4
Considered Design and the Environment

Key Targets by FY11:

- **All Nike footwear will meet or exceed standards set in our sustainability index.**
- **All Nike brand facilities and business travel will be climate neutral.**
- **Seventeen percent reduction in footwear waste.**
- **Thirty percent reduction in packaging and point of purchase waste.**

In our FY04 report we shared our thinking and our company-wide drive toward incorporating environmental sustainability into our business practices and our product design. We said that based on our footprint across our entire supply chain we saw a number of key focus areas for Nike:

1 Reduce waste generated across our entire supply chain.

2 Reduce our CO2 emissions.

3 Use chemistry and design innovation to eliminate toxins and waste.

4 Design ourselves into an ultimate, aspirational goal of creating closed-loop products and business models (products that can be reused or recycled).

Nike creates approximately 50,000 product styles each year. Although our business strategy includes producing fewer product styles, our volume and sales are projected to grow. That level of production traditionally creates a great deal of waste and requires a considerable amount of chemistry throughout the life cycle of products – from design through manufacturing and shipping to the consumer and on to the landfill or second-hand market.

We see three choices:

1 Continue with business as usual, ignoring the impact.

2 Address waste and impact of chemistry where we see them occur.

3 Influence the beginning of the process.

The first is not an option. The second will only produce incremental improvements. The final choice is where we see real potential for impact and system change.

Gathering and reporting data in this area helps us understand better the impacts of our business. It helps us understand the links between our core processes and end products and the steps between that deliver opportunity for real innovation in eliminating waste, changing the chemicals used in products and, in some cases, challenging notions of the need for chemicals at all.

Sometimes the results are easy to come by, as we found in creating a use for scrap footwear material in Nike Grind which has gone on to resurface 210 playing fields. Other times we know the result we're aiming for, but finding a feasible solution that doesn't compromise on performance can take years of trial and error and significant resources with many missteps along the way. That was our experience when we fully eliminated F-gases across all Nike products in 2006 after 14 years.

Both examples demonstrate more than the value of eliminating waste. They show how tackling problems can result in tangible business benefits. These innovations came from asking tough questions and committing resources to solving problems.

As we've worked through the transition period of FY05-06, we've reached a number of significant milestones that lay the foundation for achieving our overall targets.

Better design for a better world

One of our biggest accomplishments has been the measurement of Nike's waste footprint and the broader footprint of our entire supply chain. We can now create a baseline against which we can establish targets and begin to measure the real impact. We can now define what success looks like.

Our approach to improve product sustainability by focusing on design has evolved. Part of that evolution was the development of our key design ethos, with goals to fuel constant improvements in our design and production processes that lessen our impact on the environment and society, using sustainability as a source of innovation and a way to inspire new thinking and deliver tangible results. This cuts across our entire business, encompassing what we do and how we do it, touching nearly every department and staff member.

We call this our Considered Design, inspired by a line of products bearing the same name that we launched in the spring of 2005 incorporating principles of both premium design and environmental sustainability.

Embedding the sustainable approach is a significant step. We pulled together a Considered innovation team to provide the inspiration and tools to drive the design philosophy deep into our product categories. The team is made up of chemists, biologists, material specialists and designers with the mission to go beyond incremental change and design Nike into a future state. While this work is still in early stages, we see enormous opportunity for innovation that can benefit our business and society.

Design for innovation

In its place at the beginning of the supply chain, the design function offers tremendous opportunity to design out issues and design in innovation. When problems are solved at the design stage you begin to solve them for the whole supply chain. For Nike designers, that means they are constantly challenging themselves to design products that improve athlete performance, whether for an Olympic gold medalist or the casual Sunday morning runner.

Now, in addition to innovation in performance and aesthetic, Nike challenges its designers to create product that also delivers sustainable design.

When creating product we consider both traditional criteria — performance, price and aesthetics — as well as the environmental impact of our decisions, including product concept, manufacturing, material sourcing and packaging. We focus on waste, chemistry and materials to develop new products or improve the way we make products.

We have adopted sustainable design guidelines, trained footwear designers and reviewed the application of those principles in quarterly meetings alongside traditional criteria. Together, through these steps, we have put responsibility for sustainability in the hands of designers who are intimately connected with the product from its inception.

Nike's debut of a sustainable product line – the Considered line – targeted the leading-edge consumer. The hallmark of this design philosophy is the Considered Boot: a single shoe lace woven between the leather parts of the upper conforms to the size and shape of the foot; stitching secures the upper to the sole, eliminating adhesives and providing both environmental and performance benefits; and cross-stitching across the external seams gives robust structural support to the shape of the shoe. The Considered Boot was recognized with the 2005 Industrial Designer's Society of America's Gold Industrial Design Excellence Award. We have developed and will continue releasing sustainable products through the Fall and Holiday 2007 seasons, including a line of backpacks and messenger bags and a new range of outdoor footwear and apparel that incorporate both environmentally preferred materials and fully sustainable design elements.

But our goal is not to deliver a few, niche product lines. Our goal is to embed the considered design across all product lines. By FY11, we anticipate all Nike-branded footwear will meet our threshold standards. By FY20, we anticipate all Nike-branded products will meet these threshold standards. We also expect to continuously raise the bar on the standards, continuously pushing ourselves to innovate more.

As we focus on design and its impact on product and waste, we continue to gain insights and feedback from consumers, including their evolving attitudes toward sustainability and purchasing habits.

Premium re-defined

In FY04 we saw few signals that sustainability would alter consumer attitudes or purchasing behavior. Today, we see change. Retailers have a strong interest in helping to tell the Nike story around sustainable design and we are focused on giving consumers and interested stakeholders greater information. This information includes both the attributes and the challenges of product, including its environmental, labor and community footprint. We are building information systems and web-based tools to capture accurate, real-time information that will help us with this dialogue.

We believe sustainability will become mainstream by demonstrating success and growth for Nike and beyond. As sustainability becomes a differentiator for brands and a source of competitive advantage, we think it is crucial that the consumer has accurate, complete information on not just the delivery of "green" products, but the extent to which the company is committed to greening its entire supply chain.

A great product would be one that doesn't produce waste at any stage of its lifecycle. That holy-grail product would serve its useful purpose to consumers, delivering a top-performing product that produced no waste in its development and results in no waste at the end of its useful life. That product does not exist today. But that doesn't stop us from tackling waste and use of chemicals from the start and putting our innovation skills to use.

FY05-06 Performance:

In its role at the beginning of the supply chain, the design function offers tremendous opportunity to design out issues and design in innovation.

Summary of Goals and Results: Environment

We measure success by looking at the results of the programs we've invested in to incorporate sustainable materials into product design and to eliminate waste and toxins.

