (as about half of them do), we also require copies of wastewater discharge permits and laboratory water-quality testing results. Vendors self-report this information using H₂O*Insight, an online data-collection system Nike developed.

The data and documentation that vendors provide allow the Water Program to first assess whether vendors are compliant with their own discharge permits and local environmental standards, and then whether they also meet Nike’s water-quality guidelines (see chart), which were developed jointly with other apparel brands through Business for Social Responsibility’s Sustainable Water Group. (Business for Social Responsibility is a U.S.-based membership organization focused on corporate responsibility). If vendors are not compliant, we require a plan and timeline for improvement.

Product Design

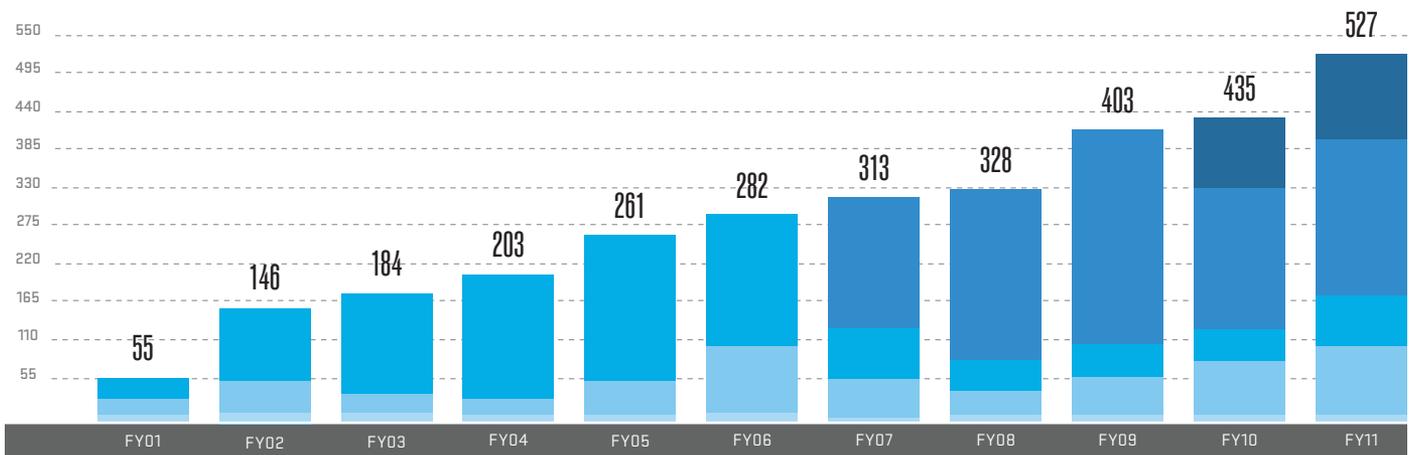
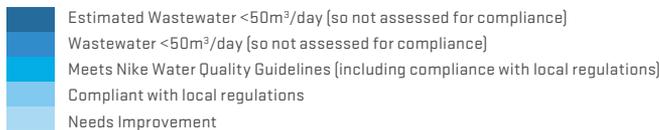
The new Nike Materials Sustainability Index (MSI) – described in the Materials section – assigns sustainability scores to materials based on multiple criteria, including how much water is required to produce them and the water stewardship of vendors that process them. The Nike MSI creates a strong incentive for material vendors to enroll in the Nike Water Program and reduce their water-related impacts by recycling process water or implementing innovative low- or no-water coloring processes – as these activities help to increase their Nike MSI scores. Water-efficient materials from water-efficient vendors receive more points on the MSI, and, therefore, stand a better chance of being selected by our product creation teams than otherwise similar materials.

Contract Manufacturers

Some finished-goods manufacturing facilities are also significant users of water, so reduction is an important part of our environmental sustainability strategy for our contract factories as well. In 2011 we conducted our first-ever water-use baseline for footwear manufacturers. The baseline measured water usage in production, kitchens and on-site dormitories, among other uses. We learned that contract factories in our supply chain together use approximately 3.5 billion gallons of water annually.

We are working to reduce this number with a variety of approaches, spanning from leak detection and elimination, to setting standards for cleaning, to green technology innovation in mid-sole washing.

NIKE WATER PROGRAM MATERIAL VENDOR PARTICIPATION AND COMPLIANCE



⁸ The Nike Water Program first included only apparel material vendors; footwear material vendors were invited to participate beginning in FY10. With the increase in enrollment, we see an initial decrease in percentage of vendors that are fully compliant. Vendors that have poor/average performance during the first year of enrollment typically move to better performance as they continue to participate annually.

Expanding Our Impact

Our efforts to affect water use and wastewater discharge extend well beyond our own value chain. Nike's material vendors also supply textiles for many other apparel brands. The Nike Water Program is currently tracking more than *60 billion gallons* of water use per year, but only about one-tenth of that volume is likely related to fabrics used to make NIKE Brand or Affiliate Brand apparel. So in practice, our Water Program is helping to make other companies' supply chains more sustainable too – whether they know it or not.

Because we share so many of the same supplier facilities with other brands, we are seeking to drive broader industry impact through the release of the H₂O*Insight online reporting system. We developed this robust data-collection tool for the Nike Water Program, but in 2011 we turned it over to C*Insight, the software development company that built the system, which is now making it available to Nike and other companies by subscription. The system uses a single questionnaire for each manufacturing facility, a shared database of water use and discharge data, and secure online access for brands and retailers to evaluate their suppliers' performance. Our hope is that sharing this tool with the industry will enable a much larger group of companies and suppliers to evaluate and improve water quality and efficiency in the apparel and footwear industries.

Looking Ahead

We recently set new targets for water use, including a 15 percent increase in efficiency at footwear manufacturing and in materials dyeing and finishing – two top areas of use. We are also in the process of aligning our Nike water sustainability programs for material vendors and contract manufacturers. Going forward, we will be phasing contract manufacturers into the Nike Water Program, in addition to material vendors. Also, the Water Program will be presented in Nike's global supplier training agenda, along with other sustainability topics. And, new global water resource data will allow us to renew our focus on prioritizing and accelerating program activities in water-scarce regions.

Nike's Sustainable Manufacturing & Sourcing team is continuing to work with our apparel and equipment contract factories, including helping them to improve water-use measurement and data management as building blocks for reporting and to achieve reduction targets. Furthermore, the new Nike Sourcing & Manufacturing Sustainability Index (discussed in the Manufacturing section) will serve as a leverage point for contract factories to improve their own water stewardship, as well as that of sub-vendors.

WASTE

As environmental issues go, reducing waste is a pretty easy sell. After all, waste results in lost natural resources and lost profit.

At NIKE, Inc., we define *waste* as any material purchased anywhere in our supply chain that does not ultimately end up as a useful component of product, or cannot be reused at the end of product life. This includes packaging, shipping material and product samples, in addition to a wide range of manufacturing waste such as scrap fabric, leather and rubber. This definition – which is broader than most companies’ – forces us to think about waste at all points across our value chain.

Our ultimate, long-term vision is the conversion of raw materials into finished products with zero waste, as well as “closing the loop” on materials use – that is, using only materials that can be fully recycled.

Our Approach, Progress and Performance

The largest amounts of waste in our value chain are due to product packaging and shipping, followed by waste generated in footwear manufacturing. Our product creation teams work to eliminate waste from our designs from the outset, and we collaborate with materials vendors and manufacturers to eliminate it along the way.

OUR SHOEBOX EXPERIMENT

OUR SHOEBOXES GET PRETTY GOOD MARKS FOR SUSTAINABILITY.

SINCE 1995,

THEY HAVE BEEN MADE FROM

100%
RECYCLED
CARDBOARD

OVER THE PAST
SEVERAL YEARS,

WE REDUCED THE AMOUNT
OF MATERIAL NEEDED TO
MAKE A SHOEBOX.

WE WORKED TO
IMPROVE, TAKING OUT

↓ 15%

OF WEIGHT THROUGH
NEW DESIGNS BY 2008.



AFTER EXTENSIVE RESEARCH,
WE SWITCHED TO A NEW BOX
STRUCTURE IN FY10 BUILT
WITH...

HOWEVER, THEY ALSO MAKE
UP THE SINGLE-LARGEST
WASTE STREAM ANYWHERE
IN OUR VALUE CHAIN.

WEIGHTED-AVERAGE
REDUCTION OF NEARLY

23%

DURING THE TIME
IT WAS IN USE.

TOGETHER WITH ALL ADJUSTMENTS TO BOX DESIGN AND SIZING SCHEDULE, WE ACHIEVED A...

UNFORTUNATELY, THE NEW BOX DID NOT PERFORM AS WELL AS PLANNED, AND WE REVERTED TO THE PREVIOUS BOX IN FY11. **HOWEVER, WE LEARNED A LOT BY TRYING.** FOR EXAMPLE, WE NEED TO BETTER CONSIDER HOW THE BOXES ARE STORED AND HANDLED AT VARIOUS POINTS IN THE SUPPLY CHAIN.

WE EXPECT TO ROLL OUT
AN IMPROVED LIGHTWEIGHT
VERSION BY FY15.



Nike Product-Creation Teams

Our product-creation teams make decisions while designing our products that heavily influence the amount and type of waste that will be created during manufacturing. Our Nike Considered Index and its successors provide a scoring mechanism that both shows designers the waste implications of their decisions and provides an incentive to design less-wasteful (therefore higher-scoring) solutions.

One way our teams can earn higher Index scores for their designs is to avoid waste through “pattern efficiency.” For example, fabrics with omni-directional graphics (e.g., dots) can be cut with a lot less waste than fabrics with uni-directional graphics (e.g., stripes). Over the past five years we have achieved a 19 percent reduction in waste related to the production of footwear uppers.

