

MACY'S, INC.

Consolidated Statements of Income (Unaudited) (Note 1)

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

	26 weeks ended August 4, 2018		26 weeks ended July 29, 2017	
	\$	% to Net sales	\$	% to Net sales
Net sales	\$ 11,112		\$ 10,986	
Credit card revenues, net	343	3.1 %	328	3.0%
Cost of sales	(6,701)	(60.3%)	(6,706)	(61.0%)
Selling, general and administrative expenses	(4,247)	(38.2%)	(4,218)	(38.4%)
Gains on sale of real estate	70	0.6%	111	1.0%
Impairment and other costs (Note 2)	(36)	(0.3%)	—	—%
Operating income	541	4.9%	501	4.6%
Benefit plan income, net	22		27	
Settlement charges	(50)		(51)	
Interest expense, net	(128)		(163)	
Losses on early retirement of debt (Note 3)	(5)		(1)	
Income before income taxes	380		313	
Federal, state and local income tax expense (Note 4)	(84)		(128)	
Net income	296		185	
Net loss attributable to noncontrolling interest	10		4	
Net income attributable to Macy's, Inc. shareholders	\$ 306		\$ 189	
Basic earnings per share attributable to Macy's, Inc. shareholders	\$.99		\$.62	
Diluted earnings per share attributable to Macy's, Inc. shareholders	\$.98		\$.62	
Average common shares:				
Basic	307.1		305.2	
Diluted	310.7		306.7	
End of period common shares outstanding	307.0		304.6	
Depreciation and amortization expense	\$ 470		\$ 487	

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Notes:

- (1) The 26 weeks ended July 29, 2017 have been recast to reflect the company's retrospective adoption of Accounting Standards Update No. 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers*, on February 4, 2018. Further, because of the seasonal nature of the retail business, the results of operations for the 26 weeks ended August 4, 2018 and July 29, 2017 (which do not include the Christmas season) are not necessarily indicative of such results for the fiscal year.
- (2) For the 26 weeks ended August 4, 2018, impairment and other costs amounted to \$36 million and included costs associated with the wind-down of Macy's China Limited. The after tax effect of these charges was \$21 million or \$0.08 per diluted share attributable to Macy's, Inc.
- (3) Non-cash settlement charges of \$50 million and \$51 million, respectively, were recognized during the 26 weeks ended August 4, 2018 and July 29, 2017. The after tax effect of these charges during the 26 weeks ended August 4, 2018 was \$38 million, or \$0.12 per diluted share attributable to Macy's, Inc. The after tax effect of these charges during the 26 weeks ended July 29, 2017 was \$32 million, or \$0.10 per diluted share attributable to Macy's, Inc. These charges are the result of an increase in lump sum distributions associated with store closings, organizational restructuring, a voluntary separation program, and periodic distribution activity.
- (4) The 26 weeks ended August 4, 2018 and July 29, 2017 included losses of \$5 million and \$1 million, respectively, associated with the early retirement of debt. These losses included repurchase expenses and fees net of the write-off of unamortized debt premiums. The after tax impact during the 26 weeks ended August 4, 2018 was \$4 million, or \$0.01 per diluted share attributable to Macy's, Inc.
- (5) For the 26 weeks ended August 4, 2018, federal, state and local income taxes differed from the company's federal income tax statutory rate of 21% because of the effects of state and local taxes, including the settlement of various tax issues and tax examinations. Further, the 26 weeks ended August 4, 2018 and July 29, 2017 included the recognition of approximately \$1 million and \$12 million, respectively, of net tax deficiencies associated with share-based payment awards. These items as well as the enactment of U.S. federal tax reform in December 2017 resulted in an effective tax rate for the 26 weeks ended August 4, 2018 of 22.1% as compared to 40.9% for the 26 weeks ended July 29, 2017.