

Federated
DEPARTMENT STORES, INC.

Annual Report
2000

the big picture





On the Cover:
Greendog is Federated's
newest private brand,
helping to distinguish our
stores for fashion, quality
and value. And like the
good dog he is, Greendog is
helping local animal shelters
and humane associations
raise much-needed funds
through various community
and in-store events.

Federated Department Stores, Inc.,

is one of the nation's leading department store retailers. Federated currently operates more than 425 department stores in 33 states and Puerto Rico under the names of Bloomingdale's, The Bon Marché, Burdines, Goldsmith's, Lazarus, Macy's and Rich's, as well as *macys.com*, *bloomingdales.com* and Bloomingdale's By Mail. Federated also operates the Fingerhut catalog and e-commerce subsidiary.



Community Involvement

Each Federated department store division and direct-to-customer subsidiary is well established in its operating areas.

The company believes in giving back to the communities from which it draws strength and sustenance. Federated understands that stronger, healthier and more vibrant communities provide better environments for our stores to do business and for our employees and customers to live and work.

In 2000, cash contributions to charitable organizations by Federated, its divisions and subsidiaries – including those made by the Federated Department Stores Foundation – totaled approximately \$16.3 million. A significant and growing percent of direct giving was devoted to two areas of strategic focus – women's issues and HIV/AIDS.

Partners in Time, the company's nationally recognized employee volunteer program, involves all divisions and support operations. In 2000, more than 53,500 volunteers gave nearly 102,300 hours of time – touching nearly every segment of American society.

Diversity

As a leading retailer in some of America's largest and most diverse metropolitan areas, Federated prides itself on aggressively encouraging inclusion of individuals of all types within its workforce, vendor relationships and customer base. Management's philosophy is intended to help ensure that appreciation for the unique characteristics and strengths of every person is pervasive at every level of the company.

Of Federated's total workforce, approximately 76 percent are women and 44 percent belong to a racial minority group. In management ranks, 66 percent of our executives are women and 23 percent are racial minorities. This makes Federated among the leaders in diversity in our industry, as well as among major U.S. corporations.

Additionally, Federated's vendor development program seeks to source goods and services – either for resale or in support of business operations – from qualified minority- and women-owned enterprises. In 2000, these purchases totaled approximately \$317 million.

	2000	1999	1998	1997
Net Sales	\$ 18.407 billion	\$ 17.716 billion	\$ 15.365 billion	\$ 15.220 billion
Department Store Operating Income				
Excluding unusual items ^(Note 1)	\$ 2.004 billion	\$ 1.871 billion	\$ 1.589 billion	\$ 1.473 billion
% of department store sales	12.2%	11.8%	10.3%	9.7%
Total Operating Income				
Excluding unusual items ^(Note 1)	\$ 1.512 billion	\$ 1.701 billion	\$ 1.455 billion	\$ 1.341 billion
% of sales	8.2%	9.6%	9.5%	8.8%
EBITDA ^(Note 2)	\$ 2.245 billion	\$ 2.439 billion	\$ 2.079 billion	\$ 1.931 billion
% of sales	12.2%	13.8%	13.5%	12.7%
Net Income (Loss) ^(Note 1)				
Excluding unusual items	\$ 637 million	\$ 795 million	\$ 685 million	\$ 575 million
Including unusual items	\$ (184) million	\$ 795 million	\$ 662 million	\$ 536 million
Diluted Earnings (Loss) Per Share ^(Note 1)				
Excluding unusual items	\$ 3.08	\$ 3.62	\$ 3.06	\$ 2.58
Including unusual items	\$ (.90)	\$ 3.62	\$ 2.96	\$ 2.41

Notes:

(1) Unusual items represent, where applicable, inventory valuation adjustments related to the Fingerhut restructuring in 2000, asset impairment and restructuring charges in 2000, and the loss associated with the prepayment of debt in 1998 and 1997.

(2) EBITDA represents earnings before interest, taxes, depreciation, amortization, and unusual items in 2000.

Financial Highlights

Sales

IN BILLIONS



EBITDA

AS A PERCENT OF SALES
(EARNINGS BEFORE INTEREST, TAXES,
DEPRECIATION AND AMORTIZATION)



Diluted Earnings

Per Share

(EXCLUDES UNUSUAL ITEMS)



Letter

To Shareholders

Dear Fellow Shareholder:

The year 2000 for Federated was challenging and disappointing. While the department store segment performed acceptably versus our expectations – and very well compared to the retail sector as a whole – it was not enough to justify being satisfied with our overall results.