GOAL (FY04 Corporate Responsibility Report)	FY05-06 STATUS / NEW GOAL	FY07-11 PLAN
Sustainable materials Incorporate a minimum of 5 percent organic cotton in all cotton materials by 2010.	Progress on goal. Through FY06, 52 percent of all cotton-containing garments contain a minimum of 5 percent organic cotton.	Continue progress against stated goal.
Increase use of environmentally preferred rubber to 60 percent of all rubber used.	Used environmentally preferred rubber in more than 50 percent all footwear in FY06.	Continue to develop additional environmentally preferred materials and increase their use (including rubber).
Chemistry Evaluate our business processes in FY06 and develop a workable tracking method (for ink systems in apparel factories) to minimize polyvinyl chloride (PVC) usage.	No significant movement toward this objective during FY05-06. This is still cost prohibitive in some apparel applications and in others no reasonable alternative has been presented.	Work with ink suppliers and printers in our supply base to determine whether and how we can reduce/eliminate all PVC use.
Waste Continue to drive waste-elimination efforts.	Conducted comprehensive waste mapping exercise in FY06. Results helped us to identify our largest waste streams and further develop our waste elimination goals.	Complete the waste strategy based on mapping and begin implementing strategy. Prioritize waste elimination targets.
Water Develop a strategy on our environmental footprint with respect to water.	Maintained program and experienced improvements in results. In FY05-06 we expanded the number of suppliers covered in the apparel program to 282.	Continue to work with our supply chain to minimize the impact of water use for production of our products.
Climate change Offer nitrogen Nike Air cushioning solutions across the whole of our product ranges by June 30, 2006.	Eliminated all SF6/PFP by June 2006. Climate change-neutral nitrogen is now used in all Nike Air products.	Goal achieved. New goals set.
Business processes Integrate sustainable design thinking into the business.	Established the sustainable product innovation team and began educating designers on sustainable design guidelines in FY05-06.	Finalize corporate-wide targets for sustainable design. Implement new education tools and processes.
Packaging Develop a strategy to address both packaging efficiency and reduction.	Assessed our packaging footprint as part of a company-wide waste mapping exercise in FY06.	Complete the packaging strategy plan and begin implementing it.

Issue Breakdown: Materials

As part of the production of our products, we face a number of challenges, ranging from use of materials to handling waste. For each, we have developed and applied an appropriate approach and continue to seek ways to limit use of materials and handle them safely and, where possible, eliminate their use throughout production.

Sustainable materials

Expanding our use of environmentally preferred materials as new technologies become commercially viable will allow us to integrate these materials into our products. These materials have added environmental benefits that do not compromise the aesthetic, quality and performance that our consumers expect from Nike products. This allows us to leverage our purchase volumes with our suppliers, making environmentally preferred material options more cost effective. It also encourages our suppliers to develop more sustainable materials since they know there will be a market.

Recycled polyester

Recycled polyester is a fiber derived from reprocessed, post-industrial and/or post-consumer polyester waste materials such as plastic bottles, consumer textile products, uniforms and textile scraps. We have begun using recycled polyester in many of products in our All Conditions Gear outdoor line as well as various active apparel items.

Leather

Nike is the one of the world's largest users of white leather. Waste from cutting leather constitutes one of our largest footwear solid waste streams. Recognizing our impact in the athletic footwear industry, we collaborated with tanners and other footwear brands and retailers to found the Leather Working Group (LWG) in 2006. The LWG developed a protocol to assess the environmental compliance and stewardship practices of leather tanneries, and to promote best practices in the industry. By assessing tanners against this protocol, we will be able to identify those that meet our threshold for environmentally preferred leather suppliers. The protocol was peer reviewed in 2006 and will be launched in FY07. The LWG is facilitated by BLC Leather Tech.

Issue Breakdown: Materials

Organic cotton

Nike's long-term goal for organic cotton is for every cotton-containing apparel product to contain at least 5 percent organic cotton by 2011. We are currently on track to achieve this ambitious goal. Fifty-two percent of our cotton-containing products produced in FY06 contained a minimum of 5 percent organic cotton.

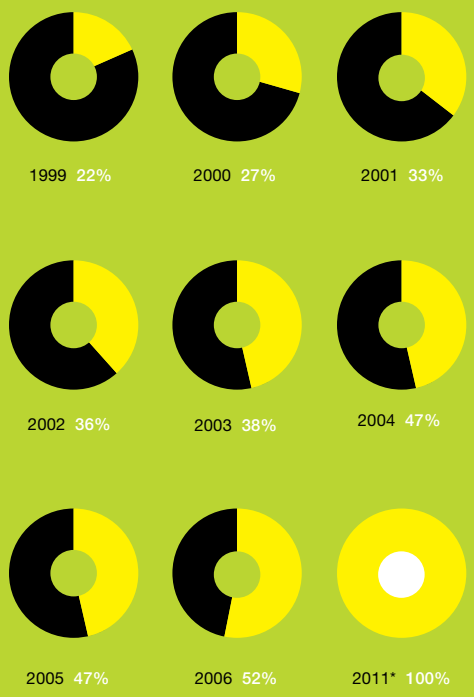
Other materials

Polyvinyl chloride (PVC)

Known as vinyl, PVC has become ubiquitous in the past 50 years, used in everything from packaging to flooring, toys, pipes, medical supplies, cars and sports equipment. Durable and inexpensive to make, PVC was the plastic of choice until recently. Over the last several years, PVC has received considerable attention because of a range of environmental issues related to its manufacturing and disposal.

In the late 1990s, we – controversially at the time – announced our policy to remove PVC from our product lines. Removing PVC has required great cooperation in our supply chain and discipline from our design and production teams. Nike has made real progress in this aim. Virtually all of Nike-branded product is now PVC free. At the end of FY06, a few remaining product types still use PVC with performance, difficulty of use and price being the primary obstacles in the implementation of suitable alternatives. We continue to work our supply chain and with ink suppliers and printers to find and implement attractive and durable alternatives to PVC.

Chart 23
Organic Cotton Use
Garments Containing a Minimum of 5% Organic Cotton
Percentage of total cotton garment volume



***FY11 Target:** 100%
Source: Nike Data Management System

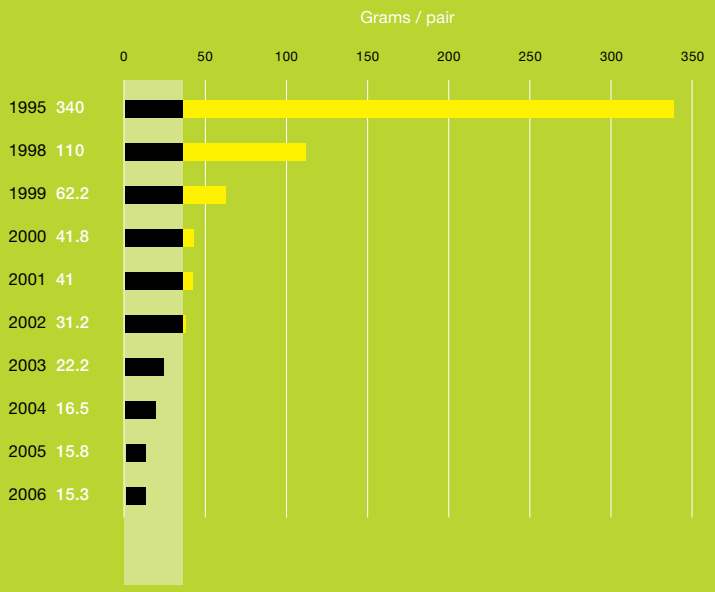
Issue Breakdown: VOCs

Volatile organic compounds reduction.

In our FY04 report, we discussed our long-term effort to reduce volatile organic compounds (VOCs). Use of petroleum-derived solvents in manufacturing creates a potential negative impact on worker conditions and often requires the use of expensive and uncomfortable personal protective equipment (PPE). The release of VOCs also has an undesirable environmental impact.

VOCs are a byproduct of manufacturing processes, not our products. Therefore, as we continue to move upstream in tackling these issues to design, we are hopeful that our efforts will enable further VOC reductions. As illustrated in the chart below, we continue to reduce VOC usage across the business, from an average of 340 grams per pair of shoes in 1995 to 15.3 grams per pair — a 95 percent reduction overall — through FY06. Through this effort we also have helped to promote safer environmental practice as an industry standard for footwear manufacturing. Looking forward, we are working with equipment manufacturers to reduce VOCs further. Again, we believe this aim will be more successful with a multi-brand approach.

