

Federated

DEPARTMENT STORES, INC.

2001 Annual Report

*standing still
gets you
nowhere...*





One of the nation's lead

Federated Department Stores, Inc. currently operates more than 450 stores in 34 states, Guam and Puerto Rico under the names of Bloomingdale's, The Bon Marché, Burdines, Goldsmith's, Lazarus, Macy's and Rich's. It also operates *macys.com*, Bloomingdale's By Mail, and a network of online bridal gift registries operated in conjunction with *WeddingChannel.com*.

C O M M U N I T Y I N V O L V E M E N T

Each Federated department store division 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 2001, cash contributions to charitable organizations by Federated, its divisions and subsidiaries – including those made by the Federated Department Stores Foundation – totaled approximately \$15.2 million.

Partners in Time, the company's nationally recognized employee volunteer program, involves all divisions and support operations. In 2001, more than 68,800 volunteers gave nearly 116,000 hours of time – touching nearly every segment of American society.

D I V E R S I T Y

As the 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 management/professional ranks, 68 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 2001, these purchases totaled approximately \$300 million.

ng department store retailers...



FINANCIAL HIGHLIGHTS CONTINUING OPERATIONS

	2001	2000	1999	1998
Net Sales	\$ 15.651 billion	\$ 16.638 billion	\$ 16.029 billion	\$ 15.365 billion
Same-store sales	(5.3%)	2.0%	4.5%	2.2%
Operating Income				
Excluding unusual items ^(Note 1)	\$ 1.319 billion	\$ 1.771 billion	\$ 1.693 billion	\$ 1.455 billion
% of sales	8.4%	10.6%	10.6%	9.5%
EBITDA ^(Note 2)	\$ 2.008 billion	\$ 2.422 billion	\$ 2.358 billion	\$ 2.079 billion
% of sales	12.8%	14.6%	14.7%	13.5%
Net Income (Loss) ^(Note 1)				
Excluding unusual items	\$ 604 million	\$ 870 million	\$ 825 million	\$ 685 million
Including unusual items	\$ (276) million	\$ (184) million	\$ 795 million	\$ 662 million
Diluted Earnings (Loss) Per Share ^(Note 1)				
Excluding unusual items	\$ 3.03	\$ 4.20	\$ 3.76	\$ 3.06
Including unusual items	\$ (1.38)	\$ (.89)	\$ 3.62	\$ 2.96

Notes: (1) Unusual items represent, where applicable, inventory valuation adjustments in 2001, asset impairment and restructuring charges in 2001 and 2000, discontinued operations of Fingerhut in 2001, 2000 and 1999, and the loss associated with the prepayment of debt in 2001 and 1998.
(2) EBITDA represents earnings from continuing operations before interest, taxes, depreciation, amortization, and unusual items in 2001 and 2000.



SALES

From Continuing Operations
In Billions

(Excludes sales of stores closed and not replaced,
discontinued businesses and 53rd week of 2000)



EBITDA

From Continuing Operations
As a Percent of Sales

(Earnings Before Interest, Taxes, Depreciation,
Amortization and Unusual Items)



DILUTED EARNINGS PER SHARE

From Continuing Operations

(Excludes Unusual Items)



Because we believe standing still gets you nowhere, Federated is moving aggressively across a number of fronts to restore sales growth, increase profitability and improve return on investment.

I.N.C.
INTERNATIONAL CONCEPTS

olavaw

CLUB
CHARTER

softer
CLOTHING

AS SEEN IN
Style & co.

gen-oo

GEN-OO

2001

Dear Fellow Shareholder:

Sometimes, the best that can be said about a year is that it's over. For our country, our industry and our company, 2001 was one of those years.

From adversity, however, has come a renewed energy and determination to move forward – to overcome challenges both internal and external. This is as true for Federated as it is for America. So just as we are proud of our nation and its ability to rise to the difficult challenges we are facing in the aftermath of 2001, so are we proud of Federated's 115,000 employees nationwide for the incomparable spirit and resolve they have demonstrated over these difficult past 12 months.

