



The people who work for Nike are here for a reason. I hope it is because we have a passion for sports, for helping people reach their potential. That's why I am here. We strive to create the best athletic products in the world. We are all over the globe.

Much has been said and written about our operations around the world. Some is accurate, some is not. In this report, Nike for the first time has assembled a comprehensive public review of our corporate responsibility practices. You will see a few accomplishments, and more than a few challenges. I offer it as an opportunity for you to learn more about our company. The last page indicates where you can give us feedback on how we can improve.

Nike is a young company. A little more than a generation ago, a few of us skinny runners decided to build shoes. Our mission was to create a company that focused on the athlete and the product. We grew this company by investing our money in design, development, marketing and sales, and asking other companies to manufacture our products. That was our model in 1964, and it is our model today. We have been a global company from the start. That doesn't mean we have always acted like a global company. We made mistakes, more than most, on our way to becoming the world's biggest sports and fitness company. We missed some opportunities, deliberated when we should have acted, and vice versa. What we had in our favor was a passion for, and focus on, sports and athletes.

Things change. We are still passionate and focused. We are still about sports. But our world has become much bigger, our impact felt beyond sports. In January 2001 we redrafted our mission and values to reflect this evolution of Nike, to recommit to our fundamental truths while identifying opportunities for growth as a business and as a citizen. We call these truths our Maxims.

Among these Maxims, we state that as a sports brand, "Nike exists to bring inspiration and innovation to every athlete in the world." (Our co-founder and mentor Bill Bowerman once said, "If you have a body, you are an athlete.") As a global corporation, we have somewhat broader goals; "Nike exists to pursue opportunity and enhance human potential." As a citizen of the world, Nike must Do the Right Thing—try to be transparent about what we are doing right, and about what we are doing wrong; embrace diversity; drive sustainability.

Do the right thing—what does this look like inside Nike today? I'll point to our spirit of volunteerism. Helping the community is typical of Nike employees everywhere we operate. Where many companies struggle to get employees involved, we search for programs to keep pace with employee activism. Each year we recognize one significant team effort with the Alberto Salazar Award. In 2000, that award went to a group of volunteers, the Nike staff in Taiwan, to recognize their extraordinary efforts to provide earthquake relief services while running the business. They did a great job, but they are not alone.

You will also find a strong interest in the environment and sustainability at Nike. Especially among middle management, and our younger employees, who can teach the rest of us, including me, how to use sustainable business practices to make us a better business. All of us know intuitively that making decisions based on what is good for future generations will help us create a company that is built to last.

Friends and family ask us all the time what it is "really like" at Nike. They ask because Nike means something to them. They have an emotional connection to who we are and what we do. They want to know about the shoes, or the athletes, or advertising. Quite often, they ask about labor practices. We don't

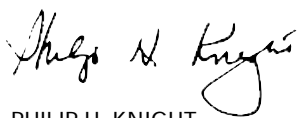
always have all the answers, but in this report you will find a section devoted to labor, which has been the lightning rod for questions about Nike and global citizenship. I hope you will find it useful, although we can never answer all of the questions, which change and evolve almost daily.

In all of these areas of responsibility, how are we doing? I know what makes for good performance when I see it on the running track. I know it when I read quarterly results from the finance department. I have to admit, though, I'm not sure how we measure good performance in corporate responsibility. I'm not convinced anybody does. Why not? Because there are no standards, no agreed-on definitions. When someone who has never seen a basketball game assesses Michael Jordan's career, the easy conclusion might be that MJ was not much of a player. He missed half of his shots, didn't he? If we have a scorecard that includes all of our main competitors, or a set of multinational companies, and a uniform yardstick, I'll at least have a way to frame an answer. When I went to New York to endorse the principles of the United Nations Global Compact in July 2000, I spoke about the need for a set of generally-accepted social accounting principles, and a means of monitoring performance against those standards. No one seemed to notice. I'll keep beating that drum.

Until then, we have to figure it out ourselves, with the help of our business partners, local and national governments, international organizations, and other interest and consumer groups. Over the next year, we will be building some Key Performance Indicators for corporate responsibility, to help us gauge how we are doing. For our efforts to be successful, our work with collaborators must include their insight and solutions as well as criticism.

The document you hold is our first step in systematically communicating the things we've done to evolve. Admittedly it is incomplete, a bit of a mishmash. We are, after all, just beginning to truly understand what a sustainable business means. Future reports should also reflect issues we have not tackled in this first version, things like corporate governance, marketing communications and ethics in sport. For now, it offers an honest self-assessment of our progress. To help steer us down this path, we are establishing a Corporate Responsibility Committee of the Board of Directors, which will be chaired by a long-time Nike independent board member and distinguished academic, Jill Ker Conway.

Global citizenship is important to our company and to our consumer. The performance of Nike and every other global company in the 21st century will be measured as much by our impact on quality of life as it is by revenue growth and profit margins. We hope to have a head start.

A handwritten signature in black ink, appearing to read "Philip H. Knight". The signature is fluid and cursive, with the first name "Philip" being the most prominent.

PHILIP H. KNIGHT
Chairman and CEO

WHERE IN THE WORLD IS NIKE?

In one sense, we are everywhere. We operate on six continents, and our suppliers, shippers, retailers and service providers employ close to 1,000,000 people. We are truly a global company that touches well over 100 countries. We are also a bit player, with \$9 billion in revenue. The United States economy alone imports and exports \$790 billion in goods and services each year just in the Western Hemisphere, and even in a casual reporter's reference to companies doing business in Vietnam (see below), Nike is the midget. Of course, in Vietnam, our contract factories also constitute the largest private employer in the country, and their exports of Nike products account for 6% of Vietnam's total exports. Giant? Or bit player? Like globalization itself, Nike's influence in the world economy is perhaps the ultimate paradox.

NIKE IN THE WORLD

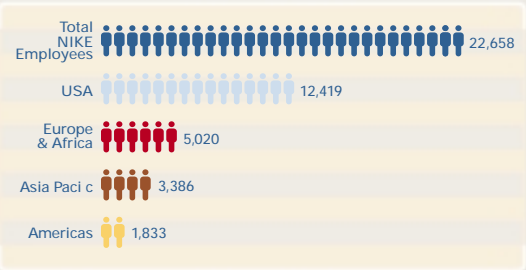
Where we plan, develop and distribute

- Major Regional Offices
- Distribution Facilities

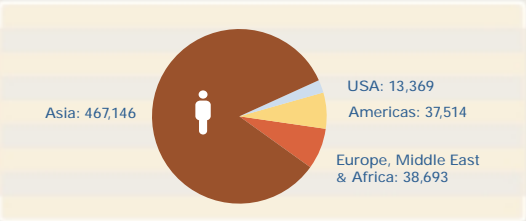
Where we manufacture

- Production

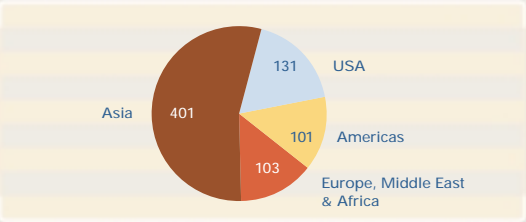
NUMBER OF NIKE EMPLOYEES



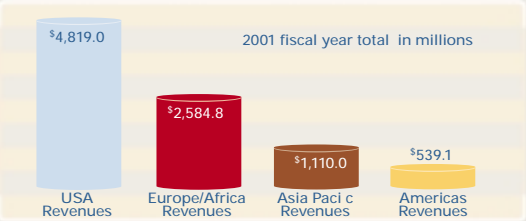
NUMBER OF CONTRACT WORKERS BY REGION



NUMBER OF FACTORIES BY REGION



NIKE SALES BY REGION



NIKE FINANCIALS

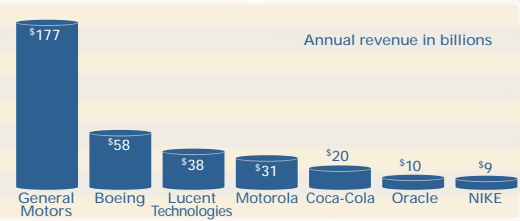
	FY99	FY00	FY01
Revenue	\$8,776.9	\$8,995.1	\$9,488.8
Diluted Earnings Per Common Share	\$1.57	\$2.07	\$2.16
Net Income	\$451.4	\$579.1	\$589.7
Stock Price, Year End	\$60.94	\$42.88	\$41.10

Revenue and net income in millions

"...Companies participating in the (trade) mission (to Vietnam) include giants like Boeing Co., Coca Cola Co., General Motors Corp., NIKE Inc., Lucent Technologies Inc., Motorola Inc. and Oracle Corp."

- Reuters, Nov. 7, 2000

HOW SMALL ARE WE?



NIKE is among the largest of the world's apparel/footwear companies, and the world's largest sports and fitness company

HOW BIG ARE WE?

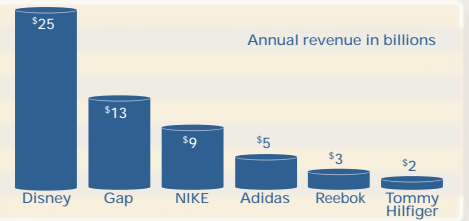


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Corporate responsibility issues are by definition a complex set of dilemmas. Whatever you want to call it: corporate ethics, sustainability, social responsibility, “people, planet, profit,” the triple bottom line, “good company” versus “bad company.” It is all about how we handle dilemmas as a company. How do we produce the best products under the best factory conditions and remain profitable? How do we balance the need to compete with companies that want to win market share from us and at the same time invest profits in community giving? How do we develop environmentally sustainable products that still provide the performance consumers want? How do we balance investments of time and money in corporate responsibility initiatives with bottom-line demands?

We run Corporate Responsibility like any other piece of the business. We have business plans, goals, action plans, timelines and measurables. We’re driving issues out into all areas of the organization instead of keeping everything housed in a corporate function. For example, when we launched our environment policy, we identified 100 people from every part of the company, from logistics to kids footwear to sports marketing, and had them go through a sustainability learning program. They are champions now in the company, bringing a new lens to their work, not doing a different job. They’ve already identified several million dollars in potential savings that will also protect the environment.

The word “sustainability” has been thrown around a lot. What it means to us is not seeing things piecemeal, not stressing business issues in one place and responsibility in another. To us, sustainability means running our business while being conscious of, and addressing its impacts, and addressing them everywhere.

This report is our first attempt to assess how we are trying to do just that. While a core team drove the process of creating this report, we relied on input and cooperation from many divisions and individuals within our global organization. In effect, every employee at Nike does the work of corporate responsibility. Some — like the people who design our products, or the people who try to make our logistics more efficient — do the real heavy lifting of our responsibility to our current and future consumers and the natural environment. There are hundreds, if not thousands, of people in this company who lift that weight every day.

This report can be hard to read. As you read it, we’ll explain what the issue is, the dilemma we face, how we are handling it, what our analysis of it is, and what we’re doing about it. We’ll tell you how we’re measuring ourselves and where we see the issue going in the future. For every issue we address there are many more we don’t, but we’ve tried

to show you our business plan and give you a sense of who the faces are behind the Swoosh.

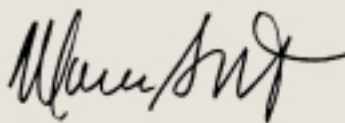
Our Chairman and CEO, Phil Knight, has taught us to provoke, to have a sense of humor, to challenge ourselves and challenge those who challenge us. We hope we have fulfilled that mission. Jill Ker Conway, an independent member of Nike’s Board of Directors, has been a constant mentor and inspiration in the work of Corporate Responsibility.

We looked elsewhere for guidance as well — to the Global Reporting Initiative (GRI) guidelines, for example. This is the first attempt to gather in one reporting standard a set of questions (and the harder part: answers) that address a set of topics for which there are yet no generally accepted accounting or reporting principles. (See inside back cover.)

This report generally reflects our organization and work on the ground through May 31, 2001, although there are places where we mention more recent activity, particularly in the labor practices area, where recent events have challenged us. Through learnings in Cambodia, at the Kukdong factory in Mexico and in Indonesia with the Global Alliance, we have implemented new policies, programs and systems. Expanded information is available at nikebiz.com.

Please give us feedback. We talk to a variety of audiences in the regular course of doing business and see this report as a continuation of that conversation. It is also a way to bring in others who we haven’t been able to sit down with face to face.

We thank everyone who reads this or who has taken the time to understand the issues beyond the headlines.




MARIA EITEL
Vice President and Senior Advisor
Corporate Responsibility



DUSTY KIDD
Vice President, Compliance



A high-angle, slightly tilted photograph of a very cluttered desk or workspace. The desk is covered with a chaotic arrangement of items: stacks of papers, some with handwritten notes, several books (one with '1993' on the spine), a small globe, a filing cabinet with many yellow folders, and various other miscellaneous objects like pens, a stapler, and a small box. The lighting is warm, and the overall impression is one of a busy, unorganized office environment. A semi-transparent text box is overlaid in the center of the image.

Throughout this report you will see snapshots of Nike people working on corporate responsibility projects and programs, old files, e-mails, ticket stubs and the like. We thought it important for you to get the texture of this work as well as its substance.



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NIKE, INC.

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Until the late 1980's Nike's environmental commitment was to be "in compliance" and support local non-profits. Then a small task force of employees established an environmental steering committee and by February 1993 this became a formal department — the Nike Environmental Action Team (NEAT). Efforts were focused on recycling, education and a few innovative programs like Reuse-A-Shoe (pages 22–23).

In September 1995 the U.S. NEAT team went to hear Paul Hawken give a talk based on his book *The Ecology of Commerce*. It was a wake-up call, an epiphany that changed our thinking and galvanized the team. The message seemed simple. The planet's living systems are in decline and without them there is no such thing as society, let alone business. Our choice as a business seemed clear — continue to contribute to the decline or enter a new era of commerce where human and business needs don't deplete living systems.

Thus began the introduction of the word "sustainability" into the business lexicon at Nike. The team took its share of "tree hugger" comments in the early days, but managed to break through some barriers by seeking to understand the ways in which business leaders could find sustainability compelling. Our challenge was and continues to be addressing the "triple bottom line," ensuring we demonstrate value to the business alongside social and environmental value.

By 1998 the company was ready to launch a new policy, endorsed by the CEO and President, that committed us to the pursuit of sustainable business practices. In 1999 new sustainability positions were created in the apparel and footwear divisions. Today these have grown into teams who are working throughout their business units, from design to manufacturing, to make sustainability a reality in product.

By June 2000 Apparel and Footwear had taken full responsibility for the product creation process, and our material supply chain related issues. The environmental compliance team was then merged with the labor practices team. The Corporate Sustainable Development group maintains responsibility for Reuse-a-Shoe, and continues to work on the integration of sustainable business practices within other parts of the business.

In order for Nike to become environmentally sustainable, we will have to accomplish at least the following goals:

- Working to improve the environmental performance of our suppliers

- Eliminating waste and potentially harmful substances from materials and manufacturing processes.
- Designing product that can either be donated, brought back and re-manufactured, or safely returned to nature.
- Reducing, and ultimately eliminating our impact on climate change.
- Decreasing throughput of one way resources.
- Changing the emphasis from human productivity to resource productivity.
- Engaging consumers in the potential for a different way of "consuming."
- Developing metrics so that stakeholders can evaluate our progress.

If we accomplish all this, and it is a big "if," we will have a business that is prosperous in the long term, and we will have acknowledged the needs of future generations.

Sarah A. Severn

SARAH SEVERN
Director of Sustainable
Development — Corporate



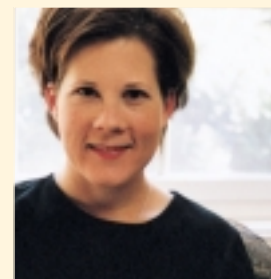
Darcy S. Winslow

DARCY WINSLOW
General Manager of Sustainable
Business Strategies — Footwear



Heidi Holt

HEIDI HOLT
Global Environmental
Director — Apparel





CORPORATE ENVIRONMENTAL MISSION & POLICY

Through the adoption of sustainable business practices Nike is committed to securing intergenerational quality of life, restoring the environment and increasing value for our customers, shareholders and business partners.

NIKE WILL ENDEAVOR TO:

- Integrate principles of sustainability into all major business decisions.
- Scrutinize our environmental impacts in our day-to-day operations and throughout every stage of the product life cycle.
- Design and develop product, materials and technologies according to the fundamental principles of sustainability.
- Promote our practices throughout the supply chain and seek business partnerships with suppliers who operate in a manner consistent with our values.
- Educate our employees, customers, and business partners to support our goal of achieving sustainability.
- Turn awareness into action by integrating environmental responsibility into job responsibility.
- Partner with experts and organizations that contribute to our knowledge about sustainability and stewardship of our outdoor playground.
- Contribute to quality of life in the communities in which we operate.
- Monitor, measure and report progress.
- Strive for continuous improvement in everything we do.
- Comply with all applicable and relevant regulations wherever in the world we do business.



In Fall 1998, Nike adopted its first Corporate Environmental Policy. This formal commitment to sustainability was a major step, but how were we going to ensure that we could “walk the talk?” Sustainability principles and application were foreign to the majority of Nike employees. There was a need to communicate that this is everyone's job, but also to educate people on sustainability issues. It became a matter of starting somewhere.

That somewhere began when Laila Kaiser and Jill Zanger of our NEAT department set out to affect systemic change amongst 22,658 people. They enlisted the help of external consultants with expertise in organizational change, sustainability knowledge, and leadership. (Many thanks to SEED Systems, Polaris Learning, Wood and Associates and The Natural Step.) Together, we developed an organizational learning program focused on “action learning” around environmental principles and application. Selected Nike employees from around the world were engaged to review case studies and attend 3-4 training sessions over nine months. These employees were also challenged to apply what they learned to specific business projects already under-way or growing out of the learning.

The program included about 35 “champions” (mainly senior managers, vice-presidents, general managers and directors), who were tasked with providing support for 65 “captains,” or employees in the trenches designing products, running logistics and sourcing materials. Sustainability experts spoke at the training sessions to broaden the horizons of the group as it sought solutions to environmental challenges in our business.

Together we developed an organizational learning program focused on “action learning” around environmental principles and application.

The goal of the program was to *create a critical mass of change agents* who might individually and collectively lead the transition to sustainability for Nike. Did we achieve this goal? No. Do we think it was successful? Yes.

In retrospect, it was the wrong goal. A group of 100 people alone cannot lead the transition to sustainability at a large organization like Nike. They can certainly be a critical group in that change, and pave the way for others. We learned the hard way that if you don't have 100 percent of senior management actively engaged

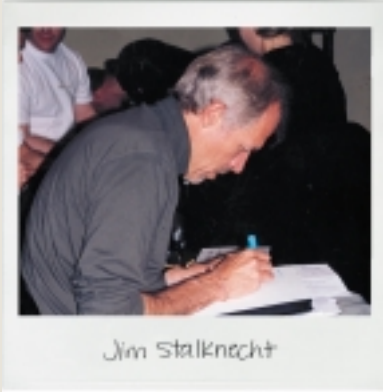
in systemic change, then you are only chipping away at the iceberg's edge. We also erred in that the majority of the participants were from

the product and supply chain side of our business. The more consumer-oriented parts of our business — marketing, sales and retail — were not as well represented. While this mix allowed a definite focus on areas where environmental impact is more obvious, we have a long way to go with truly affecting systemic change in the rest of the business.

We were successful in other ways. We created a strong network of people who learned how to think of Nike as a complex system rather than just a group of distinct departments. The value of that changed perspective is immeasurable. Also, each captain convened a team of their peers to identify sustainability goals against business issues. Real business objectives are being achieved with a sustainability return. Sixty-five projects were initiated or affected by this process, with environmental sustainability as a key consideration. Six of those projects are highlighted here. Many of these projects saved the company money, some innovated new processes and product ideas, and a few might even revolutionize the way we do business in the future.

Musings from the four training sessions.





 <p>Jim Stalknecht</p>	CAPTAIN:	JIM STALKNECHT / <i>Manager, European Corporate Real Estate</i>
	PERSONAL:	6' 7" born/raised in Amsterdam
	CHAMPION:	Hans van Alebeek
	TEAMMATES:	Esther van West, Sandra Blaas, Bianca Hogenboom, Didier Harm, Andre Claassen
	PROJECT GOAL:	Nike's European Headquarters' "ecologically intelligent architecture"—groundbreaking energy-efficient office complex, unparalleled in the Netherlands. (See nikebiz.com) (100% accomplished)
	DESIRED OUTCOMES:	<ul style="list-style-type: none"> • Closed-loop, environmentally benign groundwater storage warms/cools building, 40% energy savings • Rainwater collection system saves 4 million litres per year — enough to flush 1 million toilets • Integration of natural landscape • Adaptability to future purposes

 <p>Kevin Manley</p>	CAPTAIN:	KEVIN MANLEY / <i>Asia Pacific Sales Operations Director</i>
	PERSONAL:	University of Oregon Duck fan, car nut
	CHAMPION:	Tony Balfour
	TEAMMATES:	Christine Tsui, Tom Soohoo, Dan Loeb, Stone Huang, Jeff Gfroerer, Miquel Casas, Rich Hawthorne, Nike China Product Line Mgmt. Team
	PROJECT:	Asia Pacific Business-to-Retailer Web site
	GOAL:	Implement a secure web site to electronically deliver product catalogs and conduct business with Nike retailers in China. (100% accomplished)
	DESIRED OUTCOMES:	<ul style="list-style-type: none"> • Replaced printed catalogs with Nike China business-to-retailer web site, launched November 1999 • Saved 130,000 pages and US \$40,000 per year in China alone • Improved customer satisfaction by providing accurate, timely product information customized for the retailer • Sales representatives more efficient — more customers over larger territory • Vehicle to initiate sustainability discussions with retailers




SIX OF THE SIXTY-FIVE PROJECTS


 <p>Flora Huang</p>	CAPTAIN:	FLORA HUANG / <i>Advanced Materials Researcher</i>
	PERSONAL:	Leo, Karaoke queen
	CHAMPIONS:	Heidi Holt, Joe Morelli, Michelle Riebe, Selma Taygan, Patrick Werner
	TEAMMATES:	LaShurya Wise, David Mehta, Cliff Bridges (Miratec), Tomonori Yamagami (Yagi), Jean Guess (KoSa), John Carberry (DuPont), Andy Shaffer (Cargill-Dow)
	PROJECT GOAL:	Develop a range of sustainable materials for Nike Apparel. (40% accomplished, 60% pending)
	DESIRED OUTCOMES:	<ul style="list-style-type: none"> • Single polymer textiles with enhanced performance such as elasticity or weather protection, designed for recyclability • Biomass-based synthetics both biodegradable and compostable • Recycled content materials to drive recycling market

 <p>Dave Newman</p>	CAPTAIN:	DAVE NEWMAN / <i>Claims Manager for Global Logistics</i>
	PERSONAL:	Retired marathoner, native Oregonian
	CHAMPIONS:	John Isbell, Bob Kreinberg, Ron Edwards
	TEAMMATES:	Debbie Burns, Mark Vickers, Pam Mattsson, Natalie Cheng, Mark Orphanides, Gordon Barrett, Kelli Landry, David Buchanan
	PROJECT GOAL:	Measure Nike's global CO ₂ emissions from the transport of product from factories to distribution centers. Become climate-neutral and optimize logistics for sustainability and profitability. Forward and reverse logistics, virtual inventory and transportation partnerships.
	DESIRED OUTCOMES:	<ul style="list-style-type: none"> • Tools in place to measure past and future global CO₂ impacts of transportation (80% accomplished, 20% pending) • Measurement of other pollutants caused by burying fossil fuels in transportation (80% accomplished, 20% pending) • Centralized defective return process and shredding operation to Wilsonville (100% accomplished) • Minimize fossil fuel use through reduced transportation and CO₂ emissions • Reduced transportation costs (50% accomplished, 50% pending) • Reduced costs, increase efficiencies in process touch points (80% accomplished, 20% pending)

Musings from the four training sessions.



