

Innovate for a Better World

Nike China 2008 Corporate Responsibility
Reporting Supplement



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About this report:

This document has been produced as a supplement to Nike's most recent global corporate responsibility report (available online at nikeresponsibility.com) to provide stakeholders with more insight and transparency into our corporate responsibility strategies in Nike China.

- Data in our most recent global corporate responsibility report covers fiscal years 2005 and 2006. Where more current information for Nike China is available, we have included it in this supplement.

- Nike fiscal year runs June 1 through May 31; fiscal 2007 ended May 31, 2007.

- All data based on calendar year 2007 unless otherwise noted.

- Information covers China, Taiwan, Hong Kong and Macau unless otherwise noted.

- "Focus factories" are those that account for a substantial proportion of production. For some efforts, such as increased auditing oversight, we target our efforts on these factories.

- This report focuses primarily on activities and data related to the Nike brand, which comprised 86 percent of Nike, Inc., revenue at the end of fiscal 2007. Except where noted as Nike, Inc., information in this summary does not include data from subsidiaries in the Nike, Inc., portfolio.

Letter from the CEO

As one of the most powerful cultural forces we know, sports is capable of bringing us defining moments. I believe the Beijing 2008 Olympic Games will be such a moment. The Games, as always, will bring us moments filled with incredible athleticism that uniquely showcase the power of human potential.

The upcoming Games focus the world's attention on sport. They also make sport the lens through which the world is more closely examining China's growing prominence as a manufacturer, the world's largest marketplace, a global economic force and home to 1.3 billion people.

For Nike the Beijing Olympics provide an opportunity to share China's importance to our business. China produced 35 percent of Nike's footwear in fiscal 2007 and is a substantial sourcing market for our apparel and equipment. This year we're on course to achieve \$1 billion in sales – making China our second largest market outside the U.S. China is key to our continued growth and success. Nike and China will succeed together.

In the past year we have seen the world more connected than ever before. Economies, environment, safety – even sport – have no boundaries. Those connections mean that doing our part to operate responsibly is increasingly important. It requires us to understand every part of our business and the impacts we have on people (both workers and consumers), the environment and our industry. It requires new ways of thinking, new approaches and innovation.

We have established aggressive business targets aimed at improving working conditions in contract factories, improving product through design, becoming climate neutral and investing in youth access to sport.

In this summary, we outline our performance against our goals in China and how we aim to achieve them. It's a window into our business, demonstrating how we're using our strengths – energy, passion and innovation – to make a better world.

Thank you,

A handwritten signature in black ink that reads "Mark Parker". The signature is fluid and cursive, with a long horizontal line extending to the right.

Mark Parker
President and CEO
Nike, Inc.

Overview

We see corporate responsibility as a catalyst for growth and innovation.

Nike has been a part of China for 27 years, beginning with our sponsorship of the Chinese National Basketball Team in 1981. That same year, we began producing footwear with state-owned factories in Shanghai; in 1985 we opened manufacturing offices in Guangzhou and began working with non-state-owned contract factories. Today, China is our largest single sourcing market for Nike-branded product. Nike contract manufacturers in China employ more than 210,000 workers. About one out of every three pairs of Nike shoes we sell in the world is made in China, including many of our most advanced designs.

Nike is a growth company. In addition to being one of our most important sourcing markets, China also is rapidly becoming our second-largest consumer market in the world. We expect revenues to reach \$1 billion this fiscal year, contributing to total Nike, Inc., revenues of more than \$16 billion. Nike is the leading sports brand in China. We have a retail presence in more than 300 cities, and some of our most dynamic retail concepts in the world in places such as Beijing and Shanghai. Every day, at crowded Nike-sponsored courts and fields such as Dongdan Park in Beijing, China's passion for sports such as football and basketball is evident.

For almost three decades, Nike has supported the grassroots development of sport in China. Our most recent Just Do It campaign in China celebrates the accomplishments of top Chinese athletes, such as hurdling world record holder Liu Xiang, marathoner Zhou Chunxiu, basketball player Yi Jianlian, tennis player Li Na and swimmer Wu Peng, and gives a call to action for Chinese youth to choose their own path and play their own way. With the buildup to Beijing 2008, this is an exciting time for Nike and China. Beijing 2008 promises to be thrilling. It is certain to be an incredible moment for China, showcasing the country's growing prominence and leadership on the world stage. We believe the upcoming games promise to be the most exciting ever.

Beijing 2008 also is bringing unprecedented attention to China, which is why we have produced this China country supplement to our most recent global corporate responsibility report, issued in May 2007. That report, as well as this supplement, can be found online at nikeresponsibility.com.

Given our history and substantial business footprint in China, this supplement provides an additional layer of transparency about our corporate responsibility efforts in China, consistent with the themes, strategies and data provided in our global report. We hope the additional insight provided in this supplement about Nike's operations in China will help our stakeholders better understand our footprint in one of the world's most dynamic countries, our commitment to responsible competitiveness in China and around the world, and our passion for using the power of the Nike brand to help create positive change.

We see corporate responsibility as a catalyst for growth and innovation. More than ever, we are integrating corporate responsibility principles and practices throughout our business model. The opportunity is greater than ever for corporate responsibility to deliver business returns and become a driver of growth, to build deeper consumer and community connections, and to create positive social and environmental impact in the world.

Worldwide, we continue to focus our efforts in three areas:

- 

Improving working conditions in contract factories through a holistic, integrated business approach to our supply chain.
- 

Minimizing our environmental footprint through sustainable product innovation and supply chain innovation — both in our direct operations and contract factories.
- 

Using the power of our brand to give excluded youth greater access to the benefits of sport.

This supplement describes how we are addressing each of these areas in China. Because of our significant contract factory base in China, greater attention is given to this area. Improving conditions for workers throughout our global supply chain continues to be one of our greatest priorities. We are just as committed, though, to addressing issues such as driving sustainable product innovation, climate change and using the power of sport and our community investments to help youth. We group all of these efforts under the banner of Innovate for a Better World.

Nike is an industry leader in corporate responsibility reporting and transparency regarding labor conditions in the global footwear, apparel and equipment industries. We are focused on understanding root causes of systemic issues and working collaboratively with our manufacturing partners and other stakeholders to facilitate change. Through our reporting, we have identified areas of focus and provided detailed discussions of the complexities, challenges and opportunities in addressing these issues. The responsible competitiveness section of this supplement discusses these issues from a Nike China perspective.

Through our Considered design ethos, Nike also is pursuing sustainable product innovation. We have set a target that all Nike footwear will meet at least our baseline or higher Considered design standards by 2011. These standards promote use of environmentally preferred materials, reductions in the use of toxics, and innovative design and manufacturing techniques that reduce a product's overall environmental footprint.

Climate change is an issue for China and the world. Nike believes everyone must contribute to solutions, and we are working across our business to reduce our environmental footprint. We have set aggressive targets to create climate-neutral operations, and we currently are working

Nike in China

Timeline	Historical Context
1980	Nike opens marketing liaison office in Hong Kong Nike begins production in mainland China
1981	Nike enters the Chinese market by sponsoring Chinese National Basketball team Nike establishes footwear manufacturing in China, working with state-owned factories in Shanghai Nike begins relationship with China National Track & Field Association
1982	First Nike product sold through Beijing Friendship store
1985	Nike's manufacturing team moves to Guangzhou, begins working with first non-state-owned contract factories in China Nike footwear manufacturing liaison office established in Guangzhou
1991	Nike opens first marketing liaison office inside China borders with six employees
1993	Nike begins sponsorship of Chinese national tennis team
1994	Nike begins sponsorship of China Football League A
1997	Nike establishes sponsorship of Beijing Dongdan Park Nike launches Basketball 3 on 3
1998	Nike sponsors China High School Basketball League Nike begins soccer sponsorship of Nike Premier Cup
2000	China's diving team earns the first Nike-sponsored Olympic gold Nike begins sponsorship of women's football clubs Shanghai SVA and Beijing Chenjian
2001	Nike establishes Nike Equipment office, sharing office space with the footwear team in Guangzhou Nike resurfaces Beijing Dongdan Nike Park playing field with Nike Grind – made from recycled footwear waste material Nike begins two-year Freestyle basketball
2002	Nike signs 110-meter hurdler Liu Xiang
2003	Nike signs the first of 22 Chinese national federation sponsorships Nike begins three-year Battleground 3 on 3
2004	Nike-sponsored teams and athletes – including Liu Xiang – earn 12 gold medals at the Olympic Games in Athens Nike-sponsored China High School Basketball League covers more than 130 schools in 17 cities
2005	Nike sponsors soccer pitch at Shanghai Stadium, and Dongdan and LeBron basketball courts
2006	Nike establishes Nike Sports (China) Co. Ltd. The wholly owned subsidiary is registered and focuses on sales and marketing Nike expands to five regional sales/marketing offices
2007	Nike opens flagship store – Nike Beijing

with our manufacturing partners on understanding and developing ways to reduce their emissions and environmental impact.

Nike's global reach means that we are less concerned about the debate among governments over responsibilities for and approaches to CO₂ reductions; rather, we must follow the science and will set our global policies by the highest standards that emerge. We anticipate a low-carbon economy, and we are preparing ourselves and contract factories to be able to thrive in that future state.

Under the banner of Let Me Play, our community investment initiatives are focused on using the power of sport to help excluded youth around the world. In China, one of our primary efforts is helping address the needs of children whose families have migrated from rural to urban areas in search of better employment opportunities, sometimes within our supply chain.

Corporate responsibility is a relatively new, rapidly evolving business practice in China. Adoption and understanding vary widely among the public and private sectors. In the past year, the Chinese government has taken some strong stands to address systemic issues affecting workers' rights. Although we understand that it is often a slow, incremental process to bring about change, we strongly believe that there is much more that can be done. We believe the industry needs to take a collective approach in developing solutions, working closely with both contract factory ownership and government offices to address root causes and provide long-term solutions.

We engage in public discourse and policy formation in China by sharing our experiences. As a member of the American Chamber of Commerce's Corporate Social Responsibility Committee, we contribute to the Chamber's annual analysis of Chinese and U.S. policy and regulatory issues affecting doing business in China. The analysis covers labor, environment, product quality and civil society.

Since 2004, Nike has cooperated informally with other brands to contribute to government officials' understanding of how they can support corporate responsibility. Our outreach has included hosting informal discussions and factory tours and making presentations at Ministry conferences. We have participated in discussions about corporate responsibility at the China Executive Leadership Academy, a leading professional development institute for government leaders. Nike also participated in a two-day forum hosted by University of British Columbia, Beijing Normal University and the Ministry of Civil Affairs to contribute to the drafting of the Charity Enhancement Law.

