

**NIKE, INC. FY12/13**  
**SUSTAINABLE**  
**BUSINESS**  
**PERFORMANCE**  
**SUMMARY**



**CONVERSE**

**Hurley**



**NIKE GOLF** 

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## **WELCOME TO NIKE, INC.'s FY12/13 SUSTAINABLE BUSINESS PERFORMANCE SUMMARY**

Transparency and accountability are fundamental to our business and our approach to sustainability. This report offers insight into our sustainability strategy, performance and progress against the targets and commitments we shared in our FY10/11 report.

Our organization has undergone several changes since our last report, including the divestiture of Cole Haan and Umbro in FY13 and the inclusion of Hurley and NIKE Golf within the NIKE Brand in FY14. Generally, the operational metrics included in this report are based on the structure of our portfolio during the FY12 and FY13 reporting period. They have not been recalculated or changed to reflect the subsequent changes in our business portfolio.

References to NIKE, Inc. generally include all businesses in our portfolio during the respective time period. However, references to the NIKE Brand generally exclude Converse, Hurley, NIKE Golf and Jordan. Further discussion of these changes and the boundaries of our reporting is included in our “Business Overview” and “About this Report” sections.

To provide concise, comprehensive information, we have included dashboard-style summaries of progress against our targets and commitments, along with more detailed commentary and analysis.

The report also includes a message from our President & CEO, and an in-depth discussion of the importance of sustainability to our growth strategy and

how we are integrating sustainability into the core of our business.

This print-on-demand report is complemented by more comprehensive reporting at [nikeresponsibility.com](http://nikeresponsibility.com), including an interactive user experience through which readers can access additional background data, explore our value chain and impacts, and find more extensive information and tools.

Further details on our approach to reporting can be found in the “About this Report” section on page 85.

*We hope you find this report useful.  
Please let us know how we're doing at  
[nikeresponsibility@nike.com](mailto:nikeresponsibility@nike.com).*

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 US Securities and Exchange Commission, 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 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.

# LETTER FROM PRESIDENT & CEO

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NIKE is dedicated to serving athletes and helping them reach their full potential. As a growth company we are dedicated to creating value for our shareholders. The world in which athletes and companies compete is changing fast. We believe business has a critical role to play in meeting the challenges of a changing world – addressing climate change, preserving the earth’s constrained resources, enhancing global economic opportunity – not by reducing growth but by redefining it. To do this we believe businesses must embrace sustainability as an innovation opportunity and governments should act to create the right policies and incentives to accelerate change at scale.

NIKE, Inc.’s success as a growth company is tied directly to our culture of innovation. Today we believe that sustainable innovation that benefits the athlete, the company and the planet will play a key role in the future of our business.

This principle shapes how NIKE does business. The results we see continue to motivate us. As you will read in this report, we are pushing the boundaries to decouple our growth from constrained resources in order to leave the lightest possible footprint, while driving uncompromising performance for athletes everywhere.

We are constantly integrating more sustainable ways of working across our business – from design to production, to logistics and retail. While this work propels us forward we also recognize that NIKE is positioned to leverage the power of our brand to drive positive change across our entire value chain, within our industry and beyond.

## SUSTAINABLE INNOVATION INSIGHTS

Spanning almost 20 years, NIKE’s sustainability journey has been dynamic, marked by an ever-evolving set of challenges and opportunities. As we continue to raise the bar on our approach, we see new opportunities. Three that stand out as I reflect on our FY12/13 progress are:

**1. Sustainability and business growth are complementary.** Our strategy to create value while pursuing innovation that reduces our impact on the environment is delivering measurable results. For example, the natural assumption is that as revenue goes up so does a company’s greenhouse gas emissions as more sales translates to increased product manufacturing and freight activity. However through a variety of initiatives we have been able to change the results of that equation, reducing absolute greenhouse gas emissions by close to 3 percent while simultaneously increasing revenues by 26 percent over the time period covered by this report. This motivates us to push even harder for sustainable innovation across the business.

Breakthrough technologies like NIKE Flyknit, which dramatically reduces waste compared with traditional footwear manufacturing, and ColorDry, which eliminates water and process chemicals from dyeing while also driving down energy consumption, increasing productivity and improving quality, provide just a snapshot of the game-changing innovation that will help fuel NIKE’s sustainable growth.

**2. Materials Matter.** Six years ago we identified that nearly 60 percent of the environmental impact of a pair of NIKE shoes was in materials used to make it. That insight, along with our commitment to design with purpose, has helped sharpen our focus on the need for disruptive innovation in the world of materials.

Arguably, the last major breakthrough in materials that reshaped the industry at scale was the introduction of polyester about 50 years ago. We believe there are significant innovation opportunities ahead and are working to unlock the barriers to developing and scaling a new palette of more sustainable materials, but we cannot do so alone.

To effectively drive systemic change we know we must collaborate and seek out unconventional partnerships. Through our LAUNCH partnership with NASA, US Agency for International Development, and the US Department of State, we are working to uncover innovations in sustainable materials that can have a positive impact on people and the planet.

**3. Climate change requires business change.** At NIKE, everything we do begins with the athlete. We know that climate-related issues, like pollution and extreme weather conditions, impact an athlete’s ability to perform and the changing environment presents a unique set of innovation challenges. Similarly, as a business with diverse global operations, NIKE’s supply chain is exposed to a range of changing risk factors. This means that our products, as well as how and where they are made, are fundamental considerations in the long-term success of our business.

NIKE’s approach to meta-trend analysis, future-casting and innovating for long-term growth, will help drive performance in the short term, while also positioning us to continue to turn risks into innovation opportunities over the long term.

### **FROM REPUTATION MANAGEMENT TO INNOVATION OPPORTUNITY**

As NIKE has grown and changed, we have fundamentally shifted our sustainability strategy. Early on, we learned that rather than just managing our reputation by reacting to criticism about our supply chain, we could create real opportunities for change by creating an environment of industry collaboration, partnership and transparency.

This approach has continued to evolve to one where we are harnessing the power of innovation to manage risks, create opportunities and meet our sustainability and social goals, adding value to our business and brand.

In 2013, in recognition of the importance of sustainability to NIKE's Innovation strategy, we transitioned our Sustainable Business & Innovation organization into NIKE's core Innovation function, signaling the enterprise-wide role sustainable innovation will play in NIKE's future.

During the period this report covers, we also worked with two leading academic institutions – Harvard Business School and Stanford Graduate School of Business – on case studies that examine NIKE's journey since the 1990s. As these teaching instruments are more widely adopted, we hope NIKE's experience as one of the first brands to respond to the challenges of responsibility associated with globalization, will positively inform the decisions of tomorrow's business leaders.

### **ENHANCING PERFORMANCE THROUGH TRANSPARENCY**

In our previous report, we established new sustainability targets across all impact areas in our value chain; most of which are 2015 targets. In the interim, this report provides a detailed account of the progress we have made and where we have faced challenges.

Our performance against targets is detailed extensively throughout this report. We believe that disclosing our targets and reporting against them provides a strong mechanism to continue to drive internal integration and build external understanding among all of our stakeholders.

We established a new norm by disclosing our contract factory base back in 2005, and we still believe transparency is essential for industry change. We also continue to work with global influencers, including the United Nations Global Compact, in support of global principles in the areas of human rights, labor, the environment and anti-corruption.

### **IT'S NOT A QUESTION OF LESS; IT'S A QUESTION OF BETTER**

NIKE is dedicated to serving athletes and helping them reach their full potential. As a growth company we are dedicated to creating value for our shareholders. The world in which athletes and companies compete is changing fast. We believe business has a critical role to play in meeting the challenges of a changing world – addressing climate change, preserving the earth's constrained resources, enhancing global economic opportunity – not by reducing growth but by redefining it. To do this we believe businesses must embrace sustainability as an innovation opportunity and governments should act to create the right policies and incentives to accelerate change at scale.

By sharing our experience, documenting our progress, noting where we have fallen short and identifying the challenges that lie ahead, we are hopeful NIKE can help positively shape the future.

The challenge to create a sustainable economy is global and requires a global response. We believe it begins with a simple idea: invent better solutions.



President & Chief Executive Officer  
NIKE, Inc.

# STRATEGY

Innovation has never been more important than it is today. It's not just about improving the products we make. It's about how we invent better ones, work with other companies and organizations to develop markets that value and encourage the creation of new sustainable processes and products, and improve lives by leveraging sustainability as the world's greatest innovation opportunity.

## IN THIS SECTION:

### BUSINESS OVERVIEW

### OUR SUSTAINABILITY STRATEGY

### TARGETS & PERFORMANCE

NIKE, Inc. continues to deliver strong growth. What fuels our success and challenges us? Innovation. It's our growth engine. It's what our athletes, consumers and investors expect of us – and always have. It's what we expect of ourselves. It enables new heights in performance and raises the bar for our industry and beyond.

Our world faces unprecedented change: constrained resources, population growth, heightened connectivity, increased demand. In a world of finite natural resources, our growth is enabled by infinite human resources: innovation and inspiration.

We understand that innovation through the lens of sustainability is fundamental to achieving our vision of growth that is not dependent upon constrained resources.

Indeed, creating and building business models that not only recognize and accommodate but thrive on the constraints of the natural world is the only way we can achieve growth in the present that won't compromise our ability to grow and succeed for decades to come.

Of course, this transition is challenging for a company that sells physical products and has bold ambitions to provide those products to more people in more places worldwide. Transforming NIKE in this way will take time and is a long-term commitment. It touches every aspect of our business, from how we design and make our products to how we engage our employees and other businesses in our value chain. It begins with placing sustainability at the beginning of the innovation process.

# BUSINESS OVERVIEW

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

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We are working to integrate sustainability into every aspect of our business. Our aim is to challenge, push and explore ways that change the game entirely for materials, design and manufacturing.

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Through our commitment to innovation, sustainability and design, we are continually challenging ourselves, and our consumers, to reach the next level of achievement.

#### **WE STRIVE FOR INNOVATION THAT:**

- Serves the athlete
- Grows the company
- Delivers inspiration

#### **COMPANY PORTFOLIO**

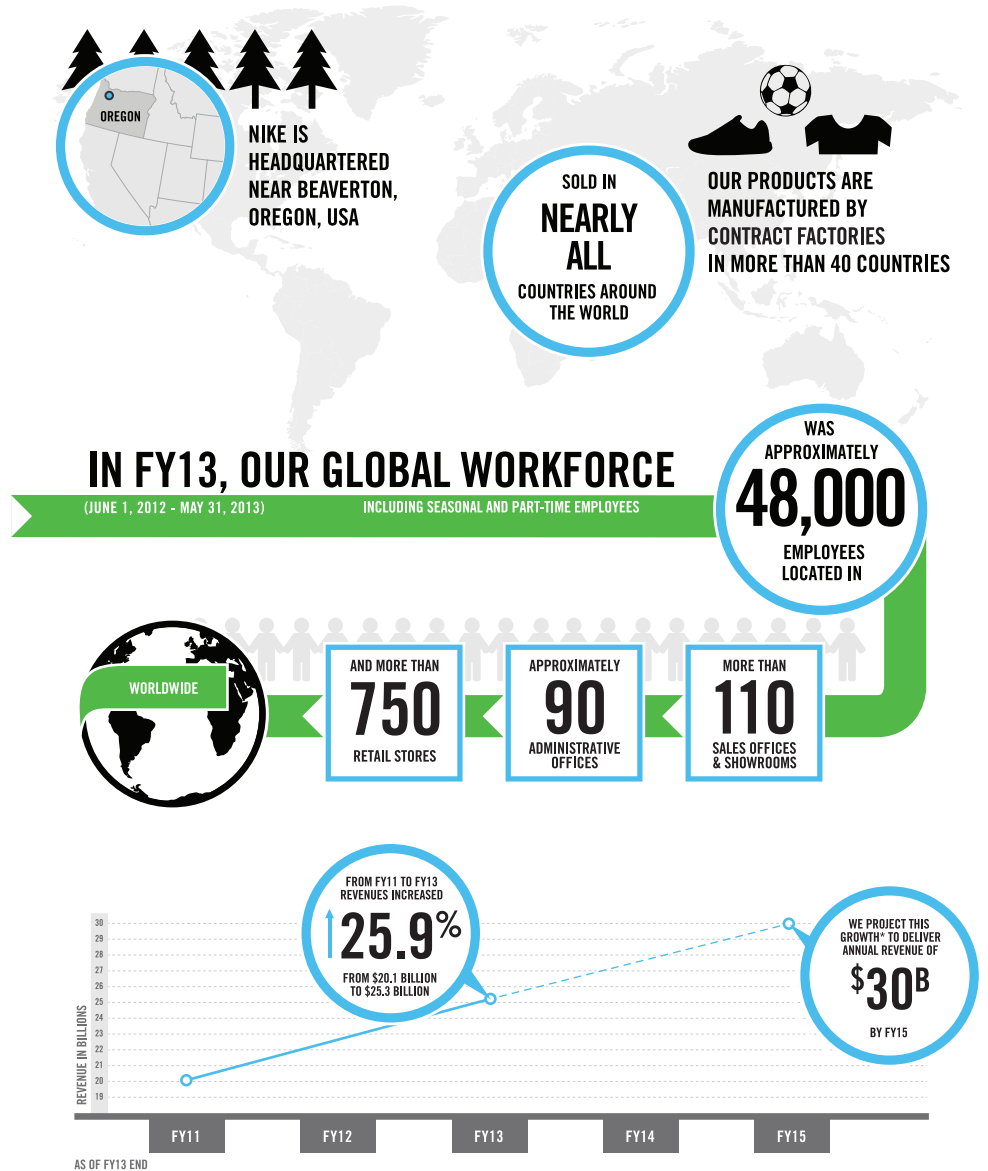
NIKE, Inc. includes five distinct brands, each with a powerful connection to its customers:

- NIKE Brand designs, develops and sells high-quality athletic performance gear and sport-inspired lifestyle products, including footwear, apparel, equipment and accessories
- Converse, Inc. designs, markets, licenses and sells casual sneakers, apparel and accessories
- Hurley International LLC designs, markets and distributes surf and youth lifestyle footwear, apparel and accessories
- Jordan Brand designs and markets premium footwear, apparel and accessories inspired by the dynamic legacy, vision and direct involvement of Michael Jordan
- NIKE Golf designs and markets golf equipment, apparel, balls, footwear, bags and accessories

Converse, Hurley and NIKE Golf were reported as "Other Businesses" in FY12 and FY13. Other affiliated brands in our portfolio at the end of FY12 were Cole Haan and Umbro, which we divested in FY13. Beginning in FY14, Hurley and NIKE Golf results are now reported within the NIKE Brand, while Converse results are a separate reporting segment. Accordingly, we have restated all comparative financial information to reflect these changes, which can be found at [investors.nikeinc.com](http://investors.nikeinc.com). However, reference to other NIKE Brand metrics throughout this report have not been restated to reflect these changes.

Over the past 15 years, we have evolved from approaching sustainability reactively as a reputation management issue to embracing it as a key driver of innovation and an important source of competitive advantage.

## NIKE, INC. CORPORATE OVERVIEW



\*Forward-looking statements, estimates or projections are 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 US Securities and Exchange Commission, including Forms 8-K, 10-K and 10-Q.

### PLAN FOR GROWTH

NIKE, Inc. is a growth company. Over the last 10 years, we've more than doubled our revenue, and we believe we'll deliver \$30 billion in revenue by FY15 and \$36 billion by FY17.\*

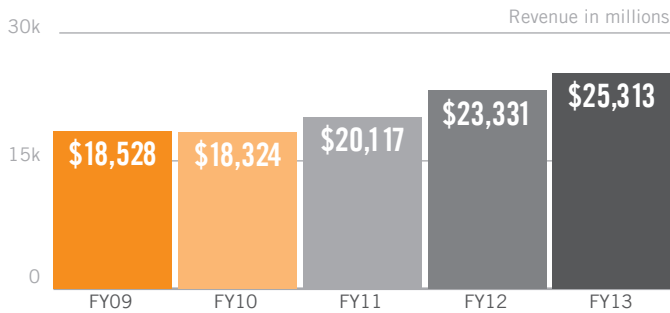
Since we published our FY10/11 Sustainable Business Performance Summary, our overall employee base grew to approximately 48,000 at the end of FY13, including seasonal and part-time, an increase of 10,000 employees. We expect strong growth in Running, Basketball, Football, Men's Training, Sportswear, Women's Training and Direct to Consumer sales. As we look forward, we believe that sustainability is one of the key drivers that will catalyze innovation and lead us toward continued growth.



# BUSINESS OVERVIEW

## NIKE, INC. REVENUE PERFORMANCE

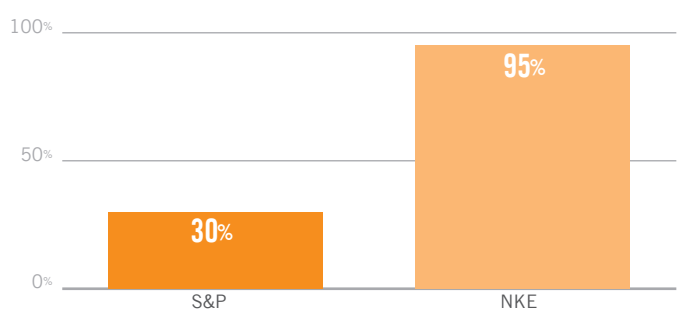
FY09-13 CAGR 7%\*



\*5-year Compound Annual Growth Rate (CAGR) based on Fiscal Year 2008 Revenue of \$18,075 million. The revenue amounts presented reflect the results of our continuing operations.

## FIVE-YEAR NIKE, INC. STOCK PERFORMANCE VS. S&P 500\*

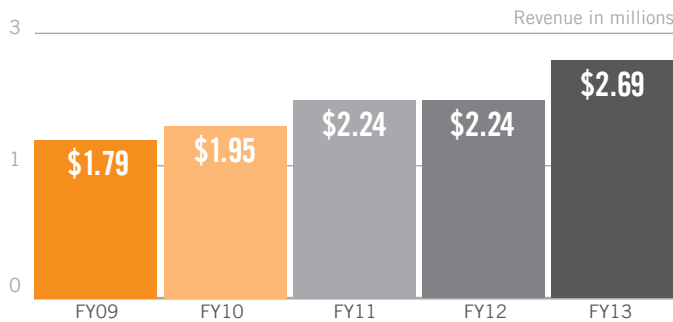
FY09-13



\*Performance of the S&P 500 and NIKE stock is calculated by comparing the total returns of each assuming the reinvestment of dividends over the time period of 5/31/2008 to 5/31/2013.

## NIKE, Inc. DILUTED EPS PERFORMANCE\*

FY09-13, Five-Year CAGR 8%\*\*

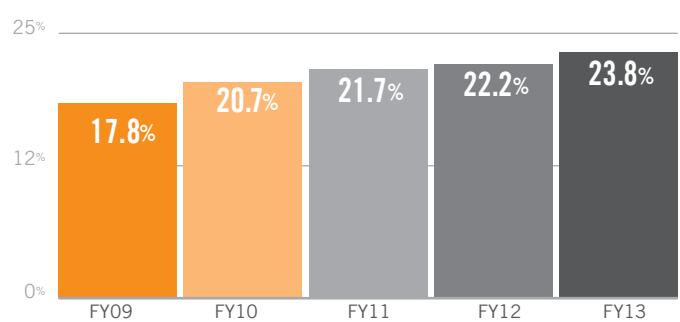


\*Diluted EPS amounts presented reflect the results of our continuing operations. These amounts have been restated to reflect our two-for-one stock split on December 24, 2012 and are not directly comparable as they include non-recurring expenses and benefits such as restructuring changes and settlements.

\*\*5-Year Compound Annual Growth Rate (CAGR) based on Fiscal Year 2008 diluted EPS of \$1.85.

## NIKE, INC. RETURN ON INVESTED CAPITAL\*

FY09-13



\*Return on Invested Capital calculation is included in the quarterly earnings section of our investor relations website, investors.nikeinc.com, as one of our key financial metrics calculations. Please refer to this site for more detail on this calculation.

Like many other businesses, NIKE faced some headwinds in FY12/FY13. Rising costs for energy, materials and labor sparked inflationary pressures in some locations and margin pressures across our industry. Major weather events, such as flooding in Thailand, put stress on supply chains and delivery. Both weather conditions and political unrest affected markets and confidence in some areas.

While these challenges were shared across our industry, the competitive advantages we have are unique to the NIKE portfolio. In spite of ongoing macroeconomic challenges, we remain well positioned to leverage our strengths – including scale, operational capabilities, brand strength and product innovation – to help mitigate the risks beyond our control and capitalize on opportunities to grow our company.

### TAKING THE LONG VIEW

At NIKE, we seek to deliver shareholder value through sustainable growth. One of the ways we will achieve this goal is to find avenues to reach our long-term vision of decoupling profitable growth from constrained resources.

We are working to integrate sustainability into every aspect of our business. Our aim is to challenge, push and explore ways that change the game entirely for materials, design and manufacturing. We don't grow just to get bigger. We grow to be better and do better.

## OUR SUSTAINABILITY STRATEGY

We focus sustainable innovation on our biggest areas of opportunity and risk. We ask difficult questions of ourselves, our business model and our industry. We seek to understand the meta-trends and the signals – strong and weak – that add complexity and uncertainty to the future. Rather than working to avoid only known risk, we work to understand where opportunity may emerge and what’s needed to foster and scale it, to enable new forms of innovation to take hold.

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The scale of today’s challenges requires breakthrough innovations such as entirely new materials and ways to make products.

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Based on extensive analysis of the impacts of our business across the value chain (see page 12 for detail), we know that materials and manufacturing represent the greatest areas of impact on workers, communities and the environment, and the greatest potential for sustainable innovation.

While NIKE has focused on materials innovation for many years, most improvements across the industry have been incremental, not fundamental. The time is right for innovation that leads to a more sustainable palette of materials and chemistries (see page 17 for detail). We have focused for many years on improving the working conditions of contract factory workers, increasing productivity, and reducing the environmental footprint of manufacturing, eventually bringing these threads together through implementation of lean manufacturing.

The future of lean for NIKE is to deliver profitable growth through sustainable manufacturing and sourcing. To do this, we are making lean NIKE, Inc.’s manufacturing standard. We require a commitment to lean as part of being accepted into our source base and a minimum commitment and progression for positive ratings by including it in our Sourcing and Manufacturing Sustainability Index, a component of our Manufacturing Index which assesses factories based on sustainability, cost, quality and on-time delivery. We are working with our supply chain to demonstrate the value of lean as a driver of sustained, improved business performance where workers are engaged and enabled to drive business success through continuous improvement. Some of the standard metrics we use to assess factory adoption include productivity, human resources management assessments, turnover, absenteeism, and factory implementation of and results from worker engagement and well-being surveys.

We are now driving a portfolio of advanced manufacturing initiatives that encompass changes to the traditional manufacturing business model that includes the role of workers in the production of better products and services. (See discussion in the “Manufacturing” section.) As described throughout this report, these two areas – materials and manufacturing – are central to our strategy.

# OUR SUSTAINABILITY STRATEGY

## MAKING TODAY BETTER WHILE DESIGNING THE FUTURE

Sustainable innovation takes many forms at NIKE. Incremental improvements play an important role in our efforts, since even small changes have large impacts across our portfolio. However, incremental changes on their own fall short of the progress needed.

The scale of today's challenges requires breakthrough innovations such as entirely new materials and ways to make products. As an example, in 2012 we introduced the first product made using the innovative new NIKE Flyknit technology and manufacturing process. The Flyknit Lunar 1+ running shoe, launched in 2013, reduces footwear waste in the upper by 80% on average compared with traditional production methods. To put a picture to that amount of waste, from its introduction in 2012 through FY13 the total combined material savings from just the uppers of the Flyknit Lunar 1+ compared to a traditional running shoe was 66,000kg – about the same as 12 adult male African elephants. Flyknit is a game changer and we believe there is significant potential ahead as Flyknit technology is implemented more broadly across our footwear offering.

NIKE's ability to deploy disruptive technologies like Flyknit at scale multiplies sustainability benefits. And as the game changes, we remain on the offense, always.

In some cases, where we have direct influence, we use our management tools, expertise and other resources to take a leadership role. One example is the creation and proliferation of the NIKE Materials Sustainability Index (NIKE MSI). (See page 18 for detail.)

Other opportunities, such as improving working conditions within our global supply chain, are beyond the reach of any single organization and require collaboration with other supply chain participants. One way we are working on these changes is through our collaboration with the Fair Labor Association to develop the Sustainable Compliance Initiative. This initiative, still in development, provides tools to improve the quality, consistency and efficiency of efforts in our industry to comply with country laws/regulations, and company standards.

For challenges such as building a market for sustainable materials, we need input from a broad range of stakeholders and experts. (See page 23 for detail.) After all, risk is interconnected so solutions must be collaborative. Companies that win in the future will be those capable of accessing new sources of knowledge, creativity and capital to accelerate sustainable innovation and bring it to scale.

To further advance our efforts, at the start of FY14 we embedded our Sustainable Business & Innovation function into the company's Innovation group (see page 20 for detail). This streamlines the sharing of sustainable innovation throughout the company and continues a nearly 20-year evolution to move corporate responsibility and sustainable innovation from the periphery of the organization to the core of the company. This move means that sustainability will be central to the questions asked and the solutions created in the innovation process.

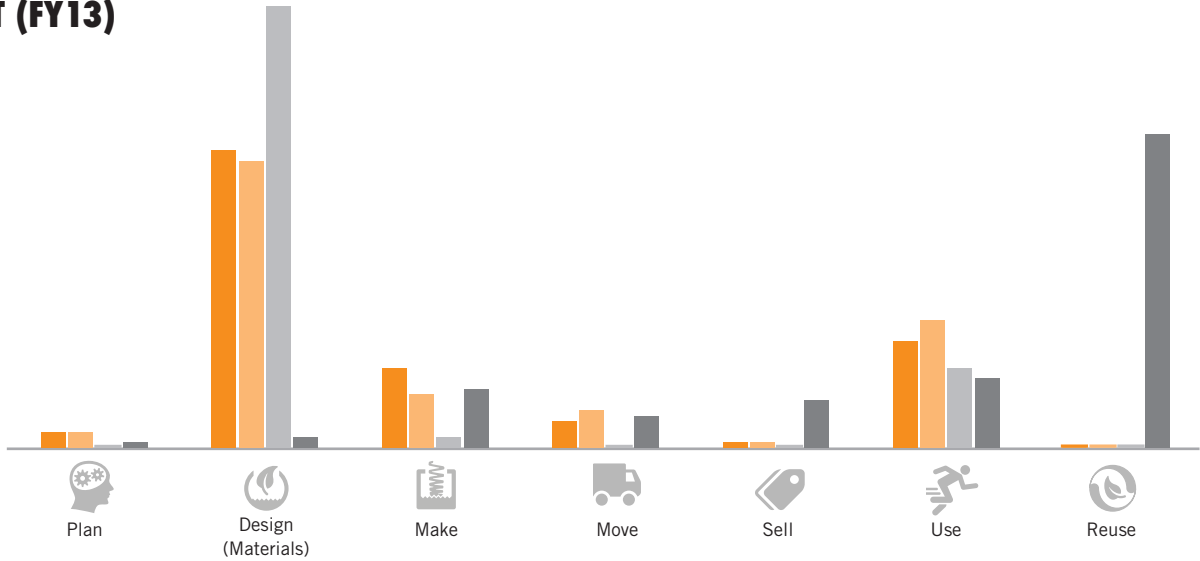


<b>PLAN</b>	We run a thriving global business. The people, offices, brand and beyond – they're all part of the plan.
<b>DESIGN</b>	Our designers combine technology, creativity and mindful material selection to make all of our products. While we have control over what materials we select, we recognize each material has its own often considerable footprint, from growing through to processing.
<b>MAKE</b>	We're focusing on turning the sustainability challenges of manufacturing into lasting opportunities by carefully selecting those we source from, and working together to reduce impacts.
<b>MOVE</b>	The world isn't getting smaller, but our global logistics make obstacles like distance and time easier to hurdle.
<b>SELL</b>	People don't go to a NIKE store just to shop. They expect expert advice, inspiration and experience.
<b>USE</b>	Our products spend most of their lives with consumers. How consumers care for them over time makes a big difference.
<b>REUSE</b>	NIKE shoes have better things to do than retire in a landfill. We aim to reuse and recycle our products as much as possible. And even after their useful life is over, where they end up matters.

For details on our methodology and an interactive exploration of our value chain visit [nikeresponsibility.com](http://nikeresponsibility.com).