 <p>Dave "Doppler" Lamb</p>	CAPTAIN:	DAVE "DOPPLER" LAMB / <i>Retail Operations Project Lead</i>
	PERSONAL:	Portland Trail Blazer fan, closet meteorologist
	CHAMPION:	Deanna O'Neil
	TEAMMATES:	Neal Ause, Blythe Bejan, Rebecca Carroll, Jenn Darsey, Carrie Dunn, Barb Freeman, Barb Graff, Tom Jacobsen, Don Jones, Kelly McCallister, Christine McCullough, Lynda Sabin, Megan Thayer
	PROJECT GOAL:	Introduce sustainable practices into Nike Retail environments.
	DESIRED OUTCOMES:	<ul style="list-style-type: none"> • Provided Sustainability Education for 5000 Nike Retail employees (100% accomplished) • Created sustainable best practices throughout Nike Retail USA Region (50% accomplished, 50% pending) • Launched Nike Reuse-A-Shoe product take-back program in selected Nike Retail stores (100% accomplished) • Store-based recycling, green events, facilities innovation, paperless reporting programs (50% accomplished, 50% pending)

 <p>Jane Pallera</p>	CAPTAIN:	JANE PALLERA / <i>Kids Footwear Design Director</i>
	PERSONAL:	Gourmet cook, kickboxer, movie buff
	CHAMPION:	Cindy Trames
	TEAMMATES:	Marni Gerber, Frank Pruitt
	PROJECT GOAL:	Develop an innovative, sustainable cradle-to-cradle Kids product. (50% accomplished, 50% pending)
	DESIRED OUTCOMES:	<ul style="list-style-type: none"> • No molded outsole parts, simple materials palette • Easy on/easy off closure system design • 100% antimony-free polyesters • Positive dye palette • Fewer components, ease of manufacture • Cool for business: most pairs sold are infant / holiday





SUBJECT:

CLIMATE IMPACT- OPERATIONS

since 1992

CHALLENGE: As a result of doing business, Nike emits Greenhouse Gases (GHG), contributing to global climate change.

ACTION: Track our Greenhouse Gas emissions and work toward reduction.

OUR GOAL: Calculate an annual baseline emission of Greenhouse Gases and establish goals for reduction.

G.R.I. CATEGORY: 6. Energy; Emissions; Transport

A by-product of Nike's business operations is the creation of Greenhouse Gases (GHG) which contribute to global climate change. As the first step in establishing a corporate strategy to reduce our climate impact, we have developed an inventory of the GHG's emitted from our business operations. These operations are world-wide and include activities that we own, services that we contract, and operations of our subcontractors. Our baseline calculations, including areas where we've already started to make a difference, is as follows.

OWNED OPERATIONS:

- All owned warehouse, manufacturing and product emissions (See page 16)
- All World and European headquarter emissions (See www.nikebiz.com)

SUBCONTRACTED OPERATIONS:

- Subcontracted factory emissions
- Product transportation emissions
- Air travel emissions (See Eco-Class section below)
- All leased retail and country office emissions
- Other directly contracted services

The next step will be to develop reduction targets.

YOU TRAVEL, YOU POLLUTE

NIKE'S ECO-CLASS PROGRAM

Business travel is a requirement for any company. To offset the CO₂ emissions from our air travel miles, Nike developed "Eco-Class" (see email below), a partnership program between Nike and Delta Air Lines. The first project invested high-efficiency boiler

systems in a public middle school in Portland, Oregon. The result was an offset equivalent to the total CO₂ emissions from our U.S. employee air travel on Delta Air Lines for the last six months of 2000.



Cullen, Ted

From: Climate Offset Program
Sent: Tuesday, April 4, 2000
To: Nike Employees
Subject: Eco-class

When you travel, you pollute. It's that simple. That's why Nike Travel is committed to partnering with our travel suppliers to help reduce our impact on the environment. At Nike, we fly for business an average of 110 million miles a year in the U.S. alone. Commercial airlines release more than one-half pound of carbon dioxide per seat for every mile flown.

Already, Nike Travel has established several price-competitive airline partnerships that save Nike millions of dollars each year. Now when you choose Delta Air Lines for business travel, Nike and Delta will both donate a portion of your ticket price to offsetting carbon dioxide emissions with an innovative new program called Eco-Class. Our first project benefits the Portland Public Schools, where we will help one school at a time to change its fuel source from oil to natural gas by installing high efficiency boilers.

Considering that 50 million of our collective 110 million air miles are flown on Delta, we can make a significant difference with a decision many of us make at work every day. With the program's success, Nike Travel will be able to offset even more carbon emissions by growing Nike's profile of environmental travel partners to include other preferred suppliers.

MOVING PRODUCTS POLLUTES

Nike moves products from hundreds of factories to thousands of retailers across the globe. In fiscal year 2000, we moved more than 200 million kilograms of product by ship, airplane, rail and truck. All of these transportation systems burn fossil fuels that contribute to climate change. Typically these emissions are

considered to be the responsibility of the carrier. Since 1999, however, Nike has worked to develop ways to account for the portion of the carrier's emissions that are a direct result of moving Nike products. These emissions will become a part of our contracted operations GHG emissions footprint.

TRAVELING RESPONSIBLY VIA ALTERNATIVE COMMUTING (TRAC)

Nike has been encouraging alternatives means of commute to and from the office since 1992. Our Oregon World Headquarters (WHQ) — as well as every Niketown in the United States — participates in Nike's "Traveling Responsibly via Alternative Commuting" Program (TRAC). Each facility budgets and handles its own monthly prizes, sponsored events and other incentives to encourage responsible commuting among Nike employees. At WHQ, Nike participates in Portland's Tri-Met PASSport program — all area employees can purchase annual transit passes and ride the entire MAX light rail for \$15 a year. Nike

employees can also access an internal TRAC website that maintains an in-house carpool matchlist, posts transit and shuttle schedules, and provides access to maps of safe bike routes, clean air action days and traffic updates. Nike shuttles bring employees from the local light rail station to their worksites, and between worksites on campus.

Prior to starting the initial program in 1992 we had a 98% drive-alone rate. By 1997 our drive-alone rate was 87%. In 1999 the rate was down to 84%. This means that now 16% of employee trips to WHQ are made by alternatives (carpool, transit, bike, walk) other than driving alone.

TRAC METRICS FY'00

Number of employees at World Headquarters.....	4,484	Vehicle trips saved	15,855
Carpool trips.....	14,241	Vehicle miles saved	282,744
Adjusted carpool to reflect average number of people per vehicle.....	7,121	Gallons of gas saved (20 mpg)	14,137
Transit trips.....	5,938	Pounds of pollution eliminated.....	11,310
Bike Walk Telework trips.....	2,826		





SUBJECT:

PRODUCT AND MANUFACTURING

since 1997

CHALLENGE: Reduce product and manufacturing impact on ecosystems.

ACTION: Integrate sustainability into design and manufacturing of Nike products.

OUR GOAL: Nike products adopt continuously increasing levels of sustainability through materials and chemicals use, and eco-efficiency.

G.R.I. CATEGORY: 6. Materials, Emissions, Effluents and Waste; Products and Services

To grow our business and meet demand, and still reduce the environmental impact created by “consumption,” we need a business model that provides financial growth while reducing material intensity.

We don’t have all the answers, but here is some food for thought.

1. **Consumption is not the problem. The nature of consumption is.** People use products, the majority are not consumed in the true sense of the word and that is the crux of our current dilemma. We use large amounts of resources and produce large amounts of waste, most of which has no rightful place in nature.
2. Borrowing the ideas of Bill McDonough and Michael Braungart, we seek to ultimately design products of consumption that can be safely returned to the earth, and products of service that remain in technical cycles, using technical nutrients. In the service model, consumers have use of the product, but return it to us at the end of its useful life, reducing resource intensity and eliminating waste. The consumption model — truly biodegradable products — may actually replenish nature.
3. All the above has to be driven by renewable energy — in manufacturing and transportation.

The following pages describe how we’ve started to apply sustainability in product creation. We are a long way from having solutions to many of these larger issues, but we hope we’re headed in the right direction.

MBDC (MCDONOUGH BRAUNGART DESIGN CHEMISTRY)

In 1998, Nike and McDonough Braungart Design Chemistry (MBDC) began to study the chemical composition and environmental effects of the materials and manufacturing processes Nike uses, and to incorporate recommendations for replacement.

Focusing primarily on our global footwear operations, the process began with factory visits to China. The team collected information and samples to begin testing our major material platforms — rubber, leather, nylon, polyester, foams, and synthetic leather, to name a few.

Through scientific research, if chemicals and materials are determined (or suspected) to have adverse effects on human health or biological systems, they are targeted for replacement. The end result will be a “positive list” of substances used in Nike products that can either be reintroduced into the technical cycle or naturally metabolized into nature’s biological cycle. It’s a two-phase, collaborative effort between Nike, MBDC and our vendors to establish replacement guidelines and acceptable thresholds for use during manufacturing.

Phase 1, begun Fall 2000, includes auditing all of our major material suppliers, focusing on chemicals used in our products that are targeted by legislation in at least one country in the world. **Phase 2** began in early 2001, with a focus on chemicals used in our manufacturing processes. During each phase, information will be available to all involved and appropriate parties, while maintaining security of the intellectual property of our material suppliers.

PRODUCT CREATION GOALS

There are four long-range goals (see below) that are being integrated into our Product Creation process and eventually throughout our supply chain. This involves the adoption of our goals and values by our product teams designing and engineering innovative product everyday. To succeed, we must also engage the suppliers who provide our manufacturing partners with the raw materials, components and chemicals with which to construct, package and ship our product. These goals will apply throughout our value chain, which will require us to engage our retail partners, and of course, our consumers.

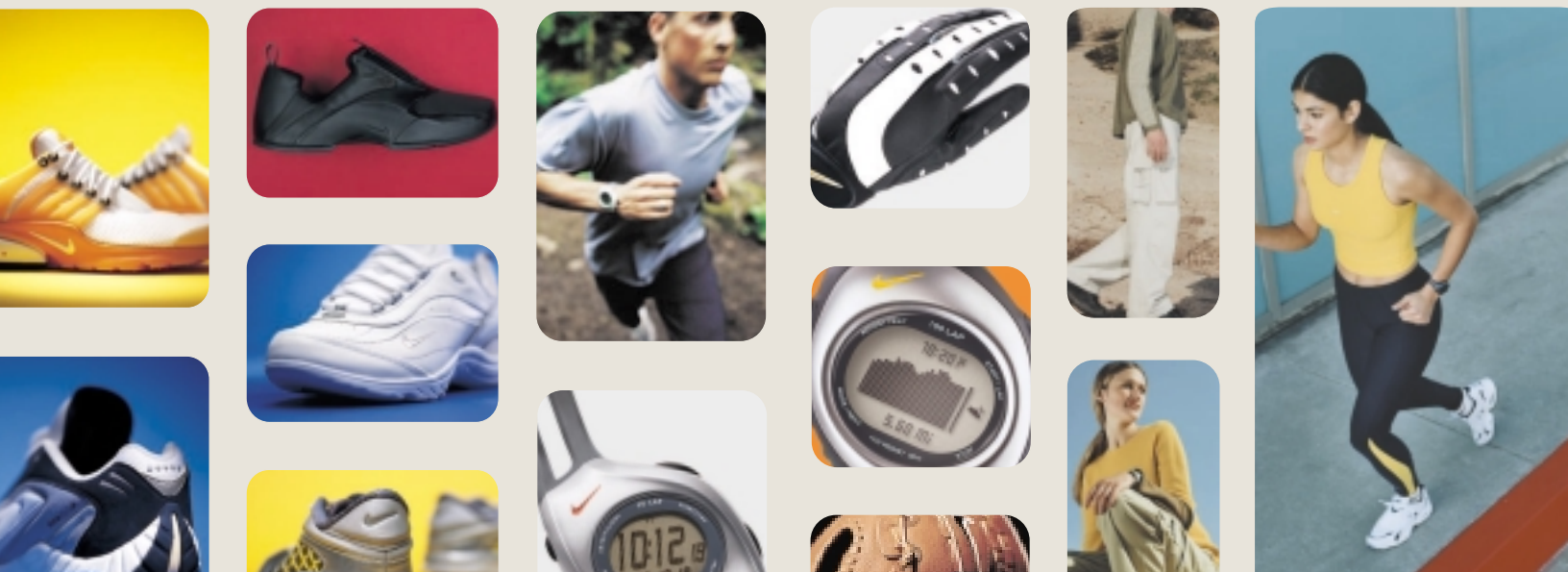
Attaining our goals will require three basic approaches: adopting a lifecycle approach, eco-efficiency and eco-effectiveness. Eco-efficient steps are primarily interim and incremental approaches to our ultimate goals, as we learn to become more eco-effective in the holistic design of our products. Eco-effectiveness, coined by Bill McDonough and Michael Braungart, is a concept that leads us toward a restorative and regenerative state — and some early design concepts are extremely encouraging.


OUR 2020 GOALS INCLUDE:

1. **Eliminating the concept of waste** in our product design, use of materials, energy, and any resource that cannot be readily recycled, renewed or reabsorbed back into nature.
2. **Eliminating all substances that are known or suspected to be harmful** to human health or the health of biological or ecological systems.
3. **Closing the loop and taking full responsibility for our products** at all stages of our product and process lifecycle, including the end of a product's useful life when consumers are likely to dispose of it.

4. **Developing financial structures that promote greater product stewardship** in design, engineering, and manufacturing. Create new financial models to reflect the full cost of doing business, ultimately providing additional benefits to both Nike and our consumers.

Yes, we do have interim goals and targets which we will continually measure and report progress (some examples have been included). Our product is diverse and complex but we are systematically identifying and prioritizing the greatest opportunities where we can make a difference.



	SUBJECT:	SF ₆ (Sulphur Hexafluoride)	since 1992
	CHALLENGE:	Maintain superior cushioning in Nike shoes while eliminating SF ₆ , a global warming gas, from Nike-Air products.	
	ACTION:	Research gas and barrier film alternatives with proven performance that allow substitution of a benign cushioning gas.	
	OUR GOAL:	Replace SF ₆ with a benign gas in every Nike-Air product.	
	G.R.I. CATEGORY:	6: Emissions	

Nike first began incorporating air bladders into athletic shoes in 1978 because of the superior cushioning and impact shock protection they provided athletes engaged in competition. We initially filled the air bladders with perflouroethane gas (Freon 116). Although not ozone-depleting, DuPont chose to stop production of Freon 116 in 1989, and we launched a search for a replacement gas. Sulphur Hexafluoride (SF₆) was chosen because of its availability and its ability to provide the high performance cushioning required. In August 1992, a German consumer product magazine, Stiftung Warentest, ran a story on global warming gases. It was at that time Nike first became aware that the same gas that significantly improved the quality of our product also had global warming potential. We began searching for yet another replacement.

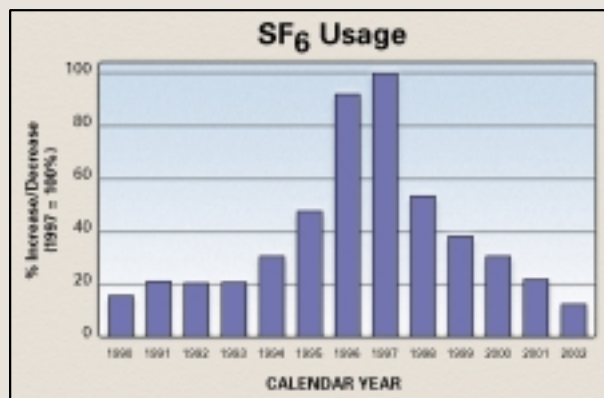
This project has proven to be our most difficult research and development challenge encountered to date.

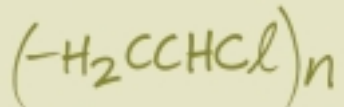
Nike has a team of over 60 experts working on various aspects of this complex project, representing over 50% of our total Nike-Air technology resources.

Since 1992 we have employed more than 50 external organizations to help us develop appropriate and effective barrier film technologies to contain the replacement gas.

Our original phase-out goal developed in 1997 was to replace all SF₆ by the end of calendar year 2000. We've had to adjust this date due to unexpected technical challenges encountered. We have been successful in substituting replacement gas and barrier film in some applications, and reducing our usage by approximately 68% below our peak usage in 1997.

Our revised projection will be Fall 2003 product when we will distribute only 100% SF₆-free product to the marketplace, which is a retail introduction of June 2003. Due to supply chain implications, this translates to zero usage of SF₆ in air unit production beginning December 2002. Our SF₆ usage between now and then will continue to decrease significantly as we continue to transition air platforms to a benign gas. Furthermore, we will incorporate design for environment principles into all future cushioning technology as part of our commitment to overall product sustainability.



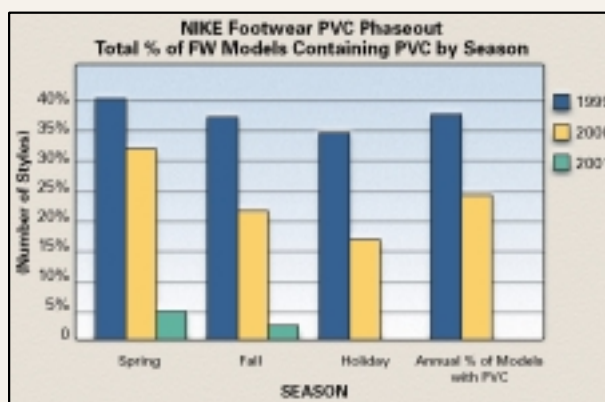
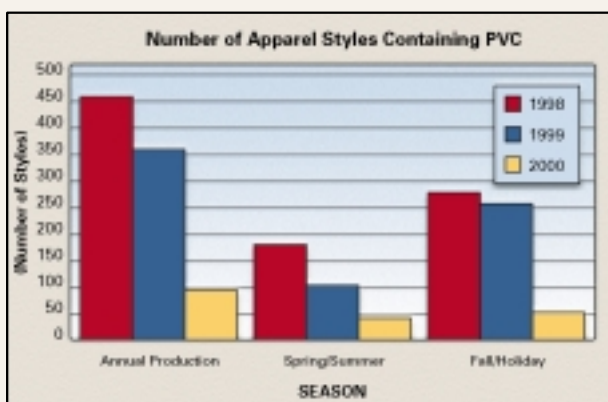
	SUBJECT: PVC (poly vinyl chloride)	since 1999
	<p>CHALLENGE: Find proper substitutes in Nike products for PVC, which has negative effects on human and ecological systems through manufacturing and disposal.</p> <p>ACTION: Phase out PVC from Nike products.</p> <p>OUR GOAL: PVC-free in footwear and non-screenprint apparel by end of CY2002; seek phase-out from other apparel and equipment.</p> <p>G.R.I. CATEGORY: 6: Materials; Products and Services</p>	

PVC is the acronym for poly vinyl chloride, known to most of us as vinyl. It has become ubiquitous in the past fifty years, used in everything from packaging, flooring, toys, pipes, medical supplies, cars and sports equipment. Durable and cheap to make, PVC was the plastic of choice...until recently. Over the last few years PVC has received considerable attention in the public domain in relation to a range of environmental issues. Studies show that:

- The vinyl chloride monomer (used to make the PVC polymer) is a carcinogen.
- PVC incineration can result in dioxin emissions. Dioxins are persistent, highly toxic, bioaccumulative substances.
- Additives used in PVC contain toxic heavy metals such as lead and cadmium that do not remain bound in the final product.
- Phthalates, a group of compounds used to soften PVC have been identified as endocrine disrupters.
- PVC is not easily recyclable once it has become waste. Because PVC is difficult to recycle, waste is typically burned or put in a landfill. Landfill is not a viable option, as PVC does not biodegrade.

We spent nearly two years reviewing research from academia, environmental and engineering consultants, environmental NGOs and the vinyl industry. We also listened to customer and retailer demands, took the current and future legislative environment where we sell and manufacture our products into account, and applied the guiding principles of The Natural Step. We decided phasing out PVC from our products was a priority. Our decision drew praise from environmental groups but criticism from the vinyl industry. We were hit with a torrent of e-mails, phone calls and letters, telling us to reconsider. We told them it was non-negotiable.

Finding solutions requires partnering with our suppliers. Through joint research and development efforts we will continue to work on replacement materials. We saw a dramatic drop in footwear PVC use between 1999 and 2000 and we're making strong progress in apparel, but phasing out PVC from our equipment lines has been the biggest challenge. For scale, footwear represents 65%, apparel 31.4% and equipment 3.6% of our business. We have less influence with equipment material suppliers.




SOME BEG TO DIFFER

“...both amazed and dismayed that a respected corporate leader such as yourself is allowing Greenpeace’s misinformation to promote a questionable environmental agenda at your customers’ expense.”

“...The decision is clearly indifferent to science...”

“...We are disappointed that Nike would allow Greenpeace to put words in its mouth disparaging vinyl...”

