Gross Profit

Fiscal Year	2001	2002	**2003**
Gross profit as a percent of net sales	33.2%	33.6%	**35.1%**
Inventory per square foot	$52.10	$51.72	**$47.11**
Inventory turnover	4.10	4.31	**4.54**

We saw an improvement in our 2003 gross profit as a percentage of net sales due to strong sales, substantially lower markdowns and improved shrinkage numbers as well as an improvement in expenses related to our private label business. Merchandise division gross profit was led by Accessories, Women's Specialized Apparel, Women's Contemporary/Juniors and Men's Apparel. Our new perpetual inventory system gives us greater visibility into our inventory, allowing us to more effectively manage this capital. Better inventory management has enabled us to reduce the markdowns needed to turn slow-moving merchandise and decrease overall inventory levels in spite of new store additions. Inventory per square foot declined 8.9% due to improved performance at both the full-line stores and our Nordstrom Rack division. Buying and occupancy expenses benefited from leverage on a higher sales base resulting in a small improvement on a percent of sales basis.

Gross profit as a percentage of net sales improved in 2002 due to better inventory management. In our merchandising divisions, improvement in gross profit rate offset lower sales in certain categories. Merchandise division gross profit was led by both Women's and Men's Apparel. Additionally, costs related to our private label operations improved. This was partially offset by increased markdowns in certain categories due to excess inventories. Total inventory increased as we added new stores, however, inventory per square foot declined due to improved performance at full-line stores partially offset by inventory increases at our Nordstrom Rack division. Total shrinkage as a percentage of sales was even with the previous year.

In 2004, we expect to see continuing improvement in our gross profit performance through lower markdowns and increased inventory turnover. Additionally we plan a slight improvement in our buying and occupancy expenses on a percent of sales basis.

Selling, General and Administrative

Fiscal Year	2001	2002	**2003**
Selling, general and administrative expense as a percent of sales	30.6%	30.4%	**30.0%**

The 2002 selling, general and administrative expense includes an impairment charge of $15.6 million related to the write-down of an information technology investment in a supply chain tool in our private label division. We believe that excluding this charge provides a more comparable basis from which to evaluate performance between years. Without this charge, 2002 selling, general and administrative expenses as a percentage of sales would have been 30.2%.

Excluding the effects of the 2002 impairment charge, selling, general and administrative expenses as a percentage of net sales decreased in 2003 to 30.0% from 30.2% in the prior year. This improvement is primarily the result of leverage on better-than-planned sales and overall expense improvements. The most notable expense improvements were:

- Information technology expense declined this year after the completion of our perpetual inventory implementation.
- Distribution costs improved as a result of efficiencies gained from our new warehouse management system.
- Nordstrom Direct continued to execute planned reductions in catalog size consistent with their catalog sales trends, reducing overall catalog costs.
- Selling expense as a percent to sales improved due to effective management of our staffing levels.

These improvements were partially offset by the following:

- Incentive compensation expense increased as our financial performance improved.
- Our credit and collection expense increased primarily due to additional loyalty program expense resulting from higher credit sales.