



NIKE, INC.

2007 ANNUAL REPORT



Fiscal year 2007 was a very strong year. Revenue hit an all-time high of \$16.3 billion, and every region saw revenue and futures orders increase. Our performance validates the approach we have toward continued growth—focus on the consumer, deliver compelling, innovative product, and run a strong and efficient business.

Mark Parker
President and Chief Executive Officer, NIKE, Inc.

For the NIKE, Inc. fiscal 2007 Annual Report, we conducted interviews with Philip H. Knight, NIKE, Inc. Co-founder and Chairman of the Board, and Mark Parker, NIKE, Inc. President and Chief Executive Officer. The transcript of these interviews is provided in this report. For the videotape of these interviews and other shareholder information, we encourage you to visit www.nikebiz.com/investors.

COVER ATHLETE: LIU XIANG, world record holder, 110m hurdles.







Q:

Can a big company like NIKE still be entrepreneurial?

A:

The spirit of entrepreneurship is key to our success. It certainly defined NIKE when we started the company. And it's what keeps us nimble in this industry today. So, yes, entrepreneurship is alive and kicking at NIKE, and we're going to need it as we move toward our goal of \$23 billion in revenue by fiscal year 2011.

Philip H. Knight

Co-founder and Chairman of the Board, NIKE, Inc.

What is your job?

I'm Chairman of the Board of NIKE. On different days that means different things to me, but essentially I report to the Board of Directors and nobody reports to me. I do a lot of management by wandering around. I stop by Sports Marketing and the Innovation Kitchen. I check on sourcing and morale from time to time. Right now I'd say that's going pretty well as defined by the year we've just had.

What connections do you see between the original NIKE and the company today?

There are a lot of things that haven't changed at NIKE. One is attitude. NIKE has always tried very hard to be the best it could be.

A group of guys who had no reason to be in the shoe business just got together and decided to try to build the best athletic brand in the world. We started out of my mother's laundry room, and I think some of that spirit is still with us. And I think we're in trouble if we ever lose that spirit.

It's amazing what you can do when you are working for a common cause, with no political agenda, no personal agendas, you just want to win.

What does it take to be a great global company?

Greatness is a word that I don't really like. I just think that we always need to be good and

getting better. If you ever say you're great then what is there to achieve?

The key to becoming good and better is always management. We're managing our business pretty well right now. We're going to have to get better to get to the \$23 billion level. That means managing people inside the company better, and it means getting good people from outside the company to join us here over the next three or four years, and I'm quite optimistic that we'll do it.

Mark Parker has been CEO for 18 months. How is he doing?

I've known and worked with Mark Parker for over 25 years, and in some ways we finish each other's sentences. I know what he's thinking a lot, and he knows what I'm thinking a lot. On a scale of one to ten, he's doing a twelve.

I give him the best advice I have, which has to do with what I see going on daily and what I see out ahead. He listens to me when he thinks it's right and sometimes he doesn't listen to me.

How does NIKE manage global change?

Business is clearly becoming more globalized all the time... the athletic footwear industry has been globalized for longer than most of them.

This last year it's gone through big changes. Retail is changing in the United Kingdom, the

United States, and in China.

Keeping up with that is a real challenge. Sports Marketing is changing, becoming much more competitive as more companies keep getting into this industry, which keeps growing.

NIKE looked at a market that was saturating to some extent in the United States and has grown through that. And we've grown enormously in China, which is a very fast-moving market, and we've begun inroads in India, and made great growth strides in Russia. I think all of those things reflect the progress of our management team, which has really done a nice job this last year.

Doing business in China is an interesting question. We started there in 1980. It's obviously a different place to do business than a lot of places in the world. I know a businessman that I respect who said he'd never do business in any country that didn't have an English-based judicial system, which certainly meant he wasn't going to do business in China. We've ignored that advice, certainly as far as China's concerned, and that's been clearly to our benefit.

