Macy's, Inc.

Consolidated Statements of Income (Unaudited) (Note 1)

(All amounts in millions except percentages and per share figures)

	39 Weeks Ended October 28, 2017		39 Weeks Ended October 29, 2016	
	$	% to Net sales	$	% to Net sales
Net sales	$ 16,171		$ 17,263	
Cost of sales (Note 2)	9,794	60.6%	10,370	60.1%
Gross margin	6,377	39.4%	6,893	39.9%
Selling, general and administrative expenses	(5,853)	(36.1%)	(6,139)	(35.5%)
Gains on sale of real estate	176	1.1%	76	0.4%
Impairments, restructuring and other costs (Note 3)	(33)	(0.2%)	(249)	(1.4%)
Settlement charges (Note 4)	(73)	(0.5%)	(81)	(0.5%)
Operating income	594	3.7%	500	2.9%
Interest expense - net	(237)		(276)	
Net premiums on early retirement of debt (Note 5)	(1)		-	
Income before income taxes	356		224	
Federal, state and local income tax expense (Note 6)	(140)		(85)	
Net income	216		139	
Net loss attributable to noncontrolling interest	6		5	
Net income attributable to Macy's, Inc. shareholders	$ 222		$ 144	
Basic earnings per share attributable to Macy's, Inc. shareholders	$ 0.73		$ 0.46	
Diluted earnings per share attributable to Macy's, Inc. shareholders	$ 0.73		$ 0.46	
Average common shares:				
Basic	305.3		309.5	
Diluted	306.6		311.8	
End of period common shares outstanding	304.6		305.7	
Depreciation and amortization expense	$ 741		$ 787	

Notes:

(1) Because of the seasonal nature of the retail business, the results of operations for the 39 weeks ended October 28, 2017 and October 29, 2016 (which do not include the Christmas season) are not necessarily indicative of such results for the fiscal year. Further, results for the 39 weeks ended October 28, 2017 and October 29, 2016 may not equal the sum of the quarterly results for the respective periods due to rounding conventions.

(2) Merchandise inventories are valued at the lower of cost or market using the last-in, first-out (LIFO) retail inventory method. Application of the LIFO retail inventory method did not result in the recognition of any LIFO charges or credits affecting cost of sales for the 39 weeks ended October 28, 2017 or October 29, 2016.

(3) For the 39 weeks ended October 28, 2017 and October 29, 2016, impairments, restructuring and other costs amounted to $33 million and $249 million, respectively, on a pre-tax basis. The after tax effect of these charges during the 39 weeks ended October 28, 2017 was $21 million, or $.07 per diluted share attributable to Macy's, Inc. The after tax effect of these charges during the 39 weeks ended October 29, 2016 was $152 million, or $.49 per diluted share attributable to Macy's, Inc. The charges primarily relate to store closings, severance and other human resource related costs associated with organizational restructuring.

(4) For the 39 weeks ended October 28, 2017 and October 29, 2016, non-cash settlement charges of $73 million and $81 million, respectively, were recognized on a pre-tax basis. The after tax effect of these charges during the 39 weeks ended October 28, 2017 was $46 million, or $.15 per diluted share attributable to Macy's, Inc. The after tax effect of these charges during the 39 weeks ended October 29, 2016 was $50 million, or $.16 per diluted share attributable to Macy's, Inc. These charges result from an increase in lump sum distributions from the Company's defined benefit retirement plans and are associated with store closings, a voluntary separation program and organizational restructuring, in addition to periodic distribution activity.

(5) The 39 weeks ended October 28, 2017 include expense associated with the early retirement of debt of approximately $1 million on a pre-tax basis.

(6) Federal, state and local income taxes differ from the federal income tax statutory rate of 35%, principally because of the effect of state and local taxes, including the settlement of various tax issues and tax examinations as well as the recognition of approximately $12 million of net tax deficiencies for the 39 weeks ended October 28, 2017, associated with share-based payment awards due to the adoption of Accounting Standards Update 2016-09, *Improvements to Employee Share-Based Payment Accounting* . Historically, the Company had recognized such amounts as an offset to accumulated excess tax benefits previously recognized in additional paid-in capital.