# OUR SUSTAINABILITY STRATEGY

## OUR VALUE CHAIN FOOTPRINT (FY13)



Impact Area	Plan	Design (Materials)	Make	Move	Sell	Use	Reuse
Emissions (total 12.5M tonnes)	3%	56%	15%	5%	1%	20%	<1%
Energy (total 28.9B kWh)	3%	54%	10%	7%	1%	24%	<1%
Water (total 217B gallons)	<1%	83%	2%	<1%	<1%	15%	<1%
Waste (total 700M kgs)	1%	2%	11%	6%	9%	13%	59%

Our “big picture” data collection gives us a view of the overall impact of our business in key impact areas which helps us to focus our efforts on those areas where we have greater impact and understand the interaction between impacts from decisions at different stages of our value chain. This is a point-in-time reference. We continue to update information on the big picture and assess and improve on the more direct and concrete elements of a reportable footprint for year-on-year comparisons.

The purpose of this study was to determine the environmental footprint of NIKE, Inc. – including its products – across four impact areas: CO<sub>2</sub>e, energy, water and waste. We undertook this work by identifying and quantifying water and energy usage, CO<sub>2</sub>e emissions and waste created at each stage of the value chain. The impact of each individual product differs considerably, based on its profile, materials used, size and weight, method of manufacture, and location of production, use and disposal. For more information about our methodology and approach, and to navigate the footprint through the value chain and impact areas, go to the online experience available with this report on [nikeresponsibility.com](http://nikeresponsibility.com).

### UNDERSTANDING OUR IMPACTS, RISKS AND OPPORTUNITIES

The journey to integrate sustainability deep into NIKE has required us to show how it supports our company strategy, creates value for stakeholders, mitigates risk and makes our business more resilient.

To do this we must understand our business and its impacts, so we can make informed decisions that will bring about the greatest change. We also must consider the connectivity across all areas, as a decision in one area may have unintended consequences or enhancements in another. We take a broad view, as we recognize the impacts from our directly controlled operations are a small part of the total system.

An important factor is our outsourced manufacturing model, which is common across the apparel and footwear industries, as well as many others. The model brings complexities related to lack of direct control over factories that may serve multiple brands and incomplete information about performance and impacts. Nonetheless, our vast and interconnected value chain also offers great opportunities to raise expectations and standards across the sector, in areas such as labor practices and environmental protection,

## OUR SUSTAINABILITY STRATEGY

Within every sustainability challenge also lies a business opportunity.

to increase our overall positive impact. This approach has been central to our relationships with contract manufacturers and other brands for many years.

In 2013, we furthered our study of our environmental footprint across our entire value chain – from raw materials production through consumer disposal of products after use. This is a complex analysis, due to the variation in the availability and quality of data, the need to make assumptions and extrapolations, and the dynamic nature of this system and its many participants. Our knowledge in this area continues to grow.

The analysis – which covers energy use, water consumption, waste generation and greenhouse gas (GHG) emissions – confirmed what we have long believed about the importance of the design process and materials, and how products are made. These issues are thus the main focus of our programs and this report. More detail on our methodology and approach is available online at [nikeresponsibility.com](http://nikeresponsibility.com).

The footprint graphic (page 12) only tells part of the story. We also made discoveries within these categories, such as the significant effect of cotton and leather on our overall impacts. In the raw materials stage of the value chain, growing cotton represents 87% of water use, and it accounts for more than 63% of water use across our entire value chain. Leather production represents 56% of GHG emissions during the raw materials stage – mostly from methane as a result of cattle’s digestive processes – and more than 18% of our total greenhouse gas footprint. These types of insights are valuable as we develop and evolve our programs moving forward. They compel us to look well beyond the surface levels of the systems we touch and deep into our value chain. This perspective reinforces that our span is much bigger and more complex than one might imagine, stretching even into the agricultural fields where the raw materials for our products are grown and raised, and where some of our biggest system impacts occur.

By nature, footprinting is backward-looking. Setting our sustainability strategy also requires looking forward, to navigate in the direction we believe the world is heading.

For many years we’ve focused on meta-trends – “strong signals” – pointing to the sustainability-related issues that pose the greatest business risks or opportunities. These meta-trends include issues such as water scarcity, materials cost inflation, climate change, rising labor costs as well as increased transparency and heightened levels of collaboration. (See page 12 of our FY10/11 Sustainable Business Performance Summary for more detail.)

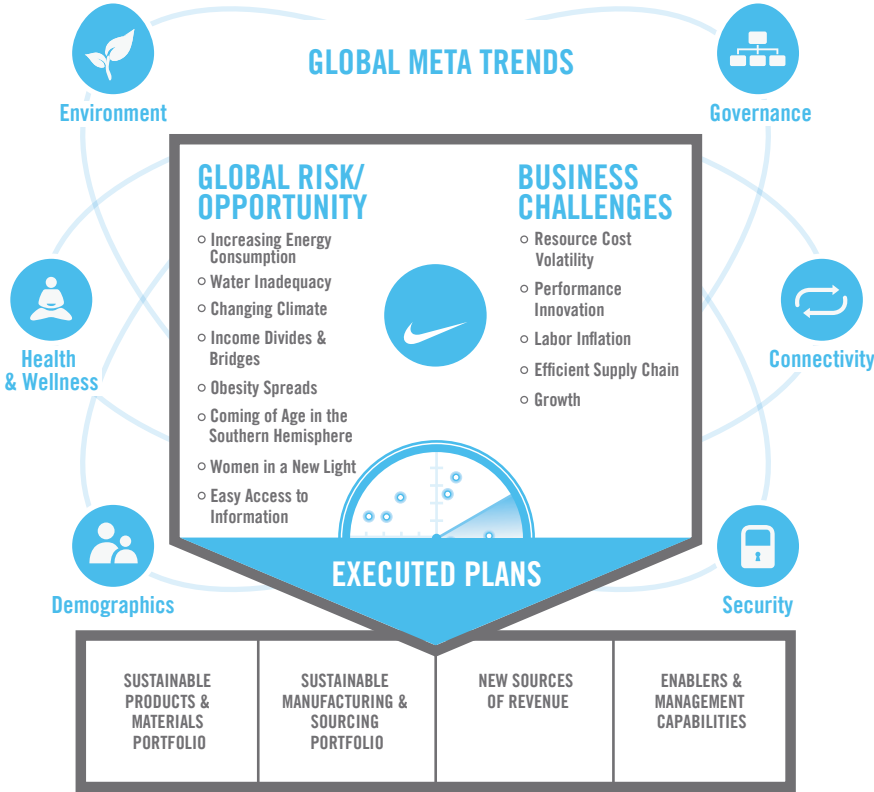
We also listen closely to “emerging signals.” Some of the emerging signals we’ve identified – including micro-plastics in the environment and increasing and changing environmental policies – are broader than our company or industry. Issues such as these have the potential to become even more relevant to NIKE in the future.

Within every sustainability challenge also lies a business opportunity. For example, to better manage constrained resources, we develop and use more recycled and more sustainable materials, and leaner manufacturing processes. To decrease our exposure to labor cost inflation and capacity constraints, we increase the efficiency of our supply chain. We have developed superior materials such as water-based adhesives through green chemistry, which also delivers health and safety benefits to workers. These types of innovations have already delivered substantial benefits to our business, and we expect them to increase in the coming years.

# OUR SUSTAINABILITY STRATEGY

## SUSTAINABILITY CHALLENGES AND OPPORTUNITIES

How NIKE, Inc. views, anticipates and responds to emerging signals alongside global trends, risks and opportunities, and business challenges to inform its plans

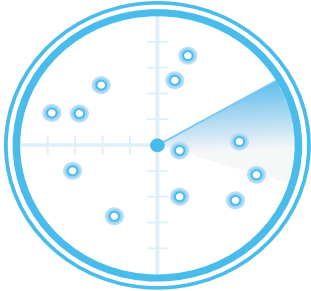


### OPPORTUNITIES

Infinite resource availability • Closed-loop product  
Zero waste • Low-risk value chain services

## EMERGING SIGNALS

We identified the following emerging signals that could pose challenges or opportunities for NIKE in the future:



- Radical transparency/traceability
- New emphasis to the genetically modified debate
- Impacts of counterfeit waste
- From fast fashion to fast e-waste
- Growing attention to stranded assets
- Divestment as a new form of climate advocacy
- Raising the bar for women farmers
- China's green future
- Brazil's environmental push
- Sweating the small stuff: micro plastics
- Greater focus on product end of life
- Heightened interest in ecosystem services

We also use scenario planning to sharpen our understanding of the potential impact of sustainability issues on our business and to inform decision making. Through scenario planning, we can assess the potential impacts that external issues such as climate change or resource scarcity might have on NIKE. We can model the rippling effect that a percentage change in our use of a more sustainable material might have across the value chain, or the impact of changes to our sourcing base as we fully implement our sustainability indices. We can also analyze how initiatives, such as those that improve energy or water efficiency, or decrease waste, could impact the company's competitiveness.

Understanding these interconnections helps us prepare for a range of possible futures and improves our ability to develop innovative solutions to address emerging risks before they become more challenging to manage.

For example, in 2013 we developed a scenario tool to explore the impacts that climate change, and related water scarcity, could have on cotton, one of our main product inputs. We developed a Business and Environmental Scenario Tool (see page 15) which gives us the ability to assess overall and intersecting impacts from changes to different scenarios.

## OUR SUSTAINABILITY STRATEGY

Understanding these interconnections helps us prepare for a range of possible futures and improves our ability to develop innovative solutions to address emerging risks before they become more challenging to manage.

We work with stakeholders and experts from outside the company to validate this work, to develop a collective understanding of the systemic issues we face and to identify shared solutions.

### **BEST (BUSINESS AND ENVIRONMENTAL SCENARIO TOOL)**

BEST provides a 10-year quantified view of environmental and financial impacts from changes to scenarios such as materials used or changes in sourcing.

#### **Before developing BEST, we:**

- Calculated separately the impact that changes to the business had on each criterion (financial, water, energy, CO<sub>2</sub>, waste)
- Took extended time to conduct the environmental analyses
- Had a limited view due to the focus on and analysis of one criterion at a time, therefore we made decisions based only on one criterion or continued with potentially conflicting analyses across different criteria
- Often excluded interactions between criteria
- Usually focused only on Tier 1 suppliers – those with whom we directly contract for goods or services – though a considerable portion of the impact occurs earlier in the value chain
- Saw each group within NIKE focus on the criteria that were important to them

#### **With BEST we can:**

- Input one scenario and receive data on simultaneous impacts to five criteria (financial, water, energy, CO<sub>2</sub>, waste)
- Complete the analysis quickly, with a turnaround in minutes, rather than weeks
- Take a holistic view of all criteria and compare the return on investment for all criteria at the same time
- Capture how changes to one criterion impacts others
- Take into account a more complete view of the supply chain
- Provide users with a view of the entire business so they can see how their decisions impact other business areas

#### **We now use BEST to assess various impacts and decisions. Some examples include:**

- Impacts to costs, water usage and energy usage if we use less cotton and more polyester
- Changes to the amount of materials purchased, energy used and waste generated if we increase pattern efficiency by certain percentages

# OUR SUSTAINABILITY STRATEGY

We deliver a portfolio of sustainable products and services that maximize athlete performance.

## NIKE'S SUSTAINABILITY STRATEGIC FRAMEWORK

NIKE's Sustainable Business and Innovation team focuses on enabling the company to thrive in a sustainable future, and provides the insights, tools and expertise to hardwire sustainable decision making into global business operations.

Given the trends and analysis described earlier, NIKE drives sustainable business innovation in three strategic ways:

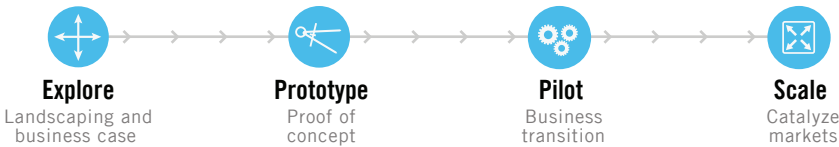
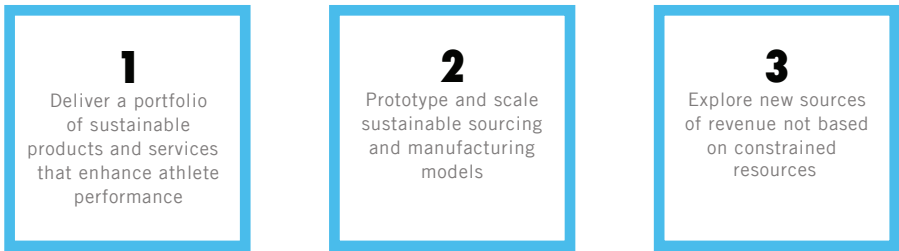
1. Deliver a portfolio of sustainable products and services that enhance athlete performance
2. Prototype and scale sustainable sourcing and manufacturing models
3. Explore new sources of revenue not based on constrained resources

These pillars are underpinned by skills and capabilities that enable their success. The sections below describe these pillars and how they work together to drive the disruptive innovations that will shape our future.

It's important to note that NIKE also continues to focus on other important aspects of corporate responsibility including compliance, stakeholder management, employment practices and community investment. These play an important role in our overall performance, and our programs and progress in these areas are described later in this report.

## SUSTAINABILITY STRATEGIC FRAMEWORK

Drive profitable growth and reduce risk through sustainable innovation





# OUR SUSTAINABILITY STRATEGY

## MATERIALS MATTER

NIKE's main environmental impacts, by far, are realized in the products we sell and the materials used to make them.

The materials we choose have impacts that ripple across every stage of the value chain. The approximately 900 million units produced annually through our supply chain are made from more than 16,000 materials selected from more than 1,500 different vendors, chosen from a staggering 80,000 material options.

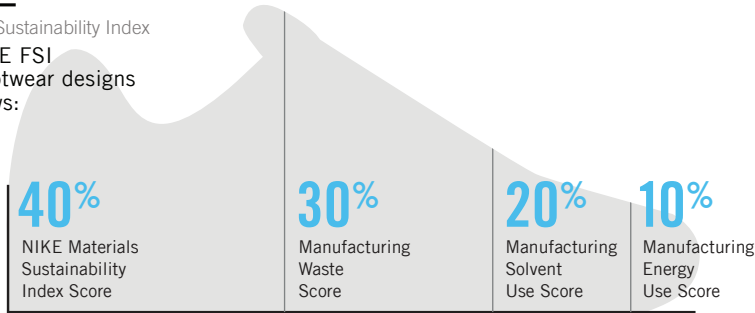
From our analysis, the production of these materials – from growing cotton and harvesting rubber, to raising livestock for leather and extracting oil for polyester – represents 21% of the total energy use throughout our value chain, 73% of the water consumption and 33% of the greenhouse gas emissions. When you include materials processing activities, such as the dyeing and finishing of fabrics, those percentages increase to 54% of total energy use, 83% of water consumption and 56% of GHG emissions.

## THE EVOLUTION OF OUR PRODUCT SUSTAINABILITY INDEXES

We launched 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 rates footwear designs as follows:



### NIKE ASI

Apparel Sustainability Index  
The NIKE ASI rates apparel designs as follows:



## OUR SUSTAINABILITY STRATEGY

Our materials decisions are limited by what materials are available and their expected performance attributes. So we also seek to understand and engage others who play critical roles in the process of developing, creating and bringing materials to market.

Reducing materials-related impacts is among the strongest levers we have for improving our overall environmental performance. However, it's challenging to reach far upstream into our value chain and influence the behavior of companies and individuals over which we have no direct impact. Therefore, we focus on product design, an area we do control. Decisions we make in the design phase determine the majority of a product's environmental impacts, and can have exponential effects up and down our value chain. These impacts are embedded in the creation of materials, from how much they weigh to transport, to how much water and energy are used in washing them, to what is left when a product's useful life is over. However, our materials decisions are limited by those that are available and can their expected performance attributes. So, we also seek to understand and engage others who play critical roles in the process of developing, creating and bringing materials to market.

Over the past several years, we have created scoring tools and indices that give our product creation teams the information they need to make better decisions about materials based on sustainability as well as performance characteristics. Two key improvements help a design's score: reducing waste by improving pattern efficiency, and the choice of more sustainable options (e.g., recycled polyester rather than virgin polyester). We tested and rolled out our updated footwear and apparel indices in FY12; both include the NIKE Materials Sustainability Index (NIKE MSI). The NIKE MSI measures energy and water use, waste generation and chemical use in materials. We have communicated with and trained our material vendors to help them understand the NIKE MSI and how they can improve their materials' scores by providing more sustainable options, which makes them more attractive to work with as a source for materials.

Collaborating with others is key to fueling disruptive innovation. Our strategy includes strategic partnerships and making selective investments in breakthrough technologies in the materials space. In 2012, for instance, we made a minority investment in DyeCoo Textile Systems B.V., a Netherlands-based company that has developed the first commercially available waterless textile dyeing machines. By using recycled carbon dioxide, DyeCoo's technology eliminates the use of water in the dyeing process. This holds great promise for NIKE, since dyeing and finishing represents about 5% of water use across the value chain. In 2013, we worked with Far Eastern New Century Corp. and DyeCoo to launch the "dye house of the future" in Taiwan to optimize the dyeing process. This new process, which we call ColorDry, provides the most consistent color results to date and eliminates water and process chemicals from the dyeing process.

Decreasing materials use is also core to our approach. NIKE Flyknit technology revolutionizes the age-old craft of shoemaking by knitting the shoe upper with individual strands of yarn, which drastically reduces manufacturing waste and materials compared to traditional cut-and-sew methods while providing strength and support where it's needed most. The Flyknit Racer's laces are 30% recycled polyester, the upper is colored with water-based inks, and the sock liner is made from recycled materials. We also use 100% water-based adhesives in the midsole and outsole to reduce the use of volatile organic compounds. We're only just beginning to see the potential for Flyknit and we plan to increase use of this technology in the coming years.

To continue to drive innovations like these, we have a Materials Science Innovation function that explores the next generation of materials – for instance, non-petroleum-based, low environmental impact feedstocks for apparel fabrics. This function also considers how innovations in other fields – such as medicine and biomechanical engineering – might transfer to our industry.

## OUR SUSTAINABILITY STRATEGY

All of these efforts build on work we have done for years to identify and develop environmentally preferred alternatives to our most-used materials, such as cotton, polyester, leather and rubber. For example, we helped to establish the Leather Working Group, which has created standards for better environmental management of leather processing, and are Pioneer members of the Better Cotton Initiative.

See “Product” section for more information about our efforts and progress in this area.

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### PROTOTYPE AND SCALE SUSTAINABLE SOURCING AND MANUFACTURING MODELS

We envision lean manufacturing that will deliver profitable growth through sustainable manufacturing and sourcing.

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#### NEW METHODS OF MANUFACTURING

Manufacturing is another major part of the equation. We estimate that more than 2.5 million people work at various stages throughout our supply chain, including more than 1 million in the factories we contract with directly. This makes manufacturing our biggest area of impact on people. That’s not a new insight, and we have been working for years to help raise the bar for working conditions, not only in our own supply base but across our industry. We have done this by developing and communicating our Code of Conduct and Code Leadership Standards, and by assessing suppliers’ compliance with our requirements and legal standards. We have also worked with our suppliers to help them develop their human resources management capacity so they can proactively manage and engage their workforce.

These efforts led to an insight that has been critical in our work with factories: that lean manufacturing benefits factory owners and workers, increases productivity, reduces environmental impacts, enhances our brand, and that workers are key to the successful implementation of lean.

This integrated approach is reflected in how we assess performance. Factories are rated using our Sourcing & Manufacturing Sustainability Index (SMSI), a component of our Manufacturing Index, which puts sustainability considerations on equal footing with quality, cost and on-time delivery, and is one tool we use to select factories with which we do business. This approach serves as a way to identify factories to engage with more collaboratively and to which we direct more attention, resources and business. The SMSI incorporates results of other scoring tools that measure progress in worker health and safety; labor compliance; human resources management; lean implementation; energy and carbon management and other environmental sustainability issues.

We are now working to implement an enhanced vision of lean manufacturing as part of a portfolio of initiatives we’re calling the “manufacturing revolution.” This transformation is a response to significant trends in our supply chain, including advancements in technology and engineering, and ongoing volatility in labor and materials pricing. It aims to redefine both how our products are made and what they are made of. It includes innovations in advanced technology, as well as manufacturing excellence and modernization.

As we look ahead to a new era of manufacturing, we also see opportunities to create a more sustainable, stable supplier base. To implement the changes we’re anticipating, the workers employed by our suppliers will need to learn and use multiple skills. During 2013, we conducted two pilot studies in Indonesia that tested both the technology and human aspects of lean manufacturing implementation. The pilots measured changes to productivity, cost and worker engagement, and found significant improvements in a number of areas when lean manufacturing lines were compared to control lines. We are collaborating with other organizations and contract factories to encourage them to look at additional opportunities to improve the lives of workers outside the factories. See the “Manufacturing” section for details on how we are working to meet our commitments and define a new future for our supply chain.

## OUR SUSTAINABILITY STRATEGY

### EXPLORE NEW SOURCES OF REVENUE NOT BASED ON CONSTRAINED RESOURCES

Our goal is to hardwire sustainability into the way we operate and drive adoption of sustainable innovation.

#### BEYOND PRODUCTS

In 2009, we founded our Sustainable Business and Innovation Lab to focus on materials and manufacturing innovation partnerships as well as revenue sources that are decoupled from constrained resources, including through digital services. Among other initiatives, the Lab helped to fuel our vision to extend NIKE's leadership in athletic footwear, apparel and equipment into the digital realm of fitness, coaching and training services.

One example of NIKE's efforts that focuses on services is the NIKE+ digital platform that enables athletes to track and analyze movement – for example, to share their workouts and calories burned and personal targets and performance. NIKE+ has grown into a full ecosystem, delivered with different apps and services, with more than 18 million members spanning the globe at the end of FY13. Collectively, members have run more than 1 billion miles, the equivalent of 40,000 times around the earth at the equator. This expanding business supports athletes' health and wellness, opening additional opportunities to NIKE.

In early 2013, we launched the first NIKE+ Accelerator, which hosted 10 companies for a three-month, immersive, mentor-driven startup program. Leveraging the success of NIKE+, participants worked to create products and services to inspire athletes across a broad range of activity and health goals, including training, coaching, gaming, data visualization and “quantified self.” Participating companies pitched their business concepts to more than 1,000 investors, potential strategic partners and prospective collaborators. Through the program, we received more than 1,000 requests for access to the NIKE+ development platform.

#### STRENGTHENING OUR CORE

For more than 15 years, we have been on a journey of sustainability integration. This task is essential. To achieve ongoing, profitable growth, sustainability considerations must be deeply embedded throughout the company. At NIKE, sustainability is not just about vision and values. It depends equally on having the systems, structures, people, responsibilities and accountabilities in place to ensure our commitments are reflected in our day-to-day business activities.

During the last two years, we have advanced business integration on several fronts. Some changes relate to refining our internal organizational structures to more effectively drive sustainable innovation. These include the following:

- The Sustainable Business & Innovation (SB&I) team focuses on a broad range of areas including finding and deploying new chemistries, training supplier factories on energy and water efficiency programs, partnering with product teams to promote the use of more sustainable materials and designs, developing scenario planning tools, gathering information about social and environmental performance within NIKE and its supply chain, and evaluating and reporting that performance. The team also drives several of our external engagement activities, collective action efforts and open innovation agendas to accelerate and scale game-changing solutions. Importantly, SB&I became a part of NIKE's Innovation organization in 2013, streamlining the process of scaling sustainability innovation throughout the company.
- The Materials Science Innovation function, which grew out of the sustainable product research and design function within SB&I and focuses on sustainable materials, now reports into NIKE's product innovation team. It includes a dedicated sustainable product R&D team, making it even better aligned with broader apparel and footwear materials research.

# OUR SUSTAINABILITY STRATEGY

## NIKE INTEGRATION TIMELINE

For more than a decade, we have been on a journey of sustainability integration. [nikeresponsibility.com/timeline](http://nikeresponsibility.com/timeline)



**1990s:** Received negative publicity for labor issues in supply chain

**1998:** Established first VP of Corporate Responsibility

**2001:** Established Board of Directors Corporate Responsibility Committee

**2001:** Published first standalone Corporate Responsibility report

**2006:** Launched NIKE Considered Design

**2006:** Published first list of factories contracted to produce NIKE Brand products (disclosing factory names and locations)

**2007:** Established scenario planning and trend analysis

**2008:** Established Project Rewire (to connect impacts of sourcing with decision makers)

**2009:** Changed name of Corporate Responsibility organization to Sustainable Business & Innovation (with corresponding shift in focus)

**2009:** Established internal audit program (outside SB&I) focused on oversight of factory audits according to HSE standards

**2009:** Established Sustainable Business & Innovation Lab (focused on closed loop and manufacturing, and revenue sources decoupled from constrained resources, especially through digital services)

**2012:** Established non-financial disclosure committee with oversight of NIKE, Inc. sustainability reporting

**2012:** Launched new set of sustainability targets, with input and buy-in from relevant business groups and functions

**2012:** Released NIKE Materials Sustainability Index to the Sustainable Apparel Coalition

**2012:** Launched Flyknit

**2013:** Launched MAKING App

**2013:** Harvard Business School and Stanford Graduate School of Business both publish case studies on NIKE's sustainability journey

**2013:** Waterless dyehouse opens; ColorDry announced

- The Sustainable Manufacturing Excellence team is formally aligned to both SB&I and NIKE's sourcing functions. This enables a strategic outlook for the future of manufacturing and a holistic view of the impacts and capacity-building work done with factories as well as joint planning for future growth.
- A new product sustainability team works directly with NIKE's product groups to drive sustainable innovation deeper into the company's product creation processes and pipeline.

Other recent changes reflect the deeper integration of several important processes and activities throughout the company. For example:

- Our NIKE Apparel Sustainability Index and NIKE Footwear Sustainability Index have become part of the standard tools used by our global product creation teams. This ensures that design decisions take environmental factors into account.
- We integrated our Manufacturing Index which includes the Sourcing & Manufacturing Sustainability Index into our sourcing selection and evaluation criteria. The Index assesses suppliers on relevant dimensions related to lean manufacturing, such as on-time delivery and defect rate. As a result, sustainability is a factor in all supplier ratings.
- We created and launched a business simulation experience – NIKE 2021 – a half-day strategy immersion in which participants adopt roles as chief executive, chief financial officer, and vice presidents in supply chain, product, brand, innovation and sustainability. Together they compete against other teams to plot strategic investments and decisions that consider impacts to cost of materials and manufacturing, product availability, revenue and net income. Nearly 2,000 employees from senior executives to teams in product development, finance, supply chain and geographies have participated. NIKE continues to evolve the experience and deliver it to more teams.
- We have publicly discussed and published our perspective on the risks of climate change and sustainability-related issues in broader forums. This illustrates the increasing importance of sustainability issues to the company and our stakeholders.

During 2013, NIKE also aligned community engagement activities more closely with our businesses and geographies. This embeds planning and performance tracking into the appropriate business cycles and increases accountability.

As we integrate sustainability even more deeply throughout the company, the role of the SB&I team continues to evolve. Using a unique set of capabilities and expertise, the team focuses on activities that enable more sustainable decision making companywide that often involves a longer time horizon than the typical business planning cycle. This includes:

- Providing a holistic perspective on sustainability opportunities and risks
- Working in partnership with business functions to set and deliver against companywide sustainable innovation priorities
- Delivering analysis and guidance on sustainability-related investments
- Building a center of excellence in sustainability data capture, analysis and disclosure
- Developing tools and capabilities such as environmental footprinting (see page 12), scenario planning (see page 15) and systems thinking (see page 23)
- Facilitating companywide sustainability target setting, performance measurement and reporting (both internal and external)

In addition to having the right structures in place, integration is also about engagement. Everyone at NIKE has an important role to play in making the company sustainable and we encourage leaders and employees to grasp the issues and opportunities ahead, consider the sustainability implications of their decisions, and be accountable for their actions.

## OUR SUSTAINABILITY STRATEGY

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We must enable leaders and employees across the company to grasp the issues and opportunities ahead, consider the sustainability implications of their decisions, and be accountable for their actions.

To help educate internal audiences, and to improve our ability to measure sustainability integration across key business levers, in FY13 we further developed a two-part Sustainable Business Roadmap, consisting of a framework and an assessment. The framework describes what sustainability integration looks like across the areas of strategy, structure, operations and employees. It identifies levers that enable integration within those areas, such as leadership commitment, resourcing and education. The framework also describes tactics – such as establishing goals, budgeting for sustainability efforts as a part of standard business processes, and embedding sustainability learning opportunities in employee development – that provide context and a means to measure integration. Business teams will use the assessment to identify current levels of integration and opportunities to drive business performance within their functional areas.

This Roadmap not only provides us a better understanding of where we are today in terms of integration, but it will also guide us in building the organizational capabilities we will need to realize our sustainability objectives. The tool will be piloted in 2014 and is expected to inform further iterations of our sustainability integration strategy.