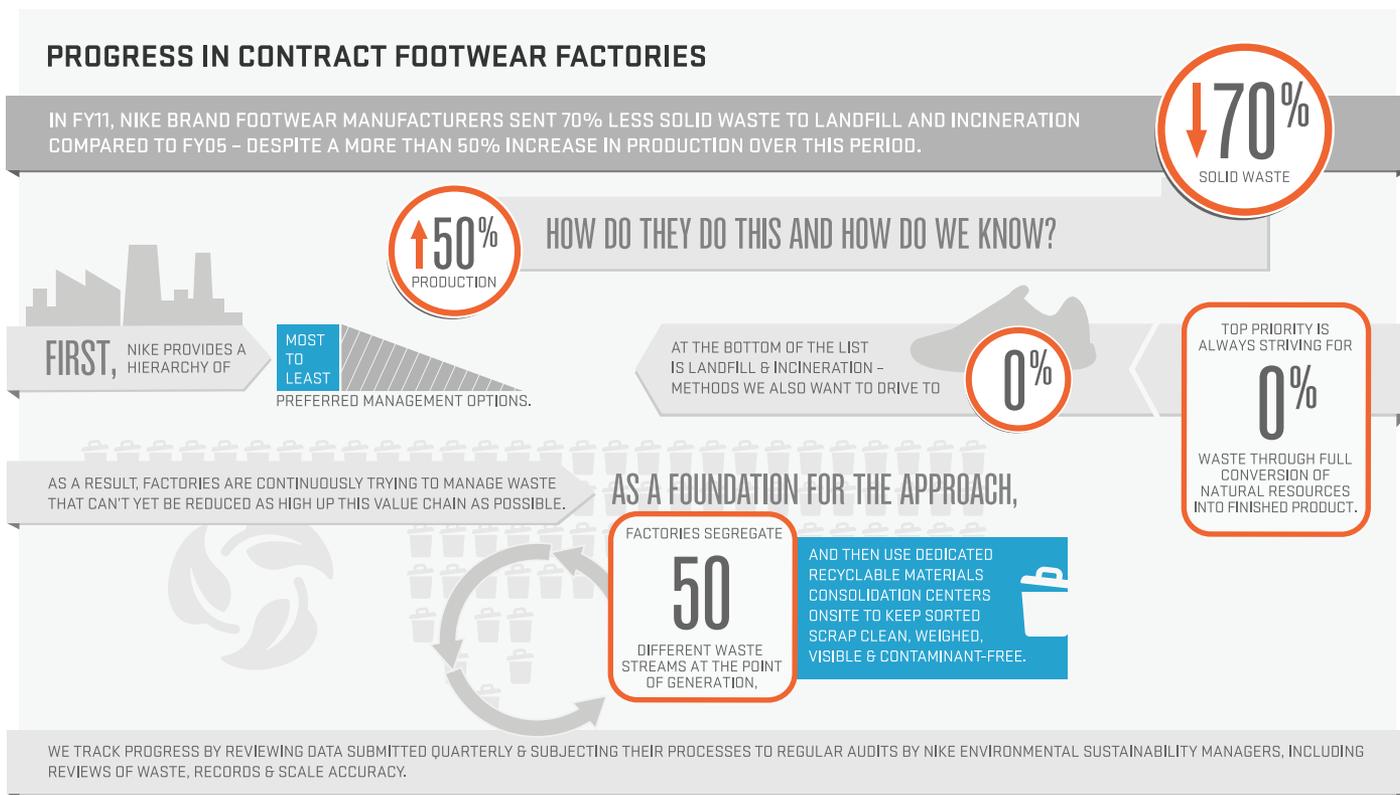
Contract Manufacturers and Material Vendors

We regularly work with our contract finished-goods manufacturers to assist them in reducing waste. To date, we’ve focused on helping them to optimize manufacturing processes, segregate waste at the source, measure waste types and volumes, and target reductions of high-volume

waste materials. We have also led the development of six dedicated recycling centers in three countries – China, Vietnam and Indonesia – to support our closed-loop vision.

Our factory rating indexes (described in the Materials and Manufacturing sections) are, for the first time, providing incentives for contract factories and material vendors to participate in waste-reduction activities and certifications. Those vendors and factories that earn high sustainability scores – including waste-related measures – score better in our indexes and are better positioned to keep our business.

In NIKE Brand footwear manufacturing, we had a goal to achieve a 17 percent reduction in total waste from FY06 to FY11, as measured in grams of waste per pair of shoes. We met this target in FY09, and as of FY11 had achieved a 21 percent reduction (see chart). In FY11, total waste generated by our NIKE Brand contract footwear manufacturers was 48.7 million kgs, 85 percent of which was diverted from incineration or landfill through in-house recycling, closed-loop recycling, downcycling and other efforts.

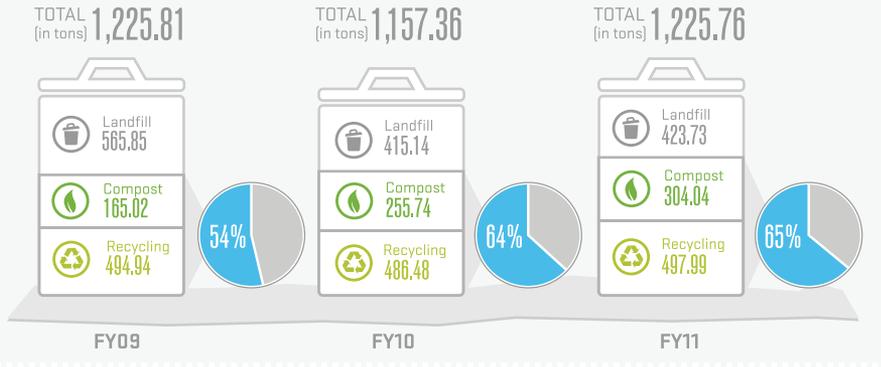


WASTE MANAGEMENT IN FOOTWEAR MANUFACTURING

	FY06	FY07	FY08	FY09	FY10	FY11
DISPOSED WASTE AND ENERGY RECOVERY (GM/PR)	75	61	57	57	58	57
RECYCLED WASTE (GM/PR)	115	109	100	97	92	92

WASTE FIGURES (IN TONS) AT NIKE, INC. WORLD HEADQUARTERS

AT NIKE WORLD HEADQUARTERS IN OREGON, WE HAVE WORKED HARD TO IMPROVE OUR RATES OF RECYCLING AND REUSE.



NIKE REUSE-A-SHOE AND NIKE GRIND

NIKE REUSE-A-SHOE - OUR RECYCLING PROGRAM FOR DISCARDED ATHLETIC SHOES - IS MORE THAN 20 YEARS OLD AND REMAINS AN INDUSTRY-LEADING PROGRAM AND A KEY ASPECT OF OUR LONG-TERM VISION FOR CLOSED-LOOP MANUFACTURING.



SINCE THEN, NIKE HAS COLLECTED MORE THAN

25 MILLION

A MATERIAL THAT HAS BEEN USED IN MORE THAN 400,000 LOCATIONS WORLDWIDE

AND PROCESSED THEM INTO NIKE GRIND.

PAIRS OF SHOES THROUGH THE REUSE-A-SHOE PROGRAM

IN FY11 WE MORE THAN DOUBLED THE NUMBER OF NIKE, INC. RETAIL STORES THAT ACCEPT WORN-OUT SHOES FOR RECYCLING.

CONVERSE

THIS EFFORT WAS LAUNCHED AT CONVERSE, A NIKE, INC. AFFILIATE BRAND.

WE ALSO USE PRE-CONSUMER NIKE GRIND - TO MAKE OTHER PRODUCTS, INCLUDING BUTTONS, ZIPPER PULLS AND SOME OF OUR BESTSELLING FOOTWEAR, AS WELL AS PRODUCTS INCLUDING CARPET PADDING AND INFILL FOR SYNTHETIC TURF



NIKE, Inc. World Headquarters

At NIKE, Inc. World Headquarters in Oregon, we have worked hard to improve recycling rates. While our total waste rose in FY11, along with our employee base, the percentage of waste diverted from landfill through commingling and composting rose from 54 percent in FY09 to 65 percent in FY11.

Logistics

At our distribution centers, we have begun assessing our waste, most of which is corrugated cardboard, and most of which is recycled. We have also been seeking opportunities to reuse inbound shipping boxes for outbound shipping, rather than discarding and recycling them. Our distribution center in China has been testing this process.

Looking Ahead

We have recently set new targets for reducing waste, one being a 10 percent reduction from manufacturing waste across NIKE, Inc. and shoebox weight per unit through FY15 (from FY11 baseline), building on reduction in footwear manufacturing waste of more than 35 percent per pair in the first 10 years of the program. In addition, we are expanding our engagement with apparel and equipment contract factories, including helping them to segregate scrap and to implement data management systems as building blocks for reporting, establishing baselines and target setting.



COMMUNITY

We believe in the power of human potential. We are leveraging the size and reach of our brands to affect positive long-term changes that empower and support the communities in which we live, work and play. We recognize that our work to positively impact energy, labor, chemistry, water and waste also influences the communities across our value chain. We see our work in those areas as part of how we address communities' basic needs for health, safety and vitality.

Our Approach

Our community engagement strategy focuses on the following key areas:

- > Expanding access to sport, in order to break and prevent intergenerational cycles of inactivity
- > Engaging consumers and employees directly to help create innovative solutions to social and environmental issues
- > Investing in the power of adolescent girls in the developing world via The Nike Foundation
- > Using sport to help rebuild and strengthen communities devastated by natural disasters

In these areas, we aim to find the most effective and innovative approaches and programs for driving change. When we find those winning strategies, we want to see them tested, refined and taken to scale. Our role varies. Sometimes we find innovative programs or new ideas that need resources to get off the ground. Sometimes we uncover successful programs – hidden gems – and provide the support needed to scale them widely.