As the industry gets bigger, as NIKE gets bigger, it has to be ever faster. That's an enormous challenge and always has been. We've got a pretty good record of meeting that challenge, but we can never let our guard down.

What is NIKE's cash deployment strategy?

We don't want it to burn a hole in our pocket. We want to use it sensibly. Essentially we'll do what we've been doing, which is increase our share buy back, increase our dividend, and look for opportunities in the acquisition market that we think can increase shareholder value. It's a simple formula, but execution is always a challenge, isn't it?

Are athletes heroes?

There's really no emotion in the world today quite like the emotion off the athletic field. Out of that come heroes. NIKE has made those heroes bigger than they would be just on their own, and I'm proud of our role in doing that.

I don't really think that has changed enormously. I think you've had more publicity for sport, had more publicity for the athletes in the sports. Some of those athletes haven't been heroes, they've been bad guys, and that detracts from the sport and from NIKE as a company and as a business. But for the most part I see the game just getting bigger, the heroes becoming bigger, the emotion becoming bigger, and to the extent that NIKE does its job, it really reaps a benefit from all of that.

What are you looking forward to in sports?


The Olympic Games in China are going to be a huge event, probably the biggest Olympics,

and probably the best Olympics ever. It'll be a big opportunity for us to show what we can do in the world of shoes, and clothes, and equipment.

1972 was the Olympic Games where we came out as a brand for the first time. Obviously that was a significant moment for us. And the US Olympic trials are back in Eugene, Oregon, which is great for us and brings back a lot of memories, and believe me, we're going to try and put on a show.

Who is your boss?

When we went public in December 1980, we had 7,500 shareholders, and in a word it scared me. I can remember getting that first list, 7,500 people long, that had invested in this company. I put that list on a credenza in back of my desk, and it was the last thing I looked at every morning before I sat down at my desk, thinking, *These people have invested their savings in you.*

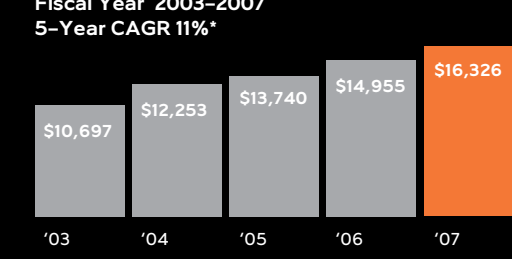
Today we have 300,000 shareholders, and I've really never lost that feeling. We really have an obligation to do well not only for ourselves but for them. 

Is there a limit to human potential?

The answer is probably not. There is to the extent that you're not going to run a two-minute mile. There isn't to the extent that the mile performances can be improved all the time.

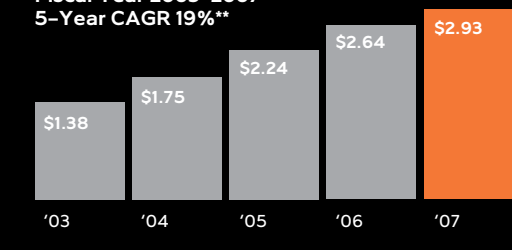
You're not going to see quantum jumps in performance over the next 10 or 15 years, but I think technology will continue to play a role. So improvements will be of a smaller percentage, but they'll continue to improve in my view.

Revenue Performance



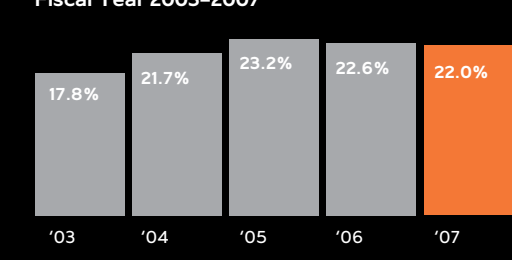
* 5-Year CAGR based on Fiscal Year 2002 Revenue of \$9,893 million Revenue in Millions

EPS Performance*

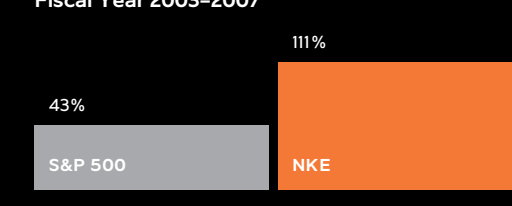


*EPS based on diluted earnings per share before accounting change
**5-Year CAGR based on Fiscal Year 2002 diluted EPS of \$1.23
***EPS amounts prior to Fiscal Year 2007 have been restated to reflect the two-for-one stock split that occurred in April 2007.

