MACY'S, INC.

Credit Ratios and Other Financial Information

($ in millions)

The Company tracks two key credit ratios to measure our progress in strengthening our balance sheet and improving liquidity. In order to assess the degree of leverage, we look at debt relative to EBITDA. To assess interest expense coverage, we look at EBITDA relative to interest expense. For both of these ratios, we adjust debt, EBITDA and interest expense to take into account the impact of operating leases and retirement obligations and certain non-recurring items. This methodology is similar to those used by credit rating agencies to assess a company’s capital structure.

These credit ratios are non-GAAP financial measures. The Company reports its financial results in accordance with generally accepted accounting principles (GAAP). However, management believes that certain non-GAAP financial measures provide users of the Company's financial information with additional useful information. These non-GAAP financial measures should be viewed as supplementing, and not as an alternative or substitute for, the Company's financial results prepared in accordance with GAAP. Certain of the items that may be excluded or included in these non-GAAP financial measures may be significant items that could impact the Company's financial position, results of operations and cash flows and should therefore be considered in assessing the Company's actual financial condition and performance. In particular, these financial measures have material limitations because they exclude cash and non-cash expenses that are necessary to operate the Company's business or that may be otherwise incurred or experienced in connection with the operation of its business. The methods used by the Company to calculate its non-GAAP financial measures may differ significantly from methods used by other companies to compute similar measures. As a result, any non-GAAP financial measures presented herein may not be comparable to similar measures provided by other companies.

The values of all income statement items included in the tables below are for the identified 52-week or 53-week periods, with most of these items being calculated by adding the data reported for the most recently completed four quarters (i.e. quarters ended August 2, 2014, May 3, 2014, February 1, 2014 and November 2, 2013) or taken from the Company's annual Form 10-K filings. Although the Company has not historically disclosed rent expense on a quarterly basis, the gross rent expense for the 52 weeks ended August 2, 2014 and 53 weeks ended August 3, 2013 is calculated in the same way as the rental expense in the Company's annual Form 10-K filings. The total net periodic benefit costs, and the related service cost, interest cost and expected return on assets components of the net periodic benefit costs, of postemployment and postretirement benefit obligations are based on the quarterly and annual costs included in the Company's Form 10-Q and 10-K filings.

The values for short-term debt and long-term debt are from the balance sheets for the identified dates, the value of the underfunded status of postemployment and postretirement benefits is based on the year-end funded status of the relevant retirement plans and benefit obligations, and the capitalized value of gross rent expense is based on gross rent expense for the applicable period multiplied by a factor of eight. The calculation of the capitalized value of non-capitalized leases is consistent with industry and credit agency rating practice.

The following financial information, including non-GAAP financial measures, should be read in conjunction with the audited financial statements, including the related notes, and other financial information contained in the Company's Securities and Exchange Commission filings.

	Target	As of and for the 52 weeks ended August 2, 2014	As of and for the 52 weeks ended February 1, 2014	As of and for the 53 weeks ended August 3, 2013
Leverage ratio	2.4 - 2.7	2.4	2.4	2.4
Coverage ratio	6.4 - 6.6	8.4	8.6	8.2

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Adjusted EBITDA

Management believes that Adjusted EBITDA is a useful measure in evaluating the Company's ability to generate cash flow from its operations.

As computed below, Adjusted EBITDA represents earnings before interest, taxes and depreciation and amortization, adjusted to exclude the effects of impairments, store closing and other costs, gross rent expense, and the excess of the net periodic benefit costs of the Company's postretirement and postretirement benefit obligations over the related service cost components of such benefit costs.

	As of and for the 52 weeks ended August 2, 2014	As of and for the 52 weeks ended February 1, 2014	As of and for the 53 weeks ended August 3, 2013
Most Comparable GAAP Measure:			
Net income	$ 1,504	$ 1,486	$ 1,373
Non-GAAP Measure:			
Net income	$ 1,504	$ 1,486	$ 1,373
Add back interest expense	397	390	405
Add back premium on early retirement of debt	-	-	133
Deduct interest income	(2)	(2)	(3)
Add back federal, state and local income tax expense	824	804	777
Add back impairments, store closing and other costs	88	88	5
Add back depreciation and amortization	1,023	1,020	1,040
Add back gross rent expense (Note 1)	297	289	283
Add back net periodic benefit costs of the postemployment and postretirement benefit obligations in excess of the service cost components (Note 2)	36	100	100
Adjusted EBITDA	$ 4,167	$ 4,175	$ 4,113

Note 1

The add back of gross rent expense in calculating Adjusted EBITDA treats the Company's periodic rent expense under the relevant lease agreements in a manner consistent with the Company's owned properties.

Real estate		$ 278	
Personal property		11	
	$ 297	$ 289	$ 283

Note 2

The add back of the excess net periodic benefit cost of the Company's postemployment and postretirement benefit obligations over the service cost component of such benefit costs in calculating Adjusted EBITDA recognizes the fact that the service cost components of the net periodic benefit costs are primarily operating type costs and should be included in Adjusted EBITDA, while all other components of the net periodic benefit costs are primarily financing type costs and should be excluded from Adjusted EBITDA. Net periodic benefit costs include, where applicable, service cost, interest cost, expected return on assets, amortization of net actuarial gains and losses and the amortization of prior service costs or credits.