As in everything we do, we want to improve our performance, so we strive to better track our community investments and measure our impacts. (Our efforts to better measure results are discussed in the Performance and Progress section.)

SPORT: A POWERFUL INVESTMENT TO MOVE OUR KIDS TOWARD SUCCESS

Sport is a universal language. It helps to develop the next generation of youth with skills such as teamwork, determination, self-confidence, creativity, resilience and physical and emotional health. We believe that improving access to sport, play and greater levels of physical activity overall – especially for kids – is one of the greatest investments a society can make.

Sport has the potential to be a powerful force in sustaining and rejuvenating our future, but today its impact is undervalued. Nike sees an opportunity to identify, support and help elevate the people, ideas and opportunities that demonstrate how sport can help to change the world. Nike is committed to protecting access to sport and has developed a number of global initiatives in support of this goal, in collaboration with

nonprofits, community organizations and other partners.

In FY10 and FY11, we continued to support a large portfolio of community sport programs around the world. We also invested heavily to consolidate and validate a global fact base on the holistic benefits of sport and physical activity. We directed original research to better understand the cumulative economic burden to countries and societies as a result of physical inactivity.

In FY12, we will share this work in hopes of fostering new partnerships. Specifically, we'll focus on supporting large-scale investments that invite collaboration across sectors that have the greatest impact on kids' physical activity. For example: schools, urban design, parks and recreation organizations, local

transportation systems and healthcare infrastructures. We will advocate for policies that support such collaborations. And we will work hard to channel collective resources, so that with one voice, we increase the potential of our children through sport, play and increased levels of physical activity.

Nike is certainly not alone in supporting increased access to sport. We have many trusted friends, partners and sports-industry allies who have been sounding the call for decades, investing in and supporting sport and physical activity programs. While there have been a variety of innovative and well-intended efforts, impact could be even greater with increased collaboration by the major players in those sectors that have the greatest effect on whether a kid has access to sport and physical play.

Our Impact

Scaling the Power of Sport

As a global company, we continue to leverage the power of our employees, consumers and partners to uncover new and exciting innovations that enable a “scaling up” of the power of sport. We have seen some of these innovative ideas grow from simple, direct investments into widely adopted, easily implemented programs with incredible impacts on the lives of young people. We have taken the lead in creating a number of these programs, and we have partnered on others; each have uncovered best practices that have been scaled across the globe. The following are a few examples.

> ***Sport for Social Change Networks***

The concept was simple – how could we bring together locally relevant, sport-based community programs to share ideas and best practices, leverage funding and create a collective voice around the power of sport to overcome local challenges? Nike worked with CARE, a leading humanitarian organization fighting global poverty, to fund and convene partners to create Sport for Social Change Networks in southern Africa, eastern Africa, Brazil, the United Kingdom and the United States over the past five years. The Networks have enabled community-based sports programs to learn how to collectively lobby for funding and support from local governments, NGOs and local businesses. Each of the Networks is flourishing – and the community programs are reaching thousands more youth and training more coaches as a result of the collaboration.

> ***Homeless World Cup***

There are many routes to becoming homeless – losing a job, being unable to cope with addiction, or for whatever reason, falling through the cracks of society. An organization called the Homeless World Cup believes that football (soccer) can be a path forward for tens of thousands of people who become homeless. Our long-term support of the Homeless World Cup, which works with the homeless in order to build camaraderie, resilience and self-esteem, has helped the organization expand to 73 countries around the world, using football as the entry point to help more than 50,000 people annually get back on their feet. Every year the organization holds the Homeless World Cup in a new country, engaging with governments and local businesses in a dialogue to help the homeless reintegrate into society – into educational pathways, into jobs and back into their communities.

> ***Grassroots Soccer/Nike(RED)***

The world’s beautiful game ignores geographic boundaries, races, religions and gender. So does HIV/AIDS. More than 10 years ago, when a group of players in Zimbabwe saw their friends disappearing from the football (soccer) pitches for no apparent reason, they soon realized that HIV/AIDS was sweeping through their hometowns. They knew the only thing that would stop the disease was to help future generations understand that the decisions they were making in their lives could mean the difference between life and death. To communicate to the neighborhood kids, they created Grassroots Soccer (GRS). Since 2002, Nike has worked with GRS to provide funding, product donations and inspiration

to help the organization reach 500,000 young people through their program. We amplified our commitment to organizations like GRS during World Cup 2010 in South Africa with Nike(RED) – using red laces to raise awareness with athletes and fans, and raising funds that would directly benefit community-based football programs designed to educate youth about HIV/AIDS. To date we have granted more than \$1.3 million to 55 programs in 21 countries throughout Africa.

> ***Magic Bus***

India – the world’s second-most populous country – is sports-crazy. It is also home to millions of vulnerable children who do not have access to education, a place to live or a stable home environment. Magic Bus, an India-based organization, saw the opportunity to engage with these children through sport by providing scalable, activity-based programs that include safe places to play. Nike partnered with Magic Bus more than five years ago because we believed that their idea to train volunteer coaches in local villages throughout the country would enable them to reach hundreds of thousands more children. The results speak for themselves: In 2010, school attendance for kids in urban slums and rural villages where Magic Bus operates increased to 78 percent, and 85 percent of participating children went on to get jobs. The results have been so positive that the Indian government has made the Magic Bus curricula part of its national “sport for development” program.

> ***Let Me Play***

The world’s largest peaceful internal migration is happening in China, as people move from rural areas to urban centers looking for work. As these migrant workers move, they bring their families, but their children do not always receive equal access to public health or education services. Over the past five years, our Let Me Play initiative has connected with children of migrant workers in 11 Chinese cities to promote teamwork, confidence, gender equity and social integration through sport. The proof: More than 80 percent of Let Me Play participants reported gains in self-worth, relationships and studies. The local government has been so impressed with the results that plans to bring the program into additional communities and schools are now underway.

> ***Students Run L.A.***

In some parts of Los Angeles, high school graduation rates are as low as 60 percent. Youth inactivity, a lack of mentoring programs and long-term economic challenges contribute to these low rates for vulnerable youth. That is, until they become part of Students Run LA. For more than 23 years, this organization has operated a running and mentoring program that coaches students to run a marathon, while also providing the support they need to graduate from high school. Many of these kids are the first in their families to graduate. Two years ago, Nike partnered with Students Run L.A., providing high-performance running shoes, organizing running events and mobilizing our employees to help slower students run the last four miles of the marathon. In 2011, this program helped 2,800 underserved youth in Los Angeles complete the marathon. The academic results are also impressive: 97 percent of the seniors who ran the marathon in 2011 graduated from high school.



The Nike Foundation

The Nike Foundation www.nikefoundation.org – a separate 501(c)3 nonprofit organization fueled primarily by NIKE, Inc., the NoVo Foundation, and the UK’s Department for International Development (DFID) – is dedicated to investing in adolescent girls as the most powerful force for positive change on the planet.

When we provide a girl in adolescence – before she’s married, pregnant, or HIV-positive – access to education, sport and adult mentorship to develop the life skills necessary to support herself and others around her it’s a solution for poverty, not a cure for its symptoms. That’s the girl effect.

Igniting her potential and transforming her world starts a ripple effect of change – for herself, her family and her community. When a girl in the developing world receives seven years of education, she marries four years later and has 2.2 fewer children. An extra year of secondary school increases her eventual wages 25 percent.

The Nike Foundation’s sole focus is to fuel the girl effect. But we are only one player in a global network of doers, movers and influencers in the girl space. From the World Bank to the Center for Global Development, the Nike Foundation works in collaboration with a host of organizations to communicate broadly (and loudly) about girls, and to scale what works.

Since 2007, the Foundation has committed more than \$100 million to programs and partners benefitting adolescent girls. In FY10-11 alone, Nike contributed \$27.7 million to the Nike Foundation. Through a formal collaboration with the NoVo Foundation, we ensure our philanthropic investments are having the greatest possible impact. NoVo has fueled the girl effect with \$112 million in investments.

The Foundation’s formal strategic joint venture with DFID fuses the Foundation’s private sector and girl expertise with DFID’s robust development network.

The Nike Foundation and DFID jointly operate Girl Hubs in three focus countries: Rwanda, Nigeria and Ethiopia. Girl Hubs equip girls with programs that work to scale. But she must not only be equipped, she must be inspired. By amplifying teen spirit, Girl Hubs are breaking the mold with social communications.

The girl effect starts with one girl. And it ends with 250 million girls leading 2.6 billion people out of poverty.

Brands and Consumer Engagement

Consumers engage with our brands across the NIKE, Inc. portfolio to support issues they care about. Nike’s global collection of LIVESTRONG products has helped the Lance Armstrong Foundation raise more than \$100 million in the fight against cancer. This initiative, one of the most successful to date, supports the 28 million people around the world living with cancer.

In addition, our N7 Fund has helped spur Nike’s commitment to bring sport and all its benefits to Native American and Aboriginal communities in North America by providing support to community-

based sport programs. Since the creation of the Air Native sneaker, we have inspired a new generation of athletes to get physically active through the many programs we have been able to support.