The Fingerhut credit delinquency problem that surfaced mid-year caused Federated's total earnings performance to be well below standard. While we know that there inevitably will be ups and downs for any company, our goal clearly is to avoid such problems and to capitalize on the distinctive assets that should enable Federated to produce superior results over the longer term.

With this in mind, we believe the big picture for Federated is very good.

Our department stores, which constitute 90% of our business and comprise some of the best brands and the best people in the industry, managed to outperform our peers in comp-store sales growth in 2000, despite an economic climate that grew increasingly difficult as the year progressed. Department store operating income, before one-time charges, also grew last year – to 12.2%, up from 11.8% in 1999. This was particularly gratifying since we were coming off the best year in the company's history.

We believe our exclusive private brands and labels – backed by a merchandising organization unparalleled in the industry – are a crucial component of the success of our department stores. Positive customer response to our superior

mix of merchandise offerings, including the important presence of prominent national brands from the marketplace, can help Federated's department stores to consistently produce operating profits equal to or better than the world's best retailers.

Federated also continues to be a strong cash-flow generator. We believe that cash flow is an important measure of performance and success for any company, but in a consolidating retail sector it is even more of a strategic advantage. In 2000, the company produced cash flow of \$481 million, compared to \$370 million in the prior year, before financing and the cost of the Fingerhut acquisition in 1999. Since much of the Fingerhut issue resulted in a non-cash drain, and the subsequent downsizing of Fingerhut reduced working capital, we actually wound up exceeding our original cash-flow plans for the year, performing very well on this important subject.

Last year, Federated used approximately \$600 million of excess cash to repurchase 17.6 million shares of the company's common stock. In the future, we expect to continue to use excess cash for stock buybacks, as well as for strategic acquisitions and other appropriate growth opportunities that may arise.

Underlying the strength of our department store segment is a commitment to investing in new stores and store remodels, as well as in developing and deploying state-of-the-art retail technology. Federated opened nine new department stores in 2000, including an exciting new Macy's in Puerto Rico – our first outside of the continental U.S.

Our goals for the current year are to be great at the fundamentals of retailing, and as such they are not much changed....

Department Store Operating Income

AS A PERCENT OF SALES
(EXCLUDES UNUSUAL ITEMS)



We also opened three new furniture stores in 2000 and undertook a number of significant store remodels in key markets. Nine new department stores and two free-standing furniture stores are on the horizon for 2001. In the area of technology, our in-store systems and back-of-the-house operational support infrastructure also lead the industry, which we believe gives us a strategic competitive advantage when it comes to capitalizing on future growth opportunities.

One of the most attractive of these growth opportunities we think lies in capturing the potential inherent in effective multi-channel integration – a seamless weaving together of stores, catalogs and e-commerce sites into a retail fabric that covers a broad range of customer needs and preferences. Although some of the luster justifiably has worn off the world's view of e-commerce in the last year, Federated remains committed to effectively integrating the bricks of our stores with the clicks of our e-commerce websites. It is a matter of customer relationship management, and this is where we see the future headed for successful retailers.

While the numbers being produced by our Internet businesses still are immaterial, we feel good about the progress that is being made. Our principal e-commerce sites last year generated \$156 million in sales – up 150% from the prior year. In 2001, we expect to see continued dramatic growth in Internet sales as we further nurture these brand-extending businesses.

As with anything new, however, it inevitably will take awhile before we get the stitching in this new multi-channel fabric exactly right. Still, we

know that being an industry leader means taking chances and being willing to learn from whatever mistakes are made along the way. So given the choice, Federated would rather take some prudent risks than choose to do nothing – because as we see it, doing nothing tends to guarantee that nothing is what you'll get in return.

A Picture of 2001

Our goals for the current year are to be great at the fundamentals of retailing, and as such they are not much changed from prior years.

We will continue to plan and execute the business with the objective of maximizing earnings per share growth while increasing return on investment. We intend to do this by focusing on increasing operating income, department store earnings and cash flow, as well as by taking advantage of strategic growth opportunities that may emerge.

While we anticipate a 2% comp-store sales increase in our department stores this year, reflecting an economy that most observers expect to be sluggish into the second half of the year, our longer term goal is to achieve comp-store sales increases averaging about 3%. While our department store EBITDA rate (earnings before interest, taxes, depreciation and amortization) now is approaching the highest in our industry – and, as such, will be more difficult to grow in the coming years – we still see some modest opportunity for improvement. And we are committed to improving our return on investment and generating significant cash flow.


