





# SPEED.

A simple concept. Right?

Speed comes in many forms. Quickness, agility, precision, instinct. Few sports can't benefit from speed of thought. Few sports reward pure speed at the expense of tactical insight. If the fastest athlete were always the best, basketball teams would be drafting sprinters, not point guards.

Speed. It's a measure of physical and mental capacity, a measure of controlled force, a measure of instinctive genius. A measure of the time it takes to do something well.

It's a measure of success. Be first to the finish line, whether the race takes seconds or years, and you've won.

Simple as that.



# WE'RE FASTER THAN EVER.

Twenty-three years ago I began my chairman's letter, "This publication marks a milestone in Nike's history..." That was 1981, our first year as a publicly owned company. In the years since, I might have reprised that lede for many reasons. This year is no exception. Fiscal Year '04 was the best year in Nike history.

We crossed \$12 billion in revenue, a 15 percent increase over last year, with 27 percent growth in earnings per share. In fiscal '04, our international pre-tax profits grew by nearly a third and generated more than half of our overall profits. Nike exceeded the return of the S&P 500 by more than 10 percent for the year. We're 30 percent better over five years. And as for the long term (at least in today's cut-and-run environment), we more than doubled the S&P 500 growth over the last decade.

By any measure, Nike had a banner year.

Even so, the attempt I made in my first chairman's letter - to impart some clear understanding of what Nike means - remains as elusive as it was back in 1981. So I thought I would take a look back at the chairman's letters written in the interim with the idea it might give you some insight into who we are and where we are going. (If you question the premise, you may as well quit reading right now.)

When we went public in 1980, we had 7,500 original investors. I placed a list of those names on the credenza behind my desk. Every morning, as I sat down to begin the day, I saw those names, the people who understood enough about Nike and what we were trying to do to put their hard-earned money into a fledgling company - small and quick to be sure, but risky just the same. That list of names was a powerful reminder of the people for whom I was working. I continue to work for those people today.

Now there are over 150,000 shareholders, all benefiting from our simple story of growth by commitment. Through it all, the fits and starts, the problems, the triumphs, I can see, as clear as a silver cord in the sun, the thread that ties the Nike story together. And I can see, over my shoulder, statements made in past chairman's letters that seem almost prophetic and could easily apply today. (I'll not talk about all those things I said that were wrong.)

1982: "It is extremely enjoyable and enormously satisfying to look back on the last 10 years. It really has been a decade of victory. But we do not and cannot spend much time in reflection. We are busy and our most exciting decade lies ahead."

1983: "The next five years hold as much uncertainty as has existed in decades - but also as much excitement and opportunity. I believe those companies which will be successful will be those with good management and a good market position. We have both."

1984: "In fiscal year 1984, we made over \$40 million in net income, which represents a 16 percent return on equity. There are many companies

that would thankfully accept that performance. Nike is not one of them."

1985: "I still would not trade Nike's place with any other company in the industry."

1986: "What the future holds for this industry and this management is, of course, uncertain. The final question is, Can we compete? In China they say you can't escape your tradition. Our tradition grew out of a laundry room in Southeast Portland. Compete, I promise you, we can do."

1987: "And the most important thing is that all the areas in which we made progress during the year laid the foundation for what promises to be a brilliant future."

1988: "I believe that Nike's people are the envy of the industry."

1989: "Our business is exportable. There is at least as much potential in other markets as there is in the United States."

Along the way we grew in form.

Single product, single market.

Single product, multiple markets.

Multiple products, multiple markets.

Multiple brands, multiple markets.

Through it all there were three big themes that made it happen: people, people, people.

Make no mistake: we have been tested mightily. Between 1998 and 2001, the management that I praised in the '80s had a tough time keeping up with sales, which more than doubled between 1994 and 1997. I expected it to take some time for them to grow into our revenues. It did. And they did.

In 2001 some people were asking if Nike was still a growth company. This past fiscal year our sales grew \$1.5 billion. We all work in a terrific industry - shoes, clothes, accessories and equipment - and its momentum is gathering around the world. This year Nike Russia came online, joining Nike Brasil, Nike China and Nike India as Nike-owned frontiers in the world's largest and fastest growing economies.

Yes, there is lots of room to grow.

Three quick examples. First, we're becoming a golf equipment company. Tiger, who will be back, had his toughest year. Result: record golf sales. (It's not just the athlete.) Second, a shoe called the Air Zoom Total 90 became the biggest selling soccer boot in the "big five" European countries during the 4th quarter, making Nike the marketshare leader in soccer footwear in Europe - unfathomable by the world a decade ago; unspeakable by some today; yet fated to Nike because we committed our unique passion and skills to the game. Third, while Nike was hitting

on most cylinders this year, our subsidiary brands - Cole Haan, Bauer Nike Hockey, Converse and Hurley - are now up and over a billion dollars in revenue. You want to see an opportunity for Nike akin to becoming global? Look to the subs.