Our deep brand and supply chain footprints in China create unique opportunities for Nike as we continue to help influence and benefit from the country's success. Nike is a global company, but we're also a brand and business that not only is in China, but also is of China. Our success in China is built on deep connections with China's athletes and

consumers, and our shared passion for sport and human potential. As a business in China, we are deeply committed to responsible competitiveness not only as the right way to do business, but also as a catalyst for growth and innovation that can create benefits and equity throughout our supply chain.

We look forward to continuing to grow with China, and leveraging our strengths to innovate for a better world.

About one out of every three pairs of Nike shoes we sell in the world is made in China, including many of our most advanced designs.

Responsible Competitiveness: Improving Labor Conditions in Contract Factories

Nike-branded footwear, apparel and equipment product are produced by nearly 700 contract manufacturers worldwide, employing almost 800,000 workers. China represents our largest sourcing country, with approximately 180 contract manufacturers employing more than 210,000 workers. China is a major sourcing market for Nike, producing 35 percent of our footwear, for example, in fiscal 2007. The country also is a substantial sourcing market for Nike apparel and equipment.

Nike has been working with manufacturers in China for more than 20 years. Chinese workers and factories produce much of Nike's most technical, highest-performance athletic product. Improving conditions for workers in China and across our global supply chain is a priority for Nike. One of the most fundamental impacts we can have is to create positive, systemic change in our global supply chain, and for the industry as a whole.

We address working conditions in our supply chain through a comprehensive global strategy based on ongoing contract factory compliance and monitoring; root-cause business analysis of systemic issues; deep integration of responsible competitiveness practices into our business model; stakeholder engagement and collaboration; and a strong commitment to transparency as a means of facilitating informed, constructive dialogue with contract factory management, stakeholders and the broader industry.

Nike seeks to help set industry standards for corporate responsibility reporting and transparency. We have produced three reports, all of which are available online at nikeresponsibility.com. In 2005, we disclosed our entire supply chain — an industry first. In our most recent report, we also disclosed additional information about the monitoring tools and processes we use with contract factories. We continue to advocate for transparency, encouraging all companies in our industry to join us in disclosing their supply chains.

Globally, we focus on five major areas where contract factory noncompliance with our standards occurs within the apparel, equipment and footwear industries:

-  Absence of freedom of association and collective bargaining

-  Harassment and abuse of workers

-  Excessive overtime work hours

-  Inaccurate payment or nonpayment of wages

-  Environment, health and safety issues

Our responsible competitiveness approach to tackling these problems is based on the belief that:

-  We need to go beyond the issue and understand the root cause.

-  We need to aim for systemic change, not just the resolution of incidents.

-  We need to foster systemic change by building responsible competitiveness into our entire business model and enabling a win-win for workers' rights and for growth and profitability across our supply chain.

Central to our approach is our belief that addressing these issues not only benefits workers but also can be a catalyst for growth and innovation within our company, which creates further opportunities for workers in our supply chain. We believe you can't make good shoes in bad factories.

Globally, we have set aggressive business targets for corporate responsibility by 2011. Key targets related to labor conditions are:

-  Eliminate excessive overtime in Nike contracted factories.

-  Implement tailored human resource management systems and educational training for workers in focus contract factories.

-  Implement Freedom of Association educational program in 100 percent of focus contract factories.

-  Lead multibrand collaboration on compliance issues in 30 percent of our supply chain.

This document provides more information on how we are addressing these global issues in China. Every sourcing country for Nike has unique dynamics, with contract factories that exemplify best practices, as well as those that are more challenged to consistently meet our standards and maintain positive conditions for workers. Some issues are straightforward; others are extremely complex. Creating systemic industry change is not easy. We know from experience that sustainable change requires long-term collaboration and commitment from factories, companies, governments and other stakeholders. As China continues to develop, we see progress and best practices emerging. But like our partners in any other country, the factories we contract within China continue to face challenges as well.

**We believe you can't
make good shoes
in bad factories.**

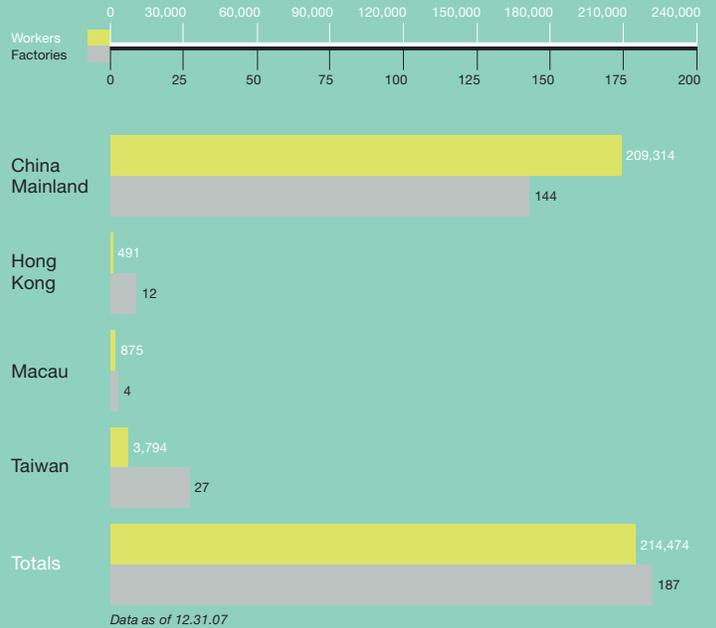
China Worker Profile

We estimate that 80 percent of workers in our global supply chain are women ages 18 to 24. In China, typically more than 70 percent of workers at Nike-contracted factories are young women who have migrated from rural parts of the country to coastal regions. They are part of an estimated 200 million people who have moved in search of better employment opportunities.

Contract factories' considerations in employing these workers include a range of issues, given their cultural differences, relative lack of life experience and education, and distance from traditional support networks. Nike works with contract factories to help them more effectively communicate with these migrant workers, help them understand their rights and ensure they receive the same entitlements and benefits as local workers, and accommodate their basic social needs.

As an example, three contract factories based in coastal Qingdao recruited workers from Xinjiang, China's most western province. The workers were mostly ethnic Muslim women who faced multiple challenges. They were far from home, and regional cultural and linguistic differences created communication issues. To help the workers adjust, two of the factories provided Mandarin language classes and Internet-enabled communications to reach families back home. This program was conducted in partnership with local governments in Xinjiang. All three factories also established new canteen facilities to prepare food that meets the requirements and tastes of the workers, facilities for prayer and guest rooms in the workers' dormitory to host visiting family members.

Factories and Workers — Geographic Breakdown



Factories and Workers — Operating Segment Breakdown



China Labor Law

Nike supports a regulatory environment that strengthens legal protections for workers.

Nike supports a regulatory environment that strengthens legal protections for workers and promotes decent working conditions throughout our supply chain, including China.

In 2007, China passed important legislation intended to increase protection of workers' rights: the Labor Contract Law and the Employment Promotion Law.

The Labor Contract Law expands rights for individual employees and enhances collective rights through unions and employee representative congresses. The law addresses employee approval of changes to company rules, supports collective bargaining, requires employee contracts with limits on fixed-term contracts, sets limits on probation, offers guidelines regarding termination and collective dismissals and related payments, adds protected categories of employees, and extends protections to seconded and part-time workers.

To help factories and workers understand the law, we conducted training for contracted factories. Nearly 90 percent of contracted factories participated in this initial forum, and other briefings were held as the implementing regulations were issued.

Nike believes the Employment Promotion Law is also an important addition to workers' rights legislation. The law promotes job creation and expands anti-discrimination protection for migrant workers and carriers of infectious diseases who are still able to work, two classes not previously granted such protections. The added protection for migrant workers may signal broader allowance of social insurance that would follow migrant workers back to their home provinces. The law also increases the risk of legal liability for companies that engage in discriminatory practices by granting individuals the right to sue companies.

These laws went into effect in January 2008. Already, several cases have been reported of workers using the new legal provisions and the implementing regulations to obtain their rights, including overtime pay, equal employment and social insurance provision.

Nike Code of Conduct Overview

We set out our expectations in our Code of Conduct (available at nikeresponsibility.com). Our Code requires contractors to recognize the dignity of each employee and the right to a workplace free of harassment, abuse or corporal punishment. It also requires a workplace free of discrimination.

The Code covers forced labor, child labor, compensation, benefits, hours of work/overtime, environment safety and health, and documentation and inspection. The Code and its supporting Code Leadership Standards (CLS) are the standards by which we monitor and audit factories.

We require that contractors post the Code in all major workspaces, translated into the language of employees, and that employees be trained regarding their rights and obligations under the Code and local law. In instances in which our Code may differ with local law, we always apply the stricter standard.

Our aim is to drive contract factory accountability and workplace management throughout Nike's global supply chain. We also aim to build efficiency through simplified processes, focused activities, shared resources and a strong measurement system.

Our Role

We help contract factories enhance their ability to improve their own performance by promoting sustainable change and ownership through capacity-building programs. These includes sharing practices that have a proven positive worker and business impact, fostering industry change through strategic stakeholder relationships, elevating industry conditions through a common standard and sharing monitoring and promotion of factory remediation. Each of these programs enhances our efforts to integrate compliance into all business activities.

Factories

Ultimately, Nike strives to have all contract factories become stewards of their own responsible competitiveness, based on the business benefits available to them. In China we have partnered with contract factories on training programs that promote human resources assessment and management, and in embedding corporate responsibility and lean manufacturing concepts. To foster worker empowerment and drive improvement, we have guided factories in creating environment, safety and health committees, self-assessment programs and the use of balanced scorecards.

Workers

Nike believes workers should be recognized for the value they bring to the manufacturing process – not seen as a commodity. This is reflected in our approach to promoting contract factory compensation and worker treatment. Unfortunately, this approach is not shared on the low end of the manufacturing value chain.

Ensuring workers understand both their rights and responsibilities in the workplace is critical. Equally, open dialogue with the management, either directly or through worker representatives, is a key part of a productive and efficient workplace.

Nike requires contract factories to provide workers with information on our Code of Conduct and basic workplace rights and responsibilities. We provide cross-cultural education for managers and supervisors where we have found weak understanding, and provide assistance and support in establishing and educating workers on grievance systems.

Stakeholders

Nike aims to foster industry change through strategic stakeholder relationships, elevating worker conditions across the industry through common standards and shared monitoring and promoting factory remediation. In China we engage in multi-stakeholder collaboration with a number of organizations, including Business for Social Responsibility, CSR Asia, the Fair Labor Association and Chambers of Commerce. These organizations are facilitating worker dialogue, addressing migrant worker issues, supporting full and consistent implementation of labor and environmental laws, promoting decent working conditions as the industry norm, improving management skills and creating task forces where needed to resolve challenges in Chinese working conditions.

Monitoring Program

Nike's monitoring program has two main parts: Management Audit Verification (MAV) and Environment, Safety and Health (ESH) audits. MAV is a labor-assessment tool covering hours of work, wages, benefits, grievance systems and practices. ESH audits provide a baseline assessment of noncompliance incidents and management system performance focused on environment, health and safety. Both audits provide letter-grade ratings.