Integrating sustainability enterprise-wide is challenging, and remains a work in progress. We have learned a great deal in the more than 15 years we have been working toward a more sustainable supply chain and business. To share our experience in this area with others, in 2013 we engaged with professors at Harvard Business School who produced *Governance and Sustainability at NIKE* – a case study about our journey. This publication, which is being taught at business schools, describes how we transformed from a company that reacted to external pressures while working to minimize reputation risks to one that views sustainability as among our leading innovation opportunities. Another case study, published by Stanford Graduate School of Business – *NIKE: Sustainability and Labor Practices 1998-2013* – highlights our long-term journey of sustainability and labor.

# OUR SUSTAINABILITY STRATEGY

## IDENTIFYING AND DEVELOPING SYSTEM-CHANGE INITIATIVES

SYSTEM BARRIER	DESCRIPTION	STRATEGY	NIKE ACTIONS
Lack of common standards	Without a shared understanding of materials-related impacts, designers cannot make efficient decisions.	Establish a universal standard through industry collaboration, leveraging our extensive experience in this area.	In 2012, to enable a common language and set of definitions related to materials footprinting, we opened the NIKE Materials Sustainability Index (NIKE MSI) for public use. In 2013, the NIKE MSI became a core part of the cross-industry Sustainable Apparel Coalition's Higg Index.
Continually changing information about materials	Information about the impacts of more than 16,000 materials used in our industry is continually evolving.	Create an open technology platform that enables experts worldwide to contribute and share information related to materials.	In 2011, we engaged external data experts to help us envision the future of information sharing and tools innovation in this space. We created a mechanism to allow experts and brands worldwide to contribute to and benefit from a shared, current dataset of materials information.
Lack of access to information	Designers and other decision makers cannot make informed, sustainable choices about materials unless related information is easily accessible.	Develop tools for non-technical users to integrate sound information about materials into their decisions.	In 2013, NIKE collaborated with our design networks including the London College of Fashion through a sponsored studio project to test the prototype app which became MAKING. The app helps designers and product creators make informed decisions about the environmental impacts of the materials they choose. Leveraging information in the NIKE MSI, MAKING ranks materials used in apparel based on four environmental impact areas: water, chemistry, energy and waste. Through direct comparisons, designers can quickly see how material choices stack up. We envision that this innovation will help to catalyze other advances in this area.
Insufficient focus on materials innovation	While we have focused significantly on materials design and use in past years, our journey to find, create and innovate new materials has really just begun.	Engage system participants in a process of collective transformation.	In April 2013, NIKE hosted the LAUNCH 2020 Summit. Along with NASA, the US Agency for International Development, and the US Department of State, we convened 150 materials specialists, designers, academics, manufacturers, entrepreneurs and NGOs to catalyze action around the sustainability of materials and how they are made. This included introducing the LAUNCH 2020 Challenge Statement, an open call for innovation to transform the system of producing fabrics.

We have also completed systems innovation work related to hazardous\* chemicals, which has informed the work of the ZDHC coalition, a group of major apparel and footwear brands and retailers, including NIKE, that are committed to zero discharge of hazardous chemicals by 2020.

### SUSTAINABILITY IS A TEAM SPORT

At NIKE, we increasingly see sustainability as a source of competitive advantage and business value. However, we also see a bigger picture. Ultimately, our collective future depends on solving problems that are much larger than any individual company or organization can tackle on its own – issues such as climate change, resource scarcity and substandard working conditions.

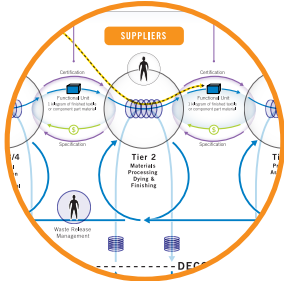
We recognize we must do our part to help transform entire systems rather than just addressing our role within the parts of the systems we touch. There is no substitute for the collective action this requires. Significant collaboration is necessary to organize the diverse capabilities, resources, insights and political will needed to develop solutions and bring them to scale. In sustainability, we win or lose together.

For systems to change, we must first understand them and our role in them, and other participants must improve their understanding as well. Two years ago we launched a more formal approach to systems innovation within SB&I. Drawing on systems theory and capitalizing on the insights and involvement of experts within and outside the company, we have developed an approach to mapping complex systems, building cross-sector networks, mobilizing resources and fueling open innovation. This helps us to understand

\*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.

# OUR SUSTAINABILITY STRATEGY

## CATALYZING STRATEGIC PARTNERSHIPS TO BRING SUSTAINABLE INNOVATION TO SCALE



### SYSTEMS MAPPING

To tackle issues that are bigger than us – systematic or structural, complex and multi-causal – we have applied systems thinking, utilizing mapping that builds common understanding of the technical, social, political, business, financial and environmental ecosystems at play. We developed a systems map of materials used in the footwear and apparel value chains to help understand our role and the role of others, and have shared this work through LAUNCH. See more on this work at [nikeresponsibility.com](http://nikeresponsibility.com).

how a system works – the key players, relationships, transactions, points of leverage, barriers and opportunities – and to create a shared vision for change. It also supports our efforts to engage with the broader network of stakeholders.

Our understanding in this area continues to increase as we gain insights into how we can most effectively create change depending on our role in a specific system. Our ability depends on our role, the type of business relationship, regulations and many other factors.

We are working to apply systems thinking to materials and manufacturing. We have collaborated for many years with other companies in our industry through organizations such as the Sustainable Apparel Coalition, with multistakeholder groups including the Fair Labor Association, and with organizations such as the International Labor Organization and the International Finance Corporation. Our efforts have been aimed at raising the bar for performance across our industry, which requires actors across the value chain to collaborate, share information and innovate more effective, efficient and equitable ways of doing business. Based on this analysis, we developed strategies to address the main barriers to progress in this complex system, and launched initiatives to tackle them.

We have also worked to positively change systems in other areas of need:

- Created by the Nike Foundation in collaboration with partners, and informed by insights from thousands of hours of research about the impacts of girls living in extreme poverty around the world, the Girl Effect leverages the unique potential of adolescent girls and provides them with resources to end poverty for themselves, their families, their communities, their countries and the world.
- In 2012, with more than 70 organizations from government, civil society and companies, we launched Designed to Move, a study on the effects of physical inactivity in childhood and the need to build physical activity into the daily life of children. The report articulated the decline in physical activity and economic costs of that decline. With a coalition approach we provided research and defined a physical activity agenda and framework for action, including creating early positive experiences for children and integrating physical activity into everyday life.

Helping transform entire systems is complex, difficult and requires long-term investment and effort. We’re committed to the process – it’s essential to achieving our vision of a sustainable business. We look forward to learning more in the coming years.



# TARGETS & PERFORMANCE

In sustainability – as in sports – what counts is how you perform on the field. A sound game plan or strategy is essential to success. Then as you progress, people want to know: How did you do? Did you meet your goals, or fall short? What was the final score?

In the end, we know the best way to tackle challenges is simply to get to work. You can only train so much. Then it's game time. You have to perform.

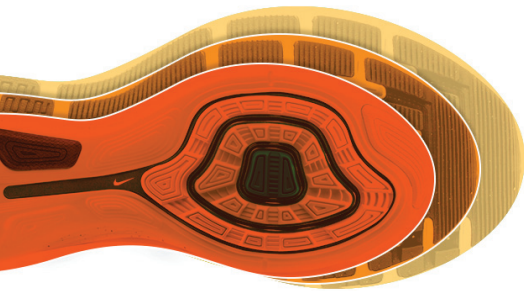
At NIKE, we have developed a series of sustainability-related aims, targets and commitments to help ensure we are on track and making progress. The remainder of this report details our performance. It is divided into two major parts:

- **Make Today Better**, which covers our progress in six key impact areas and shows how we are redefining the business to improve our performance.
- **Design the Future**, which illustrates how we are unleashing innovation to drive our business forward and embedding sustainability into our approaches to product and manufacturing.

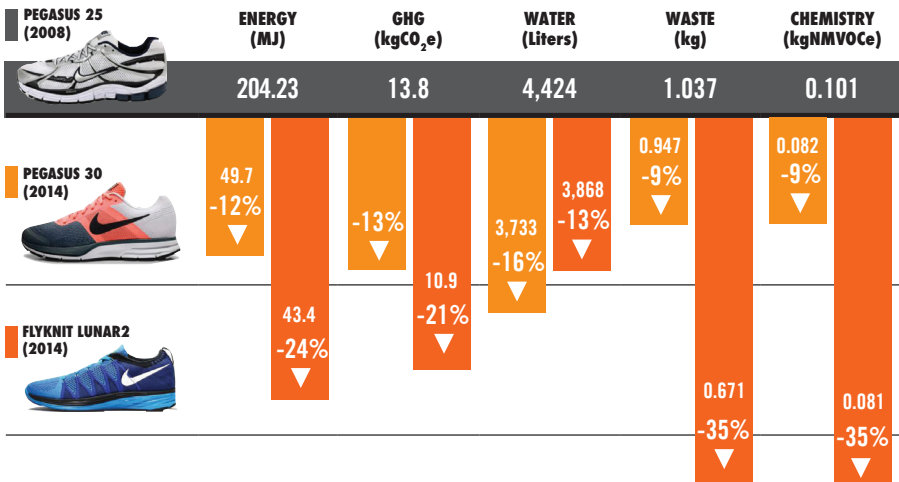
We provide a snapshot of our progress toward all of our aims, targets and commitments. We believe one of the best ways to see these types of change in action is through the comparison of products. We have evaluated three representative, iconic styles of footwear and the lifecycle impacts across the value chain: the 2008 Air Pegasus 25, the 2014 Air Pegasus 30, and the 2014 Flyknit Lunar 2. We provide a deep comparison of the energy, emissions, water and waste impacts of these models at every stage of the value chain as an illustration of how changes to materials and methods of manufacture – both incremental and game changing – are bringing to life our vision of decoupling growth from constrained resources. (See [nikeresponsibility.com](http://nikeresponsibility.com).)

## PRODUCT IMPACTS FROM PEGASUS TO FLYNIT

A footprint includes many different kinds of impacts that must be measured through the scientific evaluation of all processes and steps – from growing or processing the materials that go into the product, to how it's made, to how it's used and disposed. To understand our products' footprint we have conducted a thorough analysis of five key environmental aspects: energy use, greenhouse emissions, waste, water use and chemistry. In this analysis, we look at these five aspects across three typical-profile running shoes in popular styles and common sizes.



Go online to find the change in footprint by style for different areas of impact and the change at each phase of the value chain.



## TARGETS & PERFORMANCE

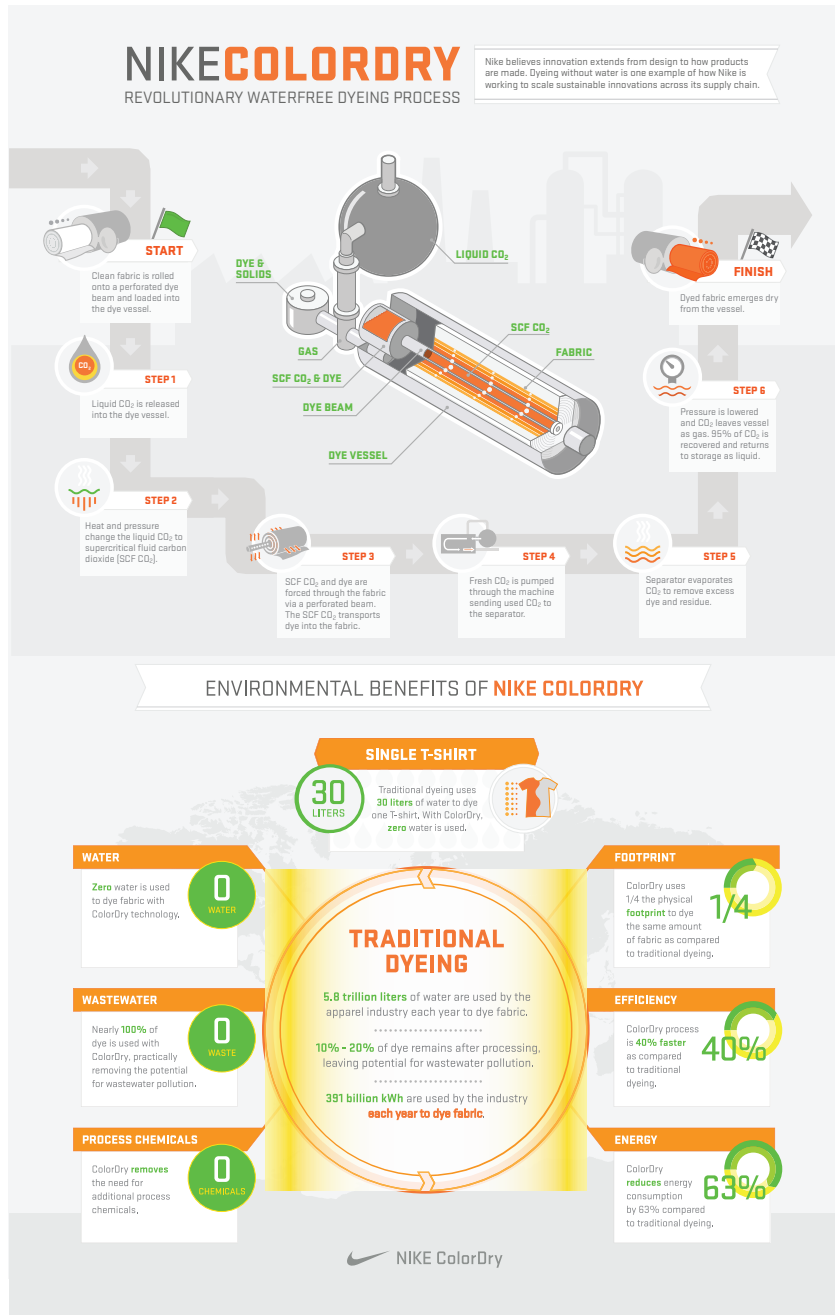
Continuous learning will be essential, as some of our goals will be difficult to meet. For instance, we are still working, along with others in our industry, to identify a consistent, meaningful and reliable way to track progress toward our target of zero discharge of hazardous chemicals by 2020. In FY12, Converse introduced a new, 13% lighter-weight shoebox, and our new NIKE Brand shoebox will be completely rolled out by the end of FY15. The NIKE Brand box is 3% lighter, which is great progress, but will not get us all the way to our 10% weight reduction target.

In each of our impact areas, we are working to solve the most pressing problems. Our footprinting work confirmed what we had long believed: that our greatest impacts, and therefore our highest priorities for progress, reside in the parts of our value chain that we do not control directly. Much of our work over the past few years has been to devise and deliver on ways to best influence those impacts – such as through our indices, which help us to rank and evaluate suppliers and help them understand our aims.

At the same time, we are increasingly aware that our key impact areas often overlap and interconnect. For example, efforts to reduce hot water usage in a factory may have the positive effect of also reducing energy usage, because less water needs to be heated. We also know our actions have far-reaching effects and consequences that are sometimes unintended – though not necessarily negative. For instance, if we can help a factory use less water – or on a bigger scale if we make factory sourcing decisions with water availability and use as a key criteria – we can help whole communities maintain or improve their access to water for personal use. Similarly, helping to improve water quality (for instance by working toward our goal of zero discharge of hazardous chemicals) can broadly help to enhance community and environmental health.

We can address a number of these issues through game changing innovations like NIKE ColorDry, developed by our strategic partner Dyecoo Textile Systems B.V. to take water out of the material dyeing process (see NIKE ColorDry on page 27). This type of sustainable innovation takes considerable time and investment to prove and bring to scale. But the opportunity for NIKE ColorDry extends broadly, and provides quality improvements as well as water impacts: no water used, no discharge, no competition with local resources.

# TARGETS & PERFORMANCE



NOTE: Find out more about NIKE ColorDry and our strategic partnership at [nikeresponsibility.com](http://nikeresponsibility.com).







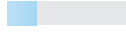

Another example is our decisions about where to source plant-based materials, like cotton, which have far-reaching effects on how land is used in a given community and whether there's enough land to grow food for local populations. We are always working to identify and assess these kinds of interactions, trade-offs and consequences, recognizing that there are multiple paths to "better," with some solutions not even invented yet.

In the end, we know the best way to tackle challenges is simply to get to work. You can only train so much. Then it's game time. You have to perform. We report on what we're doing, and how we're doing, on the following pages.

# TARGETS & PERFORMANCE

- Lagging
- On Plan
- Significant Progress
- Achieved

## MAKE TODAY BETTER

TOPIC	AIM	TARGET	PROGRESS	COMMITMENTS
Cut Energy	Drive innovation and collaboration and engage in public policy advocacy to deliver carbon reductions across the value chain	Achieve a 20% reduction in CO <sub>2</sub> emissions per unit from FY11 levels through FY15 (in aggregate from assessed footprint in the built environment, logistics and footwear manufacturing)	 <p>13% reduction at the end of FY13</p>	<ul style="list-style-type: none"> <li>• Increase contracted manufacturer participation in NIKE's energy and carbon continuous improvement program</li> <li>• Expand use of renewable energy in our built environment (where available), including all new retail stores</li> <li>• Design new NIKE, Inc. build to LEED standards</li> <li>• Assess and report energy and CO<sub>2</sub> footprint</li> </ul>
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 a commitment to workers by achieving minimum bronze rating on our Sourcing & Manufacturing Sustainability Index by the end of FY20	 <p>68% of factories rated bronze or better at the end of FY13</p>	<ul style="list-style-type: none"> <li>• Align sourcing decisions by the end of FY20 to prioritize sourcing in factories that have eliminated excessive overtime</li> <li>• Require commitment to lean manufacturing and demonstrate progress toward a lean culture for contract factories to move beyond compliance by the end of FY15</li> <li>• Develop and test new models of manufacturing by the end of FY15 that serve to improve factory approach to workers, their skills and livelihood, and share findings to drive industry change</li> </ul>
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	 <p>Executing according to plan</p>	<ul style="list-style-type: none"> <li>• Establish an industry-wide management coalition</li> <li>• Expand chemicals management and awareness training</li> <li>• Expand use of environmentally preferred chemistries</li> <li>• Expand material traceability</li> <li>• Explore disclosure advancements</li> </ul>
Slash Water Use	Borrow water and use it responsibly	Improve water efficiency by 15% per unit in apparel materials dyeing and finishing, and in footwear manufacturing, from FY11 through FY15	 <p>10% reduction at the end of FY13 (apparel)</p>  <p>23% reduction at the end of FY13 (footwear)</p>	<ul style="list-style-type: none"> <li>• Increase participation in NIKE Water Program across NIKE, Inc. brands</li> <li>• Drive industry change through expanded access to the use of NIKE-developed H2O*Insight Tool</li> <li>• Assess the geographic impact of water</li> </ul>
Reduce Waste	Use less, buy less to reduce impact across the value chain	Achieve a 10% reduction in waste from finished goods manufacturing across NIKE, Inc. and in shoebox weight per unit (from an FY11 baseline through FY15)	 <p>8.6% reduction at the end of FY13 (footwear)</p>  <p>3% reduction at the end of FY13 (shoebox)</p>	<ul style="list-style-type: none"> <li>• Reduce waste in manufacturing</li> <li>• Improve packaging</li> <li>• Increase recycling, reuse, repurpose &amp; compost of waste (manufacturing, retail, distribution centers, offices)</li> </ul>
Support Communities	Catalyze human potential by creating community and business impact through a portfolio of innovative partnerships, advocacy and movement-making initiatives	Invest a minimum of 1.5% of pre-tax income in communities annually	 <p>1.6% of pre-tax income contributed to communities in FY13</p>	<ul style="list-style-type: none"> <li>• Build and expand Access to Sport agenda</li> <li>• Tap the power of our brands to engage consumers and leverage support for the issues they care about</li> <li>• Through the NIKE Foundation, continue to use insight, innovation and inspiration to equip adolescent girls in the developing world and transform their world so their full potential can be realized</li> <li>• Engage, encourage and enable employees to support communities</li> </ul>

# TARGETS & PERFORMANCE

- Lagging
- On Plan
- Significant Progress
- Achieved

## DESIGN THE FUTURE

TOPIC	AIM	TARGET	PROGRESS	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		<div style="width: 25%;"><div style="width: 25%; background-color: #0070C0;"></div></div>	<ul style="list-style-type: none"> <li>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</li> <li>Develop and prototype an index to drive and measure how sustainability is integrated into our innovation portfolios, decision making and processes. 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</li> <li>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</li> </ul>
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	<div style="width: 25%;"><div style="width: 25%; background-color: #0070C0;"></div></div>	<ul style="list-style-type: none"> <li>New NIKE Brand global* footwear product achieves minimum silver rating on NIKE Footwear Sustainability Index by the end of FY15</li> <li>New NIKE Brand global* apparel product achieves minimum bronze rating on NIKE Apparel Sustainability Index by the end of FY15</li> <li>New NIKE Brand global* equipment product achieves minimum bronze rating on NIKE Equipment Sustainability Index by the end of FY20</li> <li>Expand reach of indices to score other NIKE, Inc. product (i.e. products of Affiliate brands, licensees and carryover products)</li> <li>Increase use of environmentally preferred materials</li> </ul>
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 selecting factories with which to source from over time	Source all products from factories that have achieved bronze or better on our Sourcing & Manufacturing Sustainability Index by the end of FY20	<div style="width: 25%;"><div style="width: 25%; background-color: #0070C0;"></div></div>	<ul style="list-style-type: none"> <li>Incorporate factory labor and environmental performance criteria into production vendor sourcing selection and evaluation</li> <li>Enable contracted factories to expand and optimize their labor and environmental sustainability capabilities</li> <li>Engage external partners to drive sustainability and transparency across the industry</li> </ul>
People & Culture	Tap our people and our culture, our most powerful source for innovation and change		<div style="width: 25%;"><div style="width: 25%; background-color: #0070C0;"></div></div>	<ul style="list-style-type: none"> <li>Invest in employee development</li> <li>Engage employees</li> <li>Inspire ideas and ignite innovation</li> </ul>
How We Work	Build sustainability into the DNA of our business model, into our operations and culture where innovation is unleashed, shared and scaled		<div style="width: 25%;"><div style="width: 25%; background-color: #0070C0;"></div></div>	<ul style="list-style-type: none"> <li>Hardwire sustainability in the way we do business</li> <li>Measure the business value of sustainability</li> <li>Be a catalyst of sustainable innovation</li> <li>Participate in multi-sector efforts to drive system change and market transformation</li> </ul>

NOTE: Further detail on all targets and commitments is discussed by impact area in this report, and with additional background online.

\*\*"Global" product refers to consumer product designed at NIKE World Headquarters for a global market. NIKE Brand excludes Converse, Hurley, NIKE Golf and Jordan Brand. NIKE Brand metrics have not been restated to reflect the divestiture of Cole Haan and Umbro in FY13, or the reporting changes to Hurley and NIKE Golf effective in FY14.

# MAKE TODAY BETTER

“Make Today Better” reflects our understanding that our business and its value chain have environmental and social impacts that can be reduced through long-term commitment to continuous improvement. This includes recognizing the systems, processes and impacts we have today and doing our best to manage those, while also pursuing the big, radical changes that will shape tomorrow.

**IN THIS SECTION:**

- CLIMATE & ENERGY**
- LABOR**
- CHEMISTRY**
- WATER**
- WASTE**
- COMMUNITY**

Our work has delivered significant improvements over time – for example, we’ve reduced manufacturing waste in NIKE Brand footwear by 35% since 2005 – and that means continuing to make incremental progress can be more challenging. That doesn’t mean we stop; it means we continue to innovate and drive change.

Through footprinting and other analysis, we have identified our six areas of greatest impact and set targets and made commitments for each: energy, labor, chemistry, water, waste and communities. Through systems analysis, we are improving our understanding of the interconnected nature of impacts and bring those insights into our approach to managing them. The sections that follow provide a dashboard-style overview of our aims, targets and commitments as well as our progress, along

with a deeper dive on some of the most significant areas.

By pursuing the course we charted in FY11 and shared in 2012, we have made measurable progress and believe we are on track to meet our targets in most areas, including reducing manufacturing waste, energy and water use. In other areas, progress has been slower or more difficult to measure. We’re working to align all of our product engines and brands according to a common vision and set of tools for moving the needle.

Making continuous progress in reducing our impacts is the foundation for demonstrating that we’re serious about change. It’s the basis we build upon for more disruptive innovation.

# CLIMATE & ENERGY



## Aim

Drive innovation and collaboration and engage in public policy advocacy to deliver carbon reductions across the value chain

## Commitments

### MANUFACTURER PERFORMANCE

Increase contracted manufacturer participation in NIKE's energy and carbon continuous improvement program

In FY13, 41% of participating contract footwear factories met the minimum requirements of the NIKE Energy and Carbon Program, representing 72% of NIKE Brand footwear volume.

### RENEWABLE ENERGY

Expand use of renewable energy in our built environment (where available), including all new retail stores

In FY13, we offset 46% or 59,000 mWh, of our energy usage in NIKE Brand North America retail stores through Green-e Certified American Wind Renewable Energy Certificates (RECs). All 204 of our NIKE Brand North America retail stores purchased RECs in FY13, up from only 2% of stores in FY12.

We also produce renewable energy at two key global distribution centers. Our European Logistics Center in Laakdal, Belgium, has six wind turbines with generation capacity of 1.5 MW each, as well as a solar installation. Together, they generated 14.4 million kWh in FY12 and 17.6 million kWh in FY13. The NIKE China Logistics Center in Taichang features a solar heating system that produces renewable energy for the facility, including 97,000 kWh in FY12, and 123,000 kWh in FY13.

## Target

### CUT ENERGY

Achieve a 20% reduction in CO<sub>2</sub> emissions\* per unit from FY11 levels through FY15 (in aggregate from assessed footprint in the built environment, logistics and footwear manufacturing)

### LEED DESIGN

Design new NIKE, Inc. build to LEED standards

Seven of our stores achieved Platinum or Gold LEED certification in FY13, bringing our total LEED-certified stores to 33. On average, our LEED-certified stores use 30% less energy per square foot than standard designs.

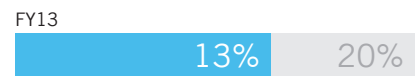
### GHG FOOTPRINT

Assess and report energy and CO<sub>2</sub> footprint

Overall, the amount of energy used in our value chain fell 5% and our greenhouse gas emissions fell 2.8% in FY13 from FY11\*\*, compared to revenue growth of 26% over the same period. Also, we completed a full value chain footprint assessment in FY13, based on life cycle data from raw materials growing or extraction through product disposal. Findings for CO<sub>2</sub> and energy are discussed in this section.

## Progress

Reduction in per-unit CO<sub>2</sub> emissions:



By the end of FY13 we achieved a per-unit CO<sub>2</sub> reduction of 13%, in aggregate from our targeted footprint, compared with our FY11 baseline. Our targeted footprint includes NIKE Brand contract footwear factories, retail facilities, inbound transportation, headquarters facilities, and NIKE-owned or -operated high-volume distribution centers.

↓ 17% reduction in CO<sub>2</sub> emissions per unit in NIKE Brand footwear manufacturing from FY11 to FY13\*\*\*

↓ 29% reduction in CO<sub>2</sub> emissions per unit in inbound transportation from FY11 to FY13

↓ 26% reduction in energy use per unit processed in major global distribution centers from FY11 to FY13

↓ 16% reduction in energy use per square foot in our corporate offices from FY11 to FY13

↓ 2.8% absolute reduction in CO<sub>2</sub> from FY11 to FY13

\*The majority of our measured greenhouse gas emissions are CO<sub>2</sub>. We emit small amounts of other greenhouse gases and roll them up into a calculation of "CO<sub>2</sub> equivalents," or CO<sub>2</sub>e, for our data reporting. In the text of this report, though, we speak about our measured emissions as simply "CO<sub>2</sub>" since that is the predominant gas emitted.

\*\*The NIKE Brand metrics have not been restated to reflect the divestiture of Cole Haan and Umbro in FY13, or the reporting changes to Hurley and NIKE Golf effective in FY14.

\*\*\* Data includes NIKE, Inc. contracted manufacturing. Contract factories provided self-reported data to NIKE, most of which (88%) is verified with NIKE field teams during onsite review.

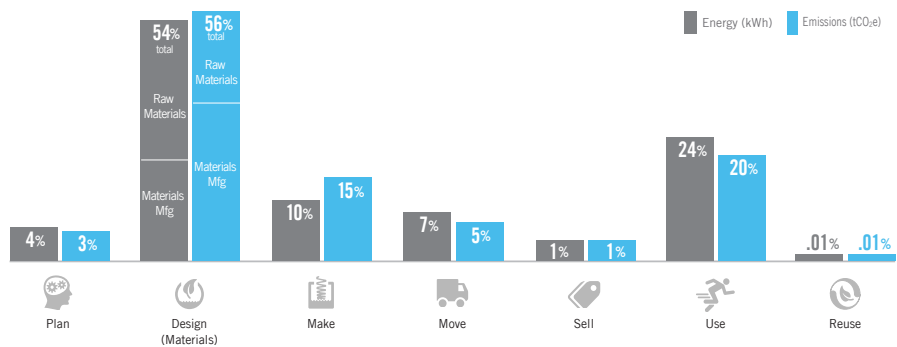
Climate change is a critical issue. At NIKE, we seek to cut energy use and greenhouse gas (CO<sub>2</sub>) emissions throughout our value chain, to reduce our climate impacts as well as energy-related costs.