Our Affiliate Brands have unique relationships with their consumers and the things they care about, but they all share a commitment to supporting their communities. For example:

- > **Cole Haan** has sponsored Penny Harvest since 2008, with the re-imagining of the iconic penny loafer and encouraging school-age children to gather pennies from homes and neighbors as a first phase in a year-long program of lifelong values. Through this program, children collaborate to identify worthy programs to support with their time and the cash that they gather and pool together.
- > **Converse’s** (Product) RED has connected consumers to supporting those with HIV/AIDS.
- > Through **Hurley’s** H2O Ripple Effect program, in partnership with Waves For Water, Hurley has helped provide filtration systems to more than 7.5 million people in remote locations and those affected by natural disasters – bringing them access to clean water.
- > In partnership with The Police Community Clubs of Great Britain, **Umbro** sponsored the National Umbro Community Sports Award in FY11. The award recognizes the positive impact that sports has on young people and brings attention to an innovative, replicable school sports program.

Dealing with Natural Disasters

We are constantly learning about how to be our best by doing the right thing. There is no more important moment to bring this to life than when communities are devastated by natural disaster.

In the past, our response has been to help disaster-affected communities in short order with funding and product donations, in order to quickly replace what had been lost. However, we found that this work did not always meet the needs of those affected at the right time or in the right ways. And it was not leveraging our core strengths as a company. So we went back to the drawing board to refine our approach.

We realized we could support our NGO partners, such as Mercy Corps and CARE, during the immediate aftermath of a disaster through grant-giving and by supporting our employees who wanted to actively contribute via our matching gift program.

But we also realized that our greatest potential impact would be in an arena where we have expertise, contributing what we know best. So we began to focus on using the power of sport to help youth affected by natural disasters to deal with the trauma of losing loved ones, their homes, their possessions and sometimes even their communities. We partnered with the Swiss Academy for Development, Mercy Corps and CARE to create the Moving Forward program, specifically designed to help communities rebuild after a natural disaster.

With these NGO partners, we created a scientifically tested and proven Moving Forward curriculum that provides teachers, coaches and parents with tools to help youth post-disaster, through carefully designed sporting activities and counseling sessions.

The Moving Forward curriculum has been implemented in many communities around the world, including China, Japan, Haiti and Peru. In each case, the curriculum was adapted to be locally relevant. We feel so passionate about the impact of the Moving Forward program and its adaptability that we have made it available online for any community or organization to use.

Also, in partnership with Architecture for Humanity, we have mobilized a community of Nike employees who volunteer to help in rebuilding schools, and sport and community centers. We are also constantly looking for ways to leverage the power and energy of our brands to mobilize our consumer base in times of need. As a response to the Haiti earthquake in January 2010, more than 1,600 Nike employees made personal donations that totaled more than \$170,000. Combined with Nike’s matching funds, the total raised for Haiti disaster relief was \$450,000. Then, in the aftermath of the Japan tsunami, Nike contributed \$1 million in cash and \$250,000 in product. Running posted an “All for Japan” challenge to the global Nike Plus community, where runs logged raised funds for relief and rebuilding efforts. Nike employees gave more than \$63,000 to Japan disaster relief in FY11, which NIKE, Inc. matched.

WE Portal

In FY10, Nike launched a digital employee engagement platform, the WE Portal, which is accessible to all global NIKE, Inc. employees. The WE Portal has evolved to be a worldwide engagement hub, linking Nike employees from 34 countries around social and environmental issues they care about. Via the Portal, employees can get their donation matched by Nike, create volunteering teams, earn points for giving and post community-giving opportunities. The points employees earn can be traded in the Portal’s Giving Marketplace for product that is donated to the community organization of their choice.

In addition to tracking volunteer hours and matching employees’ contributions, the WE Portal increases governance and due diligence in the accounting and reporting of global employee giving and volunteering figures.

In its first two years, about 20 percent of Nike employees, or approximately 7,850 people, joined the WE Portal. Employees have nominated organizations to be included on the Portal, and more than 1,300 globally have been vetted and approved. Over FY10 and FY11, there were more than 2,500 opportunities posted by employees, encouraging others to give, volunteer, rally or otherwise get involved. More than 135 teams have formed around employee-led causes and interests.

In the future, the WE Portal will be expanded to foster employee-led innovation, empowering the global NIKE, Inc. employee community across functions and geographies to share information, ideas and innovation.

Nike School Innovation Fund

In January 2007, Nike created the Nike School Innovation Fund (NSIF) – a \$9-million, five-year commitment to support public education in Oregon’s Beaverton, Hillsboro and Portland school districts. The vision for the NSIF is to use the power of innovation to fuel excellence in education, the driving force behind a productive society.

Through partnerships with school districts near Nike’s hometown, the Fund helps to:

- > Create strategic partnerships with school leadership teams
- > Accelerate the sharing of best practices by encouraging districts to collaborate on common challenges
- > Enhance teacher and principal development with a relentless focus on improved student achievement
- > Invest in the school districts’ youngest learners to improve school readiness

Since its inception, the program has invested in more than 250 teachers and 75 principals, benefiting more than 100,000 kids each year. More than 300 Nike employees have volunteered their time, and 30 company leaders have developed strategic and sustained relationships with principals and school leadership teams. The program focuses on young learners and teacher leadership, and student achievement indicators are trending positive. Students in summer “early literacy academies” have improved reading scores, and student writing scores for schools participating in the leadership collaborative exceed overall district gains.

In July 2011, the White House lauded the work of the NSIF, and Nike leadership was invited to participate in a roundtable with President Barack Obama on how corporate partnerships can help transform the American education system.

NIKE, INC. EMPLOYEE CONTRIBUTIONS (IN MILLIONS USD)

	FY10	FY11
EMPLOYEE CONTRIBUTION (INC)	\$ 1.48	\$ 0.96
COMPANY MATCH*	\$ 1.80	\$ 0.89
TRACKED VOLUNTEER HOURS	47,039	29,040

Note: Previous reporting tracked U.S. employees only. A new system for capturing, tracking and reporting contributions and volunteer hours was implemented across NIKE, Inc.

*The company shifted away from matching volunteer hours with monetary contributions midway through FY10.



The Nike Employee Grant Fund

The Nike Employee Grant Fund makes grants of \$500,000 per year in communities near Nike's global headquarters. Funding priority areas include: the environment, education, social inclusion and health. Within each area, priority is given to projects that incorporate physical activity or sustainability practices and have the potential for broad, lasting community impact. In FY11, funding was funneled to 44 programs and served more than 28,000 people. Nike employees serve on the committee to review grant applications and make funding recommendations in collaboration with The Oregon Community Foundation.

Progress and Performance

In FY07, we set a target to achieve a total of \$315 million in contributions by FY11. In FY10/11, our total community investment was just under \$100 million, including product donations, cash and in-kind services provided to our community partners, bringing our cumulative total (since FY07) to \$268.7 million, or 85 percent of our target. Overall giving was down slightly from previous years but grew in Asia, emerging markets and the Americas.

During the latter part of this goal period (in FY10/11), we have been working to identify the greatest areas of impact and difference, streamline some of our processes and partnerships and sharpen the focus of our investments. Due to a reorganization of our business in FY09, some of the donation figures on file are not comparable to later years, as community giving is tracked by differently defined geographic areas matching to how we are now organized.

We have also come to realize that one of the most powerful ways we can make a difference – beyond the dollars and time that Nike and our employees donate – is by inspiring a ripple effect of giving among others which extends to include like-minded partners, including our consumers. When you consider the funds the NoVo Foundation invested in the Nike Foundation to support girls, alongside money raised by Converse (RED)-branded merchandise to support anti-poverty efforts, and the 84 million LIVESTRONG wristbands that have been distributed worldwide in support of the Lance Armstrong Foundation, it adds up to a much larger ripple – in the hundreds of millions of dollars.

NIKE, INC. COMMUNITY INVESTMENT BREAKDOWN FY11 [IN MILLIONS USD]

FOCUS OF OUR INVESTMENTS

 EMERGING MARKETS	\$2.9	6%	 CENTRAL AND EASTERN EUROPE	\$0.4	1%
 GREATER CHINA	\$2.9	6%	 GLOBAL*	\$16.9	33%
 JAPAN	\$1.2	2%	 AFFILIATE BRANDS	\$1.4	3%
 WESTERN EUROPE	\$1.8	4%	 NORTH AMERICA	\$23.1	46%

Note: All of the totals for geographic regions are for the NIKE Brand only. The figure for Affiliates includes global totals for the following NIKE, Inc. brands: Cole Haan, Converse, Hurley International and Umbro.

Our Corporate Headquarters and the majority of our employee base is in North America.

*Global includes Nike Foundation and other work that spans geographies and brands.