With nearly 700 contract manufacturers making Nike-branded product around the world, we focus our direct auditing efforts on the approximately 20 percent in our supply chain that represent the majority of our production — referred to as focus factories — and factories that have higher compliance risks according to select labor and ESH criteria. The factories not covered by Nike's internal compliance staff evaluations receive monitoring oversight through partnerships, licensee audits, Fair Labor Association audits and a program in which contract manufacturers pay for a labor and/or an ESH audit on a three-year cycle.

Out of 185 focus factories worldwide, 57 are in China. In 2007, we completed 22 MAV and 21 ESH audits at these factories; these were supported by other internal audits. In 2008, we have a broader global focus on contract factories producing product related to the Beijing Olympics, due to increased production levels. All of the 36 contract factories in China that are producing Olympic-related Nike products are receiving focused compliance coverage.

In fiscal 2007 we began redesigning our approval process for new factories to align both compliance and business needs. We now require a pre-sourcing audit that helps us to prevent poorly rated factories from manufacturing our products. Our process for approving new contract factories also includes assessment of their human resource management processes. Upon approval, the contractor is required to dedicate resources to internal and external capacity building, monitoring and remediation.

In 2007, 34 mainland factories entered this new process. Two factories were approved in the first round of audits. By the end of the year, 16 had been approved. Typically, factories linked to existing Nike supply chain facilities or with experience of established corporate responsibility systems are the only ones able to pass this new approval process.

The most common reasons for failing the approval process are excessive overtime, failure to pay legal wages, falsification of information about the workplace conditions and environment, and safety and health issues. If we find critical issues in a pre-sourcing audit, it usually takes six months for the contract factory to make the changes necessary to pass the next audit.

We have also established a process for exiting contract factories when needed. Such change can come about for a variety of business reasons, such as the factory's going out of business, Nike's reducing or ceasing orders due to changing consumer demand, or the factory's failure to meet production or compliance requirements. Our plans include an estimate of the likely impact on workers, based on the factory's requirements under local law as well as any additional requirements under a collective bargaining agreement.

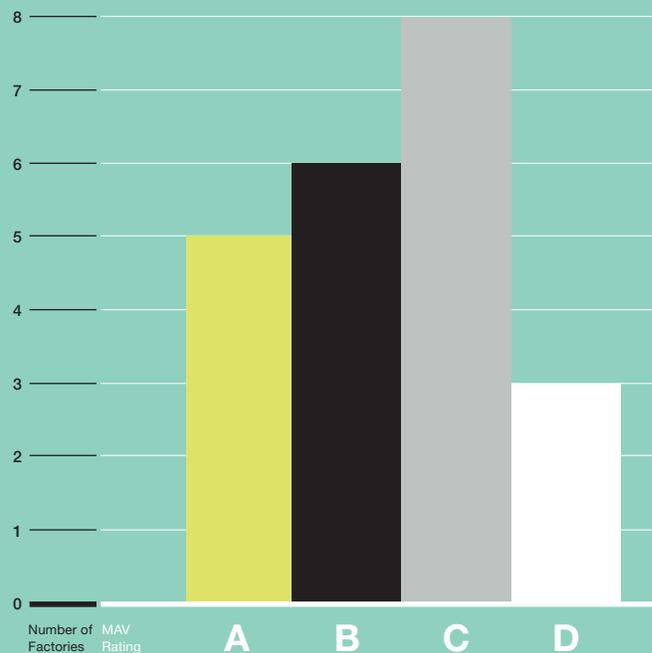
Management Audit Tool

Our Management Audit Verification process gives us a deeper understanding of noncompliance issues through a balanced scorecard approach that looks at drivers throughout our supply chain, instead of only at the factory level. We rate contract factories' performance with letter grades. We used the data from our audits conducted in 2003 to 2005 to assess the most common areas of noncompliance, and then rebuilt our audit tools and program to refocus our efforts in four areas: hours of work, payment of wages, grievance systems and industrial relations.

We implemented this new approach in two waves, both aimed at shifting from only monitoring compliance to seeking out root causes. We first developed our tools for hours of work and wages; then we added assessments for grievance systems and industrial relations. Our work to refocus and refine the methodology and standards we use in these areas is ongoing. We believe it is crucial in elevating contract factories with a D rating and further preventing contract factories from falling into D status.

Of the 22 MAV audits we conducted in China in 2007, five factories received an A rating and three factories received a D. A full explanation of the rating system is available at nikeresponsibility.com.

2007 MAV Audits — Focus Factories in China



The top three management issues arising from MAV audits in China in 2007 were:

- 1 Inadequate systems to enforce compliance with Nike's Code of Conduct
- 2 Lack of knowledge and training around compliance
- 3 Insufficient communication internally and externally

Other labor-related challenges revealed through MAV audits and other assessment visits included:

- 1 Falsification of factory documents, such as payroll records
- 2 Lack of effective grievance systems or channels for worker/management dialogue
- 3 Hiring practices to ensure minimum age standards are met
- 4 High worker turnover
- 5 Low industry expectations, hindering efforts to create systemic change

We are addressing these issues through collaborative work inside the industry and by helping contract factories build their capacity to change. Each contract factory has a master action plan that includes a list of prioritized actions agreed to by Nike and factory management. Together with the contract factory, we use the plan to track remediation progress.

For example, we track whether contract factories have successfully established systems for workers to voice their grievances and communicate with management. Systems include workers' representative bodies, grievance boxes, designated HR staff, post office boxes and worker hotlines. The systems also should provide details on the who, what, when, where, and how regarding the handling of grievances, as well as how they will be tracked, documented and reported back to workers. We also look for systems that report back to all workers after an anonymous grievance is reported while upholding confidentiality.

Some critical issues, such as document falsification, are difficult to change across the industry. To help tackle these issues, we focus on changing mindsets and expectations among contract factory management. We encourage transparency with factory management and open dialogue to identify problems, determine root causes and implement needed changes. Hiding issues only compounds problems. Our goal is to create constructive partnerships.

**Our goal is to
create constructive
partnerships.**

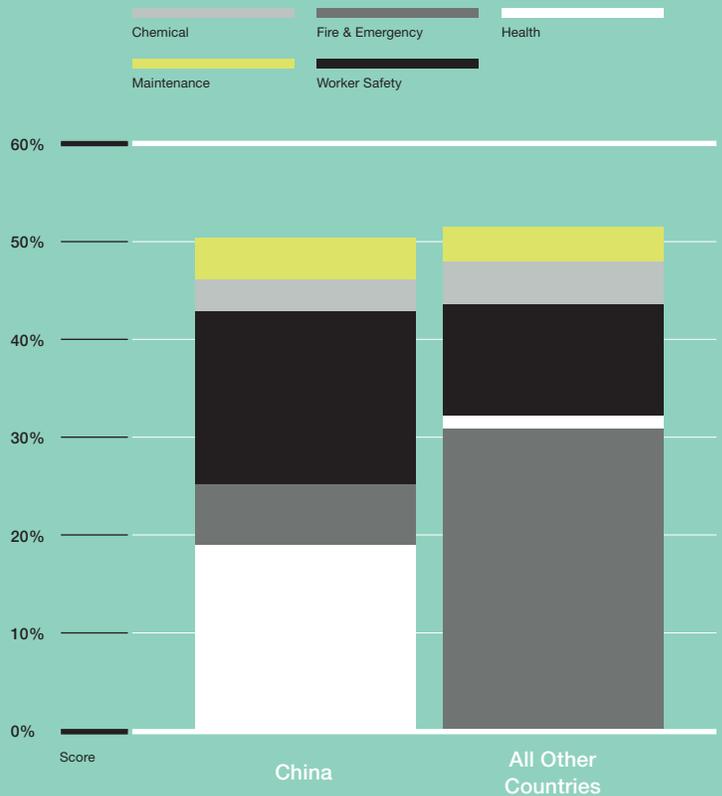
Environment, Safety and Health

Our ESH audit program uses a consistent global rating system that measures performance based on information drawn from assessments, visits and contract factory remediation efforts. We rate performance based on overall compliance, not single issues.

Our ratings capture standards in six categories representing the biggest risks to workers and factories: chemical management, worker protection, maintenance safety, fire/emergency action, health and ESH support. The 21 ESH audits conducted at contract factories in China in 2007 revealed that the leading issues were poor management of chemicals, personal protective equipment, hazardous waste and occupational health.

Contract factory performance in China regarding general worker safety, maintenance and chemicals was on par with performance in other parts of our supply chain, but was somewhat lower in fire/emergency and health (health category performance scored a 19 percent, compared with 33 percent globally). These comparisons offer direction for further improvement and where sharing best practices can be most helpful.

%ESH Audit Scores by Region
Calendar Year 2007



Our efforts to address ESH issues in contract factories are included later in this summary.

Factory Remediation

When contract factories fail to meet our standards, we establish a factory remediation plan to address all issues. We rate noncompliance issues as critical, serious or minor, to allow both the contract factory and Nike to prioritize where to focus time and effort.

We expect factories to address on their own improvements in the majority of cases involving minor issues. We focus more of our efforts on addressing critical and serious issues, such as poor grievance systems.

For example, in 2006 and 2007, we worked with a consultancy and a local nongovernmental organization (NGO) to provide a six-month program in three factories in North China, following identification of poor management of grievances. The consultancy assisted contract factory management in developing new in-house policies and systems, and trained internal audit teams and assessed results. The NGO helped to establish an internal grievance system that provided labor-rights and grievance-procedures training for workers, supervisors and plant managers. The NGO also provided a hotline for workers during grievance system setup. Audits conducted before, during and after the program showed increased awareness of labor rights among workers and improvements in management response to grievances, as well as better policy implementation and record management. During this process, all three factories improved their ratings.

To help contract factories deliver on their remediation plans, we provide assistance in developing new factory systems that institute policies, procedures, applications and a compliance-awareness program for management. When needed, we provide risk-management training and capacity building to equip the suppliers to implement sustained improvements through their own management oversight. For more on our ratings systems, please see our FY05-06 Corporate Responsibility Report online at nikeresponsibility.com.

At any one time, the majority of our supply chain factories have items on their plans. Our aim is for identified issues to decline or remain minor, through sustainable factory remediation efforts supported by their own systems.

Nike Code of Conduct: Documentation and Inspection

▶ *The contractor maintains on file all documentation needed to demonstrate compliance with this Code of Conduct and required laws; agrees to make these documents available for Nike or its designated monitor; and agrees to submit to inspections with or without prior notice.*

Making positive change requires quality information and being able to assess current conditions with confidence. One of the biggest challenges in corporate responsibility is transparency in the supply chain, globally and in China.

Generally, a lack of transparency in factories has multiple drivers, including keeping prices low and output rates high and pressure and mixed messages from brands. Falsification of records can hide a factory's actual production, misleading buyers and auditors about the factory's real capacity. Falsification also can hide excessive overtime and inaccurate payment of wages.