In summary, we are resolved to stay focused and stay on track. We will not be diverted from our principal department store business as it is updated for the opportunities of the future, and we will do what needs to be done to maximize cash flow from these unparalleled assets. We will continue to hire and develop the most talented individuals in the industry, and we will encourage these exceptional people to be creative, innovative and challenging in their pursuit of our goal of being nothing less than the best department store company in the world.

So this is Federated in 2001. We hope this gives you a better picture of where we are and where we are headed, and we hope you like what you see.

Sincerely,



James M. Zimmerman
Chairman/Chief Executive Officer



Terry J. Lundgren
President/Chief Merchandising Officer

April 18, 2001



Customers expect something special when they walk into a Federated store. And that's what they get. Our success is rooted in an exceptionally strong program of private brands, which differentiates our merchandise assortments while providing fashion and value to the customer. A great example is INC International Concepts, a collection of updated casual styles for women, carried in about 305 Federated stores nationwide.

Exc



Inclusive Brands

“Who Let The Dogs Out?”

Well, that’s easy. Federated did – unleashing a best-selling hit of its own last year with the launch of the popular Greendog (see our Greendog mascot on the cover) private brand apparel for children ages 2 to 12. Backed by playful and distinctive visual presentations, Greendog is happily lapping up sales in this important tots-to-‘twens merchandise category.

And Greendog is just the most recent example of innovation in private branding for Federated. We’ve built a reputation for designing, sourcing and marketing merchandise that hits the target for customers and lifestyles across every family of business – women’s, men’s, children’s and home. Together, private brands account for about 15 percent of total sales in our traditional department stores. The combination of these very special private brands coupled with important status brands designed by our key vendor partners create a powerful combination that customers expect to find in our stores.

In 2000, we also refocused and repositioned our Style & Co. brand of updated moderate sportswear, and continued to build our three largest private brands – Charter Club, INC and Alfani – with new items, lines and styles. Seeing opportunity for these popular brands beyond the boundaries of the U.S., we also signed a licensing agreement that makes INC fashions available through more than 30 high-volume department stores in Japan.

Beyond the merchandise inside our stores, we’re also intent on solidifying our store nameplates as distinctive national and regional brands. Each division is aggressively pursuing a strategic marketing initiative to position itself in a manner that resonates best with customers in its markets, building loyalty as a preferred shopping destination. At The Bon Marché, for example, this translates into a marketing theme built on bringing the “good life” – or Bon-life, as we say – to customers and associates in the Pacific Northwest.





Look around our sales floors and what do you see?

Just what you'd expect to find in America's premier department store company – Ralph Lauren/Polo ... Nautica ... Kenneth Cole ... Waterford ... Tommy Hilfiger ... Estée Lauder ... Liz Claiborne ... Lancome ... Calvin Klein ... DKNY ... Nine West ... Jones New York ... Guess ... and hundreds of the most powerful and well-known brands. Indeed, Federated's stores are committed to offering the best new fashions from the best companies in the business.

Best B

Ralph Lauren/Polo is one of the world's leading lifestyle brands, and a cornerstone of assortments in every Federated department store, as well as on *macys.com*. Customers come to us for Ralph Lauren/Polo merchandise not only because of the wide selection of goods we offer across the store, but also for knowledgeable selling service that supports the merchandise.



With approximately 85 percent of the merchandise in our stores coming from national-brand designers and manufacturers, Federated places a suitably high priority on building strong relationships with our resources. We offer vendors the best locations for premiering unique merchandise, as well as for presenting and selling their goods in a manner that maximizes results.

Backed by 170 years of retail know-how, Federated has the skills and agility necessary to capitalize on emerging fashion trends through a myriad of branded resources. In fall 2000, for example, when customers came to our stores for trend-setting leather jackets, outfits and accessories, our buyers selected and integrated merchandise from dozens

Having the best people –

both on our selling floors and behind the scenes – is essential. Federated recognizes exceptional personal performance annually through our Star Academy, which celebrates a top sales associate and sales manager from each department store division. These talented, dedicated individuals are the backbone of our business, building customer relationships through a commitment to service and satisfaction. Inductees into Federated's Star Academy for 2000 are pictured here.