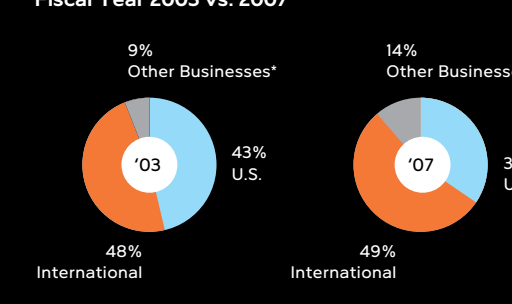
Return on Invested Capital



Stock Performance vs. S&P 500



Revenue Distribution



* The segment labeled "Other Businesses" represents revenues from Cole Haan Holdings Incorporated, Hurley International LLC, NIKE Bauer Hockey Inc., and NIKE Golf for fiscal year 2003, and also includes Converse Inc., and Exeter Brands Group LLC for fiscal year 2007.





Q:

What is the core of NIKE's philosophy?

A:

We believe in potential, not limits. The 4-minute mile was safe, until Roger Bannister. Lou Gehrig's 2,130 straight games was safe, until Cal Ripken. No one would ever clear 29 feet in the long jump, until Bob Beamon. Nobody would ever beat Bob Beamon, until Michael Powell. That's how it is with NIKE. We believe.

Mark Parker

President and Chief Executive Officer, NIKE, Inc.

ON GROWTH . . .

How much more can NIKE grow?

I don't believe in limits, but I believe in goals. Our goal is to reach \$23 billion in revenue by fiscal year 2011, and I'd say we're well on our way.

Seventy-five percent of that growth will come from the NIKE brand. The strength of the NIKE brand is our most valuable asset. It's intangible, it doesn't show up on the balance sheet, but really it's our most valuable asset.

We see tremendous opportunity in both established and emerging markets around the world. In the U.S. revenues grew seven percent in fiscal 07. NIKE is the fastest growing running brand in Germany. In Russia we've doubled revenue in the last three years. We're the No. 1 athletic brand in China, a market we expect to be our second largest within three years.

Our promise is to deliver consistent, profitable growth over the long term — high single-digit revenue growth and mid-teens EPS. Since we introduced this growth model in 2001, we've generated a revenue CAGR of nine percent, grown EPS at 18 percent, and seen ROIC grow from 14 to 22 percent. In other words, we're keeping our promise.

What strengths do the NIKE subsidiaries contribute to your growth plan?

Our subsidiaries are critical to NIKE reaching its potential. They

represent a more diversified portfolio, and they help keep the NIKE brand focused, allowing us to develop new business opportunities where we don't want the NIKE brand to go. There is also a lot of opportunity for complementary growth across the portfolio through sharing resources and efficiencies.

In fiscal 07 the NIKE subsidiaries grew revenue 16 percent to reach \$2.3 billion. We saw record revenues and PTI for Converse and Hurley, record revenue for Cole Haan, and record PTI for NIKE Bauer Hockey. Over the last five years, the subsidiary brands have more than doubled their revenue contribution.

To see the potential of the subsidiaries, you just have to look at Converse. Revenue increased 23 percent, and PTI increased 133 percent. In fact, Q4 was the biggest global sales quarter ever for Converse.

And next year is the 100th anniversary of Converse, so we're busy cooking up some special concepts to celebrate the centennial of the brand.

How do you convert revenue growth into value for your shareholders?

