



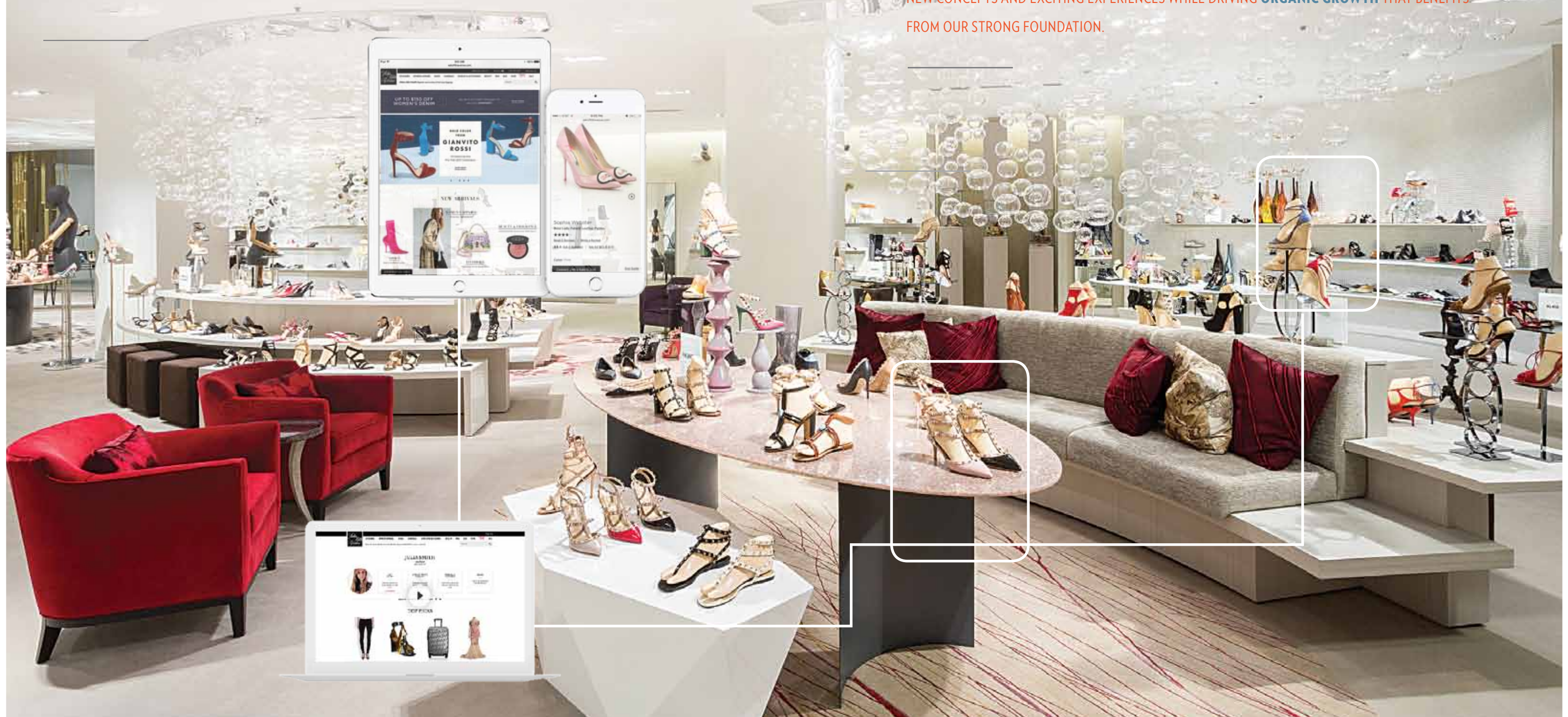
POSITIONING HBC FOR THE FUTURE

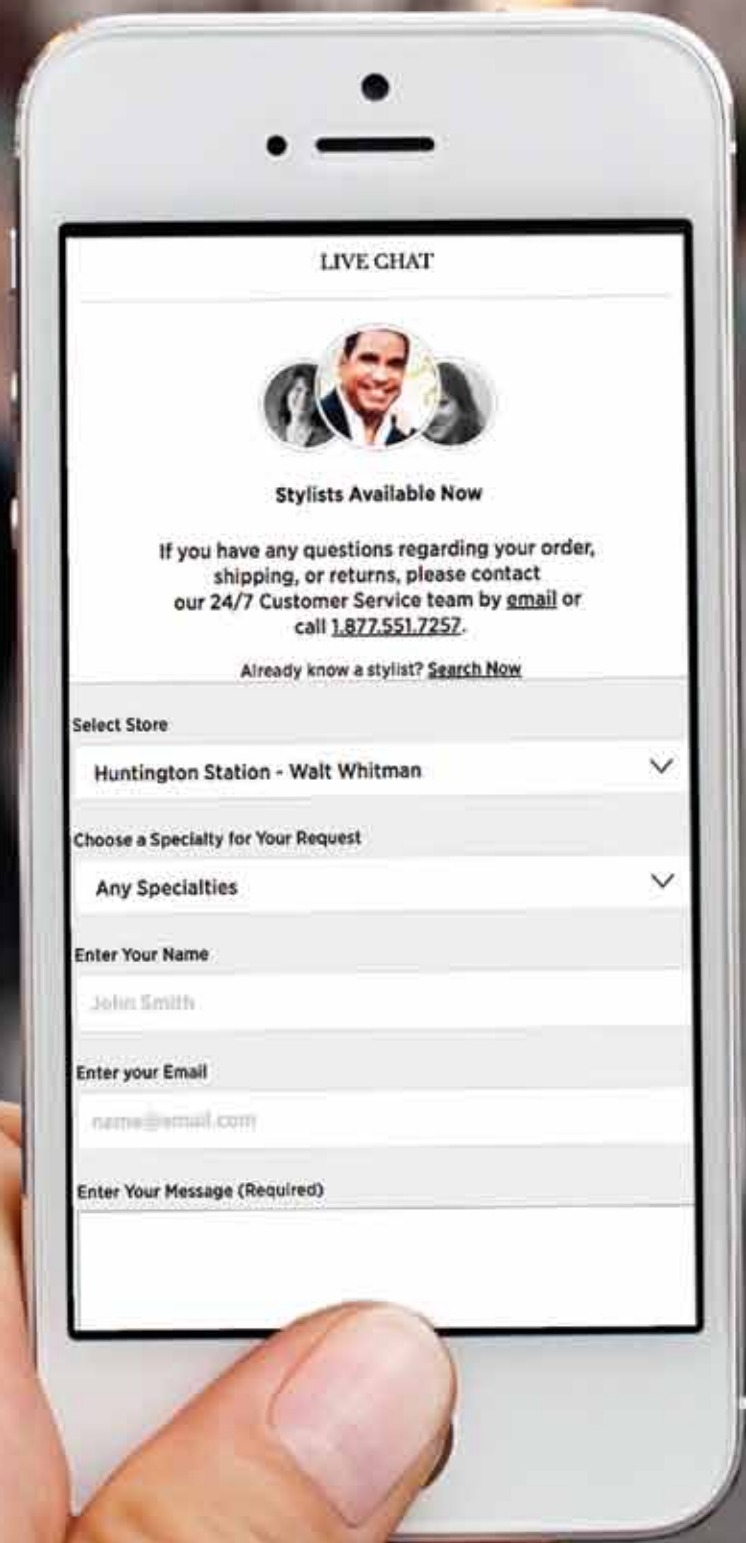
2016 ANNUAL REPORT



BECOMING THE RETAILER OF THE FUTURE

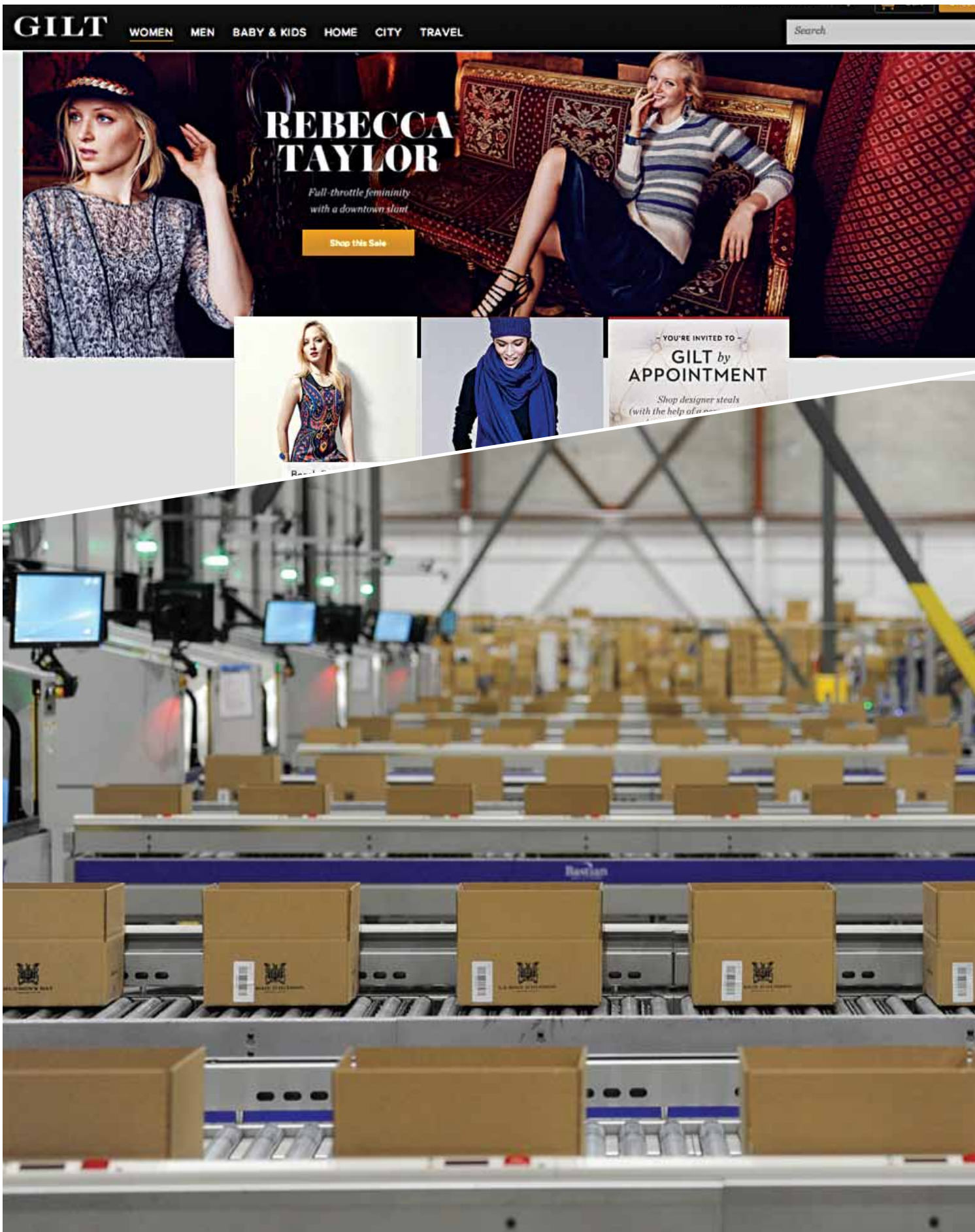
WE BELIEVE THAT WE WILL SUCCEED BY OFFERING **COMPELLING MERCHANDISE IN INNOVATIVE ONLINE AND IN-STORE SHOPPING ENVIRONMENTS** AND, MOST IMPORTANTLY, BY SEAMLESSLY COMBINING THE TWO TO DELIVER ONE POWERFUL CUSTOMER EXPERIENCE. EXCEEDING THE EXPECTATIONS OF OUR CUSTOMERS IS DRIVING OUR EVOLUTION IN A **RAPIDLY CHANGING ENVIRONMENT**. ACROSS OUR BANNERS WE ARE CONTINUOUSLY INNOVATING TO INTRODUCE NEW CONCEPTS AND EXCITING EXPERIENCES WHILE DRIVING **ORGANIC GROWTH** THAT BENEFITS FROM OUR STRONG FOUNDATION.





OUR CUSTOMERS ARE AT THE CENTER OF EVERYTHING WE DO AND WE **CONSTANTLY ADAPT** TO MEET THEIR NEEDS. WE ARE FOCUSED ON THE **ONGOING INTEGRATION** OF OUR IN-STORE AND ONLINE **SHOPPING EXPERIENCES** THROUGH TECHNOLOGY, WHICH WILL ALLOW OUR CUSTOMERS TO SHOP WHENEVER, WHEREVER AND HOWEVER THEY CHOOSE.

CONTINUOUSLY
EVOLVING
TO MEET CUSTOMERS' NEEDS



COMMITTED TO INNOVATING IN AN ALL-CHANNEL WORLD

INNOVATION IS A KEY PILLAR OF HBC'S CULTURE AND WE ARE AT THE FOREFRONT OF THE EVOLVING RETAIL ENVIRONMENT. WE ALWAYS **EXPLORE NEW WAYS** TO IMPROVE THE CUSTOMER EXPERIENCE, WHILE EVALUATING INITIATIVES TO BEST RUN OUR BUSINESS. BY **EMPOWERING OUR ASSOCIATES** TO THINK OUTSIDE OF THE BOX, WE ENCOURAGE INNOVATION ACROSS ALL AREAS OF THE BUSINESS.