	SUBJECT:		ELIMINATING ORGANIC SOLVENTS	since 1992
	CHALLENGE: Use of petroleum-based solvents in footwear manufacturing creates higher work risk and environmental impact.			
	ACTION: Eliminate their use by substituting water- and detergent-based alternatives.			
	OUR GOAL: Eliminate 90% of petroleum solvents by 2001, using 1995 as the baseline. Phase out completely in the future.			
G.R.I. CATEGORY: 6. Emissions, Effluent and Waste				

A bearded fellow named Dick Crosbie is a good example of the many people who work quietly behind the scenes to do the right thing.

In 1992, with Dick in a lead role as director of the Footwear Chemical Engineering Operations, Nike began work with manufacturing partners and chemical suppliers to develop water-based alternatives to adhesives, primers, degreasers and mold release agents containing petroleum-based solvents. In some levels of concentrations, organic solvents such as toluene and methyl ethyl ketone (MEK) have the potential to damage the environment, and the health of workers not wearing proper protective equipment. We began trialing these new water-based technologies in 1994, and since 1995 have reduced our usage of organic solvents 88%, from 340 grams/pair to slightly more than 40 grams/pair in 2001. Dick tracks the progress toward a 90 percent reduction goal with a quarterly chart (see above).

Business value also has been achieved. Organic solvents replaced by May 31st, 2000 has resulted in a \$4.5 million savings in raw materials alone, not counting those related to labor, storage and shipping. We've eliminated more than 1.6 million gallons of solvent each year — equivalent to more than 32,000 barrels of oil — improving the factory environments for 180,000 workers in 37 Asian factories.



Data collected and validated by CH2M Hill www.ch2mhill.com


Dick approached the massive problem systematically. For six years he worked with his staff on each stage of the process — testing, reformulating, trying production runs, watching products fall apart, beginning again.

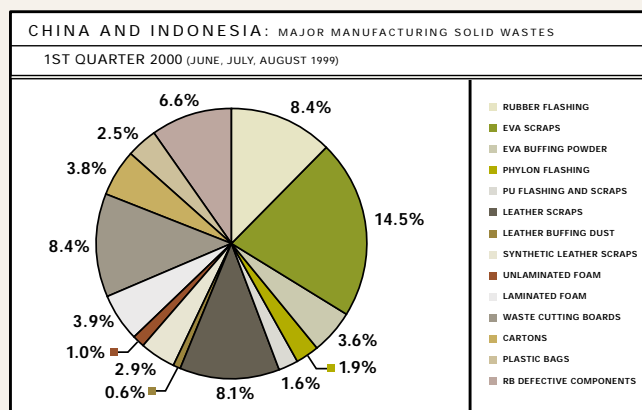
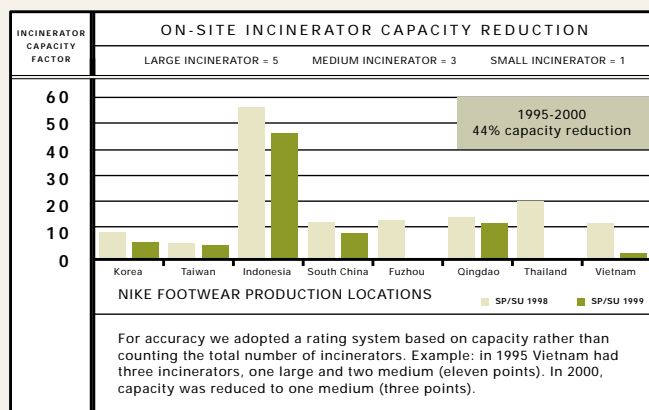
In 1998, Nike held an open forum and factory tour for footwear manufacturers in Bangkok, Thailand, sharing the results and technical information with our competitors. Dick's rationale: this information benefits all. "Through sharing these new technologies, manufacturing footwear products using safer environmental practices will emerge as an industry standard."

For his efforts on this project, Dick won the inaugural Bowerman Teaching Award named for Nike co-founder Bill Bowerman in February 2001.

The water-based adhesive process.



	SUBJECT:	FACTORY WASTE REDUCTION/RECYCLING	since 1996
	CHALLENGE:	Measure and reduce the amount of solid waste generated by production processes.	
	ACTION:	Create accurate data on waste; set targets for reduction; begin systematic reduction; work with local entrepreneurs to develop secondary markets for recyclable materials.	
	OUR GOAL:	Metrics not yet established. Ultimately, zero waste.	
	G.R.I. CATEGORY:	6. Emissions, Effluent and Waste	



Data collected and validated by CH2M Hill www.ch2mhill.com

If you can measure the problem, you can start crafting solutions. Measuring solid waste was a huge challenge back in 1996 when we began pollution prevention programs in all of our contracted Asian footwear factories. It still is. Measurement is a vehicle to reduce waste — not an end unto itself. Even though formal reduction efforts began a year later, it was 1999 before we felt we had an accurate data collection system, and the system was in only two of six Asian countries manufacturing Nike footwear — China and Indonesia. By June 2000 we reduced solid waste per pair in these countries by 29%. This is a good number, but clearly we have more to do. Our immediate goal is to improve our data collection systems, and eventually, have every Nike-contracted footwear factory actively measuring and reducing solid waste.

As well as accurate measurement and source reduction of solid waste, we are looking at ways to recycle waste. Factory waste in Asia is typically incinerated on site, or is destined for incineration off site. This is not a satisfactory solution in our mind. Incineration is inefficient and causes unnecessary pollution. It wastes potentially usable material. We are working with factories to eliminate incinerators and find new uses for waste materials.

One specific waste product — rubber from producing footwear outsoles — provided a unique opportunity to

build a new factory waste recycling model in Asia. Nike helped local entrepreneurs establish a rubber waste grinding and exporting system through its Reuse-A-Shoe program (see pages 22–23). Our partner, the Cathay Recycling Development Corporation (CRDC), is building a firm economic base in China for recycled waste materials. Established and owned by two sisters, Phoenix and Winter Yuan, CRDC began in Qingdao,


expanded to Guangzhou in June 2000, and will soon open a third branch operation in Fuzhou. Results? In March 1999, all rubber

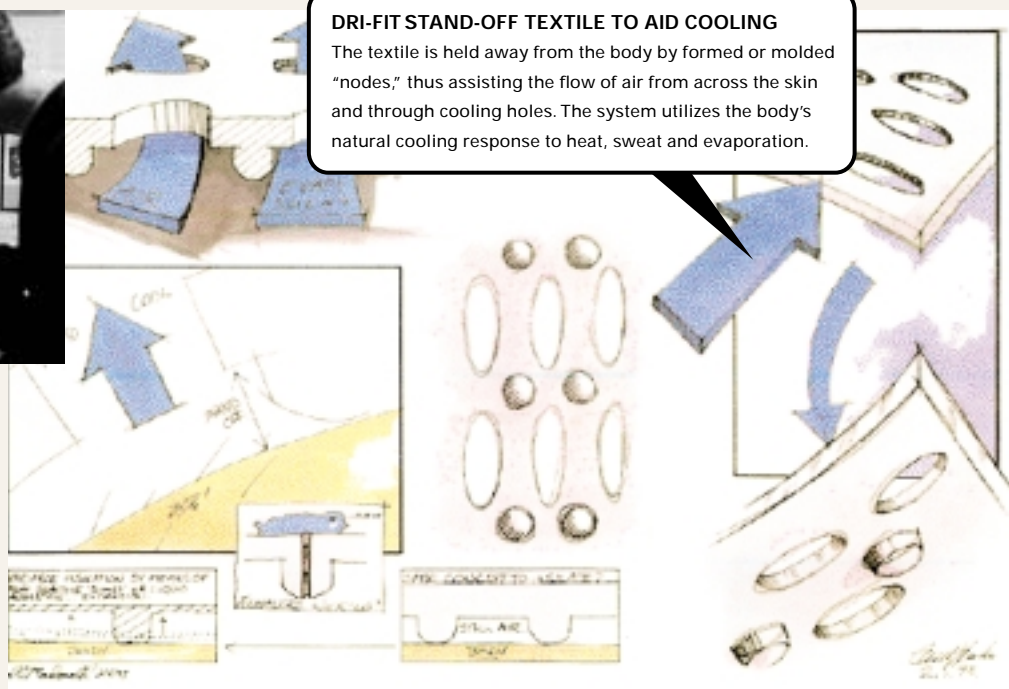
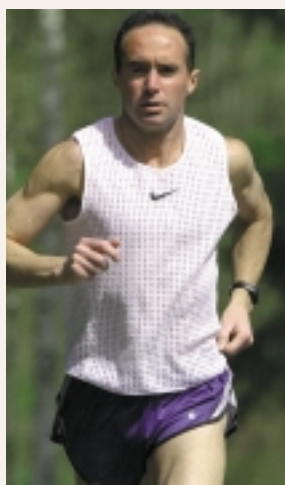
waste from contracted footwear factories in China was either dumped or incinerated. By September, more than 90% of rubber waste from Nike's four contract factories in Qingdao was being recycled. Now more than 50% of rubber waste from Nike's 17 contracted factories in China is ground and reused. This rubber is used in a variety of products including sports surfaces that are a part of our Nike Grind licensing program, where 100% of the revenue from Nike Grind licensed products is used for global sports surface donations for underserved youth.

CRDC is now working with Nike's manufacturing sustainability group on additional projects — reducing waste incineration, and with Philips, on fluorescent light bulb recycling.

Factory waste in Asia is typically incinerated on site, or destined for incineration off site.

This is not a satisfactory solution.

	<p>SUBJECT: APPAREL SUSTAINABILITY</p> <p>CHALLENGE: Design performance apparel products with minimum environmental impact.</p> <p>ACTION: Design new products and re-engineer existing products for sustainability.</p> <p>OUR GOAL: Sustainability becomes one of the key performance criterion for apparel product design.</p> <p>G.R.I. CATEGORY: 6. Emissions, Effluent and Waste</p>	<p>since 1999</p>
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- Fabric nodes minimize skin contact, allowing air to flow freely
- Mesh holes for maximum air circulation
- Less friction and reduced chafing
- Little moisture absorption reduces garment weight during event
- Maximizes the body's most effective methods of cooling itself: evaporation, convection, and radiant heat reduction

The challenge: design a garment to keep marathoners cool while competing at the 2000 Olympic Games in Sydney. In 1998, Rick MacDonald and Eddy Harber in Nike's research, product, materials and environment group came across PGI's Miratec — a method of forming a non-woven, "three-dimensional" textile that would cool the athlete by raising fabric away from the body (convection), incorporating tiny holes in the surface (evaporation), and using lighter colors (radiant heat reduction). At this time, apparel designers were participating in sustainable product design education, and immediately recognized the sustainability synergy—this top would provide the high performance required by top athletes, and fit with the green theme of the Games.

PGI's Miratec was a sound environmental choice for several reasons. The construction eliminates the energy-intensive yarn spinning stage of production; 43% less energy is used in the Miratec process when compared to conventional knitting or weaving. The construction

process uses water to entangle the fibers into fabric, and Miratec incorporates 75% "Eco-Spun" polyester recycled fiber, nearly closing the lifecycle loop. (One top utilizes the equivalent of 1.5 recycled 2-litre soda bottles.) Eco-Spun is available in natural white for reflecting radiant heat. The fabric requires no dyeing or finishing — the most toxic, wasteful and energy-intensive process in fabric manufacturing. To construct the top, Nike used ultrasonic welding rather than sewing with thread — reducing the number of materials used to one polymer so the top can be completely recycled at the end of its useful life.

The first big competitive test of the Dri-FIT Stand-Off Singlet was on Nike-sponsored athletes in wear testing. All agreed — the top was noticeably cooler, lighter, and more comfortable than conventional knits. Nike-sponsored national federations had Stand-Off running tops available for the 2000 Olympic Games in Sydney — with their country names printed with environmentally sound water-based inks.

	SUBJECT: IMPACT OF APPAREL		since 1997
	<p>CHALLENGE: Contributing through the size and market power of our apparel division to the development of sustainable agricultural practices.</p> <p>ACTION: Systematically increase the amount of organic cotton we purchase every year.</p> <p>OUR GOAL: Incorporate at least 3% organic cotton in every piece of cotton apparel by 2010.</p> <p>G.R.I. CATEGORY: 6. Materials, Suppliers; Products and Services</p>		

Nike is in a position to positively influence the business practices of other industries. Nike could not shift to organically-produced cotton for our entire product line — current supply would not meet our demand. But by increasing our usage as the market and economy allow, Nike supports pioneer farmers who are switching to organic practices, and helps grow this small, vital industry.

Important to sustainability is the concept of “local for local.” This encourages local autonomy by not purchasing cotton in one location and shipping it across the world, but rather sourcing regionally grown materials. Nike’s approach is to systematically phase organic cotton into each of the four regions where we do business. We’ve already met our goals in the United States.


In 1997 we announced our commitment. We began blending organic cotton into our 5.4-ounce lightweight

jersey t-shirts produced domestically. That year we purchased 250,000 pounds (approximately 520 bales at 480 lbs/bale). By 1998, Nike blended approximately 667 bales (320,000 pounds) of organic cotton into 20 million t-shirts in the U.S., and in 1999 our usage increased to 750,000 pounds.

Today, approximately 90% of the shirts produced domestically have 3% certified organic cotton content — and Nike’s organic cotton use in Europe is growing exponentially. We purchased approximately 66,000 pounds from Greece in the 1999 harvest, and anticipate reaching 3% organic content within three years.

We’re currently researching organic cotton sources and running fabric trials in Asia. Our remaining front is the Americas, where we are working closely with our apparel partners in Central and South America as well as Canada.



	SUBJECT: EXTENDED PRODUCER RESPONSIBILITY		since 1991
	<p>CHALLENGE: Close the lifecycle loop for products.</p> <p>ACTION: Develop and operate a closed-loop business model involving design, manufacturers, recyclers, retailers and secondary producers.</p> <p>OUR GOAL: Operate a product take-back business that uses production and post-consumer waste to create a profitable secondary market.</p> <p>G.R.I. CATEGORY: 6. Materials; Products and Services</p>		

In 1991 employees at our Wilsonville distribution center questioned why defective returns from our retailer partners were shredded and sent to landfill. That question was a catalyst for looking at ways to recycle defective shoes, and has led to thinking in terms of "Extended Producer Responsibility" (EPR) today.

What does that mean? There is a lot of conversation about it these days; however, few companies understand it, even fewer retailers understand it, and consumers are just beginning to hear about it. Even municipalities, who have been doing it for years with respect to paper and bottles, don't fully grasp what their contribution will be. Yet, ultimately all three will most likely be involved in any system that is developed to address this responsibility.

At Nike it means taking responsibility for not only our defective returns, but also considering the lifecycle of our products. Our goal is to develop an EPR products program that is rooted in product design and

business drivers so that everyone (corporate partners, consumers and municipalities) shares responsibility.

HERE ARE OUR BASIC BUILDING BLOCKS

- **Product Design.** If we don't do our job and design products with end of life in mind, our products will ultimately go to a landfill. Our challenge is to develop design platforms that maintain product performance and quality while developing drivers so our product can easily be collected, processed and recycled, or upcycled or downcycled.
- **Business Drivers.** We believe EPR cannot rely on regulation. It must be rooted in business decisions and consumer action. To be successful, we must engineer value into our product that can be retrieved once the product is finished being used. To be honest, we are not exactly sure how we are going to do this, but the development of our Reuse-A-Shoe program is a great start.

Recycling Process



collect

step ①



sort

step ②



- **Reuse-A-Shoe.** Nike collects footwear returned from distribution centers and retailers, as well as used product from consumers. These shoes are then reduced by grinding down to granules of rubber and other materials. This Nike Grind material gives the old shoes a new life in the form of new products.

The hardest task is collection, because ultimately that requires a change in consumer behavior, and the creation of an infrastructure to get shoes efficiently returned into the system. We collect 2-3 million pairs of returned and post-consumer footwear annually from retailers in the United States, but only 50,000 pairs from consumers.

That balance will shift in future years. We are currently developing a number of pilot programs to gauge efficiency of collection and transportation. The greater challenge will be in taking pilot programs to scale.

Recycling Process: So how does the actual recycling process work? Nike machines granulate and separate the shoes into three main materials, collectively called "Nike Grind". Rubber from the outsole, foam from the midsole and fabric from the upper.

Our goal is to provide long term, stable markets for Nike Grind. Nike Grind is used in a variety of products including synthetic football and soccer fields, basketball courts, running tracks, tennis courts, playground padding and equestrian footing. To date, Nike has contributed to the construction of 80 surfaces around the world. All revenue from Nike Grind is used to construct these facilities in under-served communities, including the Bowerman Track Renovation Program, named for our co-founder, which refurbishes track and field surfaces for young athletes to train and compete. Licensee demand helps develop the growing market for Nike Grind, and shoes once destined for the landfill are finding new and useful life.



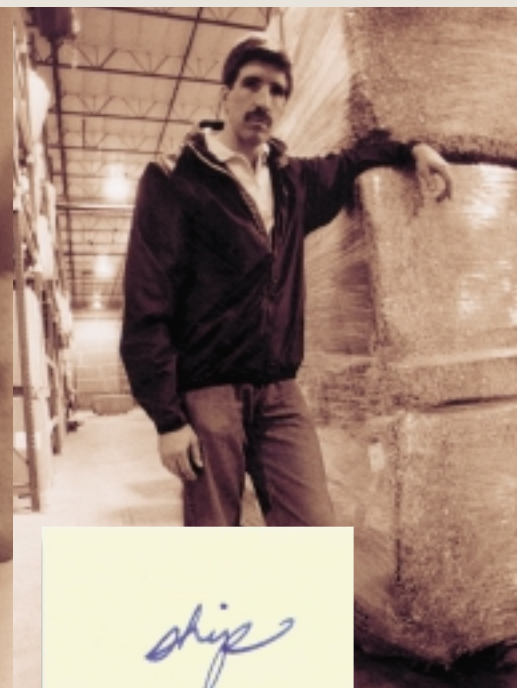
dice

step ③



granulate

step ④



ship

step ⑤



SUBJECT:

FOOTWEAR SUSTAINABILITY

since 1998

CHALLENGE: Reconsider and adjust the existing paradigms of design, sales and marketing, using a people, planet, profit lens.

ACTION: Design a more sustainable materials pallet and design from that pallet; focus on a few products and then expend across our full product offering.

OUR GOAL: Meet long range goals through product design, either by becoming more eco-efficient, or more eco-effective.

G.R.I. CATEGORY: 6. Materials; Products and Services

AIR ESSENTIAL III

For more than seven years, the Air Essential and its successor, the Quintessential, have been successful leather walking shoes for Nike. For the latest Q III, product team Larry Eisenbach, Bill Flannery and Pam Greene looked at the shoe through the lens of sustainability. The factory and key suppliers pushed the envelope to reduce waste and find benign replacements for non-sustainable materials such as chromium tanned leather. We're almost there, making its elimination possible in future models. Though Larry acknowledges, "We're merely an eyelash-width's distance further on the sustainability continuum," the project has had an inspiring halo effect at Nike. Projects such as this demonstrate that traditional products can be improved inline without significant redesign.

MATERIALS

- PVC-based reflective pieces replaced
- 100% recycled/recyclable strobol sock
- 100% recycled/recyclable counter
- 50% recycled EVA sockliner
- 100% polyester based textiles
- 100% polyester nonwoven cushioning replaces 80% of PU foam
- Dual airbags, SF₆ free

DESIGN

- Intelligent piecing
- Outsole rubber minimized

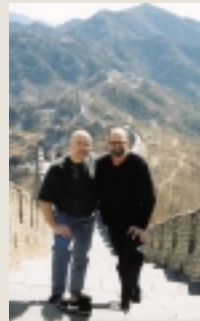
MANUFACTURING

- Solvent-free, 100% water-based production
- Molded midsole (only 3–5% waste)

MATERIAL AND WASTE REDUCTION

(Benchmark: Quint II, based on 1,500,000 pairs Quint III produced)

- 92,400 lbs less paper (molded paper footform replaces tissue)
- 30,500 lbs less upper material waste
- 16,500 lbs less rubber used
- 3,300 lbs less rubber waste
- 13,400 lbs less Phylon used for midsole



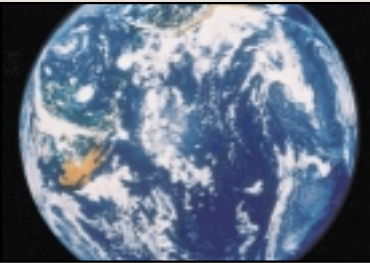
WORLD SHOE

Tom Hartge, footwear director for emerging markets, and Alex Gajowskyj, design director for emerging markets, were faced with an interesting challenge: develop a range of affordable, durable and easy-to-manufacture Nike sport shoes. They approached this challenge by using proven technologies to make shoes locally, with locally-sourced materials, designed effectively and simply. That resulted in one of the most eco-effective Nike designs to date.

The SD 400 slide sandal (see top of page) is a perfect example of this principal. Nike was approached by an entrepreneurial factory owner in China with samples made using his brand new technology: injection-molded EVA foam, known as "Phylon." Many sandals in markets around the world use PVC components, yet for Nike, a PVC-free slide sandal was absolutely imperative.

The EVA foam is manufactured in a rapid single-material process, is virtually waste-free, uses no PVC or additional materials and eliminates the use of secondary components and assembly. It emerges from the mold, cools down, is placed in a box and sent to market.

The eco-efficient Air Essential III and the eco-effective SD 400 Slide represent our initial foray into exploring these principles.



SUBJECT:

A FRAMEWORK FOR SUSTAINABILITY

since 1997

CHALLENGE:

Align Nike's vision of a sustainable business with an internationally recognized framework.

ACTION:

Adopt The Natural Step framework™

OUR GOAL:

Generate company-wide awareness of The Natural Step framework and integrate into business planning and decision making.