1. Barbara Swiacki, Boca Raton, FL; Delores Porter, Plantation, FL – Burdines
2. Margaret Nohowel, McLean, VA; Natalie Nelson, Boca Raton, FL – Bloomingdale's
3. Michelle Bowen, Atlanta, GA; Thomas Weis, Atlanta, GA – Rich's/Lazarus/Goldsmith's
4. Sophie Zega, Paramus, NJ; Robert Cato, Garden City, NY – Stern's
5. Sandra Major, New York, NY; Azza Pitt, Miami, FL – Macy's East
6. Karen Siporen, Santa Clara, CA; Jeanne Reid, Las Vegas, NV – Macy's West
7. Robin Wright, Puyallup, WA; Howard Rohner, Boise, ID – The Bon Marché

rands

of vendors to make a strong fashion statement and deliver a broad choice of styles and price points.

We also are "gift headquarters" for many of our customers. Our assortments are tailored to attract customers buying for weddings, anniversaries, holidays and other gift-giving occasions. And we are leveraging this strength on the Internet through our own e-commerce sites and our relationship with *WeddingChannel.com*.



Branding 0

You simply can't ignore a parade.

Especially not a parade that features towering character balloons, dazzling floats, marching bands and energized celebrities performing on the streets of America's largest city before a crowd of 2 million spectators and a worldwide television audience.

That's Macy's Thanksgiving Day Parade, all right. And it's the largest annual spectator event in America. Yet exciting as it is, this legendary parade – now in its 75th year – is only one of the ways Federated's stores, catalogs and online sites uniquely market themselves. In a highly competitive environment where retailers join a cacophony of others constantly clamoring for consumer attention, to be recognized you've got to stand out from the crowd. A 40-foot-tall inflated Greendog pretty much does the trick.

Big-impact special events are part and parcel of the theater of department store retailing. And they are typical across Federated – from the lighting of the Rich's Great Tree and the Holiday Star at The Bon Marché to the legendary Passport fashion shows put on by Macy's West to support AIDS prevention and treatment. Equally important are hundreds of smaller events held at all of our stores each year, designed to stimulate sales and build customer and community loyalty as we leverage our investments in store and merchandise brands.

It's significant that every Federated regional department store division will have a promotional Internet site in place by the end of 2001. These sites will support sales and events, educate customers, drive store traffic and generate sales opportunities in a manner that

urselfes

supports our store brands. And we will continue to develop multi-channel marketing programs, such as an online companion to the Macy's parade, a fun-filled Greendog web site for kids, and a system of permission-based e-mail communications to technology-savvy customers.

Federated's partnership with *WeddingChannel.com* has resulted in a fully integrated nationwide "clicks and bricks" bridal registry that combines the convenience and geographic reach of the Internet with the personal touch of in-store shopping. In the future, we expect to use emerging technology to develop niche opportunities for selling merchandise, such as special sizes and unusual items, not typically found in our stores.

direct to consumer

The company's catalog and e-commerce businesses enable us to be a multi-channel retailer offering customers a consistent and seamless experience across all selling vehicles and points of contact.



catalogs

Through mail-order catalogs, we offer specially selected merchandise items and niche categories to targeted customers.

e-commerce

Both *macys.com* and *bloomingdales.com* provide online customers with the best of merchandise assortments from these national store brands. The *fingerhut.com* website is positioned to offer transaction efficiency for merchandise available in the Fingerhut catalog.

bricks & clicks

By integrating our direct-to-consumer channels with our department stores, customers enjoy easy returns and exchanges of merchandise purchased online. They also get convenient 24/7 access to shopping, charge account information, store locators, promotions and events listings, as well as enhanced communications related to fashion and lifestyle.



So what's new about a department store?

Well, at Federated the answer is quite a lot. We've embarked on an evolving process of "reinventing" our department stores, making them more convenient, exciting and attuned to the needs and lifestyles of a 21st Century customer.

We're testing scores of new merchandising techniques, philosophies and concepts within our existing stores to gauge consumer response, improve service and challenge conventional wisdom. It's a big undertaking that started with

Brand New

innovations in junior's departments, and has since expanded to encompass shoes, food services, cosmetics ... even strategically placed computerized "e-osks" that offer unique and specialized items for home delivery.

We're also tinkering with store formats. A new Macy's opened in fall 2000 in West Palm Beach, FL with only 100,000 square feet – about 40 percent the size of a typical mall store. Located on a "city street corner" in City Place, an eclectic new mixed-use development, this new Macy's features departments that have been distilled to trendy and tightly edited assortments. It is an example of a compact new store capable of being slotted into smaller malls and even strip centers in markets where larger-format stores are not practical.

