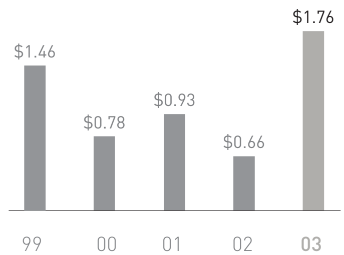
management's discussion and analysis

Diluted Earnings per Share



In 2002, our earnings per share included the write down of a supply chain tool, the Nordstrom.com minority interest purchase and reintegration costs and the cumulative effect of accounting change, for a total impact of $71.0 million or $0.53 per share. We believe that excluding these charges provides a more comparable basis from which to evaluate performance between years. Without the impact of these charges, 2002 earnings per share would have been $1.19.

Our earnings per share in 2003 increased to $1.76 from $0.66 in 2002. Excluding the prior year charges noted above, 2003 earnings per share increased $0.57 or 48%. This increase was primarily driven by a strong increase in comparable store sales, significant improvement in gross profit percent and a moderate decrease in selling, general and administrative expenses as a percent of sales.

Earnings per share decreased in 2002 compared to 2001 due to the charges described above. Excluding the impact of these charges, earnings per share would have been $1.19, an increase from 2001 of 28.0%. This increase was primarily driven by an increase in comparable store sales, an improvement in gross profit percent and a decrease in selling, general and administrative expenses as a percent of sales.

Diluted earnings per share are expected to increase 15% - 18% in 2004.

Fourth Quarter Results

Fourth quarter 2003 earnings were $104.3 million compared with $60.0 million in 2002. Total sales for the quarter increased by 10.4% versus the same quarter in the prior year and comparable store sales increased by 8.5%. The increase in total sales resulted from an increase in comparable store sales for the quarter and the opening of four full-line stores and two Nordstrom Rack stores during the year.

Gross profit as a percentage of sales showed strong improvement, increasing to 36.8% from 33.3% last year. Significant improvements in markdowns and shrinkage combined with a small improvement in buying and occupancy expenses substantially increased gross profit as a percent of sales.

Selling, general and administrative expenses as a percent of sales increased to 29.1% from 28.6% last year primarily due to higher incentive compensation offset by improved selling costs, lower distribution costs, lower marketing costs and lower information systems expense.

GAAP Sales Reconciliation (in millions)

We converted to a 4-5-4 Retail Calendar at the beginning of 2003. Sales performance numbers included in this document have been calculated on a comparative 4-5-4 basis. We believe that adjusting for the difference in days provides a more comparable basis (4-5-4 vs 4-5-4) from which to evaluate sales performance. The following reconciliation bridges the reported GAAP sales to the 4-5-4 comparable sales.

Sales Reconciliation	QTD 2003	QTD 2002	Dollar Increase	% Change Total Sales	% Change Comp Sales
Number of Days					
Reported GAAP	91	92			
Reported GAAP sales	$1,932.5	$1,750.6	$181.9	10.4%	7.0%
Less Nov. 1-2, 2002 sales	-	$(43.7)			
Plus Feb. 1, 2003 sales	-	$18.2			
Reported 4-5-4 sales	$1,932.5	$1,725.1	$207.4	12.0%	8.5%
4-5-4 Adjusted Days	91	91			

Sales Reconciliation	YTD 2003	YTD 2002	Dollar Increase	% Change Total Sales	% Change Comp Sales
Number of Days					
Reported GAAP	365	365			
Reported GAAP sales	$6,491.7	$5,975.1	$516.6	8.6%	4.1%
Less Feb. 1, 2003 sales	$(18.2)	-			
Less Feb. 1-2, 2002 sales	-	$(30.9)			
Plus Feb. 1, 2003 sales	-	$18.2			
Reported 4-5-4 sales	$6,473.5	$5,962.4	$511.1	8.6%	4.3%
4-5-4 Adjusted Days	364	364			