

# FEDERATED DEPARTMENT STORES, INC.

## AUDIT COMMITTEE

### COMMITTEE CHARTER

#### **A. Statement of Purpose**

The purpose of the Audit Committee (the "Committee") of the Board of Directors (the "Board") of Federated Department Stores, Inc. (the "Company") is to assist the Board in its oversight of the integrity of the Company's financial statements, compliance with legal and regulatory requirements, qualifications and independence of the Company's independent auditors and the performance of the Company's independent auditors and internal audit function, and to prepare the audit committee report for inclusion in the Company's annual proxy statement.

While the Committee has the responsibilities and powers set forth in this Charter, the role of the Committee is oversight. It is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. Likewise, it is not the responsibility of the Committee to conduct investigations, to assure that the Company complies with general or specific legal requirements applicable to the Company (including without limitation disclosure requirements generally) or to assure compliance with the Company's corporate compliance program or code of ethics.

#### **B. Organization**

1. The Committee will include not less than three directors, each of whom must qualify as "independent" (i) in accordance with the applicable listing standards of the New York Stock Exchange (the "NYSE"), as it may be amended from time to time, (ii) under Section 301 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and the rules and listing requirements promulgated thereunder by the Securities and Exchange Commission (the "SEC"), as such rules and requirements may be amended from time to time, and (iii) under any other law or regulation that may be applicable from time to time.
2. Each member of the Committee shall be financially literate, as such qualification is interpreted by the Board in its business judgment or become financially literate within a reasonable period of time after his or her appointment to the Committee. In addition, at least one member of the Committee shall have accounting or related financial management expertise, as such qualification is interpreted by the Board in its business judgment. The Board shall determine in its business judgment whether at least one member of the Committee is a "financial expert" within the meaning of Section 407 of the Sarbanes-Oxley Act and the rules

promulgated thereunder by the SEC. The designation or identification of a person as an audit committee financial expert shall not (a) impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Committee and Board in the absence of such designation or identification, or (b) affect the duties, obligations or liability of any other member of the Committee or Board of directors.

3. The members of the Committee, including the Chairperson, shall be appointed by the Board after considering the recommendation of the Nominating and Corporate Governance Committee. The Board may, at any time and in its complete discretion, add or remove any member of the Committee and may fill any vacancy in the Committee.
4. The Committee shall meet at least four times each year, or more frequently as the Committee deems necessary to carry out its responsibilities under this Charter. The timing of the meetings will be determined by the Chairperson, in consultation with other members of the Committee, the Company's independent auditors and the appropriate officers of the Company. Any action required or permitted to be taken at a meeting may be taken without a meeting in accordance with the Company's By-laws and applicable law.
5. A majority of the total number of members constitutes a quorum of the Committee. A majority of the members of the Committee is empowered to act on behalf of the Committee, except as provided otherwise in this Charter. The Committee may delegate any of its responsibilities, as it deems appropriate, to a subcommittee composed of one or more members. Minutes will be kept of each meeting of the Committee and any subcommittee thereof.
6. The Committee may request any officer or employee of the Company or the Company's outside legal counsel or independent auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. The Committee shall meet with the Company's management, the internal auditors and the independent auditors periodically in separate private sessions to discuss any matter that the Committee, management, the independent auditors or such other persons believe should be discussed privately.
7. The Committee shall have the resources and authority appropriate to discharge its responsibilities as required by law, including the authority to engage (at the Company's expense) independent counsel and other advisors as the Committee deems necessary to carry out its duties. The Committee may also, to the extent it deems necessary or appropriate, meet with the Company's investment bankers or financial analysts who follow the Company.

The Company will provide for appropriate funding, as determined by the Committee, for payment of (i) compensation to the Company's independent auditors engaged for the purpose of rendering or issuing an audit report or related work or performing other audit, review or attest services for the Company, (ii) compensation to independent counsel or any other advisors employed by the Committee and (iii) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

### **C. Responsibilities**

The primary responsibilities of the Committee are as set forth below. The Committee shall:

#### **Independent Auditors**

1. Appoint, retain, compensate (at the Company's expense), oversee, evaluate and, if the Committee deems appropriate, terminate the Company's independent auditors. The review and evaluation of the Company's independent auditors will include obtaining and reviewing, at least annually, reports from the independent auditors describing their independence and any other subjects required to be disclosed by the independent auditors to the Committee, and taking any other action that the Committee may deem appropriate to satisfy itself of the auditor's independence.
2. Oversee the work of the independent auditors, review the annual audit plan and determine the fees to be paid to the independent auditors and the other terms of the retention of the independent auditors for audit, audit-related, tax and all other services. The Committee shall require the independent auditors to report directly to the Committee.
3. The Committee shall require all audit, audit-related and non-audit services to be provided by the independent auditors to be pre-approved by the Committee to the extent required by applicable laws and regulations. The Chairperson of the Committee is authorized to grant any required pre-approval of specific services as required, provided that the full Committee is advised of such approval at the next regularly-scheduled Committee meeting.
4. Review the reports of the independent auditors, including the auditor's conclusions regarding the Company's critical accounting policies, the application of those policies, alternative treatments of financial information within GAAP that have been discussed with management, the ramifications of the use of such alternative disclosures and treatments, the treatment preferred by the independent auditors, material written communications between the Company's management and the independent auditors and any other matters required to be discussed with the independent auditors, including matters required to be

reviewed under applicable listing standards of the NYSE and any other applicable laws and regulations.

5. Review with the independent auditors any audit problems or difficulties and management's response thereto. The Committee shall seek to resolve any disagreements between management and the independent auditors regarding financial reporting.
6. Require that the independent auditors provide a report for review by the Committee, at least annually, describing (a) the audit firm's internal quality-control procedures, and (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.
7. Seek to facilitate open communication among the Company's independent auditors, senior management, the internal audit department and the Board.

#### **Internal Auditors**

8. Establish direct line of communication with the head of the internal audit department. Review the internal audit department's staffing and responsibilities and performance, including employment decisions relating to the head of the internal audit department.
9. Review with the senior-most internal auditor the internal audit plans, audit results and actions taken in response to such results. Review any internal audit difficulties and management's response disclosed by the senior-most internal auditor in connection with such review.

#### **Financial Information and Periodic SEC Reports**

10. Discuss with management and the independent auditors the Company's quarterly financial statements and annual audited financial statements, including any material financial reporting issues and significant judgments made in connection with the preparation of the financial statements and the disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations."
11. Review the Company's reports on Form 10-Q and 10-K before they are filed with the SEC, including the Company's critical accounting policies and any changes to those policies or their application, disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and management's certification of such statements. Review with management and

the independent auditors any correspondence with the SEC or the NYSE regarding material issues relating to the Company's financial statements.

12. Based on the Committee's review and discussion of the Company's annual financial statements with management and the independent auditors, make a recommendation to the Board regarding the inclusion of the annual financial statements in the Company's Annual Report on Form 10-K.
13. Report to shareholders in the Company's annual proxy statement on those Committee matters required by SEC rules.
14. Discuss the type of information to be provided and the type of presentation to be made in connection with the Company's earnings releases and financial information and earnings guidance provided to analysts and ratings agencies.
15. Review regulatory and accounting initiatives and their effect on the Company's financial statements.

### **Internal and Disclosure Controls**

16. Review with management, the independent auditors and the senior-most internal auditor, the adequacy of the Company's internal controls and disclosure controls.
17. Review with management and the independent auditors any significant deficiencies in the design or operation of internal controls. Review with management and the independent auditors any fraud involving management or employees having a significant role in internal controls.

### **Corporate Oversight**

18. Monitor the Company's compliance with applicable laws and regulations.
19. Discuss policies with respect to the Company's risk assessment and risk management.
20. Establish and maintain hiring policies for employees or former employees of the independent auditors, which include the restrictions required under the rules of the New York Stock Exchange and the Sarbanes-Oxley Act and any rules promulgated thereunder by the SEC.
21. Establish procedures for the Committee to receive, retain and respond to complaints regarding accounting, internal accounting controls, and auditing matters, as well as for confidential, anonymous submission by employees of concerns related to questionable accounting or auditing matters.

22. The Committee shall report its activities to the Board in such manner and at such times as the Committee, or the Chairperson, deems appropriate, but in no event less frequently than once a year.
23. The Committee shall annually evaluate the performance and effectiveness of the Committee including with respect to its discharge of the responsibilities set forth in this Charter. The Committee shall annually conduct and review with the Board an evaluation of this Charter and recommend any changes to the Board for approval.