NIKE, INC. TOTAL CASH & IN-KIND CONTRIBUTIONS (IN MILLIONS USD)

	FY07	FY08	FY09	FY10	FY11
	\$ / MIX %				
CASH	\$21.9 / 43%	\$36.6 / 62%	\$35.1 / 60%	\$34.7 / 70%	\$35.9 / 71%
PRODUCT/IN-KIND	\$29.4 / 57%	\$22.0 / 38%	\$23.8 / 40%	\$14.7 / 30%	\$14.7 / 29%
TOTALS	\$51.3 / 100%	\$58.6 / 100%	\$58.9 / 100%	\$49.4 / 100%	\$50.6 / 100%



Measuring the Impact of Our Giving

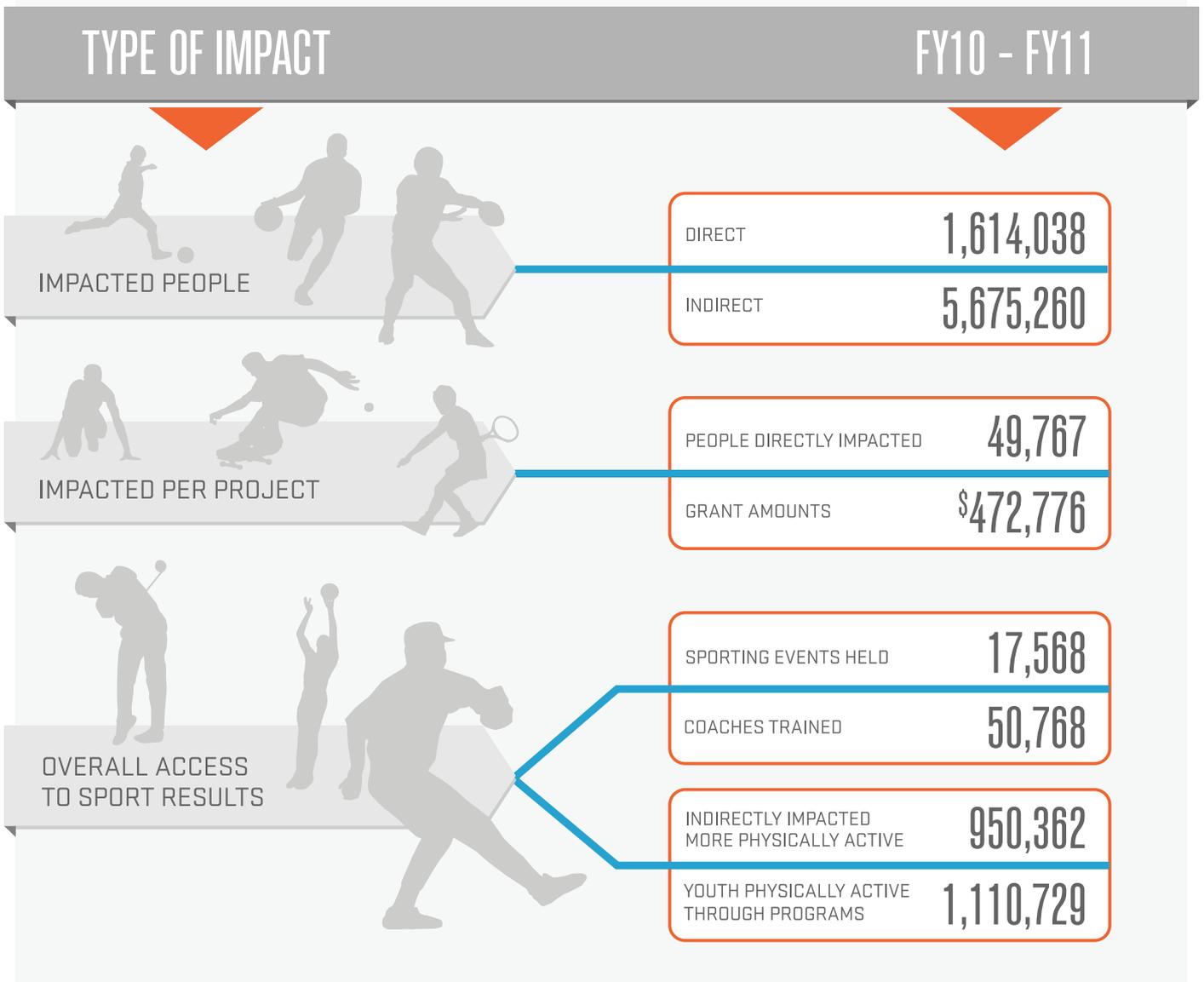
Creating social change is complex; so is measuring it. In FY05/06, Nike committed to measure the social impact of our community investments. Over the next four years, we sought the counsel of NGOs, academics and other experts in the field. We learned that there is no single standard for measuring social impact, and that qualitative data is equally important to inform strategy and a key contributor to a more comprehensive picture. We realized we would have to find a methodology to measure and evaluate the effectiveness of our community investments.

In FY08, we partnered with the Women’s Funding Network and piloted their “Making the Case” framework to better track our social impact over time. An expanded roll-out occurred in FY10 across many of our sport-related community investments. A key component of this

framework centers on the principle of “Shifts” as the indicators of social change – for example, if a Shift in behavior has occurred, social change has taken place.

Using this framework, we evaluated the results of more than 200 Nike projects conducted over five years, which reached more than 2 million people directly. We found that key social changes did occur, most notably Shifts in behavior and in engagement, especially when alliance-building was a component of the program. We will be using this data to refine our methodology and help direct funding more effectively in the years to come.

SOCIAL IMPACT MEASUREMENT OF KEY PROJECTS ASSESSED



PEOPLE & CULTURE

At NIKE, Inc., we believe that a talented, diverse and inclusive employee base helps drive the creativity that is central to our brands. Our employee base includes a broad range of functions and roles globally, from brand and category experts to footwear designers and retail workers, from specialists in logistics, customs, tax and trade, to distribution-center managers and many, many more.

Our Approach

We believe that our company's guiding philosophy has the power to influence, inspire and challenge employees on a daily basis. Our global strategy for human resources (HR) is to help unleash this potential across every area of our business by enabling leaders to make great decisions that, in turn, enable Nike's business growth. Our HR function supports growth goals as partners to our leaders to ensure we evolve the organization to support all of our brands, ensure operational and functional excellence, and plan the size and cost of our global workforce.

At the end of FY11, Nike employed almost 38,000 people on six continents, an increase of nearly 5,000 employees and 15 percent compared to FY10.

Our employees have been actively engaged in shaping our sustainability journey. In 2005, people from across the company participated in an effort to focus on what the future of sustainability at Nike, and their roles within it, should look like. We challenged employees through group exercises and brainstorming sessions to define how the future could look and how we would get there. We brought in external voices and did scenario planning. We led a process to create shared ownership of a set of scenarios that all pointed to one conclusion – that the way we did business at that time would not serve us in a future world. Employees' insights during that exercise helped us to shape our business approach to sustainability and employees' roles in delivering on that.

Our employees are well positioned to address change. In fact, the nature of Nike's business is change. Consumers are constantly evolving what they expect, and we know that employees across the company, at all levels, making quick, but wise, decisions is crucial to our success. Honing the ability of employees to ask the right questions, examining learning opportunities, and continually rethinking the needs of the business are ever-present priorities that are supported by leaders who coach and inspire.

Insights from Employees

To gauge our employees' engagement with and motivation about their work, Nike conducted three global employee surveys between FY04 and FY09. The key themes that emerged from the surveys during these six years remained consistent – so much so that we decided to stop conducting global surveys. For example, we heard consistently that:

- > Nike employees globally are highly engaged
- > Employees wanted more involvement and clarity around career growth and development
- > Employees wanted better managers

These insights helped us to build our strategy and focus our efforts. For example, we knew we needed to define concretely what good management looks like and share that with all managers. As a result, we have worked to transform expectations for managers, equip them with the right tools and develop their capabilities.

COMPANY OF STORYTELLERS

We're a company of storytellers, and we mine our history to give us the insights about how we will think about the future. We have a set of company-wide maxims – 11 principles – that guide us. Together, they embody the spirit of Nike:

1. It is our nature to innovate.
2. Nike is a company.
3. Nike is a brand.
4. Simplify and go.
5. The consumer decides.
6. Be a sponge.
7. Evolve immediately.
8. Do the right thing.
9. Master the fundamentals.
10. We are on the offense – always.
11. Remember the man. (The late Bill Bowerman, Nike co-founder)

SEE FULL MAXIMS ONLINE.



The global surveys also provided us with consistent perspectives on the role of diversity and inclusion. Employees identified four themes that now comprise the business case for diversity and inclusion at Nike:

- > Drives recruitment of the most dynamic people
- > Enriches the creativity and innovation that shapes the brand
- > Grows our competitive advantage
- > Heightens the stature of and belief in the brand among our culturally diverse consumer base

Coaching to Inspire Individuals and Teams

Nike's commitment to its workforce includes enabling managers and leaders to be levers for accelerating the company's growth. We invest in our leaders by providing learning and development opportunities that teach managers how to amplify their employees' talent, energy and capabilities. Being a "talent multiplier" is not about making people work harder, but about engaging them in a way that helps them produce better and more relevant work.

Our Manager Manifesto, launching in FY12, outlines four core principles of manager excellence: lead, coach, drive and inspire. These principles define how we reach our individual and collective potential. Managers are role models who inspire their teams, live the passion of our brands and promote creative environments for best thinking and work.

Nike equips leaders to plan, land and grow individual talent, align strategy and manage team performance, celebrate and reward performance and drive excellence across the organization. Through it all, managers listen to their teams. To support this process, we are developing a new upward feedback tool – "Manager 90" – that will give Nike managers the insights they need to identify their own opportunities to improve.

Acquiring, Managing and Developing Talent

Nike's recruiting efforts mine the world's best talent. In building our teams, we focus on Nike's future business needs and how we can plan for growth.

In the past, talent development was something that everyone, in a sense, owned. Over the past few years, we have transitioned from an individual-brand-based approach to a true NIKE, Inc. approach. So today, instead of "many workforces" across our brands, we are focused on maximizing "one workforce."

To do this, we concentrate on key areas that help to sustain our business performance. Our talent strategy focuses on critical assignment planning, manager accountability for coaching and mentoring, and a variety of innovative approaches to individual and team learning. We also work to ensure successful leadership transitions, develop the next generation of leaders and grow emerging and diverse talent.

Talent reviews play a key role in deepening the strength of our bench and help leaders make thoughtful choices about putting the right people to work in the right areas. In these reviews, leaders are accountable for improving the performance, potential, diversity and continuity of their

teams while ensuring the highest return on investments in our talent. This comprehensive career approach strengthens our globally diverse talent with the critical experiences and leadership skills they need to achieve Nike's business objectives and realize their own potential.

To ensure that we have the leadership required for Nike to continue to grow, we are investing significantly in the areas of sustainable talent practices and infrastructure.