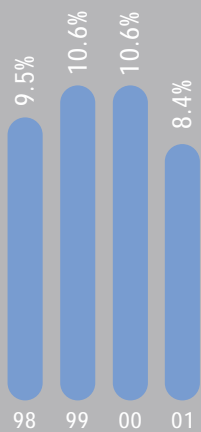
A confluence of factors influenced our 2001 performance, some of which were well outside of our ability to control. Among these were an economy dipping into recession, terrorism and tourism issues that significantly impacted major East and West Coast markets where Federated has sizeable concentrations of stores, power shortages and blackouts in California, and unseasonable weather patterns across much of the country that hurt sales of wear-now apparel throughout most of the year.

In addition to these external issues, there were internal factors influencing our performance, many of which we believe can be impacted positively. So it is in these areas that we are focusing our strategies and redoubling our efforts in 2002, with the singular goal of developing a more compelling business proposition for our customers to drive sales growth. We will not stand still until this is accomplished.

To achieve this goal, our objectives are clear:

- We will improve the shopping experience for our customers, making it easier and faster to purchase merchandise.
- We will make our delivery of value more apparent to the customer.
- We will narrow our merchandise assortments to make selections easier and presentations more convincing.
- We will focus on fashion and newness.
- We will make our stores more visually appealing and easier to navigate.
- We will tell our new story through effective marketing.
- We will continue to invest in developing our people.

Our singular goal for 2002 is to develop a more compelling business proposition for our customers to drive sales growth.



OPERATING INCOME

From Continuing Operations
As a Percent of Sales
(Excludes Unusual Items)

- We will increase profitability and return on investment.

We are committed to achieving results in each of these areas in the year ahead, even as we continue to build on some of the more notable successes of the last year.

2001 Progress

Although our successes tend to be overshadowed by the year's larger issues, they are significant because they bode well for the future of our department store operations:

- an ability to continue generating significant amounts of free cash flow from our department store operations, despite pressure on sales – approximately \$775 million (after capital expenditures but before the acquisition of Liberty House), compared to approximately \$600 million in the prior year;
- an encouraging recovery in the fourth quarter, which enabled us to exceed revised sales and EBIT forecasts;
- year-end inventories that were down about 7% on a same-store basis – a difficult feat to achieve, but one that positions the company well for the year ahead;
- an exceptionally strong private brand program that consistently outperforms the industry, and that has grown to represent 16% of Federated's total 2001 sales;
- solid progress in growing our junior's and young men's businesses, which significantly outperformed the rest of the store in the last year;
- opening of a new prototype department store – Lazarus at Easton Center in Columbus, OH – where we are testing an array of new service and merchandising concepts;
- the acquisition of Liberty House, with stores in Hawaii and Guam, and its virtually flawless integration into our Macy's West division;
- the elimination of Stern's and the conversion of 17 stores into Macy's in New York and New Jersey, which further solidified Macy's positioning in those markets, and planned conversions of two New Jersey Stern's stores to Bloomingdale's, slated for this year.

In January 2002, we announced our intent to dispose of Fingerhut, preferably through the sale of its operations as a going concern, or in the case of the Fingerhut catalog, by closure of the business. In total, we expect to realize approximately \$1.1 to \$1.3 billion of after-tax proceeds, net of one-time costs, over the next four years as a result of this disposition.

Federated acquired Fingerhut in 1999 primarily for its e-commerce potential. Knowing what we do now, we certainly would have done things differently three years ago.

Yet having said that, we also know that being willing to take prudent risks is integral to running a business. Indeed, in today's competitive retail environment, we believe there is greater risk in standing still and accepting the status quo than in stepping out from the crowd, testing new concepts and trying to move forward.