We believe we are making progress toward the aim of decoupling growth from constrained resources, as our revenue growth from continuing operations has significantly outpaced the growth in energy use and emissions in our assessed footprint.

Our footprinting confirms that the greatest sources of CO<sub>2</sub> and energy use in our value chain lie outside our direct control, both upstream (in growing materials, raw materials manufacturing and finished goods manufacturing) and downstream (in consumer use, including washing and drying clothes). (See below.) Fortunately, our indexing tools, discussed on page 64, provide us with means to influence emissions and energy use in at least the key upstream phases of our value chain.

## THE BIG PICTURE: CLIMATE & ENERGY IMPACTS OF NIKE, INC.'S FULL VALUE CHAIN (FY13)

OVERALL CLIMATE & ENERGY FOOTPRINT ACROSS OUR VALUE CHAIN: ESTIMATED 12.5M tCO<sub>2e</sub>; 28.9B kWh of which 7% (0.87M tCO<sub>2e</sub>) and 11% (3.2B kWh) are NIKE, Inc. owned and operated operations



NOTE: For more detail including our methodology and navigation through the value chain and impacts see nikeresponsibility.com. Our footprinting data includes extrapolations. Some percentages are rounded up resulting in greater than 100% impact across the value chain.

We measure energy and emissions in three ways – all part of enhancing our understanding of our overall impacts and assessing our performance.

- **The big-picture view** – is a point-in-time view that gives us the opportunity to see how choices intersect with one another and where the balance of our work and efforts should be concentrated. Much of these inputs are extrapolated based on available data and stretch farther than our company operations, for example in the raw materials or use phase. We overlay this understanding with what we know about our ability to control and influence at each stage.
- **Our assessed footprint** – provides year-on-year comparisons on our absolute energy use and emissions and helps us to gauge our overall progress toward our aim to decouple profitable growth from constrained resources. This overall energy and GHG footprint provides a picture in absolute terms against our assessed footprint.
- **Our targeted footprint** – which includes elements of our assessed footprint – measures those areas where we have specific targets or programs and are working to bring about reductions. These include NIKE Brand contract footwear factories, retail facilities,



## CLIMATE & ENERGY



### DID YOU KNOW?

Due to methane emitted by cows, leather represents 56% of the CO<sub>2</sub> emissions in the raw materials stage of our value chain.

inbound transportation and headquarters facilities, and NIKE-owned or-operated high-volume distribution centers. We measure and assess this performance against a common metric – total NIKE Brand footwear volume, to give a relevant year-on-year comparison.

In FY13, our targeted reductions – which include the aggregate of efforts in the built environment, logistics and footwear manufacturing – achieved a 13% CO<sub>2</sub> emissions reduction since FY11 on a per-unit basis against NIKE Brand footwear units. That means we believe we are on track to reach our CO<sub>2</sub> reduction target. It also means we believe we are making progress toward the aim of decoupling growth from constrained resources, as our revenue growth from continuing operations has significantly outpaced the growth in energy use and emissions in our assessed footprint.

We also reduced both energy use and our GHG footprint in absolute terms when considering our assessed footprint. Through FY13, the total energy use and related CO<sub>2</sub> emissions for our assessed footprint fell 2.8% in absolute terms (to 1.67 million tCO<sub>2</sub>) and energy use fell 5% (to 14,924 TJ) compared to our FY11 baseline, while company revenue grew by 26% over the same period.

The greatest single contributor to our assessed footprint is finished goods footwear manufacturing, which accounts for more than 57% of our assessed CO<sub>2</sub> emissions. From FY11 to FY13 alone, footwear manufacturing realized a per-unit emissions reduction of 17%, and down 33% from FY08. This reduction was accomplished by reducing process heat loss, improving energy management systems and fostering better engagement between factories and NIKE's energy field team.

We have also seen progress in inbound transportation within the NIKE Brand, with our shipping providers helping us to deliver a 29% reduction in CO<sub>2</sub> emissions in FY13 as compared to FY11. We achieved this in part by shipping more product by ocean than air, thus reducing fuel consumption and cost. The rollout of a new, more-accurate emissions-tracking system also contributed about 6% of the reduction.

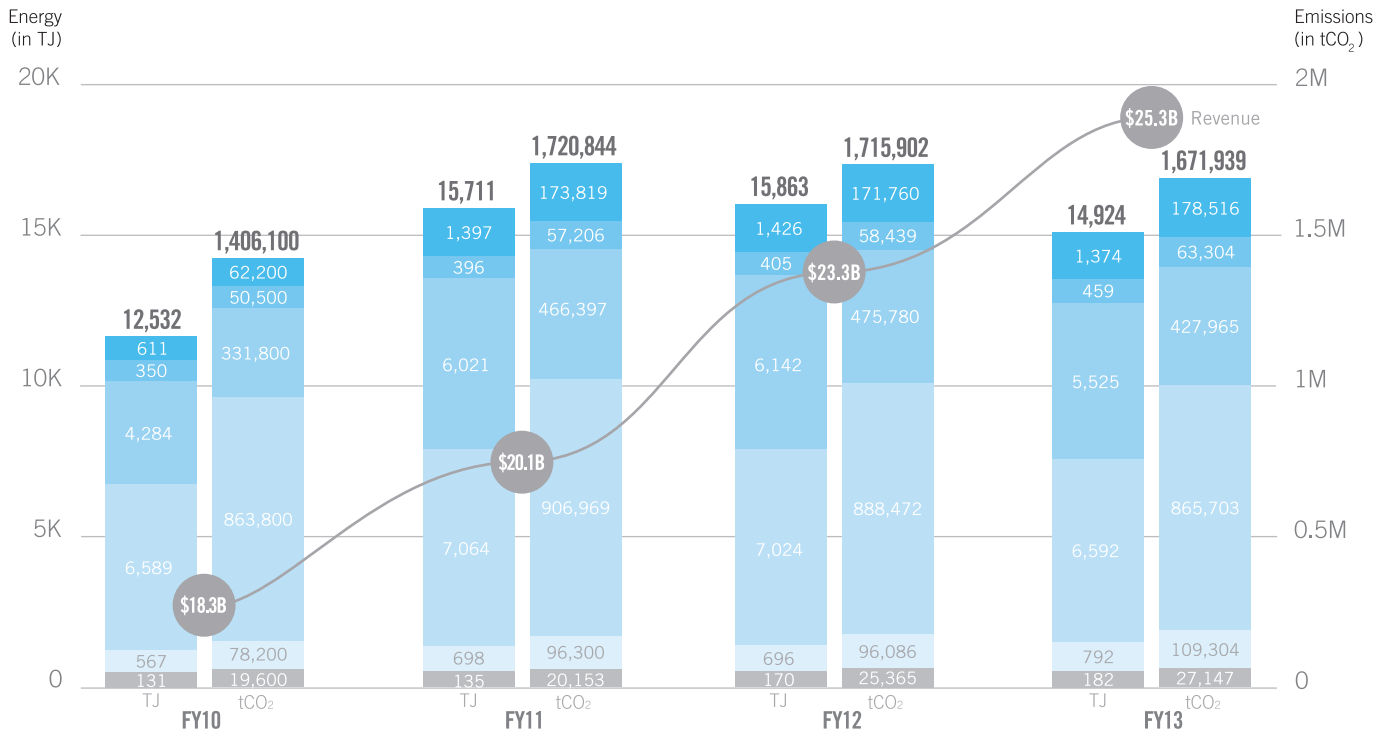
In our NIKE Brand retail stores, we decreased energy use per square foot by 8% from FY11 to FY13, largely due to better energy management systems. About 77% of our North America stores now have these systems, up from 70% in FY12.

Overall, in our corporate headquarters facilities, energy use per square foot decreased by 16% from FY11 through FY13, largely due to system and control upgrades. We anticipate that adding several new buildings to the portfolio late in FY13 will increase energy use per square foot as building occupancy increases in future years.

We continue to make progress in additional areas not factored into our target, including apparel and equipment manufacturing, where we are working hard to develop comprehensive baselines so we can track progress year-over-year. We are also working more closely with material vendors, to help them reduce their emissions and energy use.

We advocate for meaningful climate policies through ongoing work with organizations such as the Business for Innovative Climate and Energy Policy (BICEP), which we founded in 2008 together with other major brands. See more on our advocacy work in the "Public Policy" section of this report.

## NIKE, INC. TOTAL ASSESSED ENERGY AND tCO<sub>2</sub> EMISSIONS



SEGMENT [SCOPE]	COMMENTS	NOTES
Facilities [1,2]	Better data accuracy applied	Beginning in FY10, energy use is reported based on fiscal year. World Headquarters, all major global distribution centers and global retail stores are included. Reported GHG is in tCO <sub>2</sub> e instead of tCO <sub>2</sub> .
Business Travel [1,3]	No more use of carbon offsets	Includes all commercial air travel, majority of global car rentals and all owned aviation. Reported GHG is in tCO <sub>2</sub> e instead of tCO <sub>2</sub> .
Inbound Transportation [3]	Moved to more accurate carbon accounting methodology	Covers shipment from finished goods factories to distribution centers globally. Reported GHG is in tCO <sub>2</sub> e instead of tCO <sub>2</sub> .
Footwear Manufacturing [3]	Energy-efficiency program and new methodology applied in FY09	Finished good manufacturing, with 90% factory-reported primary data and 10% extrapolated. Reported GHG is in tCO <sub>2</sub> e instead of tCO <sub>2</sub> .
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	This enhancement improved the data and our ability to extrapolate to other facilities with more accuracy.

# LABOR



## Aim

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

## Commitments

### OVERTIME

**Align sourcing decisions by the end of FY20 to prioritize sourcing in factories that have eliminated excessive overtime (defined by Our Code of Conduct as more than 60 hours in a week or less than one day off in seven)**

Our sourcing process includes assessment of excessive overtime. In FY13, 93% of factories reported no incidents of excessive overtime. 55 incidents of excessive overtime were reported: 6 factories had incidents with >72 hours/week; 34 had incidents with 60–72 hours/week; and 5 exceeded legal limits for daily or annual hours. Nine contract factories had incidents of <1 day off in 7 and one had an incident of <1 day off in 14. Remediation plans were developed and monitored with all of the contract factories that had these incidents of excessive overtime.

Performance against excessive overtime standards improved in all categories compared to FY12, when 116 incidents were reported, and 87% of factories reported no incidents.

### LEAN MANUFACTURING

**Require commitment to lean manufacturing and demonstrate progress toward a lean culture for contract factories to move beyond compliance by the end of FY15**

At the end of FY12, 91% of NIKE Brand footwear product volume and 44% of NIKE Brand apparel product volume were sourced from factories that had participated in sustainable manufacturing training. Participating factories represented 531,000 workers (61%) in the supply chain.

In FY13 we began incorporating Human Resources Management training into how we coach contract factories on lean manufacturing. Also in FY13, 85% of our NIKE Brand footwear product volume and 76% of our NIKE Brand apparel product volume was made on lean-certified lines.

## Target

### EMPOWER WORKERS

Source from factories that demonstrate commitment to workers by achieving minimum bronze rating\* on our Sourcing & Manufacturing Sustainability Index by the end of FY20

### EQUITABLE MANUFACTURING

**Develop and test new models of manufacturing by the end of FY15 that serve to improve factory approach to workers, their skills and livelihood, and share findings to drive industry change**

Pilot projects focused on improving contract factories' data-collection processes and precision, and identifying opportunities for productivity improvements on the production line and for worker engagement and well-being.

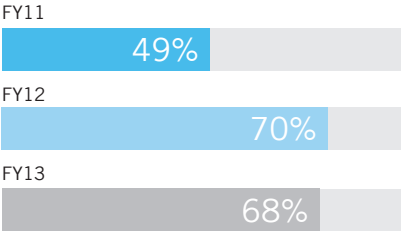
We developed a baseline survey to gauge workers' views. The survey helped to identify areas needing improvement and resulted in several new factory processes.

Pilot factories improved the overall stability of their production lines, enhanced communication with their teams, and utilized lean processes such as collaborative sessions and worker participation, which led to projects inside the factory to address productivity and worker well-being concerns.

We are extending this approach.

## Progress

Contract factories achieving bronze\* or better scoring on Sourcing & Manufacturing Sustainability Index



In FY13, 68% of contract factories rated bronze or better on our Sourcing & Manufacturing Sustainability Index, compared to 70% at the end of FY12 and 49% at the end of FY11.

\*Bronze means meeting NIKE's high standard for "good" in a contract factory (see page 68).

**1.01M** workers in contract factories making product for NIKE globally

**93%** of audited contracted factories reported no incidents of excessive overtime

**83%** of contracted factories have compliant grievance systems in place

With a total footprint of more than 2.5 million people across our value chain and 1 million people in the contract factories we source from directly, labor remains among our greatest areas of human impact and opportunities to help bring about real change.

**LABOR IN FACTORIES WE SOURCE FROM DIRECTLY (END OF FY13)**

**1.01<sub>M</sub>**

workers in contract factories

**32**

average age in years

**785**

contract factories

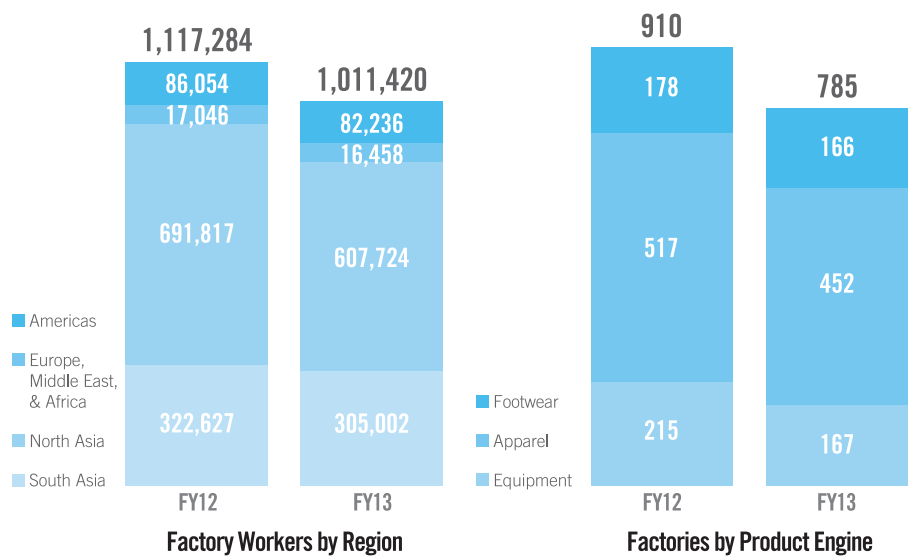
For more up-to-date information on the factories we source from, their locations, type of product and workers, visit the online interactive manufacturing map at [nikeinc.com/pages/manufacturing-map](http://nikeinc.com/pages/manufacturing-map).

At the end of FY13, just more than 1 million people – with an average age of 32 – worked in the 785 factories that we source from directly. We believe another half million people work in the factories that make the materials used in our products, and more than 1 million people work in raw material production. (Some factories are vertically integrated, and play more than one of these roles.)

We believe that a successful contract factory can achieve even more success through more active engagement with workers as a source of innovation and quality, which also presents an opportunity for workers to benefit. This approach is part of the way we seek to do business through the progression of lean as a component of our “manufacturing revolution” (see page 69).

**GLOBAL CONTRACT WORKER AND FACTORY COUNT**

FY12-13



**NOTE:** As of last day of fiscal year, May 31. Factory, country and worker count includes NIKE, Inc. contracted manufacturing. These figures include Affiliates, prior to divestiture, and NIKE Brand licensees. For more details and updated information, see NIKE’s interactive manufacturing map, available online.

**Europe, Middle East & Africa** includes Turkey, Bosnia, Bulgaria, Egypt, Hungary, Isreal, Italy, Moldova, the Netherlands, Poland, Portugal, South Africa, Spain and the United Kingdom

**North Asia** includes China, Taiwan, Hong Kong, Japan, the Philippines and Vietnam.

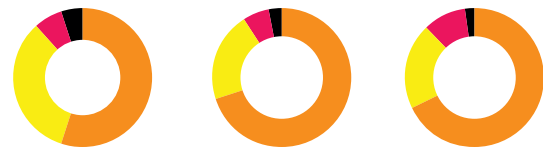
**South Asia** includes Thailand, Cambodia, Indonesia, India, Bangladesh, Pakistan, Sri Lanka, Malaysia, Singapore and Australia.

**CONTRACT FACTORY PERFORMANCE**

For years, we have been sourcing from factories that seek to meet our minimum standards for good labor performance. In FY11, we converted our contract factory evaluation and scoring system from a letter-based system to a new medal-based one in line with our Sourcing & Manufacturing Sustainability Index (SMSI). The SMSI is one component of the overall Manufacturing Index, which also assesses contract factory performance on quality, on-time delivery and costing in equal measure. At the end of FY11, 49% of contract factories scored bronze on the SMSI. By the end of FY13, 68% had reached that score.

Our transition to the SMSI is part of a strategic shift away from a compliance-based “auditing and checking” relationship with our contract manufacturers and toward cooperation around lean manufacturing as a means to achieve greater efficiency, built on a stable, agile, engaged and motivated workforce. Because an engaged workforce is an empowered workforce. We’re spending more time with, and have processes in place to direct more business to high-performing factories (i.e., bronze or better). At the same time, we are requiring lower-performing factories to pay for their own audits and to remediate any issues found. Factories that fail to achieve bronze level performance within a defined timeframe are reviewed by senior leadership and are assessed penalties, such as a reduction in orders and are even considered for removal from our contract factory base.

**FACTORY RATINGS AND TRENDS**



	FY11	FY12	FY13
Gold	0	0	0
Silver	0	0	<1% / 1
Bronze	50% / 441	70% / 639	68% / 535
Yellow	38% / 336	21% / 193	20% / 156
Red*	5% / 46	6% / 51	10% / 77
No Rating	7% / 59	3% / 27	2% / 16
<b>TOTAL</b>	<b>100% / 882</b>	<b>100% / 910</b>	<b>100% / 785</b>

NOTE: More detailed discussion of factory performance trends is available in the “Manufacturing” section of this report and online. Contract factory count includes NIKE, Inc. contracted manufacturing. These figures include Affiliates, prior to divestiture, and NIKE Brand licensees.

\*In FY13, we tightened compliance requirements, reducing the time period that contract factories could remain yellow before dropping to red status (to two consecutive quarters). This change resulted in an increase of red ratings at the end of FY13.

**SCORING METHODOLOGY:** Bronze indicates full compliance with NIKE Code of Conduct and adherence to the 227 requirements in the Code Leadership Standards (CLS) as measured by our Health, Safety & Environment and Labor tools (available online). Silver and gold reflect an additional commitment to lean manufacturing and progressive achievement in performance management, management systems and scoring on assessments tools covering lean manufacturing, Human Resources Management, Energy & Carbon, Health & Safety and Environmental Sustainability. Gold demonstrates global leading manufacturing performance across all industries. Factories rated yellow or red indicate performance out of compliance with our Code and CLSs, where red indicates critical issues of noncompliance. No rating indicates a lack of data.

**AUDITS & COMPLIANCE**

While our focus has become more strategic, audits and monitoring remain an important component of how we know that our Code of Conduct is enforced, and helps get factories to bronze status. We assess contracted factories to review their ability to meet our high standards of social and environmental performance both before and during their work with us.

These assessments take the form of audit visits by both internal and external parties, who gather information on the Code Leadership Standards that amplify our Code of Conduct.

In FY13, 94% of factories went through a full assessment of labor, health, safety and environmental compliance. The remainder reflect the ongoing shift of factories that were in the process of moving out of our supply chain during the year. In FY13, violations were recorded in 16% of factories, a drop from 29% in FY12, due in part to our decision to reduce our contract factory base. The top issues found in FY13 were hours and wages. Among the top violations were issues with paperwork or documentation, as well as overtime (considered hours between 60 and 72 per week). Incidents of excessive overtime dropped from 116 in FY12 to 55 in FY13, due in part to our reduced contract factory base. The percentage of factories reporting no incidents also improved, increasing from 87% to 93%.

**TOP ISSUES OF LABOR NONCOMPLIANCE IN CONTRACT FACTORIES**

	FY11	FY12	FY13
Age	1%	<1%	2%
Freedom of Association and Collective Bargaining	2%	<1%	1%
Harassment	3%	4%	1%
Hiring	4%	2%	2%
Hours	41%	44%	42%
Other	13%	13%	8%
Wages	36%	37%	39%
<b>TOTALS</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

NOTE: More detailed discussion of factory performance trends is available in the "Manufacturing" section of this report and online. Contract factory count includes NIKE, Inc. contracted manufacturing. These figures include Affiliates, prior to divestiture, and NIKE Brand licensee. Percentages are used to show the relative rate of type of incident.

Three areas in our supply chain that remain a priority for our industry are freedom of association, excessive overtime and wages. We continue to work with experienced organizations on these important issues. NIKE is a participating brand in the Play Fair Freedom of Association Protocol in Indonesia where training of factory management and workers is providing the platform for greater engagement in this area. As a member of the business caucus of the Fair Labor Association (FLA), NIKE has a seat on the organization's Compensation Code Element Working Group that will provide recommendations to the FLA on how to move forward with a standard for its members.

We continue our work with contract factories to address and eliminate excessive overtime from the supply chain. Although this is an industry-wide issue, we believe that lean manufacturing provides an approach that will not only unlock greater value for NIKE and the factories we work with, but when implemented effectively will significantly reduce excessive working hours. See further discussion online with deeper background on these and other issues.

**WORKER VOICE & LEAN**

We continued to work with factories to help them enhance their capacity around human resources management (HRM). Through the end of FY12, we provided training to management at contract factories producing 91% of NIKE Brand footwear product and 44% of NIKE Brand apparel product by volume, covering 531,000 workers (61% of total workers in the supply chain). This included surveying contract factory workers. This training was integral to our lean manufacturing approach in which we work with contract

factory management to engage employees in problem solving and continuous improvement and is now incorporated with our lean approach overall.

One worker protection requirement is that contract factories establish grievance systems. At the end of FY13, 82% of contract factories had such systems in place and were in compliance with NIKE standards. Of those in compliance, 70% of factories reported use of their systems, which is comparable to the rate in FY12. We recognize that having and using systems alone is not enough to secure workers' capability to communicate with factory management. We continue to include training and approaches to raising worker voices as part of the lean manufacturing approach we encourage factories to take.

NIKE believes lean can empower workers and teams. The company's journey with contract factories toward lean manufacturing has helped reinforce the need for factory owners to have a deeper understanding of the cultural differences between management and workers' priorities and perceptions, as well as the need to enhance communication and engagement with workers directly on problem solving.

The success of the lean approach depends on three things:

- Leadership – factory leaders use lean to understand the levers that lead to better business performance
- People – workers are engaged and enabled to drive business success through continuous improvement and a more collaborative work environment
- Process – factory processes are predictable and agile in response to customer demand

The lean approach also 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.

We require a commitment to lean as part of being accepted into our source base, and a minimum commitment and progression for positive ratings including measures in our Sourcing and Manufacturing Sustainability Index. Some of the standard metrics we use to assess adoption include productivity, HRM assessments, turnover, absenteeism and factory implementation of and results from worker engagement and well-being surveys.

### **VALUED WORKERS**

We believe that a valued contract factory workforce means better business for the factories and for NIKE, and better well-being for individual workers. Factories that value their workers – investing in their skill building, listening to their ideas on how to improve factory processes, communicating about issues that matter to them, facilitating aspects of their lives that help them show up every day at the factory healthy and on time – can build a skilled, productive and engaged workforce.

As part of this approach, we designed two pilot programs in Indonesia and learned that to enable engagement of the contract factory workforce, we needed contract factories to first stabilize production lines. Within these pilots we worked with factories to improve data quality, and to study and assess absenteeism, worker engagement and well-being, factory management and supervisor skills. Each of these areas has shown to contribute to worker well-being and to individual and factory productivity. Though early, results of well-being surveys in both footwear and apparel pilot factories show that production pilot lines addressing these areas outperform the control lines on both measures of production efficiency and worker engagement.

Although we are still piloting this work, we want to be sure that success in production efficiency and enhancements in contract factory performance does not come at the cost of worker engagement and well-being, as some lean studies at other contract factories have shown in the past.

Taken alone, these areas do not tell the whole story of worker well-being. We also know that many workers want to improve their earnings, and compensation systems can incentivize increased performance. We are working with contract factories to explore and test such systems as part of this work.

In addition, many factors outside the factory affect workers' ability to show up on time and in good health every day. As part of our efforts, we are exploring how we can catalyze third-party investment in products and services that could support workers' daily needs. Many of the factories in our supply base invest in providing support to their workers through on-site health clinics or financial literacy training, though these efforts are not consistently aimed at addressing worker needs. We are developing a scalable and systemic approach to address these and other issues through commercially viable ecosystems of services and products to support worker needs.

We anticipate sharing more of our journey of exploring, testing, assessing and scaling as we learn more through this work.

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

FY11	FY12	FY13
1 Electrical safety	1 Underground storage tanks	1 Hazardous materials
2 Underground storage tanks	2 Hazardous materials	2 Hazardous waste
3 Hazardous materials	3 Electrical safety	3 Control of hazards
4 Hazardous waste	4 Hazardous waste	4 Energy use
5 Contractor safety	5 Confined spaces	5 Underground storage tanks

**HEALTH & SAFETY**

We also score contract factories on 35 health and safety factors. In FY12 and FY13, the average contract factory score was 72% on our scorecard, which measures compliance, performance and risk mitigation. The average score improved from 69% in FY11.

During FY13 we worked with the Fair Labor Association to launch an accredited fire safety train-the-trainer program. The program began with national trainers from Sri Lanka, Bangladesh, Indonesia and India, with a target to cascade globally. (See page 72.)

**LOOKING AT THE SYSTEMS**

Through our systems innovation lens we are also further exploring the labor system to better understand our points of leverage and opportunities for innovation. We are developing a deeper understanding of all the elements that affect labor, at every point in the process from governments to brands, factory owners to unions to workers. We will review this work with external stakeholders and then apply it to specific geographies.

This work has helped us focus more on opportunities to influence worker well-being outside the contract factory. Some elements outside the factories include lack of access to affordable and effective ways to manage money. As a result workers employed by our contract factories may pay more than necessary for basic goods and services such as energy, water and credit. Health care and child care are also concerns for workers. We are looking at how we can collaborate with other organizations and factory owners to support workers in their lives outside the contract factory.



In 2012, NIKE shared its manufacturing vision: to create and deliver great products through a sustainable, NIKE, Inc. sourcing base. Our definition of a sustainable supply chain is one that's **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; and **empowered** by building a workforce that knows and can advocate for its rights.

This case study explores what we are learning in conducting pilots with contract factories.

## PILOTING NEW WAYS OF WORKING

### LEARNING ON THE GROUND

We believe factories that successfully address the well-being of their workers by engaging with them directly to understand their needs will improve factory performance. We also believe that factories need strong human resource management (HRM) programs to increase understanding among factory workers and management. Contract factories that do both of these things – address worker needs by listening and have a strong HRM program – will improve their business and our products.

We wanted to know how contract factories within our own supply chain could do this, what impact it would have, and how to scale this learning, so we started pilots in 2012 with two Indonesian factories.

### OUR APPROACH

We built the pilots on the principles of lean manufacturing. We had already incorporated lean into our work with contracted factories in previous years and built an enhanced vision of lean that includes both environmental and labor improvements alongside process efficiencies. Likewise, we introduced training at factories in 2009 to increase factory management awareness and understanding of HRM. The factories mostly succeeded at process improvements and we had the opportunity to build up the people and leadership components of lean.

For the pilot, we established an external advisory board to confirm we were measuring the right factors. We recruited a range of thought leaders and experts in labor and manufacturing to provide input, including academics, think-tank members and independent consultants from Asia, Europe and the US.

### PREPARING TO PILOT

We approached two factories – one footwear and one apparel – based on their commitment to lean, completion of human resources management training, and achievement in surpassing minimum compliance on our Sustainable Manufacturing and Sourcing assessments. The factories felt that they needed robust baseline data on empowerment and well-being measures, as well as basic factory production metrics to show the impact of new approaches. The two factories both trained managers and used lean approaches – ones that focus on continuous improvement processes – that reached out to and included factory workers. Additionally, both factories were unionized and both had adopted lean practices, set up pilot and control lines, established baselines and measured changes. Though the factories had similarities, we found very different results.

### PILOT IN ACTION: SETBACKS & SUCCESSES

Soon after we started the pilot, the teams identified opportunities to improve and expand their data capabilities. Once data collection was stable we established a baseline for the pilot period over five months.