Rewards and Benefits

We celebrate and reward successful employee results through excellent benefits and rewards. Nike offers competitive total compensation, including benefits that provide employees the opportunity to stay fit, ensure the wellness of their families and create a positive working environment. As a global company, every geographic location is different, but each provides for variable health coverage, fitness center memberships, time off, retirement savings and more. Total benefits packages depend on position, location and years with the company. The range of benefits available includes:

- > Health insurance
- > Life and accident insurance
- > Disability insurance
- > Retirement savings plan with a company contribution
- > Employee stock purchase plan (15 percent discount)
- > Paid vacations and holidays
- > Paid sabbaticals
- > Product discounts
- > Onsite fitness center/fitness discounts
- > Transportation allowance/discount
- > Tuition assistance

Within the United States, Nike reviews and shares with employees an annual report card comparing compensation, benefits and other components of total compensation to other leading global companies.

Culture

At Nike, we want an open and creative culture that harnesses diversity and inclusion to inspire ideas and ignite innovation. To achieve this, our diversity and inclusion strategy focuses on three foundational priorities. First, like all championship teams, we focus on the fundamentals. We offer a resource center with various tools and exercises to help teams discover how diversity and inclusion drive creativity and innovation. And we promote the power of diversity through team experiences like one we introduced in FY10 called "Diversity & Innovation: The Medici Effect," which help teams put the principles of innovation into play. To date, we've facilitated more than 200 sessions in more than 30 countries across the globe. We've worked with more than 5,000 employees who now have new and creative ways to leverage their teams' diversity as they approach their work.

Second, we seek to empower inclusive cultures. In FY09, for example, we launched a new experience called "Culture as Offense," inviting a panel of young employees ("young" in both age and tenure) to share their perspectives and experiences with senior leadership. This event spurred an intergenerational dialogue and ripple effect spreading to more than 20 locations (and counting) globally, spawning discovery and action.



And third, we inspire ideas to ignite innovation. By designing new and creative models of engagement, we equip leaders and teams with tools to create a culture of openness and innovation, where new perspectives and ideas are invited, heard and considered. More ideas lead to better ideas, and better ideas lead to innovation. Our focus on culture and innovation as an approach to diversity has been recognized by external diversity professionals such as Georgetown University’s Consortium of Chief Diversity Officers, of which Nike is a member, and other global innovation conferences.

We recognize there is no single approach nor is there a finish line to this type of work. There are many factors that need to be in play to create high-performing, diverse and inclusive teams. Team composition, manager excellence and team culture are all critical to success. While we take an innovative approach to this work, we balance it with the need to offer the fundamentals through education and awareness programs. These basic principles of diversity and inclusion not only make Nike a better company, but have the ability to contribute to making a better world. To this end, we are seeking external partners to help us create a shared index that will help teams and leaders gauge their ability to create open and creative cultures where everybody plays.

Nike supports an internal “Women of Nike” community, six employee networks and numerous councils promoting cultural understanding, awareness and employee growth.

Coaching us in this work is our Vice President of Diversity and Inclusion (D&I) who reports directly to our CEO. The D&I team partners with

other business units to reinforce the importance and value of an inclusive culture that taps the diverse perspectives and strengths of our workforce to gain competitive advantage, as well as develop internal diversity assessments and measurements.

Health and Safety

We promote and manage a healthy and safe working environment for employees. We offer everything from healthy-living pledges included in employee-benefit plans and on-site gyms and classes at corporate facilities, to risk-based safety assessments and tracking globally. We provide extensive safety training to employees based on the type of job they do and the level of risk associated with that job.

We track and assess recordable and lost-time incident rates against industry and benchmarked world-class averages. Measured facilities include high-risk facilities, consisting of distribution centers, in-house manufacturing and high employee population locations. The measurements cover more than 15,000 Nike workers.

We use internal and external audits to assess facility performance, on a one- to three-year cycle based on performance and risk profile – targeting high-hazard and large-population facilities. We audit for compliance with Nike’s environmental, safety and health standards.

For high-risk locations (including distribution centers and in-house manufacturing), we track and assess recordable rates against industry averages and world-class status.

NIKE, INC. RECORDABLE INJURY AND LOST-TIME RATES BY INDUSTRY CLASS

	FY09		FY10		FY11	
	NIKE	INDUSTRY AVG (OSHA)	NIKE	INDUSTRY AVG (OSHA)	NIKE	INDUSTRY AVG (OSHA)
DISTRIBUTION						
RECORDABLE RATE	5.22	8.20	3.93	7.60	4.52	6.80
LOST-TIME RATE	2.24	1.80	1.72	2.10	2.53	2.30
IN-HOUSE MANUFACTURING						
RECORDABLE RATE	2.28	6.80	3.11	6.00	2.85	5.50
LOST-TIME RATE	0.87	1.50	1.22	1.60	0.76	1.30
OFFICES						
RECORDABLE RATE	0.70	1.50	0.81	1.20	0.66	1.30
LOST-TIME RATE	0.27	0.50	1.18	0.30	0.13	0.40

Note: All reporting based upon 100 employees working for a full year (or 200,000 working hours). “Recordable Rate” is based on the U.S. Occupational Safety and Health Administration (OSHA) recordkeeping standards and Bureau of Labor Statistics (BLS).

Sharing Expectations

We produce and share employee handbooks that cover company missions and maxims, as well as specific guidelines on conduct, including ethical behavior, conflicts of interest, corruption, corporate responsibility, anti-harassment and anti-corruption, and a violence-free workplace. This handbook is also available online.

Employee Snapshot

In our last full report (FY07-09), we shared global employee data across Nike regions for the first time. The following is an updated snapshot of data by geography, gender and ethnicity.

Gender

Our global workforce is half male, half female. In FY11, Nike employed slightly more women than men in Central and Eastern Europe and Greater China, and slightly more men than women in the United States. The gender breakdown of management is about 60 percent male and 40 percent female.

NIKE, INC. EMPLOYEE DISTRIBUTION

GEOGRAPHY		FY10	FY11
	AFFILIATES	4,070	4,579
	CENTRAL & EASTERN EUROPE	2,838	2,928
	CORPORATE FUNCTIONS	2,305	2,475
	EMERGING MARKETS	1,915	2,291
	GLOBAL NIKE BRAND	4,210	4,565
	NIKE GOLF	652	659
	GREATER CHINA	1,380	1,483
	JAPAN*	394	1,220
	NORTH AMERICA	11,265	13,166
	WESTERN EUROPE	3,681	4,149
TOTALS		32,710	37,515

*In FY11, Nike retail field employees in Japan not previously counted in global HR systems.

NIKE, INC. GLOBAL MANAGEMENT TOTALS BY GENDER*

GENDER	FY09	FY10	FY11
WOMEN	2,043 / 40.4%	2,009 / 40.1%	2,274 / 40.4%
MEN	3,016 / 59.6%	3,001 / 59.9%	3,359 / 59.6%
TOTALS	5,059 / 100%	5,010 / 100%	5,633 / 100%

* Changes in systems allowed more sophisticated global management tracking beginning in FY09. Therefore, data from FY07-08 is not comparable.

NIKE, INC. BOARD OF DIRECTORS TOTALS BY GENDER

GENDER	FY07	FY08	FY09	FY10	FY11
FEMALE	2	2	1	2	3
MALE	9	10	10	11	11

Note: As of May 31, 2011, with brief overlap before retirement.



Ethnicity

Nike collects detailed ethnicity information about our U.S.-based workforce. Just over half are Caucasian. Our proportion of minorities is just under 50 percent, remaining relatively steady since FY09. In FY08, we changed our tracking system, allowing employees to more accurately identify their ethnicity

by choosing from more than one category as applicable. Among management, ethnically diverse employees comprise around 22 percent of the total workforce in FY11, up from 19 percent in FY06.

NIKE, INC. U.S. EMPLOYEE TOTALS BY ETHNICITY

	FY07	FY08	FY09	FY10	FY11
WHITE	7,732 / 54%	8,391 / 52%	8,150 / 52%	8,950 / 52%	9,903 / 51%
BLACK/ AFRICAN AMERICAN	3,100 / 22%	3,621 / 23%	3,445 / 22%	3,712 / 22%	4,348 / 22%
HISPANIC/LATINO	1,910 / 13%	2,270 / 14%	2,270 / 15%	2,694 / 16%	3,271 / 17%
ASIAN	1,435 / 10%	1,468 / 9%	1,410 / 9%	1,427 / 8%	1,616 / 8%
AMERICAN INDIAN/ ALASKA NATIVE	148 / 1%	142 / 1%	143 / 1%	144 / 1%	155 / 1%
NATIVE HAWAIIAN/ OTHER PACIFIC ISLANDER	40 / 0%	104 / 1%	121 / 1%	131 / 1%	203 / 1%
TOTALS	14,365 / 100%	15,996 / 100%	15,539 / 100%	17,058 / 100%	19,498 / 100%

Note: Figures rounded to nearest percentage. Based on tracking in US only, based on regular employees, based on data at May 31 each year.

NIKE, INC. U.S. MANAGEMENT TOTALS BY ETHNICITY

	FY07	FY08	FY09	FY10	FY11
WHITE	1,821 / 81%	1,946 / 79%	1,936 / 79%	1,831 / 78%	2,013 / 78%
BLACK/ AFRICAN AMERICAN	161 / 7%	188 / 8%	190 / 8%	203 / 9%	213 / 8%
HISPANIC/LATINO	123 / 5%	144 / 6%	141 / 6%	140 / 6%	157 / 6%
ASIAN	126 / 6%	157 / 6%	152 / 6%	137 / 6%	161 / 6%
AMERICAN INDIAN/ ALASKA NATIVE	21 / 1%	25 / 1%	23 / 1%	17 / 1%	19 / 1%
NATIVE HAWAIIAN/ OTHER PACIFIC ISLANDER	2 / 0%	2 / 0%	4 / 0%	5 / 0%	7 / 0%
TOTALS	2,254 / 100%	2,462 / 100%	2,446 / 100%	2,333 / 100%	2,570 / 100%

Note: Figures rounded to nearest percentage. Based on tracking in US only, based on regular employees, based on data at May 31 each year. Management defined by one or more direct reports.