For growth to be good, it has to be profitable and sustainable. There are two big levers we pull to drive health and value into the business.

The first is operational excellence.

This is really about maximizing our supply chain efficiencies and minimizing costs. Since 2001 we've had nine successful supply chain implementations. That helps us better manage forecasting and inventory. There's a lot we do to manage product costs — lean manufacturing, raw materials consolidation, making sure we optimize our SKU management, focusing on the most profitable styles. We're also ramping up our digital samples and 3-D modeling to reduce costs in product development. There is a lot of discipline around the company on becoming leaner and stronger.

The second big lever we pull to create value is cash deployment. We target a dividend payout between 20 and 30 percent of our trailing 12-month EPS. Since 2003, we've raised our dividend payout from 20 to 24 percent. I'm proud of our performance there.

We also return cash to shareholders in the form of share repurchases. We've increased our share repurchases in each of the last three years and have finished our last two programs well ahead of schedule. We are currently buying shares under a \$3 billion, four-year, repurchase program approved in June 2006, and we're well on our way to completing that program on or ahead of schedule.

I look at every part of the

business as part of an optimization plan, making sure we leverage our resources, manage our costs, and invest wisely in growth opportunities.

What role will acquisitions play in the NIKE growth plan?

We are always looking for ways to expand our growth potential, but within certain principles. We ask a lot of tough questions.

"Does it improve our ability to grow existing businesses?" When the answer is yes, we buy a company like Impact Golf Technologies, which allowed us to become the leading innovator in golf club design.

We ask, "Does it expand our consumer base within our culture of sports?" When the answer is yes, we buy a company like Converse, which is delivering tremendous growth by evolving franchise concepts like the Chuck Taylor, and by creating new ideas in footwear and apparel that resonate with young consumers all over the world.

We ask, "Does it give us entry into new consumer cultures that can benefit from the cross-over of NIKE technology?" When the answer is yes, we buy a company like Cole Haan, which uses NIKE Air to redefine the concept of comfort in fashion footwear.

This is the benefit of a strong balance sheet, being able to aggressively investigate and act

on the best opportunities for the company.

What should shareholders understand about NIKE?

I think as a shareholder you should look at NIKE and ask yourself, *Are they really focused on the right things?* Is the product innovative and compelling? Is the consumer experience rich and relevant? Are we being a responsible corporate citizen in the world? Are we completely focused on the consumer?

And that's really what our job is — to make sure that we're clear about our potential. Kind of like

And we have a lot of both. There's just a deep competitive fire that makes us try to be a leader in everything we do.

ON NIKE . . .

NIKE's mission statement is to bring inspiration and innovation to every athlete in the world.

What does that mean to you? I think sports is a healthy and positive expression of our human nature. We're competitive, we're physical, we're drawn to challenges. We like to achieve things on a personal level, and we like being part of teams that share a passion and a common goal.

To me sports, at its best, is a noble part of the human experience.

NIKE is a part of that experience. We're athletes, so we understand sports and what athletes need to compete. We're innovators, so we're able to create products that enhance performance. And we're passionate about what we do.

There's also an asterisk in our mission statement — "If you have a body, you're an athlete." That's actually a quote from Bill Bowerman. He was the legendary track coach at University of Oregon, and co-founder of the company. That asterisk means a lot at NIKE. It speaks to the removal of barriers, the refusal to accept the limitations of others, the right for everybody to play and to compete.

So our mission is to take the things we do best and share them with the world and, hopefully, inspire and enable individuals to reach their potential.

What makes NIKE different?

I think there are a few things I see everyday that really set us apart. First, we're innovators by nature. We're fixated, obsessed by innovation. I think that NIKE represents a passion and an insatiable appetite to go deeper with an athlete within sports and to take those insights and translate those creatively into innovative concepts and products and stories.

We have incredibly wide peripheral vision, the ability to see and be inspired by things that happen in sports, but also in film and music and digital technology — everything in youth culture around the world. We're incredibly curious, but we're also incredibly focused.