Chart 24
Volatile Organic Compounds (VOCs) Solvent Usage



Baseline in 1995 Estimated from Chemical Usage Records
1995 goal to reach 90% reduction achieved in 2002.
Source: Self-reported data from contract factories

Issue Breakdown: Chemistry

Environmentally preferred chemistry

Our product sustainability efforts are an example of upstream focus: striving to eliminate or minimize toxins through healthier chemistry, tackling the issue at the source and using innovation rather than solely relying on compliance where the issue is manifested.

Linking product chemistry to the findings of our field-based environmental, safety and health (ESH) teams is designed to systematically reduce the use of toxic chemicals in the manufacturing process.

In addition to the work that intersects with environment, safety and health, we are also evaluating chemicals and material platforms as a way to develop additional environmentally preferred materials. Our systematic evaluation is based on both defining the hazards of chemicals and evaluating the risk posed by those chemicals. This process allows us to prioritize the chemicals for elimination or substituion. We will work closely with chemical suppliers as we evaluate our material platforms.

Environmentally preferred rubber

Rubber that we use to make the outsoles of various footwear products creates another significant material waste stream. Beginning in 1988 we assessed the chemicals we used in rubber formulation against a core set of human health and environmental criteria. Using this protocol, by 2002, we integrated more benign accelerators and vegetable oils and modified the processing to create new, environmentally preferred rubber that contains 96 percent fewer toxins by weight than the original formulations. We expanded the work by creating a different formulation in 2005. We achieved this dramatic reduction without compromising performance or cost, which both compare to the old formulations.

We are working to establish a consortium of companies to develop other environmentally preferred material platforms. In our FY04 Report, we noted the use of environmentally preferred rubber in about 3 percent of our footwear models. We projected that within a year we would use the new formulation in about 60 percent of our models. At the close of FY06, we had more than 50 percent of footwear models containing some of the improved rubber. Across the Nike brand, this change has allowed for the elimination of at least 3,000 metric tons of toxic materials every year.

Restricted substances

As we shared in FY04, and in an effort to guide our suppliers in the production of safe and legally compliant product, we have implemented a number of restricted substances lists. These lists detail substances restricted or prohibited in Nike-brand footwear, apparel and equipment. The lists are based on the most stringent worldwide legislation, with an eye on legislative trends and stakeholder concerns. In addition to the lists of substances, we also communicate test requirements and methods to our suppliers.

Through our restricted substances portfolio, we aim to educate suppliers that may not have detailed chemistry or legislative insight on how to protect consumers, workers, the environment and our brand, and to ensure the safe importation of Nike product to any market in the world.

Currently the following areas are covered by these lists:

- Finished product (RSL)
- Manufacturing (MRSL)
- Packaging (PRSL)
- Electronics (RoHS)

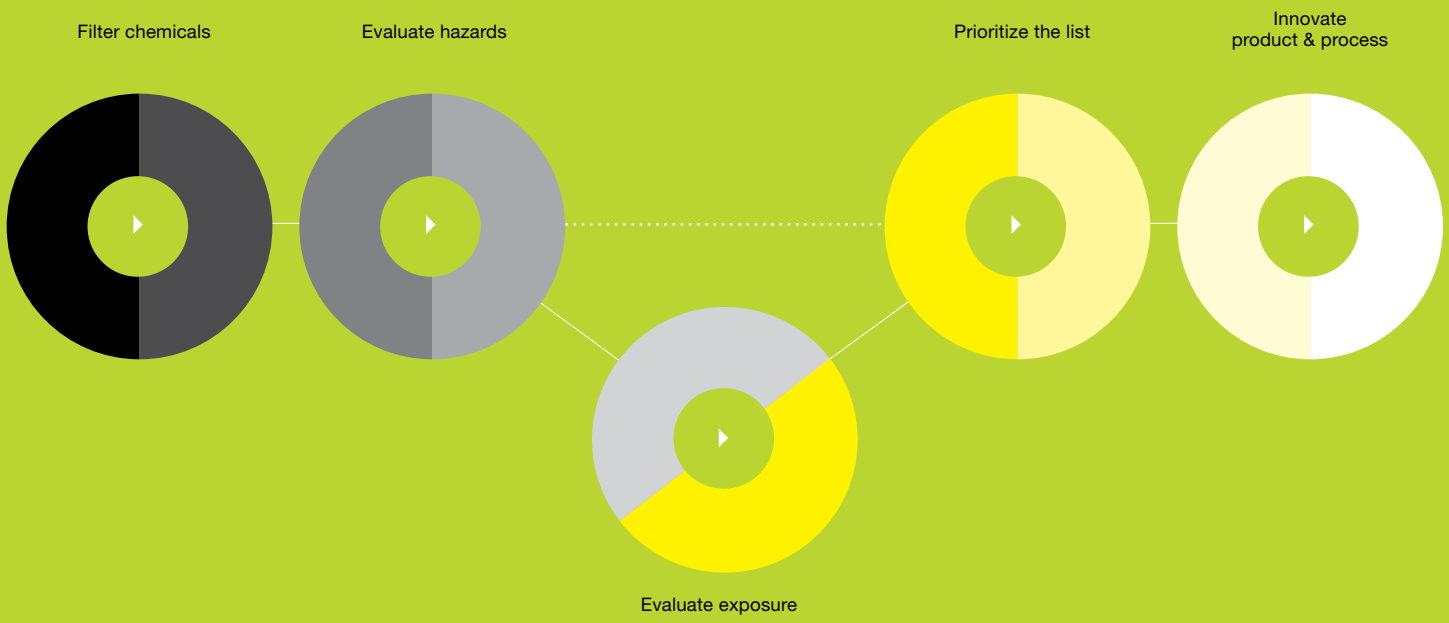
We routinely shares our lists with others in the industry and participants in industry working groups such as AFIRM (Apparel and Footwear International RSL Management) to help track restricted substances and to share best practices for avoiding non-compliant product. AFIRM also presents restricted substance list concerns to suppliers through joint training programs.

Issue Breakdown: Healthier Chemistry

The next phase of Nike's chemical and product stewardship involves a broader look at toxins. This phase takes Nike beyond regulatory compliance (RSL) and seeks to improve our products by proactively targeting, removing or replacing chemicals that, while not legislated, fit the scientific definition of a toxin.

This long-term project requires us to work closely with the scientific community, stakeholders, our supply chain and other wholesalers and retailers. We've taken voluntary steps beyond regulatory compliance in the past but what sets this effort apart is its comprehensive approach. Since our FY04 report, we have taken our healthier chemistry approach through peer review by a number of toxicologists in the E.U. and U.S. As a result, we have updated our toxic categories and have added exposure evaluation. We are currently working with industry experts, consultants and universities to create tools for our program that also may be useful to others with similar programs. As discussed above, evaluation of exposure allows us to prioritize chemicals for elimination or substitution.

Chart 25
Healthier Chemistry Approach



Issue Breakdown: Waste Elimination

Waste is created at every step of a supply chain. It's pervasive. Usually no one person, group or division in the company has a clear view of its quantity, its cost/value or its impact. In FY06, we undertook an exercise to understand the full impact of our physical waste across our entire company, the inevitable outcome of transforming raw materials into products and delivering those products to consumers.

We performed a waste mapping study by gathering information from more than 100 people from different areas of the business, where grassroots efforts were already being employed to reduce and recycle waste. We started by creating a broad, ambitious definition of waste as any product or material purchased anywhere in the supply chain that does not ultimately end up in the consumer's closet. This definition includes non-product waste (such as packaging), manufacturing waste (such as scrap material in contract factories) and product waste (such as samples). By reducing this waste, we believe we can considerably reduce our impact on the environment while realizing significant cost savings.