The footwear factory assigned leaders who assessed worker feedback from surveys conducted, determined which projects to undertake, assigned teams to tackle them, set up approaches and ran the programs. Productivity increased in the factory as a whole as well as on the pilot line, however so did conflict. Though workers were involved in fixing the issues arising out of surveys and proposing solutions to identified problem areas, surveys indicated they did not feel motivated. Survey results showed a decline in perceived levels of motivation after six months, but slight improvements in perceptions of some areas of well-being and pay among those participating in the factory-led pilot. More data and a comparison over time will provide better perspective on these results.

During the footwear factory pilot we received reports of some egregious behavior by line managers that violated our Code of Conduct regarding harassment and abuse. We believe the root causes of this behavior were due to competing priorities among supervisors and a lack of alignment between the factory group chairman, factory management and supervisory levels. We determined these conditions would make it difficult to effectively measure the impact of the pilot and we decided to stop our engagement in the pilot work with them. We worked with factory ownership and management to help them establish a remediation plan which included running factory worker engagement audits, developing a stronger relationship with union leaders, establishing community outreach programs and building leadership competencies. The factory also underwent a mutual trust and respect training that included more than 9,000 factory workers (including line supervisors and managers).

Through this piloting exercise we have learned a great deal about how factories can enable worker engagement and well-being. We now have evidence from within our own supply chain that factories investing in and listening to their workers and involving them in production discussions makes business sense, as measured by increased productivity and worker well-being.

In contrast, the apparel factory management created conditions for workers and management to review survey results, and together they assessed the best issues to tackle and then worked together to address them. The factory management quickly realized that workers had good ideas and could significantly help the business, and that they had not been tapping into this vital resource. The apparel factory workers had suggestions around a number of issues including factory transportation and supervisor/worker communication. Workers were given time and attention when sharing their views, and the worker-led priorities became the initial focus for pilot work rather than factory management priorities. Line supervisors and factory management participated and were responsible for enacting the worker recommendations. Factory management also enacted management changes based on their understanding of cultural, generational and gender issues between themselves, who tend to be middle-age and male, and line workers who tend to be women.

During the pilots the national minimum wages in Indonesia increased 50% to 70%, factory production growth rates continued to increase, and tensions between some unions and factories escalated across the country. These external factors did not have a significant impact on the apparel factory's ability to carry out the pilot.

#### WHAT WE'VE LEARNED

Through this piloting exercise we have learned a great deal about how factories can enable worker engagement and well-being. We now have evidence from within our own supply chain that factories investing in and listening to their workers and involving them in production discussions makes business sense, as measured by increased productivity and worker well-being.

We determined that additional things must be in place for a pilot to succeed, including different data systems and approaches to data. We also know contract factories must build a baseline of strong human resources capacity as a crucial foundation to improve worker well-being.

As we expand our pilot work to additional factories and countries, we will test more factors around engagement and well-being both inside and outside the factory. Together with factories, we have a better understanding of what factories need to have accomplished before participating in a pilot, and how to gauge factory performance. Together we learned more direct involvement is required at all levels of factory management to support problem solving and worker engagement, and engagement and oversight throughout the production function is critical. Additionally, we know management capabilities are critical, especially the management systems used and the behavior of line supervisors and factory management.

Some measures we are assessing include:

- **DATA QUALITY** – 6 measures including validity based on cross-checking, occurrence of errors, team member participation in providing input
- **LEAN** – 21 measures including production efficiency, percentage of rejects and rework, skill levels, absenteeism
- **WORKER ENGAGEMENT AND WELL-BEING** – 40 measures including employee turnover, problems raised/resolved (production and social), motivation, stress, exhaustion, ability to voice opinions, feeling of well-being inside and outside the factory
- **OUTSIDE THE FACTORY** – 10 measures including worker sentiment, participation, impact on turnover or absenteeism

We are reviewing the results of the pilots and are more aware of how our approach to sourcing and developing new frameworks and protocols should work together to incentivize good behavior and practices by management at contract factories.

We know that under the right conditions, contract factories can make significant improvements that encourage, engage and involve workers as valued contributors. We believe this work is too important to delay and that moving to new models of working will require many improvements along the way, from all sides – including our own.

# CHEMISTRY



## Aim

Minimize the impact of product ingredients throughout the lifecycle

## Commitments

### INDUSTRY COLLABORATION

#### Establish an industry-wide management coalition

By the end of FY13, 13 companies had joined the Zero Discharge of Hazardous Chemicals (ZDHC) coalition that we helped launch. A full list of signatory members is available at [roadmaptozero.com](http://roadmaptozero.com). We also remain involved in the Outdoor Industry Association's Chemicals Management Working Group, the Green Chemistry and Commerce Council, the American Chemical Society's Green Chemistry Institute and the AFIRM Group.

### POSITIVE CHEMISTRY

#### Expand use of environmentally preferred chemistries

We have entered a strategic partnership with bluesign® in which bluesign® will provide the NIKE supply chain with access to a database of more than 4,300 preferred chemical formulations.

### TRACEABILITY

#### Expand material traceability

NIKE and the Sustainable Apparel Coalition have both identified traceability as a priority. In FY13 we conducted a pilot project that traced all material and chemical components used in making a T-shirt back to their original source. We are now reviewing the results of that exercise and determining next steps.

### TRAINING

#### Expand chemicals management and awareness training

By the end of FY12, we had trained 586 contract factories – including 326 material vendors and 193 finished goods factories, with the remainder being agents and licensees – in chemicals awareness and management. No trainings were held in FY13, but they will resume after our RSL is updated in 2014. The ZDHC coalition is also planning to conduct joint trainings on chemicals management for suppliers.

## Target

### REJECT TOXICS

Achieve the goal of zero discharge of hazardous\* chemicals for all products across all pathways in our supply chain by 2020

### DISCLOSURE

#### Explore disclosure advancements

NIKE made a public statement committing the company to the goal of zero discharge of hazardous\* chemicals by 2020. We collect water-quality data from vendors that supply materials to contracted factories through the NIKE Water Program and actively partner with the Institute of Public and Environmental Affairs on their Green Choice Alliance program. We are examining this and other partnerships and activities to further understand what types of disclosure will help us toward our 2020 goal and create value for the industry.

## Progress

In FY12, together with six other companies, we created and signed a joint plan for achieving zero discharge of hazardous\* chemicals. We are now working toward this ambitious goal, while continuing to track and report on restricted substances, use of petroleum-derived solvents and training of factories and vendors.

**11.6k** materials were tested in FY13 to confirm they did not contain chemicals on our restricted substances lists (RSLs); 95% of materials passed those RSL tests

**80%** of NIKE Brand footwear designs used environmentally preferred rubber in FY13, consistent with use in previous years

**4.3k** bluesign® bluefinder certified formulations are available in the chemical database for materials vendors to access and use

**2015** We are committed to phasing out long-chain perfluorinated chemicals (PFCs) by January 2015, replacing them with alternatives that have better toxicological and environmental profiles

\*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.

Reducing the use and discharge of toxic chemicals is important for both the environment and human health. At NIKE, we are addressing the issue on several fronts.

While it takes time to align multiple stakeholders on objectives and strategy, we believe the ultimate benefits of moving forward together will outweigh the initial efforts involved. After all, we share vendors, and we believe a challenge this big requires industry-wide solutions.

In FY12, together with others in the apparel industry, we launched the ZDHC coalition and committed to the goal of zero discharge of hazardous\* chemicals by 2020. Since then, we have jointly developed a roadmap for achieving that goal. (See [roadmaptozero.com](http://roadmaptozero.com).) While it takes time to align multiple stakeholders on objectives and strategy, we believe the ultimate benefits of moving forward together will outweigh the initial efforts involved. After all, we share vendors, and we believe a challenge this big requires industry-wide solutions.

At the same time, NIKE continues to make progress on its own. We have a NIKE team driving our efforts toward the goal, including developing accountability systems, company-specific metrics and other internal means for gauging our progress.

#### **INCREASING USE OF ENVIRONMENTALLY PREFERRED CHEMISTRIES**

In FY13, we established a strategic relationship with bluesign® to provide our suppliers with access to extensive information about more sustainable materials and chemistries. We signed the bluesign® system partner agreement that will enable our contract manufacturers access to a listing of more than 4,300 pre-screened, bluesign®-certified textile chemical formulations, including dye systems, detergents and other chemicals used in manufacturing. The bluesign® bluefinder will provide our contract manufacturers with an easy-to-use, rigorously vetted list of chemical products that will help them to reduce the environmental impacts of their processes – and therefore our products.

We are also asking material vendors in our supply base to commit in writing to green chemistry practices (for example, to self-evaluate, identify and reduce or eliminate toxic chemicals). To date, 69% of apparel material vendors and 39% in footwear have signed the commitment. We are hopeful that access to the bluesign® tools will help to increase these numbers by illustrating how straightforward it can be to choose greener options.

#### **RESTRICTED SUBSTANCES**

We continue to maintain a restricted substance list (RSL), which we have developed and shared with material vendors, finished goods contract factories and the public. Our RSL catalogs the substances that should not be included in our products. In FY13, our material vendors tested 11,600 materials to confirm they did not contain restricted substances; 95% passed. (Materials that fail are considered defective and are removed from production.) Our RSL will be updated in 2014. We are also collaborating with the ZDHC to establish an industry-wide manufacturing RSL.

**PETROLEUM-DERIVED SOLVENTS IN FOOTWEAR MANUFACTURING AT CONTRACT FACTORIES**

	FY11	FY12	FY13
Petroleum-Derived Solvents (PDS) (grams/pair)	12.4	12.3	12.7

NOTE: Data is self-reported by contract factories.

**SOLVENTS**

For a number of years we have been tracking the amount of petroleum-derived solvents (PDSs) used and hazardous waste generated in the making of our footwear. Both measures increased slightly over the last two years – by 2.3% and 1.7% per pair of footwear, respectively – due to new contract factories in the NIKE source base and shifts in our product mix. However, our long-term progress has been good with the amount of PDSs per pair down 96% compared with FY95 when we began tracking, and hazardous waste down 31% per pair compared with FY05.

Finally, we have committed to phase out long-chain, perfluorinated chemicals (PFCs) which are typically used in water-repellent finishes. By 2015, we expect these chemicals will be replaced by alternatives with better toxicological and environmental profiles.

# WATER



## Aim

Borrow water and use it responsibly

## Target

**SLASH WATER USE**  
 Improve water efficiency by 15% per unit in apparel materials dyeing and finishing, and in footwear manufacturing, from FY11 through FY15

## Progress

Improvement in water efficiency in apparel materials\* dyeing and finishing, per unit, from FY11 to FY13



Improvement in water efficiency in footwear manufacturing\*\*, per unit, from FY11 to FY13



Water efficiency in manufacturing is improving. Our contract footwear manufacturers have improved efficiency of gallons of water per pair by 23% compared with FY11. NIKE Brand apparel dyeing and finishing vendors have improved their efficiency of liters per kilogram by 10% from FY11.

**816M** fewer gallons of water were used in footwear manufacturing in FY13 compared with FY11

**793** vendors and contract factories participated in the NIKE Water Program in FY13

**50%** increase in the number of vendors and factories participating in the NIKE Water Program since FY11

## Commitments

### PROGRAM PARTICIPATION

**Increase participation in NIKE Water Program across NIKE, Inc. brands**

In FY13, 793 NIKE materials vendors and contract factories participated in the NIKE Water Program, up 50% from 527 in FY11. Participants self-report their water use related to the production of NIKE Brand product and beyond.

### INDUSTRY CHANGE

**Drive industry change through expanded access to the use of NIKE-developed H2O\*Insight Tool**

We made the H2O\*Insight Tool available to the industry in 2011. To date, 95 non-NIKE manufacturing facilities and three non-NIKE, Inc. brands are using the tool. In addition, we continue to help drive improvement in measurement, monitoring and disclosure of water use and quality throughout the industry via our participation in various water initiatives – including the CEO Water Mandate, the Natural Resource Defense Council's Clean by Design, Business for Social Responsibility's Sustainable Water Group, and the Zero Discharge of Hazardous Chemicals coalition. We are seeking collaborative solutions to improve industry knowledge and best practices and to pioneer new methods for traceability and quantifying impacts.

### GEOGRAPHIC IMPACT

**Assess geographic impact of water**

We recognize supply chain water use and discharge as local issues with local impacts. We collect water-related data by manufacturing address (i.e., for contract factories and material vendors). We are also verifying geospatial coordinates for material suppliers and subcontractors with water-intensive processes to assess the water use and discharge of these facilities in their local context.

More sophisticated assessment tools are becoming available that provide insight into which supply chain locations face the greatest water-related risks and which represent the most substantial opportunities for improvement and innovation. Water is a factor in our Country Risk Index and we will continue incorporating the best-available global data for water availability, water quality and other potential water-related risks and impacts.

\*Apparel materials processing data includes dyeing and finishing facilities supplying to NIKE Brand apparel contract factories. Vendors provided self-reported water use and production data at the facility level, which may include materials produced for brands other than NIKE.  
 \*\*Footwear manufacturing data includes NIKE, Inc. contracted manufacturing. Contract factories provided self-reported data to NIKE, most all of which 90% is verified on-site with NIKE field teams during on-site reviews.

We are making progress in assessing and understanding our overall water footprint, which helps us to identify impacts across our value chain. Though we have targeted improvements in water efficiency for manufacturing and materials processing, we recognize that efficiency is not the only relevant measure. Water quality, water security and access to water and sanitation also impact our supply chain and our business, affecting everything from the availability of raw materials to the health and well-being of workers and their communities.

Our understanding of the supply chain and the system in which our suppliers operate is continuously improving.

Our recent footprinting work revealed that the vast majority – 73% – of the water needed to create our products is used at the beginning of our value chain, in the raw materials stage. Why? Cotton, mostly. Cotton is very water-intensive to grow; it is responsible for 87% of all water used in the raw materials stage.

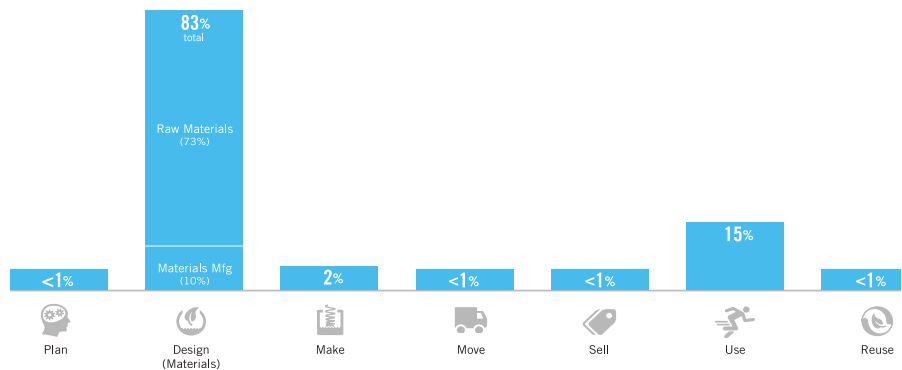
Though it is difficult for us to influence water-use practices far upstream in our supply chain, like growing cotton, we can help our product creation teams make more water-efficient design choices using the NIKE Materials Sustainability Index (NIKE MSI). In the NIKE MSI, water-efficient materials from water-efficient vendors are more favorably rated; they therefore stand a better chance of being selected by our designers than other materials. We are also working to improve the water quality and quantity profile of specific materials – for example, through the Better Cotton Initiative (BCI).

Our footprinting process also showed that the consumer-use phase – i.e., the washing of garments – has the second-highest water use in our value chain. The two remaining areas with significant water use are materials manufacturing and finished goods manufacturing. In these two areas – where we have more influence to make improvements – we have set targets and are making progress.

**THE BIG PICTURE: WATER**

THE OVERALL WATER FOOTPRINT ACROSS OUR VALUE CHAIN: 217B GALLONS

of which 6% (12.9B) is from NIKE, Inc.-owned and -operated operations



NOTE: For more detail including our methodology and navigation through the value chain and impacts see [nikeresponsibility.com](http://nikeresponsibility.com). Our footprinting data includes extrapolations. Some percentages are rounded up resulting in greater than 100% impact across the value chain.

**WATER USE IN FOOTWEAR MANUFACTURING**

Footwear manufacturing is where we have seen the greatest efficiency gains. By the end of FY13, our contract footwear factories had reduced their water use by 23% per pair compared to the FY11 baseline, meaning we achieved our 15% per-pair reduction target two years ahead of schedule. These factories saw an absolute (not just per-pair) reduction in water consumption over this time period – dropping from an estimated 3.5 billion gallons used in FY11 to 2.7 billion gallons in FY13, despite a nearly 20% increase in production.

This progress has been achieved through a combination of NIKE field team and contract factory-led efforts, including initiatives to help factories improve metering and data analysis to reduce leaks; repurpose treated “gray water” (i.e., minimally contaminated water suitable to replace fresh water in certain applications); set standards for water-consuming processes such as cleaning; and reduce flow rates. We have also worked hard to communicate to factories that water is one of the metrics we track in our Sustainable Manufacturing & Sourcing Index to evaluate performance and make sourcing selection decisions.

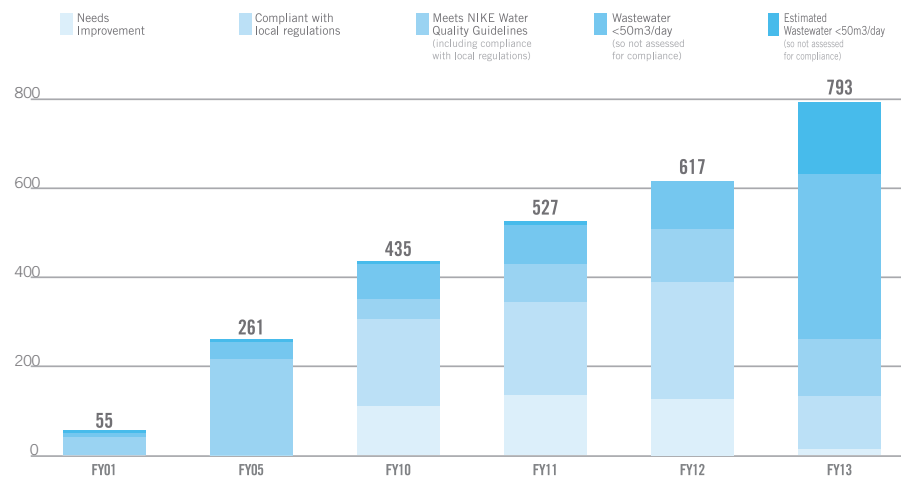
The push to reduce water use has also inspired green technology innovation. For example, many factories have developed and implemented mid-sole washing processes that recycle and extend the life of water through a three-step filtration process.

**WATER USE IN MATERIALS PROCESSING**

We have also seen progress toward our other efficiency target – for water used by our apparel dyeing and finishing vendors. This water efficiency improved by nearly 10% per unit from FY11 through FY13. Although we have not routinely audited material supplier facilities for water efficiency, as we have in footwear manufacturing, we have provided training on the areas we score, including water, in the NIKE MSI. We anticipate increasing our outreach to vendors in the coming years in support of this water efficiency improvement goal.

**NIKE WATER PROGRAM PARTICIPANTS**

**VENDORS PARTICIPATING IN THE NIKE WATER PROGRAM**



NOTE: 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.



Diverse types of suppliers and the varied local conditions that they face demand unique solutions, collaboration and expertise both inside and beyond the contract factory to become cleaner, more efficient and more resilient water users.

We are also seeking out and testing new innovations for reducing water use – such as the waterless textile dyeing machines developed by DyeCoo Textile Systems B.V. These machines use recycled carbon dioxide instead of water in the dyeing process, which has the potential to significantly cut water use in this stage of our value chain (see page 27 for more).

In FY13, 793 material vendors and contract factories tracked and reported their water use and discharge to the NIKE Water Program. Of 260 facilities discharging more than 50m<sup>3</sup>/day in FY13, 48% met NIKE water quality guidelines (which require compliance with all local regulations and NIKE guidelines, whichever are more stringent), and another 47% were compliant with local regulations. The remaining 5% needed improvement. The higher percentage needing improvement in FY13 (compared with the 1% noted in our FY10/11 report) is due to the expansion of the NIKE Water Program beyond apparel material vendors to include footwear materials suppliers for the first time.

In our contract finished goods factories that make apparel and equipment, we are still putting procedures in place to accurately track water use. At the same time, we have been working with these factories to improve water efficiency. For instance, we selected a number of apparel contract factories that do materials processing, dyeing and finishing for targeted consulting from NIKE field team representatives; these factories increased their water efficiency by 26% from FY11 through FY13. This progress has been due to the implementation of more efficient dyeing machines, better cooling towers, closed-loop systems for recovering steam, water-efficient toilets, and foot paddles instead of screw or lever taps on sinks to reduce excess water use.

**UNDERSTANDING THE GEOGRAPHIC CONTEXT**

Our understanding of the supply chain and the system in which our suppliers operate is continuously improving. Diverse types of suppliers and the varied local conditions they face demand unique solutions, collaboration and expertise both inside and beyond the contract factory to become cleaner, more efficient and more resilient water users.

We continue to improve our understanding of our impacts by assessing our supply chain against country- and basin-level water risk data, acknowledging that country-level information is not as important or valuable as that by basin. Additional assessments of urban infrastructure, number of workers and population demographics, and other factors contributing to overall water stress will provide greater insight. In the meantime, water risk is included in our Country Risk Index which is part of our sourcing assessment through the Manufacturing Index.

# WASTE



## Aim

Use less, buy less to reduce impact across the value chain

## Target

### REDUCE WASTE

Achieve a 10% reduction in waste from finished goods manufacturing across NIKE, Inc. and in shoebox weight per unit (from an FY11 baseline through FY15)

## Progress

Reduction in finished goods manufacturing waste\*\* (per unit) across NIKE brand footwear, apparel and equipment from FY11 to FY13



## Commitments

### REDUCE AT MANUFACTURING

#### Reduce waste in manufacturing

We worked with contract factories to reduce their waste by 8.6% since FY11. In footwear manufacturing specifically, 85% of waste is now reclaimed through recycling or energy recovery.

### IMPROVE PACKAGING

#### Improve packaging

NIKE and Converse together create hundreds of millions of shoeboxes annually from 100% recycled content. The vast majority of these boxes are disposed of or recycled by the consumer.

Converse's 13% reduction in shoebox weight in FY12 saved 1,300 metric tonnes of corrugate fiber and \$1.5 million, compared to FY11.

So far, we have reduced the weight of the NIKE Brand shoebox by 3%, building on a 6% savings from a previous box redesign. This box will be fully rolled out by the end of FY15.

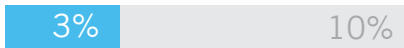
### RECYCLE, REUSE, REPURPOSE

#### Increase recycling, reuse, repurpose & compost of waste (manufacturing, retail, distribution centers, offices)

In FY13 we achieved diversion rates - the amount of waste that does not end up in landfill - of 44% at our retail stores\*; 69% at NIKE World Headquarters; 85% in footwear manufacturing; and 92% at distribution centers.

Since 1990, our Reuse-A-Shoe program has recycled 28 million pairs of shoes into NIKE Grind. NIKE Grind includes not only recycled shoes but manufacturing scrap, with scrap representing 90% of the recycled material and recycled shoes the remaining 10%. The primary uses of NIKE Grind include turf in-fill (i.e., the fill material between the blades of artificial grass), sports surfaces, carpet underlays, and fitness flooring.

Reduction in average shoebox weight per unit (grams of fiber/box), from FY11 to FY13



We showed good progress toward our 10% finished goods manufacturing waste reduction goal, achieving an 8.6% reduction in FY13 over FY11 levels. By the end of FY15 we will have fully rolled out a redesigned footwear box that reduces our overall average shoebox weight by 3% compared to FY11. Even with full implementation, however, we will likely fall short of our 10% target.

**44%** of waste diverted from landfill in FY13 at our retail stores\*

**69%** of waste diverted from landfill in FY13 at NIKE World Headquarters

**92%** of waste diverted from landfill in FY13 at major global distribution centers

**13%** weight reduction of Converse shoebox

\*Retail store calculation based on a small sample set (<10%) tracked and reported through our provider.

\*\*Data includes NIKE, Inc. contracted manufacturing. Contract factories provided self-reported data to NIKE, most all of which (80%) is verified with NIKE field teams during onsite reviews.

Anything we or our contract manufacturers buy that does not end up in our product (or have another essential purpose) represents waste and related resources – whether it’s excess materials that result in unnecessary handling and shipping, excess corrugated cardboard in boxes, or shopping bags not needed with consumer purchases.

We aim to design our products to limit the creation of waste in manufacturing, rather than figuring out how to repurpose waste after the fact. This ultimately helps to reduce waste all along our value chain, including at end of life.

Our products themselves eventually become waste, as was made clear in our footprinting effort. The disposal phase – that is, when our products reach the end of their useful lives and are thrown away – makes up 59% of the total waste in our value chain. (See below.) To help our shoes “play on” in the form of new products, we began Reuse-A-Shoe in 1990. Since then, we have collected and reground 28 million pairs into NIKE Grind for use in more than 450,000 locations around the world – in applications ranging from running tracks and playgrounds to carpet backing and soles for new footwear.

At the same time, we are working to reduce waste by focusing on what goes into our products and packaging. We aim to design our products to limit the creation of waste in manufacturing, rather than figuring out how to repurpose waste after the fact. This ultimately helps to reduce waste all along our value chain, including at end of life. NIKE Flyknit, introduced in 2012, represents a small portion of our production line today, but we believe it holds great potential in helping us advance toward our goal of reducing waste, especially at scale. The technology uses knit construction that allows for a lightweight upper that reduces footwear waste. The Flyknit Lunar 1+ running shoe reduces footwear waste by 80% on average when compared to typical NIKE running footwear.

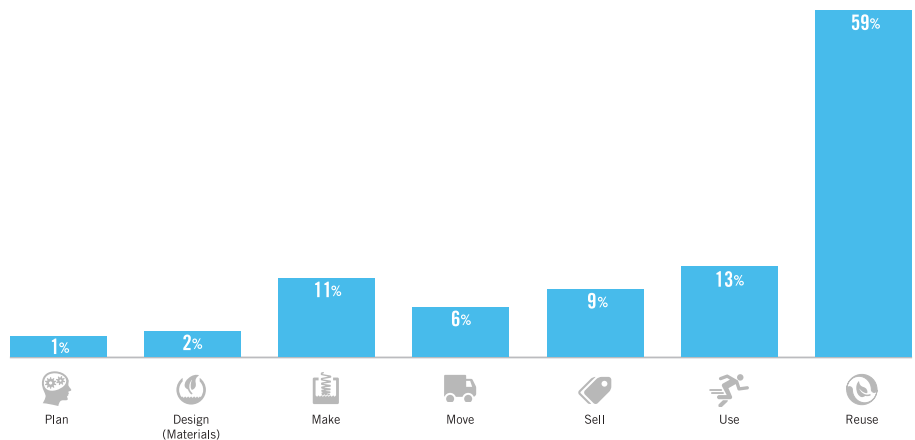
**OVERALL**

Our progress toward our waste-related targets has been mixed. We are working toward 10% reductions in waste from finished goods manufacturing across NIKE, Inc. and in shoebox weight per unit, from our FY11 baseline through FY15. These targets build

**THE BIG PICTURE: WASTE**

**THE OVERALL WASTE FOOTPRINT ACROSS OUR VALUE CHAIN: 700M KGS**

Of which 14% (96.7M) is from NIKE, Inc.-owned and -operated operations



NOTE: For more detail including our methodology and navigation through the value chain and impacts see [nikeresponsibility.com](http://nikeresponsibility.com). Our footprinting data includes extrapolations. Some percentages are rounded up resulting in greater than 100% impact across the value chain.

We have made good progress toward our total manufacturing waste target through consultation between our field teams and contract factories on the application of our index, including data management, identification of opportunities and setting targets, developing action plans and implementing process changes.

on the 35% reduction we had already achieved in footwear manufacturing waste from FY01 to FY11.

We have made good progress toward our total manufacturing waste reduction target, having achieved an 8.6% reduction in this waste from FY11 to FY13, through consultation between our field teams and contract factories on the application of our index, including data management, identification of opportunities and setting targets, developing action plans and implementing process changes. While overall waste has declined, the contract factory-level diversion rates have improved.

#### **PACKAGING/SHOEBOX**

Our shoebox target will be more difficult to meet. Our boxes need to be lightweight and waste-efficient, but they still must retain their integrity and structure from the factory to the consumer. Starting in 1995, our shoebox has been made of 100% recycled content. Since that time, we have worked to reduce the weight of the box, developing different alternatives with varying degrees of success. The new NIKE Brand box is a 3% weight reduction against our FY11 baseline, building on a 6% savings from a previous box redesign. We are in Phase 3 of rollout and will be at full implementation of the new box design by the end of FY15. That's good progress but not enough to meet our 10% reduction target by FY15. We are exploring additional options, including changes to the master carton – so that the smaller and lighter shoeboxes can be shipped in a leaner outer box. Additionally, we have other shoebox initiatives in various stages of implementation that will reduce overall shoebox weight.

