





bloomingdale's

BLOOMINGDALE'S HAS DEVELOPED OVER GENERATIONS TO OCCUPY A UNIQUE NICHE IN RETAILING — ONE THAT'S DISTINCTLY AMERICAN AND RECOGNIZED AROUND THE GLOBE. THE BLOOMINGDALE'S NAME IS SYNONYMOUS WITH CONTEMPORARY FASHION, NEWNESS AND A BROAD ASSORTMENT OF UPSCALE MERCHANDISE. WITH CELEBRITY EVENTS, DESIGNER INTRODUCTIONS AND ATTENTIVE AND PERSONALIZED SERVICE, BLOOMINGDALE'S SHOPPERS HAVE COME TO EXPECT THE EXCEPTIONAL.



MACY'S IS CAPTURING THE SPIRIT OF AMERICA AS IT PURSUES AN EXCITING NEW COURSE FOR THE FUTURE. FEDERATED HAS LAUNCHED MACY'S AS A TRULY NATIONAL DEPARTMENT STORE. BY REFLECTING AND ENABLING UNIQUELY AMERICAN LIFESTYLES ... BY PROVIDING FASHION AND DELIVERING AFFORDABLE LUXURY ... BY PUTTING THE CUSTOMER FIRST, MACY'S IS DISTINGUISHING ITSELF AS SOMETHING VERY SPECIAL ON THE AMERICAN LANDSCAPE.



celebrate *ideas* entertain • serve • dine



COMMUNITY INVOLVEMENT

At Federated, we don't just draw on the strength of the communities where we operate. We help sustain them. Giving back is part of who we are as Macy's and Bloomingdale's. We make the world a healthier and more interesting place through our corporate contributions, employee volunteerism and community events such as parades, fireworks, tree lightings and flower shows.

In 2004, cash contributions to charitable organizations by Federated, its divisions and subsidiaries – including those made by the Federated Department Stores Foundation – totaled approximately \$17.6 million. In addition, we raised more than \$4 million through customer initiatives such as the annual Thanks for Sharing gift rewards program and Macy's national sponsorship of the American Heart Association's "Go Red for Women" campaign for heart health.

Partners in Time, the company's nationally recognized employee volunteer program, involves all divisions and support operations. In 2004, more than 50,000 participants gave about 111,000 hours of time – valued at more than \$2 million – touching nearly every segment of American society.



DIVERSITY

For Federated, diversity is a key business initiative and an integral part of all aspects of the company. Diversity within our work force, customer base, community and vendor relationships distinguishes us from other retailers and gives us a clear competitive advantage. On a day-to-day basis, diversity manifests itself in the respectful way we treat our customers, vendors, members of our community and one another.

This commitment to an inclusive work environment allows us to attract and retain a talented workforce that reflects the growing diversity of our communities and encourages creative thinking and innovation, which are at the heart of our success.

Women represent more than 75 percent of Federated's workforce and more than 68 percent of management-level executives. Racial minorities are more than 48 percent of our workforce and 28 percent of the management ranks.

Additionally, Federated's Supplier Diversity Program seeks to source goods and services – either for resale or in support of business operations – from qualified minority- and women-owned enterprises. In 2004, these purchases totaled more than \$466 million.



PROFILE

ONE OF THE NATION'S LEADING DEPARTMENT STORE RETAILERS, FEDERATED DEPARTMENT STORES, INC. OPERATES MORE THAN 450 STORES IN 34 STATES, GUAM AND PUERTO RICO UNDER THE NAMES OF MACY'S AND BLOOMINGDALE'S. THE COMPANY ALSO OPERATES MACYS.COM AND BLOOMINGDALE'S BY MAIL.