Net periodic benefit costs:			
Pension plan	$ 45	$ 154	$ 157
Supplementary retirement plan	47	57	57
Postretirement benefit obligations	6	7	7
Less service cost component of net periodic benefit costs:			
Pension plan	(59)	(112)	(115)
Supplementary retirement plan	(3)	(6)	(6)
Postretirement benefit obligations	-	-	-
	$ 36	$ 100	$ 100

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Leverage ratio

Management believes that the leverage ratio, as computed below and defined as Adjusted debt divided by Adjusted EBITDA, is a useful measure in evaluating the Company's ability to cover its debt-like obligations.

As computed below, Adjusted debt represents the Company's short-term and long-term debt, adjusted to include the underfunded status of the Company's postemployment and postretirement benefit obligations, net of an assumed 37% tax benefit, and a rent factor equal to periodic annual reported gross rent expense multiplied by a factor of eight.

As computed above, Adjusted EBITDA represents earnings before interest, taxes and depreciation and amortization, adjusted to exclude the effects of impairments, store closing and other costs, gross rent expense, and the excess of the net periodic benefit costs of the Company's postretirement and postretirement benefit obligations over the related service cost components of such benefit costs.

	As of and for the 52 weeks ended August 2, 2014	As of and for the 52 weeks ended February 1, 2014	As of and for the 53 weeks ended August 3, 2013
Most Comparable GAAP Ratio:			
Short-term debt	$ 483	$ 463	$ 575
Long-term debt	6,742	6,728	6,339
Total debt	$ 7,225	$ 7,191	$ 6,914
Net income	$ 1,504	$ 1,486	$ 1,373
	4.8	4.8	5.0
Non-GAAP Ratio:			
Short-term Debt	$ 483	$ 463	$ 575
Long-term debt	6,742	6,728	6,339
Underfunded status of postemployment and postretirement benefits (Note 1)	580	580	764
Capitalized value of gross rent expense (Note 2)	2,376	2,312	2,264
Adjusted debt	$ 10,181	$ 10,083	$ 9,942
Adjusted EBITDA	$ 4,167	$ 4,175	$ 4,113
	2.4	2.4	2.4

Note 1

The inclusion of the underfunded status (the amount by which the projected benefit obligation or accumulated postretirement benefit obligation exceeds the fair value of plan assets) of the Company's postemployment and postretirement obligations in Adjusted debt treats the Company's net liability under the relevant benefit plans as debt equivalents. The assumed tax benefit represents the tax deductibility of contributions which impact the funded status of the plans.

(Overfunded) underfunded status:			
Pension plan	$ (73)	$ (73)	$ 168
Supplementary retirement plan	770	770	795
Postretirement benefit obligations	223	223	250
Less income tax effect of underfunded status of the pension and supplementary retirement plans and postretirement benefit obligations	(340)	(340)	(449)
	$ 580	$ 580	$ 764

Note 2

The inclusion of the capitalized value of gross rent expense, as calculated by multiplying the periodic annual reported gross rent expense by a factor of eight, in adjusted debt treats the Company's primary liability under the relevant leases as a debt equivalent.

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Coverage ratio

Management believes that the coverage ratio, as computed below and defined as Adjusted EBITDA divided by Adjusted interest expense is a useful measure in evaluating the Company's ability to cover its interest-like costs on its debt-like obligations.

As computed above, Adjusted EBITDA represents earnings before interest, taxes and depreciation and amortization, adjusted to exclude the effects of impairments, store closing and other costs, gross rent expense, and the excess of the net periodic benefit costs of the Company's postretirement and postretirement benefit obligations over the related service cost components of such benefit costs.

As computed below, Adjusted interest expense represents interest expense, excluding the premium on early retirement of debt, a portion of the Company's gross rent expense deemed to be equivalent of interest (estimated as 1/3 of gross rent expense) and the excess of the interest cost components of the net periodic benefit costs of the Company's postemployment and postretirement benefit obligations over the expected return on asset components of such benefit costs, if any.

	As of and for the 52 weeks ended August 2, 2014	As of and for the 52 weeks ended February 1, 2014	As of and for the 53 weeks ended August 3, 2013
Most Comparable GAAP Ratio:			
Net income	$ 1,504	$ 1,486	$ 1,373
Interest expense	$ 397	$ 390	$ 405
	3.8	3.8	3.4
Non-GAAP Ratio:			
Adjusted EBITDA	$ 4,167	$ 4,175	$ 4,113
Interest expense	$ 397	$ 390	$ 405
Add portion of rents representative of the interest factor	99	96	94
Postemployment and postretirement benefit obligations adjustment, if any (Note 1)	-	-	-
Adjusted interest expense	$ 496	$ 486	$ 499
	8.4	8.6	8.2

Note 1

The adjustment (i.e. representing the inclusion of any incremental financing costs) for the excess of the interest cost component of net periodic benefit costs of the Company's postemployment and postretirement benefit obligations over the expected return on asset component of such benefit costs in adjusted interest expense recognizes the additional financing cost associated with the use of cash to fund the postemployment and postretirement obligations and also that the economic benefits of overfunded postemployment and postretirement benefit plans are limited.

	August 2, 2014	February 1, 2014	August 3, 2013
Interest cost component of net periodic benefit costs:			
Pension plan	$ 147	$ 143	$ 150
Supplementary retirement plan	33	32	34
Postretirement benefit obligations	9	10	11
Expected return on asset component of net periodic benefit costs:			
Pension plan	(244)	(242)	(248)
Supplementary retirement plan	-	-	-
Postretirement benefit obligations	-	-	-
Excess, if any, of the interest cost component of net periodic benefit costs over the expected return on asset component	$ -	$ -	$ -