

Company:	Nike
Sector:	Footwear, Apparel and Accessories
Report Year:	2005-2006
Headquarters:	Beaverton, USA
Standard Application:	GRI G3, AA1000
Format:	Listing (incl by CEO)

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Letter from Mark Parker, CEO

Second, we know that incremental progress isn't good enough. Nike is competitive. We don't want to get better, we want to win. If real change is to occur in our supply chain and contract factories, in the communities in which we operate and in the broader world we influence, then small steps will always fall short of our potential. Big goals are needed to realize big achievements. So we've set a series of strategic business targets for ourselves that are aggressive but achievable by FY11.

We continue to focus our efforts in three areas:

- 1 Improving working conditions in our contract factories through a holistic, integrated business approach to our supply chain.
- 2 Minimizing our global environmental footprint through sustainable product innovation and supply chain innovation — both in our direct operations and our contract factories.
- 3 Using the power of our brand to give excluded youth around the world greater access to the benefits of sport.

We have focused our efforts in each area:

Bringing about systemic change for footwear, apparel and equipment manufacturing workers remains our primary focus. Through integration with our lean manufacturing business strategy, we believe we can achieve significant positive change for workers.

By FY11 we aim to:

- Eliminate excessive overtime in contract factories – one of the most serious ongoing compliance issues factories face.
- Implement tailored human resources management systems in contract factories, which will include management training on workers' rights, women's rights, and freedom of association and collective bargaining.
- Encourage other brands to join us in partnering. Our aim is that by FY11, 30 percent of our supply chain be monitored in partnership with other brands and through multi-stakeholder collaboration.
- Transition 90 percent of our footwear lines to lean manufacturing processes.

We are firmly committed to addressing environmental challenges in the world today, both in how we manage our footprint and in the design of our products. Over the past two years, we exceeded our CO2 emissions reduction target through the World Wildlife Fund's Climate Savers program. We eliminated F-gases across all Nike products following 14 years of research and development in our Nike Air cushioning system. And we defined our environmental footprint – for our direct operations and our contract factories. By FY11 we expect to:

- Make our Nike brand facilities climate neutral; all Nike, Inc. facilities are targeted to be climate neutral by 2015.

In our products, we continue to pursue waste reduction and sustainable design through Nike innovation. We have embedded our "Considered Design" ethos across our design organization and set aggressive targets for footwear. By FY11 we expect to:

- Meet targets for waste reduction in product design and packaging, use of volatile organic compounds, and the increased use of environmentally preferred materials in all Nike footwear. We are targeting all Nike footwear and apparel product to meet these standards by 2015.

Our designers are focused on creating products that will exceed our targets. As Nike innovation proves what's possible in sustainable product design, we'll raise our standards.

We believe passionately in the power of sport to change a young person's life. Nike invested more than \$100 million in product and cash donations over the past two years in community-based sport initiatives. We're targeting a minimum investment of an additional \$315 million in community programs through FY11.

This is the journey we're on.

Our company is complex. We have multiple brands, categories and product types. Our supply chain builds and delivers more than 50,000 different product types per year. Our footprint impacts millions of people directly and indirectly each year. Our operations touch thousands of smaller businesses within multiple industries, all part of an established global trading system dependent on a host of other partners, and all governed by the framework of a publicly traded company. This complexity will only increase as we grow toward our projected \$23 billion in revenue by FY11.

To meet these challenges, we will leverage our business model, our products, our natural strengths and our voice to be a vehicle for change. We believe that design and innovation can deliver the most valuable solutions. We believe that entrepreneurship is the best source for sustainable solutions. We believe that now is the time to seek and create radical collaborations between global businesses, social entrepreneurs and activists, governments, non-governmental organizations, and civil society. Everybody has part of the answer.

I hope you'll join us, through healthy debate, innovative collaborations and multi-stakeholder partnerships.

Thank you,



Mark Parker

Materiality

There has been much discussion about the concept of materiality and the question of what should be included in corporate responsibility reporting.

We believe the question of materiality – what should be reported on and what can be omitted – must reflect the key strategic conversations in a company about the application of resources when considering how to build corporate responsibility into the business and the company's greatest impacts on society. We believe a company should focus its efforts on social and environmental change where it has unique and core competencies to bring to the table, and where it has responsibility or an ability to bring about change because of direct or indirect involvement through its business model. Where the business model touches a community or creates an impact in the environment should guide the effort.

So, we see two sequential assessments that must be made:

1 Footprint Assessment:

An analysis of a company's unique footprint and its greatest impacts. Please refer to the Global Corporate Responsibility Strategy chapter for more detail regarding the assessment of our footprint and greatest impacts.

2 Reporting Materiality Assessment:

A determination of what the report should contain based on a decision-making process through which we seek outside counsel from our stakeholders. This process is on the following page.

Determining what to report to stakeholders

The footprint assessment coupled with stakeholder interest make up the two key considerations we've used to determine what to include in our reporting.

Other filters we use to identify issues to include in our reporting are:

-  **Business relevance:** Information used to manage corporate responsibility internally.

-  **External commitments:** Global Reporting Initiative Guidelines, United Nations Global Compact and the Ceres Principles.

-  **Regulation:** Existing and emerging regulation in various jurisdictions around the world.

-  **Best Practice/Benchmarking:** A review of industry and peer corporate responsibility reporting, efforts and best practices.

Our Report Review Committee process, the formal and informal feedback we received from our FY04 report and other stakeholder consultations have been the primary external contributions to our decision-making process around report content.

While we may have left out topics important to individual stakeholders, the topics presented in this report reflect an assessment of issues and opportunities raised frequently by multiple stakeholders. Our approach to materiality will continue to evolve.