Clear, accurate records about hours worked and wages paid are critical. Lack of transparency on this information is not a problem exclusive to China; however, in this market we have received more reports of workers being coached in advance of audits, IT systems designed to mislead auditors and multiple sets of records. Together, they can lead to a misleading impression of the working situation at factories. These practices violate Chinese laws and regulations, our Code of Conduct, and International Labour Organization (ILO) standards.

In a situation of noncompliance, we first work to identify and understand the root cause and bring about sustainable change. We recognize that buyers are sometimes one of the reasons for noncompliance. Once the problem is identified, our compliance team works with the contract factory to put a sustainable corrective-action plan into place and then follows up with the factory to ensure remediation of the issue has been fully addressed. In order to create mutually beneficial solutions, factories must embrace transparency as the right approach. However, if the issue is not addressed, the factory risks losing future business growth and/or even divestment in some cases.

Nike Code of Conduct: Labor

▶ **Forced Labor**

The contractor does not use forced labor in any form — prison, indentured, bonded or otherwise.

▶ **Child Labor**

The contractor does not employ any person below the age of 18 to produce footwear ... below the age of 16 to produce apparel, accessories or equipment ... To further ensure these age standards are complied with, the contractor does not use any form of homework for Nike production.

Underage Workers

China's rapidly developing economy is creating tighter labor markets in some urban areas and attracting more and more younger workers who migrate from rural areas in search of employment opportunities. This labor trend, coupled with other dynamics and the relatively easy availability of false identification documents, is creating concerns among some stakeholders engaged in labor issues in China that underage workers may be emerging as an issue in select industries.

Nike takes the issue of underage workers very seriously. A contract factory found to employ underage workers automatically results in a D rating — our lowest — and requires immediate remediation. Our minimum age for workers in contracted footwear factories is 18, and for apparel and equipment factories, 16. China's minimum legal age is 16 for full-time work. This issue requires strong due diligence on the part of factories to be sure that workers are presenting accurate information at the time of employment. Nike has been working aggressively with contract factories in China to assess potential problems and implement best practices to detect workers who are submitting false identification and to see that factories are following effective verification procedures.

Based on stakeholder conversations and general media reports, in 2007 we conducted unannounced compliance visits at 10 contract factories in South China — seven apparel factories and three equipment factories. We found no confirmed cases of current underage labor in the factories. However, we did discover three incidents of false identification, suggesting that workers may have been underage at the time they were hired. We also found that seven factories had no written policy on age verification and no monitoring or systems in place to check for false identification. Weak implementation of correct hiring practices emerged as the most common process gap that could lead to hiring underage workers.

As a result of our findings, we launched a hiring practices and self-assessment campaign that involved hiring practice workshops across China. All Nike contract factories in China have been required to self assess their hiring practices — using the workshop guidance as a benchmark. We have focused first on the footwear supply chain as it has the highest number of workers and our highest age standard. Within this self assessment program, any factory finding existing or previous hiring practices that may have resulted in underage workers being hired is encouraged to come forward voluntarily and work with Nike on solutions and improvements. Rather than penalizing such factories, we are trying to encourage transparency and facilitate best practices across our supply chain.

This self-assessment program has checked the identification of approximately 150,000 workers in contract footwear factories in China. Factories reported 167 cases of workers with incorrect identification who were below Nike's minimum age standards when hired but are now 18 or older. There are only two current reported cases of workers under the Nike minimum age standard of 18. One 17-year-old worker was discovered in a footwear factory and was reassigned to a non-production office job until she turns 18. In addition to our own investigations, we continued to build relationships and dialogue with local organizations that work in this field to enhance our own understanding and awareness of this issue. We also work with these organizations to ensure that affected workers can receive support when needed. In 2007, a local nongovernmental organization notified us of a 16-year-old worker at a contracted footwear factory who was struggling to receive correct compensation for a workplace accident. Although the minimum age for any worker in the Nike contract footwear supply chain is 18, the worker had secured employment using false identification while she was only 15. As such, she was incorrectly registered for any worker injury payments. We supported her case and worked with the factory to find a non-production-based role in the same factory group with pay equal to that of her previous role.

Approximately 1,300 other instances were found in which workers were of legal age when hired but still had some incorrect personal information on their identification cards. The number of violations discovered is small, but still a concern. All contract footwear factories have reviewed and upgraded their hiring and identification verification systems.

In 2008, we are continuing the self-assessment program with our apparel and equipment suppliers. Nike is reviewing the self assessments and selecting additional factories for unannounced visits.

Nike Code of Conduct: Wages and Benefits

► Compensation & Benefits

The contractor provides each employee at least the minimum wage, or the prevailing industry wage, whichever is higher; provides each employee a clear, written accounting for every pay period; and does not deduct from employee pay for disciplinary infractions ... The contractor provides each employee all legally mandated benefits.

We have two distinct approaches to wages. First, we make sure that workers are paid wages owed them for the hours worked, at the rates agreed to, with base compensation at a level that reflects minimum wage or above and includes benefits defined by factory, collective bargaining processes or local legislation. Second, we are working with focus contract factories to elevate both the quality of their human resources management systems and their productivity levels, with the goal that those investments will demonstrate returns both across the supply chain and to the worker.

Globally, in an average garment factory, labor costs represent about 15 to 20 percent of the total per-unit price paid to the factory. In footwear, the average labor costs are 10 percent of the total per-unit price. We believe that a responsibly competitive industry that invests in its workforce will result in locally appropriate, equitable wages for workers at every stage of the supply chain over the long term. Wage rates will increase at varying rates based on overall market competitiveness of a country.

In China, wages have been increasing, due in part to government-mandated increases in the minimum wage, a tightening labor market and inflation. To address these trends, the government is offering

incentives for workers to seek jobs in established industrial areas and simultaneously is encouraging employers to move inland to bring jobs to less-developed regions.

The starting point for manufacturers remains basic compliance with local wage laws, including appropriate payment for overtime work. All Nike contract factories have standards for payment of at least minimum wage as a base wage, and most have a recruitment and retention strategy that raises total compensation above minimum wage levels. Increases are available for longevity, overtime and as production or piece-rate bonuses.

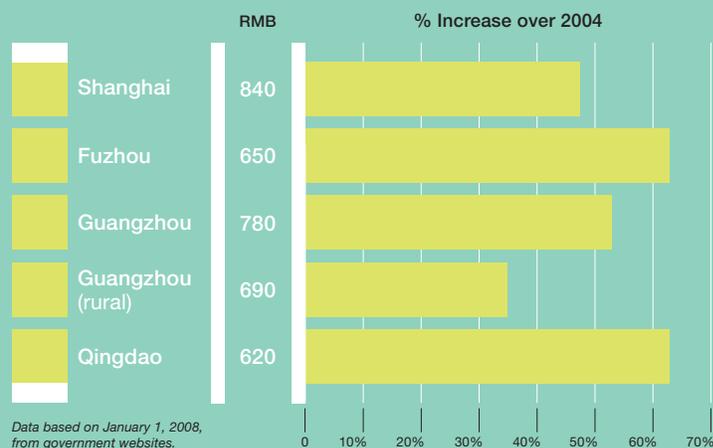
In the first nine months of 2007, according to Chinese government data, minimum wage rose 18.8 percent in China. Recent reductions in export tax rebates, and higher energy and materials prices, are also contributing to higher costs in doing business for suppliers.

Our suppliers are required to track and pay according to regulated wage increases. However, as multiple factors drive up the cost of business, we find that some contract factories try to avoid making changes to wages in a timely manner.

In fiscal years 2005 and 2006, Nike secured more than RMB 6.53 million (US\$900,000) in back wages owed to workers in Chinese contract factories. In 2007 our vigilance on this issue secured back pay totaling more than RMB 500,000. In some cases, unpaid wages reflected a lack of commitment to ethical behavior by contract factories. In many other cases, they reflected poor systems for tracking wage payments or poor understanding of local law.

Monthly Minimum Wages

Current monthly minimum wages for general manufacturing jobs for a 40-hour work week.



We are pleased to see that some Nike suppliers have taken a more forward-thinking approach by implementing pay and bonus scales that lead to higher-than-minimum wages for workers, resulting in lower staff turnover and higher productivity for the contract factory.

One example in 2007 involves a soccer ball supplier in North China. Faced with high wages, less-desirable jobs and high worker turnover, the factory created training programs, mentoring initiatives, teacher-student retention bonuses and other innovative measures that keep productivity and quality high and workers fairly compensated. The top ten stitchers in the factory now earn on average more than four times the minimum wage (including bonuses), and the stitching job is now more attractive.

This model may not be suitable for all our suppliers, but demonstrates that innovative solutions can be found to increase productivity and worker pay even under rising business costs.

Benefits

China mandates a range of benefits for factory workers. Most Nike suppliers offer typical benefits that include paid leave, social insurance provisions and special provisions for pregnant and female workers (varying in coverage for different benefits according to local regulations and standards). Unfortunately, across the industry full adherence to these laws is not the norm.

As part of our efforts to promote factory remediation, we often work with them to improve social insurance coverage and local efforts to maximize worker coverage. In the past, the regulatory system made it difficult for workers to claim benefits in their home provinces. The net effect was that workers – as well as employers – were reluctant to make their contributions when there appeared to be little or no benefit.

The new Labor Contract Law promotes the provision of full social insurance benefits. Some provincial governments have begun establishing systems for contributions to be transferred to home provinces. This is positive change that we hope, over time, will encourage more workers to support social insurance payment.

In addition to mandatory benefits, the contract factories in our portfolio provide a wide range of other benefits, including subsidized meals, transportation, dormitories, recreation facilities and – particularly in contract footwear factories – diverse education and training classes. In 2007, more than 5,800 workers earned high school certificates and more than 40,000 workers participated in a range of classes, such as dance, personal grooming, public speaking, social skills, personal protection, volunteer skills and more.

Another area Nike contract factories invest in is workers' health. We work with factories to provide education programs on HIV/AIDS prevention and other aspects of reproductive health. In 2007 more than

45,000 workers in our China supply chain attended reproductive health and HIV/AIDS prevention classes, and more than 57,000 female workers joined health care training for pregnant and nursing women.

In Qingdao, an international organization worked with footwear factories from 2005 to 2007 to train 220 health ambassadors, sponsored peer education and helped factories provide information in factory newspapers, bulletin boards and other outlets. In addition, some factories began providing female workers with access to physical exams.

One footwear factory under Nike contract participated in a pilot program offering reproductive health education to factory workers and the related community. In addition, it introduced an HIV/AIDS policy, which is now part of orientation for new workers.

Nike Code of Conduct: Hours of Work and Overtime

Hours of Work and Overtime

The contractor complies with legally mandated work hours; uses overtime only when each employee is fully compensated according to local law; informs each employee at the time of hiring if mandatory overtime is a condition of employment; and on a regularly scheduled basis provides one day off in seven, and requires no more than 60 hours of work per week on a regularly scheduled basis, or complies with local limits if they are lower.