Some results from this study were especially startling. For example, we found that retail packaging contributed more waste than all of product manufacturing. In fact, nearly 75 percent of all waste came from parts of the supply chain outside of the factory. When measured by weight, we found that more than 40 percent of the materials and products that we buy met our broad definition of waste.

Product has four sources of waste:

- Marketing determines the amount of products we put into the marketplace.
- Design choices determine the type of waste that will be created and, to some extent, the amount of scrap waste generated by the contract factory that is manufacturing the product.
- Manufacturing inefficiencies add waste by not fully using materials.
- Marketplace demands for packaging and advertising materials that communicate about the product are destined to become waste from their inception.

Our focus on eliminating solid waste is two-fold:

Reduction: a long-term process that can reduce waste from any point in the supply chain, with return-on-investment analysis helping to pinpoint the areas we should prioritize. Every dollar spent reducing waste correlates directly to money saved by Nike and brings better value to our consumers.

Reuse/Recycling: improving waste management overall to decrease its ultimate environmental impact. Our goal is to first focus on creating innovative reuse and recycling options for the waste that currently goes to landfill or is otherwise disposed. Better options include recycling the materials back into other Nike products or their components, selling the materials into a commodity market or creating licensed markets to use waste materials in other non-Nike products.

Nike Principles on Managing Waste

• Manage business by reducing or eliminating waste.

• Deliver operational efficiencies by reducing our creation of waste throughout the supply chain.

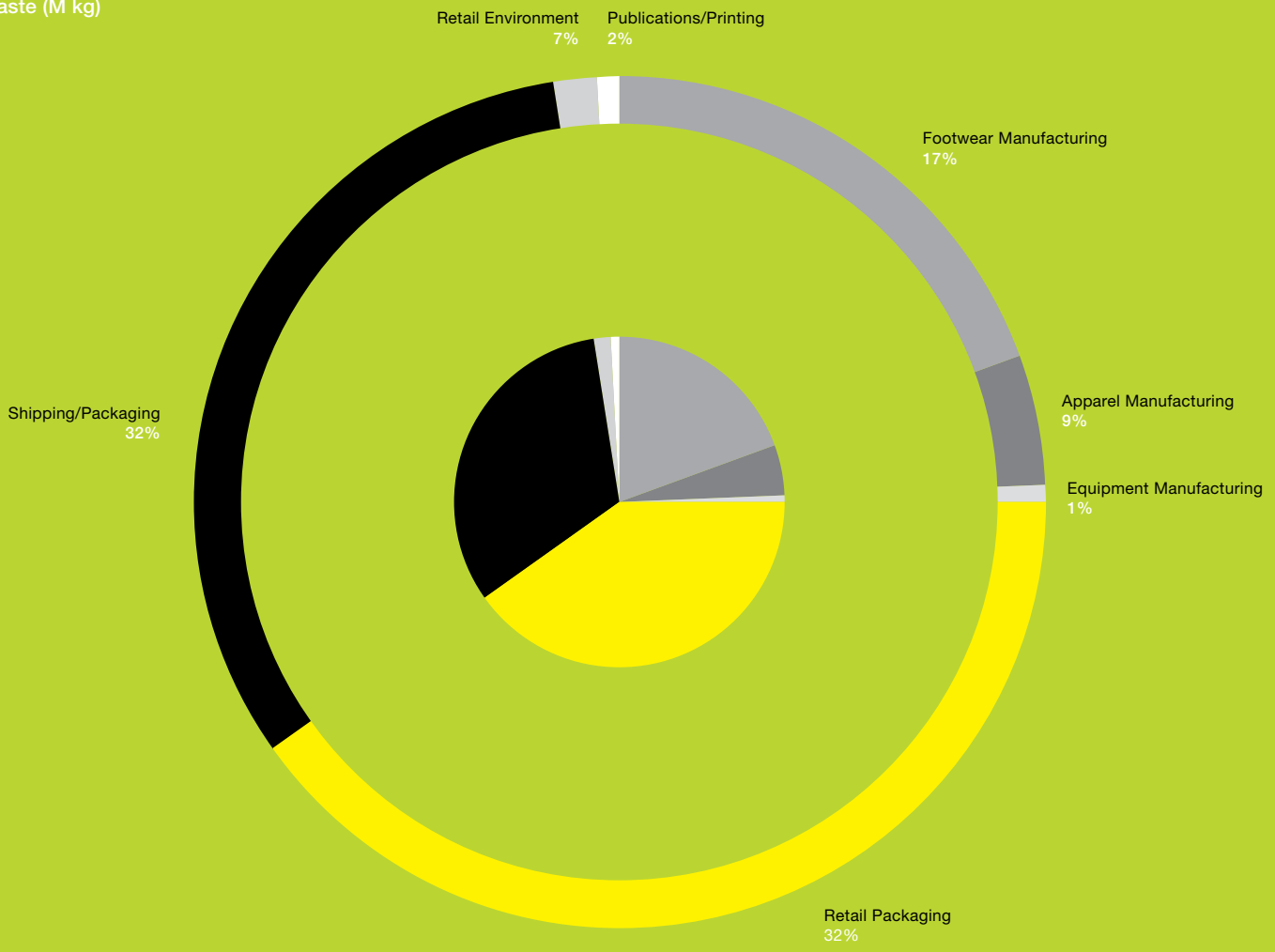
• Acting as a source of innovation by creating new products and partnerships where waste is reused, reduced or product is recycled.

• Support the brand by leveraging key opportunities both in product category and in new market segments to deliver sustainable and innovative product.

Issue Breakdown: Solid Waste

Our goal is to take the now company-wide view of waste and manage a strategy for reducing and recycling that can ultimately lead to economic savings, less wasteful and more efficient product, and new business enterprises. We have a tremendous opportunity to eliminate waste, and can address this by simplifying product designs, limiting materials, limiting needs for physical sample creation, employing digital methods for design and development, eliminating packaging waste, reusing tooling in the product creation process, editing product lines, and reducing product styles.

Chart 26
Solid Waste (M kg)



Footwear: Manufacturing represents product raw materials. Based on measured data. *See Chart 28 for more detail. **Apparel:** Manufacturing represents product raw materials. Based on factored data. **Equipment**: Manufacturing represents product raw materials. Based on factored data. **Packaging**: Includes retail and shipping materials. Based on factored data. **Point of Purchase:** Includes retail fixtures and promotional materials. Based on factored data. **Publications/Printing:** Includes catalogs and office paper. Based on measured data.

Measured data is waste that has been weighed. **Factored data** represents a waste sample being weighed and then scaled up based on production or procurement records.

Issue Breakdown:
Waste & Opportunity

Waste as a business opportunity

One way to improve waste recycling is to create new markets for what would otherwise be waste materials. We are creating a sustained business model that will recycle materials into new markets that previously would be incinerated or sent to landfill.