ENHANCING THE STORE EXPERIENCE

OUR STORES ARE THE FACE OF HBC AND WE WANT TO **ENGAGE** OUR CUSTOMERS EVERY TIME THAT THEY VISIT. WE ARE INVESTING IN OUR STORES WITH MAJOR RENOVATION PROJECTS UNDERWAY IN MANY OF OUR LOCATIONS, INCLUDING THE SAKS FIFTH AVENUE NEW YORK FLAGSHIP AND GALERIA KAUFHOF LOCATIONS IN GERMANY. WE ARE ALSO CONTINUOUSLY IMPROVING THE TECHNOLOGY IN OUR IN-STORE ENVIRONMENTS TO **BETTER SERVICE OUR CUSTOMERS**.

EXCEEDING CUSTOMER EXPECTATIONS

HBC IS FOCUSED ON CREATING ENGAGING RETAIL AND DIGITAL ENVIRONMENTS THAT **DELIGHT OUR CUSTOMERS**. WE OFFER SUPERIOR SERVICE, UNIQUE BRANDS AND AN EVER-CHANGING MIX OF EVENTS, EXPERIENCES AND ACTIVITIES. THIS COMBINATION OF OFFERINGS CREATES COMPELLING REASONS FOR OUR CUSTOMERS TO VISIT US BOTH IN-STORE AND ONLINE.



GROWING ORGANICALLY

WE ARE FOCUSED ON DRIVING PROFITABLE ORGANIC GROWTH THROUGH THE IMPROVEMENT OF EXISTING STORE OPERATIONS AND THE EXPANSION OF OUR BANNERS INTO NEW MARKETS. IN 2016 WE EXPANDED SAKS FIFTH AVENUE AND SAKS OFF 5TH INTO THE CANADIAN MARKET WHILE **OPENING 39 NEW STORES** ACROSS NORTH AMERICA. WE ALSO ANNOUNCED THE EXPANSION OF HUDSON'S BAY INTO THE NETHERLANDS, WHICH WILL **LEVERAGE OUR EXISTING INFRASTRUCTURE** IN GERMANY AND BELGIUM. WE ALSO FOCUS OUR ENERGY ON GROWING OUR DIGITAL BUSINESSES.