The issue of work hours is one with serious implications for both workers and factories. While workers often voluntarily work additional hours to receive more pay, a lack of proper payroll and production documentation, as well as other problems attributed to long hours, mean that the true cost of excessive overtime still goes unmeasured within most contract factories in the industry. In addition to the toll the hours take on individual workers, excessive overtime can lead to reduced efficiency, higher rates of accidents, worker dissatisfaction and, therefore, high worker turnover.

Excessive overtime is one of the most commonly cited labor-standards problems in China. The issue has proven to be one of the most difficult for buyers to influence through compliance programs. Across the industry, stakeholder and media reports cite instances of workers often putting in 360 hours per month, with some logging up to 400 hours, with no days off. Workweeks of more than 90 hours, or 12 to 13 hours a day, are almost twice the legal limit in China and are in violation of Nike policy. Nike considers more than 240 total work hours in a month, or 60 hours per week, on a regularly scheduled basis to be excessive and unacceptable. Nike also requires that workers have at least one day off each week, and workers must receive overtime pay for any hours worked beyond 40 hours per week, the legally defined normal work week in China.

We recognize that situations may arise in which a factory needs to temporarily exceed our standards to meet production commitments. Through our ongoing relationships and capacity building, we encourage contract factories to anticipate and proactively address with us any potential for excessive overtime. Within our global policies on working hours, we can work with factories to reassign orders, allow later delivery or, in limited circumstances, allow working hours above 240 hours with strict monitoring and reporting requirements. In the event that additional hours are needed, factory management must get Nike's advance approval and show that they have planned the overtime to mitigate the impact on workers as much as possible. The factory also must show that workers have been consulted.

In examining the root causes of excessive overtime, we have found these issues in our own supply chain: inconsistent enforcement of laws, flawed factory management approaches and upstream practices that may have had unintended consequences at the contract factory.

This analysis helped us understand how often buyer-related practices cause pressure on workers, along with demand by workers for overtime. This understanding has allowed us to shift our dialogue with contract factories from monitoring and compliance to addressing root causes.

Some solutions identified include increasing productivity per product style, consolidating materials, increasing on-time commercialization and increasing forecast accuracy.

One way to overcome excessive overtime is by instituting new manufacturing practices that reorganize workflow, increase worker skills and reduce the amount of overtime needed. Furthermore, as we consolidate our supply chain among fewer factories with high production volume, we have more opportunities to work together with suppliers on all issues, including production loading and its impact. In 2007 we worked in China with contracted footwear factories to develop a database that allows factories and Nike to track overtime hours and causes. We have rolled it out to all contract footwear factories in Asia, and in 2008 we will implement it with key apparel factories. We intend to use the data to analyze and address Nike and factory-driven causes of excessive overtime.

Ultimately, we aim to see contract factories take responsibility for compliance and better productivity. To accomplish this, we help them implement well-developed human resources practices and factory management systems.

Excessive Overtime Taskforce

We launched an Excessive Overtime Taskforce in June 2005, chaired by our CEO. We define excessive overtime as any working hours in excess of 60 hours a week. We concentrate our efforts on the factories exceeding our base code standards. The task force includes business leaders from each of our three product engines and senior leadership across the business.

Nike Code of Conduct: Industrial Relations

▶ *Nike partners with contractors who share our commitment to best practices and continuous improvement in ... management practices that respect the rights of all employees, including the right to free association and collective bargaining.*

As our approach has evolved — from managing risk and reputation to a model focused on root-cause analysis and upstream business strategies — we realize that helping to build greater capacity for our contract manufacturers will provide the basis for stronger industrial relations. We continue increasing our efforts around capacity building to address the issues directly.

Protecting the rights of workers through representation and collective bargaining remains a persistent and fundamental compliance issue in the industry, globally and in China. Our approach is to help in developing mature industrial relations: encouraging worker-management dialogue, sharing best practices to improve factory grievance systems and directly intervening where specific representation issues arise. We commend the important steps taken by the Chinese government to increase protection of workers' rights. However, when comparing Chinese law with the basic protections outlined under the core ILO Convention, there are gaps in protection that workers elsewhere in our supply chain enjoy. We encourage all governments to recognize and respect the principles embodied in ILO Conventions 87 and 98 regarding freedom of association and collective bargaining.

Throughout our supply chain, many industrial relations challenges around the world and in China are beyond our ability to impact them significantly, but we continue to address them when possible.

These include:

-  Complex and varied legal frameworks for industrial relations.

-  Varying degrees of effectiveness, transparency and good governance within union representation, and a need for local unions to build capacity to be effective and constructive partners with management.

-  The need to educate contract factories on the role of industrial relations and collective bargaining.

The All China Federation of Trade Unions (ACFTU) is the only legally recognized union in China. Recent years have seen significant progress to strengthen the role of unions and to encourage expanded participation by workers in the ACFTU. More than 50 percent of the contract factories Nike uses in China have unions, and the Employment Contract Law encourages further unionization. Where trade unions are in place, they can serve as a potentially important vehicle for communication. To improve worker/management communication, unions in some of the contract factories are offering various activities and programs for workers.

In 2007 we met with a number of global organizations, trade unions, non-governmental organizations and multi-stakeholder initiatives regarding our approach to industrial relations. Participants shared their perspectives on our efforts and trends that they believe are shaping

the political and social landscape. We heard from participants that worker representation is inherently a local issue and strategies must be defined and addressed in a local-country context, that representation is designated a human right by the UN Declaration and that it is a component of mature industrial relations. As a result of these meetings and our internal review, we will be releasing a revised version of the Nike Code of Conduct by the end of 2008.

Existing labor laws in China include a number of means for workers and managers to engage in workplace dialogue, including unions and workers' congresses. Nike works with contract factories to help make sure that whatever mechanisms exist in the workplace are legal, functionally excellent and positively contribute to worker/management communication and negotiations.

In 2007 we worked with an external organization to raise awareness of the new worker representation provisions in the Labor Contract Law. Ninety-five percent of factories attended that training or received information and follow-up.

The enforcement of labor laws is varied across China, often due to differing local regulations and interpretations between workers and employers.

In 2007 two Nike-contracted footwear factories in Qingdao joined a project designed to assist manufacturers on setting up labor relations committees and educating workers on how to participate in the committee. In addition to training, it guides factories in establishing a process for handling grievances, organizing monthly meetings and conducting random interviews with employees by senior management. The program proved very effective, and two more factories in Guangdong will join the program in 2008.

This work, in conjunction with the U.S. Consul and U.S. Federal Mediation and Conciliation Service, and the Ministry of Labor and Ministry Personnel of China, has created processes to exchange information, established in-factory systems to discuss, identify and solve problems, and uses meetings to stabilize labor relationships and prevent disputes.

In 2004, two factories in Qingdao worked with a local NGO to train workers on their rights under China's labor laws, electing worker committees and using an information hotline for further assistance related to grievances. The program resulted in more transparent worker-manager communication, better understanding of roles and responsibilities on both sides, and factories' understanding better how to build internal grievance systems. We plan further training on labor laws and grievance systems within factories, and we are looking into how to best assist factories in assessing existing capacity and building on existing systems.

**We encourage
worker-management
dialogue and
stronger industrial
relations.**

Human Resources Management

Human resources management (HRM) as an area of expertise is relatively new to China. We are working with factories to help them understand the value of a strong human resources function as part of daily operations, something we have learned in monitoring supply chain compliance over the last 15 years.

We know HRM is central to a good factory, but some factories have been slow to appreciate the business case for increasing investment in this function. Together with other brands, we are working to help the industry realize that good HR practices can contribute to higher productivity and remove operational challenges. This effort is being well received as China's labor market becomes more competitive for employers.

Another effort to support this area is a practitioners' network that lets contract factories share best practices in HR, provide a platform for continuous learning, deliver training in the local language and link HR components to critical factory operations. Forty factories participated by receiving baseline assessments of their HR technical capacity and training. The program also involves development of a training manual based on case studies from effective factories, which can serve as a model for other factories and other industries.

As evidenced by the recent passage of the Employment Promotion Law, discrimination based on HBV/HIV in the factory remains a challenge in China. Nike works with contract factories to help them learn national regulations on nondiscrimination and Nike standards regarding employment of workers with HBV/HIV through training on hiring practices.

More than 80 percent of all Nike contracted factories in China attended the training, which included equality in recruitment, information on HBV/HIV and channels of infection, how to read medical reports for HBV, HBV/HIV regulation, confidentiality and nondiscrimination policies. We shared the materials from this training with all contract factories. The factories implemented better management systems on nondiscrimination, and reported better understanding of new regulations and Nike standards regarding discrimination.

Training Improves Management

We have worked with contract factories to improve factory supervisors' management skills with the joint aims of achieving higher work efficiency while improving contract factory compliance.

We focused on factories in the Guangdong area and promoted an external certification program for supervisors. We targeted factory line supervisors and other professionals, including corporate responsibility, human resources and training managers who could deliver training to line supervisors and earn certificates. The trainings included enhancing on-the-job management skills, sharing ideas from other industries and sharing best practices. Specific subjects included supervisors' responsibilities and obligations, management skills, effective on-site safety, quality, machinery, cost management, objective setting and team building.

After the training, some factories offered similar programs to more employees, reaching more than 2,000 line supervisors. Factories report lower turnover rates, more proactive communication, improved relations between supervisors and workers, and higher work efficiency.

Nike Code of Conduct: ESH

▶ *The contractor has written environmental, safety and health policies and standards, and implements a system to minimize negative impacts on the environment, reduce work-related injury and illness, and promote the general health of employees.*

We continue to monitor contract factory progress in the critical areas of environment, safety and health and focus on opportunities to work together. Where possible, when one factory or region addresses an issue, we seek to share that information with others.

Some cooperative efforts to improve health and safety in China include:

Buffer Machines. Use of component buffing machines to prepare assembling parts is very common in footwear manufacturing, but the machine has risks that include dust, noise and possible fire hazard if it is not properly cleaned and serviced. Nike and contract factories are working together to minimize the risk and increase safety. Factories are meeting quarterly to share best practices, including innovative approaches such as sealing open areas to minimize dust release, revising pressure to reduce noise and installing dust-filtering systems. The joint effort is helping control risk to contract factory employees, improve systems and save costs.

Fall Protection. Falling from height is a risk for both factory employees and subcontractors. We work with contract factories to tackle the problem by finding ways to prevent falls, optimize fall-protection practices and enhance contractor-safety management. We provide consultation and action plans that cover contract factory employees and their contractors. In June 2007 we launched a new program with the contract factories that includes reviewing fall-protection programs and protective equipment, providing on-site audits and consultancy and introducing training for all factory workers and outside contractors.