NIKE, INC. BOARD OF DIRECTORS BY ETHNICITY

ETHNICITY	FY07	FY08	FY09	FY10	FY11
WHITE	10	10	9	10	11
BLACK/ AFRICAN AMERICAN	1	2	2	2	2
HISPANIC/LATINO	0	0	0	0	0
ASIAN	0	0	0	1	1

Note: As of May 31, 2011, with brief overlap before retirement.

PUBLIC POLICY

We engage in public policy advocacy on issues affecting our business, our employees and our consumers. We have harnessed the power of our brand to mobilize policy makers and promote initiatives that align with our business strategy, corporate values and objectives across different policy areas.

This section describes our positions on several key public policy issues, as well as our approach to political contributions and trade association memberships.

Policy Advocacy

Free, Fair and Sustainable Trade

We advocate for free trade by seeking improvements in existing global, multilateral, regional and bilateral agreements, as well as by seeking new, innovative agreements and challenging protectionism. We believe free, fair and sustainable trade encourages growth, investment and innovation and serves the interests of workers and consumers globally. Our objectives include seeking the elimination or reduction of import duties, protecting intellectual property rights and establishing mechanisms that promote sustainable trade and growth. We also seek policies and government action that promote the efficient and secure transport of products. We believe we can help create opportunities for workers and communities by advocating for sensible labor and environmental provisions within trade agreements. For example, in Vietnam, we meet regularly with the Vietnam Ministry of Labor as they review and update their labor laws. This is a process undertaken by the government of Vietnam every five years.

Tax

Nike supports efforts to create an efficient tax system by identifying and advocating for tax policies that allow us to be competitive in the global marketplace.

Intellectual Property

We advocate for intellectual property policies that support innovation, development and consumer trust. For example, we have actively contributed to the Anti-Counterfeiting Trade Agreement, a new international treaty currently undergoing ratification in several countries.

Employment/Nondiscrimination

We have been a strong advocate of workplace nondiscrimination legislation for lesbian, gay, bisexual and transgendered employees in the territories and geographies where we have a significant employee base. In November 2011, we completed an extensive policy review of civil marriage in the U.S. and signed a business amicus brief that advocates for setting aside federal legislation prohibiting same-sex civil marriage.

Access to Sport

Our policy agenda also includes the promotion of access to sport and physical activity in the various geographies in which we operate. We build coalitions and encourage governments to develop policies that promote physical activity and education in schools and places for youth to play.

Sustainability

Through partnering with governments and other stakeholders, we promote public policies that reward innovation, as well as sustainable business models that meet the expectations of our consumers. The key policy areas in which we focus are climate change; the sustainability of materials, products and supply chains; resource efficiency; and post-consumer waste.

Nike has been a committed member of the U.K.'s Sustainable Clothing Action Plan (SCAP) and is actively engaged in policy initiatives focusing on resource efficiency, sustainable transport and carbon footprinting. In the U.S., we helped to create Business for Innovative Climate and Energy Policy (BICEP), a business coalition that advocates for climate-change legislation.

Political Contributions and Trade Association Memberships

In 2011, we undertook an extensive review of our policies and practices regarding political contributions and trade-association memberships, as well as our policy positions. After this review, the Nike Board of Directors adopted a company policy on these issues. The new policy is available online at www.nikeinc.com.

In the U.S., we make state- and local-level political contributions primarily to ballot-measure campaigns and candidates in Oregon, where our world headquarters is located. Oregon contributions are listed at www.sos.state.or.us. We also contribute in a limited way to state and local candidates and ballot-measure campaigns in other states. Under current U.S. election law, employees of corporations can jointly donate to candidates through the creation of political action committees (PACs). Contributions from the NIKE, Inc. PAC are bipartisan and relatively modest, and are listed at www.fec.gov.

In our global and territory policy hubs, we share – on applicable government registries and platforms – information about our policy advocacy, relevant trade-association memberships, and individuals engaged in lobbying or advocacy on behalf of NIKE, Inc.



APPENDIX

REPORTING

In NIKE, Inc.'s previous corporate responsibility (CR) report, which covered FY07 through FY09, we shared that we were shifting away from periodically producing a single, comprehensive report. Since then, we have carried out this promise by introducing additional, more-frequent updates and stories via the Nike Better World website and an updated NIKE, Inc. corporate website, both of which include news and stories about our sustainability and performance but do not replace this point-in-time look back. We have also shifted our reporting to align with our approach to business and have created a platform for ongoing reporting. While still reporting on corporate responsibility topics, we also talk more about sustainability and innovation, which are key drivers of growth within the context of responsibility.

Our reporting for FY10/11 continues this trend. This print-on-demand report summarizes our strategy, approach and performance and is complemented by more comprehensive reporting on the www.nikeresponsibility.com website, which includes a rich user experience and deep online content where information, tools, stories and descriptions can be accessed.

The Value of Reporting

At Nike, we see reporting as an important means of sharing information about our corporate responsibility strategy, targets, approach and performance. The information we prepare and report accounts for our business impacts and the desires of stakeholders and seeks to provide an open, clear picture of our aims and progress in incorporating responsible practices into our operations. We believe that reporting also provides an indicator – to ourselves and others – of our ability to succeed and thrive. We use sustainability as way to systemically address risk management, efficiency, innovation and future-looking efforts – all of which are critical in positioning Nike for long-term growth.

We believe that transparency is a central component of a responsible business strategy and that reporting is critical in delivering transparency. Reporting is the main tool we use to provide critical information to our stakeholders about how we manage CR issues and impacts. Our previous reports include a broader discussion of why we report on CR performance and our perspective on materiality – and are available for context.

Reporting Guidance

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 developed this report with reference to the Global Reporting Initiative's third generation of indicators (G3). The Apparel and Footwear Sector Supplement Indicators, in draft/pilot form, have also been considered. Nike is a member of the Ceres Company Network and endorses the principles of the United Nations Global Compact (UNGC). This report describes actions we have taken to implement these principles, and serves as our Communication on Progress as required for all companies that endorse the UNGC.

Our website, at www.nikeresponsibility.com, includes an index that points readers toward relevant GRI indicators and UNGC principles. The site also includes search functions that allow users to find information and access our reporting. The GRI guidelines include different application levels, from A+ (the most rigorous) to C. We have assessed our performance against the GRI guidelines at the B level.

Intended Audiences

Our primary audiences for this report are those who seek a deep understanding of both the issues Nike faces and our strategic response to those issues as we strive for long-term sustainable growth. Historically, these audiences have included leaders of nongovernment and advocacy organizations, media, other businesses, academics, and analysts and investors representing the socially responsible investment community. Other important stakeholders who access and read our reporting include employees, students, suppliers, contract manufacturers, customers, consumers and individuals with an in-depth knowledge of corporate responsibility.

Writing for multiple audiences is difficult, as we must take into consideration readers' wide range of understanding of and exposure to the issues we face. In addition, we recognize that the world of reporting has fundamentally changed. Information can be accessed by anyone, anywhere. Given the potentially broad reach of our reporting, we have worked to provide the information required by key stakeholder groups while making the text accessible, relevant and easy to understand.

Scope

Our previous CR reporting focused primarily on activities and data related to the NIKE Brand. For FY10/11 we have taken a broader look across NIKE, Inc. – i.e., incorporating the company's Affiliate brands. In our reporting, information on manufacturing and labor applies across NIKE, Inc., unless otherwise noted. Other information brings in approaches and strategies that cover Affiliate brands, though at times those strategies are being implemented at a different pace. Throughout our reporting, we note where information refers to NIKE, Inc. as a whole, to the NIKE Brand only or to Affiliate brands in total or individually.

This report covers FY10 and FY11. Unless otherwise noted, all references to dates are made on a fiscal-year basis. Some important events that took place after the close of FY11 are also covered here; their inclusion reflects the impact or influence these events may have on Nike's future direction.

CORPORATE AND SUSTAINABILITY GOVERNANCE

The Corporate Responsibility Committee of the Board of Directors was established in 2001 to review significant policies and activities and to make recommendations regarding labor and environmental practices, community affairs, charitable and foundation activities, diversity and equal opportunity and environmental and sustainability initiatives.

NIKE, Inc.'s Board of Directors is responsible for corporate governance in compliance with reporting laws and for representing the interests of our shareholders. As of January 2012, the Board was composed of 12 members, 10 of whom are considered independent, non-executive directors under the listing standards of the New York Stock Exchange. Details on Board membership, oversight and activity are available online and in our financial reporting.

Either the company chairman or the chief executive officer attends the Corporate Responsibility Committee meetings. The Committee met five times each year in FY10 and FY11 to review strategies and plans for corporate responsibility.

As of May 31, 2011, members of the Corporate Responsibility Committee of the Board were:

- > Jill Ker Conway, committee chair
- > Douglas G. Houser
- > Johnathan A. Rodgers
- > John R. Thompson, Jr.
- > Phyllis M. Wise
- > John C. Lechleiter

Board member Dr. Phyllis Wise became chair of the Corporate Responsibility Steering Committee in September 2011, at the time of Jill Ker Conway's retirement from the Board.

In FY09, the vice president of Nike's Sustainable Business & Innovation (SB&I) group became part of the NIKE, Inc. Strategic Leadership Team, chaired by President and CEO Mark Parker. This team is responsible for directing NIKE, Inc.'s mid- and long-term strategy, and also manages the sustainability reporting process. In FY12, a new Committee for Sustainable Innovation was formed to provide additional executive-level, cross-business leadership on sustainability and innovation. See chart on page 16.