Converse launched its redesigned box in FY12, achieving a 13% reduction in average weight per box compared to the previous design. This reduction was achieved through a design overhaul that enabled the use of less material and lighter-weight corrugate fiber.

#### **MEASURING WASTE**

One of the primary ways we help to drive waste reductions in our supply chain is via our NIKE Materials Sustainability Index and our footwear and apparel indices. By measuring the environmental impact of chosen materials and the waste efficiency of designs, our designers can make better choices. In NIKE Brand apparel, our average pattern efficiency rates at the end of FY13 were more than 80%. In NIKE Brand footwear, this rate improved to 71% average efficiency – resulting in a nearly 13% reduction in waste compared to FY08.

#### **CLOSING THE LOOP**

For manufacturing waste that we cannot yet eliminate, what we do with it matters. We make every attempt to drive waste as high up the value chain as possible – ideally back into our own product through closed-loop innovation. Examples include material vendor take-back programs and grinding rubber outsoles back into new outsoles, including testing and exploring new ways to increase the level of scrap content that can be mixed back into new outsole rubber. The next best options are NIKE Grind applications, basic recycling solutions, and then energy recovery.

Our corporate offices also produce waste, though the amount is minimal compared to that from manufacturing and packaging. At our World Headquarters (WHQ) campus, our waste has grown 4% compared to 14% growth in our campus square footage since FY11. We are monitoring the increased amount of waste we produce and are including waste assessments and reductions in our long-term planning. We are also focusing on the diversion of waste to compost and recycling, away from landfill. Our WHQ diversion rate in

FY13 was 69% – our best on record despite dropping to 57% in FY12 from previous rates above 60%. Our ability to maintain or improve these diversion rates in the future depends in part on external factors such as the efforts of our food service suppliers, and proposed regulatory changes regarding acceptable materials for composting and recycling.

**WASTE MANAGEMENT IN FOOTWEAR MANUFACTURING (GRAMS/PAIR)**

	FY11	FY12	FY13
Landfill/Incinerate	21	19	21
Diversion Activities			
Energy Recovery	36	37	38
Recycling (NIKE Grind, downcycling)	60	62	60
Closed-loop Reuse (in-house, takeback)	32	30	26
<b>TOTAL</b>	<b>149</b>	<b>149</b>	<b>145</b>
<b>Diversion</b>	<b>86%</b>	<b>86%</b>	<b>85%</b>

NOTE: Waste data is self-reported by contract factories and verified by NIKE field teams.

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

At NIKE World Headquarters in Oregon, we have worked hard to improve our rates of composting, recycling and reuse.

	FY11	FY12	FY13
Landfill	424	658	567
Compost	304	327	356
Recycling	498	559	917
<b>TOTAL</b>	<b>1,226</b>	<b>1,544</b>	<b>1,840</b>
<b>Diversion</b>	<b>65%</b>	<b>57%</b>	<b>69%</b>

# COMMUNITY



## Aim

Catalyze human potential by creating community and business impact through a portfolio of innovative partnerships, advocacy and movement-making initiatives

## Target

**SUPPORT COMMUNITIES**  
Invest a minimum of 1.5% of pre-tax income in communities annually

## Progress

1.5% pre-tax income\* contributed annually

FY12 contributions: \$42.8 million



FY13 contributions: \$52.7 million



\*Pre-tax income from continuing operations

## Commitments

### ▶ ACCESS TO SPORT

**Build and expand Access to Sport agenda**

NIKE collaborated with numerous organizations from diverse cultures and disciplines to create Design to Move: a framework for action that addresses a growing physical inactivity epidemic by providing a simple but effective cross-sector call-to-action with just two asks: 1) Create early, positive experiences for children in sports, physical education and physically active play; and 2) Reintegrate physical activity into everyday life.

Today, more than 100 organizations have formally adopted Design to Move in their respective areas of management and governance and are actively collaborating to promote and deliver widespread action.

### ▶ EMPLOYEE ENGAGEMENT

**Engage, encourage and enable employees to support communities**

Globally, employees contributed \$2.5 million tracked through NIKE's giving platform to nonprofit organizations during FY12 and FY13, which NIKE matched with an additional \$2.4 million. During the past two years, employees have reported 298,880 volunteer hours in their communities. NIKE launched an update to the WE Portal – our employee giving mechanism – in late FY13.

### ▶ LEVERAGE BRAND POWER

**Tap the power of our brands to engage consumers and leverage support for the issues they care about**

Using the power of our brands, we reached out to communities through various programs and collaborations including Converse (RED), Hurley H2O

Waves For Water and The Ecology Center, Jordan Fundamentals, LIVESTRONG and N7. Other examples in FY12/13 included Doernbecher Children's Hospital, Students Run LA and the NIKE School Innovation Fund.

### ▶ THE GIRL EFFECT

**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**

The NIKE Foundation continued to develop key relationships across sectors to further support and equip adolescent girls in the developing world. The Foundation used the ongoing support from NIKE, Inc. in combination with contributions from others, including the UK Department for International Development, the NoVo Foundation and other collaborators, to unleash the Girl Effect.

**100+** organizations joined together in support of the Designed to Move framework

**\$31M** contributed by NIKE, Inc. in support of the Girl Effect through the NIKE Foundation in FY12/13

**\$2.4M** in NIKE, Inc. matching funds for employee charitable contributions in FY12/13

**298K+** community volunteer hours logged by NIKE, Inc. employees in FY12/13

We leverage the power of our employees, brands, consumers and partners to support organizations and collaborations that create positive long-term changes that expand access to sport, empower adolescent girls in the developing world, and support the communities in which we live, work and play.

**OUR COMMUNITY SPEND TOTALLED**

**\$95.5M**

in FY12/13, combining cash, product and in-kind contributions

We focus on finding the most effective and innovative approaches and programs for driving change and then test and refine them before taking them to scale. Our community spend totaled \$95.5 million over the two fiscal years covered in this report. This includes cash, product and in-kind donations.

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

	FY12	FY13
Cash	\$27.9	\$34.9
Product/In-Kind	\$14.9	\$17.8
<b>TOTAL</b>	<b>\$42.8</b>	<b>\$52.7</b>

NOTE: As of this reporting cycle, we have adopted an improved methodology to calculate our community contributions, incorporating a range of best practices. This allows for greater comparability in our spending and establishes consistent guidelines across our geographies.

**ACCESS TO SPORT**

Kids are designed to move, yet today’s children are the most inactive generation in history. If no change occurs, according to research, half of all Americans and Chinese are projected to be physically inactive, along with a third of the British and Brazilian populations by 2030. That’s about 1 billion people. Physical inactivity has reached epidemic levels that threaten social and economic prosperity for individuals, companies and nations around the world.

At NIKE we see a future where kids are running, jumping and kicking to reach their greatest potential. We assembled an Access to Sport team to address this issue, and the first step was recognizing that no one can solve it alone.

In 2011, our Access to Sport team began working with more than 70 expert organizations to develop Designed to Move (see [designedtomove.org](http://designedtomove.org)), a framework for action supported by public, private and civil sector organizations. The framework was co-authored by the American College of Sports Medicine, the International Council of Sport Science and Physical Education, and NIKE. It highlights the growing epidemic of physical inactivity, including its costs and consequences, and outlines the benefits of physical activity and a simple call-to-action to help end this crisis: 1) create positive experiences for children in sports and physical activity, and 2) integrate physical activity into everyday life.

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# 100+

organizations officially aligned under  
*Designed to Move*

The following examples showcase how NIKE's efforts have brought this issue and its solutions to the forefront in FY12 and FY13:

**1. Raise Awareness – *Get Physical Activity on Global Agendas***

The costs and consequences of physical inactivity have been grossly under-appreciated. For instance, most people are shocked to learn that mortality rates related to physical inactivity now exceed those attributable to smoking. We worked with corporate, government, academic and sports industry leaders to get physical activity on agendas in global forums such as the Clinton Global Initiative, the World Economic Forum, the World Federation of Sporting Goods Industry's General Assembly and the International Olympic Committee's "Sport For All" Conference. To date, more than 100 organizations have officially aligned under *Designed to Move*, adopting a common language to collectively advocate for urgent change.

**2. Create Active Schools – *Because Active Kids Do Better***

NIKE, represented by President & CEO Mark Parker, partnered with US First Lady Michelle Obama; Partnership for a Healthier America; the Alliance for a Healthier Generation; the American Alliance for Health, Physical Education, Recreation and Dance; the President's Council on Fitness, Sports & Nutrition; and five other public- and private-sector organizations to introduce Let's Move! Active Schools. The active-school model gets kids moving before, during and after school. NIKE's direct contribution includes professional development and training for school champions, as well as branding and communication support. As part of the overall initiative, there are opportunities for schools to apply for grants that support broader active schools efforts. Learn more at [letsmove.gov/active-schools](http://letsmove.gov/active-schools).

**3. Early Positive Experiences – *Reshape Youth Sports***

The Aspen Institute took inspiration from *Designed to Move* to create Project Play, a series of roundtable forums with experts across multiple sectors re-imagining the youth sports system in the US. The aim is to reverse the trend in youth sports of kids dropping out, burning out or getting locked out for a variety of reasons, and reset the bar to help make certain that the early experiences kids have with sports and physical activity are positive ones. Much of the work mirrors the 7 Design Filters, a global set of program best-practice guidelines developed in collaboration with practitioners from around the world and published in the *Designed to Move* materials. NIKE is an active sponsor and participant in Project Play, which will culminate in the Aspen Institute's final report of policy recommendations, available in the fall of 2014.

**4. Lead by Example - *Aligning to Deliver Early Positive Experiences in Sports***

Together with community programming partners, NIKE reviewed our global portfolio of community sports programs against the 7 Program Design Filters laid out in the *Design to Move* framework. As a result, specific investments have been made in several areas: targeting younger participants with special emphasis on children more vulnerable to physical inactivity, adequate dosage and duration of physical activity, feedback mechanisms to help children assess progress, and creative ways to deliver incentives beyond trophies and winning. After 18 months of careful program evaluation we have strong partnerships in 11 countries reaching nearly 3 million kids annually with this new standard of positive experience sports programming.

**5. Employee Empowerment – *Move Your Asterisk***

NIKE's mission is to bring inspiration and innovation to every athlete\* in the world. The asterisk recalls NIKE co-founder Bill Bowerman's statement, "If you have a body you are an athlete." We turned that statement back on NIKE and challenged our employees to get moving and raise physical activity levels in the workplace.

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# 1 billion

estimated number of people projected to be physically inactive by 2030 in the US, UK, China and Brazil if no action is taken. The economic cost of physical inactivity in those countries in 2008 was more than \$200 billion.



Girl Effect launched *Smarter Economics: Investing in Girls* at the annual meetings of the World Bank and International Monetary Fund in 2012, making the economic case for investing in adolescent girls.

NIKE has a long-term commitment to help solve this urgent, global epidemic. We've invested heavily to get to the point where today, more than 100 organizations globally have formally adopted Designed to Move and are actively collaborating to promote and deliver widespread action.

#### LEVERAGING BRAND POWER

Over the past two years, we continued various brand-sponsored projects and partnerships and began several new ones.

- In collaboration with (RED), Converse contributed more than \$3 million from FY08 to FY13 to fight AIDS. Of that, \$1.7 million was donated in FY12 and FY13.
- Our support for Hurley's H2O nonprofit partner Waves For Water has helped an estimated 5 million people gain access to clean water through portable water solutions. Hurley H2O's other nonprofit partner, The Ecology Center, connected with 40 local schools and 10,000 kids, focusing on water education.
- LIVESTRONG serves to improve outcomes for people facing cancer. NIKE announced it will stop producing new LIVESTRONG product after its Holiday 2013 line but will continue to support the LIVESTRONG Foundation.
- The NIKE N7 Fund provides grants to Native American and aboriginal communities in the United States and Canada in support of sports and physical activity programs for youth. Since 2009, approximately \$1.8 million has been directed to these communities. (Learn more at [n7fund.com](http://n7fund.com).)

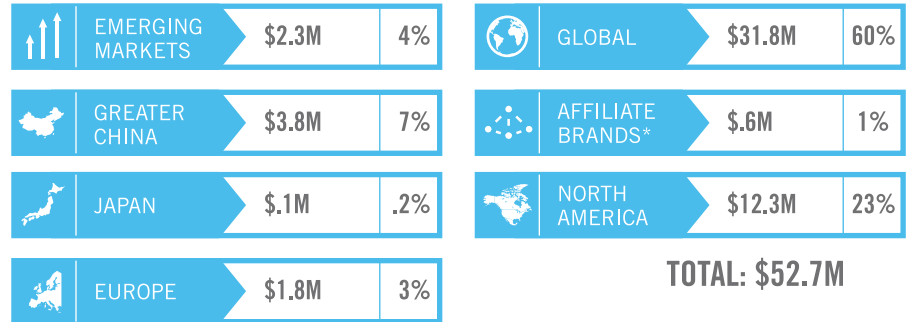
#### THE GIRL EFFECT

During FY12 and FY13, the NIKE Foundation continued to catalyze partners to unleash the Girl Effect. Highlights included:

- A high-profile launch of *Smarter Economics: Investing in Girls* at the annual meetings of the World Bank and International Monetary Fund in 2012; this report makes the economic case for investing in adolescent girls
- The launch of the Ni Nyampinga brand radio show and magazine in Rwanda to connect girls and inspire them to reach their full potential
- The opening of Girl Hub Ethiopia (as part of the Girl Hub collaboration with the UK Department for International Development) and the launch of the Yegna-brand radio drama and girl band to connect, inform and inspire girls across Ethiopia
- Ensuring girls were included in commitments made at the London Family Planning Summit in 2012, where over \$4 billion was pledged to tackle the unmet family planning needs of 120 million girls and women by 2020
- Celebrating the first-ever UN International Day of the Girl in October 2012, sharing messaging in advance to inform advocacy and providing a digital platform for the girl community to get its messages out
- Preparation of a Girl Declaration, inspired and informed by girls to rally, consolidate and focus the girl movement globally, with a specific objective to embed girls in the next set of global development goals that will determine how approximately \$2 trillion of international aid will be invested over 15 years starting in 2016
- A new Girl Effect website ([girleffect.org](http://girleffect.org)) designed and created so that all its content (articles, videos, case studies, fact sheets and more) can be easily used to amplify the Girl Effect

**COMMUNITY INVESTMENT BREAKDOWN**

FY13 DONATIONS BY REGION:



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 and Hurley International.  
 \*\*Global includes NIKE Foundation and other work that spans geographies adn brands. Global also includes the corporate backyard giving program, employee matching gifts and other community impact work that may have been previously reported as part of North America.

EMPLOYEE CONTRIBUTIONS IN FY12/13

**\$2.5M**

to nonprofit organizations

NIKE, Inc. matched employee contributions with an additional \$2.4 million

**EMPLOYEE ENGAGEMENT**

Our WE Portal brings together employees around volunteering, service, giving and community activities that matter most to them. NIKE launched a new WE Portal in FY13, providing enhancements to our online experience. The new portal includes features that allow employees to create volunteer teams in their communities, design specific cause campaigns and engage directly with qualified and vetted nonprofit organizations. Globally, employees used the portal to track personal contributions of \$2.5 million to nonprofit organizations during FY12 and FY13, which NIKE matched with an additional \$2.4 million.

**NIKE, INC. EMPLOYEE CONTRIBUTIONS**

(IN MILLIONS USD)

	FY12	FY13
Employee Contribution (Inc)	\$1.10	\$1.41
Company Match	\$1.06	\$1.26
Tracked Volunteer Hours	167,060	131,819

NOTE: Previous reporting tracked US employees only. A new system for capturing, tracking and reporting contributions and volunteer hours has been implemented across NIKE, Inc.

**DISASTER RESPONSE**

When disaster strikes a community, we mobilize to help where we can have the greatest impact. For instance, in the aftermath of widespread damage to the US East Coast caused by Superstorm Sandy, we committed \$2 million to rebuilding efforts in New York and New Jersey and an additional \$1 million worth of product donations to New York City nonprofit organizations. Hurley H2O and Waves For Water also helped mobilize relief efforts reaching 350,000 people by distributing essential supplies, rebuilding 150 homes and donating 40,000 meals. In 2013, we also responded to the earthquake in Chengdu, China, by working with local partners to provide humanitarian assistance. And after the tornados in Oklahoma in May 2013, we helped rebuild playgrounds and support Native American tribal communities through our N7 program.

**LOOKING AHEAD**

As we move forward, we will focus our community investment in the following three areas to create sustained value for the communities where we live, work and play:

- Creating global impact through innovative, physical-activity based programs and initiatives
- Leveraging our brands and brand equity to strengthen our community activities and inspire our consumers around this work
- Engaging communities through locally relevant initiatives and employee programs designed to make a positive impact closer to home

## **MEASURING OUR IMPACT**

Creating social change is complex and so is measuring it. We are committed to measuring the social impact of our community investments, and have sought the counsel of NGOs, academics and other experts in the field.

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. However, as we have evolved our approach through key areas of focus, we have been looking at ways to consistently and meaningfully enhance our measurement of outcomes across our portfolio. We are currently exploring other ways to track social impact and gain insight into the effectiveness of our community investments so we can direct resources to places where we will see the greatest results.

# DESIGN THE FUTURE

We are working to decouple profitable growth from constrained resources through sustainable innovation. Incremental change alone will not get us to our vision of a closed-loop business model.

Inventing a different way of doing business will require understanding complex systems and the opportunities that exist for changing them. It will also require new ways of working together at NIKE, across our industry and with other sectors.

**IN THIS SECTION:**  
**INNOVATION**  
**PRODUCT**  
**MANUFACTURING**  
**PEOPLE & CULTURE**  
**HOW WE WORK**

That’s why we developed our targets and commitments announced in FY12 by separating out those that relate to improving the present from those related to taking an entirely new path, or “designing the future.”

Our “design the future” targets and commitments cover five areas: (1) unleash innovation, (2) revolutionize product, (3) transform manufacturing, (4) people and culture, and (5) how we work. These targets and commitments are not focused on discrete impact areas, but on contributing to the transformation of systems and processes that will enable progress across all aspects of our supply chain.

For example, we have rolled out tools that our designers are using to make our products more sustainable. And we are working with contract manufacturers to transition to lean manufacturing as we pursue our vision of “manufacturing revolution.”

This section provides a dashboard-style view of progress toward our commitments in each area, followed by more information about key initiatives and developments. We have made good progress in many of these areas, though some are more readily measurable than others.

# INNOVATION



## Aim

Integrate sustainability principles into our innovation processes, governance and portfolios to generate innovation that delivers products and services that combine performance, innovation and sustainability

## Commitments

### BUILD CAPABILITY

**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**

During FY12, we established a Sustainable R&D organization, defined its strategy and research agenda, and began exploratory research in new and improved materials. During FY13, we launched a sustainable product team, which works with existing product groups to drive the further adoption of sustainable materials and manufacturing practices in NIKE's portfolio.

Also in FY13, we directly connected our manufacturing revolution efforts with our sustainable manufacturing excellence program via reporting and governance lines. This has helped sustainability become a key component and catalyst of our broader manufacturing innovation agenda.

To better align our sustainable innovation agenda with our manufacturing and product innovation agendas, all innovation teams across NIKE have adopted a common terminology and project management principles.

### DEVELOP INDEX

**Develop and prototype an index to drive and measure how sustainability is integrated into our innovation portfolios, decision making and processes. 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 conducted planning activities related to our Sustainable Business Roadmap in FY13, and plan to launch the related index in FY14.

### MEASURE IMPACT

**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**

In FY12, we launched a Smart Data Initiative to provide data on the company's overall sustainability impacts, including its footprint. The initiative also assesses and compares the impact of sustainability innovations at NIKE.

In addition, we are developing tools and capabilities to better track and analyze sustainability-related portfolio investments and manage innovation projects. We implemented a dashboard to gather and present consistent and in-depth information on innovations. This enables us to assess investments across innovation types, levels and strategic focus areas.

## Progress

We continue to embed sustainability into NIKE's overall innovation focus and efforts

**0** liters of water used in dyeing apparel with DyeCoo technology, compared to an average 30 liters per shirt needed for traditional textile dyeing

**10** sustainable materials innovation finalists surfaced through LAUNCH 2020

**4** phases in NIKE, Inc.'s innovation pipeline: explore, prototype, pilot, scale

**1,000** NIKE leaders, angel investors, venture capitalists, industry leaders and members of the media participated in Demo Days in which 10 start-up companies presented their product concepts after 3 months in NIKE's backyard, collaborating with NIKE mentors to connect their company's products to NIKEFuel and NIKE+

Innovation is core to NIKE, and is essential to sustainability. For us, the two are linked. They feed each other, leading to new discovery, better products and superior performance.

Innovation is also essential to developing a skilled, stable and engaged contract manufacturing workforce.

Sustainable innovation cuts across everything we do – from designing products and developing and sourcing new materials, to devising lower-impact ways to manufacture, package and transport those items.

To succeed, we must build, strengthen and embed new innovation capabilities throughout the company. In the last two years, key milestones have included moving the Sustainable Business & Innovation team into NIKE's broader Innovation function and establishing a Sustainable R&D organization and a Sustainable Product Team. The Sustainable R&D organization focuses on discovering new, environmentally preferred materials that enhance athlete performance. The Sustainable Product Team drives the use of sustainable materials and manufacturing practices across NIKE's product portfolio. Combined, these two groups help us grow our business more responsibly by creating products that deliver the highest-possible performance while minimizing our environmental footprint.

Over several years we have developed our Sustainable Business Roadmap, a two-part tool that measures the levels of sustainability integration across key dimensions of our business. The Roadmap describes what sustainability integration looks like across strategy, structure, operations and people and includes an assessment that teams can use to identify levels of integration and opportunities to drive performance. NIKE worked with sustainability leaders, including Ceres and PwC, to develop, review and include latest thinking and best practices. We plan to share more details of the use and findings as they evolve.

We also work with organizations to advance innovation. Recent examples include the following:

- **DyeCoo** – Since 2012, we have worked with this Netherlands-based company to advance waterless textile dyeing. Learn more on page 27.
- **bluesign®** – In FY13, we established a strategic relationship with this Swiss firm to provide our suppliers with access to extensive information about more sustainable materials and chemistries. Learn more on page 44.
- **LAUNCH** – NIKE co-founded LAUNCH, a strategic collaboration between NASA, NIKE, the US Department of State and the US Agency for International Development (USAID) in 2010 to identify and support visionaries whose ideas, technologies and programs have the potential to create a better world.
- **Plant PET Technology Collaborative (PTC)** – Together with Coca-Cola Company, Ford Motor company, H.J. Heinz Company and Procter & Gamble, NIKE, Inc. formed the PTC in 2012 as a strategic working group focused on accelerating the development and use of 100% plant-based PET materials and fiber. PET, also known as polyethylene terephthalate, is a durable, lightweight plastic that is used by all member companies in a variety of products and materials including plastic bottles, apparel, footwear and automotive fabric and carpet.

# PRODUCT



## Aim

Design products that provide superior performance and lower environmental impact across NIKE, Inc.

## Commitments

### SUSTAINABLE FOOTWEAR

New NIKE Brand global footwear product achieves minimum silver rating on the NIKE Footwear Sustainability Index by the end of FY15

63% of scored footwear product achieved a silver rating or better in our first season using the new index.

### SUSTAINABLE APPAREL

New NIKE Brand global apparel product achieves minimum bronze rating on the NIKE Apparel Sustainability Index by the end of FY15

51% of scored new apparel product achieved a bronze rating or better in our first season using the new index.

### SUSTAINABLE EQUIPMENT

New NIKE Brand global equipment product achieves minimum bronze rating on the NIKE Equipment Sustainability Index by the end of FY20

32% of scored equipment product (bags only) achieved a bronze rating or better in FY13. A new equipment index will be launched in the fourth quarter of FY14.

### EXPAND REACH

Expand reach of indices to score other NIKE, Inc. product (i.e. products of Affiliate brands, licensees and carry over products)

Hurley continued to submit product through a simplified version of the design scoring tool during FY13. In the first quarter of FY14, we rolled out Quick Strike Index tools – Excel-based versions of the indices – for use by Converse and Hurley for both footwear and apparel.

## Target

Understand and improve the environmental profile of our product designs by the end of FY15

### BETTER MATERIALS

Increase use of environmentally preferred materials

The average total NIKE Materials Sustainability Index score – assessing chemistry, energy/ghg emissions, water and land-use intensity and physical waste of the base material; vendor practices; and additional environmental criteria (e.g. recycled/organic content or efficient manufacturing practices) – for materials selected for use in product improved 16% from FY12 to FY13, to 36 out of 100.

**Cotton:** 88% of NIKE's global apparel containing cotton used at least 5% organic cotton (down from 90% in FY11); 11% of NIKE's total cotton use was organic (up from 10% in FY11)

**Polyester:** 35% of NIKE Brand global polyester garments contained recycled polyester, compared to 27% in FY11

**Leather:** 100% of leather used in NIKE Brand footwear comes from Leather Working Group medal-rated suppliers

**Rubber:** 75% of NIKE Brand footwear designs used environmentally preferred rubber

## Progress

Since our last report, we have developed, tested and rolled out new sustainability indices for measuring the environmental performance of our products. By the end of FY13, 98% of all new global NIKE Brand footwear product and 86% of all new global NIKE Brand apparel product was scored using these new indices.

**80k** materials have been scored in the NIKE Material Sustainability Index (NIKE MSI)

**1.5k** material vendors have been rated in the NIKE MSI

**35%** of NIKE Brand's global polyester garments contain recycled polyester

**88%** of NIKE Brand's global cotton-containing apparel uses at least 5% organic cotton

NOTE: "Global" product refers to consumer product designed and scored for a global market. NIKE Brand excludes Converse, Hurley, NIKE Golf, Jordan Brand and some NIKE iD. NIKE Brand metrics have not been restated to reflect the divestiture of Cole Haan and Umbro in FY13, or the reporting changes to Hurley and NIKE Golf effective in FY14. "New" styles refers to a product that has been re-designed or newly designed for the season. Re-designed styles have new fit, design lines, pattern, and/or fabrication.

At NIKE, we see sustainability as a catalyst for revolutionizing our products – for driving innovation in a way that benefits the athlete, our company’s growth and the environment.

Our Footwear and Apparel Sustainability Indices consider available materials and design in that product type and overall product scores. We calibrated scoring thresholds with previous versions to elevate expectations and recognize continuous improvement.



We have fully and formally integrated product innovation with sustainability through our indices: the NIKE Footwear Sustainability Index (FSI) and the NIKE Apparel Sustainability Index (ASI). As described on page 17, these indices provide a way for our product creation teams to measure the environmental profile of each product. Both the NIKE FSI and NIKE ASI are powered in part by the NIKE Materials Sustainability Index (NIKE MSI), which provides scores for specific materials and for material vendors based on a variety of environmental criteria.

**FOOTWEAR SUSTAINABILITY INDEX**

	FY12	FY13*
Gold	2%	7%
Silver	78%	56%
Bronze	15%	22%
Not Considered	5%	15%
Scored	100%	98%

In order for footwear product to achieve silver on the Footwear Sustainability Index, the style must receive a minimum of 48 points across four areas: materials, waste, solvents and energy.

\*In FY13, we transitioned to a new FSI with a new scoring methodology. FY13 data is only one season, where as FY12 is an average over four seasons.

**APPAREL SUSTAINABILITY INDEX**

	FY12	FY13*
Gold	2%	2%
Silver	9%	18%
Bronze	16%	31%
Not Considered	25%	49%
Scored	52%	86%

In order for apparel product to achieve bronze on the Apparel Sustainability Index, the style must receive a minimum of 30 points across two separate areas: materials and waste.

\*In FY13, we transitioned to a new ASI with a new scoring methodology. FY13 data is only one season, where as FY12 is an average over four seasons.

**SCORING METHODOLOGY:** Product indices (Apparel Sustainability Index (ASI) and Footwear Sustainability Index (FSI)) help NIKE product teams assess the sustainability of designs, based on the overall environmental performance of materials and the scoring of the design. We calibrated scores over a two-year period based on previous and current generations of the indices, the latest of which incorporates the NIKE Materials Sustainability Index, which also takes into account the vendor’s sustainability practices. Working with a possible 100 points, the threshold for bronze requires excellence in one or more index areas. Additional points are awarded for materials or processes with improved efficiencies in energy, waste, water or chemistry that are not specifically captured elsewhere in the scoring.

These indices are the latest generation of a series of tools that launched in 2006 with our Considered Index. For NIKE Brand footwear and apparel, the transitions to the NIKE FSI and NIKE ASI were completed at the end of FY12.