FINANCIAL HIGHLIGHTS

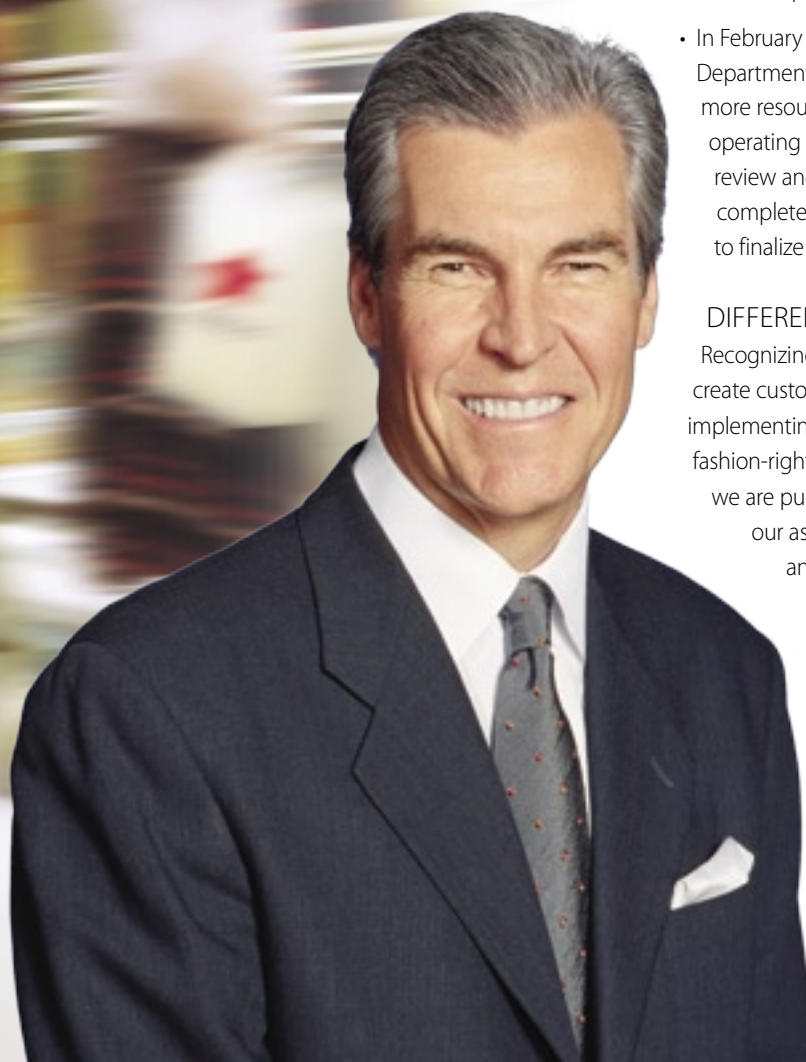
	2004	2003	2002
Net Sales	\$ 15.630 billion	\$ 15.264 billion	\$ 15.435 billion
Change in same-store sales (Note 1)	2.6 %	(0.9 %)	(3.0 %)
Income from Continuing Operations			
Before Income Taxes	\$ 1.116 billion	\$ 1.084 billion	\$ 1.048 billion
% of Sales	7.1 %	7.1 %	6.8 %
Diluted Earnings Per Share			
Income from			
Continuing Operations	\$ 3.86	\$ 3.71	\$ 3.21
Net Income	\$ 3.86	\$ 3.71	\$ 4.12
Cash Flow Before			
Financing Activities (Note 2)	\$ 780 million	\$ 1.028 billion	\$ 531 million

Notes: (1) Represents the year-to-year percentage change in net sales from stores in operation throughout the year presented and the immediately preceding year.

(2) Represents net cash provided by continuing operating activities of \$1,507 million for 2004, \$1,776 million for 2003 and \$1,210 for 2002 reduced by the net cash used by continuing investing activities of \$727 million for 2004, \$748 million for 2003 and \$679 million for 2002. Net cash provided by continuing operating activities in 2003 benefited from lower income tax payments resulting from the use of Fingerhut net operating losses.

LETTER TO SHAREHOLDERS

POSITIVE CHANGE
CREATES BENEFITS
FOR CUSTOMERS AND
SHAREHOLDERS.



DEAR FELLOW SHAREHOLDER:

While our company again produced strong financial results in fiscal 2004, perhaps our most remarkable achievement was the significant positive change we have initiated to fortify the very foundations of our business for the long run.

- We made the landmark decision to convert our regional store nameplates to the Macy's brand. As of March 6, 2005, all of our stores, catalogs and e-commerce sites operate as either Bloomingdale's or Macy's. This allows us to focus on the two strongest brands in American department store retailing – both deeply rooted in fashion, service and community involvement – and to drive sales and profitability by serving a well-defined core customer with a unified message. Our five regionally based Macy's divisions ensure our decision-making stays close to the customer and that our stores and assortments reflect local tastes and preferences.
- We drove significant progress in each of the four strategic priorities that guide our business decisions. The four priorities – Assortments, Price Simplification, Improving the Shopping Experience and Marketing – are described below. They have helped sharpen our discipline and creativity, while providing Macy's a well-defined roadmap for continuous improvement in the most crucial aspects of daily operations.
- We launched Macy's Home Store as a consolidated central organization for merchandising and marketing home-related merchandise for all Macy's stores nationwide. Going forward, this best-in-class organization will provide our core customer with a fashion-driven home assortment that is uniquely Macy's.
- In February 2005, we entered into an agreement to acquire The May Department Stores Company. The acquisition would create a stronger, more resourceful company with more than 950 department stores operating in 64 of the nation's top 65 markets. Pending regulatory review and shareholder approval, the transaction is expected to be completed in the third quarter this year. Meanwhile, we are working to finalize plans for the combined company.