We continually challenge ourselves to be better. There's a lot of pride at NIKE. We believe in what we do. We are a youthful and a premium brand. Our intentions, our influence, our results are all really very positive. But that doesn't mean that we are satisfied.

How do you keep a \$16 billion company fast and nimble?

To stay quick and nimble, you have to organize against specific opportunities and empower people to attack those

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an athlete. We're actually made up of a lot of athletes, and I think that permeates our culture. NIKE has tremendous resources, but we have even more opportunities. So we have to make sure we are making the most of both. And that requires a superior management team, which we have. We have the best team in the business. Every leader at NIKE brings a unique point of view to the table. Consensus is important, but not nearly as powerful as ideas and debate.

opportunities. There are some great examples of that at NIKE — NIKE Golf, the Jordan Brand, NIKE Skate.

NIKE Golf is now the No. 1 golf apparel company in the world. We're in the top three brands for drivers. We finished the 2006 PGA Tour with the most wins in drivers, irons, fairway woods and wedges. On the year, revenue from NIKE Golf grew 12 percent to over \$600 million, and grew pre-tax income over 30 percent.

NIKE Golf performs at this level because they are totally immersed in the world of their consumers. They have a complete view of the NIKE Golf experience, from product creation all the way through presentation at retail. If you could visit the NIKE Golf group, you'd know what I mean. Every image you see, every conversation you hear is all about golf. They talk it, wear it, walk it, play it, they live it. And it shows. The same is true for NIKE Skate and the Jordan Brand, they are culturally deep and specific, and set up to capitalize on that.

We looked at that model and saw tremendous potential for the rest of the brand. So, we organized the company into six key categories — basketball, running, soccer, men's training, women's training and sports-wear. These categories are, in essence, thinking and acting like individual companies,

vertically oriented and connecting with consumers on a very deep and meaningful level.

It allows us to be much more surgical and opportunistic in every aspect of each business — product design, demand creation, retail presentation, how we communicate. It really combines the best of NIKE's nature — to be bold and fast and aggressive — with the power and leverage of NIKE resources and efficiencies across the categories. That's a huge competitive advantage for us.

Athlete endorsement costs continue to rise. Are they still worth it?

Absolutely. Athletes, at their best, represent some of our most noble characteristics — passion, commitment, competitive fire, being part of a team, the ability to overcome adversity. To me athletes and sports are synonymous in that way. They are representatives of universal values that transcend borders and unite cultures.

When we help athletes reach their potential, that process helps NIKE and consumers reach theirs. So, have athletes lost relevance for NIKE and its consumers? No. Are we changing the way athletes contribute to the NIKE story? Yes.

Which competitor do you fear most?

I don't fear any competitor, but I respect them all. Anybody

who takes their competition for granted ends up watching them from behind.

That said, NIKE is not a reactionary company. The gap between NIKE and the competition is smaller than the gap between NIKE and its potential. That's where we spend our time — developing and leveraging our resources to maximize our potential.

ON CHANGE . . .

How is NIKE contributing to the digital revolution?

Digital connectivity has changed everything, and that change is just beginning. The rise of social networks, the connection of communities and cultures, the ability to access and share information and content is creating a whole new generation of opportunity. NIKE is taking advantage of that opportunity. Unlike some companies, we don't fear the digital world. We embrace it, and we're playing a role in helping to drive some of that change.

It allows us to connect more surgically with people and markets around the world. It helps us share ideas, build communities, tell stories — to be more immediate and more relevant with more consumers.

We're also able to integrate the digital world with the physical world. NIKE+ has fundamentally changed the way

runners approach training — using the iPod and the Internet to track and share your performance and connect with a global community. That's entirely new. We knew we were onto something big with NIKE+, but it has succeeded beyond any of our expectations. And we see new opportunities everyday to expand that connection between the physical and the digital world.

What are the big opportunities in retail?