G.R.I. CATEGORY:

5. Policies and Organization

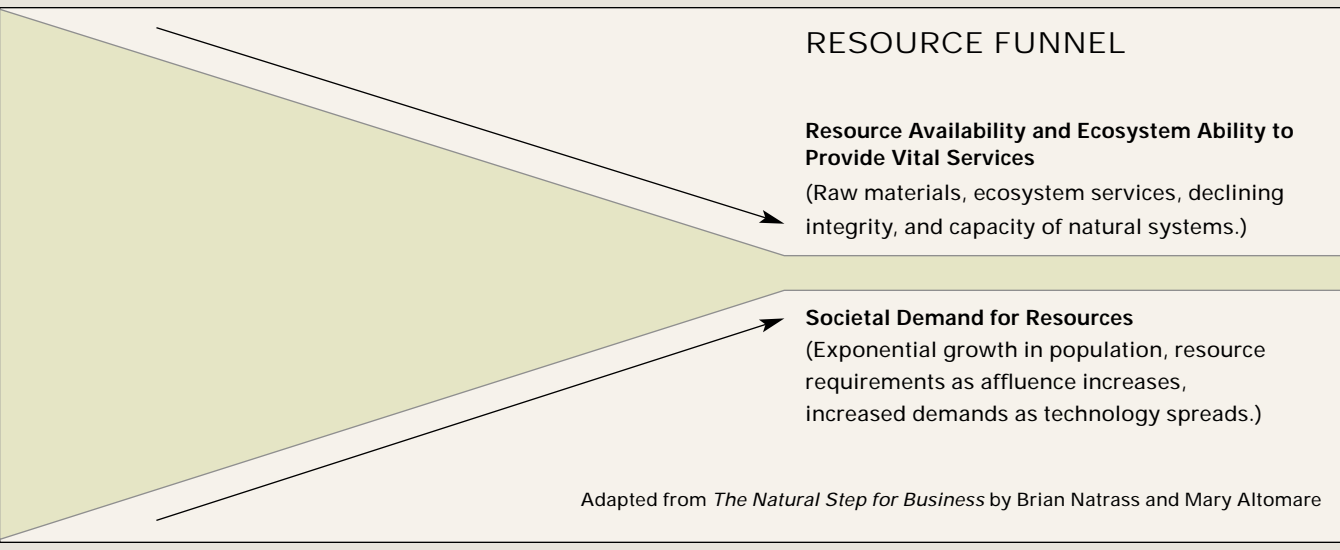
With some areas of our business we have to figure it out ourselves — there are no precedents. But in other areas there are existing organizations that we can align ourselves with to learn best practices. One such organization is The Natural Step. Nike first became involved with The Natural Step in June 1997, hosting a one-day introductory workshop at our conference center. By 1998 we had adopted its framework as the foundation for all our sustainability learning. Our main focus has been to use it as an educational tool in our learning programs and forums.

The Natural Step is an international, non-profit environmental organization founded in Sweden in 1989 by Dr. Karl-Henrik Robert that works to orient society toward a sustainable future through dialogue and consensus-building. (For organizational history and further information, see www.naturalstep.org.) The Natural Step spreads far beyond science to businesses, countries, schools, and municipalities through an international network. The Natural Step asks: Are there principles we can agree on that are fundamental to a sustainable society? With these shared principles, can we create a framework for change that can guide our everyday activities — a framework that is practical, scientific and economic, even as we seek to sort out confusion or disagreement in other areas?

At Nike we believe the answer is yes. Our current industrial model is linear — take, make, waste. In the long term, survival depends on learning how to emulate nature. The Natural Step framework helps us do this — as a guide to thinking and acting in harmony with the Earth's cyclical processes.

THE KEY BENEFITS OF THE FRAMEWORK FOR NIKE:

- It provides a shared language and set of guiding principles both within the company and between ourselves and other organizations with whom we do work on sustainability.
- It is scientifically robust.
- It uses a “systems perspective”— thinking about cause and effect and linkages through a whole system rather than just analyzing discrete units of the system.
- It is non-judgmental.
- The principles work across different cultures.



Adapted from *The Natural Step for Business* by Brian Natrass and Mary Altomare

The situation that we find ourselves in today is described in The Natural Step framework as a funnel. One wall of this funnel represents societal demand for resources, the other wall represents the ability of the ecosystem to meet those needs. Demand is outstripping

supply and the walls of the funnel become a constraint on business and society. Sooner or later a business will run into the walls of the funnel, unless it is developing a strategy to direct its activities and investments towards the center of the funnel.

THE FOUR SYSTEM CONDITIONS

The four system conditions outlined by The Natural Step provide a descriptive framework for society that can be applied on any scale. Together they offer a compass pointing the direction for all participants of an organization toward sustainability.

Fundamental Scientific Principles:

1. Nothing disappears. Matter and energy cannot be created or destroyed. Otherwise known as the Law of Conservation of Matter. What society generates stays with us in solid, liquid or molecular form.
2. Everything spreads. Matter and energy disperse over time, becoming less concentrated and therefore less valuable. The Second Law of Thermodynamics.
3. There is value in order. Since matter and energy do not disappear, what society “consumes” is the quality, purity, and structure of matter, not its molecules.
4. Net increases in material quality on Earth are produced almost entirely through photosynthesis of green plants, driven by the sun. Our life depends on the flow of high quality energy from the sun being taken in by green cells, which in turn provide energy (food) for other forms of life.

The Four System Conditions™

1. In a sustainable society, nature is not subject to systematically increasing concentrations of substances* extracted from the Earth's crust (*e.g. heavy metals, fossil fuels).
2. In a sustainable society, nature is not subject to systematically increasing concentrations of substances* produced by society (*e.g. dioxins, PCBs and other persistent compounds).
3. In a sustainable society, nature is not subject to systematically increasing degradation by physical means.
4. In a sustainable society, human needs are met worldwide.

The questions raised for Nike are straightforward. Either we are increasing our dependence on minerals from the Earth's crust, or we are not. Either we are increasing our use and dependence on persistent, bioaccumulative compounds or not. Either we are removing or degrading living systems or not. Either our actions are geared toward fair and efficient use of resources by society or they are not.

	SUBJECT:	IMPACT OF COMPANY FACILITIES	since 1989
	CHALLENGE:	To make sure our owned and leased facilities worldwide are ecologically efficient.	
	ACTION:	Construct new facilities and retro-fit existing facilities to ensure the minimum ecological footprint. Implement waste audit, recycling programs and responsible procurement policies.	
	OUR GOAL:	Every Nike facility is ecologically efficient through energy and materials use and recycling, and is in harmony with its surrounding environment.	
	G.R.I. CATEGORY:	6. Energy, Materials; Water; Emissions; Effluent; Waste; Land-use and biodiversity	

We've long since outgrown the trunk of Phil Knight's 1964 Plymouth Valiant. Nike owns and leases facilities throughout the world. We know it is important to incorporate environmental intelligence in every aspect of design, construction, and operations. To do this, we relied on environmentally astute land-use consultants, architects, and natural resource experts to create work environments that are energy- and water-efficient, and have the least environmental impact possible.

EUROPEAN HEADQUARTERS DEVELOPMENT

Begun in 1997 and opened in January 1999, Nike's European Headquarters (EHQ), located in Hilversum, the Netherlands, has brought many of Nike's European employees together in one place. Designed by William McDonough & Partners, it has also set new standards

for environmentally-sensitive construction. EHQ sits in the middle of an old horse-trotting track. Inside it are five new buildings covering 35,000 square meters, holding 1,100 people. It has an athletic track, a football field, and a grandstand used in the 1928 Amsterdam Olympics. Water from the roofs flow to cisterns, the wood is from certified forests, the bricks are local, and the window frames are recyclable aluminum. The buildings trap heat but resist the cold, with insulation far in excess of Dutch standards. Each employee can control temperature and fresh air in their area. The buildings are flooded with light. And no one is further than eighteen feet from an operable window or day-light. The horse trotting track? It is covered with Nike Grind, and it is people who now run on it.

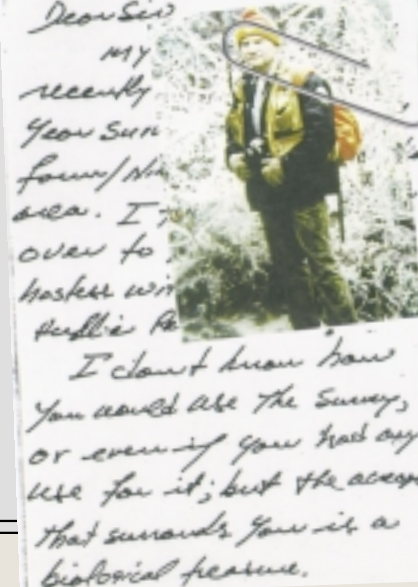


EUROPEAN HEADQUARTERS CONSTRUCTION FEATURES

- Orientation of buildings and extensive use of thermal glazing maximize fresh air and natural light while minimizing unwanted heat gain
- Cisterns collect rainwater from roofs for plumbing and garden irrigation
- Geothermal energy harnessed with heat pumps and thermal storage systems
- Easy conversion to residential use
- Window frames constructed from recyclable aluminum
- Wood in construction and external from certified sustainably managed forests
- Nike Grind material on outdoor basketball, tennis, and multipurpose courts, and fitness room flooring
- PolyEthylene piping used throughout the campus instead of PVC
- High-efficiency lights with daylight-dependent fixtures
- Extra insulation in roofs, floors and building facades
- Closed-loop temperature control system, using groundwater to store hot air during summer for use during winter, and cold air during winter for use in summer
- Two-minute walk from train station

GLENN WALTHALL

Retired biologist Glenn Walthall lives near the Nike WHQ in Beaverton, and in the late '80s began encouraging Nike to not only protect our ecosystem treasure but to learn about the myriad species in our own backyard. Glenn has spent countless hours of volunteer time surveying Nike's property, counting 75 species of birds, 19 orders of insects, 46 families of plants, small amphibians, mammals and reptiles. Surveying our ponds, marshes, fields, and woods, Glenn frequently corresponds with NEAT, sending updates on animal families, photos of particular hillsides or river paths that are in need of attention, and occasional praise for taking nature into consideration.



WORLD HEADQUARTERS EXPANSION

Nike's World Headquarters are located in Beaverton, Oregon, just a few miles from Portland. Our self-contained campus opened officially in 1990. Back then, Nike's 11 buildings totaled just under 1 million square feet, covering 74 of our 175 acres. Although the original buildings were already considered efficient, we increased our operational efficiency with 100% EnergyStar electronic devices several years ago. As our company grew, we outgrew our home. In 1997 we decided to double our capacity at WHQ — providing space for a total of 4,800 employees in 18 buildings covering 2 million square feet. In 1999, we began

moving in. These new buildings are saving more than 4 million kWh of electricity and 16,000 therms of natural gas annually compared to their conventional counterparts—achieving 20% greater energy efficiency than required by the Oregon Energy Code. Only a few trees were permanently removed to make room: many were removed, cared for in a nursery during construction, and later replanted onsite. Our weather-smart, centrally controlled irrigation system, bioswales, integrated pest management practices, native plant landscaping, compost filters, and our “downstream defender” work together to protect the wetlands onsite.

WORLD HEADQUARTERS EXPANSION FEATURES

- Buildings fold into existing landscape, minimizing impact on natural areas
- Daylighting in all work areas reduces artificial lighting and increases productivity, higher-efficiency lighting in place of incandescent light sources — all controlled by occupancy sensors and systems that “sweep off” the lights when not required
- High-efficiency motors and chillers in mechanical systems, and variable frequency drives on all motors over 20hp
- White precast concrete wall panels were constructed locally
- White buildings to minimize cooling requirements
- Window frames, 30% of wall exterior panels and wall framing constructed from recycled aluminum
- The RD&D labs in the Mia Hamm building utilize process cooling water recycled through a closed-loop chiller system
- Electronic controls and economizers on HVAC for efficient heating and cooling
- Nike Grind in floor coverings and fatigue mats, low-VOC paints and carpet glues
- Additional covered bicycle areas to encourage bike commuting
- Exteriors feature low-energy, high-efficiency glazing and thermally broken frames to minimize heat loss and gain
- Concrete-framed buildings increase earthquake resistance and decrease overall energy usage
- State-of-the-art hazardous materials storage and waste facility
- Michael Johnson 5-lane 400m Nike Grind running track made using more than 50,000 pairs of recycled shoes
- Recycling bins in each work area, central recycling area
- Seven acres of wetland areas enhanced with nature paths and exclusively native plants
- Electric outlets in parking areas encourage electric vehicles
- Bioswales, compost filters, and a revolutionary “downstream defender” to remove sediments from water runoff and treat stormwater onsite before discharge to natural watercourse
- Bo Jackson “Field Turf” soccer field which uses no water and doesn't have to be mowed, incorporated 100,000 pairs of used athletic shoes from Nike's Reuse-A-Shoe program.
- Onsite shuttle buses between campus, off-campus locations and the light rail station to cut down on vehicle trips

	SUBJECT:	IMPACT OF COMPANY FACILITIES PART 2	since 1989
	CHALLENGE:	To make sure our owned and leased facilities worldwide are ecologically efficient.	
	ACTION:	Construct new facilities and retro-fit existing facilities to ensure the minimum ecological footprint. Implement waste audit, recycling programs and responsible procurement policies.	
	OUR GOAL:	Every Nike facility is ecologically efficient through energy and materials use and recycling, and is in harmony with its surrounding environment.	
	G.R.I. CATEGORY:	6. Energy, Materials; Water; Emissions; Effluent; Waste; Land-use and biodiversity	

Our employees work in dozens of facilities around the world, and our overall company operations are a significant generator of solid waste. We're taking a closer look at materials reclamation and recycling in our operations through waste audits at our World Headquarters (WHQ), internal re-use and recycling programs in all facilities, education for Nike employees, and progressive procurement policies. Our ecological footprint may be large (and we have a long way to go) but we are making progress in measuring it and, through education, reducing it.

WHQ DUMPSTER DIVES

This past year, recycling coordinator Lonny Knabe “dove in” and proved we could easily increase the amount of materials recycled in our operations. The waste audit was used to determine how much of which type of material was disposed of by Nike employees. Nike “garbage” averaged 31% recyclable paper, 12% newspaper and magazines, and 2% cardboard. What was surprising was the amount of food waste—18% by weight. The results were powerful — we have more specialized waste paper containers on every floor, and we've begun donating all edible, pre-consumer food to a non-profit organization for distribution.

RECYCLING PROGRAMS

Batteries, steel, glass, plastic, aluminum, transparencies, CDs, paper and cardboard, Tyvek, toner cartridges, wood pallets, yard debris, video and audio cassettes... Nike has programs in place to recycle them all. Over 230 tons of paper and more than 95,000 aluminum cans were collected for recycling and donation at WHQ in 1999 alone, two programs in place since 1982. Our Air-Sole manufacturing plant diverts approximately 5 million pounds of manufacturing scrap from the

waste stream — 92% is sent to Nike's subsidiary Tetra, to be processed into new films. A videotape recycling program has been extremely effective, collecting 2,500 tapes on average per year since 1990. These tapes are degaussed (erased) and donated to schools and non-profits.

WHQ EXPANSION RECYCLING

Paying a little more attention to recycling and recycled content while we expanded our World Headquarters paid off, keeping nearly 721 tons of drywall, metal, wood and concrete out of local landfills. And, helping to close the loop, we specified recycled content for many of the materials used in the project — drywall, ceiling tiles, office partitions and floor coverings. Our concrete had recycled content as well — flyash, a waste product from coal-fired power plants. WHQ's 400-meter outdoor all-weather running track is made from our own Nike Grind, and our synthetic grass playing field is made with Nike Grind rubber too — no need to fertilize, mow, or water.

PROCUREMENT POLICIES

Nike is developing a comprehensive “Strategic Sourcing Initiative”— a system that will not only track indirect spending, but also integrate environmental language into proposals and contracts with our suppliers. We've been purchasing only energy-saving computers, copiers, printers and other office equipment for years. We are now helping to close the loop by choosing products that have recycled content, can be recycled again, avoiding items with excessive packaging, and using our influence to “green” other products. We are in the beginning stages of this program, and look forward to reporting our results next year.

	SUBJECT:	IMPACT ON FORESTS	since 1998
	CHALLENGE:	Reduce our use of forest products that contribute to the loss of forest eco-systems.	
	ACTION:	Establish a forest products policy based on Forest Stewardship Council standards. Educate employees and suppliers to take responsible action.	
	OUR GOAL:	Benchmark all paper uses by 2001. Implement procurement policies consistent with FSC standards.	
	G.R.I. CATEGORY:	5. Policies and Organization. 6. Materials, Suppliers, Land Use, Bio-diversity	

Our business runs on supply and demand. The same holds true for certified forest products.

The loss of valuable forest ecosystems throughout the world holds serious consequences, not only for biological diversity, wildlife habitat, soil and water quality, and climatic stability, but also for the human communities that depend on forests for their survival. Only 22% of the world's ancient forests remain, and that percentage will continue to shrink as long as companies rely on virgin forests for paper and other products.

In June 1997, Nike was asked by the Coastal Rainforest Coalition (now Forest Ethics) to ban the purchase of wood and paper products made from wood fiber from old growth forests. In July 1998, Nike adopted a Forest Products Policy, and appeared in the *New York Times* alongside other corporations committed to help protect ancient forests. We partnered with the Certified Forest Products Council (CFPC) to help us find products satisfying our initiative. We also pledged to give purchasing

preference to products that were Forest Stewardship Council (FSC) certified. Nike informed our major suppliers of our new policy, and many of them wanted to learn more about sustainable forestry practices. We developed an educational program with the World Wildlife Fund and the Certified Forest Products Council to explain to our employees, as well as our suppliers, the importance of our policy — along with strategies to overcome implementation obstacles.

Huge challenges still remain between supply and demand for certified products, but we are confident that our efforts, along with the rest of industry, will let suppliers know that they will receive market share if they participate in strategies that are sustainable. Besides using certified virgin pulp, our strategies include the use of chlorine-free, recycled content, and alternate fiber concepts. We look forward to reporting our results over the years.

NIKE FOREST PRODUCTS POLICY:

1. Nike will give purchasing preference, where price and availability allow, to wood and paper products that originate in forests that have been independently certified as being well-managed. Nike will recognize only those certifications issued by organizations accredited by the Forest Stewardship Council (FSC).

2. Nike will eliminate from its purchasing practice those materials derived from wood or pulp originating in native old growth or frontier forests. Examples of products that may derive from such wood or pulp include (but are not limited to) paper, paperboard, lumber, furniture, cellophane tape, and acetate.
3. Nike has become a member of the Certified Forest Products Council (CFPC) and will work with CFPC to develop an action plan that will help us define, develop, and implement responsible forest products purchasing practices and work with our suppliers to meet our needs.

4. Nike will benchmark its paper consumption to determine paper usage, types, and origins. Targets will be set for reducing per capita paper usage and for increasing, where feasible, the use of tree-free papers. Nike will conduct a similar benchmarking process for non-paper forest products.



SUBJECT:

FOOTWEAR PACKAGING

since 1996

CHALLENGE:

Protect Nike products with packaging that is environmentally sound and meets our aesthetic and cost standards.

ACTION:

Reduce the amount of packaging; use benign, biodegradable and recyclable materials.

OUR GOAL:

Achieve continuous improvement in all packaging eco-parameters: bulk amount, biodegradability, recyclability, sustainability (such as substitution of non-free fibers in materials).

G.R.I. CATEGORY:

6. Materials: Emissions, Effluents and Waste.

Almost anyone who manufactures and sells products faces the same dilemma — how do you protect your product throughout the manufacturing and distribution process and on through to the point of sale with minimal environmental impact?

For Nike footwear, there are three main packaging components: boxes to contain the shoes, shipping containers to contain the boxes, and tissue paper to both wrap the shoes and stuff the toes. Packaging used in our apparel and equipment lines is more varied: cardboard, paper, polyethylene, and polypropylene are mainly used to protect items during transport. And all Nike divisions use a variety of adhesive labels, sealing tape, shrink wraps and pallets throughout the process. We’ve been working to reduce our need for packaging, reduce the amount of material in each package, and to change packaging materials to benign, biodegradable, and/or recyclable alternatives.

FOOTWEAR INNER CARTONS

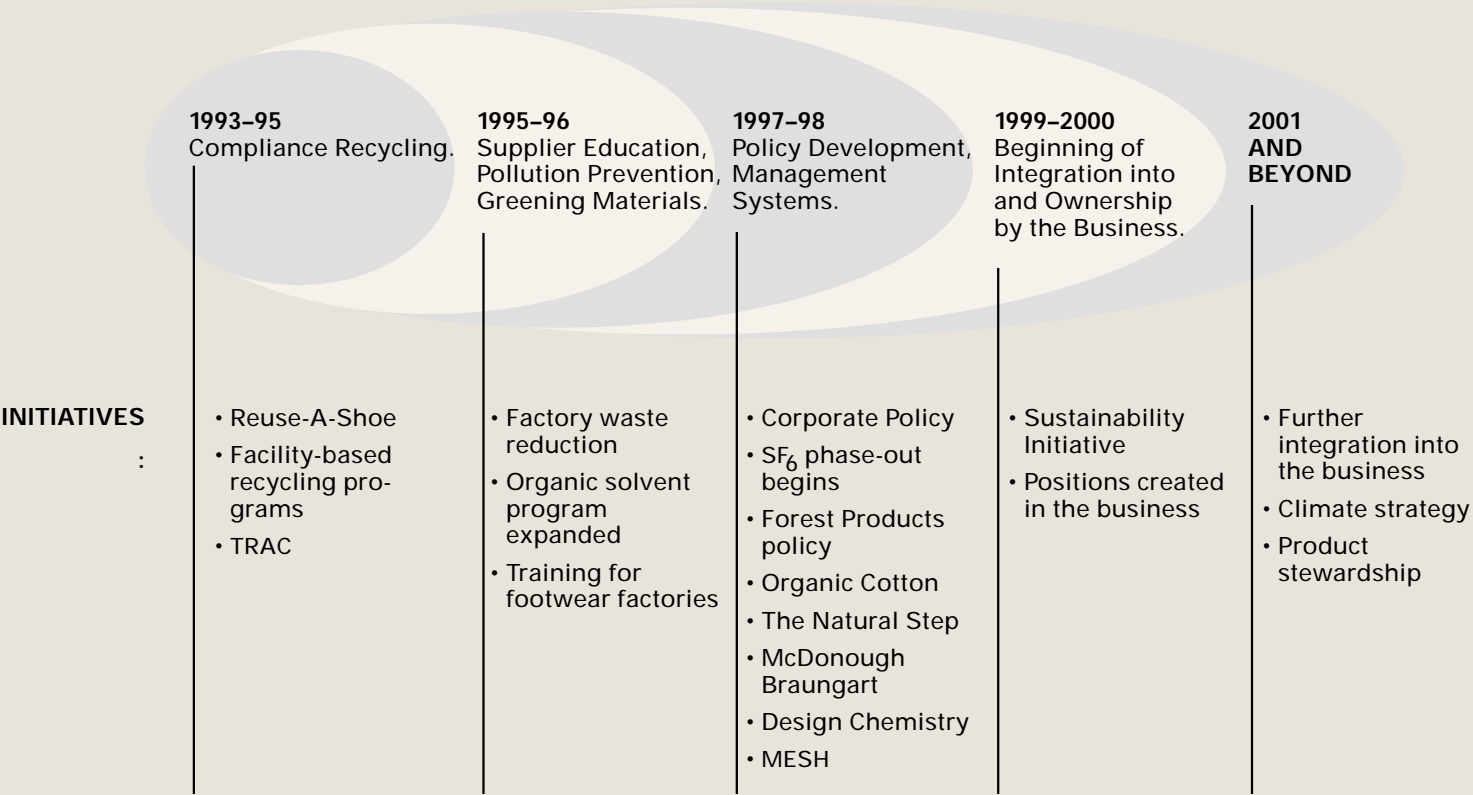
We began a thorough examination of our footwear inner carton program and the environmental impact of our packaging in early 1995. This led to the reduction of eighteen distinct box styles down to five. With our global reach, it became necessary to decide whether to work toward packaging that could be re-used, or could be recycled locally — we determined recyclability was the best course. In the U.S. at the beginning of 1996, we designed a new corrugate structure that allowed us to use 100% recycled corrugate and water-based inks for our corporate inner cartons. The new design also eliminated the need for staples and glues. Since May 1998, through a strategy of continuous innovation, Nike boxes use 10% less material and still maintain the strength and integrity necessary to protect product.