Details regarding the linkages between performance and the compensation of Board members, senior managers and executives are described in our annual Proxy Statement, accessible at www.nikeinc.com. Details regarding employee and shareholder communication with the Board can be found in our annual Proxy Statement filed with the U.S. Securities and Exchange Commission (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 www.nikeinc.com and at the SEC website.

Ethics and Conduct

NIKE, Inc. has a code of ethics for all employees called Inside the Lines. This code 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 also operates a global toll-free 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 to operate in a legal and ethical manner. While Inside the Lines addresses the behavior of Nike employees, our Code of Conduct addresses contractors that manufacture NIKE Brand products for NIKE, Inc. It directs them to respect the rights of their employees and to provide them with a safe and healthy work environment.

STAKEHOLDER ENGAGEMENT AND REPORTING REVIEWS

Our stakeholders help us to prioritize key issues and develop our corporate responsibility policies. We engage with stakeholders because we learned early on in our corporate responsibility journey the importance of engaging and listening. We see engagement with multiple stakeholders as a key enabler of both risk mitigation and innovation.

Nike engages with a broad range of stakeholders on an ongoing basis, including individuals in civil society organizations, industry and government, as well as consumers and shareholders. We do this informally, through participation and/or membership in networks and organizations and as a structured part of our outreach strategies on issues and challenges. We also do this through formal partnership work covered by area throughout this report.

We believe that developing and refining the skill of listening 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 products, and it is how we approach our corporate responsibility efforts.

The various sections of our reporting discuss specific stakeholder-engagement activities; additional details can be found on our website.

Feedback on Reporting

Nike first held a formal multi-stakeholder forum for feedback on reporting in February 2004. We have continued that type of engagement through a number of meetings – some informal and casual, some formal and facilitated. For subsequent reports, we established panels of experts who provided feedback on early drafts and discussed issues such as materiality, completeness, relevance, tone, performance and the future of our reporting, among other topics.

Stakeholder Review Panel

Nike engaged BSR to facilitate feedback for Nike's FY10/11 Sustainable Business Report. The purpose of this process was to provide Nike unfiltered, expert input on issues, targets and information to improve the quality and enhance the credibility of the report. BSR played the role of a neutral facilitator in this process. BSR is a mission-driven, membership-based organization that advises its 300 member companies on sustainability issues and practices. In this capacity, BSR jointly selected stakeholders with Nike, coordinated the overall process, led stakeholder discussions and virtual feedback sessions, and consolidated feedback to provide back to Nike. Nike's SB&I 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 created a list of relevant stakeholders who possessed a range of the following attributes:

- > Understanding of the apparel and footwear business
- > New and unique perspectives

- > Expertise and reputation in sustainability strategy and/or issue areas ranging from water to energy to labor to toxics
- > Geographic/nationality, gender and issue diversity

Ultimately, 18 stakeholders were identified and invited to participate in the process and 16 were able to participate in stakeholder feedback conversations and virtual meetings:

- > **Charles Bezerra, Ph.D.**, Executive Director of Gad'Innovation/Brazil
- > **Garrett Brown, M.P.H., C.I.H.**, Coordinator, Maquiladora Health & Safety Support Network
- > **Anne Gillespie**, Director of Industry Integrity, Textile Exchange
- > **Peter Graf, Ph.D.**, Chief Sustainability Officer and Executive Vice President of Sustainability Solutions, SAP
- > **Ma Jun**, Director, Institute of Public and Environmental Affairs
- > **Mark Kenber**, CEO, The Climate Group
- > **Corinna Kester**, MBA Student, University of California, Berkeley
- > **Richard Locke**, Head, Department of Political Science, Class of 1922 Professor of Political Science and Management, Massachusetts Institute of Technology
- > **Helio Mattar**, President Akatu Institute for Conscious Consumption, Sao Paulo, Brazil
- > **Andrea Moffat**, Vice President, Corporate Programs, Ceres
- > **Jason Morrison***, Program Director, Pacific Institute; Technical Director, UN CEO Water Mandate; Co-Founder, Alliance for Water Stewardship
- > **Max Ogden**, Fellow, Code for America
- > **George Serafeim**, Assistant Professor of Business Administration, Harvard Business School
- > **Joel Tickner, Sc.D.**, Associate Professor, Department of Community Health and Sustainability, University of Massachusetts, Lowell
- > **Ned Wills**, Global Director, Laureus Sport for Good Foundation
- > **Diana Zarowin**, Sophomore, New York University's Leonard N. Stern School of Business, Candidate for Bachelor of Science

The participation of listed stakeholders and organizations is not an indication of support, recommendation, or endorsement of any information, persons, or organizations in the report.

*Participated as an individual, not in an official organizational capacity

Engagement Process

BSR sought individuals to participate in a process to provide the most valuable and informative input into Nike's sustainability reporting process. The intent was to bring together a virtual conversation with subject-matter experts who can respond to expectations around reporting, particularly on reporting formats and the future of reporting, impact progress, materials and manufacturing, etc.

In order to assure diversity of voices while reducing GHG emissions, the stakeholder-engagement process was conducted virtually. After Nike disseminated a draft of the FY10/11 Sustainable Business Report through BSR and the selected experts had a chance to review its contents, BSR conducted an in-depth, one-hour telephone interview with each stakeholder separately. Nike team members listened to these sessions and provided clarifying input. These individual conversations ensured that each stakeholder was afforded an equal amount of time to provide their expertise and insight both to share their thoughts on the overall report strengths and opportunities for improvement as well as to hone in on specific content areas of interest.

BSR then consolidated that feedback, synthesized it into themes and issue areas, and presented it to the stakeholders during two virtual participant feedback sessions that BSR organized, managed and facilitated. These virtual sessions allowed for global participation and for the stakeholder experts to build on prior feedback. This feedback was also consolidated and provided back to the Nike team.

The Nike team addressed it in one of the following three ways:

- > Revamped sections of this report summary and/or the online report
- > Made language and tone changes to better clarify particular report sections, and/or
- > Flagged some stakeholder input for future considerations in Nike's SB&I strategy and/or future reports

Subsequently, Nike also provided their targets to the stakeholders and BSR conducted three virtual feedback sessions to seek ways to clarify, amplify and expand on the targets. This feedback was provided back to Nike in a presentation that covered the targets issue by issue.

Impact on Report Outcome

There was high value to Nike in engaging stakeholders in the reporting process – it provided Nike's leadership with direct insights and perspective from external experts. The Nike team made many substantive changes to the report based on this feedback in the areas of reporting structure, content and design; data, metrics and dashboards; and environmental and social issues. Their feedback and Nike's response is available online.

Nike sincerely appreciated the deep expertise and extensive input of the stakeholders to materially improve this report and to identify opportunities to improve future reporting procedures and results. The net result of constructively engaging actively critical stakeholders has resulted in, in Nike's opinion, a stronger and more credible report.

Assurance & Validity of Data

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

Various data points are confirmed internally through staff and systems that have been established to collect and review that data. For instance, we have moved to primary-source information on energy use across the U.S. from verified metered data that come directly from utility billing systems. Other data and information are confirmed externally through third parties such as the Fair Labor Association.

Following our FY05-06 and FY07-09 reports, Nike's internal audit team was asked to assess our sustainability reporting processes. Their audit report noted a number of opportunities for improvement and investment, including better documentation of information, internal checks at multiple levels, review of forward-looking public commitments, documentation of systems and controls and improved interactions with key internal audiences including Corporate Communications, Investor Relations and Legal. The SB&I team felt, after focusing our reporting on key impacts and business targets, that Nike had significant work to do internally on assurance. Toward this end, we worked closely with our internal audit department in 2011 to design and train subject-matter experts and data consolidators on the expectations for verifiable work, and reviewed some key data collection, consolidation and retention processes.

Going forward, we continue to address information-systems development and consistency. Where direct-source information is only partially available or is extrapolated, we note that in our reporting, and throughout we understand that there are significant improvements to be made, especially where data comes from third parties such as contract factories or material vendors that supply to such factories. Some areas are subject to rotating audits, where we go deeper into the information and systems that generate information and help us to calculate and report on our impacts. It is not possible to verify 100 percent of data contained in our reporting, although we track the sources and the methods for measuring and consolidating what we do report and aim for continuous improvement. At times, that aim is met by our need to adjust information based on new systems or better data which can replace previous information or metrics – especially those based on estimates and extrapolation.

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

We understand the value of external assurance. We have continued to review and discuss the issue with company management, our internal audit team and other external stakeholders. We still believe we have internal steps to complete before undertaking this kind of robust review. We have begun discussions around the timing, pace and value of assurance, while continuing to address issues raised through our internal audit processes.

Our aim is to measure our performance and report accurate data. At times, that means the systems and methodology for gathering information need to change even as we collect data and learn more about whether we are asking the right questions and whether we are getting the information that will help us to answer those questions. We also aim to be transparent in the systems and methodologies we

apply for assessing data – past, current and future – and how those methods can change over time for reasons including evolutions in methods and standards, and availability of data. At times these changes may render previously reported data incomparable. We aim for transparency about how these changes affect comparability over time.



REPORTING RECOGNITION

Our online reporting describes some of the awards, recognitions and listings we have achieved in FY10 and FY11, including the Ceres-ACCA 2010 North American Best Sustainability Report for our FY07-09 reporting. While we participate in some relevant surveys and listings, we recognize that the type and nature of these surveys change each year. We aim to provide accessible and transparent information consistent with our strategy and to use our reporting to drive transparency, rather than to drive toward performing well on surveys or rankings.

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