DIFFERENTIATED AND EDITED ASSORTMENTS

Recognizing that great product assortments and brands in our stores create customer excitement and build loyalty among shoppers, we are implementing programs to ensure our assortments are fresh, new and fashion-right so Macy's is differentiated in the marketplace. Concurrently, we are pursuing a good-better-best merchandising strategy that aligns our assortments with our core customer's expectation for price and quality. And we are more tightly editing assortments to reduce duplication and clutter on the selling floor.

The company's private brands continue to grow at a faster pace than overall sales trends, providing differentiation and value to customers. In 2004, Federated's private brands – such as I-N-C, Charter Club/Clubroom, Alfani, Style & Co., Hotel Collection and Tools of the Trade – represented about 17.4 percent of total sales toward our ultimate goal of 20 percent.

TERRY J. LUNDGREN
CHAIRMAN, PRESIDENT &
CHIEF EXECUTIVE OFFICER

We also continue to work with the best national brands and designers, such as Ralph Lauren, Calvin Klein, Tommy Hilfiger and Kenneth Cole, to bring exclusive and limited product offerings to Bloomingdale's and Macy's stores.

PRICING THAT'S EASIER TO UNDERSTAND

While Macy's will always be a promotional department store, our customers prefer us when our pricing is easier to understand. We are simplifying pricing through several programs, including offering selected key items at everyday low prices.

We continue to reduce couponing activity and offer better coupons with fewer exclusions to our best customers, while decreasing the frequency of "public" coupons that appear, for example, in newspaper ads.

MORE INTERESTING AND LESS CLUTTERED STORES

Based on feedback we receive every day from customers, we are working to make our stores less cluttered with signs and messages, as well as more spacious, convenient and inviting. Service standards for all Macy's stores are rising to a level that is meeting our customer's expectations.

We continue to improve our stores with "Reinvent" elements, such as price checkers, wayfinding signs, shopping buggies and redesigned vestibules to our fitting rooms. Since 2002, we have allocated about \$100 million per year of our capital spending to reinvent initiatives. By fall 2005, stores representing more than 70 percent of Macy's sales volume will have been reinvented.

MARKETING TELLS OUR STORY

Through Marketing, we are communicating to customers that Macy's is the "way to shop." Our advertising is bolder, more compelling and fashionable, consistent with our lifestyle approach to merchandising. We're using more national and broadcast advertising to tell our story.

In early 2005, we launched a new Macy's Star Rewards customer loyalty program and issued about 16 million new Macy's credit cards to customers nationwide. Those customers who shop us most often and spend the most will receive the best benefits – all tied to the Macy's card.

As a company that gives back, Federated is an important member of the community through donations to charity, employee volunteerism, national sponsorships, and hosting major events such as the Macy's Thanksgiving Day Parade.

In 2004, Macy's began a three-year national sponsorship of the American Heart Association's "Go Red for Women" campaign to battle heart disease in women. We generated about \$4 million in cash contributions to designated charities during our Thanks for Sharing holiday campaign. Our employees devoted more than 111,000 hours to community projects through Federated's Partners in Time employee volunteerism program.

PROGRESS AT BLOOMINGDALE'S

While much of the strategic action in 2004 and 2005 relates to development of the Macy's brand, our Bloomingdale's brand continues to do well. This highly successful division generated the highest year-over-year same-store sales growth within Federated last year, and continued to make strides delivering distinctive fashion merchandise and a high level of personalized attention to its upscale clientele.

Bloomingdale's unique new SoHo location in New York City – as much a trend-setting boutique as a department store – opened in 2004 to rave reviews from customers and the fashion community. It not only has cultivated an attractive customer segment for Bloomingdale's, but it also has spawned new economic vitality and energy in a previously stagnant neighborhood.

Simultaneous with advances at Macy's, we are pursuing plans for continued growth and development of the Bloomingdale's brand – in stores, online and via the Bloomingdale's By Mail catalog.