Industrial Hygiene. Exposure to chemicals through manufacturing poses both acute and long-term chronic health risks to workers. To understand the risks and how to manage or eliminate them, we needed to accurately quantify the level of exposure. In early 2007, we commissioned an assessment on a golf club manufacturer in South China. They collected information on potential hazard sources, exposure pathways, and magnitude, frequency and duration of exposures. They presented the information, along with factory recommendations. We also continue our support for the use of less-harmful products in the processes.

ISOS Clinic. In fiscal 2005 and 2006, along with International SOS and other brands, we offered clinic-focused occupational health assessments and training in footwear factories. This new cooperative effort among brands offered programs in 13 factories in Guangzhou, Fuzhou and Qingdao. The programs included assessments to establish benchmarks, monthly training sessions, new plans and summary reports to enable comparison and benchmarking.

Evolving Approaches

We are looking at our entire supply chain to understand how decisions and practices at every step impact factory conditions.

Over the past few years, Nike has significantly evolved our approach to contract factory compliance and to creating systemic change in conditions for workers. We have shifted from a primary focus on monitoring and compliance, based on risk and reputation management, to a more holistic, business-based approach. As outlined, our current audit practices and initiatives with factories focus on root-cause analysis and solutions for sustainable, systemic change. We are looking at our entire supply chain to understand how decisions and practices at every step impact factory conditions.

We are more deeply integrating responsible competitiveness practices into our business model. One promising area is Nike's lean manufacturing and lean enterprise strategies. We are working with contract factories to implement lean manufacturing principles that reduce waste and inefficiency through our supply chain. One key aspect of a successful lean manufacturing model is worker empowerment and training.

Enabling workers to make meaningful contributions to manufacturing processes, including problem solving and continuous improvement, is fundamental to successful implementation of lean manufacturing. Workers must have a higher level of skills and be empowered to engage with management to enhance the processes. In traditional manufacturing environments, workers typically are trained on one task, and represent one step in the process. In a lean environment, workers produce in teams, where they are cross-trained in different skill sets and are more empowered to manage the production process and immediately address quality and other issues.

As factories invest more in workers through lean manufacturing processes, we see the potential to improve working conditions. Nike's goal is to have 90 percent of our footwear production come from lean lines by the end of fiscal 2011.

Considered Design and the Environment

Can the world's most premium basketball shoe perform on the court — and for the planet? It was the perfect challenge for Nike. So when legendary shoe designer Tinker Hatfield, Nike's vice president of innovation design and special projects, teamed with the legendary Michael Jordan to design the AIR JORDAN XX3, history was made. Launched in January 2008, the AIR JORDAN XX3 is the first basketball shoe in Nike history to embrace the Nike Considered design ethos, supporting the environment without sacrificing athletic performance.

The Air Jordan XX3, manufactured in China, sets a new benchmark for premium performance footwear and sustainable product design:

- 

A breakthrough water-based bonding process attaches the carbon plate, eliminating solvent cements — a first for Nike performance basketball footwear and a new milestone in the company's long-standing efforts to reduce volatile organic compounds.
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Efficient pattern design minimizes waste.
- 

Environmentally preferred rubber in the outsole reduces toxics and incorporates recycled Nike Grind materials.
- 

A re-engineered inner bootie uses environmentally preferred materials without compromising performance properties such as stretch, breathability, resilience and comfort.

What began at Nike in 2005 with a single shoe — the award-winning Considered Boot — has evolved into a company-wide design philosophy. Nike's Considered Design ethos embraces environmental sustainability principles without compromising product performance — benefiting athletes and the environment. Considered Design strives to reduce toxics and waste, choose environmentally preferred materials and drive sustainable product innovation.

Nike is committed to designing all footwear to meet the company's baseline or higher Considered standards by 2011; the company has set the same goal for apparel by 2015 and equipment by 2020.

The Air Jordan XX3 shows what's possible when Nike's passion for innovation is married with our commitment to reducing our environmental footprint. Our Considered Design ethos is challenging everyone in the company to turn waste into opportunity.

Environmentally Preferred Materials (EPMs)

Nike creates approximately 50,000 product styles each year. As part of our growth strategy, maximizing the productivity of each product style is a key objective. Our charge is to look at everything we do through the eyes of the consumer and deliver the right assortment of products. Our volume and sales are projected to grow. This level of production traditionally creates a great deal of waste and requires a considerable amount of chemistry throughout the product life cycle – from design through manufacturing and shipping to the consumer and on to the waste management facility (for recovery, landfill or incineration), recycling or the used-product market.

One way we are innovating in product design and realizing environmental benefits in the process is by expanding our use of environmentally preferred materials. These are materials that have improved environmental impact over commonly used materials

and do not compromise the aesthetic, quality and performance our consumers expect from Nike products. New technologies are making environmentally preferred materials commercially viable, allowing us to integrate these materials into our products.

We source a number of EPMs in China, including organic cotton, soy azlon, bamboo rayon, hemp and environmentally preferred leather. Other materials, environmentally preferred because of their recycled content, include polyester, TPU, wool and cotton. Some EPMs also include Nike Grind – made from recycled rubber scrap from the manufacture of our footwear – and Nike EPM rubber.

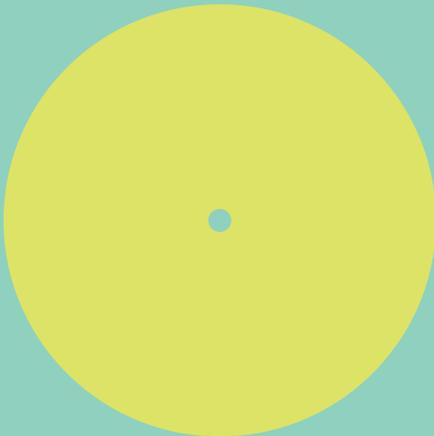
Currently, more than 25 percent of the EPMs supplied for Nike global apparel and 15 percent for global footwear are provided by vendors in China. Nearly all Nike footwear manufactured in China uses at least one EPM, and 24 percent of Nike apparel manufactured in China has EPMs; 32 percent of this apparel is made with 100 percent organic cotton.

Globally, we're one of the biggest users of organic cotton. China has become the third-largest producer of organic cotton seed and fiber, accounting for 7 percent of the global total. We aim to include a minimum of 5 percent organic cotton in all cotton-containing apparel by 2010.

By leveraging purchase volumes with our suppliers, we can encourage them to develop a wider range of sustainable materials options, since they know there will be a market. Our Considered Index goals will drive further EPM usage and vendor innovation.

Nike China-produced Apparel Containing EPMs

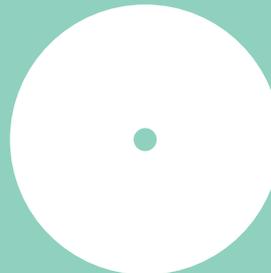
Organic Cotton
32%



Wool
24%



Recycled Polyester
20%



Hemp
14%



Bamboo Rayon
13%



Soy Azion*
2.5%



Other EPMs, used in smaller amounts, include cashmere, linen and silk.

Water

In China, as in other countries around the world, water quality and availability is a serious economic, social and environmental concern. Population growth, urbanization and industrialization have put unprecedented pressure on China's freshwater resources. These facts, coupled with the water-intensive nature of apparel production, mean water use and discharge must be addressed by factories and – where possible – by the design and processes used to make product.

Use of water and discharge is the largest environmental impact of textile production. An estimated 15 to 20 gallons of water are used for every pound of textile produced. Nike directs vendors that supply to contract factories to comply with the stricter of local or national regulations or our apparel water program, which we developed based on guidelines from an international working group, the Business for Social Responsibility Apparel Water Quality Working Group. The group worked with international academic and scientific communities to set best-practice goals for water quality, and works together to reduce audit fatigue for suppliers, share best practices in wastewater treatment and water conservation, and collaborate on effective water-management training.

Suppliers complete a questionnaire and provide copies of their discharge permit, water quality regulations specific to their location, and test results from an accredited laboratory demonstrating compliance. We evaluate suppliers based on both the quantity and quality of wastewater they produce, and require suppliers to enroll their main subcontractors in the program. Our program began in 2001 with 50 global apparel vendors. By 2007, it had grown to 325. Of those, 22 percent are located in China.

The total estimated annual wastewater discharge for all facilities enrolled in the water program around the world is approximately 129 million cubic meters (34 billion gallons), 40 percent – 13.4 million gallons – of which is located in China.

With Business for Social Responsibility, we have begun developing a web-based reporting tool that will allow suppliers to enroll in the water program online, check their ratings, upload current permits and regulations, and provide updated test results for annual reviews. Once implemented, this tool will allow the water program to grow to include all apparel, footwear and equipment suppliers, while refocusing efforts on conservation and innovation for sustainability.

Though water use is considerably less in footwear factories, we conduct extensive quarterly wastewater audits on all Nike contract footwear factories in China.

Waste

Waste is created at every step of a supply chain. We define waste as any product or material purchased anywhere in the supply chain that does not end up in the consumer's closet. It's a broad definition, but it helps us to see everywhere that waste occurs. Through this lens, we see that when measured by weight, more than 40 percent of the materials and products that we buy meet that definition.

We have broadened our perspective on our responsibility to include the environmental footprint of manufacturers, impacting both workers in contract factories and the environment. One of our biggest accomplishments has been to measure the overall waste footprint of our entire supply chain. With this, we can create a baseline against which we can establish targets and begin to measure the real impact.

We have come to understand waste in new ways. We found that nearly 75 percent of all waste came from parts of the supply chain outside the factory. For the 25 percent of waste at the factory level – 5 million kilograms of hazardous and 15 million kilograms of non-hazardous waste – we needed to identify the factories' compliance and technical capabilities to reuse or treat and dispose of it. We continue to tackle the remaining 75 percent of waste with new approaches in logistic, retail and packaging and have made considerable strides.

Solid Waste

In the footwear factories we contract, we identified and now measure and track 48 different streams of solid waste.

We are pursuing innovations that reduce or eliminate waste at its source. In 1996, contract factories making Nike shoes would throw away as much material as went into each pair of shoes. This was obviously not a sustainable process, both in terms of cost and in dealing with the excess material.

Reducing Waste

We have made major strides in reducing the amount of total solid waste generated by contracted footwear manufacturing operations in China. Since fiscal 2000, solid waste has dropped by nearly one-third, from a global average of 300 grams per pair to less than 200 grams per pair today. China's performance has provided a drop from 201 grams per pair in fiscal 2005, to 164 in fiscal 2007.

Our approach involves working closely with manufacturing partners in hands-on engineering work to optimize the manufacturing process in ways that more efficiently convert raw material inputs into finished product.