By the end of FY13, we succeeded in using the new indices to score 98% of all new, global, NIKE Brand footwear product (with 63% of those achieving silver or gold ratings) and 86% of all new, global, NIKE Brand apparel product (with 51% of those achieving bronze or higher ratings). We are working toward our commitment to achieve 100% of new\* styles of NIKE Brand footwear rating silver or higher, and 100% of new, NIKE Brand



apparel rating bronze or higher, by the end of FY15, but we anticipate we may not be able to reach these challenging goals.

Also, to be clear, these metrics do not cover all NIKE Brand products. Because the indices are used in design and development, it has made sense to focus on new product creation, so products that have been on the market for some time have not been scored. (However, they are scored when undergoing major design changes.) When looked at on a volume basis, in FY13 the indices scored about 50% of our annual total NIKE Brand footwear and apparel product.

**EXPANDING INDICES**

We are now expanding the use of the indices into our NIKE Brand equipment category and our other brands. Converse and Hurley have recently begun employing versions of the NIKE FSI and NIKE ASI, and we are launching a new NIKE Equipment Sustainability Index for bags, socks and gloves.

The NIKE MSI, which feeds into the product indices, contains scores for more than 80,000 specific materials and 1,500 material vendors. We have shared the NIKE MSI widely, filling a void for the consistent assessment of materials across the industry. The Sustainable Apparel Coalition (SAC), for one, has adopted the NIKE MSI as the measurement tool for materials within its Higg Index.

In FY13, we made the index even more widely available through the MAKING App. Any designer can now download and use MAKING on an iPhone. (See [nikemakers.com](http://nikemakers.com).)

**IMPROVED MATERIALS**

Another way we work to revolutionize product is by finding ways to incorporate improved materials through coaching our suppliers in improved environmental practices. The average NIKE MSI score for materials available to NIKE designers in FY13 was 36 out of 100. We plan to use this figure to assess the change over time in the materials available for making our products.

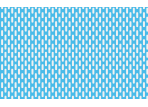
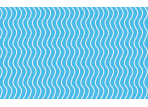


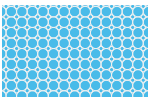
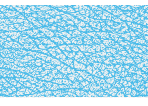
We continue to seek out and use more sustainable alternatives for our top-volume materials. For example, of all cotton used in NIKE Brand product in FY13, 11% was organic, up from 10% in FY11. All told, 88% of our NIKE Brand global cotton-containing apparel used at least 5% organic cotton in FY13, down slightly from 90% in FY11. We have made a commitment to source 100% more-sustainable cotton – either certified organic or grown according to Better Cotton Initiative (BCI) standards – by the end of FY20. As BCI Pioneer members and members of the Better Cotton Fast Track Program we are aggressively working toward this goal, but it may take longer than expected for our cotton sources to transition.

In addition, 19% of the polyester used by NIKE Brand in FY13 was recycled polyester (compared to 16% in FY11), and more than 35% of our global NIKE Brand polyester apparel contains some recycled content. Our top-selling NIKE Tempo short, for example, now has a recycled polyester liner. And in our global football (soccer) category, 50% of the polyester used is recycled polyester.

Finally, 100% of the leather used by NIKE Brand in footwear is certified according to the standards of the Leather Working Group, an organization that rates and classifies tanneries based on environmental standards for leather processing. The Leather Working Group assesses tanneries on a wide range of criteria – including water consumption, waste management, effluent treatment transparency and more – and grades on a medal-rating scale. In fact, 58% of NIKE Brand leather for footwear is from gold-rated suppliers.

**TOP-VOLUME MATERIALS**

NIKE Brand footwear and apparel are primarily made from six materials that make up a majority of our total material volume.

 <p><b>POLYESTER</b></p> <p>Better options include recycled polyester. 19% of polyester used in NIKE Brand apparel is recycled, up from 16% in FY11. 35% of Brand Apparel used recycled polyester in FY13.</p>	 <p><b>RUBBER</b></p> <p>Better options include new rubber formulations. NIKE developed two such formulations now used in more than 30 finished rubber compounds.</p>
 <p><b>COTTON</b></p> <p>Better options include cotton sourced from the Better Cotton Initiative and organic cotton. In FY13, we used more than 6.7 million kg of organic cotton.</p>	 <p><b>SYNTHETIC LEATHER</b></p> <p>Better options include those that reduce or eliminate solvents.</p>
 <p><b>EVA FOAM</b></p> <p>EVA already scores well on sustainability criteria.</p>	 <p><b>LEATHER</b></p> <p>Better options include leather processed at facilities rated by the Leather Working Group. 100% of leather used in NIKE Brand footwear is LWG-certified.</p>

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

"New" styles refers to a product that has been re-designed, or newly designed, for the season. Re-designed styles have new fit, design lines, pattern and/or fabrication.

# MANUFACTURING



### Aim

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 source from over time

### Commitments

#### ▶ SOURCING SELECTION

**Incorporate factory labor and environmental performance criteria into production vendor sourcing selection and evaluation**

Labor and environmental performance criteria were incorporated into NIKE's new source selection process in FY11. In FY13, 33 factories entered the source selection process and 70% were approved. During FY12, 156 factories entered the process and 68% were approved.

#### ▶ EXPAND CAPABILITY

**Enable contracted factories to expand and optimize their labor and environmental sustainability capabilities**

At the end of FY12, 91% of NIKE Brand footwear product volume and 44% of NIKE Brand apparel product volume were covered in sustainable manufacturing training. Participating factories represented 531,000 workers.

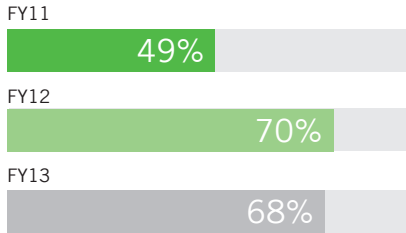
Human Resources Management training is being integrated into our definition of the lean manufacturing approach implemented by contract manufacturers.

### Target

Source all products from factories that have achieved bronze or better on our Sourcing & Manufacturing Sustainability Index by the end of FY20

### Progress

Factories achieving bronze or better scoring on our Sourcing & Manufacturing Sustainability Index



Bronze indicates contracted factories are substantially in compliance with our Code of Conduct (assessed through audit tools that look at 227 Code Leadership Standards on labor and health, safety and environment), have no serious or critical Code violations, and have made a commitment toward lean manufacturing (see page 68). Progress toward bronze rating and better will take time as we calibrate scoring and confirm consistent application of ratings.

**1.01M** workers in factories making product for NIKE, Inc. globally

**94%** of NIKE, Inc. contracted factories were audited in FY13

**85%** of footwear made on lean-certified lines

**76%** of apparel made on lean-certified lines

We believe in putting our energy where we have the most impact. Our footprinting work (see page 12) has confirmed that the finished goods manufacturing part of our value chain is where many of our biggest impacts on people and the environment are felt. Our systems mapping (see page 24) has helped us understand the interrelationships and identify our points of leverage in the complex manufacturing supply chain.

Decisions about whether to source from a factory are complex. Our indices provide a way to score factories on a diverse set of factors providing a valuable decision-making tool and helping to improve the efficiency of the sourcing process.

Our overall goal is to raise the bar for performance in our contract footwear, apparel and equipment manufacturing. We are working in our own supply base and we share our experiences in order to be a catalyst for positive change across the industry. We are on track to meet our manufacturing commitments and have begun to look ahead, redefining what manufacturing will look like for NIKE in the future.



**WHEN YOU INCLUDE THE FACTORIES WE CONTRACT WITH TO MAKE OUR PRODUCTS, THE REACH EXTENDS:**



**EACH WITH ITS OWN ENVIRONMENTAL AND SOCIAL FOOTPRINT**

### TRANSFORMING RELATIONSHIPS

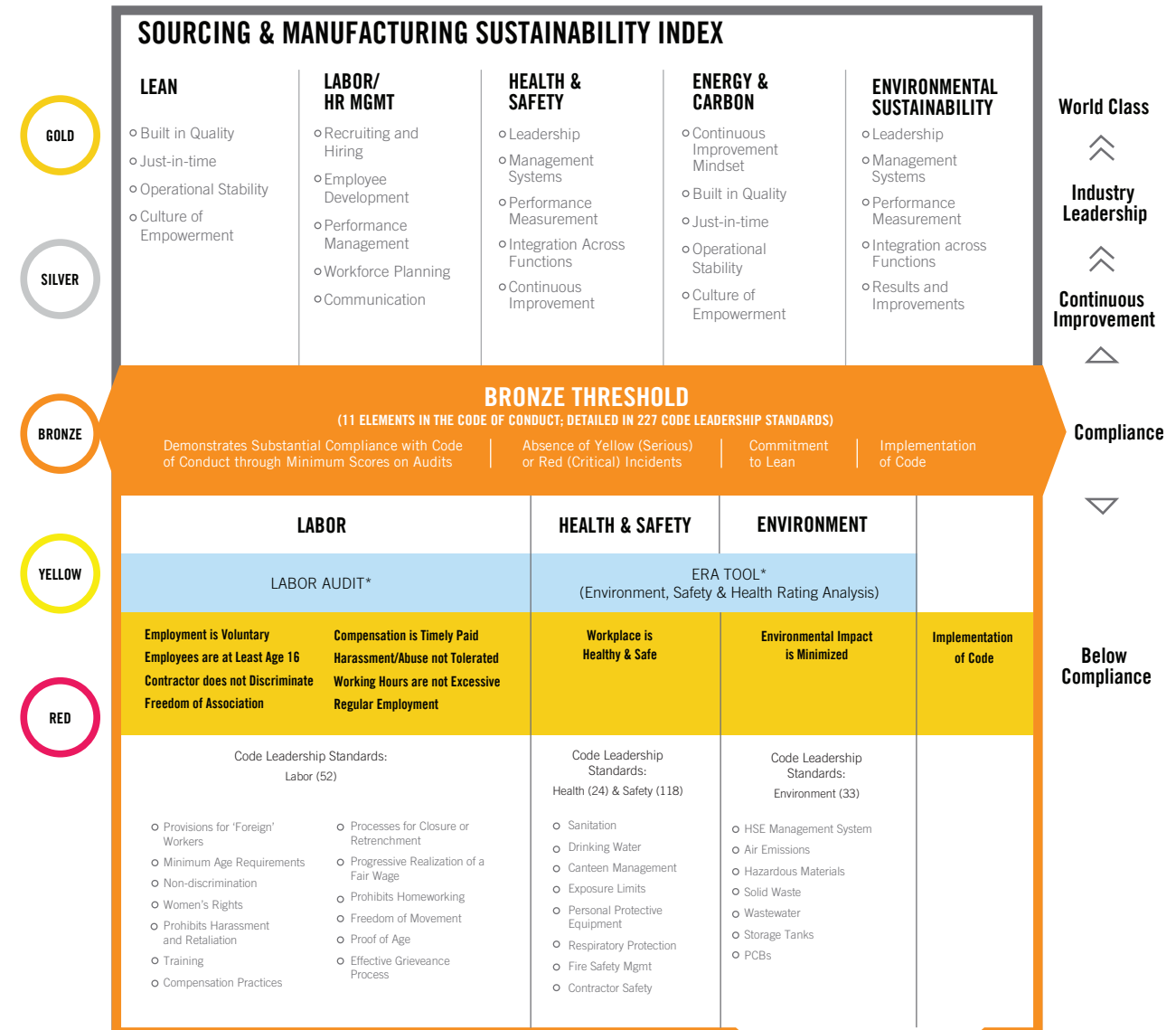
During FY12 and FY13 we made progress in transforming our relationships with contract factories by using our Manufacturing Index (MI) to help determine whether to buy from them. A component of the MI is the Sourcing & Manufacturing Sustainability Index (SMSI), which combines ratings for lean manufacturing, labor and health, safety and environment. Our FY20 target is for all contract factories from which we source to be at the bronze level or above on the SMSI. The MI also assesses strategic metrics including country risk, leadership planning and development, and transparency in which we have included public reporting on labor and environment at the factory group level as one of the criteria for gold-level status.

### SCORING FACTORIES

Decisions about whether to source from a factory are complex. Our indices provide a way to score factories on a diverse set of factors, providing a valuable decision-making tool and helping to improve the efficiency of the sourcing process (see page 68). During FY13, 33 factories entered the source selection process and 70% were approved. The average time

## MEASURING SUSTAINABILITY IN SOURCING & MANUFACTURING

Sustainability is incorporated into NIKE, Inc.'s Manufacturing Index (MI), a tool used in selecting and assessing the performance of contract manufacturers. As one component of the MI, we assess sustainability through our Sourcing & Manufacturing Sustainability Index (SMSI). Our target of sourcing all product from factories reaching a minimum bronze standard on our SMSI requires alignment with our Code of Conduct.



■ Elements of NIKE, Inc. Code of Conduct

\*Tools currently in use will be replaced with Fair Labor Association's Sustainability Compliance Initiative assessment tool once adopted to provide standardization and comparability across the industry.

<b>QUALITY</b>	<b>COST</b>	<b>ON-TIME DELIVERY</b>	<b>SUSTAINABILITY</b>
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### STRATEGIC METRICS

- Country Risk
- Management Vision & Strategic Planning
- Leadership Planning & Development
- Shared Values

## MANUFACTURING INDEX

Assesses sourcing based on key measures of performance

## PROFILE OF NIKE, INC. CONTRACT FACTORY RATINGS ON NIKE SOURCING & MANUFACTURING SUSTAINABILITY INDEX

By Product Engine

Rating	Global			Footwear			Apparel			Equipment		
	FY11	FY12	FY13	FY11	FY12	FY13	FY11	FY12	FY13	FY11	FY12	FY13
Gold	0	0	0	0	0	0	0	0	0	0	0	0
Silver	0	0	1	0	0	1	0	0	0	0	0	0
Bronze	441	639	535	88	131	126	262	368	309	91	140	100
Yellow	336	193	156	60	24	20	184	114	93	92	55	43
Red	46	51	77	16	13	12	21	25	43	9	13	22
Not rated	59	27	16	6	10	7	30	10	7	23	7	2
<b>TOTAL</b>	<b>882</b>	<b>910</b>	<b>785</b>	<b>170</b>	<b>178</b>	<b>166</b>	<b>497</b>	<b>517</b>	<b>452</b>	<b>215</b>	<b>215</b>	<b>167</b>

NOTE: As of the last day of the fiscal year. Factory count includes NIKE, Inc. contracted manufacturing. These figures include Affiliates, prior to divestiture, and NIKE Brand licensees. For more details and updated information, see NIKE's interactive manufacturing map, available online at [nikeinc.com/pages/manufacturing-map](http://nikeinc.com/pages/manufacturing-map).



### MANUFACTURING MAP

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. ([nikeinc.com/pages/manufacturing-map](http://nikeinc.com/pages/manufacturing-map))

a factory spent in NIKE's sourcing selection process was 152 days, down from 246 days in FY12.

The SMSI also gives us a platform to incentivize performance improvements. Factories rated below the bronze level are required to pay for third-party audits until their performance improves. Bronze or better factories receive audits from NIKE and third-party auditors. During FY12 and FY13 we began offering beyond-compliance assessments to contract factories to help them measure and achieve higher levels of performance, and also began to advise bronze-rated contract factories on a range of topics, including energy, water and human resource management.

At the end of FY13, 68% of factories had attained the bronze level or above, a slight decline from the 70% level in FY12. We expect that progress will not always be linear, but will generally improve over the longer term as factories learn the new system and we are able to apply the tool consistently across all regions. We remain confident that we are on track to meet our FY20 target to source from factories that are bronze-rated or above. Those rated below bronze – yellow or red when found to have serious or critical violations – undergo management review and assessment and establish remediation plans.

We have continued our focus on Human Resources Management (HRM) by providing training. At the end of FY12 this training had extended to factories that employ 61% of the workers in our manufacturing supply chain and produce 91% of NIKE Brand footwear product and 44% of NIKE Brand apparel product by volume. The training was valuable in raising awareness of HRM issues and approaches among factory management. We now see an opportunity to help contract factory management develop the capabilities to put theory into practice and recognize workers as the key to success in lean manufacturing.

HRM, together with lean, comprise what we call "Lean 2.0." Research conducted in 2014 by MIT Researchers\*, *Does Lean Improve Labor Standards? Capability Building and Social Performance in the Nike Supply Chain*, found adoption of lean manufacturing at NIKE contracted factories resulted in a 15% reduction in serious labor violations at more than 300 contracted factories from 2009-2013 on average, the first quantitative evidence of lean practices delivering factory-based improvement for workers. HRM training has now been incorporated into our broader lean manufacturing program.

### THE MANUFACTURING REVOLUTION

New manufacturing approaches are needed because the challenges in our supply chain

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

Our manufacturing revolution initiatives aim to redefine how our products are made and what they are made from.

are changing. Increasing costs for labor and logistics, fluctuating materials costs and availability, changing consumer expectations and the rapid pace of innovation are among the factors making our supply chain ever more complex. To maintain our leading position, we're looking to a range of innovations we collectively call the "manufacturing revolution." This revolution is focused on better products and better production.

Our manufacturing revolution portfolio of initiatives aims to redefine how our products are made and what they are made from. Focus areas include waste reduction of all kinds and more efficient use of materials and labor in a more resource-constrained world. This approach could bring manufacturing closer to market as well as create a more sustainable, stable source base committed to workers as a source of innovation, and drive profitable growth for the company. Our manufacturing revolution initiatives encompass three broad areas:

- **Sustainable manufacturing excellence.** Through lean manufacturing and our work to meet our targets, we're seeing dramatic improvements in waste reduction (see page 50) and water efficiency (see page 46). At the end of FY13, 76% of our NIKE Brand apparel and 85% of our NIKE Brand footwear was made on certified lean lines.
- **Manufacturing modernization.** This entails making the value-added steps in the manufacturing process more efficient through processes such as automated cutting and stitching. It also means eliminating or reducing non-value-added work such as moving materials around a factory.
- **Manufacturing innovation.** In this space we're looking at entirely new ways of making products. NIKE Flyknit (see page 11) is an example of this kind of game-changing innovation.

## NIKE, INC.'S GLOBAL FACTORY VISITS/AUDITS

	FY13
Audits*	609 / 61%
Third-Party	391 / 39%

NOTE: Contract factory count includes NIKE, Inc. contract manufacturing. These figures include Affiliates, prior to divestiture, and NIKE Brand licensees. Audits include annual assessments and compliance visits which includes use of HSE and Labor audit tools. Some factories have visits or assessments more than once in a given year. Active factory counts change during the year and totaled 1,000; figures reflect that change. At the start of FY13, the audit frequency was changed to a minimum once every 12 months (from 18 months) and a new third-party system was implemented so comparable figures are not available for FY12. Third parties conducting audits are approved for use by NIKE, but contracted by factories and use the same audit tools.

### WORKERS IN THE SUPPLY CHAIN

These kinds of changes have implications for workers in the supply chain. More automation could mean a greater need for higher-skilled workers and a shift toward higher-skilled positions, which, along with growing labor shortages, creates incentives for factories to reduce turnover. That's why HRM is an integral part of Lean 2.0, and why we're looking at developing new metrics to assess factories' approach to people management and enable them to improve the skills of their employee base.

NIKE believes lean can also empower workers and teams. The company's journey toward incentivizing lean manufacturing in contract factories has helped reinforce the need for a deeper understanding by factory management of the cultural differences between management and workers. The success of the lean approach depends on:

- leadership – factory leaders use lean to drive business performance
- people – workers are engaged and enabled to drive business success through continuous improvement
- process – factory processes are predictable and agile in response to customer demand

The lean approach also 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.

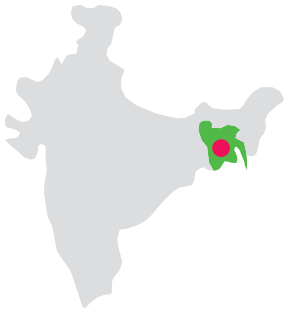
We will continue to bring learnings from our manufacturing pilot program into our approach to lean manufacturing; and we will work with those contract factories that demonstrably extend this approach throughout the supply chain and help managers to unlock greater value from their factories, with a valued workforce. (See discussion in *Piloting New Ways of Working* case study on page 41.)

## **EXTENDING OUR FOCUS**

Another important shift in how we approach the role of manufacturing in our value chain is our increasing focus on our material vendors – that is, the suppliers that manufacture the more than 80,000 materials available for use in our products.

We recognize that our goal to transform manufacturing requires collaboration with contract manufacturers and others. During FY12 and FY13, we continued important work to advance solutions across the industry. With the Fair Labor Association (FLA), we played a key role in the development of the Sustainable Compliance Initiative (SCI) methodology and assessment tool, which we piloted in 2011/12. This tool focuses on factory capabilities to manage working conditions and reduce risks. NIKE is also facilitating discussions between the Sustainable Apparel Coalition and the FLA on collaboration opportunities between their organizations regarding tools.

To help others learn from our experience, we cooperated with both Harvard Business School and Stanford Graduate School of Business, which released case studies that examine NIKE's sustainable innovation journey over the past 15 years. See discussion in the "Strategy" section.



At the end of FY13, NIKE, Inc. sourced product from four contracted factories in Bangladesh. All four factories are in facilities purpose-built for light industrial occupancy and located in export processing zones. The NIKE-contracted facilities have undergone fire, safety and structural audits and those findings have been independently verified.

**IN FOCUS  
NIKE IN BANGLADESH**

On April 24, 2013, the Rana Plaza garment factory in Bangladesh collapsed, killing 1,129 people and injuring more than 2,500. This disaster – the worst in the history of the garment industry – showed that, despite decades of work by many institutions and individuals, some workers in the industry still face unacceptable conditions.

NIKE has never sourced from Rana Plaza. However, NIKE sources product from four contract factories in Bangladesh (see [nikeinc.com/pages/manufacturing-map](http://nikeinc.com/pages/manufacturing-map)). All four factories are in facilities purpose-built for light industrial occupancy and located in export processing zones – unlike the Rana Plaza facility that fulfilled orders for many major apparel brands that source from hundreds of factories across Bangladesh. The NIKE-contracted facilities have undergone fire, safety and structural audits and those findings have been independently verified by an outside firm.

Since mid-2012, NIKE has participated in developing a strategy for a Fair Labor Association-led global fire safety training and certification. The pilot, launched in October of 2013, is being accredited by the Institution of Occupational Safety and Health (IOSH) to provide formal and globally recognized certification in fire and safety training. The initial training, with MAS Holdings at the MAS Institute of Management and Technology in Sri Lanka, included participants from Bangladesh, Sri Lanka, Indonesia and India.

In addition, NIKE has worked with contract factory management on the following measures: supplemental inspections and training, including fire and electrical safety audits; third-party building safety inspections covering fire prevention and protection, electrical safety and lighting, ventilation and indoor air quality; and emergency-procedure training with workers.

There is important work to be done in Bangladesh, and NIKE remains part of those conversations by continuing dialogue and engagement with stakeholders. We firmly believe that responsibility for long-lasting, systemic change must be shared by governments, manufacturers, NGOs, brands, unions and factory workers.



# PEOPLE AND CULTURE



## Aim

Tap our people and our culture, our most powerful source for innovation and change

## Commitments

### ▶ EMPLOYEE DEVELOPMENT

#### Invest in employee development

We launched NikeU in FY12, offering a single destination for employee learning, training and development. The NikeU website is a key enabler to our development strategy, providing web-based and in-person training for our employees around the globe.

As of the end of FY13, 32,400 employees (more than 80% of those with access to the website) had signed up to use NikeU programs. Since the NikeU site launched, our employees have completed 174,515 web-based sessions and enrolled in 32,429 instructor-led sessions. As of the end of FY13 our desk- and office-based employees have access to the site, with plans to make the content more widely available in future years.

### ▶ EMPLOYEE ENGAGEMENT

#### Engage employees

We conducted our last all-employee satisfaction survey in FY08. Since that time, we have worked to transform our approach to surveys to deliver better, in-the-moment employee engagement. An “always open” pulse-polling approach will replace traditional census surveys in the future, and we will gather feedback regularly with the help of social technology. In the meantime, we capture unfiltered employee feedback via the Manager90 tool and continue to conduct business-unit and other decentralized surveying.

### ▶ INSPIRE AND IGNITE

#### Inspire ideas and ignite innovation

We are working to expand the composition of our leadership teams to reflect the global nature of our business. We track self-reported demographic profiles including gender globally, and ethnicity and race within the US. We collaborated with NIKE employees, Georgetown University and RoundPegg, Inc. to gauge NIKE's ability to create an open and inclusive culture. As a result, we've created a prototype Inclusion Index, which we will further refine and continue to pilot internally in FY14.

## Progress

We are making progress in our work to invest in and engage employees to inspire ideas and ignite innovation.

**81%** of employees with access to NikeU have registered for online development

✓ Launched Manager90, an upward feedback tool that gives managers insight from employees about key strengths and opportunities to improve

✓ Completed a prototype Inclusion Index, which will help leaders and teams measure the link between diversity, inclusion and innovation

We believe that a talented, diverse and inclusive employee base helps drive the creativity that is central to our brands. Our global strategy for human resources is to help unleash our employees' potential across every area of our business by enabling leaders to make great decisions that in turn enable NIKE's business growth.

Inclusion at NIKE means: "The awareness and respect of our diverse perspectives ensuring we are invited to contribute our best ideas."

At the end of FY13, NIKE, Inc. employed 43,700 people on six continents, excluding seasonal and part-time employees, an increase of nearly 6,600 employees (18%) compared with FY11, when we published our last sustainability report.

Our retail employee base has grown more than any other part of our business, and we anticipate further growth in retail employees over the coming years. The geographic locations with the fastest rates of growth were Greater China, Central/Eastern Europe and Emerging Markets.

## NIKE, INC. GLOBAL EMPLOYEE DISTRIBUTION\*

GEOGRAPHY	FY13
Affiliates	3,156 / 7%
Central & Eastern Europe	1,175 / 3%
Emerging Markets	3,914 / 9%
Greater China	3,074 / 7%
Japan	630 / 1%
North America	24,095 / 55%
Western Europe	7,656 / 18%
<b>TOTAL</b>	<b>43,700 / 100%</b>

\*For FY13 data, Corporate Functions, Global NIKE Brand and NIKE Golf are distributed throughout the listed regions. TOTAL excludes seasonal and part-time employees for whom not all workforce diversity information is consistently available.

In FY12, we rolled out new global processes and systems that allow better global tracking and reporting, for greater visibility into information related to our employee base. We've also begun assessing information more broadly. This enhanced access to information will help us plan for and keep up with the pace of growth while also giving managers the tools and systems they need to support their employees.

### DIVERSITY AND INCLUSION

Globally, 52% of our employees were male and 48% were female in FY13. Among management, 59% were male, while 41% were female.

In the US, where employees self-report information on ethnicity and race (together labeled "people of color," consistent with the US Equal Employment Opportunity Commission), people of color made up 48% of all employees and 24% of management. (This information is not available for our global employee base.)

In FY12, we began a collaboration with NIKE employees, Georgetown University and RoundPegg, Inc. to gauge our ability to create an open and inclusive culture. The result is a prototype Inclusion Index. When complete, the index will help leaders and teams measure the link between diversity, inclusion and innovation. We will further refine and continue to pilot the index internally in FY14 and beyond. Moving forward, we will also identify and refine diversity-related measurements and build an online action toolkit for employees and managers, identifying best practices for diversity, inclusion and engagement.

In addition to the Inclusion Index, the Diversity & Inclusion team continues to offer signature experiences for employees based around the globe, including the Medici Effect, which helps employees find new and creative ways to use their teams' diversity as they approach work; New Crew experiences to leverage inter-generational diversity; and Speak Up!, a simple and powerful platform that features employees' inspiring stories, passions and ideas. In addition, we are piloting new programs, such as Bias to Breakthrough, to help teams explore the origins and impacts of unconscious bias and how teams can remove bias-based barriers to creativity.

NIKE's seven US-based employee networks (known collectively as NCourage), include Ability, Asia Pacific, Black Employee, Latino & Friends, LGBT & Friends, Native American, and Women of NIKE. These networks draw upon the diverse employee population to provide experiences in the areas of cultural awareness, community building and career development.

## NIKE, INC. GLOBAL TOTALS BY GENDER

### NIKE, INC. EMPLOYEES

Gender	FY11	FY12	FY13
Men	51%	50%	52%
Women	49%	50%	48%

### MANAGEMENT

Gender	FY11	FY12	FY13
Men	3,360 / 60%	3,706 / 59%	4,054 / 59%
Women	2,278 / 40%	2,578 / 41%	2,795 / 41%
TOTAL	5,638 / 100%	6,284 / 100%	6,849 / 100%

### BOARD OF DIRECTORS

Gender	FY11	FY12	FY13
Men	11 / 79%	10 / 83%	10 / 83%
Women	3 / 21%	2 / 17%	2 / 17%
TOTAL	14 / 100%	12 / 100%	12 / 100%

NOTE: "NIKE, Inc. Employees" includes global full time employees and excludes part-time and seasonal workers. "Management" is based on internal job level code. Figures rounded to nearest percentage. Data as of May 31 each year.