\$6.4 BILLION
NORTH AMERICAN SALES

\$3.3 BILLION
CANADIAN SALES

2016 CONSOLIDATED ADJUSTED
EBITDAR OF **\$1,353 MILLION** AND
ADJUSTED EBITDA OF **\$636 MILLION**

480
STORES
ACROSS LUXURY,
PREMIUM DEPARTMENT
STORE AND
OFF PRICE SEGMENTS

STABLE CAPITAL STRUCTURE
US \$1.25 BILLION AND US \$400 MILLION
NON-RECOURSE MORTGAGES

US \$2.25 BILLION
GLOBAL ABL FACILITY

**TWO REAL ESTATE
JOINT VENTURES
WITH A COMBINED
ENTERPRISE VALUE
OF \$8 BILLION**

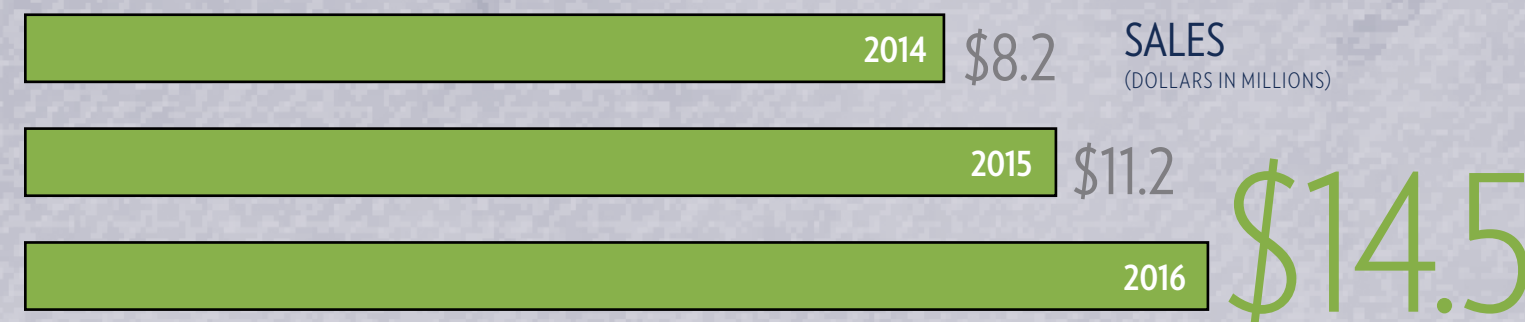
ONGOING **INITIATIVES**
TO IMPROVE OPERATIONAL
PERFORMANCE

COMPARABLE **DIGITAL
SALES GROWTH** OF 16.6% AT
HBC'S DEPARTMENT STORE
BANNERS DURING 2016

\$4.8 BILLION
EUROPEAN SALES

PRUDENT CAPITAL INVESTMENT PROGRAM
FOCUSED ON TECHNOLOGY, STORE RENOVATIONS
AND NEW STORE OPENINGS

**STRENGTHENING
OUR FOUNDATION**



CAPITALIZING

ON OUR VALUABLE REAL ESTATE

THE RETAIL BUSINESS AT HBC IS SUPPORTED BY A VALUABLE REAL ESTATE PORTFOLIO, CREATING A PLATFORM FOR **FUTURE GROWTH** AND ENHANCED FINANCIAL FLEXIBILITY. OUR JOINT VENTURES ARE A CRITICAL COMPONENT OF OUR PROCESS OF **UNLOCKING THE VALUE** OF OUR PORTFOLIO, WHILE OUR FLAGSHIPS IN NEW YORK PROVIDE US WITH ACCESS TO LONG TERM FUNDING AT VERY ATTRACTIVE TERMS.





DEVELOPING

OUR TALENT

AT THE HEART OF EVERYTHING WE DO IS A WORLD-CLASS TEAM OF ASSOCIATES, WHO STRIVE EVERY DAY TO DELIVER EXCEPTIONAL EXPERIENCES THAT SURPRISE AND DELIGHT OUR CUSTOMERS. WE ARE DEDICATED TO CREATING OPPORTUNITIES FOR THEM TO LEARN AND GROW WITHIN OUR ORGANIZATION. WITH 300 DIFFERENT LEARNING AND DEVELOPMENT PROGRAMS AIMED AT SUPPORTING AND ENRICHING **PROFESSIONAL GROWTH**, OUR ASSOCIATES TOOK PART IN MORE THAN 16,000 HOURS OF TRAINING OPPORTUNITIES ACROSS OUR ORGANIZATION IN 2016.

FOUNDED AS '**A COMPANY OF ADVENTURERS**,' WE EMBRACE AND ENCOURAGE OUR TEAM TO WORK WITH AN ADVENTUROUS SPIRIT. THAT SPIRIT HAS DRIVEN US FOR NEARLY 350 YEARS AND CONTINUES TO BE THE CORNERSTONE OF A CULTURE THAT EXPLORES UNCHARTERED TERRITORY, CHALLENGES CONVENTION AND RECOGNIZES ACHIEVEMENT.

HUDSON'S BAY

Hudson's Bay Company, incorporated in 1670, is North America's oldest company. Hudson's Bay has grown to become Canada's most prominent department store, today operating 90 full-line locations and thebay.com. It has established a reputation for quality, service, and style by offering well-edited assortments of exclusive and popular fashion, beauty, home and accessory designers and brands.

Lord & Taylor

Founded in 1826, Lord & Taylor is the oldest department store in the United States and one of the country's premier retailers. It has built its reputation on offering high-quality fashion apparel and accessories, exciting store environments, and seamless service. Lord & Taylor operates 50 full-line locations primarily in the northeastern and mid-Atlantic U.S., and lordandtaylor.com.



Saks Fifth Avenue, one of the world's pre-eminent specialty retailers, is renowned for its superlative American and international designer collections, its expertly edited assortment of handbags, shoes, jewelry, cosmetics and gifts, and the first-rate fashion expertise and exemplary client service of its associates. As part of the Hudson's Bay Company brand portfolio, Saks operates 41 full-line stores in 22 states and Canada, five international licensed stores and saks.com, the company's online store.



Saks Fifth Avenue OFF 5TH is a world-class destination for top designer brands at extraordinary value. Saks OFF 5TH's stores and e-commerce division, saksoff5th.com, combine the two great joys of shopping: the delight of discovering the best in luxury and the thrill of finding a deal. A modern shopping experience of carefully curated off-the-runway trends, exceptional service, and savings on the biggest names in fashion, Saks OFF 5TH leads the market as the premier luxury-value destination.

GILT

Gilt, www.gilt.com, is an innovative online shopping retailer offering its members special access to the most inspiring lifestyle merchandise and experiences—all at exceptional prices. Gilt is a daily destination for discovery of the most coveted brands and products, featuring fashion and accessories for women, men, and children; home décor; unique activities in select cities and destinations; and luxury hotel stays. Gilt is part of the Hudson's Bay Company portfolio of brands.



Galeria Kaufhof is the #1 department store in Germany, while Galeria INNO holds the distinction of being the only department store in Belgium. The Galeria Kaufhof portfolio was acquired by HBC in 2015 and has a 136-year history in the German retail sector. Kaufhof's offerings are primarily mid-tier, complemented by premium brands, while Galeria INNO offers customers an assortment of premium products including high-end fashion brands, perfume and accessories. Inno has 16 locations across Belgium and Kaufhof operates in 100 prime locations across more than 80 German cities, with flagship stores located in Berlin and Cologne.

OPERATING WORLD-CLASS BANNERS



Richard A. Baker



Gerald L. Storch

DEAR FELLOW SHAREHOLDERS,

Fiscal 2016 was a difficult year for HBC and the retail industry overall. The apparel market was particularly challenging, and our financial results reflect this tough environment. Retail and department stores are at a crossroad, and as the industry evolves, we are taking decisive action and making the tough decisions to ensure continued performance. We are cutting expenses, rationalizing and reallocating our capital spending, strengthening our balance sheet, and taking other necessary actions. Rest assured, we are aggressively positioning HBC to adapt to this changing retail environment, redefining the Company for continued growth.