It’s not a perfect system yet: though 60% of our inner boxes are 100% recycled content, their “embodied energy” is still high — manufactured in the U.S. and shipped to production sites overseas. To address this situation, this year we began manufacturing 40% of our footwear packaging in Asia. As we qualify additional regional sources to insure product quality, recyclability and environmental/labor compliance, we will continue to expand our use of packaging suppliers located nearby the production facilities.

TRANSPORTATION PACKAGING

One of our biggest transportation packaging challenges is the varying post consumer content available in each country. (Transportation packaging is all produced regionally or locally to the production facilities.) In 1998, Nike embarked upon a program to standardize our transportation packaging for all divisions. This standardization included the reduction of box sizes from over 100 to 18, establishing a single-wall corrugated, glued structure standard, and raw material specifications that were standard globally. All cartons are now recyclable into the mainstream recycling channels in the U.S. and Asia, and are produced with a minimum 30% post-consumer waste, using water-based inks and adhesives in all cases. The Footwear Division first began 100% utilization of these cartons in 1998, followed by Apparel in about 55% of all countries. Equipment has recently adopted and implemented these changes where possible.

EVOLUTION OF ENVIRONMENTAL AGENDA



	SUBJECT:	MANAGEMENT, ENVIRONMENT, SAFETY & HEALTH	since 1997
	CHALLENGE:	Systematic management of supply chain corporate responsibility.	
	ACTION:	Provide the training, tools and standards for all footwear factories to establish an integrated corporate responsibility management system; explore applicability for apparel and equipment.	
	OUR GOAL:	Every footwear factory has a fully operational MESH system in place.	
	G.R.I. CATEGORY:	5. Policies and Organization; Management Systems	

In 1997, we set our sights on a goal. The idea was to develop a management system in our contracted factories which would help manage people, environmental issues, safety and health in a cohesive manner, and would, in effect, replace the piecemeal mandates and directives that was driving our contractors crazy.

We started with the model of the environmental management system ISO 14000 but attempted to raise the bar by including factory workers and their working environment in the equation. The following summarizes the scope of the four areas that the system manages.

1. Management of people — a system to not only track and correct wage, overtime, and minimum age violations, but also provide education, conflict management, and other opportunities for factory employees, and improve the relationship between management and workers through training and other assistance.
2. Management of environmental issues — all the things you've read about in the Environment section, ensuring factories have systems in place to reduce volatile organic compounds, solid waste, incineration, wastewater, and solve other environmental issues.
3. Worker occupational safety and health — systems to ensure factories provide personal protective equipment and effective emergency procedures for their employees, and make certain that workers are not subjected to noisy, overheated environments with poor air quality.
4. Worker health — clinics or health programs, nutrition programs, and dormitories.

Nike does not own the manufacturing facilities, so it is imperative that contract factories take ownership of the system to achieve success. We took into consideration that it would require a significant amount of time and commitment on the factory's behalf, so rather than give a directive from on high, it became key to engage them in the process. Nike's hope was that the contract factories would ultimately integrate the management of these issues into their business operations, which they have begun to do.

We sought help from experienced consulting firms. The Gauntlett Group, based in San Francisco, California, worked with staff at our World Headquarters to develop the program. Environmental Resources Management (ERM) provided both a local presence and necessary language skills to roll out the program in each of the major footwear production countries. Nike

paid for and managed the development of the program, and factories paid for workshop fees. The workshop fees covered all costs associated with the program, full regulatory review/summaries, gap analysis, technical support, translated materials (Mandarin, Vietnamese, Bahasa Indonesian, and Korean) and a final preparedness audit for ISO 14001 certification.

Representatives from each factory attended a series of nine two-day workshops over a period of 12 months. Participants returned to their factories after each workshop to implement what they had learned, and local ERM and Nike staff provided ongoing technical support. The two-day workshops were interactive—factories reported back their “homework” (which was reviewed by ERM), exercises were conducted and new assignments, templates and tools were given. Participants were able to both develop factory-specific programs and learn from others’ experiences.

Nike has developed a set of formal standards, which will bring together all of the environmental and labor practices requirements into an organized and understandable framework. Compliance with the standards (measured by internal and external audits) will then be used as the corporate responsibility performance indicator in factory evaluations to assess a supplier’s overall performance around Nike's core competencies, including price, quality and delivery. Nike's contract factories will either meet the integrated code standards, or risk losing business.

There is still a great deal of work yet to be done. We will continue the implementation of management systems throughout the footwear supply chain (beyond the major production countries). We are developing an implementation plan for the even more complex and challenging apparel supply chain. Current plans are to introduce this to key apparel suppliers. We also have to get after equipment factories. Identifying strengths and weaknesses in the implementation process and developing ways to achieve even greater improvements in operations and performance is an on-going process. Our approach of an integrated system around all these issues has created a useful feedback loop; now factories will be better equipped to work with us to reduce impacts throughout the entire product lifecycle. This is a long-term effort which will require commitment and dedication from ourselves and our manufacturing partners. We then hope that they, in turn, take this to their suppliers as well.

Cornett, Billy

From: Dusty Kidd & Sarah Seven
Sent: Tuesday, April 4, 2000
To: Nike Employees
Subject: MESH UPDATE

GMODs/CMODs:

Here s an update on MESH and related CR objectives for the footwear factories.

The whole idea here is to give you and the factory management a basic, consistent system that covers all CR management for each factory, and one that integrates into your own system of MFE management and evaluations

First, a reminder: Way back in June 98, when Buis was deep into his chicken adobo, Jeff DuMont was playing to a 2 handicap, Cheryl was founding the Bad Golfer Society and the Binkster roamed Pusan, we all committed to having effective environmental management systems in place in all footwear factories by 6/2001. Since then, we expanded the MESH concept to include management of all CR aspects, along the following lines:

- ¥ Management (management of people: age, pay, overtime, cultural awareness, etc.)
- ¥ Environment (chemicals, waste, air, water, Pollution Prevention programs, etc.)
- ¥ Safety (indoor air quality, Personal Protective Equipment, lockout/tagout, noise, etc.)
- ¥ Health (nutrition, clinics, etc.)

- For the last two years, working with our outside vendors and trainers, here s what has happened:
- 1) Senior Factory Management Seminars (prior to start of workshops)
 - 2) Initial Gap Analysis at each factory to identify the "gaps" in their current management of ES&H issues
 - 3) Nine two-day MESH workshops in each country (China, Vietnam, Indonesia, & Korea) with factories together as a group.

Here s where we are now:

- 1) Footwear factories in China, Indonesia, Korea, Taiwan, and Vietnam have all completed their MESH Workshops and have completed, or are in the process of completing, Preparedness Audits.
- 2) Most factories who have completed the workshops now want to become ISO 14001 Certified.
- 3) All Thailand factories are ISO 14001 Certified and are integrating Safety & Health into their Management Systems.
- 4) All Tae Kwang Factories (T2, QT, & VT) are ISO 14001 Certified.

- What do we do to get MESH systems implemented with new factories that come onstream?
- ¥ New factories located in existing production countries (where NEAT & LP in-country resources exist) will be coordinated by the in-country resources.
 - ¥ New factories in new source countries without NEAT/LP (Labor Practices) in-country resources will be handled on a case-by-case basis and will be coordinated by NEAT/LP at WHQ.

- There are two important steps moving forward on which we will need your continuing help.
- 1) Making sure the MESH systems are truly implemented and integrated into Nike s overall MFE program. Neat and Labor Practices people will work with you on this. As we have all said for years, the most effective systems will be those that are part of the business relationship, and part of the overall priorities that we set jointly with factories. MESH will be part of that system, not apart from it.
 - 2) Independent certification that each factory has established an effective MESH system. This will include PricewaterhouseCoopers certification of M; independent certification of E from a list of Nike-approved vendors; and internal and external certification of S and H.

- The PwC process already is underway. A Nike-approved list of EMS Certification companies will be ready in June 2000. The deadline for certification will be worked out with your input. We expect an International Standard for Health & Safety will be developed in the future. In the meantime we will primarily use internal resources for that.
- ¥ A "grandfather clause" approves factories already ISO14000 certified by a company that doesn t make on the Nike-Approved List.
 - ¥ Information on each company s benefits and costs will be included with the Nike Approved List. If you have questions about this certifier approval process, check with Paula Valero. So what would we like you to do?
 - 1) Relay this overview and information to the CM staff and factory management at your earliest convenience. The labor and environmental managers can help.
 - 2) For factories about to embark on ISO14000 certification, please ask that they hold off until we have finished the certifying company review, in June.
 - 3) On E or ISO14000 questions, comments, or concerns, please contact Rachel Speth or your Environmental Specialist.
 - 4) For M, S and H questions, check with your labor manager.

Or drop us a note or give us a call.

Thanks and all the best for FY01.
Dusty & Sarah

MESH
update
for
manufacturing

You are 22 and single. You are in the third year of your first job. You were raised on a farm. Your supervisor is a woman, four years your senior. Your section leader is a foreigner. He doesn't speak your language very well.

This is the "Nike worker." She works in one of more than 700 factories making Nike products in more than 50 countries around the world. Let's assemble a statistically valid sample of 100 Nike workers from around the world. The youngest should be 16, most are in their early 20s, but many are above 40. Of those 100, 80 are women, 83 are from Asia, 7 are from Europe/Middle East/Africa, and 10 are from the Americas.

No matter where she works, or for whom, this worker's welfare is the focus of 30-plus labor compliance people at Nike. Our task is to do our best to ensure she has the best possible work experience. Our labor practices people bring some interesting tools to the job. Benan Vey in Turkey has a degree in medicine. Jim Hovorka, labor manager in Europe, ran a factory once. Gabriel Llaguno, an architect, travels Latin America four days out of five. These and other labor compliance people are in factories constantly: talking to workers, testing the systems, and looking for problems.

And they are dealing with problems all the time. Among the two most difficult are harassment and overtime violations. Harassment is hard to ferret out because it seldom happens in plain sight, is defined differently by culture, and is simply a complex issue to discover and correct in any workplace anywhere. Overtime is a massive challenge because the industry itself is essentially predicated on flexibility and massive shifts in orders from one season to the next, and because buyers like Nike compete for production space alongside other buyers in the best factories.

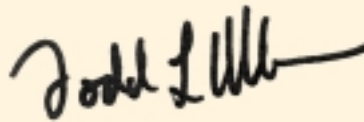
Labor compliance people tackle other difficult issues, the safety of the workplace, and the impact a factory can have on worker health. Some issues are basic: Are the fire extinguishers full? Are the exits blocked? Others are far more complex: what is the exposure to chemicals? Does food service provide free nutrition, or contribute to the spread of an infectious disease?

Most of the people doing this compliance work are local to the country, or speak the language. They talk to workers all of the time. This is what they hear: she isn't thrilled by the factory work. It's tedious, hard, and doesn't offer a wonderful future. But she is here of her own free will, and she is going to make the best of it, and then move on.

The people who do the work of labor practices find the work hard, sometimes frustrating, but also rewarding.

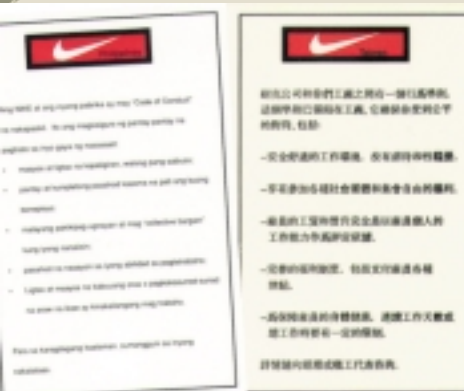
There are more than 200,000 footwear workers working in safer factories today because of all the hours spent getting the toxic solvents out of factories, testing the air, changing the work practices, and then re-testing.

How much do we really know about issues in all of these factories? Not enough. Every time we look closer, we find another thing wrong. Too much overtime. Wage errors. Too much heat. Involuntary pregnancy testing. An abusive supervisor. Among the most difficult dilemmas is worker rights. Was she dismissed because of poor work performance, or because she was campaigning for a union? Every time we peel another layer off the onion we find another complex set of issues that our compliance and production people work with factory management to try to resolve. But always one constant: a young woman, who is 22 and single. She is in the third year of her first job...



TODD McKEAN
Director, Corporate Responsibility Compliance





OUR GOALS:

- To see things through the eyes of the worker
- To make sure workers are aware of their rights and our standards
- To do business with factories that respect worker rights and our standards
- To provide managers with clear compliance guidelines and effective tools
- To monitor effectively to ensure our standards are met or exceeded
- To correct compliance issues and invest in sustainable solutions
- To show respect for everyone from worker to supervisor to manager to owner
- To be transparent about what we find and what challenges we face



SUBJECT:

FACTORY MONITORING PROCESS

since 1994

CHALLENGE: To monitor more than 700 factories in 50+ countries, none owned or operated by Nike.

ACTION: Expand internal and external monitoring to keep up with factory base; correct all compliance issues when found.

OUR GOAL: Every factory accurately reflected in our database. Every factory inspected on schedule. Every factory making continuous improvements. Results made available to public.

G.R.I. CATEGORY: 6. Workplace; Human Rights; Suppliers

What is monitoring? How do we do it? Is what we are doing effective? What steps are we taking to make it better? Here is what we believe:

What is monitoring? Quite simple, really. Monitoring is a process of using both internal and external resources to judge a factory's compliance with Nike's Code of Conduct.

Effective and comprehensive monitoring requires certain specific skill sets revolving around four areas of compliance: health and safety; pay and benefits; terms of work; and management-worker relations. All four should overlap and interlink. And each requires a high level of competence. We believe effective monitoring needs to have a level of independence from Nike's and the factory's business interests. We believe it requires a neutral bias toward both management and worker. Monitoring is not advocacy.

Our approach has been to try to build a global system of monitoring.

Sometimes it works well, as when our financial auditor/monitors discovered systematic cheating by factories on contributions to social security in Indonesia. Sometimes, it doesn't work well at all, as when the same monitoring system did not find extensive harassment issues in factories in Indonesia, but a Global Alliance assessment project did find those issues. (See pages 34–35.)

We have the highest level of confidence in monitoring that covers the issues most easily measured by a bench audit of age, wage, overtime and benefits, and the lowest level of confidence in monitoring against ongoing worker-management issues that can include verbal, physical or sexual harassment, or management practices that discourage the exercise of labor rights by individual workers or groups of workers.

How well do we do monitoring? Not well enough. As this report goes to press we are in the final stages of a review of the whole system, triggered by a series of factory and worker issues that suggested our current system was not performing at an adequate level. Each of those issues has taught us some lessons.

Cambodia. In the summer of 2000, the British Broadcasting Corporation (BBC) said it had proof that a Nike contractor in Cambodia was using child labor. In a broadcast in October, it said so on air, and showed film of three workers admitting to being under the age of 15.

Whether the workers in question were the age they attested to in applying for jobs, with supporting documents, or were the age they attested to on camera, we probably will never know. But the government insisted after an investigation that all were of legal working age, and all continued to work. Because of this issue and a number of compliance questions, Nike decided to cease production at that factory.

What did this episode teach us about our monitoring? First, that the system is flawed when we can begin production in a country

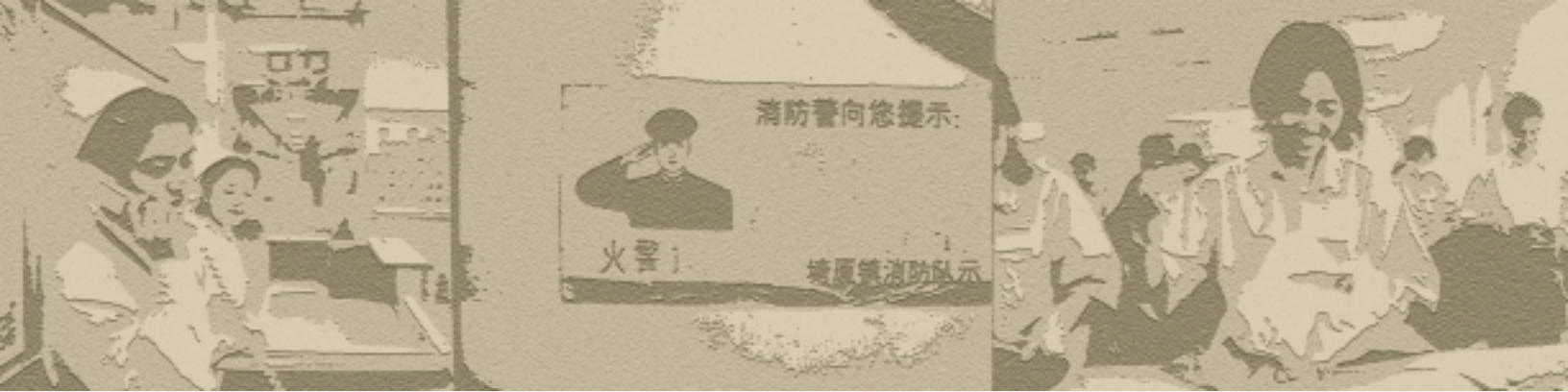
where proof of age does not exist, or is unreliable, and no one flags that problem. We are now revising our country entry

Sometimes, (monitoring) doesn't work well at all, as when the system did not find extensive harassment issues in factories in Indonesia, but a Global Alliance assessment project did find those issues.

strategy to deal with that larger issue. Second, that to renew business in Cambodia, we must have a far higher level of assurance that age standards are verifiable. In Cambodia, we will not do business with a factory unless it is a participant in the International Labor Organization's monitoring program. We also will supplement that system with our internal resources, and look to local experts on child labor from the non-governmental organization (NGO) community.

Indonesia. The Global Alliance for Workers and Communities (see pages 34–35) is an initiative that seeks to improve workers' lives by investing in programs and initiatives the workers themselves say are their priorities, using information from a broad selection of worker interviews and focus groups.

In Indonesia, in the course of doing this assessment work during the Summer and Fall of 2000, workers were asked about work issues as well as personal development questions. Global Alliance researchers from the Atma Jaya Catholic University reported disturbing levels of harassment, denial of leave benefits, issues with food quality, overtime issues and other compliance-related



concerns. While our compliance staff was aware of and working to try to root out some of these problems, we did not have any sense of their scope, and no factory-by-factory means of determining who performs well and who falls far short of our standards.

Nothing in our monitoring system, which included factory inspections, on-site presence of Nike employees, and the use of outside auditors, reached a large-enough population in a confidential setting to provide this broad range of data backed up by focus group qualitative information.

That experience demonstrated a number of things that will help us to do a better job of monitoring as we go forward. One certainty is that more and better quality worker interviews need to be a centerpiece of the system. The setting of those interviews, the nature of the facilitator and the quality of the survey instrument are all keys to quality results.

A second lesson from the Global Alliance experience is that monitoring, no matter how effective, is no substitute for effective, confidential and internal processes for workers who want to bring issues to the attention of responsible management. We are reviewing the internal factory systems to deal with grievances, and will be experimenting with external ombudsman systems as well.

A final key learning is that clear standards, investment in training, and clear disciplinary procedures are critical to the whole process. All three areas have been revised and are now being implemented throughout our factory base.

Mexico. In the first week of January 2001, workers at Kukdong International Mexico, an apparel contractor for Nike in the state of Puebla, owned and operated by a Korean company, stopped work. A tense stand-off ensued, followed by violence, dismissals, workers refusing to return to the factory, and two organizations competing for the right to represent workers.

The initial reports indicated issues with food had precipitated the work stoppage, but the issues slowly unraveled and went far deeper. Even as this report goes

to press, much remains to be understood and resolved at Kukdong. Clearly, our monitoring had missed key elements of the factory labor situation, including reports of abuse and questions about wage calculations. Some also called into question the legitimacy of the existing union, which was on site with a collective bargaining agreement before workers were hired for this new foreign investment.

In the space of two months, three different reports were filed on Kukdong. Two of these, from a respected labor rights lawyer and the monitoring firm Verite, working under the auspices of the Fair Labor Association, were done at Nike's request. A third was done by the Worker's Rights Consortium. All three were made public. As with the Global Alliance report in Indonesia, Nike


publicly committed to remediation of the issues. Those plans are posted on our web site, nikebiz.com.

While still an issue in progress, there

are some clear lessons to draw from the Kukdong experience. First, monitoring needs to look as much at background, local conditions and systems as at current issues within the factory walls. Second, transparency has great value, but also finite limits. The daily coverage of Kukdong's issues has ultimately made it difficult to resolve very complex local issues.

Where do we go from here? These and other monitoring issues are daily reminders that this work is imperfect, and in need of constant revision. A full review of our monitoring and compliance systems will have us doing things differently. One cornerstone will be the independent monitoring of 10% of our factory base each year by monitors certified under the Fair Labor Association, whose protocol is the most rigorous we have seen. (See fairlabor.org.) That work will sit alongside a more carefully wrought internal process that incorporates the things we have learned from Kukdong, Cambodia, Indonesia and numerous other monitoring experiences, including professional assessments of health and safety by external experts as well as inside resources.

Monitoring, no matter how effective, is no substitute for effective confidential and internal processes for workers to be able to bring issues to the attention of responsible management.