Despite our youthful and well-intentioned resistance to it along the way, Nike is gaining maturity, an attribute you cannot pursue but rather is thrust upon you. It happens when you willingly accept responsibility for your potential; it happens when you survive those things that are beyond your control. Even so, when you choose to focus on the fine, indeterminate line that is the horizon, life and business will never be perfectly precise. Your views and actions must continually adjust for a degree or two of uncertainty. We welcome that. It is how we gain wisdom, how we survive, how we become strong. It is how we grow into ourselves.

And yet for all we have seen and learned, for all our scars and grins, Nike remains a kid at heart. Just a few weeks back, on the Michael Johnson Track here at World Headquarters, we celebrated the 50th anniversary of Roger Bannister and his royal performance as the first to crack the 4-minute mile. Providence was ours that day, Michael Stember won the Inaugural Nike Invitational Mile with a time of 3:59.4 - matching exactly the good doctor's time set 50 years earlier. Also running that day, a kid from Portland named Galen Rupp, who finished at 4:01.8, shattering the Oregon high school record by three seconds. Yes, I said high school. It was a magical day for more than 2,000 screaming Nike employees crowding the track. This is the Nike that will always be.

Amidst this atypical reminiscence, and underlying all the heady emotion of our industry, I am reminded of the unforgettable lessons of finance professor James T.S. Porterfield, who thundered in the classroom, "Shareholders are the deity that you serve."

And so I say to our shareholders and to our Nike people alike, I believe our record over 24 years as a public company is very good. It is why I can stand in this space one more time, look you in the eye and say what I said twenty years ago, and what I hope to say 20 years from now, "We are very optimistic about our future."

Philip H. Knight  
Chairman of the Board,  
Chief Executive Officer & President  
NIKE, Inc.



# SPEED: OUR IDEA OF A GOOD INVESTMENT.

Take Nike Swift technology for example.

The margin between first and fourth in modern 100m races has been as little as .005 of a second. In Salt Lake City, Apolo Anton Ohno won his 1500m short track gold by less than a quarter of a second. He was wearing a Nike Swift Suit. Our calculations tell us that Nike Swift apparel can deliver a 1.13% improvement in times.

Nike Swift technology took us 36,000 hours to develop. So it wasn't all that fast in development. But it's fast everywhere else. And it's only one of the many, many things we do to help athletes go faster. To a lot of athletes, 1.13% more speed could be the difference of a lifetime.

To us, it's just good business.

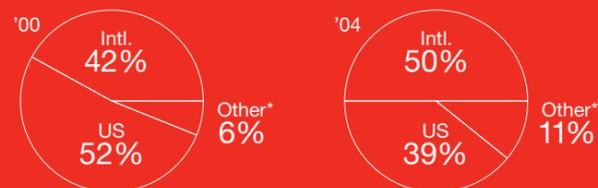


**Nike Revenue Performance**  
Fiscal Year 2000-2004



Revenue in Millions

**Nike Revenue Distribution**  
Fiscal Year 2000 vs. 2004



\* The segment labeled "Other" represents revenues from Nike Golf, Cole Haan Holdings, Inc., Bauer NIKE Hockey Inc., Hurley International LLC and Converse Inc.

**Nike EPS Performance\***  
Fiscal Year 2000-2004

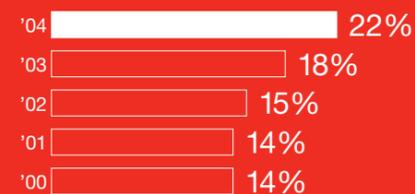


5-Year CAGR 17%\*\*

\*Amounts based on diluted earnings per share before accounting change.

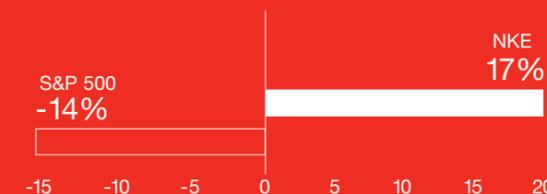
\*\*5-Year CAGR based on 1999 EPS of \$1.57.

**Return on Invested Capital**  
Fiscal Year 2000-2004



Return on Invested Capital calculation available at [www.nikebiz.com/investors/financials](http://www.nikebiz.com/investors/financials).

**Nike Stock Performance vs. S&P 500**  
Fiscal Year 2000-2004



# THINK FAST.

Nike, Inc., presidents Charlie Denson and Mark Parker take a few minutes to talk about where we've been, where we're going, and the athletes that remind them why they work at a sports and fitness company.

