

Macy's, Inc.

Consolidated Statements of Income (Unaudited)

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

	14 Weeks Ended February 3, 2018		13 Weeks Ended January 28, 2017	
	\$	% to Net sales	\$	% to Net sales
Net sales	\$ 8,666		\$ 8,515	
Cost of sales	5,358	61.8%	5,251	61.7%
Gross margin	3,308	38.2%	3,264	38.3%
Selling, general and administrative expenses	(2,279)	(26.2%)	(2,335)	(27.4%)
Gains on sale of real estate (Note 1)	368	4.2%	133	1.6%
Restructuring, impairment, store closing and other costs (Note 2)	(152)	(1.8%)	(230)	(2.7%)
Settlement charges (Note 3)	(32)	(0.4%)	(17)	(0.2%)
Operating income	1,213	14.0%	815	9.6%
Interest expense - net	(73)		(87)	
Net premiums on early retirement of debt (Note 4)	11		-	
Income before income taxes	1,151		728	
Federal, state and local income tax benefit (expense) (Note 5)	170		(256)	
Net income	1,321		472	
Net loss attributable to noncontrolling interest	4		3	
Net income attributable to Macy's, Inc. shareholders	\$ 1,325		\$ 475	
Basic earnings per share attributable to Macy's, Inc. shareholders	\$ 4.34		\$ 1.56	
Diluted earnings per share attributable to Macy's, Inc. shareholders	\$ 4.31		\$ 1.54	
Average common shares:				
Basic	305.6		305.5	
Diluted	307.4		307.8	
End of period common shares outstanding	304.8		304.1	
Depreciation and amortization expense	\$ 250		\$ 271	

Notes:

- (1) For the 14 weeks ended February 3, 2018, gains on sale of real estate included \$234 million, \$148 million after tax or \$.48 per diluted share attributable to Macy's, Inc., associated with the fiscal 2016 sale of the company's Union Square Men's building in San Francisco.
- (2) For the 14 weeks ended February 3, 2018 and 13 weeks ended January 28, 2017, restructuring, impairment, store closing and other costs amounted to \$152 million and \$230 million, respectively, on a pre-tax basis. The after tax effect of these charges during the 14 weeks ended February 3, 2018 were \$99 million after tax or \$.32 per diluted share attributable to Macy's, Inc. These costs included \$91 million of severance and other human resource-related costs associated with organization changes and store closings, \$50 million of asset impairment charges, and \$11 million of other related costs and expenses. The after tax effect of these charges during the 13 weeks ended January 28, 2017 were \$137 million after tax or \$.45 per diluted share attributable to Macy's, Inc. These costs included \$166 million of severance and other human resource-related costs associated with the organization changes and store closings announced in January 2017, \$38 million of asset impairment charges primarily related to the store closings announced in January 2017 and \$26 million of other related costs and expenses.
- (3) For the 14 weeks ended February 3, 2018 and 13 weeks ended January 28, 2017, non-cash settlement charges of \$32 million and \$17 million, respectively, were recognized on a pre-tax basis. The after tax effect of these charges during the 14 weeks ended February 3, 2018 was \$21 million, or \$.07 per diluted share attributable to Macy's, Inc. The after tax effect of these charges during the 13 weeks ended January 28, 2017 was \$10 million, or \$.03 per diluted share attributable to Macy's, Inc. These charges resulted 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.
- (4) The 14 weeks ended February 3, 2018 included \$11 million, on a pre-tax basis, of income related to premium amortization net of expenses and fees associated with the tender of certain debt instruments. The after tax income impact during the 14 weeks ended February 3, 2018 was \$7 million, or \$.02 per diluted share attributable to Macy's, Inc.
- (5) For the 14 weeks ended February 3, 2018, federal, state and local income taxes differed from the company's federal income tax statutory rate of 33.7% primarily due to federal tax reform that led to the recognition of a non-cash tax benefit of \$571 million, or \$1.86 per diluted share attributable to Macy's, Inc., associated with the re-measurement of the company's deferred tax balances. Further, the 14 weeks ended February 3, 2018 included the recognition of approximately \$3 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.