	SUBJECT: CHILD LABOR	since 1996
	<p>CHALLENGE: Guard against the employment of any person under our age standards in Nike contracted factories.</p> <p>ACTION: Focus internal and external monitors on the issue. Educate factory managers on its consequences. Put into place onerous penalties for employing children.</p> <p>OUR GOAL: Every footwear worker is at least 18. Every apparel or equipment worker is at least 16, or at local age limits where they are higher.</p> <p>G.R.I. CATEGORY: 6. Workplace; Human Rights; Suppliers</p>	

Of all the issues facing Nike in workplace standards, child labor is the most vexing. Our age standards are the highest in the world: 18 for footwear manufacturing, and 16 for apparel and equipment, or local standards whenever they are higher. But in some countries (Bangladesh and Cambodia, for example), those standards are next to impossible to verify, when records of birth do not exist, or can be easily forged. Even when records-keeping is more advanced, and hiring is carefully done, one mistake can brand a company like Nike as a purveyor of child labor.

The International Labor Organization has set a minimum age standard of 15 (with 14 the limit for some developing countries). We have made the choice nonetheless to set our standards at 16/18, a sufficiently high level so that (a) workers are more likely to be better educated, more mature and therefore better protected and more productive and (b) where the presence of a child is more likely to be detected.

We put teeth behind the policy with oversight and follow-up. A Nike contractor found employing any worker under our age standards must (a) remove the child from the workplace, (b) continue to pay that worker's basic weekly wage, (c) place that worker in an accredited local school and pay fees to keep them there, and (d) agree to re-hire that worker when reaching the Nike minimum age. Factories that refuse to follow these steps will lose our business.

The child labor issue is full of challenges and surprises. By far our worst experience and biggest mistake was in Pakistan, where we blew it. In 1995, we began to order soccer balls from the city of Sialkot, the world's leading center for hand-stitched balls. By fall of 1995, we realized that production was done through village contractors, and sometimes by children. We reversed course, restricting our production to one contractor, Saga Sports, which agreed to build high-quality, monitored stitching centers near villages, and to hire no one under the age of 18. Today, the eight centers employ

several thousand stitchers, where the average age is 22. Each of these centers has free lunches, a free medical clinic (available to the stitcher and his or her immediate family), a fair price shop to ensure workers have access to reasonably-priced commodities, day-care and kindergarten for children, and a recreation center. But the damage was done. A June 1996 Life magazine article (see top page) branded Nike as a child labor company. Today we are proud of what Saga and Nike have been able to achieve to reverse that damage, but the label sticks nonetheless.

A more recent issue arose in Cambodia, where the tradition of birth records was not well-entrenched to begin with. The 1975-79 Khmer Rouge holocaust erased a million people, and a whole generation of records of births, families and schooling. In the succeeding years, the central government and local district managers have struggled to rebuild the country, and in the process have not put much focus on records-keeping. As a result, the factory manager seeking to hire people of the correct age (15 is the minimum work age, but 18 is the age at which a worker is allowed to work over-time) must deal with a bewildering set of documents presented by a worker, including a record of family births and deaths (the "family book"), a district registration, voter's registration, and a medical certificate. All carry some form of official stamp. And each can be purchased on the black market for the equivalent of \$5.

In one recent case where suspected child labor was uncovered by the British Broadcasting Corporation, Nike and locally trained monitors, working with financial auditors, reviewed all 3,800 employee records and then had face to face interviews with workers whose age was suspect. Even at the end of that process, there was no absolute assurance we had got it right. Our goal, in Cambodia and elsewhere, is to continue to do everything we can do to eradicate child labor in our contract factories, but we can be certain that cases will occur.




"Human rights experts estimate that, worldwide, 200 million children under 14 (the minimum age set by the International Labor Organization) are working full-time and not going to school. Most of these children produce goods for local consumption, but in the new global economy a swelling number are making products for multinational corporations to export to countries of affluence."

- Sydney Schanberg, Life Magazine, June 1996

"Adults should work. Children should study and play. We do everything we can to ensure this happens. Setting the highest age standards in the industry, and requiring independent certification that factories meet those standards, is our best practice to make it so."

- Phil Knight, May 12, 1998

	SUBJECT: WAGES	since 1992
	<p>CHALLENGE: To monitor the wages paid to more than 500,000 people in more than 700 factories. Study how wages fit into worker needs and local employment context.</p> <p>ACTION: Focus internal and external monitors on the issue. Measure actual wages paid. Require adjustments and back pay for these not meeting legally-mandated or Nike minimums.</p> <p>OUR GOAL: Every worker paid at least legal minimum wage, with no training wage or other sub-minimum exemptions. Measure income against basic expenses to understand worker well-being.</p> <p>G.R.I. CATEGORY: 6. Workplace; Human Rights; Suppliers</p>	

When we review how people are paid in contract factories, we try to answer three questions: (1) Are they paid what they are due? If not, we require adjustments and backpay. (2) Are they paid what they need? We try to measure that question with outside research. (3) If there is a gap between wages and need, what is the responsible thing for this one company to do — responsible to the worker, our business, and local social and economic context?

There is a great deal of debate about what that responsibility should be. Some among our stakeholders argue that Nike should require factories to pay a “living wage” to all workers. Although there is no generally accepted definition, even if there were, there is considerable debate about the wisdom of basing income on need. Some stakeholders argue a unilateral move to a living wage policy would be foolhardy, because it would drive prices up, margins down, and ultimately mean a less successful company creating fewer jobs.

Lost in all of this macro discussion is the worker herself. It is worth remembering that the typical worker is a young, single woman who usually has a minimum skills job (stitching, cementing, boxing and packaging), and is earning more than minimum wage. Her wages are a defining feature of the job. They allow — or

do not allow — her the freedom of having her own money in a male dominated society, to provide for a family, educate her children if she has them, and meet basic needs.

While monitoring to ensure the law is met in wage payments, we have also been trying to understand how wages compare to expenditures. Thus far we have commissioned work or participated in larger group studies of wages and need in communities or regions of eight countries (Indonesia, Vietnam, Mexico, El Salvador, China, Thailand, the Dominican Republic and the United States). In Indonesia, where in the 1998-99 financial crisis it was clear that inflation was outstripping workers’ ability to make ends meet, Nike footwear factories voluntarily raised their minimum wages four different times above the nominal minimum wage.

Wages are the lynchpin of a good job. Benefits also matter a great deal. More than a quarter of Nike contract workers worldwide, for example, are provided free housing by their factories. Many more are provided free or subsidized food and other benefits. Many have access to free clinics.

On the opposite page are two other points of view on the complexities of wages and needs.



LIVING WAGE SUMMIT— POINT OF VIEW

The following excerpts of documents resulting from the Living Wage Summit, a meeting of NGOs, trade unions and academics hosted by the University of California-Berkeley, July 17–19, 1998 are reprinted here to provide perspective on the living wage debate:

“Despite several steps forward in the effort to eliminate sweatshops, companies have remained silent on the issue of wages—accepting the legal minimum and prevailing industry wage as the standard, and leaving the vast majority of low wage workers in poverty and hunger.”

“Payment of living wages, which allow workers and their families to live in dignity, is fundamental to eliminating sweatshops.”

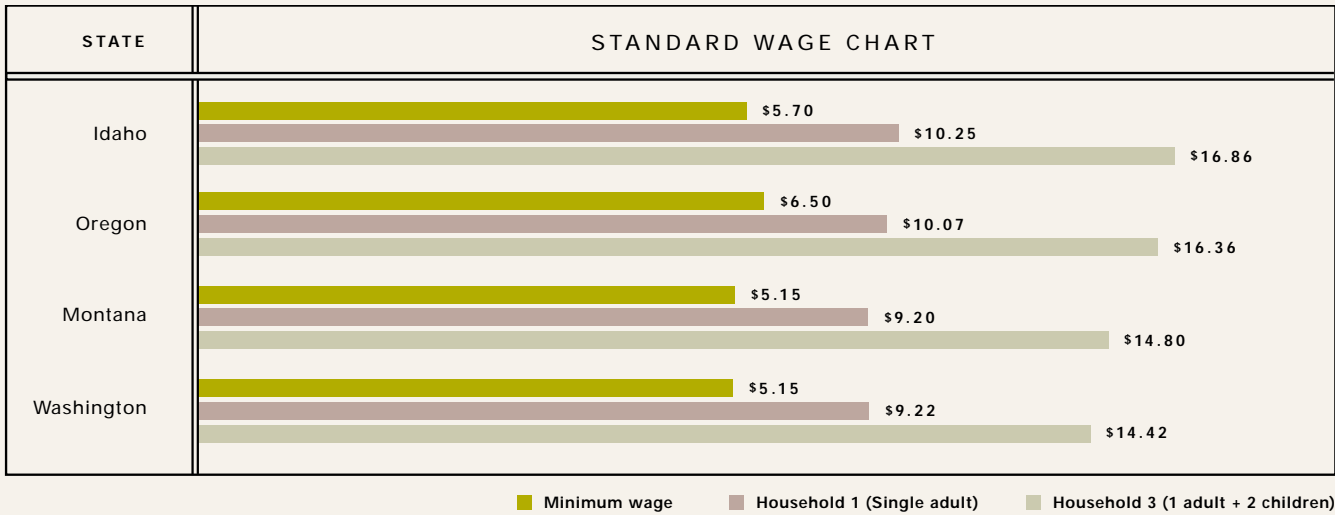
“A living wage (net of deductions) provides for the basic needs (housing, energy, nutrition, clothing, health care, education, potable water, childcare, transportation and savings) of an average family unit divided by the average number of adult wage earners. The formula takes into account the average number of adult wage earners in order to exclude child labor.”



UNIVERSITY OF WASHINGTON — STUDY ON LIVING WAGES IN THE PACIFIC NORTHWEST

Should minimum wages be set at a level to meet the basic needs of a family? The difficulty of that concept was underscored by a 1999 living wage study by the University of Washington, working off a formula similar to the Living Wage Summit’s draft formula. The Washington study found minimum

wages in the U.S. Pacific Northwest cover only 40% of the basic costs for a family of three (one adult, two children). To meet the needs of a family of three, the Oregon minimum wage would need to be \$16.36 hour, or \$34,000 per year for a standard work week.



GLOBAL ALLIANCE FOR WORKERS AND COMMUNITIES

In 1999, a group of global organizations set out to do something simple and incredibly ambitious: to ask workers what they think of their jobs and their lives, and then to respond by funding programs that address the issues those workers themselves had identified. That was, and is, the premise of the Global Alliance for Workers and Communities, a consortium of organizations including the International Youth Foundation, the World Bank, the John D. and Catherine T. MacArthur Foundation, Penn State University, St. John's University, The Gap and, of course, Nike. After a year of organizing this initiative, and a year of doing, here is a glance at what we have found, and what is being done about it:

WORKER PROCESS

Social assessors work with the factory to establish project teams comprised of workers and managers, and then through this team prepare the factory for the assessment process. Assessments include a formal written survey administered to a large population of workers (generally about 6-10% of the total workforce); personal interviews with smaller numbers of workers; interviews with key resources such as clinic staff, human resource managers and trade union leaders; and focus groups with workers

to bore into issues the interviews raised. From this process comes a report that is shared with management, the company (Nike, in this instance) and the factory project team. Reviewing the available resources, all parties (GA staff, factory management, factory project teams and Nike staff) then agree on appropriate forms of investment to respond to the most important issues the workers have identified. Local NGOs and other organizations are engaged to carry out those programs.



GOVERNANCE

The operating council of Global Alliance is chaired by Rick Little, founder and president of the International Youth Foundation. The executive director is Kevin Quigley, formerly vice president of the Asia Society. Council members include: Richard Schubert (Founding Chair), Vice Chairman, Peter F. Drucker Foundation (USA); Victoria Bigio, Executive Director, Fundación para la Infancia y la Juventud Opportúnitas (Venezuela); Nieves Confesor, Director, Human Resources Productivity, Asian Institute of Management (Philippines); Maria Eitel, Vice President, Corporate Responsibility, Nike, Inc. (USA); Anne B. Gust, Executive Vice President and Chief Administrative Officer, Gap Inc. (USA); Nemat Shafik, Vice President, 2nd Senior Advisor, Private Sector Development and Infrastructure, The World Bank (Egypt); Simon Zadek, Chairman, Institute of Social and Ethical Accountability (United Kingdom).

WHAT HAVE WE LEARNED?

Workers deserve respect for their collective insight. They consistently identify health as the number-one issue, because they know that better nutrition, child care, and other health issues can have a dramatic impact on living standard and families. Education about the importance of using potable water increases defense against water-borne disease and produces healthier infants. The workers are also aware of the need to understand the risks from HIV-AIDS, especially in Thailand, and of growing concern in Vietnam. If the Global Alliance, through training and education of factory workers, can reach a large number of people directly and indirectly, the value of that is incalculable.

Probably the most significant and consistent issue workers have identified is the value of better and more sensitive management. Although in some instances the results of surveys show

that such relationships are good, in other factories there is great room for improvement. Not only is this an issue for foreign managers in a second country, with gaps in understanding of culture and language, but it is also a continuing issue with nationals managing each other. A professional class of supervisors and managers, many of them promoted from the production lines, is also an identified need, and a work in progress. Just as workers turn over, so do staff, so there is need for constant training.

The nature of ownership is not necessarily a guide to how workers view their workplace. A foreign owned and operated factory is neither more nor less likely to be rated highly on workplace issues. Indeed, in some instances two factories with a common owner show markedly different results, just as two factories with common owners in different countries show different results. In effect, every factory, like every worker, is unique.

INDONESIA: Nine factories in Indonesia producing Nike footwear, apparel and equipment are participating. In August 2000, assessors from the social research arm of Atma Jaya Catholic University began interviewing 4,000 workers from a total factory population of 55,000 workers. Assessment uncovered a number of disturbing issues related to compliance and people management, and an interim report was publicly released by the Global Alliance in February 2001, with an accompanying Nike remediation plan. The final report was to be made public in April or May, at which point greater information would be available on worker aspirations and the directions that development programs might take. Issues uncovered in the interim report included high levels of

harassment, especially verbal harassment, denial of various forms of legally-mandated leave, worker complaints about overtime, pay, the quality of food and other provided benefits, and in a two specific incidences, worker concern that denial of sick leave may have contributed to worker deaths. The latter issue was investigated by independent experts commissioned by Nike, who found no credible evidence to suggest a link in either case. The assessment tool for the first time asked with greater specificity about compliance-related issues, although the research team made it clear it had neither the mandate nor the resources to verify any of the specific complaints lodged by workers in the interview process.

CHINA: The Global Alliance work in China will begin with a phased-in program starting with Nike contract factories located in southern China and then additional assessment and development work with factories in central and northern China.

THAILAND: Five factories in Thailand producing Nike products participated. Assessors from the social research arm of Chulalonghorm University personally interviewed 931 of 9,177 total workers, and 220 more participated in focus groups. In-depth interviews were conducted with 34 key employees.

The primary issue identified was health, both for the worker and family members, and both occupational as well as personal. Workers reported general satisfaction with workplace health and safety. Issues identified included headache, backache and fatigue. Workers specifically asked for information about nutrition, basic hygiene and sanitation, first-aid, reproductive health and family planning, and pre- and post-natal care. Other issues

identified included an interest in up-grading jobs skills (more than half of workers); opportunities for basic education (47%); and better knowledge of personal rights, including personal legal issues. Pay was considered at least fair by 72% of workers surveyed. Recognition by management also was cited as a positive, although follow-up rewards were identified by only 20%.

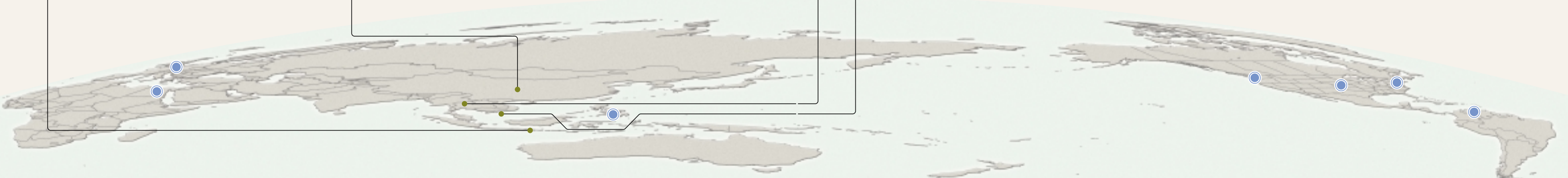
The Global Alliance has responded by funding a mobile health clinic that will be available on a rotating basis for each factory throughout the next year. It will deliver health services and training to workers and their families. The factory clinics themselves also will receive attention, with local health professionals from two local NGOs conducting training for staff.

VIETNAM: Seven factories in Vietnam producing Nike products participated. From October 1999 through May 2000, assessors from the Center for Economic and Social Applications (CESAIS, now Troung Doan) personally interviewed 2,220 of 40,737 total workers, and 470 more participated in focus groups. In-depth interviews were conducted with 14 key employees.

The primary issues identified included personal and family health; better relations between workers and managers; better

food service in canteens; transportation to and from the factory, especially for women at night; and child care. About 85% said they intend to work at the factory for at least three years, and the majority described the factory as a good place to work, although safety, management and wages were all cited as in need of improvement.

The Global Alliance is discussing responses and investments with factory management, Nike and the project teams, with programs expected to begin in mid-2001.



NIKE CONTRACT FACTORIES AT A GLANCE

COUNTRIES		FACTORIES				WORKERS			COMPENSATION & BENEFITS						
	Nike Start Date					# Workers	Avg % Female	Avg % Male	Legal Min Wage/Mo (or Hr) (local currency) *	Nike Contract Factory Av Gross Wage/Mo (local currency)	FACTORIES PROVIDING:				
		Total	APRL	EQUIP	FTWR						Meals	Housing	Medical Benefits	On-Site Clinic	Transportation
ALBANIA	1998	1	1	0	0	200	85%	15%	34.16 Lek/hr	16' 330.50 Lek	all	no	all	all	all
BELARUS	2000	1	1	0	0	70	91%	9%	2,600 Rubles	42,000 Rubles	no	no	all	no	all
ARGENTINA	1995	4	3	0	1	436	60%	40%	239.96 Pesos	549.91 Pesos	some	no	some	no	all
AUSTRALIA	1980	11	9	2	0	400	80%	20%	A\$1,904.93	A\$2333.93	no	no	some	no	no
BANGLADESH	1991	4	3	1	0	14,120	89%	11%	1278.75 Taka	2122.72 Taka	some	some	no	some	some
BRAZIL	1994	9	3	1	5	5,488	65%	35%	136 Real	256 Real	some	no	all	some	no
BULGARIA	1998	4	4	0	0	881	90%	10%	75 Lev	89 Lev	some	no	all	some	all
CAMBODIA	1999	2	2	0	0	2,021	90%	10%	174,940 Ri el	252,691 Ri el	no	no	no	yes	no
CANADA	1994	21	20	1	0	2,300	80%	20%	Can\$10.15/Hour	Can\$2970.10	no	no	no	some	no
CHILE	1995	1	1	0	0	100	85%	15%	100,000 Chilean Peso	250,000 Chilean Peso	all	no	all	no	no
CHINA	1981	74	35	22	17	175,960	80%	20%	290-519 Renminbi	500 Renminbi	all	some	all	some	some
DOMINICAN REP	1997	5	4	1	0	3,995	70%	30%	2222 Pesos	3247 Pesos	all	no	all	all	all
ECUADOR	1999	1	1	0	0	353	75%	25%	111.25 US\$	140 US\$	all	no	all	no	all
EGYPT	1999	3	3	0	0	600	75%	25%	.90 LE/Hr	175 LE	no	no	all	no	no
EL SALVADOR	1995	8	8	0	0	4,044	75%	25%	1260 Colons	2400 Colons	some	some	all	some	some
GERMANY	1998	2	2	0	0	30	90%	10%	No national minimum wage	Determined per factory	no	no	all	no	no
GREECE	1996	19	19	0	0	5,300	65%	37%	1168.68 Drachma/Hr	267' 513 Drachma	no	no	all	no	no
GUATEMALA	1999	2	2	0	0	816	70%	30%	606 Quetzal	674 Quetzal	all	no	all	all	all
HOLLAND	1995	3	3	0	0	81	30%	70%	1,800 Guilders	2,600 Guilders	no	no	all	no	no
HONDURAS	1992	5	5	0	0	2,438	85%	15%	1320 Lempiras	2400 Lempiras	some	no	some	some	some
HUNGARY	1998	1	1	0	0	1,650	95%	5%	152 UF/Hr	35,000 UF	all	no	all	all	all
INDIA	1993	23	19	1	3	16,071	40%	60%	1952.20 Rupees	3309.66 Rupees	some	some	no	some	some
INDONESIA	1988	30	16	3	11	104,514	85%	15%	380,000-426,500 Rupiah	Varies by location	some	some	some	some	some
ISRAEL	1995	3	1	2	0	2,157	80%	20%	21.6611 New Shekels /Hr	3678.30 New Shekels	no	no	all	no	no
ITALY	1999	12	8	2	2	5,000	40%	60%	11,342 L/Hr	1,905,456 Italian Lira	no	no	all	all	no
JAPAN	1964	6	2	4	0	1,500	65%	35%	Determined by prefecture and industry		some	no	all	some	no
KOREA	1974	49	31	10	8	4,000	65%	35%	4496.00 Won/Hr	935,200 Won	some	some	all	some	no
LAOS	1998	2	2	0	0	2,452	88%	12%	93,565 Lao Kip	Varies by location	all	all	no	all	no
LI THUANIA	1999	1	1	0	0	45	85%	15%	2.6413 Litas /Hr	460.23 Litas	all	no	all	no	no
MACAU	1998	3	3	0	0	500	80%	20%	No national min wage	Varies by location	some	no	some	no	no
MACEDONIA	2000	1	1	0	0	215	95%	5%	6,000 Denars	6,700 Denars	all	no	all	no	all
MALAYSIA	1985	42	41	1	0	8,044	65%	35%	230-250 Ringgit	Varies by location	some	some	no	some	some
MICRONESIA	1998	2	2	0	0	672	80%	20%	\$.80/Hr	\$225	all	all	all	all	all
MEXICO	1994	41	39	0	2	12,258	70%	30%	831 Pesos	1535 Pesos	some	no	all	no	some
MOROCCO	1999	2	2	0	0	1,274	80%	20%	1670 Dirhams	1700 Dirhams	no	no	all	no	no
NEW ZEALAND	1998	1	1	0	0	50	90%	10%	\$7.00 NZ/Hr	\$1612.00 NZ	no	no	all	no	no
PAKISTAN	1995	3	2	1	0	9,880	10%	90%	37.91 Rupees	80 Rupees	some	no	no	all	all
PERU	1995	4	4	0	0	5,286	60%	40%	345 Nuevo Sol	580 Nuevo Sol	all	no	all	all	all
PHILIPPINES	1983	22	18	4	0	9,400	74%	26%	27.87 Peso/Hr	5798.00 Pesos	no	no	no	no	no
PORTUGAL	1987	23	23	0	0	1,872	90%	10%	365 Escudos/Hr	61,300 Escudos	no	no	all	no	no
ROMANIA	1999	3	3	0	0	2,900	85%	15%	4,762 Leu/Hr	800,000 Leu	all	no	no	some	no
SINGAPORE	1986	2	2	0	0	300	99%	1%	No national min wage	Varies by job type	all	all	all	no	no
SOUTH AFRICA	1998	2	2	0	0	660	69%	31%	152 Rand	243 Rand	no	no	no	some	some
SRI LANKA	1991	16	16	0	0	10,286	87%	13%	3,400 Sri Lanka Rupee	Varies by location	some	no	no	some	some
TAIWAN	1971	35	24	7	4	15,600	70%	30%	15840 NT\$	20860 NT\$	some	some	all	some	some
THAILAND	1981	62	42	11	9	47,962	80%	20%	4,300 Baht	6,400 Baht	some	some	no	some	some
TURKEY	1996	16	15	1	0	7,944	85%	15%	139,950,000 Lira	150,000,000 Lira	some	no	some	some	some
UK	1995	5	5	0	0	814	85%	15%	3.60 Pounds/Hr	720 Pounds	no	no	all	no	no
USA	1980	131	117	14	0	13,369	80%	20%	\$5.15/HR (varies locally)	\$1,200	some	some	some	some	some
VIENTIANE	1995	12	7	0	5	43,414	70%	30%	558,400 Dong	1,183,680 Dong	all	no	all	all	no
ZIMBABWE	1999	1	0	0	1	7,000	na	na	1003 Zimbabwe dollars	Data not available	no	no	all	all	no
51 Countries		736	579	89	68	556,350									

During the past 12 months we assembled the following information as a snapshot of a Nike, Inc. contract production base that spans the globe and numbers well over 700 factories. Virtually every number or comment here is subject to change as we add or subtract factories, or the factories themselves change their compensation and benefits packages. Our intention is to provide a sense of the scope and variety of manufacturers in the Nike supply chain.