Three years ago, you were asked to simplify Nike, Inc.; to manage the brand and put us on the road to operational excellence and align product, marketing, sales and retail. We're making great progress – but how do you simplify a business like Nike?

**Charlie Denson:** We had to reenergize the corporate culture of competitiveness and focus. We had to clarify our growth agenda. Put simply, we need to focus on knowing who our consumer is, who we're competing against, and who we are. When we know those answers, we think we can win. The financial successes are the results of having a better consumer connection, having a clearer idea of who we are, having a clearer sense of how we're going to be more competitive in each of the different pieces of the business around the world.

**Mark Parker:** You focus on the fundamentals: Organizational strength and common goals. Both Charlie and I fixated on making sure we were more competitive in each distinct piece of the business. It's a basic approach, but we both saw a huge opportunity to be more competitive by better executing the fundamentals while better connecting with those we're here to serve.

**Football. Soccer. March to March, our football footwear was #1 in Europe. What does our success in this global sport mean to the brand?**

**MP:** The fact that we set a 10-year goal and we've made consistent progress against it year to year has been among the most satisfying things we've done in this company. But the "There is no finish line" mantra is very much alive around here. It shows us that when we set goals, get the right team of people focused, create great product and connect with the best athletes and teams and then rally around those goals, we can achieve almost anything.

**CD:** It's become a source of energy and inspiration for other categories and that's one of the big benefits of where we are right now in football. It's been a great benchmark to use as a success story.

China has been booming for most businesses. What can you say about how we've been conducting business there for the last few years? And what about other emerging economies: Russia, Brazil, India?

**CD:** We've brought all four of those businesses in as Nike-owned and all four will represent important pieces of our growth agenda over the next five years. We have a significant head start in China where we've seen exciting growth. China grew 66% in revenue in the past year. The velocity of the business in China could be overwhelming, but the team has done an unbelievable job. They're opening up one retail space a day. In South America, we're starting to work on a different model by doing more local sourcing that we'll test in Brazil. It will mitigate some of the geopolitical and financial risks of doing business in an emerging economy, which we may be able to use in India or Russia in the future.

**MP:** We'll always be aggressive in new markets, but with a sensitivity to the culture and the consumer, as opposed to simply importing the brand and product to developing countries and newer markets. We need to make sure that what the brand stands for is clear and consistent but also relates to and respects the insights that we gain from that culture and those consumers. In the end, that makes Nike a stronger, more relevant and interesting brand...both locally and globally.

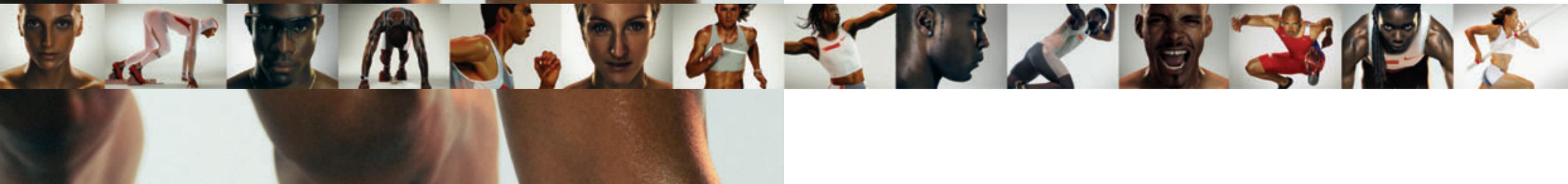
**How have we approached and evolved the women's business?**

**CD:** It's a complex challenge, but we're getting better at it, and I'm optimistic. The women's business is much more varied region to region than the men's business – the women's consumer in the US is much different from the women's consumer in Europe or Asia. But we've finally reached a point in this company's maturity and the evolution of the consumer and the changes in the marketplaces themselves that are enabling us to optimize this opportunity.

**MP:** The women's business has always been a big opportunity for Nike, but what's put us in a better position is putting a strong team together, listening to and better connecting to consumers, and being clear and

**“We've got to remind ourselves of the power of sports when it comes to kids and their development.”**

*– Mark Parker*





focused on what's really relevant in putting the brand and the product in a more compelling position with the consumer.

**It's been a year since we promised LeBron James more money than he could ever spend. Since then, Nike's spent big bucks on Freddy Adu and Serena Williams. How do you explain to a shareholder who's wondering whether we're spending responsibly that this is the right thing to do?**

**CD:** It's our history, and our history has served us well. It's what we do and it's how we do it. When you're with these types of individuals on an almost daily basis, it becomes a fairly easy call to say this athlete or this person is someone special.