Our industry is playing a lot of catch-up at retail. If you look at sports specialty, for example, it's tough to tell one store from another, or one mall from the next. What kind of choice does that offer the consumer? So we're focused on three things that will lead change in retail.

First, we're working with our retail partners to create new expressions for the NIKE brand and for their stores. The more innovative presentation we can bring to our athletic specialty partners, the more differentiated and compelling their stores will be.

We're also developing NIKE-owned store concepts that will connect with consumers at the category and brand level in ways I think no other company can do.

And we're expanding our online presence. This is a tremendous opportunity for NIKE that we have not successfully developed, and that's changing.

What is your approach to Corporate Responsibility?

We're focusing on four areas — labor, climate change, environmental design, and the community. It's all in our new Corporate Responsibility report, which is available online at www.nikeresponsibility.com.

First, we're working to help bring about systemic change to benefit workers and factory conditions in the supply chain — eliminating excessive overtime, converting to lean manufacturing, and supporting workers' right to Freedom of Association.

Second, we're acting on the need to address climate change — reducing our CO2 emissions and moving toward carbon neutrality.

Third, we're aggressively innovating around environmental design. Our Considered Design ethos creates product that is better for the athlete and the planet.

Fourth, we believe that sports can change a young person's life. Let Me Play is a program to help ensure that every young person has access to sports.

What's most inspiring for me is that CR is not some adjunct cost of business at NIKE. CR is demonstrating an increasing return on investment. It's a chance for us to apply our innovation and creativity to help build a better world. And it's being driven by and embraced by employees.

ON THE JOB . . .

What is your job?

I love my job. I grew up in this company. I've been here almost 30 years. I've seen the best athletes compete all over the world. And for all the time I've been here, I've worked shoulder to shoulder with the brightest, the most creative people in the industry.

I am incredibly grateful for my history with NIKE, but I don't dwell on it. NIKE is a company that is always looking to the future. I believe that human potential is unlimited. So, I believe that NIKE's potential is unlimited. And my job is to make sure that NIKE and our consumers keep growing.

You started as a designer.

Do you miss that?

No, because I'm still very engaged in design. But I want to make a distinction here. Design is not merely a function at NIKE. Design is a way of looking at the world and seeing problems and solutions that others can't see. In fact, I would broaden the definition of design to include systems and processes

outside the product realm.

In the end, great design is about enhancing the human experience. In that sense, it's the job of every NIKE employee to be a designer.

I still draw shoes, by the way, but these days it's more for therapy than it is for production.

What is your working relationship with Phil?

Everybody works for somebody, and I'm glad to work for Phil. We have a long history together, and we've developed a lot of mutual respect and trust. He gives me a lot of support and freedom in my job, and I thrive on that.

Phil is a tremendous source of inspiration. He really represents the values that define NIKE, and I share those same values, as do the 30,000 people who work here. 



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EXETER

The NIKE, Inc. portfolio is a tremendous opportunity to promote complementary growth across our brands, to share design and management insights and efficiencies of scale between the brands in a way that really optimizes our resources.

Just as important is the diversity of our subsidiaries, which enables us to reach and be relevant with a very wide consumer base.

Over the last five years the subs have doubled their revenue contribution, to \$2.3 billion in fiscal year 2007. Going forward we expect the NIKE subsidiaries to contribute 25 percent of our growth. I'm very bullish on the subs.

Mark Parker



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is unlimited, so I believe
NIKE's potential is unlimited.

Mark Parker



Shareholder Information

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Copies of the Company's Form 10-K and 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 at www.nikebiz.com.

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Dividend Payments

Quarterly dividends on NIKE common stock, when declared by the Board of Directors, are paid on or about July 5, October 5, January 5, and April 5.

Other Shareholder Assistance

Communications concerning shareholder address changes, stock transfers, changes of ownership, lost stock certificates, payment of dividends, dividend check replacements, duplicate mailings, or other account services should be directed to the Company's Registrar and Stock Transfer Agent at the address or telephone number above.

