

Nordstrom, Inc.

Notes to Consolidated Financial Statements

Dollar and share amounts in millions except per share, per option and per unit amounts

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Founded in 1901 as a shoe store in Seattle, Washington, Nordstrom, Inc. is now a leading fashion specialty retailer that offers customers a well-edited selection of high-quality fashion brands focused on apparel, shoes, cosmetics and accessories for men, women and children. This breadth of merchandise allows us to serve a wide range of customers who appreciate quality fashion and a superior shopping experience. We offer an extensive selection of high-quality brand-name and private label merchandise through multiple retail channels, including 116 "Nordstrom" branded full-line stores in the U.S. and at Nordstrom.com (collectively, "Nordstrom"), one Canada full-line store, 167 off-price Nordstrom Rack stores, Nordstromrack.com and HauteLook, five Trunk Club showrooms and TrunkClub.com, two Jeffrey boutiques and one Last Chance clearance store. Our stores are located in 38 states throughout the U.S. and in one province in Canada.

Through our Credit segment, we provide our customers with a variety of payment products and services, including a Nordstrom private label card, two Nordstrom Visa credit cards and a debit card for Nordstrom purchases. These products also allow our customers to participate in our loyalty program designed to increase customer visits and spending. Although the primary purposes of our Credit segment are to foster greater customer loyalty and drive more sales, we also generate revenues from finance charges and other fees on these cards. In addition, we save on interchange fees that the Retail segment would incur if our customers used third-party cards.

Fiscal Year

We operate on a 52/53-week fiscal year ending on the Saturday closest to January 31st. References to 2014 and all years within this document are based on a 52-week fiscal year, except 2012, which is based on a 53-week fiscal year.

Principles of Consolidation

The consolidated financial statements include the balances of Nordstrom, Inc. and its subsidiaries. All intercompany transactions and balances are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities during the reporting period. Uncertainties regarding such estimates and assumptions are inherent in the preparation of financial statements and actual results may differ from these estimates and assumptions. Our most significant accounting judgments and estimates include the allowance for credit losses, revenue recognition, inventory, goodwill, stock-based compensation and income taxes.

Net Sales

We recognize revenue from sales at our retail stores at the point of sale, net of estimated returns and excluding sales taxes. Revenue from sales to customers shipped directly from our stores, website and catalog, which includes shipping revenue when applicable, is recognized upon estimated receipt by the customer. We estimate customer merchandise returns based on historical return patterns and reduce sales and cost of sales accordingly. Activity in the allowance for sales returns, net, for the past three fiscal years is as follows:

Fiscal year	2014	2013	2012
Allowance at beginning of year	\$128	\$116	\$103
Additions	2,129	1,880	1,724
Returns, net ¹	(2,097)	(1,868)	(1,711)
Allowance at end of year	\$160	\$128	\$116

¹Returns, net consist of actual returns offset by the value of the merchandise returned and any related sales commission.

Credit Card Revenues

Credit card revenues include finance charges, late fees and other revenue generated by our combined Nordstrom private label card and Nordstrom Visa credit card programs, and interchange fees generated by the use of Nordstrom Visa credit cards at third-party merchants. Finance charges and late fees are assessed according to the terms of the related cardholder agreements and recognized as revenue when earned. Credit card revenues are recorded net of estimated uncollectible finance charges and fees.

Cost of Sales

Cost of sales includes the purchase cost of inventory sold (net of vendor allowances), in-bound freight and certain costs of loyalty program benefits related to our credit and debit cards.