**“We need to focus on knowing who our consumer is, who we're competing against and who we are. When we know those answers, we think we can win.”**

*– Charlie Denson*

**MP:** LeBron James is one of those very special athletes who comes along with that rare level of talent and charisma that gives us the license to take the consumer somewhere totally new. So in a sense, that makes it a bargain. LeBron helps authenticate and legitimize new directions in product design to levels beyond most other athletes.

**Wish to address some highlights of the past year?**

**MP:** Two areas in particular: product and community affairs. Our new line of soccer products, such as the Air Zoom Total 90 III shoe, has helped put us in a market leadership position in soccer footwear in Europe. We've seen incredible advances with Nike Shox footwear in the last year with women's-specific performance product. In Apparel, Nike Sphere continues its quiet revolution in performance comfort. The product you'll see this year around our Speed initiative will really change the way athletes look at footwear, apparel and equipment and competitive advantage.

We're also very proud of our work in community affairs. We give 3% of our pretax profit back to the communities where we live with a lot of our energy and investments focused on supporting physical activity for youth.

**CD:** I agree with Mark – we're proud of our Community Affairs efforts. We're proud of the work NikeGo is doing to help reinstate physical

education programs and turn recycled shoes into sports surfaces, just two of the many initiatives we drive to help Nike be a responsible part of the community.

On the product side, we're excited about Nike Free, a footwear technology designed to mimic the bare foot. We've learned that training barefoot can strengthen the foot, the leg, the entire body. Basically, we've found that natural motion makes athletes stronger, and Nike Free is about the closest thing you can get to natural motion in a performance athletic shoe. And Nike iD – consumers can go online and customize product. It is the future, and we're just beginning to see its emergence. It will allow us to build an even more intimate relationship with consumers than we have today. We've always thought of ourselves as the brand that listens to athletes, and both Nike Free and Nike iD reflect that.

**Let's finish with Nike's biggest challenges as a brand and as a company.**

**MP:** We have so many opportunities in front of us that the degree of our success will be based on what choices we make and how we focus our energy and our investments against those decisions. And then making sure that we have the talent and the strength in the organization to build on what we've got and we'll execute against those new opportunities.

**CD:** I find myself thinking more and more about the next phase. What will take Nike beyond our current growth strategy? What does a better, bigger Nike look and feel like? The one thing we have learned to count on is that the world of sports will continue to supply us with the stories, the personalities and the challenges to improve our product, our brand and our performance.

**Who are your favorite athletes?**

**CD:** It's impossible to have just one. One great thing about this job is that you have an opportunity to experience athletes in different phases of their careers. You can be energized by the youthfulness and optimism of a LeBron James, a Carmelo Anthony, a Serena Williams, a Freddy Adu – athletes who have their entire careers in front of them. The enthusiasm that oozes from them is fun to be around. Then you see people like Tiger Woods who are focused on being the greatest of all time or someone like Michael Jordan who's stepping into a continuation of that career from a business standpoint – you just can't pick a single person. That would be, in a sense, a disservice to the job.

**MP:** This past year I've been more involved with my kids in sports, my son particularly. He got involved in cross country and track and was very successful in his first year. It was a reminder to me of the power of sports for kids and how important that is. To see my son get involved in a sport and a team, set goals and discipline himself to try to achieve those goals and to see him transform and gain confidence that helped him be a better student, interact with other kids at a higher level, and help make him an overall better person was inspiring. It's not all about the big global, megastar athletes – we've got to remind ourselves of the power of sports when it comes to kids and their development...and how inspiring that can be.



A new beauty has been added to the splendor of the world – the beauty of speed.

*– Tommaso Marinetti, Italian playwright*

Nike co-founder Bill Bowerman, when asked how a runner could improve his times: Run faster.

Speed gets faster over time: the Oregon 2004 state high school 100m champion's time was 11.17. That would've won silver at the 1904 games in St. Louis.

When Michael Johnson won the 200m and 400m at Atlanta in '96, the gold chain around his neck outweighed the spikes on his feet.

The current mile record is 3:43.14, held by Morocco's Hicham el Guerrouj.

A predator never attacks the front of the herd.



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Copies of the Company's Form 10-K or Form 10-Q reports filed with the Securities and Exchange Commission are available from the Company without charge. To request a copy, please call 800-640-8007 or write to NIKE's Investor Relations Department at NIKE World Headquarters, One Bowerman Drive, Beaverton, Oregon 97005-6453. Financial information is also available via the internet at [www.NikeBiz.com](http://www.NikeBiz.com).

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Speed doesn't drive us.

# ATHLETES DRIVE US.

We seek speed because they do. We seek what they seek because they inspire us. We crave their approval just as they crave victory. When athletes tell us we're doing the right thing, that's a victory for us, but it's only one among many.

And the next one can't come fast enough.