Our team remains focused on our all-channel model, adapting to our customers' expectations both in store and online. These expectations have changed dramatically over the last few years, with digital playing a significant role in all purchasing decisions. Our digital sales grew 16.6% during the year at our department store banners, clearly underscoring the growing importance of this channel. When thinking about the future of retail, we believe that we will succeed by offering compelling merchandise in innovative online and in-store shopping environments and, most importantly, by seamlessly combining the two to deliver one powerful customer experience. This all-channel model, where the consumer is able to shop and receive their purchase whenever, wherever and

however they chose, leverages HBC's existing network of stores while fully integrating an online ecosystem of websites, apps, and other selling tools. With multiple banners operating across three consumer segments and multiple geographies, we believe we are well positioned to build a bridge to the future of retail.

Over the course of Fiscal 2016, we took important steps across our organization to position all of our businesses for industry leadership. We made significant progress on integrating our banners and improving the efficiency with which we both generate and fulfill online orders. During the year, we moved our Saks OFF 5TH website onto the same platform as Saks Fifth Avenue, and currently expect to have both Lord & Taylor and Hudson's Bay on this shared platform near the beginning of next year. This will allow us to reduce item set up costs and increase the speed with which we can roll out online enhancements. As part of this migration to one platform, we are in the process integrating the inventory at Saks OFF 5TH and Gilt, which will allow us to cross-sell merchandise at both banners. Our acquisition of Gilt was part of our overall strategy to embrace digital, and while that off price business is taking longer than expected to integrate, Gilt continues to provide HBC with superior digital capabilities and a strong online presence with the millennial audience.

WHEN THINKING ABOUT THE FUTURE OF
RETAIL, WE BELIEVE THAT WE WILL SUCCEED
BY OFFERING COMPELLING MERCHANDISE
IN **INNOVATIVE** ONLINE AND IN-STORE
SHOPPING ENVIRONMENTS AND, MOST
IMPORTANTLY, BY SEAMLESSLY COMBINING
THE TWO TO DELIVER ONE POWERFUL
CUSTOMER EXPERIENCE.

In the fall of 2016, we completed the installation of innovative robotic technology in our Scarborough, Ontario distribution centre and recently started a similar installation at our Pottsville, Pennsylvania distribution centre, which serves Lord & Taylor and Saks OFF 5TH. This best-in-class technology allows us to reduce handling time and costs while preparing for the continued growth of sales on our digital platforms.

Meanwhile, we also remain focused on driving traffic to our stores by creating exciting environments tailored to the unique segments in which we operate. We are continuing to renovate stores and improve our merchandise assortments, add new and exclusive brands, and build on our successful store-in-store concepts. We also introduced technology at Saks Fifth Avenue and Lord & Taylor that allows customers to shop online through actual in-store associates in their trade area. These efforts are an integral part of providing compelling all-channel shopping destinations, where physical stores and online shops are part of a unified approach. While physical stores continue to experience challenges, our high quality real estate portfolio of predominantly A and A+ stores are better positioned to succeed in this environment.

We believe our model of combining world-class real estate assets, which are less impacted by short-term trends, with our diverse retail businesses will continue to provide value for the Company and our shareholders. Importantly, our real estate provides significant financial flexibility and a strong base for our capital structure. During the year, we took advantage of favourable lending conditions to refinance our mortgage on the Lord & Taylor flagship and reduce the interest rate on our term loan. Subsequent to year end, we also increased the size of our asset backed lending facility to better reflect the growth in our business. This facility provides us with flexible borrowing that we can draw on as needed, and we ended

the year with more than \$1.7 billion of availability. We feel confident that our unique capital structure puts us in an excellent position to take advantage of the opportunities in our business, including organic growth of our banners. We will continue to manage our capital prudently, focusing our investment on in-progress and expected high-return projects, including growth in Europe and ongoing renovation programs across the world.

During the year, we opened our first Saks Fifth Avenue and Saks OFF 5TH stores in Canada, realizing a goal first envisioned when we purchased Saks in 2013. The Canadian market is one of Saks.com's leading ship-to destinations, and the new stores create a truly all-channel experience in the market. In total we opened 32 Saks OFF 5TH stores and 7 Saks Fifth Avenue stores across North America last year, and are excited about the introduction of Saks OFF 5TH to Germany in 2017. Building on this organic growth is the first international expansion of the Hudson's Bay banner, which is scheduled to open in the Netherlands later in 2017. This expansion allows us to leverage our existing infrastructure in Europe while capitalizing on the opportunity to enter a market that is significantly underpenetrated. We are very excited to unveil the department store of the future in the Netherlands later this fall; this has been an unprecedented opportunity to build a new experience for customers from the ground up.

In Fiscal 2017, we plan to continue to execute on our strategic initiatives to build our business while investing in our long term vision of HBC. This will include making difficult decisions needed to ensure our cost structure is the most efficient possible. These decisions will always revolve around what matters most: our customers. This relentless focus on meeting the needs of HBC's customers is an essential part of our culture, and will drive how we evolve in a rapidly changing market.

Finally, we would like to thank our associates who work tirelessly to make HBC one of the premier department store operators in the world. We are very proud of their dedication, commitment and efforts toward our shared goal. HBC was founded 347 years ago, in 1670. As we work towards our goal of transforming HBC into the retailer for the retailer of the future, we remain committed to building our world-class team through the development of our top talent with an emphasis on creating a culture centered on our customers.

Richard A. Baker
Governor and Executive Chairman

Gerald L. Storch
Chief Executive Officer



HUDSON'S BAY COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE THIRTEEN AND FIFTY-TWO WEEKS ENDED
JANUARY 28, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis ("MD&A") is intended to assist readers in understanding the business environment, strategies and performance and risk factors of Hudson's Bay Company and its direct and indirect subsidiaries and predecessors or other entities controlled or jointly controlled by them, referred to herein as "HBC", the "Company", or "our". It should be read in conjunction with the audited consolidated financial statements of the Company and notes thereto for the fifty-two week period ended January 28, 2017. Unless otherwise indicated, all amounts are expressed in Canadian dollars.

The board of directors of the Company, on the recommendation of the audit committee, approved the contents of this MD&A. This MD&A reflects information as of April 4, 2017, unless otherwise indicated.

Basis of Presentation

Our audited consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

General Information

Hudson's Bay Company is a Canadian corporation amalgamated under the *Canada Business Corporations Act*. In January 2012, through an internal reorganization, Lord & Taylor LLC ("Lord & Taylor") became a wholly owned subsidiary of HBC. On November 26, 2012, the Company completed an initial public offering of its common shares (the "Common Shares"), which trade on the Toronto Stock Exchange under the symbol "HBC".

On November 4, 2013, the Company completed its acquisition of all of the outstanding shares of Saks Incorporated ("Saks"), in an all-cash transaction valued at U.S.\$2,973 million, including assumed debt (the "Saks Acquisition").

On July 9, 2015, the Company and RioCan Real Estate Investment Trust ("RioCan") closed the first tranche of their joint venture, RioCan-HBC Limited Partnership (the "RioCan-HBC JV"), which focuses on real estate growth opportunities in Canada. The second tranche of the RioCan-HBC JV closed on November 25, 2015. As of January 28, 2017, HBC had an 88.1% ownership interest in the RioCan-HBC JV. Also see the "Real Estate Joint Ventures" section of this MD&A.

On July 22, 2015, the Company and Simon Property Group Inc. ("Simon") closed their joint venture, Simon HBC Opportunities LLC (the "HBC-Simon JV"). On September 30, 2015, prior to the Kaufhof Acquisition discussed below, the HBC-Simon JV became a wholly-owned subsidiary of HBS Global Properties LLC (the "HBS Joint Venture"), which focuses on credit tenant, net-leased and multi-tenant retail buildings in the United States and internationally. As of January 28, 2017, HBC had a 63.4% ownership interest in the HBS Joint Venture. Also see the "Real Estate Joint Ventures" section of this MD&A.