WAGES AND THE COST OF A PAIR OF SHOES

It is fairly common today to hear that athletic shoes sell for \$100, and the worker gets barely a dollar for his or her work. While not exactly correct, the implication is that wages are far out of proportion to the value of the product, and that everyone else in the chain — factory, buyer and retailer, as well as endorser — gets far more.

The reality is somewhat different.

There are three basic steps in the production of a shoe, and in the costs associated with those steps. In the first stage, Nike designers and developers produce the design and technical specifications. That information, along with other factors like the volume of shoes to be produced and the length of the production run, are used to negotiate a price (called FOB, or freight on board) between Nike and the supplier factory. The typical athletic shoe has 45–55 components, which are manufactured in 6–10 countries, and shipped to the producer factory. These materials usually account for 60–70% of the cost of the shoe. (See below, Step 1.) Wages, overhead, depreciation and factory profits account for the rest. The factory produces the desired quantity of shoes, and sells them to Nike at the agreed-upon FOB price.

After Nike takes delivery, the shoes are shipped to markets literally all over the world. Along the way Nike pays for shipping, insurance, duty, and sometimes inland freight, and sells the shoes to retail customers.



* Costs shown here represent a typical shoe rather than relating to a specific model. These numbers are subject to change based on market factors and economic conditions.

That wholesale price also factors in costs associated with running our business, including the research, design and development costs, basic administration, marketing and taxes. Our after-tax profits for FY01 were 6% of revenues.

The retailer in turn adds on costs associated with staff expense (the largest single factor in the whole chain from beginning to end), rent, promotional investments, losses through theft and damage (shrinkage), insurance and profits, and arrives at a retail cost, which the consumer is then asked to pay.

This set of numbers varies between shoe models, and is based on demand, quantity of production, technical complexity, distance to market, competition pricing and a host of other factors. Basically, the 1-2-4 formula holds true: for every dollar of FOB cost, the buyer (in this case, Nike) charges \$2 to the retailer, and the retailer charges \$4 to the consumer. The formula is relatively consistent in the industry, and is not markedly dissimilar in apparel and other consumer products.

Q&A: Why not simply double the wages of the worker? As with any other cost, changes in wages can have a significant effect on the cost of the product and ultimately on the amount of the product produced and sold.

In addition to the impact of higher wages, the ultimate product cost would be affected by increases in wage-based costs (such as benefits or taxes) and cost-based expenses (such as duties and insurance). These increased costs would have to be passed on to consumers in the form of higher prices. Since the market for athletic footwear responds to the laws of supply and demand, higher prices would likely mean fewer units sold. Of course Nike's shareholders would earn less money. But lower sales also mean fewer jobs and lower earnings for Nike suppliers, employees and factory workers.

Why doesn't Nike reduce its costs, especially for marketing and advertising? In a free market system, commercial organizations such as Nike have a built-in incentive to reduce costs. Therefore, management is continuously working to eliminate waste in all areas of the Company's operations and to focus resources on investing for growth. Marketing and advertising costs are investments intended to generate demand for Nike products. Without that investment, consumers would buy fewer Nike products, reducing earnings for Nike shareholders, suppliers, employees and factory workers.

Nike people are our most important competitive advantage. A global business demands a diverse employee base, rich in heritage and culture as well as in education and ideas. Our Human Resources programs and policies are designed to support and encourage our people in an environment where creativity, innovation and passion can flourish. So

how diverse is our company? How do we develop our people? And what kind of benefits do Nike people enjoy? This section begins to answer these questions.

To start off, we thought the best way to introduce a section about Nike people would be to share a real story from a Nike person, and hear from her about our unique corporate culture.



My name is Roxanne Chiu, and I began working for Nike in 1997. People often ask, "What is it like to work at Nike?" I can answer this only for myself, and perhaps some of my experiences can provide a perspective on the global and dynamic culture of this company. I was born and raised in Taiwan. I have dual Taiwanese and Canadian citizenship. I met my husband playing for our college badminton team (we both played), and he is of Chinese descent, but a third generation Canadian. I have worked in Canada, Taiwan and the United States. I have traveled around the world working for Nike and other companies.

It is fast-paced and crazy at Nike. Anything and everything can change in a moment. Some people might be unsettled by this sort of environment. But at Nike I have seen this as a way of life that energizes


people. On top of this, people at Nike are considerate, friendly and supportive. When I worked in the high fashion industry the culture was more about looking good and materialism. At Nike it is about sports and a healthy lifestyle. It is nice to work for a company that values the same things I do.

My first day in the Nike Taiwan office I learned that they no longer wanted me in the retail development role they had hired me for, and instead wanted me to become their apparel sales manager. This was shocking, but intriguing as well. My background was in sales, retail and marketing. I was confident I could do either job. I decided it would be interesting to experience a brand and product driven company from a sales perspective. I was struck by the creative and open-minded culture at Nike. The dynamic interplay between managers and employees allows for great opportunities for all.

After working there for two years, in 1999 Asia Pacific headquarters offered me a position overseas in Oregon, it was wonderful and yet incredibly confusing and challenging. On the one hand it represented yet another opportunity to gain more experience. And as a non-US citizen being relocated to the United States, I was offered a benefits package specific to my relocation situation. But ironically, my husband Robert was also offered a job from his company to relocate to the United Kingdom. I was the first person in Taiwan to relocate overseas, so both the country human resources team and I were on a steep learning curve. I eventually was able to tap into an informal network of other global expatriate co-workers, and that provided a source of shared information.

As things turned out, I came to Oregon in 1999, and my husband left the company he was working for and came to Oregon with me. Robert is now pursuing his second masters in computer technology. We are expecting our first child in November 2001. The move to world headquarters has allowed me to see the business from a global perspective and learn from peers around the world. Comparing this experience with that of working within a small country team has been educational. I have also continued to both pursue and be presented with various other job options within Nike. Who knows where I will be living and what I will be doing a couple years from now. But so far my experience at Nike has been rewarding, challenging and unexpected. I am excited for tomorrow.

Roxanne Chiu

	SUBJECT:	NIKE PEOPLE	since 1972
	<p>CHALLENGE: Continue to make people the source of Nike's unique competitive advantage.</p> <p>ACTION: Give them the tools to be successful.</p> <p>OUR GOAL: Create an environment where people exceed their own expectations.</p> <p>G.R.I. CATEGORY: 6. Investment: Social Performance: Workplace</p>		

Nike employees showcased on www.nikebiz.com/diversity

"We are a company that includes the brightest, most committed, most sought after people in the industry." —Phil Knight, 1997 Annual Report

How do 22,658 people work together? Nike competes through its flat organizational structure where jobs are organized into a globally banded system. This allows us to deploy talent, create compensation structures and incentive plans that are competitive and global, and are also nimble and nonhierarchical. Every job at Nike fits into one of three functions:

1. **To create and build Nike products** Nike's business begins with the employees who research, design and produce Nike footwear, apparel and equipment.

2. **To bring Nike products to the marketplace.** From advertising account executives to retail specialists, these folks are communicators and storytellers. They bring the brand and the product into the Nike consumer's life.

3. **To build operational efficiency around bringing product to market.** From supply chain, to human resources, to corporate responsibility, to Logistics, to finance and so on. Many functions hold the process together.

WHERE ARE THEY?	
Europe + Africa	5020
Americas	1,833
Asia Pacific	3,386
USA	12,419
Total	22,658

DIVERSITY	
Senior Leadership as percentage of general employee population.....	5%
Women as percentage of Senior Leadership	19%
People of Color as percentage of Senior Leadership	10%
People of Color as percentage of U.S. employee population.....	39%
Non-U.S. citizens as percentage of Senior Leadership	16%



SUBJECT: DIVERSITY

since 1972

CHALLENGE: Leveraging every element of diversity to drive Nike's competitive advantage in the global marketplace.

ACTION: Integrate diversity into every Nike practice, process and system.

OUR GOAL: Action-oriented diversity becomes our way of life.

G.R.I. CATEGORY: 6. Investment; Social Performance: Workplace

-----Original Message-----

From: Borders, Sonja On Behalf Of Cardona, Oscar
Sent: Thursday, June 14, 2001 2:48 PM
To: Lst-Corporate Leadership Team
Subject: Nike Inc Diversity Commitments

Please see attached.

I plan on having follow-up sessions with each of you, either individually and/or with your direct reports within the next 60 days.

If you have any questions, please call me.

Thank you,
Oscar Cardona
VP US HR

Maxim #8

Do the Right Thing

Drive Sustainability
Seek Diversity
Take Responsibility

Our Mission -

"To bring inspiration and innovation to every athlete* in the world (*If you have a body, you are an athlete." - Bill Bowerman)" speaks about maximizing the potential in all of us. Diversity is directly linked to this Mission. It is linked by the notion that all of us have something to contribute given the vast array of talents, ideas, motivation and spirit that brought us to Nike in the first place.

We believe there are many opportunities ahead of us. These opportunities will best be realized by respecting and embracing differences among us, while at the same time striving for what brings all of us together - the desire to maximize our collective potential. In short, we need to **PREPARE EVERY EMPLOYEE TO PLAY IN THE GAME.**

As a result, we asked Oscar Cardona, VP Human Resources for US Region, to assemble a group of Nike employees from all parts of the organization to assess our progress on Diversity. They met, discussed our strengths and weaknesses, and made some recommendations to move us forward.

We have embraced the basic framework of those recommendations, which are founded on the objectives of leadership accountability, management practices and measurement and reward:

- Without exception, post all open U, E and S band positions without pre-identified candidates;
- Without exception, establish diverse pools of candidates at Sr. S and VP levels as part of the HRP process;
- Ensure we have staffing processes in place that create diverse pools of external candidates, improve our selection skills, track progress and reward success;
- Partner with national, community-based and professional organizations to build a pipeline of diverse candidates;
- Organize Employee Diversity Networks into one Nike Diversity Network that will focus on skill building, sourcing candidates, community activities and supporting employees joining the company;
- Continue our commitment to building awareness and skills through Diversity Workshops and Competency Based Selection. We have signed up to attend for next year and expect that you will as well;
- Establish an Executive Diversity Forum to assess continuing strategy and monitor progress.

Oscar will provide you with more details on the above framework as we move forward with executing these recommendations. We wanted to communicate our commitment and expectation that you will take a lead in supporting and driving these initiatives through your respective organizations.

We recognize that Diversity is a complex and difficult issue to get our hands around and we need to manage expectations on progress.

Charlie, Mark, Lindsay, Gary



SUBJECT: PEOPLE DEVELOPMENT/COACHING OUR PEOPLE

since 1997

CHALLENGE: Manage an efficient system for coaching and development of people.

ACTION: No big cumbersome system. Focus on right programs.

OUR GOAL: Develop better people.

G.R.I. CATEGORY: 6. Investment; Social Performance: Workplace

He was the ultimate mentor. As Phil ("Buck") Knight's college Track and Field coach, and co-founder of Nike, Bill Bowerman did more to shape athletics and Nike around the world than any three people combined. He was a natural motivator, and tireless in his pursuit of innovation. Our corporate maxim #11 reminds Nike People to "Remember the Man." His spirit is at the core of our history and collective soul.

During the last two years we've been focusing on our approach towards people development. The current framework is lean, and puts the majority of ownership into the employees' hands, both as managers and individuals. With regards to programs and their availability, it becomes a matter of balancing demand and supply. It is incumbent upon managers to develop their teams strategically, and incumbent upon individuals to seek out and take advantage of opportunities.

CORE MANAGEMENT PROGRAMS AND OBJECTIVES:

The Next Step (3 days)

- Build leadership capacity and high profile communication skills among managers.
- Fundamental learning process is sharing career experiences of executives with junior managers in an interactive forum.

Line of Sight (5 days)

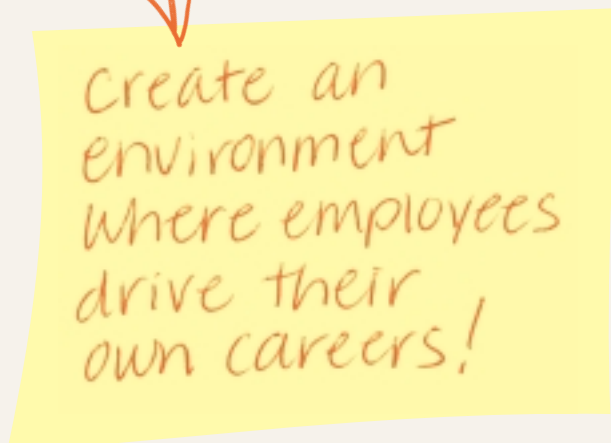
- We assemble people in teams and have them manage a sport business using one of the most sophisticated computer business simulations in the world. Our goals are fact-based decision making, teamwork and shareholder value.


Competency-Based Selection (2 days)

- Build the competencies of our Line Managers to assess and select the best person for each and every job at Nike. Building a winning team is essential to be competitive and we take this challenge seriously.

Diversity Workshop (3 days)

- The world is complex and diverse. We want to prepare our leaders to have the skills and understanding to manage the complexities of being a global U.S.-based company.




	SUBJECT: COMPENSATION AND BENEFITS	since 1994
	<p>CHALLENGE: Continue to attract and retain global talent.</p> <p>ACTION: Take advantage of the fact that we are a broadbanded organizational structure and provide competitive compensation and benefits. We call it Lifetrek.</p> <p>OUR GOAL: Provide total rewards. Remain on the leading edge. Give employees flexibility and choice.</p> <p>G.R.I. CATEGORY: 6. Investment; Social Performance: Workplace</p>	

Nike offers the staples of any good benefits package. Those staples include: Competitive base salaries; Cash bonuses; A 401k plan; Profit sharing; Medical, dental and vision coverage; Health care and family care reimbursement accounts; Short-term and long-term disability; Employee, spouse, permanent partner, and child life insurance plans; Paid time off, holiday and sabbatical programs; Tuition assistance; Resource,

education & referral services on a wide range of lifestyle topics which include prenatal and child health, consumer information, home improvement referrals, moving/relocation, diet/nutrition, holistic medicine, etc. But what sets Nike apart, we believe, is a number of additional benefits centered around providing value, innovation and employee choice. In the U.S. benefits also include:

VALUE	INNOVATION	EMPLOYEE CHOICE
<ul style="list-style-type: none"> Nike has raised employee benefit rates only once between 1994 and 2001. Nike's subsidy towards an employee's cost of medical coverage is on average about 9% higher than market. The Nike subsidy towards dental coverage is 30% higher than at most other companies. If you are disabled, most other companies' short-term disability plans pay a benefit equal to 66%–80% of salary. The Nike plan pays 100% after 5 years of service. Nike employees contribute zero towards the cost of long-term disability coverage, whereas 60% of companies require employee contributions. Nike offers 100% subsidy on employee basic life insurance and partial subsidy towards additional life insurance coverage. Nike's life insurance coverage maximum of \$4 million is well above the \$2 million average of other companies. On family care reimbursement accounts Nike provides a 20%–30% match if total household income is <\$60,000 per year. Nike's mental health benefits allow for up to 40% more treatment visits per year than market average. 	<ul style="list-style-type: none"> Nike has provided domestic partner coverage, in virtually the entire Lifetrek program, since 1994. In 2000, Nike further expanded this by offering benefits coverage to the dependents of permanent partners. The Nike employer 401k match has no service requirement—each participant is fully vested from day one. In addition to only raising employee rates once since 1994, Nike also added a Prescriptions-by-Mail plan that gives employees a discount on prescriptions. Nike's time-off programs include sabbaticals. Nike's Work/Life benefits include a scholarship fund and an adoption assistance program. Nike's headquarters provides two benefits that are still rarities at most other employers — on-site day care and fitness centers. <p>ON THE HORIZON:</p> <ul style="list-style-type: none"> Oct. 2001: A discounted stock purchase plan allowing employees to purchase Nike stock at a 15% discount. Spring 2002: A long-term care plan providing employees the option to purchase long-term coverage at attractive group rates. 	<ul style="list-style-type: none"> Nike subsidizes benefit plan costs via "Trekcredits" provided to each eligible employee. Employees use these credits to select from an array of benefits and thereby personalize their selections to meet their needs. Options include 3 medical plans, 2 dental options, 2 options for obtaining prescription drugs, a vision option, basic and supplemental life, and other coverages. Most other 401k plans limit employees to a nominal number of fund investment choices. The Nike plan includes a brokerage window (PCRA) which gives participants the option of investing in almost 2000 mutual funds. While Nike matches employee 401k contributions in Nike stock, any participant can now choose to diversify some or all of the match into any of the plan's investment options.

 **QUALITY PARK**
Item# 63561

At Nike, being a responsible business means being part of our community. Since 1972, Nike and its employees and athletes have contributed cash, product, in-kind services, and volunteer time to a variety of community programs and non-profit organizations. For years, the central focus of Nike's community investment was empowering individuals to "Participate in the Lives of America's Youth." However, Nike's P.L.A.Y. Foundation was clearly U.S.-centric, something we were criticized for and are working to change.

This past year, we've revamped our efforts, aggressively creating a global community investment strategy reflecting the Nike spirit and culture. Through the newly-established Nike Foundation, we are targeting 3% of Nike's pre-tax earnings directly to communities — both in the United States and in countries around the world. The Nike Foundation supports young people. Nike has applied the best practices from the youth program field and lessons learned for past programs. To that end, Nike will concentrate its resources on youth development programs, designed by youth for youth. Today's young people are demanding a voice in decisions impacting their lives. That demand — to challenge the status quo — rings loud and clear at Nike.

In the U.S., the Nike Foundation's new signature program is Youth Action: On and Off the Field. This new program is a reflection of the growing body of national and international evidence that supports the premise that youth participation in the design of youth programming is essential. Their inclusion makes programs better, more relevant, enhances the appeal of the program for other young people, establishes ownership, and therefore success.

Nike seeks to inspire a new movement of youth who are actively engaged both on and off the field to:

- Promote democratic values of respect for diverse points of view, tolerance and fair play.
- Promote local problem solving, critical thinking and community development.
- Build relationships across ethical, religious, political and economic boundaries.

In Europe, our goal is to use sports as a catalyst for social cohesion. These programs are focused on disadvantaged youth. For example, we are running a joint initiative with the Roi Baudoin Foundation in Belgium and the Julian Welzijn Fonds in the Netherlands. We are also involved in other activities that give youth the opportunity to create change and design solutions to problems in their communities.

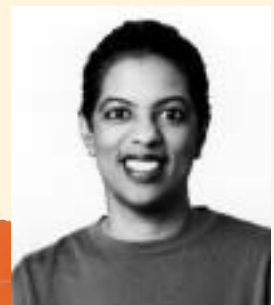
We are particularly proud of the number of unique, community-specific programs we sponsor in countries where we manufacture our product, especially in the **Asia Pacific** region. These are new programs, all begun in the last couple of years, but already we're seeing good results. Working with the Vietnamese Women's Union since 1997, Nike has extended microloans to more than 3,000 families for entrepreneurial, community-based ventures. Partnering with a strong, well-respected NGO, Nike's microcredit program in Indonesia has provided group loans, along with business training, to more than 2,000 people since 1999.