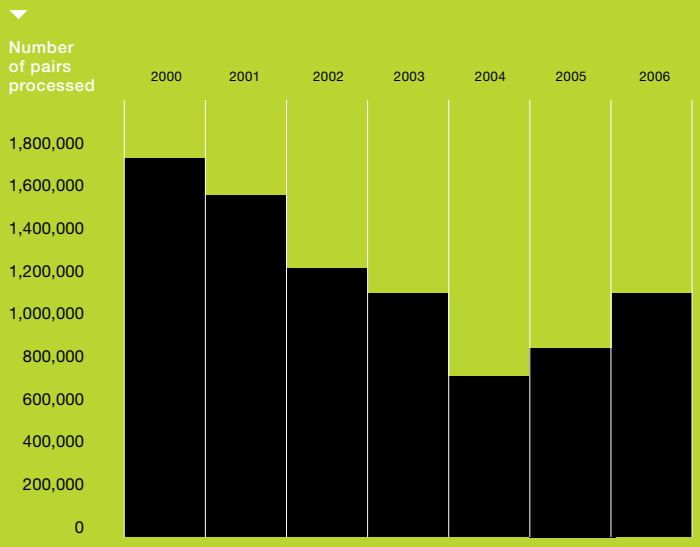
We are applying skills from across the company, including Nike's logistics expertise, to help the financial stability of these markets and are researching new applications for recycled materials.

In FY06 we established a business model to stabilize the market for granulated rubber from footwear manufacturing. The model resulted in more than 1.2 million kilograms of rubber going into useful products rather than the local market where we had no oversight of its ultimate use. In FY07, we are continuing to work with our suppliers.

Nike's Reuse-A-Shoe program is the company's primary mechanism for recovering product. Reuse-A-Shoe, established in 1993, recycles unusable athletic footwear material into Nike Grind material (made up of both post-consumer shoes collected as well as manufacturing scrap) used to create sport surfaces and other products, from running tracks to basketball courts.

Since the program began, we have processed more than 18 million pairs of used, counterfeit and defective shoes, helping to establish more than 210 sport surfaces in communities around the world. In FY06 we added a new recycling facility in Belgium. While unique in the footwear industry, today Reuse-A-Shoe barely scratches the surface of opportunity. The 18 million recycled shoes represents a small percentage of the shoes we have produced in the same period.

Chart 27
Footwear Recovered Product (Nike Reuse-A-Shoe)



Note
Pairs processed includes defective returns, counterfeits and post-consumer shoes. We have not collected the data in a segregated manner.
Source: Reuse-A-Shoe Production Summary Report

Issue Breakdown: Manufacturing

If you walked through a contract factory making Nike shoes in 1996, you would have noticed enormous piles of waste. At that time, for every pair of shoes made, the equivalent material for an additional shoe was thrown away. This was obviously not a sustainable process, both in terms of cost and in dealing with the excess material.

In 1996, we took the first steps to reduce this waste at the factory floor level by measuring it and increasing its visibility within the company. Our initial report led to ongoing monthly measurement of more than 40 waste materials from each contracted footwear factory. Since that time we have improved the accuracy and reliability of our measures and they continue to provide critical information that helps us reduce and manage the remaining waste streams.

Following from our early efforts to measure waste, we developed a Nike Environmental Engineering (E2) organization with people based in each of our six major production countries in Asia and a program director located in China to provide oversight and reporting for waste programs at each factory. Our E2 staff analyzed the most wasteful processes in making footwear and helped factories develop new processes and material formulations that reduce the amount of waste created. They also helped develop in-plant recycling efforts so that formerly wasted materials could be used in other components of the shoe. For example, the waste from making the cushioning foam (mid-sole) of the shoe is now reprocessed to make the foot bed (insole).

Because Asian footwear manufacturing countries had limited infrastructure to manage waste reliably, we saw an opportunity to help develop sound waste management systems. In 2000, we began developing waste management centers near clusters of factories that would provide efficiency and critical mass for recycling wastes that could not be reduced or reused in the factories. We helped create these centers as well as processes for the factories to supply waste to them.

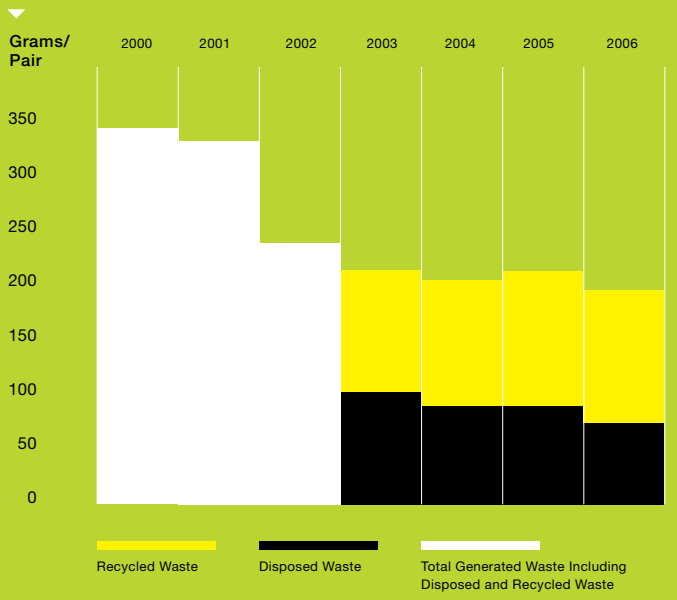
In FY06, five waste management centers were operating in four countries and served more than 85 percent of Nike-contracted footwear factories in Asia. These centers have helped create the infrastructure to manage recycled and reclaimed materials such as closed-loop materials, in which the original raw material vendor receives their waste materials from the shoe-making process and recycles them back into new materials for use in new Nike shoes. We have worked with seven vendors to create more than 50 closed-loop materials including heel counters, toe boxes, strobels and lining.

The Waste Management Centers also process materials that cannot be reused in footwear manufacturing but can be used in other products, for example rubber waste from outsole production is used in synthetic grass football and soccer fields. In some cases, the centers are involved in local recycling initiatives.

The chart below shows the combined result of these activities. We have worked with factories to reduce waste from manufacturing, based on weight per shoe, by 45 percent since 1998. Of the remaining waste, 5 percent more was diverted from landfill and incineration in FY06 compared to FY03.

Our next challenge is to further reduce the remaining wastes through both improved manufacturing practices and by creating innovative product designs in which waste reduction is one of the primary design considerations.

Chart 28
Total Footwear Solid Waste/Waste Management Methods



Note
We did not begin tracking the breakdown between recycled and disposed waste until FY03. Data includes footwear manufacturing raw materials and manufacturing process waste. FY00-02 data were estimated from the early attempts to create a reliable measurement system. The FY03-06 data presented has a higher level of confidence.
Source: Factory monthly self-reporting

Issue Breakdown: Supply Chain

Supply Chain

Nike, like most multinational corporations, has a complex supply chain geared to get product out on time and efficiently to thousands of retailers around the world. We work with global transport carriers and engage in constant dialogue with government, customs officials and industry bodies for the safe and timely transport of cargo from point A to point B. Product leaves factories and goes to distribution centers and is then sent out to retail sites.

Optimizing our logistics costs is a key priority. Process excellence across the supply chain has huge potential to minimize our impact on the environment (through reducing waste and energy use) as well as cost savings (energy costs, warehouse space, oil prices). We feel the impact of the increasing costs of oil and other natural resources, and see clearly the challenges that a carbon-constrained economy presents to the current operating model of most businesses.

Our U.S. supply chain team, for example, aspires to achieve zero waste. The team began reusing shipping cartons in distribution centers in 1999 and in FY06 reused about 14,000 cartons. It has also set aggressive goals to reduce its overall carbon footprint and is working closely with third-party logistics providers to find opportunities to optimize fuel consumption and accelerate the use of alternative fuels.