Stepping Ahead

In 2002, we will resolutely pursue the goals for driving sales growth outlined above, with the objective of generating a significant improvement in earnings and return on investment.

We plan to open 14 new stores this year – 11 new department stores, two Bloomingdale's home stores in Las Vegas and Chicago, and a new Burdines Furniture Gallery in Fort Lauderdale – and we will continue to test and roll out new prototype concepts in these stores as well as incorporating some of these advances into our ongoing store remodel program. A total of \$700 million has been budgeted for capital expenditures in 2002.

We also are investing in our people. Federated's advanced Leadership Institute is among the industry's most outstanding training programs, and a catalyst for Federated being recognized as one of *Training* magazine's Top 100 corporations "unsurpassed in harnessing human capital."

This is where we have been and where we are headed. We're confident we have the right people, the right strategies, the right priorities and a strong balance sheet in place to ensure progress and profitability in 2002, and we are committed to delivering that result.

Sincerely,



James M. Zimmerman
Chairman/Chief Executive Officer



Terry J. Lundgren
President/Chief Operating Officer
& Chief Merchandising Officer

April 17, 2002



James M. Zimmerman



Terry J. Lundgren



Making

The choice between standing still or stepping out from the either approach, one thing is certain: standing still gets purposeful strides on a number of fronts in pursuit of creati

■ Ultimately, it's all about growing sales and increasing p business practices in ways that leverage our strengths and c

To refine our merchandising app

New initiatives to grow sales are focused on improving the department store merchandising by narrowing assortments, and offering more newness and exclusive items. We also will be simplifying the shopping experience and strengthening marketing support. We believe these efforts will build deeper relationships with customers and increase the attractiveness of our stores as shopping destinations of choice.

We expect to significantly narrow our store assortments in 2002 and to reduce the amount of excess inventory on the sales floor. This will help sharpen and clarify our approach to customers, resulting in a focused, more compelling offering on our selling floors. It also will enable us to partner more closely with selected national-brand vendors to develop new and exclusive merchandise. Because of our strong partnerships in the marketplace, many of these vendors are eager to support Federated's desire to offer unique, differentiated products in our stores, and we greatly appreciate and value these relationships.

Going forward, private brand and private label merchandise will play a larger role than ever in differentiating our merchandise offering and delivering superior value to the customer. Our strong private brands – including Charter Club, I-N-C, Alfani, The Cellar, Greendog, Style & Co., Jennifer Moore, First Impressions, Tools of the Trade and Arnold Palmer – will continue to grow their presence throughout the store with new lines, merchandising programs, sales promotions and marketing innovation. Tasso Elba and Glen Royal are new private labels developed to address

Tracks

crowd really is no choice at all. While there may be risk in you nowhere. ■ So Federated is committed to taking the best possible shopping experience for our customers. profitability. ■ To do that, we are taking steps to improve capitalize on opportunities in every facet of the company...

roach...

specific niche opportunities within the men's sportswear department. Meanwhile, Federated's best-selling I·N·C brand has enlisted Heather Mills, a celebrated model and activist, to represent its new line of updated casual fashion for women in 2002. The new JM Collection launches in 2002 with a fresh approach to the moderate, traditional career customer, and with assortments focused on a relaxed, soft, lifestyle approach to dressing. The introduction of Greendog footwear in selected children's shoe departments nationwide will allow head-to-toe wardrobing for kids within the expanded Greendog brand.

Federated Merchandising Group's design, development and marketing acumen – as well as its production volume – will continue to evolve as our exclusive brands extend beyond Federated's own stores to non-competitive department store retailers internationally. A full range of Federated's private brands will be sold this year in leading stores in Japan, Australia, Chile, Peru and other nations. We are unaware of any department store whose private brands are so desired by other retailers around the world.

Across Federated, we are revitalizing marketing programs to improve their efficiency and increase their effectiveness in attracting customers and encouraging multiple purchases. We will make our advertising more efficient through new systems for tracking, reporting and measuring the results of marketing programs, and more effective through more innovative tools and creative executions.