We have worked closely with factories to improve processes that reduce defects and the resulting waste. One example is a change in tooling design and a more precise calculation of the amount of pre-cured rubber that goes into shoe molds before pressing. As shoe designs become increasingly creative, outsole geometry becomes more complex. This trend often includes multiple colors in a single rubber outsole. While these developments help satisfy customer demand for performance and aesthetics, they also require careful manufacturing controls, such as precise tooling and mold maintenance, as well as worker training to avoid color bleeding. Without such control, additional waste is generated.

As a result of these and other projects and initiatives targeting waste – from improving the way workers cut leather to reducing cardboard packaging in favor of returnable/reusable containers, Nike China Footwear has been able to reduce the amount of solid waste it has generated by 25 percent since fiscal 2003. That means, even when normalized for production increases, in fiscal 2007 Nike China generated almost 5,100 tons less waste than in fiscal 2003.

Now we're focused on reducing or eliminating remaining waste. Some waste cannot currently be reduced further, due to technological constraints. But we continue seeking solutions.

Recycling and Reclamation

Until we find ways to eliminate all waste, we're working to maximize the amount that is recycled and reclaimed through our most preferred management methods, which include closed-loop materials, in-house recycling and Nike-sponsored programs. In China in fiscal 2007, we reprocessed more than 12,000 tonnes of scrap material, an 18 percent increase in the amount recycled in fiscal 2005. In terms of grams per pair, it's a 99 percent increase.

Between fiscal 2003 and fiscal 2007, China footwear operations doubled the amount of waste recycled and reclaimed as a percentage of total solid waste, from 15 percent of total to 30 percent.

In fiscal 2006, more than 80 percent of all solid waste generated in the footwear manufacturing process in China was reused in our own product or in other applications. We have utilized scrap materials back into footwear, such as pre-cured rubber that goes into shoe outsoles, created other priority uses for rubber scrap, including material for artificial sports surfaces at facilities (such as the Dongdan football pitch in Beijing), recycled laminated polyurethane foam into carpet padding, and created products out of it for our Let Me Play programs around the world.

We have also helped develop waste management/recycling infrastructure and systems near contract factory clusters that provide value-added processing and critical mass for recycling waste. In fiscal 2006, five waste management centers were operating – three in China: in Qingdao, Guangzhou and Fuzhou.

Hazardous Waste

As with our approach to handling all wastes, we are tackling hazardous waste by trying to design it out from the beginning. We're exploring ways to design product and processes that eliminate – or severely reduce – the use of toxins and waste. Healthier “green” chemistry can eliminate or minimize toxins.

Our efforts with contract factories are delivering results. From fiscal 2005 through fiscal 2007, our contract factories in China reduced hazardous waste by 117 tonnes, or 26 percent.

Nike's contracted footwear factories globally generate about 3,800 tons of hazardous waste. More than 1,400 tonnes — 37 percent — were generated in China.

Hazardous waste generated by manufacturing processes can pose a significant risk to human health and the environment. Nike is a member of AFIRM, an international trade industry group whose members require their contract manufacturers to comply with regulations and to ensure waste is managed and disposed of properly. Members report the treatment, storage and disposal facilities used by their factory base; these facilities are then reviewed for compliance by a qualified environmental auditor. This effort is simplifying the process for buyers, contract factories and treatment, storage and disposal facilities.

In 2004, we joined CHWMEG, Inc., a nonprofit trade association focused on efficiently managing waste. Through 2007, CHWMEG conducted more than 1,700 reviews at more than 800 facilities that treat, store, dispose of, recycle or transport waste. Since joining in 2004, we have targeted hazardous and nonrecyclable solid wastes. The joint effort offers measurement consistency, reduces duplication in inspections – especially where multiple companies use the same management facility – and has saved an estimated \$25 million for CHWMEG member companies. The effort is also making strides in eliminating hazardous waste from the industry or, where elimination is not yet possible, improving how it is treated.

This information has helped us influence our supply chain factories' choice of disposal facilities with treatment technologies and management discipline that support our commitment to responsible waste management. Other long-term benefits to factories can emerge as a by-product of the process: reducing the risks of potential regulatory fines, cleaning up actions and brand-image concerns and improving working conditions for disposal facility employees.

Sharing Responsibility through Closed-Loop Materials

Another way we have found to significantly reduce waste is to build responsibility for handling waste into vendor relationships. Closed-loop material programs require vendors to take back their waste for use as a recycling feedstock for use back into Nike product. In 2007, approximately 1.7 million pounds of waste has been handled through such vendor take-back initiatives. Contract factory efforts in China have led in this area since the programs began in 2000 – they represented one-half of Nike's global total for closed-loop materials programs in 2007. Ten global vendors participated in the program, which covered about 50 materials. China's closed-loop materials waste accounts for 50 percent of Nike's global closed-loop materials waste.

Volatile Organic Compounds

Use of Volatile Organic Compounds (VOCs) or Petroleum Derived Solvents (PDS) has been common practice in footwear manufacturing for generations. These compounds are used for a variety of cleaning, priming and adhesive applications.

Use of these compounds and solvents in manufacturing creates a potentially negative impact on workers, often requiring the use of expensive and uncomfortable personal protective equipment. The release of VOCs also has an undesirable environmental impact.

Nike's efforts to reduce use of these substances date back more than a decade. While we were a pioneer in green chemistry substitution, product and process innovation, and improved manufacturing approaches to reduce the need for VOC/PDS in footwear, the uncompromising performance attributes and customer requirements for many of our products make eliminating VOCs altogether an extremely challenging task.

Despite the challenge, across our global operations we have eliminated more than 95 percent of all VOC/PDS in production since 1995. In China, we achieved a 47 percent reduction of VOC/PDS in footwear operations from fiscal 2003 to fiscal 2007. That's more than 1,400 fewer tonnes of VOC/PDS.

Global VOC/PDS Reductions



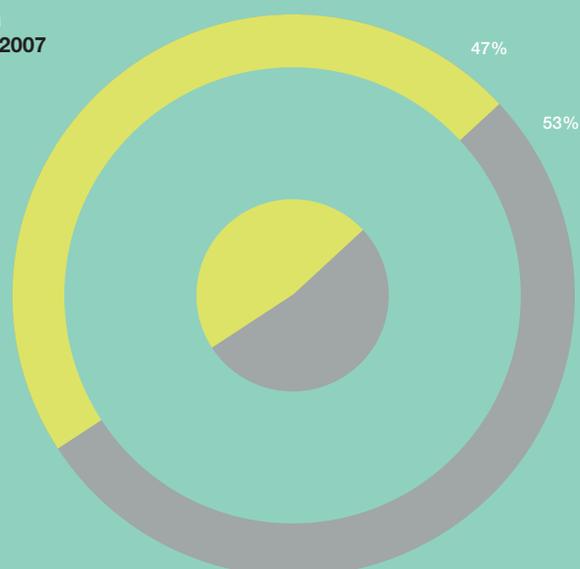
Global
1995-2007



China VOC/PDS Reductions



China
2003-2007



Climate Change

We believe that the impact and challenges of climate change will force us to rethink business models.

We believe that climate change is one of the most important issues facing the world today, and that it is everyone's responsibility to reduce CO₂ emissions. We believe that the impact and challenges of climate change will force us to rethink business models. The opportunity for all of us is to innovate and explore how we can collectively transition to a green, low-carbon global economy that continues to provide economic growth and community development. Nike is heavily focused on doing just that.

We have set targets for all Nike-brand facilities and business travel to be climate neutral by 2011, and for all Nike, Inc., facilities and business travel to be climate neutral by 2015. For example, as of January 1, 2008, we began offsetting all Nike brand business travel. We continue to implement a broad range of environmentally friendly practices and initiatives at our world headquarters near Beaverton, Oregon, as well as at other Nike campuses and facilities worldwide. These include recycling programs, paper and energy reduction initiatives, and sustainable building design. Our main European distribution center in Laakdal, Belgium, operates entirely off of wind energy.

Nike has been committed to measuring, managing and reducing our overall global climate footprint since 1997. Globally, we have made considerable strides in doing so within our owned facilities and business travel. Since 1998, we reduced our CO₂ emissions 13 percent over seven years – while also continuing to grow as a company. This achievement fulfilled goals set through our participation in the World Wildlife Fund's Climate Savers program, which we joined as founding partner in 2001.

Recently, Nike, Inc., President and CEO Mark Parker was a signatory to the Bali Communiqué, joining 149 other global business leaders calling for a legally binding United Nations framework to tackle climate change. We also are fully committed to reducing the environmental impact of our products without compromising performance. This product innovation focus, which we call Considered Design, is discussed elsewhere in this document. Complete information about our climate and Considered Design initiatives can be found at nikeresponsibility.com.

Nike's Efforts in China

Our challenge in China is working together with contract manufacturers to reduce CO₂ emissions together.

Since 2001, we have been working on measuring, understanding and reducing our broader Nike footprint. That means understanding our supply chain, our logistics and our retail distribution. Our footprint stretches from the materials we use in our contract manufacturing processes to the movement of product from where it's made to the point of sale and, ultimately, the consumer's use and disposal of the product.

Footwear manufacturing is the largest remaining part of our CO₂ footprint, and about 35 percent of our footwear is manufactured in China. Achieving reductions is a significant challenge, considering even single-digit annual growth in our business makes absolute reductions difficult.

However, we have an opportunity in China to work with our manufacturing to reduce CO₂ emissions together.

To accomplish this aim, we are working with major contract footwear manufacturers to determine emissions and craft a reduction strategy.

We publicly stated our aim to set climate-reduction goals for footwear contract manufacturing by January 2008. We are behind schedule in meeting this goal, but we are making significant efforts along with the contract factories. As we delve deeper, we have learned that a single goal is not sufficient. Factory operations differ considerably, meaning no one-size-fits-all approach will deliver a meaningful reduction target.

Though the end product is similar, each contract factory has its own mix of manufacturing processes and related energy requirements, which calls for individualized programs. What we need is energy-efficiency expertise and factory-level commitment at each manufacturing location. As those are set, we will make those targets and commitments public.

We are working on a pilot project with selected contract factories in China to demonstrate how they can reduce both emissions and costs. We are hopeful these efforts can be adapted and shared, giving a template for how to approach reductions in other factories, and demonstrating the return on installing energy controls and efficiency upgrades and innovations.

In 2007, we began establishing baselines in China-based factories, with energy monitoring and two with energy assessments. We are very encouraged by the effort so far. We have engaged others in this effort, including third-party experts and the U.S. Department of Energy in China.

One important development has been the installation of wireless monitoring. Rather than manual tracking of power consumption on the factory floor, Nike has helped pilot factories install systems that measure energy use by manufacturing process. The new systems provide online reports available in real time.

Under the National Development and Reform Commission's Top-1000 Enterprise Energy Efficiency Action Plan, reporting is required with the aim of controlling China's growing energy demand. We expect the wireless reporting will help meet that need while reducing staff time within the factory. It also shifts attention away from simply measuring and reporting and allows factories to focus time, attention and resources on understanding and reducing energy use.