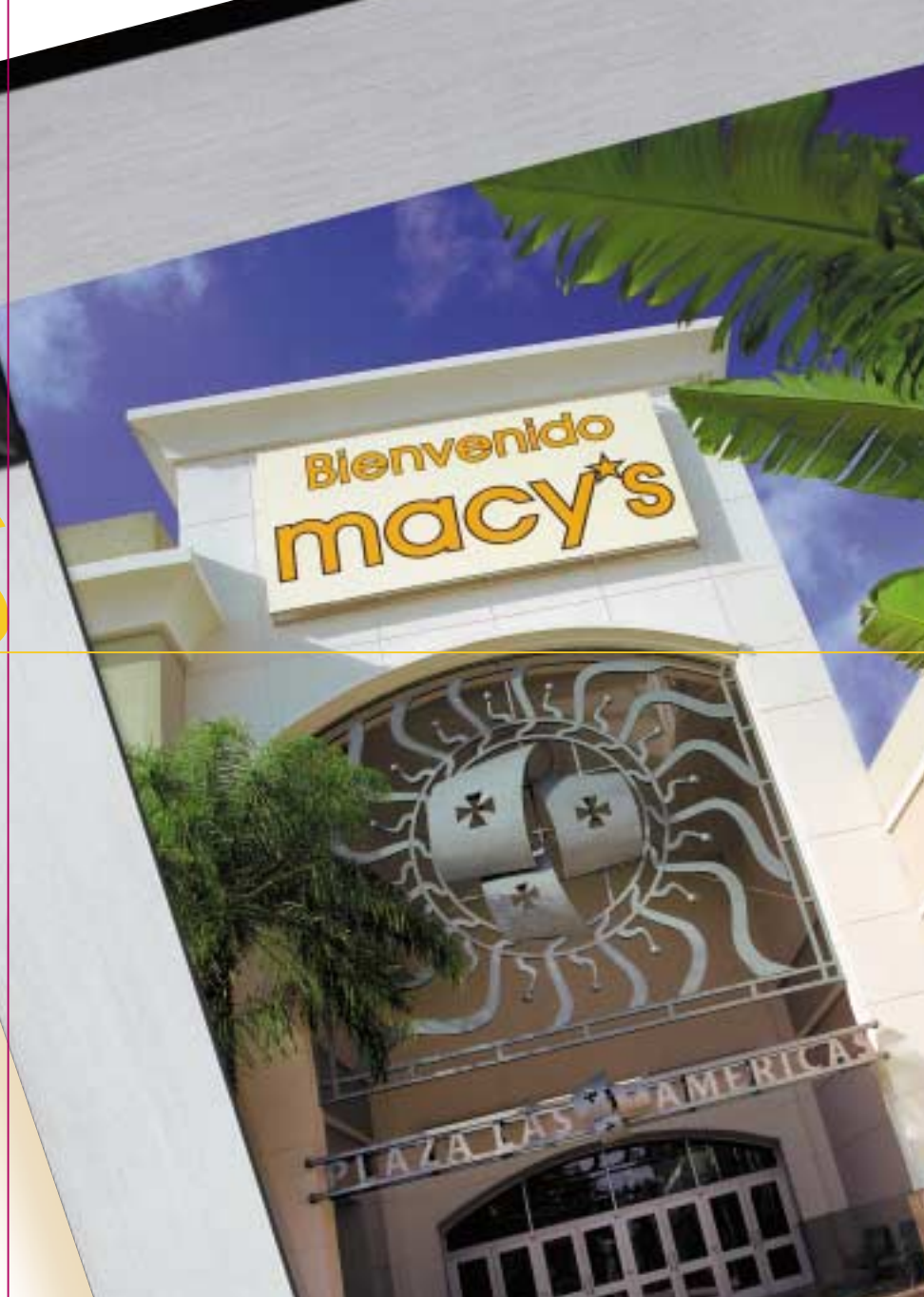


Stores

The Bon Marché will open another new first-of-its-kind store in Helena, MT later this year. Encompassing only 65,000 square feet, this will be a full-line, upscale store on a single level, with a single entrance, centralized sales areas and specially designed shopping carts – all aimed at creating maximum customer service and convenience.

Continuing a strategy of locating new stores in promising markets, Macy's in October 2000 opened Federated's first store outside of the continental United States – in Plaza Las Americas in San Juan, Puerto Rico. This unique Macy's captures the island's atmosphere in both design and merchandise.