To run better stores...

While merchandising and marketing initiatives will bring more customers in the door, our stores need to continually become easier and more exciting places to shop.

We recognize that today's department stores must simultaneously provide convenience and simplicity for time-starved customers, while also serving as entertainment for shoppers seeking diversion, comfort and escape.

Federated's stores are focused on improving their execution of fundamentals with the intent of becoming easier to shop. There will be more room to walk, more places to sit, and a wider variety of in-store refreshment options.

Technology will be used to collect and analyze data more scientifically so sales and markdowns can be better managed. Likewise, more widespread use of systems will ensure that the customer will find us in-stock more often on the correct size, color and style of apparel and home goods.

In the bigger picture in 2002, we will roll out successful pilots tested over the past several years within our "reinventing the department store" initiative. We will be concentrating capital dollars on targeted store improvement projects, while molding store formats to specific market opportunities.

Our dynamic new junior's and young men's department formats will be incorporated into new and existing stores around the country as part of the effort to attract younger shoppers with an environment that appeals to their heightened sense of style and excitement. A similar process is beginning with children's departments, where a new holistic formula for success will be developed and tested in 2002.

In markets where full-line, mall-anchor stores are not feasible, Federated will be building smaller department stores that package high-quality fashion brands and basics – across multiple families of business – into half the space of a typical Federated location. Sometimes, these stores will be located in suburban centers or will stand alone in high-potential trading areas.

To satisfy the customer...

Department stores rely on knowledgeable sales staffs – the service they provide and the relationships they build – to satisfy customers and build a loyal clientele. Even as we improve merchandise, adopt new technology and refocus store operations, the human touch is central to everything we do. Federated is resolutely committed to

having the best people in retailing, and to ensuring that caring for the customer is the top priority in the way we do business.

In 2002, we will be increasing the intensity of training and development for our sales associates on the selling floor, helping them maximize their performance and drive sales. We also will extend the acclaimed Federated Leadership Institute, with its unique approach to personal development and achievement-based management, to a broader audience of employees. In our view, this investment in our people – and in customer satisfaction – is more important than ever in a difficult economy.

Our people will have the support and tools necessary for success. Stores will be more customer-friendly in the way merchandise is organized, displayed and signed. Technology will continue to make transactions faster and easier, to communicate useful information directly to customers through in-store computer terminals and displays, and even to streamline bridal registry selection and gift-giving through the use of Palm Pilots in some stores. On-location amenities, such as upscale coffee shops, shopping carts and childcare in selected locations, will encourage customers to stay and shop in our stores longer.

To improve profitability...

Federated is managing its business to grow sales while increasing its profitability and producing strong cash flow. This requires us to control costs, employ new technologies, manage assets effectively and prioritize capital spending – all of which we have identified as key areas of focus that will enable us to return to historical levels of profitability in the near future.

In a rapidly changing retail sector – one in which flexibility is essential to take advantage of high-potential opportunities as they emerge – a strong balance sheet is paramount and cash is king. In 2001, Federated's free cash flow from department store operations was approximately \$775 million, after capital expenditures but before the acquisition of Liberty House. This was well above the approximately \$600 million generated in fiscal 2000.

We will not be a static organization that's resigned simply to protect our turf. Federated is committed to a path of steady and profitable growth built on decisive action and innovative approaches. We are a company that stands for quality. We stand for value. We stand for fashion and excitement. But we most certainly don't stand still.



Board of Directors

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 Operating
Officer & Chief
Merchandising Officer
Federated Department
Stores, Inc.

Joseph Neubauer
Chairman &
Chief Executive Officer
ARAMARK Corporation

Joseph A. Pichler
Chairman &
Chief Executive Officer
The Kroger Co.

Ronald W. Tysoe
Vice Chairman
Federated Department
Stores, Inc.