BUILDING ON SUCCESS AND FINANCIAL STRENGTH

Federated is a company that's not afraid of change, and is willing to take well-calculated risks to grow profitable sales. We are well aware – and, in fact, quite proud – of the reputation we've built for doing things differently in the quest for growth in sales and shareholder value.

Our confidence is built on the company's momentum in operating performance and continued financial strength.

- Sales in fiscal 2004 rose by 2.4 percent, and 2.6 percent on a same-store basis, reflecting an especially robust Spring season, as well as a strong finish to the holiday shopping season.
- Operating income rose to \$1.40 billion in fiscal 2004 from \$1.34 billion in 2003, even though costs for store closings, centralization and consolidation activities rose by \$40 million in the most recent year.
- Cash flow before financing activities was \$780 million in fiscal 2004. In part, we used cash to repurchase 18.3 million shares of Federated common stock, to increase our dividend to shareholders by 8 percent in 2004, and to complete a tender for approximately \$274 million of high-cost debt.

A NEW BEGINNING...

With nostalgia and gratitude, we retired some of the best-known department store names in early 2005. The Bon Marché, Burdines, Goldsmith's, Lazarus and Rich's excelled at serving generations of customers. We grew up with these names, and they will live fondly in our memories.

But department store retailing in the future means new beginnings and focused energies. Bloomingdale's and Macy's are department store brands associated with today's America – with the dreams, aspirations and lifestyles of customers who love to shop, and who are ever-conscious about fashion, quality, affordable luxury, convenience and service.

Our strength in embracing positive change comes from the women and men who work together at every level within Federated, as well as in the encouragement we receive from our customers, shareholders, vendors and communities.

Federated clearly is moving in the right direction. We believe the year ahead will be rewarding for the company and our shareholders. Along with our entire management team and organization, I remain committed to achieving this result.



EVERYTHING WE DO AT
MACY'S AND BLOOMINGDALE'S
STARTS WITH THE VOICE OF
OUR CUSTOMERS.

With their opinions and preferences in mind, Federated developed four strategic priorities – Assortments, Price Simplification, Improving the Shopping Experience and Marketing. We continue to listen so we can improve our merchandise assortments, service and store environments.

At the conclusion of every in-store transaction at Bloomingdale's and Macy's, we encourage the customer to visit our Web site to rate our service and shopping experience. In addition, we proactively solicit comments by mail from a sampling of customers who shop every store each day.

Along the way, we hear some extraordinary stories from our customers. The following pages include some of those comments we've heard recently – in the customers' own words.



LISTENING TO THE

UNLOCKING THE SECRET TO CUSTOMER LOYALTY

“We were visiting family members in the Palm Beach (FL) area. After a few purchases in your (Bloomingdale's) store at Palm Beach Gardens, we headed back to the parking lot, only to realize we had locked ourselves out of our rental car. We came back into Bloomingdale's (it was raining) to decide what to do next. One of your sales people, Phyllis, realizing that we needed help, offered to assist us. After many phone calls, she located a locksmith who was open (this was a Sunday) and close by. She took charge in making sure he would stop by quickly, negotiated an acceptable rate for his services and made us comfortable in the meantime. We were very impressed and appreciative with Phyllis' help and assistance, especially since we hadn't shopped in her department. We have mentioned our experience to many friends both in Canada and the U.S. and will not hesitate in the future to visit your stores when we travel to the U.S.”

— Robert M., St. Lambert, Quebec, Canada



GOING ABOVE AND BEYOND

“I have been one of Bill’s (a Macy’s sales associate) customers for many years and he always treats me very well when I am in, but this time was outside of the norm. I called Bill on a Thursday at 4 p.m. out of desperation. I needed a gift for someone and was flying out the next morning, but I had to work until 9 p.m. Bill took it upon himself to pick out some items for me and even went into the mall to get a card so I would have everything I needed. Bill went a step beyond and delivered it to my office that night on his way home. I am the General Sales Manager of an auto dealership, and I have a sales meeting every Saturday. My next topic will be ‘above and beyond’ and I will tell this story to my staff. Bill went above and beyond for me when I needed some extraordinary help.”