As further described herein, on September 30, 2015 (the "Kaufhof Acquisition Date"), the Company completed the acquisition of GALERIA Holding ("Kaufhof"), the parent company of Germany's leading department store GALERIA Kaufhof and Belgium's only department store Galeria INNO, for a purchase price of €2.3 billion (the "Kaufhof Acquisition"). In conjunction with the Kaufhof Acquisition, the HBS Joint Venture acquired 41 properties from Kaufhof. Also see the "Kaufhof Acquisition" section of this MD&A.

On February 1, 2016 (the "Gilt Acquisition Date"), the Company completed the acquisition of Gilt Groupe Holdings, Inc. ("Gilt") for U.S.\$237 million in cash, excluding debt (the "Gilt Acquisition"). Also see the "Gilt Acquisition" section of this MD&A.

References in this MD&A to Department Store Group ("DSG") refer, collectively to, the Hudson's Bay, Lord & Taylor and Home Outfitters banners.

References in this MD&A to HBC Europe refer, collectively to, the GALERIA Kaufhof, Galeria INNO and Sportarena banners.

References in this MD&A to HBC Off Price refer, collectively to, the Saks Fifth Avenue OFF 5TH ("Saks OFF 5TH"), Find @ Lord & Taylor and Gilt banners.

Unless otherwise specified, the Company's financial information outlined herein includes HBC Europe's operating results from the Kaufhof Acquisition Date and Gilt's operating results from the Gilt Acquisition Date.

Accounting Periods

This MD&A is based on information in the audited consolidated financial statements and accompanying notes thereto for the fifty-two week period ended January 28, 2017 ("Fiscal 2016"), fifty-two week period ended January 30, 2016 ("Fiscal 2015") and fifty-two week period ended January 31, 2015 ("Fiscal 2014"). This MD&A also references the fifty-three week period ended February 3, 2018 ("Fiscal 2017").

Forward-Looking Statements

Certain statements made in this MD&A, including, but not limited to, the benefits that are expected to result from the acquisitions of HBC Europe and Gilt, the Company's plans for expansion in Europe, the benefits that are expected to result from the installation of automated order fulfillment technology at the Company's distribution centre in Scarborough, the benefits of reduced promotional activity at Saks OFF 5TH and an enhanced return policy at Gilt, the impact on the Company's reported gross profit and expense margins as a result of the acquisition of HBC Europe, the stabilization of rent expenses related to joint ventures, the expected savings in connection with the repricing of the Company's term loan, with respect to the Global ABL (as defined herein) helping to finance HBC's working capital requirements and other general corporate purposes as it opens its first Hudson's Bay stores in the Netherlands, the benefits that are expected to result from the North American operations realignment initiative and additional cost saving activities, the expected expenditures on investments in growth initiatives, the Company's prospects for future growth opportunities, including targeting acquisitions, anticipated store openings, the Company's growth strategies of improving retail operations, programs to drive incremental sales, partnerships and exclusive launches and collaborations and unlocking the value of real estate, and the Company's commentary on outlook in respect of capital expenditure for Fiscal 2017, and other statements that are not historical facts, are forward-looking. Often but not always, forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "expect", "believe", "estimate", "plan", "could", "should", "would", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology.

Forward-looking statements are based on current estimates and assumptions made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors that it believes are appropriate and reasonable in the circumstances. However, there can be no assurance that such estimates and assumptions will prove to be correct.

Implicit in forward-looking statements in respect of capital investments, including, among others, the Company's anticipated Fiscal 2017 total capital investments, net of landlord incentives, between \$450 million and \$550 million, are certain assumptions regarding, among others, the overall retail environment and currency exchange rates for Fiscal 2017. Gross capital investment is expected to be between \$1,025 million and \$1,125 million, of which approximately \$800 million is related to growth initiatives. Specifically, the Company has assumed the following exchange rates for Fiscal 2017: USD:CAD = 1:1.34 and EUR:CAD = 1:1.43. These current assumptions, although considered reasonable by the Company at the time of preparation, may prove to be incorrect. Readers are cautioned that actual capital investments could differ materially from what is currently expected and are subject to a number of risks and uncertainties, including, among others described below, general economic, geo-political, market and business conditions, changes in foreign currency rates from those assumed, the risk of unseasonal weather patterns and the risk that the Company may not achieve overall anticipated financial performance.

Many factors could cause the Company's actual results, level of activity, performance, achievements, future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in the Company's annual information form ("AIF") dated April 28, 2016: ability to execute retailing growth strategies, ability to continue comparable sales growth, changing consumer preferences, marketing and advertising program success, damage to brands, dependence on vendors, ability to realize synergies and growth from strategic acquisitions, ability to make successful acquisitions and investments, successful inventory management, loss or disruption in centralized distribution centres, ability to upgrade and maintain the Company's information systems to support the organization and protect against cyber-security threats, privacy breach, risks relating to the Company's size and scale, loss of key personnel, ability to attract and retain qualified employees, deterioration in labour relations, ability to maintain pension plan

surplus, funding requirement of Saks' pension plan, funding requirement of the HBC Europe pension plan, limits on insurance policies, loss of intellectual property rights, insolvency risk of parties which the Company does business with or their unwillingness to perform their obligations, exposure to changes in the real estate market, successful operation of the joint ventures to allow the Company to realize the anticipated benefits, loss of flexibility with respect to properties in the joint ventures, exposure to environmental liabilities, changes in demand for current real estate assets, increased competition, change in spending of consumers including the impact of unfavourable or unstable political conditions and terrorism, international operational risks, fluctuations in the U.S. dollar, Canadian dollar, Euro and other foreign currencies, increase in raw material costs, seasonality of business, extreme weather conditions or natural disasters, ability to manage indebtedness and cash flow, risks related with increasing indebtedness, restrictions of existing credit facilities reducing flexibility, ability to maintain adequate financial processes and controls, ability to maintain dividends, ability of a small number of shareholders to influence the business, uncontrollable sale of the Company's Common Shares by significant shareholders could affect share price, constating documents discouraging favorable takeover attempts, increase in regulatory liability, increase in product liability or recalls, increase in litigation, developments in the credit card and financial services industries, changes in accounting standards, other risks inherent to the Company's business and/or factors beyond its control which could have a material adverse effect on the Company. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Company's AIF. These factors are not intended to represent a complete list of the factors that could affect us; however, these factors should be considered carefully.

The purpose of the forward-looking statements is to provide the reader with a description of management's current expectations regarding the Company's financial performance and may not be appropriate for other purposes; readers should not place undue reliance on forward-looking statements made herein. To the extent any forward-looking information in this MD&A constitutes future-oriented financial information or financial outlook, within the meaning of applicable securities laws, such information is being provided to demonstrate the potential of the Company and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information and financial outlook, as with forward-looking information generally, are based on current assumptions and subject to risks, uncertainties and other factors. Furthermore, unless otherwise stated, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and the Company has no intention and undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities law. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Non-IFRS Measures

This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation or as a substitute for analysis of the Company's financial information reported under IFRS. The Company uses non-IFRS measures including gross profit, EBITDA, Adjusted EBITDA, Adjusted EBITDAR, Adjusted selling, general & administrative expenses ("SG&A") and Normalized net earnings (loss) to provide investors with supplemental measures of its operating performance and thus highlight trends in the Company's core business that may not otherwise be apparent when relying solely on IFRS financial measures. The Company also believes that securities analysts, investors, rating agencies and other interested parties frequently use non-IFRS measures in the evaluation of issuers. The Company's management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess its ability to meet its future debt service, capital expenditure, working capital requirements and its ability to pay dividends on its Common Shares. As other companies may calculate these non-IFRS measures differently than the Company does, these metrics may not be comparable to similarly titled measures reported by other companies.

Following the creation of the real estate joint ventures, management believes that Adjusted EBITDAR best reflects the performance of the retail business. This metric provides the most consistent view of the Company's retail performance as it is not impacted by, among other things, HBC's ownership levels of the joint ventures and resulting impact on net rents. The Company believes that Adjusted EBITDA is less useful when evaluating the performance of the retail business, but will continue to disclose this metric for reference purposes.

Gross profit is defined as retail sales less cost of sales.

