

Macy's, Inc.

Consolidated Statements of Income (Unaudited) (Note 1)

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

	26 Weeks Ended July 29, 2017		26 Weeks Ended July 30, 2016	
	\$	% to Net sales	\$	% to Net sales
Net sales	\$ 10,890		\$ 11,637	
Cost of sales (Note 2)	<u>6,619</u>	<u>60.8%</u>	<u>6,984</u>	<u>60.0%</u>
Gross margin	4,271	39.2%	4,653	40.0%
Selling, general and administrative expenses	(3,746)	(34.3%)	(3,992)	(34.3%)
Impairments and other costs (Note 3)	-	-%	(249)	(2.1%)
Settlement charges (Note 4)	<u>(51)</u>	<u>(0.5%)</u>	<u>(19)</u>	<u>(0.2%)</u>
Operating income	474	4.4%	393	3.4%
Interest expense - net	(163)		(195)	
Net premiums on early retirement of debt (Note 5)	<u>(1)</u>		<u>-</u>	
Income before income taxes	310		198	
Federal, state and local income tax expense (Note 6)	<u>(127)</u>		<u>(74)</u>	
Net income	183		124	
Net loss attributable to noncontrolling interest	<u>4</u>		<u>3</u>	
Net income attributable to Macy's, Inc. shareholders	<u>\$ 187</u>		<u>\$ 127</u>	
Basic earnings per share attributable to Macy's, Inc. shareholders	<u>\$ 0.61</u>		<u>\$ 0.41</u>	
Diluted earnings per share attributable to Macy's, Inc. shareholders	<u>\$ 0.61</u>		<u>\$ 0.41</u>	
Average common shares:				
Basic	305.2		310.0	
Diluted	306.7		312.4	
End of period common shares outstanding	304.6		308.5	
Depreciation and amortization expense	\$ 487		\$ 520	

Notes:

- (1) Because of the seasonal nature of the retail business, the results of operations for the 26 weeks ended July 29, 2017 and July 30, 2016 (which do not include the Christmas season) are not necessarily indicative of such results for the fiscal year.
- (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 26 weeks ended July 29, 2017 or July 30, 2016.
- (3) For the 26 weeks ended July 30, 2016, impairments and other costs amounted to \$249 million on a pre-tax basis, \$154 million after tax or \$.49 per diluted share attributable to Macy's, Inc. These charges primarily relate to store closings.
- (4) For the 26 weeks ended July 29, 2017 and July 30, 2016, non-cash settlement charges of \$51 million and \$19 million, respectively, were recognized on a pre-tax basis. The after tax effect of these charges during the 26 weeks ended July 29, 2017 was \$32 million, or \$.10 per diluted share attributable to Macy's, Inc. The after tax effect of these charges during the 26 weeks ended July 30, 2016 was \$12 million, or \$.04 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 26 weeks ended July 29, 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 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.