Karl M. von der Heyden
Formerly Vice Chairman
PepsiCo, Inc.

Craig E. Weatherup
Chairman &
Chief Executive Officer
The Pepsi Bottling
Group, Inc.

Marna C. Whittington
President
Nicholas Applegate
Capital Management

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

Corporate Management

Executive Officers

James M. Zimmerman
Chairman & CEO

Terry J. Lundgren
President, COO & CMO

Ronald W. Tysoe
Vice Chairman
Finance & Real Estate

Thomas G. Cody
Executive VP
Legal & Human Resources

Susan Kronick
Group President
Regional Department Stores
& Federated Direct

Senior Vice Presidents

Dennis J. Broderick
General Counsel &
Secretary

Karen M. Hoguet
Chief Financial Officer

Rudolph V. Javosky
Design & Construction

Vice Presidents

Joel A. Belsky
Controller

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

Neal J. Glueck
Tax

Gary J. Nay
Real Estate

Carol A. Sanger
Corporate Communications
& External Affairs

Michael Zorn
Employee Relations

Division Principals

Bloomington's

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
President

J. David Scheiner
Vice Chairman &
Director of Stores

Macy's East

Harold D. Kahn
Chairman

James E. Gray
President

Macy's West

Jeremiah J. Sullivan
Chairman

Robert Mettler
President

Rudolph J. Borneo
Vice Chairman &
Director of Stores

Rich's/Lazarus/ Goldsmith's

Ronald Klein
Chairman

David L. Nichols
President

Federated Direct

Dawn Robertson
President-
Federated Stores Direct

Federated Merchandising Group

Janet E. Grove
Chairman

Leonard Marcus
President

Financial, Administrative & Credit Services

James J. Amann
Chairman

Federated Logistics, Operations, Store Planning & Systems

Tom Cole
Chairman

Federated Systems Group

Larry A. Lewark
President

10K in pocket

Shareholder Information

To Reach Us

Visit: Our website at www.federated-fds.com/financial to

- Sign up to have Federated's news releases sent to you via e-mail by subscribing to News Direct
- Get the latest stock price and chart, or take advantage of the historical price look-up feature

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

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

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

The next annual meeting of shareholders will be held at 11 a.m. EDT, on Friday, May 17, 2002 at Corporate Headquarters in Cincinnati, OH.

Federated Selling Stars

Listed below are the talented, dedicated individuals inducted into Federated's Star Academy for 2001. They represent our company's best and brightest selling service professionals. Each year, one sales associate and one sales manager is selected from each department store division for inclusion in the Star Academy, based on their success in building customer relationships through a commitment to service and satisfaction.

Founded in 1995, the Star Academy now includes 96 women and men who serve as role models and mentors for newer and less experienced sales professionals. Each of these winners has a story of excellence and achievement that inspires his or her peers.

Jennifer Boccia
Huntington, NY
Bloomingdale's

Cindy Haynes
Coral Springs, FL
Burdines

Danielle Maple
West Covina, CA
Macy's West

Sally Zaki
Short Hills, NJ
Bloomingdale's

George (King) Knoch
Seminole, FL
Burdines

Anne Salem
Pleasanton, CA
Macy's West

Renee Layton
Pocatello, ID
The Bon Marché

Joseph Gahr
Yonkers, NY
Macy's East

Hyacinth Allen
Atlanta, GA
Rich's/Lazarus/Goldsmith's

Judith Wexler
Bellingham, WA
The Bon Marché

Lynne O'Connell
Braintree, MA
Macy's East

Annette Hagan
Evansville, IN
Rich's/Lazarus/Goldsmith's

Federated
DEPARTMENT STORES, INC.

7 West Seventh Street
Cincinnati, Ohio 45202
www.federated-fds.com

bloomingdales

The **BON** MARCHÉ

Burdines

Goldsmith's

LAZARUS

macy's

RICH'S