EBITDA as reported in prior quarters, has now been defined to exclude the add back for ‘certain non-cash items’. These add backs are summarized below and in footnote 2 to the reconciliation of net earnings (loss) to EBITDA, Adjusted EBITDA and Adjusted EBITDAR in the “Selected Consolidated Financial Information - Reconciliation Tables” section of this MD&A. As a result of this change, previous references to EBITDA have been updated to conform to this basis.

EBITDA is defined as net earnings (loss) before net finance costs, income tax expense (benefit) and depreciation and amortization expense. EBITDAR is defined as EBITDA before rent expense to third parties and net rent expense to joint ventures.

Adjusted EBITDA is defined as EBITDA adjusted to exclude: (A) certain non-cash items which include: (i) share of net loss in joint ventures, (ii) gain on contribution of assets to joint ventures, (iii) gain on sale of investments in joint ventures, (iv) dilution gains from investments in the joint ventures, (v) non-cash pension expense, (vi) impairment and other non-cash items and (vii) non-cash share based compensation expense; (B) normalization adjustments which include: (i) business and organization restructuring/realignment charges, (ii) merger/acquisition costs and expenses and (iii) adjustments, including those related to purchase accounting, if any, related to transactions that are not associated with day-to-day operations and joint venture adjustments.

Adjusted EBITDAR is defined as Adjusted EBITDA before third party rent expense, cash rent to joint ventures and cash distributions from joint ventures.

Adjusted SG&A is defined as selling general & administrative expenses adjusted to exclude: (A) certain non-cash items which include: (i) non-cash pension expense, (ii) impairment and other non-cash items and (iii) non-cash share based compensation expense, and (B) normalization adjustments which include: (i) business and organization restructuring/realignment charges and (ii) merger/acquisition costs and expenses and (iii) adjustments, if any, related to transactions that are not associated with day-to-day operations.

Normalized net earnings (loss) is defined as net earnings (loss) adjusted to exclude: (A) certain non-cash items which include: (i) impairment of goodwill, (ii) gain on contribution of assets to joint ventures, (iii) gain on sale of investments in joint ventures and (iv) dilution gains from investments in joint ventures; (B) normalization adjustments which include: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition costs and expenses and (iii) adjustments, including those related to purchase accounting, if any, related to transactions that are not associated with day-to-day operations and financing related adjustments, adjustments to share of net loss in joint ventures and tax related adjustments.

For additional detail, refer to the Company’s tables outlining reconciliations of net (loss) earnings to EBITDA, Adjusted EBITDA and Adjusted EBITDAR, SG&A to Adjusted SG&A, and net (loss) earnings to Normalized net earnings (loss) in the “Selected Consolidated Financial Information - Reconciliation Tables” section of this MD&A.

This MD&A also makes reference to certain comparable financial results expressed on a constant currency basis, including comparable sales, comparable digital sales and comparable inventory levels. In calculating the sales change including digital sales on a constant currency basis, prior year foreign exchange rates are applied to both current year and prior year comparable sales. Additionally, where an acquisition closed in the previous twelve months, comparable sales change on a constant currency basis incorporate results from the pre-acquisition period. This enhances the ability to compare underlying sales trends by excluding the impact of foreign currency exchange rate fluctuations as well as by reflecting new acquisitions. The Company calculates comparable inventory levels on a year-over-year constant currency basis and does not include (i) acquisitions not closed prior to the end of the same comparable quarter of the prior fiscal year and (ii) new store openings after the end of the same comparable quarter of the prior fiscal year. Definitions and calculations of comparable financial results differ among companies in the retail industry. The Company notes that results from acquisitions are only incorporated in the Company’s reported consolidated financial results from and after the respective acquisition date. See also “Factors Affecting Our Performance - Comparable Sales” section.

Fourth Quarter Events

- On November 4, 2016, the Company unveiled a new state-of-the-art robotic fulfillment system in Scarborough, Ontario. The highly innovative technology is the first of its kind in Canada and showcases some of the most advanced automated distribution technology in the retail sector. This distribution centre is expected to contribute to a seamless experience for customers and further support Hudson's Bay's all-channel retail capabilities.

- On December 5, 2016, the Company declared a quarterly dividend, which was paid on January 13, 2017, to shareholders of record at the close of business on December 30, 2016 in the amount of \$0.05 per Common Share.
- The Company opened one Saks Fifth Avenue store in Miami, Florida, as well as one Saks OFF 5TH store in Braintree, Massachusetts. The Company closed two Saks OFF 5TH stores located in Folsom, California and Kansas City, Kansas, one GALERIA Kaufhof store in Karlsruhe, Germany and three Home Outfitters stores located in Calgary, Alberta; Edmonton, Alberta and Langford, British Columbia.

Subsequent Events

- On February 7, 2017, the Company announced the closing of an amendment to its asset-based revolving credit facility (“Global ABL”) that increased its total capacity by U.S.\$350 million to a total of U.S.\$2.25 billion. Of this U.S.\$350 million increase, U.S.\$100 million will be allocated to financing the working capital requirements and other general corporate purposes of the Company's operations in the Netherlands. All other terms remain substantially the same.
- On February 23, 2017, after an ongoing operational review, the Company announced an initiative to reduce expenses by rationalizing its corporate functions and overhead across North America. Annualized savings from this initiative are currently expected to be approximately \$75 million, the majority of which are expected to be realized in Fiscal 2017. In conjunction with this initiative, the Company anticipates incurring one-time severance related charges approaching \$30 million. The Company's management is continuing to review and evaluate additional opportunities to identify efficiencies. Through this process, the Company expects to reinvest in customer-facing activities while reducing costs in back office and support areas. These cost reduction opportunities are currently expected to leverage best practices to include more efficient inventory management, a reduction in total supply chain costs and the optimization of scheduling practices to ensure associates are placed where they can most improve the customers' experiences. Additional details on the progress of these initiatives will be provided in due course.
- On February 28, 2017, the Company announced a new location for a Hudson's Bay store to be opened in the city of Utrecht in the Netherlands. HBC expects to start refurbishments of this location in mid-2018.

Overview

Our Business

Hudson's Bay Company, established in 1670, is one of the largest department store retailers in the world, based on its successful formula of growing through acquisitions, driving the performance of high quality stores and their all-channel offerings and unlocking the value of real estate holdings. HBC is diverse in terms of geography and consumer segment with nine banners, in formats ranging from luxury to better department stores to off-price. It operates more than 480 stores, has a global e-commerce presence, and has more than 66,000 employees internationally. It is a leader in the all-channel retail experience with a combination of physical store locations and e-commerce capabilities that enable customers to shop whenever, wherever and however they choose. HBC has a top tier management team comprised of seasoned leaders of the retail sector committed to driving growth and long-term profitability across all banners. The Company has a track record of making successful acquisitions and looks for opportunistic acquisitions of targets that have great brands, undermanaged retail operations, opportunities for synergies and/or own great real estate locations. The Company is supported by a solid foundation of valuable real estate which enhances its financial flexibility.

Retail Strategy

HBC is a global retailer operating banners which include Hudson's Bay, Lord & Taylor, Saks Fifth Avenue, Saks OFF 5TH, Gilt, GALERIA Kaufhof and Galeria INNO.

The Company intends to grow its retail sales primarily through the following strategies:

- *Driving Growth Across All Channels.* The Company is focused on driving growth in its stores and through digital channels. The Company is building its capabilities and enhancing store experiences such that customers will be able to shop seamlessly across stores and through digital applications. It believes that serving customers across all channels results in increased consumer spending and loyalty. The Company is also strengthening

its digital business which manages digital commerce, marketing strategy and execution for its retail banners. Concurrently, the Company is working to differentiate its store merchandise, increase the number of exclusive offerings and offer engaging store experiences to create attractive retail destinations as described in more detail below.