Issue Breakdown: Water

Water Quality

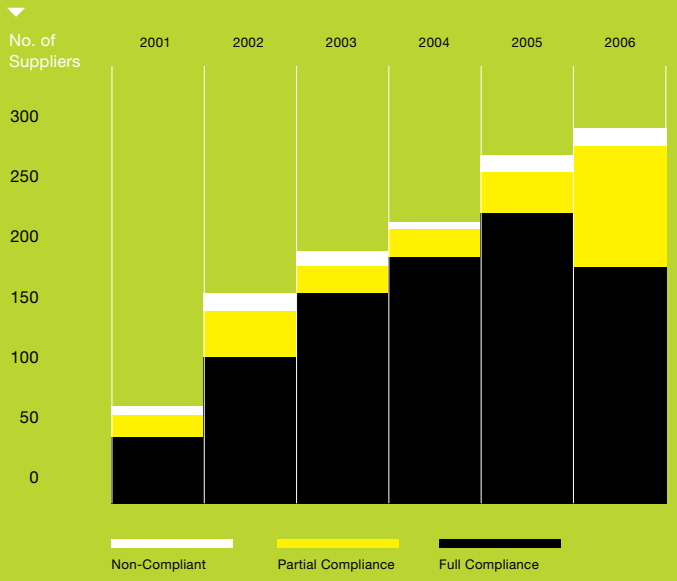
An estimated 20 gallons of water are used for every pound of textile produced. Use of this water and its discharge is the largest environmental impact of textile production. For these reasons, we direct vendors who supply to factories to comply with key criteria from our apparel water program. For FY05-06, this program was based upon guidelines developed through a working group managed by Business for Social Responsibility which set standards for pH, BOD, COD, TSS, color, foam and a number of metals. Nike's apparel water program directs them to meet the stricter of either their local or national regulations or Nike's program.

It is our understanding that we remain one of the few companies in the apparel industry to make this demand of its apparel vendors in addition to contracted factories. In doing so, our work – both directly and indirectly – positively impacts billions of gallons of apparel production waste water annually during dyeing and finishing, the sources of greatest impact. We encourage all brands to join us in this work. Together we can have greater leverage and impact on the industry.

As illustrated on the following page, the number of vendors participating in the program has grown from 258 to 282. The number of vendors in compliance with either their own local and national regulations or Nike's program also increased from 254 to 261.

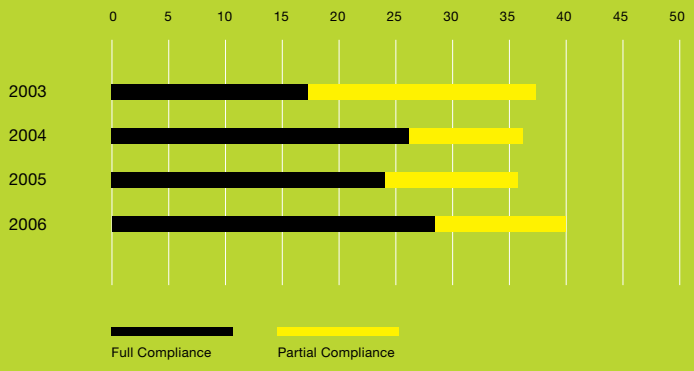
Consistent with the approach we shared in our FY04 report, we continue to monitor contracted footwear suppliers against local wastewater standards. Most water use at these facilities is for domestic purposes, and every footwear factory has an on-site wastewater treatment plant or is connected to a centralized wastewater treatment facility.

Chart 29
Apparel Tier 3 Compliance to Nike's Global Water Program



Note
Nike standards exceed or are compliant with local/national water quality, whichever is more stringent.
Non Compliance: Does not meet local wastewater discharge standards.
Partial Compliance: Does not meet all parameters for local wastewater discharge standards.
Full Compliance: Meets all parameters for local wastewater discharge standards.
Source: Wastewater samples submitted to Nike approved testing labs and reviewed by CH2M Hill

Chart 30
Number of Contract Footwear Factories Compliance Standards with Local Wastewater Standards



Note
Full Compliance: Meets all parameters for local wastewater discharge standards.
Partial Compliance: Does not meet all parameters for local wastewater discharge standards.Represents 95% of production.
Source: Data self-reported by factories.

Climate Change: Timeline

Climate change is one of the most important issues facing the world today and we understand and accept our responsibility to bring about change in our direct footprint - through owned facilities - as well as to influence our broader manufacturing footprint.

We began focusing on the issues surrounding global warming in 1995. Even at that early stage, scientific studies warranted attention and concern. In the years since, we have increasingly focused on the impact we have through our business and throughout our entire manufacturing footprint.

We believe climate change is a risk to our business and that creative approaches to tackling our footprint will enable our growth.

1988
The World Meteorological Organization and the United Nations Environment Program establish the Intergovernmental Panel on Climate Change.

1992
Nike first learns about the global warming potential of SF_6, a gas contained in air-sole cushioning units. Early research and development efforts begin to find replacement solutions for the gas.

1994
United Nations Framework Convention on Climate Change comes into effect. The framework formally recognizes the climate system as a shared resource whose stability can be affected by industrial and other emissions of carbon dioxide (CO_2) and other types of greenhouse gases (GHG).

1995
The IPCC's Second Climate Assessment is published, serving as the basis for negotiations on the Kyoto Protocol.

1995
The viable gas alternatives to SF_6 all present global warming potential; Nike begins work on a replacement encapsulating film for its air -sole cushioning units.

1997 (September)
Nike commits to fully phase SF_6 out of footwear and begins to transition some models to nitrogen.

1997 (December)
Kyoto Protocol adopted. Countries ratifying the Protocol make commitments to reduce emissions of CO_2 and five other GHGs, or to engage in emissions trading to offset GHG production if they maintained or increase emissions of these gases.

2001 (September)
The IPCC releases its Third Assessment, reaffirming that the global climate is changing in ways that cannot be accounted for by natural variability. Global mean temperatures continue to rise. The Assessment notes change in the composition of the planet's atmosphere in the prior three decades, the major cause being human action, primarily the use of fossil fuels.

2001 (October)
Nike joins World Wildlife Fund Climate Savers program as a founding partner and sets CO_2 emissions reduction targets for owned operations and business travel.

2003
Nike develops a baseline of its supply chain footprint, including inbound logistics and subcontracted manufacturing.

2005 (February)
The Kyoto Protocol begins. The United States, accounting for the world's highest global GHG emissions - 21.2 percent - refuses to ratify the Protocol, claiming it would put the U.S. economy at a competitive disadvantage. China and India, accounting for 18.5 and 4.1 percent of global GHG emissions, respectively, ratify the Protocol, but are not required to commit to GHG reductions.

2006 (June)
Nike completes phase out of all F-gases in Nike-branded footwear.

2006 (October)
Sir Nicholas Stern, Second Permanent Secretary of the British Treasury, releases the Stern Review of The Economics of Climate Change. Key findings include:

- The emissions intensity of economic activity needs to be at around one-quarter of current levels by mid-century, with total emissions at 20 percent of current levels before the end of the century.
- The cost of doing nothing could reach 20 percent of gross global product by mid- century, resulting in the worst economic depression in modern history.
- The cost of action to reduce GHG emissions and to stabilize atmospheric concentrations in the range of 500-550ppm without overshooting is likely to be in the order of 1 percent of gross global product. Therefore the costs of action are far outweighed by the benefits.
- Many of the technologies and changes needed to reduce emissions already exist. Some are already profitable and provide opportunities to visionary businesses; others require greater active policies to make them financially attractive.

2007* (February)
Nike is recognized for leadership in climate change from WWF-US. As a founding partner of the Climate Savers program, Nike attained its company-wide target, of reducing annual CO_2 emissions to 13 percent below 1998 levels by the end of 2005. Actual reductions were 18 percent.

