

Macy's, Inc.

Consolidated Statements of Income (Unaudited) (Note 1)

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

	53 Weeks Ended February 3, 2018		52 Weeks Ended January 28, 2017	
	\$	% to Net sales	\$	% to Net sales
Net sales	\$ 24,837		\$ 25,778	
Cost of sales	15,152	61.0%	15,621	60.6%
Gross margin	9,685	39.0%	10,157	39.4%
Selling, general and administrative expenses	(8,131)	(32.8%)	(8,474)	(32.8%)
Gains on sale of real estate (Note 2)	544	2.2%	209	0.8%
Restructuring, impairment, store closing and other costs (Note 3)	(186)	(0.7%)	(479)	(1.9%)
Settlement charges (Note 4)	(105)	(0.4%)	(98)	(0.4%)
Operating income	1,807	7.3%	1,315	5.1%
Interest expense - net	(310)		(363)	
Net premiums on early retirement of debt (Note 5)	10		-	
Income before income taxes	1,507		952	
Federal, state and local income tax benefit (expense) (Note 6)	29		(341)	
Net income	1,536		611	
Net loss attributable to noncontrolling interest	11		8	
Net income attributable to Macy's, Inc. shareholders	\$ 1,547		\$ 619	
Basic earnings per share attributable to Macy's, Inc. shareholders	\$ 5.07		\$ 2.01	
Diluted earnings per share attributable to Macy's, Inc. shareholders	\$ 5.04		\$ 1.99	
Average common shares:				
Basic	305.4		308.5	
Diluted	306.8		310.8	
End of period common shares outstanding	304.8		304.1	
Depreciation and amortization expense	\$ 991		\$ 1,058	

Notes:

- (1) Results for fiscal 2017 and fiscal 2016 may not equal the sum of the quarterly results for the respective periods due to rounding conventions.
- (2) During fiscal 2017, 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.
- (3) During fiscal 2017 and fiscal 2016, restructuring, impairment, store closing and other costs amounted to \$186 million and \$479 million, respectively, on a pre-tax basis. The after tax effect of these charges during fiscal 2017 was \$119 million, or \$.39 per diluted share attributable to Macy's, Inc. These costs included \$120 million of severance and other human resource-related costs primarily associated with organization changes and store closings, \$53 million of asset impairment charges and \$13 million of other related costs and expenses. The after tax effect of these charges during fiscal 2016 was \$290 million after tax, or \$.93 per diluted share attributable to Macy's, Inc. These costs included \$265 million of asset impairment charges primarily related to the store closings announced in January 2017, \$168 million of severance and other human resource-related costs primarily associated with the organization changes and store closings announced in January 2017 and \$46 million of other related costs and expenses.
- (4) During fiscal 2017 and fiscal 2016, non-cash settlement charges of \$105 million and \$98 million, respectively, were recognized on a pre-tax basis. The after tax effect of these charges during fiscal 2017 was \$68 million, or \$.22 per diluted share attributable to Macy's, Inc. The after tax effect of these charges during fiscal 2016 was \$59 million, or \$.19 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.
- (5) Fiscal 2017 included \$10 million of income, on a pre-tax basis, related to premium amortization net of expenses and fees associated with the debt tender and early retirement of certain debt instruments. The after tax income impact during fiscal 2017 was \$7 million, or \$.02 per diluted share attributable to Macy's, Inc.
- (6) Federal, state and local income taxes during fiscal 2017 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, fiscal 2017 included the recognition of approximately \$15 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.