- *Expanding the Company's Off-Price Business.* The Company plans to continue new store openings. The off-price market is attractive in North America, and potentially, more attractive across Europe where management believes there is an untapped demand for this offering.
- *Bringing Saks Fifth Avenue and Saks OFF 5TH to Canada.* The Company has leveraged its existing Canadian infrastructure, institutional knowledge and experience to bring Saks Fifth Avenue and Saks OFF 5TH to Canada. As at the end of Fiscal 2016, the Company has opened two Saks Fifth Avenue locations and nine Saks OFF 5TH locations. The Company believes there is an opportunity to open up to a total of seven Saks Fifth Avenue and 25 Saks OFF 5TH stores in Canada over the coming years.
- *Enhancing technology and innovation.* In addition to its focus on distribution automation, the Company continues to be focused on bringing best-in-class customer experiences to all of its businesses. The recent acquisition of Gilt is expected to enable the Company to bring best-in-class technology to all its banners with a focus of continuing to implement these technologies to improve its overall customer experience.
- *Driving Sales Growth.* The Company has specific plans to drive sales growth across all banners including:
 - Hudson's Bay and Lord & Taylor are focused on strengthening outperforming categories such as dresses and active wear. Additionally, Hudson's Bay is optimizing its Home Goods business while better utilizing existing space through the addition of new categories such as toys. Both banners will continue to emphasize top-performing brands and products that are "Exclusively Ours". Both banners are also increasing their focus on the fast-growing mobile segment of the digital market.
 - Saks Fifth Avenue is very focused on sourcing exclusive and limited distribution product in order to differentiate its offerings. In conjunction with this, SaksFirst, the Saks Fifth Avenue customer loyalty program, is dedicating its service towards driving loyalty among emerging customers and creating one-of-a-kind experiences for existing members. Saks Fifth Avenue is equipping all of its sales associates with tools that allow them to market themselves locally and take greater control over their success.
 - GALERIA Kaufhof is continuing its renovation program to modernize its selling space and introduce new and exciting brands. For example, Topshop recently opened its first Kaufhof location at the Berlin store on Alexanderplatz. While renovations at key stores had some negative impact on current sales, these initiatives are expected to drive long-term sales growth and modernize the shopping experience throughout the banner. In addition to the ongoing renovations, GALERIA Kaufhof is investing in digital platforms as it works towards creating a best-in-class all channel offering. Digital sales are currently a small portion of the banner's overall sales and GALERIA Kaufhof management believes that there is significant opportunity to grow sales in this channel.
 - HBC's Off Price banners are refocusing on their core strategy: offering high end brands at everyday value. While Saks OFF 5TH attempted to broaden its appeal by offering a wider selection of price points, the banner's ability to provide high end, sought after products is a major differentiating factor as compared to other off priced retailers. Saks OFF 5TH is in the process of re-merchandising its product mix to have a higher concentration of products at the top end of Saks OFF 5TH's offering range, which is expected to drive increased traffic and conversion as well as a higher overall basket size. In addition, Saks OFF 5TH implemented a revised pricing strategy in Fiscal 2016 which substantially reduced promotional activity and focused on offering great value on an everyday basis. The revised pricing strategy is expected to drive increased margin by offering customers a clearer value proposition, although selected categories are being converted back to "high/low" pricing to meet customer expectations and remain competitive. These categories include cold weather, outerwear, cashmere and designer apparel. The integration of Gilt into Off Price continues. The mobile and personalization technology that HBC gained with the Gilt Acquisition is not only being integrated in Off Price but across all the banners.
- In addition, the Company believes there is an opportunity to realize meaningful operating margin improvements through the following initiatives:

- *Operating Expense Management.* The Company intends to continue to diligently manage its operating expenses and leverage its significantly increased scale to optimize efficiencies. The Company is undertaking a number of initiatives to further reduce operating costs.

Comprehensive operational overview. Late in Fiscal 2016, the Company launched a comprehensive review of its business operations to identify efficiencies, streamline processes and improve back of store productivity, while also enhancing customer service. Through this review, HBC expects to increase synergies across its portfolio of businesses, sharpen capabilities that are intended to give the Company a competitive edge and re-align its expenses to focus on what matters most: HBC's customers.

As part of this ongoing operational review, the Company has implemented an initiative to reduce expenses by rationalizing its corporate functions and overhead across North America. This is expected to result in a more efficient, agile organizational structure across HBC's banners and centres of excellence. Annualized savings from this initiative are expected to be approximately \$75 million, the majority of which are expected to be realized in Fiscal 2017. In conjunction with this initiative, the Company anticipates incurring one-time severance related charges of approximately \$30 million.

These initial savings from the Company's ongoing comprehensive operational review are expected to offset some of the pressures facing the business in Fiscal 2017. These pressures include the channel shift from higher margin in-store sales to anticipated lower margin on digital sales. This margin pressure is expected to improve over time though, as the Company continues to invest in its digital supply chain, reduces expenses related to its digital operations, adopts best in class technology and introduces store centric all-channel delivery solutions. Additionally, in Fiscal 2017, the Company anticipates it will pay significantly more variable compensation to its associates when compared to Fiscal 2016.

Management continues to review and evaluate additional opportunities to identify efficiencies. These cost reduction opportunities are currently expected to leverage best practices to include more efficient inventory management, a reduction in total supply chain costs and the optimization of scheduling practices to ensure associates are placed where they can most improve the customers' experiences. Additional details on the progress of these initiatives will be provided in due course.

European voluntary restructuring program. During Fiscal 2016, HBC Europe announced voluntary restructuring programs to ensure the most efficient processes were in place to support its growth. Costs related to associates who have accepted early retirement amounted to approximately \$42 million during Fiscal 2016. The Company expects annualized cost savings from these programs of approximately \$24 million.

Back office efficiency initiatives. During the first quarter of Fiscal 2016, the Company announced a plan to reduce costs related to certain back office functions and establish a more fully integrated global back office support system. Implementation of this initiative is well underway and the Company is still on track to realize annualized cost savings of approximately \$7 million.

Distribution centre automation. The Company is working to drive innovation and expense reductions by implementing state-of-the-art automated fulfillment solutions at the Company's Scarborough, Ontario and new Pottsville, Pennsylvania fulfillment locations. The automated centre in Scarborough was unveiled on November 4, 2016 and is fully operational. The Pottsville automated centre is scheduled to be operational in the spring of 2018 and there are anticipated reductions in fulfillment cost per unit anticipated to result once these projects are completed and fully implemented.

- *Gross Profit Enhancements.* The Company is focused on increasing its gross profit through (i) upgrading technology to improve all stages of merchandise planning and (ii) using its evolving digital commerce fulfillment functionalities and improving its automation technology at its fulfillment centres to optimize inventory productivity across each banner.

Mergers, Acquisitions and Strategic Expansions

On September 30, 2015, the Company closed the Kaufhof Acquisition, which added retail locations across two countries in Europe, further strengthening the Company's retail portfolio as well as providing a platform for additional growth throughout Europe. In May 2016, the Company leveraged its existing infrastructure in Europe and announced its intention to expand its European presence with plans to open up to 20 new stores in the Netherlands over the following 24 months. The first phase of the Netherlands expansion is expected to launch in the summer of 2017 and operate under the Hudson's Bay and Saks OFF 5TH banners. This expansion will utilize the Company's existing information technology, procurement and digital support platforms. In preparation for this expansion, the Company has signed long-term lease agreements for 16 locations in the Netherlands, representing approximately 2.4 million square feet of gross leasable area. New future store openings announced included Hudson's Bay stores in Amsterdam, Den Bosch, The Hague, Enschede, Zwolle, Amstelveen, Almere and Utrecht.

On February 1, 2016, the Company closed the Gilt Acquisition. Gilt is an e-commerce fashion retailer with a large millennial customer base. The Company is continuing to integrate Gilt within HBC OffPrice. The Gilt Acquisition brought HBC improved digital capabilities, particularly in the increasingly important mobile and personalization technologies. HBC provides Gilt with an outlet to manage inventory more efficiently through the use of Saks OFF 5TH stores.