2007* (February)
The IPCC releases its Fourth Assessment using the strongest language to date, stating that there is a greater than 90 percent certainty that human activities, led by burning fossil fuels, account for most of the warming in the previous 50 years. The Assessment warns that GHG emissions need to be reined in by 2020 if humanity is to avoid catastrophic climate change. The report also advises that regardless of what actions are taken, warmer temperatures and rises in sea levels can be expected well into the future.

2007* (May)
Nike sets new targets to address its CO_2 impact.

** These refer to activities in 2007 which are outside the report's timeline but reflect material activities.*

Nike's Green House Gas Footprint (GHG): Past, Present and Future

Million tonnes CO_2 equivalents	FY97-98	FY03	FY05	Present	Targets
Nike owned and operated operations and business travel	0.13	0.09	0.10	Achieved 18 percent reduction from 1998 to 2005	Eliminate CO_2 footprint from Nike brand operations (offices, distribution centers, retail and travel) by 2011
Manufacturing and Logistics	0.77	1.11	1.25	Footwear manufacturing= 59.3% of total CO_2 footprint. Inbound logistics (factory to distribution centers) = 24.6%	Establish aggressive CO_2 reduction plan in footwear contract manufacturing by January 2008. Develop model for measuring outbound emissions (distribution center to retail) by January 2008. Recalibrate logistics emissions by May 2008. 30 percent absolute CO^2 reduction for Inbound logistics by 2020.
SF_6	6.60	0.00	0.00	—	Eliminated as of June 2003
PFP	0.00	0.37	0.07	—	Eliminated as of June 2006
Total GHG footprint	7.50	1.57	1.43	Represents 80 percent reduction in total footprint to date from 1997	—

F-gases

A significant highlight of Nike's climate story in the last two years was our complete elimination of greenhouse gases from Nike-brand footwear. Nike put 60 experts from more than 50 external organizations to work on various aspects of this complex project.

The F-gas transition and resulting barrier film technology project was one of Nike's most difficult research and development challenges to date, including a number of unexpected technical challenges.

In our FY04 report we shared our successful transition of the vast majority of Nike Air technology to nitrogen, a benign gas, from sulfur hexafluoride (SF_6), a greenhouse gas. The few remaining pressurized cushioning units used perfluoropropane (PFP), also a greenhouse gas, in order to meet the performance demands in high-performing models. By the end of FY06, we completely replaced even these units with nitrogen.

At its peak usage, in 1997, SF_6 alone represented the equivalent of 6.6 million metric tonnes. Today, Nike's total greenhouse gas (GHG) emissions is about 1.36 million metric tonnes. The elimination of SF6 alone represents a reduction of more than 80 percent of GHGs since 1997.

Managing Environmental Impacts = Innovation

The milestone of F-gas elimination represents one of Nike's strongest examples of the push for sustainability delivering business innovation. While investigating solutions for the footwear models, we learned new techniques and developed a unique membrane technology for the air bladder itself.

Our work on eliminating perfluoro-propane generated new strides in barrier and encapsulation technologies, and led to the breakthrough that allowed us to produce the full-length Air-Sole cushioning unit – the ultimate expression of Nike Air technology.

The first shoe to debut the new Nike Air technology – the Air Max 360 – represented the most significant innovation since we began incorporating pressurized cushioning into shoes in 1978. The Air Max 360 delivered a new running experience, fully cushioned by air. The technological advances that made the 360 possible were the result of 14 years of trials and testing, driven by the need to eliminate the use of F-gases.

The Air Max 360 was cited in coverage of the 2006 Corporate Achievement Award, one of the National Design Awards given each year by the Smithsonian's Cooper-Hewitt National Design Museum to honor the best in American design.

Chart 31
SF_6/PFP Elimination

Note

C_3F_8 is also known as PFP. All data is based on calendar year. The phase out was complete in June 2006. Assume all gas is emitted in the year it is filled into product.
1000 Gg = 1 million metric tons

Source: Calculation based on Nike purchase records and certified by Environmental Resources Trust.

CO_2

Nike's total CO_2 footprint as of FY05 was 1.36 million metric tonnes.

Between 2001 and 2005 Nike's CO_2 reduction strategy was driven largely by the reduction commitments we set through participation in the World Wildlife Fund's Climate Savers program, which we joined as a founding partner in October 2001. The program provided us with an internal CO_2 emissions reduction target centered on two primary components: Nike-operated facilities (20,000 square feet or more) and business travel.

Our goals through this program included:

- Reducing CO2 emissions from business travel and Nike-owned and operated facilities (more than 20,000 square feet) and services to 13 percent below 1998 levels by the end of 2005.
- Creating baselines for Nike's major contracted footwear and clothing manufacturing facilities by the end of 2003 and determining an emissions reduction strategy for these facilities during 2005.
- Examining Nike's supply chain for opportunities to reduce greenhouse gas emissions from supply chain activities and determine, by 2005, a greenhouse gas reduction strategy for logistics.

By our December 31, 2005, target date, we not only successfully met the target to reduce CO_2 emissions 13 percent from a 1998 baseline, but achieved an 18 percent reduction, even while facilities grew 6 percent. Our final report, detailing efforts in this area and Carbon Disclosure Project response, can be found online at www.cdproject.net.

Nike-owned facilities

We see value in reducing energy use, both from environmental and cost-savings standpoints. We take the savings and plug them back into our efficiency efforts, maximizing our investment.

We have also a made substantial investment in renewable energy. We have steadily increased our purchase of direct renewable energy and renewable energy credits since 2001 and as of the end of calender year 2006 cover approximately 52 percent of the electricity used by major Nike facilities.

Nike Facilities Model Good Energy Practice

In addition to managing environmental practices in products, we work to manage the impacts of our facilities. Highlights of those efforts include:

• The Ken Griffey, Jr. building at Nike's World Headquarters in Oregon received a Leadership in Energy and Environmental Design for Existing Buildings (LEED-EB) Gold Award from the U.S. Green Business Council.

• Nike's World Headquarters in Oregon was recognized by the U.S. Environmental Protection Agency as a top workplace for commuters for our alternative transportation program.

• Nike is purchasing renewable energy credits from Sterling Planet equivalent to 100 percent of the electricity consumption at its World Headquarters in Oregon.

• In addition to purchasing renewable energy credits, energy efficiency measures at the World Headquarters — including running landscaping vehicles on biodiese—save the company more than $500,000 and 9.3 million kilowatt hours each year.

• Nike's European distribution center in Laakdal, Belgium, installed six wind turbines, providing enough capacity to power the 2 million-square-foot facility. The project followed two years of partner and community dialogue and nine months of construction. Nike is the first company of its size in Belgium to operate solely on green energy that is produced on site.

• Nike's European Headquarters in Hilversum, The Netherlands, runs on 100 percent renewable energy.

Supply chain - logistics

With the successful elimination of F-gases from product (which accounted for more than 80 percent of our footprint) we have now turned our attention to another significant footprint: contracted manufacturing and logistics.

As part of our Climate Savers agreement, we partnered with the University of Delaware to develop an innovative model for measuring inbound emissions of product transportation from factory to first distribution facility. We are working to expand that model to also measure outbound shipments from distribution facility to retail. Once we are able to measure this we will recalibrate our CO_2 emissions footprint for logistics.

In the meantime we are exploring strategies around packaging, fuel economy and air frieght. We aim to incorporate these while meeting on-time delivery requirements and the increasing flexibility demanded by our retailers. Solutions will require us to partner with our most progressive retailers and logistics suppliers and apply a portfolio of approaches to find ways to reduce emissions.

Supply chain - manufacturing

Footwear contract manufacturing is the largest remaining part of our CO_2 footprint. Achieving reductions is a significant challenge considering even single-digit annual growth makes absolute reductions difficult. Nevertheless, we recognize it has to be done.

