

"Today's generation of athletes promises to reach new levels of human potential, and it's our job to help them get there."



To Our Shareholders,

Twenty-two years ago I wrote my first chairman's letter. It was a struggle. Trying to capture the essence of this company proved as elusive as the fairways at Royal St. George's.

In the time since, we have seen the world evolve in ways both abrupt and dramatic – the role of the media, the access to information, the globalization of business, the rise of digital technology, the worldwide appeal of traditional sports and the advent of new sports. Through it all, Nike embraced and even instigated change in our own small way.

One thing hasn't changed. I still can't capture the essence of this company. The world will never view Nike as I do. Where others see controversy, I see impact. Where they see record sales, I see next year's goal. Where the world sees endorsement contracts, I see validation by the greatest athletes of our time. When the world is in doubt about Nike is when I am most certain of our ability to compete and to win.

After 22 years I have come to realize that I should not expect this to change. So, instead of continuing with the failed efforts of the past, I will just search out those areas where we have some chance of persuasion.

It was in my letter from 1998 when I first wrote that our sales had outrun our management, and it would take a while for management to catch up. It was a good problem to have, but a problem nonetheless. We all know that time waits for no one, so if we were going to get on top of our game, we had to do it on the run. And we had to do it amidst the relentless pressure of huge swings in the stock market, dramatic shifts in consumer culture and, most demanding of all, our own expectations.

This past year offered up some high hurdles – global economic recession, West Coast port closures, and a viral mystery called SARS. These last two gave every global business a wake-up call as to just how quickly markets can be squelched by

unexpected circumstances. We also faced some Nike-only challenges, like a European supply chain rollout and a multimillion dollar reduction in Foot Locker orders.

How did your management handle all these problems? We had the best year we ever had in sales and earnings per share (before accounting change), and we completed a three-year run which produced these results in two key categories:

Fiscal Year	2000	2001	2002	2003
Sales	8,995	9,489	9,893	10,697
Earnings per Share*	2.07	2.16	2.46	2.77

So, it is possible to conclude that management is getting its arms around this beast. Meanwhile, for the last two years at least, the stock high has remained about the same.

But we do not believe we have been treated unfairly by Wall Street over the long run. We went public in December 1980 at a post split price of \$1.38. We have traded as high as \$76. Misunderstood, but not mistreated.

It's a bit like what Tiger Woods went through early in the season this year. Just prior to the U.S. Open, the word "slump" began popping up in interviews. At that point he had entered seven tournaments and won three. Most players go their entire career without three wins. Clearly Tiger didn't see his year the way the media did.

But Tiger is different. The world expects him to win. That's fine, because he expects the same. We expect to win, too, and we believe that if we continue to deliver earnings our stock price will respond.

So where will the growth come from that drives earnings? What is it about Nike that promises long-term potential?

First is the regenerative nature of sports itself. For some of us it seems like yesterday when Arnold Palmer and Pele and Ali ruled the world. Surely no one would ever surpass the skill of Julius Erving or the competitive spirit of Pete Rose. No one would ever beat the marks set by Bob Beamon or Bob Hayes. But that is not how sports works. Every record is within reach.

Today's generation of athletes promises to reach new levels of human potential, and it's our job to help them get there. LeBron James, Carmelo Anthony, Lleyton Hewitt, Roger Federer, Tiffeny Milbrett, Michael Vick, Paula Radcliffe – these are the people who will push us beyond our own expectations, and set the bar for the next generation to surpass.

But don't think we have to wait to see the greatness of Nike athletes. In men's soccer, the most popular sport in the world, Ronaldo and other Nike athletes led Brazil to the World Cup while another Nike team, Korea, reached the semi-finals. Both improbable. Both wonderful.

And our Manchester United agreement kicked in. They promptly won the Premiership and kicked in a significant contribution to sales and earnings. All that soccer work helped push sales outside the United States to 52% of the brand total, the first time international has surpassed U.S. sales.

Our second source of potential, behind the athletes and teams, is product. The Mercurial Vapor shoe redefines lightweight performance on the soccer pitch. Air Force One is entering its third decade of cultural relevance. The two-year-old Nike Shox technology is now hard to keep in stock. Nike Swift and Nike Sphere technology in apparel continue to prove that what you wear can help you win medals and set records. As

we set our sites on Berlin and Athens, the Nike design team is developing new concepts in speed and agility that will see just how fast and far athletes can go in the next couple years.

In this space in 1998 I talked about our failure in advertising. Today I consider advertising and marketing our third source of potential. This past year we had the Nike Shox "Streaker" ad – a return to the humor and buzz that captures the essence of the product and the attention of consumers around the world. More than that, we won the Cannes Golden Lion award for advertising excellence, the first company to win the award twice.

Finally, behind it all are the people of Nike, the men and women of this company who have never accepted failure, who consider us a growth company, even when sales go down. People like Charlie Denson and Mark Parker and Mindy Grossman and Gary DeStefano who prove that they are growing into their sales. For some of the others, look up the names of the officers in the back of this report.

They represent a family of 23,000 employees around the world who see the same Nike that I see.

Philip H. Knight
Chairman of the Board,
Chief Executive Officer
and President
Nike, Inc.



* Amount based on diluted earnings before accounting change.