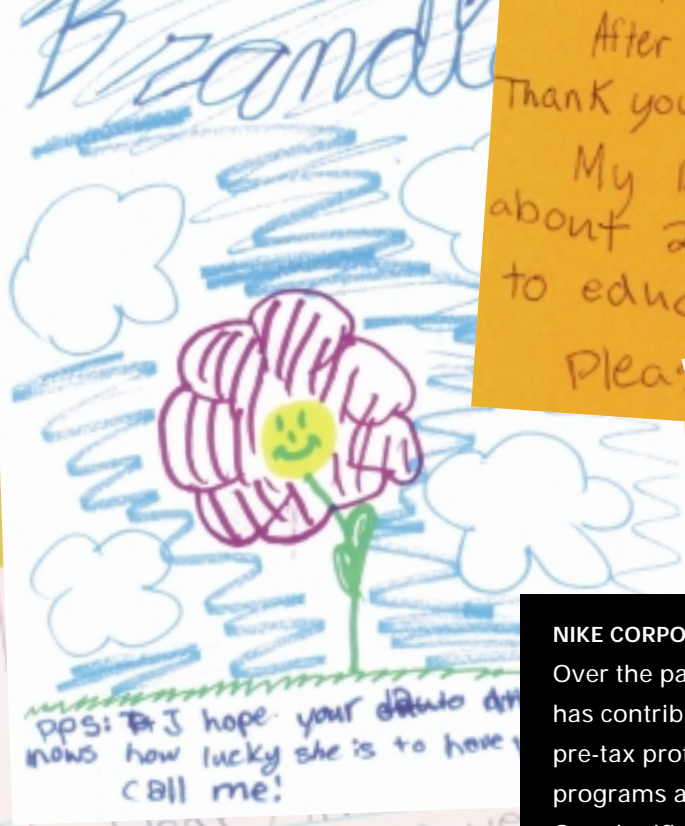
Finally, the Nike Village in Thailand, begun in 1999, combines progressive manufacturing with community development. This program encourages Nike contractors to set up satellite production facilities in rural areas to halt the migration into overcrowded Bangkok. Factories benefit with a stable, productive workforce, and people benefit by no longer leaving families behind to search for work in cities. The Nike Village hosts a community center, microloan programs, ecology and health education, and a women's advocacy group that provides business education and empowerment training.

We know our global responsibility should at least be as large as our global reach. That's something that we're continually working on. In the next few pages, we will show you a sampling of Nike's community investments on and off the field, including highlights of our employee and athlete community involvement efforts. For more information on the Nike Foundation and its guidelines, please check out our website on www.nikebiz.com. Take a look and tell us what you think.

Gina A. Warren

GINA A. WARREN
Director of Global Community Affairs





After you left I felt I could do anything.
Thank you for giving me magic.
My Dad started mailing me
about 2 years ago. I
to education
Please



NIKE CORPORATE GIVING

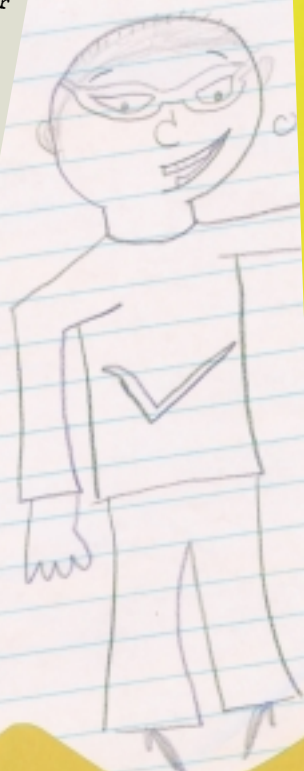
Over the past four years, Nike has contributed about 3% of pre-tax profits to community programs around the world. Our significant community partners have included: the Boys and Girls Clubs of America, National Headstart, 100 Black Men, Opportunity International and the YWCA.

FY'98-FY'01

Cash	\$51,330,000
Product (at retail)	\$57,540,000
Total	\$108,870,000

Thanks

"I would like to thank the staff for those three days of fun filled nontraditional activities."
"The program had a immense outcome on me to think and plan for the future. I would really like to extend my gratitude for the Nike Swoosh Leadership Camp book. Those first sixteen pages had an vast result on not only me, but the other members of my club. They would like to get some more knowledge from the book seeing how it had a huge outcome on me and the other members of the Nike Swoosh."
Thank you.




Your presentation was Super. We are most appreciative of your talents, & willingness to SHARE them.

It's great to see my kids light up with a giant "ah HA!" as they learn new ideas. I think you gave them many "ah ha's" & maybe some really will be star fish!!

Your suggestion that Doubt is the enemy of personal magic is very thought provoking.
My Shelby needed the extra magic — Thanks.

over



Our On the Field goal is to sponsor after-school sports programs that help educate, build self-esteem and provide young people with quality programs, equipment and facilities. More than 100 On the Field programs are in place around the world.





SUBJECT:

YOUTH ACTION: ON THE FIELD

since 1994

CHALLENGE: On the Field activities perceived by critics as Nike marketing.

ACTION: Institute strategic philanthropic programs, open our books to the public.

OUR GOAL: Assess current programs for impact, conduct gap analysis for underserved regions, determine success with people—not product-based indicators.

G.R.I. CATEGORY: 6. Community Development

Our On the Field goal is to sponsor after-school sports programs that help educate, build self-esteem and also provide young people with quality equipment and facilities. More than 100 On the Field programs are in place around the world. Below are a few examples.

LET US PLAY! GIRLS CAMPS

Jacksonville, FL; Pittsburgh, PA; Dallas, TX; Oakland, CA; Denver, CO; Charlotte, NC

Let Us Play! Girls Camps are a joint project between Nike and NFL Charities, hosted by college campuses. The goal of this annual 2–4 day camp, hosted by NFL franchises under contract with Nike, is to motivate young, socially and economically disadvantaged girls to recognize the lifelong benefits of connecting sports and education.

CHRIS HANI SPORTS COMPLEX

Johannesburg, South Africa

Nike funded the Chris Hani Sports Complex in Orange Farm Township near Soweto — due to apartheid, no recreational facilities existed in this community of 350,000 people. Nike pledged \$R2M to finance the sports complex — building the stadium, grass track, six soccer fields, two hockey fields, a rugby field, two tennis courts, four basketball courts, four netball courts and a clubhouse.

CAMP ROSENBAUM

Portland, OR

For 20 years, Nike, the Portland Housing Authority, and the Oregon National Guard have partnered to send children living in low-income housing to a week-long citizenship camp on the Oregon Coast. The Portland Police Bureau recently joined this partnership that enables more than 150 campers to enjoy the ocean, nights around a campfire, and care and guidance from dedicated volunteers each year.

SPORTS DAY OUT

Sydney, Australia

Partnering with Australia's Police Community Youth Clubs, Nike Australia hosts the annual Sports Day Out program, communicating that active lifestyles can positively affect young people's self confidence, dedication, and their ability to work on a team. Providing facilities and equipment, the first Sports Day Out held in October 1999 provided 140 young people the opportunity to try new sports and participate in competitive games.

CRAILO REFUGEE CENTER

European Headquarters, Hilversum, The Netherlands

Every month, 80 children between the ages of 6–12 are invited to spend an afternoon at Nike's European headquarters participating in sporting games and after-school programs. CRAILO is the largest refugee center in Europe.

NIKE SPORTS LEADERSHIP CAMPS

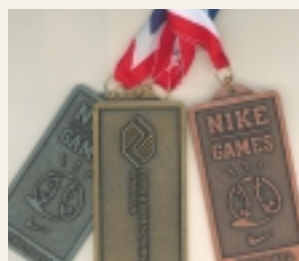
South Bend, IN; Portland, OR; Glenside, PA; Greenville, SC; Irving, TX; Mannheim, Germany

Nike partners with Boys & Girls Clubs of America each year to host two-day regional sports leadership camps on college campuses. The camps feature sports clinics, competition, sports-related career exploration and sessions on health and fitness.

ATLETICO BOCA JUNIORS

Buenos Aires, Argentina

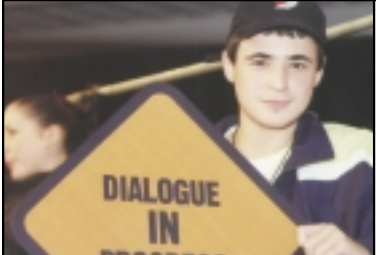
Quality sports gear and facilities are tough to find, especially in less affluent regions of Argentina. Nike donated equipment and sponsored sports training workshops in both school and community recreational facilities.



Youth participation is critical to designing young people's programs - they are more relevant, appealing, and because youth voices are heard, they're "owned." Nike knows we may be encouraging and supporting stances that challenge the status quo and stir emotions, but that's okay. Our Off the Field program pledges resources to give youth the tools and support they need to make a positive difference around the issues most important to them.

OUR VOICES, OUR FUTURE: A YOUTH SUMMIT



	SUBJECT: YOUTH ACTION: OFF THE FIELD	since 1999
	<p>CHALLENGE: Young people want input on decisions that affect them, but lack adequate forums to express themselves and be heard. How can Nike help?</p> <p>ACTION: Design programs that provide youth tools and support to make a positive difference around issues most important to them.</p> <p>OUR GOAL: Host youth forums and provide grants for youth to turn voice into action.</p> <p>G.R.I. CATEGORY: 6. Community Development</p>	

Oregon Public Broadcasting (OPB) was one of Nike's partners in the "Our Voices, Our Future" youth summit. OPB issued the following press release and created an hour-long documentary on the summit. The documentary was the highest rated show, in prime time, during the week it aired.



OREGON PUBLIC BROADCASTING

PORTLAND YOUTH SPEAK OUT ON EDUCATION NEWS RELEASE

Contact: Shannon Grosswiler (503) 244-9900 ext. 2098

It's the student's turn to speak out about their concerns with their schools, and it's our turn to listen.

On a rainy November morning about 250 teens randomly selected from Portland Public Schools descended on the Nike campus in Beaverton. For 12 hours, they had a voice—a powerful, determined, questioning, and sometimes frustrated, voice—asking for change. On Wednesday, January 5 at 8 pm, Oregon Public Broadcasting (OPB) will air a 60-minute documentary called OUR VOICES, OUR FUTURE: A YOUTH SUMMIT, that reveals an overwhelming sentiment from teens—the desire for someone to listen.

This isn't a made for TV event, this is TV covering an event. Cameras capture the excitement of the summit as well as the spontaneity of individuals in interviews done in hallways and on sidewalks. The dialogue that ensues is heartfelt, direct, and immediate. Teenagers speak in their own words about school funding, standardized testing and involvement from the community in the school system.

The students present their concerns to a panel of decision-makers hosted by Jack McGowan, executive director of Stop Oregon Litter and Vandalism (SOLV). The panel members include education funding and youth issue specialists such as Dr. Ben Canada, superintendent of Portland Public Schools; Ron Saxton, chairman, Portland Board of Education; Bill Sizemore, executive director, Oregon Taxpayers United; and State Senator Tom Hartung.

The summit gives students a chance to communicate their day-to-day frustrations of classrooms, inadequate facilities, fees for athletes and supplies, and the inability to have even a moment of their teacher's time. In the first segment, students break into small groups and talk about school funding issues. When reassembled into the large group, students pose questions about the lack of funding. Bill Sizemore answers: "We're making huge assumptions here, and that assumption is that schools need more money. We don't think schools need more money." Yet, when students respond, their comments tell a different story. Says one student, "For the first quarter of my U.S. History class, a lot of the kids didn't have books. Our library hasn't updated their books in six years or more." Another student asks, "Why are you spending so much on these tests? Have you been to Franklin High School? Our school bathroom? Our bathroom stalls don't even have doors. The place is falling apart."

The second session focuses on the testing requirements and community involvement in schools. Testing issues, such as the Certificate of Initial mastery (CIM) or the Certificate of Advanced Mastery (CAM) draws a lot of criticism from the teens. One student sums up her frustration: "We try to make the CIMs, then stress the benchmarks, then the SATs and the PSATs. I mean, there is so much stress you walk out with gray hairs and people ask what happened. 'Oh, I just went to school.'"

Back in the large group, the discussion moves to community involvement. Tony Hopson, founder of Self Enhancement Inc. (SEI), a summit sponsor, let the students know what their responsibilities are in this process. "We need the voice of young people. Part of the reason why we are here is to help young people understand the need to talk to adults. Don't let today be the last time you ask these questions. Let this be a test for you to continue talking about change."

The event was the result of a partnership between Self Enhancement Inc., Portland Public Schools, The Nike Foundation, the University of Texas at Austin Center for Deliberative Polling and Oregon Public Broadcasting.

Oregon Public Broadcasting is a statewide network of community-supported learning resources, including OPB Television, a member of the Public Broadcasting Service (PBS), and OPB Radio, presenting local news coverage and the programs of National Public Radio (NPR) and Public Radio International (PRI). The OPB Web site is www.opb.org.

	SUBJECT: EMPLOYEE INVOLVEMENT	since 1999
	CHALLENGE: Provide meaningful opportunities for involvement that inspire and capture the varied interests of a diverse work force. ACTION: Promote employee involvement globally, partner with Volunteer Match in the U.S. OUR GOAL: Develop system to facilitate and support employee giving and volunteering, equitably, around the world. G.R.I. CATEGORY: 6. Community Development	

Nike employees spend most of their day with their heads in their jobs. (We like that.) But many are also interested in volunteer activity. The employee who is not already connected with a cause can search our intranet for Volunteer Match, a non-profit organization with a comprehensive database of volunteer opportunities throughout the United States. Our goal is to develop a global system to track and celebrate how Nike employees are involved in communities everywhere. In Memphis, Tennessee, for example, virtually all employees volunteer, so tracking is a task.

In the U.S., the company contributes \$10 for every hour of time an employee spends doing volunteer work — and matches up to \$5,000 of employee donations to non-profit organizations. Employees around the world participated in activities to celebrate Earth Day in April — cleaning up beaches, community facilities, and planting trees in various communities. Here are some examples:

UNITED STATES

- Two-time WNBA MVP and Nike athlete Cynthia Cooper led 900 U.S. employees in 3,600 hours of volunteer service to 45 nonprofit agencies in Portland, Oregon, and Memphis, Tennessee. At Nike's U.S. Community Involvement Day, employees worked with teams from area social service agencies repairing playgrounds, collecting, sorting, and preparing food, painting shelters and reading to children.
- Nike co-founder Bill Bowerman's strong mentoring and coaching tradition continues through Nike's Coach-A-Kid. This one-on-one coaching program is co-sponsored with Portland's Inner City Steppers, Hillsboro Boys and Girls Club, the Special Olympics, and the Beaverton Police Activities League.

EUROPE

- Each month, 80 children from the Crailo Asylum seekers center in Holland, spend an afternoon at Nike's European Headquarters. Nike volunteers facilitate the sports-based activities for the children — the center has no real sports facilities, and the children seldom get out into the local community, so it's an opportunity for them to interact with others.
- Meanwhile, Niketown employees in London and Berlin, with the help of local not-for-profit organizations, also run regular volunteer events ranging from parties at Niketown Berlin for Special Olympic athletes, to sports-based mentoring with young people in London. Employees are encouraged to volunteer, and both the Niketowns have received recognition from the British and German governments.
- Meanwhile, employees at our European Distribution Center in Laakdal, Belgium, are also dedicated volunteers: they recently held a fundraising event for the India earthquake, and regularly provide donations to local orphanages, as well as taking the young people from the orphanages to fun sporting events.

ASIA

- Nike Indonesia recently held a donation drive for an orphanage that houses 70 children. Employees donated clothes, household items and toys, and 50 pair of shoes.
- Taiwan earthquake relief effort — for full details see nikebiz.com.

THE AMERICAS

- Nike Mexico gathered food for Banco Diocesano de Alimentos Guadalajara A.C. an agency which coordinates distribution of food to non-profit agencies whose focus is on children, elderly and rehab patients in poverty-stricken communities.



NIKE VILLAGE

In a small village in northeast Thailand, Nike and factory partners are testing an integrated program where all aspects of corporate responsibility come into play—a workplace manufacturing components for Nike shoes, environmental programs around that workplace and the surrounding countryside, and community affairs programs including microloans.



Water tanks for vegetable bank at Bu village



Population Development Association project officers meet with one of the women's groups



Sports day in the community



Stitching center



School students raise chickens onsite. The eggs are used for lunches and some are sold to provide income for the school.



Vegetable Bank growing chemical-free vegetables for the village.



One of the microloan recipients who used the money to raise ducks.



Lunch area where workers often meet family members for lunch.



Microloan recipient and her mobile noodle stand

A few years ago we did not look beyond our corporate walls for much input on anything we were doing in the area of corporate responsibility. Although we have a team-oriented culture within the company, we were fiercely competitive externally, and the Just Do It culture didn't lend itself naturally to dialogue, sharing ideas and consensus building. Input into business decisions was limited almost exclusively to those stakeholders with whom we had some type of financial relationship — employees, consumers, retailers, suppliers, investors and recipients of corporate giving.

We've learned the hard way that our view of the world was not as informed as it should have been. In the last few years we have had dialogue with the vast range of stakeholders in civil society.

If anything, the pendulum has swung too much the other way, connecting with over 100 external non-profit stakeholder groups, including environmental organizations, human rights groups, students, colleges, trade unions, socially responsible investor groups, government, academia and consumers. Engagement ranges from information and dialogue to collaborative projects and multi-year programs.

There are too few hours in the day to do justice to all these relationships without a more formalized approach to stakeholder engagement, which we are just starting to explore. As a starting point

we are using a framework evolved by SustainAbility Ltd., which is helping us to consider the type and level of engagement that is needed in order to satisfy multiple and diverse needs. Common to all levels of relationships, however, there are some fundamental principles that we believe in:

1. Engagement, even that which may begin in conflict, should be mutually beneficial. Many of the issues around corporate citizenship are extremely complex and there is much to be learned by all the players.
2. We seek common ground and look for ways in which creative solutions can arise out of conflict.
3. A relationship should lead to real value both for the business and the stakeholder.

Although there are a large number of stakeholders and stakeholder forums in which we are engaged, four hold particular promise. Though their areas of focus are in some ways quite different, they share one thing in common: at the same table sit an assortment of organizations that can provide us with a diversity of feedback and advice, and programs of action to help make our corporate responsibility activities and investment meaningful.

Among these organizations or forums are:

The Coalition for Environmentally Responsible Economies (CERES), a program of 10 environmental principles to which Nike was accepted as an endorsee in late 2000. We believe this step brings us into positive engagement with a broad and highly credible forum, whose board includes Trillium Asset Management, the AFL-CIO and the Interfaith Center on Corporate Responsibility. Other companies endorsing the CERES principles include Coca-Cola, Sunoco, General Motors, Polaroid and American Airlines.

The Global Compact is a stakeholder process initiated by UN Secretary General Kofi Annan, who called on

businesses to endorse a set of global principles on responsible behavior, drawing from universally-recognized standards in the areas of human rights, labor rights and environmental principles. In the process,

he made it possible for business, the NGO community and trade unions to have a common table for both dialog and action. Nike endorsed the Global Compact, alongside BP Amoco, Rio Tinto, Manpower, the Prince of Wales Business Leaders Forum, Amnesty International, the World Wildlife Fund, Conservation International, the International Confederation of Free Trade Unions, Business for Social Responsibility and four dozen other businesses and organizations. It is one organization that holds out the promise of global dialog between major players in all three sectors, and on all three issues, and the Global Compact operates under the moral authority of the UN.

Phil Knight called upon Global Compact endorsers to move toward a worldwide system of accepted social accounting principles... not a particularly popular concept in the business community.



To be effective, the Global Compact will have to move beyond dialog and transparency to action on the ground. One area of our greatest interest was expressed by Phil Knight in his remarks to Global Compact endorsers at the inaugural meeting at the UN in July 2000. In that session, he called upon endorsers to move toward a worldwide system of accepted social accountability principles, and a system of monitoring company performance against those principles. Although not a particularly popular concept in the business community, it is on this sort of ground that the Global Compact could have lasting impact.

The Fair Labor Association is a monitoring coalition of apparel and footwear companies, NGOs and human and labor rights organizations that was born out of a concern for sweatshop practices during the Clinton Administration. The FLA was first established as the Apparel Industry Partnership in 1996, and Nike was a founding member. For four years, the AIP struggled to develop a Code of Conduct, monitoring protocols, an accreditation process for monitors, and an operational and staffing plan that led to the establishment of the

FLA. In early 2001 Nike was accepted by the FLA board as a participating company alongside others in the industry including Liz Claiborne, Phillips Van Heusen and Levi Strauss. Other organizations affiliated with the FLA and represented on its board include the Lawyers Committee for Human Rights, the International Labor Rights Fund, the Robert F. Kennedy Memorial Center for Human Rights, the National Consumers League, and Business for Social Responsibility. More than 100 colleges and universities also are participating members of the FLA.

The goal of the FLA is to oversee the independent monitoring of factories producing for member companies, using a rigorous monitoring protocol, and requiring that the monitoring involve local NGOs. The FLA also requires and will monitor the quality of Nike's internal oversight process, and will report publicly on the ability of each member company to effectively monitor and correct violations of the Code. Nike will have at least 10% of its factory base monitored under the FLA each year for the first three years.

**WEBSITES OF ORGANIZATIONS REFERRED TO IN THIS REPORT
OR ON NIKE.COM ***

100blackmen.org	naaee.org
accountability.org.uk	natlconsumersleague.org
amnesty.org	naturalstep.org
BGCA.org	new-academy.ac.uk
biomimicry.net	nike.com
bsr.org	nikebiz.com
ceres.org	nikeworkers.org
certifiedwood.org	nmgf.org
citizenparty.org	opb.org
cleanclothes.org	opportunity.org
coastalrainforest.org	ortns.org
cof.org	oxfam.org
conservation.org	partnership/report.htm
delta.com	polarislearning@msn.com
dol.gov/dol/esa/public/nosweat/	polymergroupinc.com
ebnsc.org	pps.k12.or.us
epa.gov/climatewise	pwglobal.com
erm.com	rfkmemorial.org
fairlabor.org	rmi.org
gaia.org/lists/ecobalance	savethechildren.org
globalexchange.org	scus.org
greenpeace.org	seedsys.com
hapdx.com	selfenhancement.org
icftu.org	sol-ne.org
iisd.org	solv.org
ilo.org	sustainability.co.uk
internationalosos.com	teleport.com/~police/
intrescom.org	theglobalalliance.org
itglwf.org	thinksmart.com
kathleenwood@compuserve.com	tnc.org
laborrights.org	unglobalcompact.org
lchr.org	uscib.org
lgc.org/wri	wfsgi.org
mbdc.com	worldvision.org
mcdonough.com	workersrights.org
mil.state.or.us	worldwildlife.org

THE EXTERNAL CONSULTATIVE COMMITTEE

Many people have given us guidance and suggestions as we have worked to put together this report. Although they do not as a group or individually agree with all of what we have done here, four people in particular have been especially helpful and have acted as an ad hoc Consultative Committee. ** They are:

John Elkington, Chairman, SustainAbility (UK)

Reynold Levy, President and CEO, International Rescue Committee (US)

Christine Loh, CEO, Civic Exchange (Hong Kong)

Simon Zadek, Acting CEO, Institute of Social and Ethical Accountability (UK)

**The committee has not approved the report and is not responsible for the accuracy or completeness of its contents. Institutional affiliation is for identification purposes only.