— Anand S., Orlando, FL



Sean John



VOICE OF OUR CUSTOMERS

SHOPPING MACY’S COAST TO COAST

“I didn’t have time to shop for a bridal shower gift before I left for Atlanta. So while I was in Atlanta at a Rich’s-Macy’s store, I called and talked to Cindy at my local Bon-Macy’s store in Tukwila, WA. While I was looking at nightgowns and robes in the Atlanta store, Cindy was helping me find the same or similar items by Alfani and Morgan Taylor at Southcenter. I told her my niece, Rhonda, would be picking up the item that day and asked Cindy to get the item gift wrapped for me. She made sure the price tags were removed, gift receipts were enclosed, had the item wrapped, and even filled out the enclosure card with my message. She took the time to call me back to let me know when it was ready and what all the totals were. She was outstanding! This was the best service I have ever experienced and she made it a seamless shopping experience to be able to shop at different Macy’s brand stores.”

— Terry C., Seattle, WA



A REUNION WITH CLASS, THANKS TO MACY'S

"I hate to shop and put off buying a dress for my 40th high school reunion until two days before. I actually found a dress in one store, but it was in the wrong size. The very sweet salesperson named Cecilia got on the computer, then phone and had them hold a dress in another store. The next morning, the dress was waiting for me. Two sales associates helped me. Then an associate in jewelry picked out a flower pin and a matching stole. I quickly ran to Intimate Apparel, where a very sweet lady brought in all kinds of bras while I tried them with the dress. Then she brought in a tummy flattener. All this was accomplished in about 1 hr and 15 min. I couldn't believe how kind and personally concerned about me they all were. All of these people gave me an entirely different perspective on shopping. The outfit was dynamite and I looked really good ... thanks to all these ladies for the confidence boost."

— Valerie L., San Gabriel, CA



IMPROVING THE SHOP

HELPING CUSTOMERS FEEL RIGHT AT HOME

"Shopping in your furniture department is a lovely experience. John, your interior designer, has made your department very enticing to buy and explore decorating ideas with his designs on the floor and his ability to help decorate one's home with such vision. You are very lucky to have found such a bright, accommodating, talented designer. John has spent this last year designing and decorating my new home with furnishings from Bloomingdale's. I cannot begin to tell you his worth to me in this endeavor. My house is beautiful!"

— Susan R., Warrington, PA



SHINING SERVICE ADDS LUSTER TO BUYING SHOES

"Although the (Macy's) shoe department was extremely busy, all of the associates were helpful and friendly. I am impressed with the new shoe-locating device that expedites the entire process for the consumer and the associate. Cynthia (a sales associate) went out of her way to help me find exactly what I was looking for – and it even happened to be on the clearance rack! When the mate showed up, it was much shinier and in better condition than the floor model. I almost changed my mind, but they were the exact type I was looking for and comfortable. Cynthia must have felt my angst and went in the back to perform 'magic,' bringing out a shoe that had been polished and buffed to perfectly match the luster of the other one. I will certainly return to shop with her."

— Toni S., Cincinnati, OH



SHOPPING EXPERIENCE

COMING THROUGH IN THE CLUTCH

"I just want to let you know how grateful I am to two of your sales associates, Andrea and Tito, who came to my rescue last Saturday morning at Macy's Herald Square. I found myself in NYC without my luggage and I had a speaking engagement at 11 a.m. in Times Square. I entered the store at 10 a.m. looking exhausted from travel. Andrea approached me, and when I told her my story, she immediately dropped what she was doing and assembled a group of associates to help. First, slacks... then shoes... Andrea left me with Tito who brought the perfect shoes for me on the first try. Within moments she reappeared with several shirt and tie options... off to the dressing room for me. She returned with the perfect socks and a package of undershirts. Within moments I was dressed and ready to go thanks to her quick thinking and leadership. I, for one, will return to Macy's every chance I get, thanks to the wonderful service I received that hectic morning."

— Mr. G. O., Chicago, IL



MANAGING SUCCESSFULLY THROUGH CHANGE

Federated is mastering a period of intensive change as the company continues to reinvent the department store, converts its regional department store nameplates to Macy's, and strengthens the Macy's and Bloomingdale's brands.

Through it all, our employees at all levels have been challenged to think differently, adjust their daily routines and strive for ever-higher performance. This may have caused chaos at other companies. But not at Federated.

We've built a culture that recognizes the value of continuous improvement within a context of increased creativity, risk-taking and strategic alignment – all to the benefit of our customers and shareholders.



SHAREHOLDER INFORMATION

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Call: Federated Investor Relations Department, Monday-Friday, 8:30AM-5PM (ET): 1-513-579-7028
Federated News & Information Request Hotline: 1-800-261-5385

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