To date, local governments and utilities have been focused on reducing energy demand that has accompanied economic growth. Nike is aligned with this focus and is looking to achieve this goal by shifting to energy independence among contract factories, ultimately resulting in reduced emissions. For all parties, reduced energy use is a good outcome and provides the added benefit of reduced costs.

So far the assessments have found preliminary energy-efficiency project opportunities with compelling potential savings. Potential returns from investments in the projects are considerable but depend on funding terms and other factors. We are working with the contract factories and others to demonstrate value from the projects and make the case for funding.

In January 2008, five contract footwear factories in China participated in an Energy Efficiency Learning Laboratory sponsored by the Society for Organizational Learning, with additional expert content delivered by the Rocky Mountain Institute and other top consultants. Laiwu Steel hosted the workshop in Shandong Province. As a result, contract footwear factories in China will be invited to join a related energy-efficiency learning community led by Laiwu Steel with ongoing support from the consultants.

In January we also joined The Climate Group, an international, independent nonprofit organization dedicated to advancing business and government leadership on climate change.

Looking Ahead

In 2008, we are coordinating visits to contract factories in China for leaders from government bodies, nongovernmental organizations and others in the industry to share the opportunities we are finding.

We plan to share these results with the World Federation of Sporting Goods Industries, a trade body of the top 150 sporting goods companies, to encourage the industry to take a leadership position in climate change. An industry-wide effort would demonstrate the joint effort needed to tackle climate change.

By May 31, 2008, we believe we will be able to share a set of reduction goals for the pilot and have the blueprint developed to enable us to roll out the program to other key factories.

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Community Investment

Nike's community investment portfolio is closely aligned with our core business model. Our advocacy around sport and the individual rights of athletes led us to focus our community investments in two key areas: supporting the right of young people to participate in physical activity, and addressing the challenges of globalization, primarily as they impact young women and girls.

As a global youth and sport brand, we've spent 30 years building relationships based on the role sport plays in people's lives. When we look at global trends for youth and sport, we see cause for concern. While the future holds bright prospects for many youth, more will struggle with poverty, unemployment, health problems, social exclusion and instability. By 2011, Nike intends to invest US\$315 million worldwide in community programs to provide youth with greater access to sport. We are aligning these investments under the banner of Let Me Play.

Complementing our community investment portfolio and strategies, the Nike Foundation, a distinct 501(c)3 organization, drives advocacy for and investment in adolescent girls, catalyzing their ripple effect in breaking cycles of poverty in the developing world. Nike and the foundation are focused on distinct areas of expertise and social progress. However, both Nike and the foundation share common practices that leverage social innovation, including deploying Nike staff and brand resources. While both have a global scope, Nike focuses primarily on emerging and developed markets that are key to the brand and the business, while the foundation operates in developing countries and areas of emerging markets stricken by poverty.

Let Me Play

Let Me Play is Nike's community investment strategy that seeks to promote social progress by providing socially and economically excluded youth with greater access to the benefits of sports.

In China, we are not alone in recognizing the benefits of sport. Last year the Ministry of Education, the State Sports Bureau and the Children's Youth League Central Committee Government launched a campaign to promote more time in the school day for sport, acknowledging that a well developed body is a basic requirement for young people's development and education.

Let Me Play programs are in place with partners around the world, tapping local expertise to help us focus on where the most good can be achieved. In China, this approach led us to target our efforts to help the estimated 24 million youth who have migrated with their families from rural to urban areas and who face a range of challenges.

In partnership with the China Children and Teenagers' Fund (CCTF) and Save the Children China Programme, we launched Let Me Play in China. The program gives schools the resources needed to offer quality sport

activities, including a specially developed curriculum along with teacher training, sports kits, facilities grants, program evaluation and inter-school competitions.

We piloted Let Me Play in Beijing in November 2006, reaching 15 schools serving 15,000 migrant youth. Students participating in the programs reported improved confidence and teamwork skills. Teachers also have reported better social skills among students and have recommended the program to others.

The effort is growing. By the end of fiscal 2008, Let Me Play will have reached 245 schools in four cities serving more than 120,000 migrant kids. By the end of fiscal 2008, Nike will have invested RMB 9.82 million (US\$1.53 million) into bringing the benefits of sports to Chinese youth who have migrated to cities.

Other Sport for Social Progress Investments

We provided equipment and apparel to Plan International's Rural Women Empowerment Program to help village groups use sports to build participants' practical skills, such as teamwork.

We secured product for the Shanghai Disabled Arts Group, a grassroots organization focused on enabling people with disabilities to express themselves through dance and performance.

Mercy Corps' GLOW project is equipping and empowering ethnic minority Yi girls with the life skills, health and economic options necessary to deal with the pressure of urban migration and the growing HIV/AIDS epidemic in the area. Nike provided program staff with training, a curriculum and sports equipment and apparel to help use sport as a tool to help the girls deal with the stresses and overcome challenges.

The children of Gangwang Township in Zhecheng County have been hit hard by HIV/AIDS, a situation that has created economic hardship for many. Nike supported the work of Loving Hearts Association to bring these children sports equipment, along with computers and school supplies to enhance their education and help build their self esteem.

Play Fields

In 2001 Nike donated an artificial football pitch to Dongdan Park, in the heart of Beijing. The playing surface was made from Nike Grind, rubber recycled from our manufacturing of Nike shoes. This project was developed by Nike in partnership with contract factories. One of the first-such pitches in the world, it has become one of the busiest in China, attracting an average of 700 young footballers each day. Nike renewed its commitment to Dongdan Park in 2007 and replaced the pitch with updated turf designed to withstand heavy use. More than 250 similar sport surfaces have been installed by Nike around the world.

Products

Nike also supports efforts with product, where appropriate. Some recent examples include:

-  Providing Loving Hearts Association with sports equipment, apparel and footwear for students of more than 200 poor schools in Qinghai Province.

-  Supporting the China Foundation for Poverty Alleviation with clothes for those who lost everything in the devastating floods of 2006 and 2007.

-  Donating product to the China Red Cross, to help the agency be ready to respond quickly to future emergencies.

-  Supplying product to Liangshan Yi Center, the local Civil Affairs Bureau and Education Bureaus and the Women's Federation to provide apparel and footwear to poor minority students in Liangshan.

-  Mitigating stereotypes of poor university students and helping them integrate with others by providing footwear and apparel through a donation to Dalian Charity Federation and the New Great Wall Program.

-  Providing apparel to the Shanghai Charity Federation, supporting its work with poor migrant children in the city.

The Nike Foundation

The Nike Foundation focuses its efforts on investing in the power of adolescent girls as agents of change in the developing world. The Foundation funds projects and programs that help make the case for international investment in girls. This includes on-the-ground efforts, such as education and providing economic incentives, as well as research and advocacy efforts.

In 2007, the Foundation targeted more than US\$1 million to programs for work in China. Efforts include:

-  Mercy Corps/PATH – implementing a health curriculum for girls

-  Mercy Corps – empowering and equipping girls in Sichuan Province with skills to enhance their health and economic livelihood

-  PATH – adding youth empowerment and community involvement programs to a government-run program aimed at helping poor rural girls stay in school

-  Mama Cash – helping girls access education, health care and economic opportunity

More information about the Nike Foundation is available at nikefoundation.org.

Power of Sport Delivers Promise for Change

China's migrant youth can experience social and systemic barriers to education, health care and integration into their new communities. The dropout rate among these 14-year-olds is 15.4 percent. Nearly one in three migrant children reports they're worried about discrimination.

We believe the power of sport can help. While sport brings health and fitness benefits, it also has further-reaching benefits: teamwork, leadership, self-esteem, inclusion and confidence. We realize sport itself will not solve these challenges but carries potential to spark real change.

Public Policy

Nike, like other companies, is actively engaged with a variety of public policy matters that affect our business in China. China is a vitally important country for Nike, and over the past year China has remained a primary focus as we grow both our commercial business and our manufacturing base. We remain committed to encouraging the dialogue between China and its major trading partners regarding economic issues, as well as around protecting workers' rights, transparency, rule of law and the issues unique to China's migrant population.

Legal Protection for Workers

China's new workers' rights legislation – the Labor Contract Law and the Labor Promotion Law – went into effect in January 2008, aiming to strengthen legal protection for workers. (See discussion of the new laws in the Responsible Competitiveness section.)

We believe the new laws will help prevent discrimination. Particularly, Nike supports a regulatory environment that strengthens legal protections for workers and promotes decent working conditions throughout our supply chain, including China.

Nike applauds the Chinese government for inviting and responding to public comment during the drafting of the Contract Law and supports the aims of many of its articles. Nike participated in this process directly and by working to ensure that our trade associations understood and supported the overall aims of this legislation. We believe that some areas of the legislation require further clarification, and we welcome the opportunity to work with government representatives to develop and implement the law's supporting regulations.

International Trade

Nike was founded on the principle of open trade, and today we remain a strong international advocate for free trade. We firmly believe that while there are unintended economic, social and environmental consequences of free trade, the greatest good can be realized when producers and consumers have unfettered access to goods and services on a global basis. We strive to promote this access in a way that improves lives and does not harm the environment.

Nike has been a steadfast supporter of China's 2001 entry into the WTO and was active in convincing the U.S. Congress to grant China Permanent Normal Trade Relations in the late 1990s and early 2000 as part of a larger platform. Since China's WTO entry, Nike has worked to ensure that trade disputes between China and its trading partners are negotiated and settled in a manner consistent with international norms. This has included trade disputes over apparel and footwear and equipment with some of China's key trading partners in Europe, the United States and Latin America. Most recently, we have been actively working in broad business coalitions to ensure that economic issues such as China's RMB valuation, and issues surrounding currency rates, are discussed and negotiated in a broad, international framework.

Playing by the Rules

While counterfeiting is not unique to China, the country's unprecedented economic growth has made this issue a continuing high priority for Nike. More than 3 million articles of counterfeit Nike product were seized at manufacturing plants and by customs in fiscal 2007. A considerable amount of product was also seized at retail outlets globally. We have seen a great deal of enforcement cooperation from various Chinese government offices at the national and provincial levels, and seek to continue to work with them cooperatively as we jointly tackle this difficult problem. We are also seeking modifications to some of China's intellectual property laws, including strengthening enforcement capacity, providing additional training for frontline enforcement officers and curbing counterfeit trade on the Internet.

The Quality Brands Protection Committee (QBPC), registered under the China Association of Enterprises with Foreign Investment (CAEFI), comprises more than 160 multinational companies concerned with the impact of counterfeiting. Nike was one of 28 founding members in 2000, and committee membership continues to grow.

In fiscal 2007, Nike continued supporting Boca's objectives to serve as a bridge between China and the international community and facilitate international cooperation in enforcement, collaborating with the Chinese government to build regional economic and social development plans, strengthen criminal and administrative enforcement and cross-border enforcement, increase public awareness issues, and lobby for prevention.