## NIKE, INC. NORTH AMERICA TOTALS BY ETHNICITY

### EMPLOYEES

Ethnicity	FY11	FY12	FY13
American Indian or Alaska Native	175 / 1%	200 / 1%	121 / 1%
Asian	1,778 / 8%	1,999 / 8%	1,782 / 7%
Black or African American	4,561 / 21%	5,275 / 22%	5,326 / 20%
Hispanic/Latino	3,429 / 16%	3,927 / 16%	4,436 / 17%
Native Hawaiian or Other Pacific Islander	209 / 1%	230 / 1%	194 / 1%
White	11,915 / 54%	12,684 / 52%	13,212 / 51%
Two or more races*	0 / 0%	0 / 0%	792 / 3%
Unknown	3 / <1%	0 / 0%	138 / 1%
<b>TOTAL</b>	<b>22,070 / 100%</b>	<b>24,315 / 100%</b>	<b>26,001 / 100%</b>

### MANAGEMENT

Ethnicity	FY11	FY12	FY13
American Indian or Alaska Native	19 / 1%	19 / 1%	17 / <1%
Asian	195 / 6%	216 / 7%	193 / 6%
Black or African American	314 / 10%	329 / 10%	329 / 10%
Hispanic/Latino	285 / 9%	306 / 9%	279 / 8%
Native Hawaiian or Other Pacific Islander	11 / <1%	12 / <1%	8 / <1%
White	2,273 / 73%	2,420 / 73%	2,462 / 71%
Two or more races*	0 / 0%	0 / 0%	98 / 3%
Unknown	0 / 0%	0 / 0%	71 / 2%
<b>TOTAL</b>	<b>3,097 / 100%</b>	<b>3,302 / 100%</b>	<b>3,457 / 100%</b>

### BOARD OF DIRECTORS

Ethnicity	FY11	FY12	FY13
American Indian or Alaska Native	0 / 0%	0 / 0%	0 / 0%
Asian	1 / 7%	1 / 8%	1 / 8%
Black or African American	2 / 14%	2 / 17%	2 / 17%
Hispanic/Latino	0 / 0%	0 / 0%	0 / 0%
Native Hawaiian or Other Pacific Islander	0 / 0%	0 / 0%	0 / 0%
White	11 / 79%	9 / 75%	9 / 75%
Two or more races*	0 / 0%	0 / 0%	0 / 0%
Unknown	0 / 0%	0 / 0%	0 / 0%
<b>TOTAL</b>	<b>14 / 100%</b>	<b>12 / 100%</b>	<b>12 / 100%</b>

NOTE: Figures rounded to nearest percentage. Based on tracking in US only, based on regular full-time employees, based on data at May 31 each year. "Management" based on internal job level code. \*This metric was not tracked before FY13.

We believe our diverse and inclusive culture helps to fuel innovation. It attracts and inspires the best talent in the world, separating us even further from our competition. And it simply makes NIKE a unique place to work. In December 2013, we made a decision to align our Diversity & Inclusion team with the NIKE global HR organization, leveraging the scope and reach of the HR team to amplify the impact of diversity and inclusion within the company.

### INVESTING IN OUR PEOPLE

In FY12, we launched NikeU – an online platform for employee training and development in areas such as merchandising, retail, leadership and management that will help NIKE

## PEOPLE AND CULTURE

# 174,515

training sessions delivered online  
by NikeU through FY13

employees build capabilities to execute on our business strategy. Since the website went live, it has received more than 2.1 million visits, with 72% of visitors coming to the site more than once. More than 80% of employees who have access to the website (i.e., desk- and office-based employees), have signed up for NikeU accounts. As of the end of FY13, employees have taken 174,515 web-based sessions and 32,429 instructor-led sessions.

As NikeU grows, we are increasing the number of translated courses and building targeted and custom curricula for different functional areas within the company. We are also making the platform more widely available by designing programs accessible via mobile technologies and social platforms. This is critical for reaching our diverse population of global employees, including sales associates in our retail stores and our distribution center employees.

In addition, we equip our leaders to plan for, hire and grow individual talent; align strategy and manage team performance; celebrate and reward performance; and drive excellence across the organization. NikeU invests in professional skills development resources through collaborations with CEB and Harvard Business Publishing and its Harvard ManageMentor offering. In 2014 NikeU will launch Manager Core, including more than 40 courses translated into 24 languages.

In FY12 we introduced our Manager Manifesto, which outlines four core principles: lead, coach, drive excellence and inspire. We followed that with the launch of Manager Excellence – a global movement anchored by common frameworks, tools and shared experiences to help managers lead, coach, drive and inspire their employees to realize their individual and collective potential. Manager90 and Manager Journey are two key components of this initiative:

- Manager90 is an upward feedback tool that we launched in FY12 to provide managers with insights from their employees about key strengths and opportunities to improve according to the four core principles of our manifesto. Managers can use the feedback they receive to create a customized plan for their growth and development. In late FY14, we will begin to roll out the tool more broadly in 14 languages.
- Manager Journey is an end-to-end digital experience we plan to launch in FY15. It will provide NIKE managers with increased visibility into best practices, tools and resources they need to effectively manage their teams.

### REWARDS AND BENEFITS

NIKE offers competitive total compensation, including benefits that provide employees the opportunity to stay fit, support 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% discount)
- Paid vacations and holidays
- Paid sabbaticals
- Product discounts
- Onsite fitness center/fitness discounts
- Transportation allowance/discount
- Tuition assistance

## EMPLOYEE SATISFACTION

Our work to assess and track employee satisfaction has continued to focus on how we gather and use information in real time, how we respond to it and how it can be most useful for providing feedback and opportunity for improvement. Standardized, universal surveys provide big-picture feedback, but don't meet these important needs.

We conducted our last all-employee satisfaction survey in FY08. Since then, we've been working to develop and deliver feedback channels, available at any time, that allow for unfiltered, in-the-moment employee input.

## HEALTH AND SAFETY PERFORMANCE

NIKE promotes and manages a healthy and safe working environment for employees. We offer everything from healthy-living pledges included in employee-benefit plans to on-site gyms and classes at corporate facilities. We also conduct risk-based safety assessments and tracking globally, and 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 continue to monitor and report health-and-safety data for our employees, especially in higher-risk areas. Overall, NIKE performed better than average compared with relevant industries on the key indicator of recordable injury rates. We also performed better than average in terms of lost-time rates (another key safety indicator), with the exception of our distribution operations in FY12. In all categories in FY13, NIKE performed better than the industry average and rates improved in five of the six measures in FY13 compared to FY12.

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

### DISTRIBUTION

	FY11		FY12		FY13	
	NIKE	INDUSTRY AVG. (OSHA)	NIKE	INDUSTRY AVG. (OSHA)	NIKE	INDUSTRY AVG. (OSHA)
Recordable Rate	4.4	6.8	3.6	6.0	3.6	5.9
Lost-Time Rate	2.2	1.8	1.9	1.6	1.4	1.7

### IN-HOUSE MANUFACTURING

	FY11		FY12		FY13	
	NIKE	INDUSTRY AVG. (OSHA)	NIKE	INDUSTRY AVG. (OSHA)	NIKE	INDUSTRY AVG. (OSHA)
Recordable Rate	3.1	5.5	2.7	4.6	1.5	5.1
Lost-Time Rate	0.83	1.3	0.66	1.1	0.10	1.3

### OFFICES

	FY11		FY12		FY13	
	NIKE	INDUSTRY AVG. (OSHA)	NIKE	INDUSTRY AVG. (OSHA)	NIKE	INDUSTRY AVG. (OSHA)
Recordable Rate	0.66	1.3	0.53	1.2	0.63	1.1
Lost-Time Rate	0.14	0.40	0.38	0.40	0.22	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 US Occupational Safety and Health Administration (OSHA) record-keeping standards and Bureau of Labor Statistics.

# HOW WE WORK



## Aim

Build sustainability into the DNA of our business model, into our operations and into our culture where innovation is unleashed, shared and scaled

## Progress

We are advancing in our work to embed sustainability across NIKE's business and to invest in employees, engage them, and inspire ideas and ignite innovation

## Commitments

### HARDWARE

**Hardwire sustainability in the way we do business**

In FY13, we created the NIKE Sustainable Business Roadmap, which we will use to define and measure integration of sustainability across key business functions at the corporate and business-unit levels.

During the year, we continued working toward company-wide sustainability targets established in 2012. We reviewed and updated regular reporting against targets within each business and created a new executive committee with oversight of performance and reporting. In addition, we increased the visibility of our progress through quarterly reporting to the Corporate Responsibility and Sustainability Committee of the Board of Directors.

### MEASURE

**Measure the business value of sustainability**

During FY12 and FY13, we estimated the potential business value in the coming years of many of our sustainability initiatives. Although we don't share these estimates publicly, this analysis confirmed our beliefs about the scale of these opportunities and cemented our commitment to driving sustainable innovation across the business.

During FY13, we developed BEST, a custom scenario planning tool, which also informs our understanding of the impacts of our business. We use this to estimate the financial and environmental impacts of our business as well as the impacts associated with changing materials, manufacturing technologies and business models. (See page 15 for detail.)

### CATALYZE INNOVATION

**Be a catalyst of sustainable innovation**

We finalized an integration index and framework, which will be used to create a common understanding of what it means to integrate sustainability into the business. We also created leadership commitment around targets and included these targets in strategy and scorecards of all major businesses, functions and affiliates.

In 2013, our Sustainable Business & Innovation team joined NIKE's broader Innovation organization. This move facilitates scaling of sustainability innovation throughout the company.

In addition, we conducted two "hackathons" on materials and created an interactive sourcing map disclosing contract factories and relevant data including locations, employees and product types.

### STAKEHOLDER ENGAGEMENT

**Participate in multi-sector efforts to drive system change and market transformation**

Participated in and convened various stakeholder engagements and interactions around systems, materials and labor, in addition to those that took place in the regular course of business. Highlights in FY12/13 included: the LAUNCH 2020 Summit, the ZDHC (Zero Discharge of Hazardous Chemicals) coalition, reviews of the NIKE Materials Sustainability Index as a component of the Sustainable Apparel Coalition's Higg Index, and development of the Fair Labor Association's Sustainable Compliance Initiative assessment tool.

Sustainability at NIKE is fundamentally about the products we sell and how they are made. To become more sustainable, we must continue to transform the most basic parts of our business: how we design products, how we interact with suppliers, how we inspire our employees and how we engage with others outside the company. Many opportunities lie ahead in catalyze entire systems, by working beyond our company to unleash, share, inspire and scale innovation. To this end, we participate in multi-sector efforts to drive change.

LAUNCH announced a materials system challenge in April 2013 at NIKE's world headquarters, gathering more than 150 people including designers, academics, scientists and business leaders. The challenge drew submissions from around the world and 10 finalists were selected to receive guidance from the LAUNCH team to help bring their innovations to scale.

During the last two years, we have made important changes that deepen the role of sustainability in our company. In 2013, our Sustainable Business & Innovation team joined NIKE's broader Innovation organization. This move facilitates scaling of sustainability innovation throughout the company.

We have expanded the use of key sustainability tools throughout the company to build capabilities and facilitate more informed and effective decision making. Our NIKE Apparel Sustainability Index and NIKE Footwear Sustainability Index are now part of the standard product creation suite of tools used by all of our designers. Our Sourcing & Manufacturing Sustainability Index was integrated as a component into NIKE's overall Manufacturing Index, making sustainability a factor in all supplier evaluations and ratings. New approaches to environmental footprinting, scenario planning and systems mapping are yielding fresh insights and perspectives on our performance and opportunities.

We also continue to develop and test tools that help to identify the key actions each function and team can take, and assess their progress toward integrating sustainability into the way they operate. In FY12, these efforts included the publication of our NIKE, Inc. sustainability targets and regular internal reporting against them.

- **LAUNCH** – In 2013, NIKE hosted the LAUNCH 2020 Summit. Along with NASA, the US Agency for International Development and the US Department of State, we convened more than 150 materials specialists, designers, academics, manufacturers, entrepreneurs and NGOs to catalyze action around the sustainability of materials and how they are made. Since it was founded in 2010, LAUNCH has successfully introduced and supported initiatives and technologies that are solving challenges facing our society.
- **ZDHC** – In FY12, together with six other companies, we created and signed a joint roadmap for achieving the goal of zero discharge of hazardous\* chemicals (ZDHC). By the end of FY13, the ZDHC coalition had 13 member companies working toward this ambitious goal with more joining the effort. (See page 43.)
- **Sustainable Apparel Coalition** – In FY12, we sponsored a review led by Duke University with six other US and international universities, of the NIKE Materials Sustainability Index (NIKE MSI). The review involved leading academics from the US and EU, who recommended that the Sustainable Apparel Coalition adopt the NIKE MSI as a means of evaluating materials.
- **Valuing Workers** – We laid the groundwork for and conducted pilot studies of lean manufacturing including human resources capacity with two contract factories in Indonesia, with advice and cooperation of key manufacturing and sourcing suppliers. (See page 41.)
- **Fair Labor Association (FLA)** – NIKE played a key role in the development of the Sustainable Compliance Initiative assessment tool, which launched in late 2012.

\*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.



# GOVERNANCE & PUBLIC POLICY

NIKE, Inc.'s Board of Directors established a Corporate Responsibility and Sustainability Committee 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. In 2013, the Committee updated its charter to review strategy and performance, and to formally include sustainability and innovation.

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## GOVERNANCE

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 May 2013, 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 and Sustainability Committee meetings. The Committee meets five times each year to review strategies and plans for corporate responsibility.

As of May 31, 2013, members of the Board of Directors' Corporate Responsibility and Sustainability Committee included:

- Phyllis M. Wise (Chair)
- Douglas G. Houser
- John C. Lechleiter
- Johnathan A. Rodgers
- John R. Thompson, Jr.

Eric Sprunk, EVP and Chief Operating Officer, and Hannah Jones, VP of Sustainable Business & Innovation, both participate in the Board of Directors' Corporate Responsibility and Sustainability Committee sessions.

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. In early FY14 SB&I officially became part of the company's Innovation function with the VP reporting both to the President of Innovation and to the CEO. The

Strategic Leadership Team is responsible for directing NIKE, Inc.'s mid- and long-term strategy and also manages the sustainability reporting process.

Details regarding the links between performance and the compensation of Board members, senior managers and executives are described in our annual Proxy Statement, accessible at [nikeinc.com](http://nikeinc.com) and filed with the US Securities and Exchange Commission (SEC). Details regarding employee and shareholder communication with the Board can also be found in the Proxy Statement. The process for submitting shareholder resolutions is also described in the Proxy Statement or Bylaws under SEC Rule 14a-8. These are accessible at [nikeinc.com](http://nikeinc.com) and at the SEC website.

## **ETHICS AND CONDUCT**

NIKE, Inc. has a code of ethics for all employees that we call "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, our employee Code of Ethics. 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 the behavior of contracted suppliers that manufacture products for NIKE, Inc. The Code of Conduct directs suppliers to respect the rights of their employees and to provide them with a safe and healthy work environment.

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.

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

## **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 while 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 seamless access and open markets through 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.

## **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. NIKE works in partnership with local and international public authorities to support a robust and modern regulatory framework to combat counterfeiting and promote a balanced system to protect our innovative designs and products.

## **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 US 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. The solution requires a coordinated approach that considers the way our cities are designed; that schools become hubs for physical activity before, during and after formal education takes place; that our workplaces are structured to prioritize physical activity; as well as how community environments and volunteer organizations are engaged at the local level.

We are an active champion of Designed to Move (see [designedtomove.org](http://designedtomove.org)) and have been advocating for government to rethink policies to encourage early positive experiences of physical activity for youth, and for people to integrate physical activity more effectively into their daily lives. Designed to Move lays out a framework to reprioritize physical activity within society, across all sectors, and provides drivers for ending the physical

inactivity epidemic. Our goal is to create a world where sports and physical activity are not only highly valued, but an expected and enjoyable part of life.

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Through collaborating with governments and other stakeholders, we promote public policies that reward innovation as well as sustainable business models.



NIKE is a founding member of the Sustainable Apparel Coalition (SAC), an industry-wide group of more than 100 leading apparel and footwear brands, retailers, suppliers and NGOs working to reduce the environmental impacts of apparel and footwear products.

## SUSTAINABILITY

By collaborating with governments and other stakeholders, we promote public policies that reward innovation as well as sustainable business models. We seek to create a legislative and regulatory playing field that accelerates NIKE's ability to decouple growth from constrained resources.

NIKE is actively engaged in national and regional sustainability-related policy initiatives around the globe. The key policy areas we focus on pertain to sustainable materials, products and supply chains; climate change; resource efficiency; and post-consumer waste.

As with many societal and environmental issues, no one organization can solve these challenges alone – solutions require input and collaboration between government, business, consumers and civil society. To that end, we work with other businesses through trade associations and coalitions to help drive and shape forward-looking sustainability policies.

For example, NIKE is a founding member of the Sustainable Apparel Coalition (SAC), an industry-wide group of more than 100 leading apparel and footwear brands, retailers, suppliers, academics and NGOs working to reduce the environmental impacts of apparel and footwear products. We have worked with SAC since 2009 to create an industry approach to the environmental footprinting of footwear and apparel products. We are also working with SAC to pilot test the European Union's Product Environmental Footprint methodology.

In the US, we helped create Business for Innovative Climate and Energy Policy (BICEP), an advocacy coalition of businesses committed to working with policy makers to pass meaningful energy and climate legislation. In 2013, NIKE, together with other leading brands, signed on to BICEP's Climate Declaration, urging policy makers to undertake a coordinated effort to combat climate change.

## 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 policy is available online at [nikeinc.com](http://nikeinc.com).

In the US, 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 [sos.state.or.us](http://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 US election law, employees of corporations can jointly donate to federal candidates through the creation of political action committees (PACs). Contributions from the NIKE, Inc. PAC are bipartisan, relatively modest, and are listed at [fec.gov](http://fec.gov). Contributions from NIKE, Inc. are reported by calendar year, and in 2012 included Oregon contributions totaling \$226,500 to 50 individuals or causes (see [investors.nikeinc.com](http://investors.nikeinc.com)).

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.

# ABOUT THIS REPORT

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## REPORTING AT NIKE

In 2012, NIKE, Inc. launched [nikeresponsibility.com](http://nikeresponsibility.com) and its fifth report: FY10/11 Sustainable Business Performance Summary. The launch marked a change in how we approach corporate responsibility reporting. We moved away from a single, exhaustive report that included strategy, progress and performance, and instead published a summary report with additional data, explanation and interactive elements available online. We believe the evolution of our format allows us to engage more deeply with those seeking information related to corporate responsibility at NIKE. In addition to our report, which provides a snapshot in time, readers can find more frequent updates and stories on the NIKE Better World website and our NIKE, Inc. corporate website.

Our FY12/13 report builds on this platform, providing a progress update against our targets and describing some of the key steps in our journey over the past two years. This print-on-demand report summarizes our strategy, approach and performance. It is complemented by more comprehensive reporting on the [www.nikeresponsibility.com](http://www.nikeresponsibility.com) website, including a rich user experience where readers can access more extensive information, stories and interactive tools.

### THE VALUE OF REPORTING

Reporting is an important means of sharing our understanding of the social and environmental impacts of our business. It also addresses our stakeholders' desire for sustainability information by providing an open, clear

picture of our aims and progress toward incorporating responsible practices into our operations.

Reporting also provides an indicator – to us and others – of our ability to succeed and thrive. We use sustainability as a 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 a critical part of delivering transparency. Reporting is the main tool we use to provide important information to our stakeholders about how we manage corporate responsibility issues and impacts. Our previous reports, available for download, include a broader discussion of why we report on our sustainability performance and of our perspective on materiality.

### REPORTING GUIDANCE

We support the Global Reporting Initiative (GRI) and continue to develop our reporting with reference to GRI's third generation of indicators (G3). We also considered the Apparel and Footwear Sector Supplement Indicators, which are in draft/pilot form. 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 sustainability reporting website, [nikeresponsibility.com](http://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 G3 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 sustainability issues NIKE faces and our strategic response to those issues as we strive for long-term sustainable growth. Historically, these readers have included leaders of nongovernmental and advocacy organizations, media, other businesses, academics and analysts, and investors representing the socially responsible investment community.

We recently conducted a survey of report readers to find out how they identify themselves and to ask for feedback, including what information they are most interested in. Of those who chose to respond, a high number identified themselves as students and consumers. Other important stakeholders who access and read our report include employees, suppliers, contract manufacturers, customers and individuals with an in-depth knowledge of corporate responsibility. Writing for multiple audiences requires addressing a wide range of understanding and exposure to the social and environmental issues we face.

In addition, we recognize that the world of reporting has fundamentally changed. Information can be accessed by anyone, anywhere. Given what we know about our audience and the potentially broad reach of our reporting, we have worked to provide the information required by key stakeholder groups while making the content accessible, relevant and easy to understand.

### SCOPE

Our reporting shifted in FY10/11 from a primary focus on activities and data related to the NIKE Brand to a broader look across all NIKE, Inc. brands. We have continued with this approach to provide a more comprehensive view of our impact and reach. In our reporting, information applies across NIKE, Inc., unless otherwise noted. Other information brings in approaches and strategies that include Converse, NIKE Golf and Hurley businesses, though at times we implement those strategies at a different pace.

This report covers FY12 and FY13. Unless otherwise noted, all references to dates are made on a fiscal-year basis. Some important events that took place after the close of FY13 are also covered in the report; their inclusion reflects the impact or influence these events may have on NIKE's future direction.

Converse, Hurley and NIKE Golf were reported as "Other Businesses" in FY12 and FY13. Other affiliated brands in our portfolio at the end of FY12 were Cole Haan and Umbro, which we divested of in FY13. Beginning in FY14, Hurley and NIKE Golf results are now reported within the NIKE Brand while Converse results are a separate reporting segment. Accordingly, we have restated all comparative financial information to reflect these changes, which can be found at [investors.nikeinc.com](http://investors.nikeinc.com). However, reference to nonfinancial NIKE Brand metrics throughout this report have not been restated to reflect these changes.

### STAKEHOLDER ENGAGEMENT AND REPORTING

We believe that developing and refining listening skills is critical to a company's success. This has been true in our history as we have listened to and innovated for athletes to deliver performance products, and it is how we approach our corporate responsibility efforts.

Early in our corporate responsibility journey, we learned the importance of engaging with and listening to multiple stakeholders. They help us prioritize key issues and develop our corporate responsibility policies and approaches. We see stakeholder engagement 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 related to issues and challenges. We also do this through formal partnership work and stakeholder engagement activities, which are covered throughout this report. Additional details can be found at [nikeinc.com](http://nikeinc.com).

### FEEDBACK ON REPORTING

NIKE first held a formal multi-stakeholder forum for feedback on reporting in February 2004. We have continued this type of engagement through a number of meetings – some informal and casual, others formal and facilitated by organizations including SustainAbility and Business for Social Responsibility. For more recent 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. For the FY12/13 Stakeholder Review Panel, NIKE engaged Forum for the Future (Forum) to facilitate

feedback for this FY12/13 Sustainable Business Performance Summary. Forum is an independent nonprofit working globally with business, government and other organizations to solve complex sustainability challenges.

The purpose of this process was to provide unfiltered, expert input on issues, targets and information to improve the quality and enhance the credibility of our reporting. Forum played the role of a neutral facilitator in this process and helped to reframe the conversation around not only our reporting but also our approach. In this capacity, Forum jointly selected stakeholders with NIKE, coordinated the overall process, led stakeholder discussions and virtual feedback sessions, and consolidated feedback for us. NIKE's SB&I team managed the overall reporting process and actively participated in stakeholder engagement as an information provider and listener.

### STAKEHOLDER SELECTION

NIKE and Forum jointly created a list of relevant stakeholders who possess 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 and energy to labor and chemistry
- Geographic/nationality, gender and issue diversity

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. Participants included:

- Lindsay Bass, Senior Program Officer, Fresh Water, World Wildlife Fund
- Leonardo Bonanni, Founder and CEO, Sourcemap
- Garrett Brown\*, Coordinator, Maquiladora Health & Safety Support Network
- Davida Heller, Head of Member Engagement, The Climate Group

- Mark Kenber\*, CEO, The Climate Group
- Richard Liroff, Executive Director, Investor Environmental Health Network
- Richard Locke, Howard Swearer Director of the Watson Institute for International Studies and Professor of Political Science, Brown University
- Eliot Metzger, Senior Associate, World Resources Institute
- Andrea Moffat, Vice President, Corporate Program, Ceres
- Dara O'Rourke, Associate Professor UC Berkeley, Co-founder of GoodGuide
- Michael L. Reading, Manager, Corporate Partnerships & Bill Bowes Fellow, Environmental Defense Fund
- Peter Schulte, Research Associate, Pacific Institute
- Matthew Thurston, Manager, Product & Supply Chain Sustainability, REI
- Vanessa Timmer, Executive Director, One Earth
- Auret van Heerden, CEO, Academy for Sustainable Business

**ENGAGEMENT PROCESS**

The intent of this engagement process was to bring together subject-matter experts who could provide valuable input into our sustainability reporting process and respond to the specific expectations around reporting.

NIKE distributed a draft of the FY12/13 Sustainable Business Performance Summary through Forum, and the selected experts had a chance to review its contents.

Forum consolidated the feedback, synthesized it into themes and issue areas, and presented it to the stakeholders during a workshop at NIKE world headquarters. This session allowed for all available participants to engage more directly with NIKE on its approach to reporting, systems change and innovation. The feedback was also consolidated and provided back to the NIKE team.

The NIKE team addressed feedback in one of the following three ways:

- Revamped sections of this report summary and/or the online report with additional content or language and tone changes to better clarify particular report sections
- Responded to issues that were raised but could not be changed
- Flagged stakeholder input for future consideration in NIKE's sustainability strategy and/or future reports

**IMPACT ON REPORT OUTCOME**

Engaging stakeholders in the reporting process was valuable – it provided NIKE's leadership with direct insight and perspective from external experts. The NIKE team made changes to the report based on this feedback in the areas of articulating its strategy, content and design, certain data, metrics and dashboards, and context around and enhanced discussion of prominent business, environmental and social issues.

We sincerely appreciate 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. We believe that the net result of this consultation of critical stakeholders has resulted in a stronger and more credible report.

**REVIEWS**

**ASSURANCE AND VALIDITY OF DATA**

NIKE continues to seek quality and transparency in our performance 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 gather information about energy use across the US from verified, metered data that comes 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 review our sustainability reporting processes. Their 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. 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 of our key data collection, consolidation and retention processes. We have continued this partnership and enhanced annual trainings and reviews for process participants.

Going forward, we will continue to address information systems development and consistency. Where direct-source information is only partially available or is extrapolated, we note it in our report. We understand there are opportunities to improve our data collection processes, especially where information comes from third parties such as contract factories or material vendors that supply to such factories. Some areas are subject to rotating audits, during which we more closely evaluate information and the systems that generate data to help us calculate and report on our impacts. It is not possible to verify 100% of data contained in our reporting, but we do track the sources and the methods for measuring and consolidating what we report and aim for continuous improvement.

We also aim to be transparent about the systems we use to assess data – past, current and future – and how our systems

\*Individuals participated not as representatives of their organization.

might change over time to accommodate evolving methods and standards or availability of data. At times, that means we need to adjust information based on new systems or better data that can replace previous information or metrics – especially those based on estimates and extrapolation. There may also be cases where changes in data collection render previously reported data incomparable. In those cases, we note where restatements have occurred and strive to explain how changes affect comparability over time.

We understand the role of external assurance. We have explored third-party assurance and audit systems with leading providers. We continue to review the issue with company management, our internal audit team and other external stakeholders. We still believe we have internal steps to complete before undertaking a robust external review. Toward this end we have worked closely with internal auditors on reviews of metrics and processes that we use to review content and identify and prioritize areas for additional improvement. We have started to consider the timing, pace and value of external assurance, while continuing to address issues raised through our internal audit processes.

surveys and listings, we recognize that the type and nature of these surveys changes each year. We provide accessible and transparent information consistent with our strategy and use our reporting to drive that transparency, rather than to drive our performance in surveys or rankings.

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## RECOGNITION

Our online reporting describes some of the awards, recognitions and listings we have achieved in FY12 and FY13, including:

- Sustainability/corporate responsibility indices: Dow Jones Sustainability Index (US, Global), FTSE4Good Index
  - Climate-specific indices: Climate Counts, Forest Footprint Disclosure, Climate Innovation Index
  - Media listings: Corporate Responsibility Magazine's 100 Best Corporate Citizens, Fast Company's Most Innovative Company
  - Reporting recognition: Corporate Register Awards, Best Overall Report and Most Innovative Reporting, 2012
- While we participate in some relevant



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# NIKE, INC.

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## SUSTAINABLE BUSINESS AND INNOVATION

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