Building on our strength in upscale, fashion-oriented home goods, Federated continues to open free-standing home stores and furniture galleries in key markets across the United States. Often located near our full-line department stores, these free-standing units allow us to present dominant assortments in key home categories – creating a destination for the targeted customer.



Meyer Feldberg
Dean
Columbia Business School,
Columbia University

Earl G. Graves, Sr.
Chairman &
Chief Executive Officer
Earl G. Graves, Ltd.

Sara Levinson
Chairman &
Chief Executive Officer
ClubMom, Inc.

Terry J. Lundgren
President & Chief
Merchandising Officer
Federated Department
Stores, Inc.

Joseph Neubauer
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Chief Executive Officer
ARAMARK Corporation

Joseph A. Pichler
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Formerly Vice Chairman
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Craig E. Weatherup
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Marna C. Whittington
Formerly Chief
Operating Officer
Morgan Stanley Dean Witter
Investment Management

James M. Zimmerman
Chairman &
Chief Executive Officer
Federated Department
Stores, Inc.

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Executive Officers

James M. Zimmerman
Chairman & CEO

Terry J. Lundgren
President & CMO

Ronald W. Tysoe
Vice Chairman

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Executive VP
Legal & Human Resources

Susan Kronick
Group President
Regional Department Stores

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Rudolph V. Javosky
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Vice Presidents

Joel A. Belsky
Controller

David W. Clark
Executive &
Organizational
Development, Diversity/
Training/Compensation

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Carol A. Sanger
Corporate Communications
& External Affairs

John R. Sims
Deputy General Counsel

Joseph F. Vella
Employee Relations

Department Stores

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Michael Gould
Chairman

Edwin J. Holman
President

The Bon Marché
Daniel H. Edelman
Chairman

Peter R. Sachse
President

Burdines
Timothy M. Adams
Chairman

Michael J. Osborn
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J. David Scheiner
Vice Chairman &
Director of Stores

Macy's East
Harold D. Kahn
Chairman

James E. Gray
President

Ronald Klein
Executive Vice Chairman

Macy's West
Jeremiah J. Sullivan
Chairman

Robert Mettler
President

Rudolph J. Borneo
Vice Chairman &
Director of Stores

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Goldsmith's**
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Stern's
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Jeffrey Sherman
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Dawn Robertson
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Federated Stores Direct

Support Operations

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Tom Cole
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Chairman

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Call: Federated Investor Relations Department,
Monday-Friday, 8:30 a.m. - 5 p.m. Eastern: 1-513-579-7028

Federated News & Information Request Hotline: 1-800-261-5385

For copies of past news releases & corporate background data: 1-800-853-9150

Write: Federated Department Stores, Inc. • Investor Relations Department
7 West Seventh Street • Cincinnati, OH 45202**Common Stock:**

Shares of Federated common stock are traded on the New York Stock Exchange.

The company's trading symbol is FD.

The approximate number of Federated shareholders of record, as of February 3, 2001, was 11,700. Also, as of this date there were approximately 198 million shares of Federated common stock outstanding, excluding shares held by Federated.

Transfer agent for Federated shares:The Bank of New York • Shareholder Relations Department
Church Street Station • P.O. Box 11258 • New York, NY 10286-1258 • 1-800-524-4458**Quarterly Trading Volume & Share Price Data:**

2000	Shares Traded	Average Daily Volume	Prices	
			Low	High
First Quarter	75,395,000	1,197,000	31.63	44.75
Second Quarter	104,915,000	1,665,000	21.00	40.88
Third Quarter	105,575,000	1,650,000	23.81	30.19
Fourth Quarter	108,120,000	1,638,000	28.31	46.06
1999				
First Quarter	85,833,000	1,362,000	36.44	47.13
Second Quarter	68,486,000	1,087,000	45.94	57.06
Third Quarter	63,412,000	991,000	38.44	52.88
Fourth Quarter	75,121,000	1,212,000	40.94	53.88

The next annual meeting of shareholders will be held at 11 a.m. EDT, on Friday, May 18, 2001 at Corporate Headquarters in Cincinnati, OH.



In recognition of the importance of preserving a healthy environment for future generations, Federated uses recycled paper and soy ink in the production of its annual report.

Federated
DEPARTMENT STORES, INC.

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bloomingdales

The **BONMARCHÉ**

Burdines

Goldsmith's

LAZARUS

macy's

RICH'S

FINGERHUT