Roughly 60 percent of Nike footwear manufacturing is contracted in Vietnam and China where there are no formal commitments to CO_2 emission reductions. Some promising changes may help. For example, China has commited to ambitious energy efficiency targets including a target of 20 percent by 2010.

Solutions will require multi-sector collaboration and a significant amount of trial and error. Our immediate plans include detailed audits of key factory sites, noting which processes use the most energy and comparing lean manufacturing to conventional manufacturing. This link between our energy efforts and lean manufacturing is critical because we expect 40 percent of footwear production lines to be lean by FY07 and 90 percent by FY11. We plan to use this study to identify a portfolio of energy efficiency projects that will deliver the greatest returns in terms of both economics and emissions.

Energy & CO_2:

The charts illustrate Nike's most current estimated energy and CO_2 emissions footprints.

Chart 32
2006 Energy Use
Total: 14,136 Terra Joules

*Footwear data is for FY06 (May 2005 - June 2006).
All other data are for calendar year 2005.

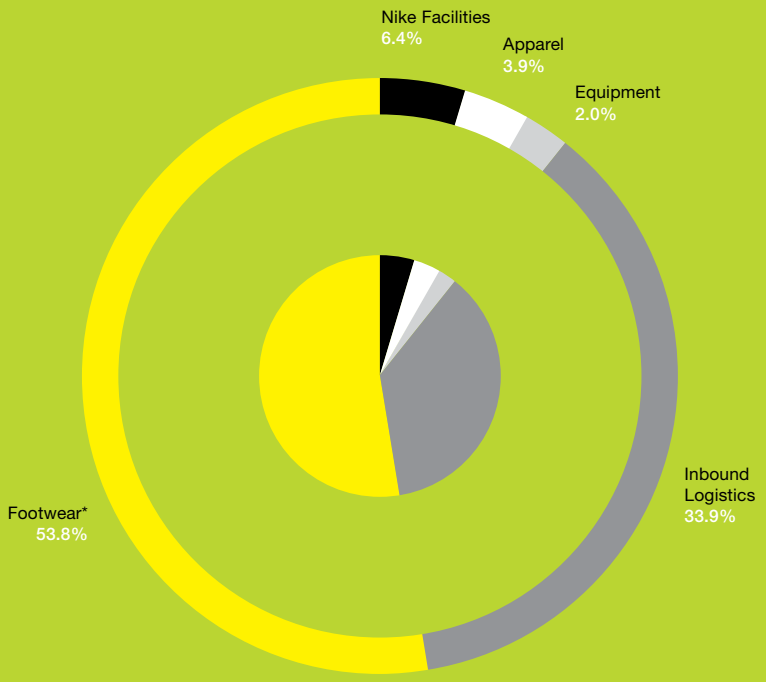
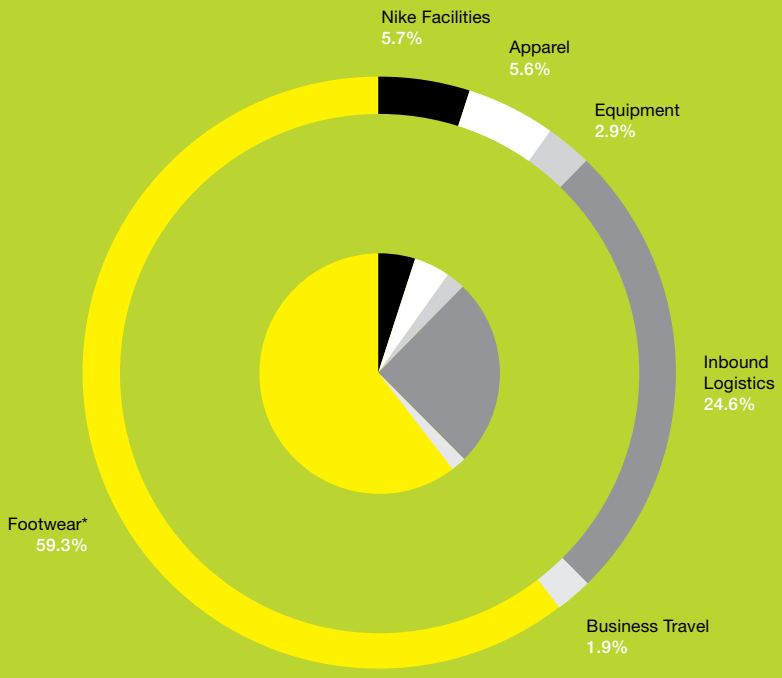


Chart 33
2006 CO_2 Emissions
Total: 1.36 Million Tonnes CO_2

*Footwear data is for FY06 (May 2005 - June 2006).
All other data are for calendar year 2005.



New Goals

Nike is in the process of setting new targets that will further reduce our CO_2 emissions from the 1.36 million metric tonnes per year of FY06. This reduction takes into account our projected growth as a business. Our targets are as follows:

- Achieve climate neutrality among Nike brand facilities and business travel by FY11
- Achieve climate neutrality among Nike, Inc. facilities and business travel by FY15
- Set goals for footwear contract manufacturing by January 2008 (FY08)
- Create outbound logistics emissions model by January 2008 (FY08)
- Achieve 30% absolute reduction in inbound logistics footprint from 2003 baseline by FY20

Our commitment to CO_2 reduction will continue through expansion and addition of approaches. We will increase energy-efficiency projects in owned facilities and operations, including Nike retail. We will increase green power purchases. We will explore the carbon trading market. And we will continue to add new preferred suppliers to our Eco-Class travel program.

We are currently designing a new footwear distribution facility to consolidate our U.S.-based distribution activities and intend to incorporate the latest in advanced energy efficient technology and methods in this design.

Working with our footwear contract manufacturing partners and outside experts we will conduct due diligence on our footprint and establish stretch targets for reducing emissions. We anticipate achieving reductions first through energy efficiency projects and subsequently through process or product design changes (such as lean manufacturing) and ultimately through deployment of renewable energy sources where feasible.

Working with our shippers and carriers we will seek to reduce the footprint of moving product inbound from our contract factories to our distribution centers. Strategies include packaging innovation, fuel economy strategies and a focus on reducing air freight impacts.

Carbon Trading

While still a relatively new market, Nike purchased our first offsets for the CO_2 emissions from business travel in 2000. Since then, we have participated in the emerging voluntary market by procuring a total of 111,000 tonnes of CO_2 to offset almost half of the CO_2 emissions from our business travel during that period.

We now have an opportunity to sell carbon credits that will help to fund the further reductions in our greenhouse gas emissions footprint in our supply chain and in underserved or excluded communities. Our voluntary elimination of f-gases from Nike product qualify as tradable reductions on the retail CO_2 market. This project has been measured, verified and registered by Environmental Resources Trust, a leader in greenhouse gas project monitoring. We selected the 1995 baseline year to be Kyoto Protocol compliant for f-gases. Since our f-gas usage peaked in 1997, we essentially offset any years of the f-gas usage that were above the baseline level with reductions in later years that were below the baseline. The crediting period was voluntarily ended at the end of 2005, leaving Nike with an excess of 7.8 million tonnes of CO_2 equivalent reductions below the 1995 baseline. In 2006 we sold 100,000 tonnes of SF_6 voluntary emission reductions (VERs) to be used to provide solar energy to new schools and homes in New Orleans, Louisiana.

Based on the success of this initial project, we'll continue with further sales of SF6 VERs and will use proceeds to initiate other projects in the manufacturing supply chain.

Details can be found at www.ecoregistry.org/account/summaries/nike.html.

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