Real Estate Strategy

In addition to successfully operating and integrating its retail business and banners, the Company has demonstrated a history of leveraging value from its substantial real estate holdings. The Company's valuable real estate portfolio also serves to strengthen the Company's balance sheet and operating business and provides the Company with increased financial flexibility. Previous transactions and initiatives include the sale of the Zellers leases for \$1.8 billion in 2011, the Queen Street sale and leaseback of the Toronto flagship property for \$650 million in Fiscal 2014 and the U.S.\$1.25 billion mortgage financing of the ground portion of the Saks Fifth Avenue flagship property in New York City, also in Fiscal 2014. During the second quarter of Fiscal 2016, as part of the refinancing of the Lord & Taylor flagship property mortgage ("Lord & Taylor Mortgage"), an independent appraisal of the Lord & Taylor flagship store in New York City valued the property at U.S.\$655 million.

On July 9, 2015, the Company and RioCan closed the first tranche of the RioCan-HBC JV transaction and closed the second tranche on November 25, 2015.

On July 22, 2015, the Company and Simon closed the HBC-Simon JV transaction. On September 30, 2015, Simon contributed an additional U.S.\$178 million towards the acquisition of the Kaufhof Property Business (see "Kaufhof Acquisition"). On November 17, 2015, the Company announced the sale of a portion of its equity investment in the HBS Joint Venture (including a related entity) for proceeds of U.S.\$533 million to three new third party investors. Proceeds from the sale, together with cash on hand, were used to reduce the Company's outstanding U.S. Term Loan B (as defined herein) from U.S.\$1,085 million to U.S.\$500 million. The total third party investment of U.S.\$533 million valued the HBS Joint Venture's portfolio at approximately U.S.\$4.5 billion based on a blended capitalization rate of 5.90%. On March 30, 2016, the Company sold a further portion of its investment in the HBS Joint Venture (including a related entity) to Madison International Realty ("Madison") for total proceeds of U.S.\$50 million. The proceeds from the sale were used to pay down the Global ABL. As a result of the transaction, the Company recognized a pre-tax gain on the equity sale of approximately U.S.\$34 million (\$45 million). For further details, see note 13 of the Company's Fiscal 2016 audited consolidated financial statements.

The RioCan-HBC JV and the HBS Joint Venture have created new growth platforms for the Company and include real estate in the United States, Canada and internationally. Future property acquisitions are expected to diversify the asset portfolios and tenant base of each joint venture and create additional value. These joint ventures have been structured to facilitate an eventual listing of the entities as publicly traded real estate investment trusts. At the closing of these transactions, the Company had estimated that it would take approximately three years to prepare for an eventual listing, depending on the joint ventures' ability to diversify their asset base and overall market conditions. See the "Real Estate Joint Ventures" section of this MD&A.

Highlights of the thirteen week period ended January 28, 2017 compared to the thirteen week period ended January 30, 2016

- Retail sales, which include digital sales from all banners, were \$4,600 million, an increase of \$114 million or 2.5% from \$4,486 million.
- Consolidated comparable sales decreased by 3.7% and on a constant currency basis, decreased by 1.2%. On a constant currency basis, comparable sales increased by 0.6% at DSG, increased by 0.1% at Saks Fifth Avenue, decreased by 5.9% at HBC Off Price and decreased by 2.0% at HBC Europe. See “Factors Affecting Our Performance - Comparable Sales”.
- Digital sales increased by 52.8% while comparable digital sales increased by 13.3% on a constant currency basis, reflecting the Company’s continued strategic focus on growing this channel. Excluding Gilt, comparable digital sales increased by 20.9% on a constant currency basis.
- Gross profit¹, as a percentage of retail sales, was 40.2%, a 50 basis point improvement.
- Adjusted EBITDAR¹ was \$564 million compared to \$626 million, a decrease of \$62 million. As a percentage of retail sales, Adjusted EBITDAR¹ was 12.3% compared to 14.0%.
- Adjusted EBITDA¹ was \$404 million compared to \$455 million, a decrease of \$51 million. As a percentage of retail sales, Adjusted EBITDA¹ was 8.8% compared to 10.1%.
- Net loss was \$152 million compared to net earnings of \$370 million, a decrease of \$522 million.
- Normalized net earnings¹ were \$2 million compared to \$145 million, a decrease of \$143 million.

Highlights of the fifty-two week period ended January 28, 2017 compared to the fifty-two week period ended January 30, 2016

- Retail sales, which include digital sales from all banners were \$14,455 million, an increase of \$3,293 million or 29.5% from \$11,162 million.
- Consolidated comparable sales decreased by 0.7% and decreased on a constant currency basis by 1.7%. On a constant currency basis, comparable sales increased by 0.4% at DSG, decreased by 2.8% at Saks Fifth Avenue, decreased by 7.4% at HBC Off Price and decreased by 1.2% at HBC Europe. See “Factors Affecting Our Performance - Comparable Sales”.
- Digital sales increased by 69.6% while comparable digital sales increased by 8.1% on a constant currency basis, reflecting the Company’s continued strategic focus on growing this channel. Excluding Gilt, comparable digital sales increased by 16.6% on a constant currency basis.
- Gross profit¹, as a percentage of retail sales, was 41.3%, an 80 basis point improvement.
- Adjusted EBITDAR¹ was \$1,353 million compared to \$1,200 million, an increase of \$153 million. As a percentage of retail sales, Adjusted EBITDAR¹ was 9.4% compared to 10.8%.
- Adjusted EBITDA¹ was \$636 million compared to \$781 million, a decrease of \$145 million. As a percentage of retail sales, Adjusted EBITDA¹ was 4.4% compared to 7.0%.
- Net loss was \$516 million compared to net earnings of \$387 million, a decrease of \$903 million.
- Normalized net loss¹ was \$313 million compared to Normalized net earnings¹ of \$55 million, a decrease of \$368 million.

Note:

1. These performance metrics have been identified by the Company as Non-IFRS measures. For the relevant definitions, please refer to the “Non-IFRS Measures” section of this MD&A and for the relevant reconciliations of the nearest IFRS measures, please refer to the “Selected Consolidated Financial Information - Reconciliation Tables” section of this MD&A.

Factors Affecting Our Performance

Retail Sales

The majority of the Company's sales are from branded merchandise purchased directly from the brand owners or their licensees. The Company focuses on offering a broad selection of branded and private-label merchandise appealing to the fashion taste of its customers. The quality and breadth of its selection allows the Company to change the mix of its merchandise based on fashion trends and individual store locations, and enables it to address a broad customer base. See also "Overview - Retail Strategy" section of this MD&A.

Comparable Sales

The Company calculates comparable sales on a year-over-year basis from stores operating for at least thirteen months and includes digital sales and clearance store sales. Stores undergoing remodeling remain in the comparable sales calculation base unless the store is closed for a significant period of time. Effective Fiscal 2015, the calculation of comparable sales for the Company's operating segments DSG, Saks Fifth Avenue, HBC Off Price and HBC Europe excludes sales related accounting adjustments. In calculating the comparable sales change including digital sales on a constant currency basis, prior year foreign exchange rates are applied to both current year and prior year comparable sales. This enhances the ability to compare underlying sales trends by excluding the impact of foreign currency exchange rate fluctuations. Comparable sales results disclosed under "Summary of Consolidated Quarterly Results" reflect this revised approach since the second quarter of Fiscal 2015. Definitions and calculations of comparable sales differ among companies in the retail industry.

As of the second quarter of Fiscal 2016, for certain of the Company's banners for which this was not the case, digital sales now include sales and returns based on where the sale was originated, rather than where the order was fulfilled. In calculating digital sales growth, including on a comparable basis, sales for previously reported periods have been restated to reflect this change. The change provides a more accurate depiction of changes in digital sales growth and has resulted in reporting marginally higher growth in the current quarter and on a year-to-date basis than would have otherwise been reported under the previous method.

Gross Profit

Our cost of sales consists mainly of merchandise purchases, including transportation and distribution costs. Purchases are variable and proportional to the Company's sales volume. The Company records vendor rebates as a reduction of inventory cost. All costs directly associated with transportation and distribution, excluding central storage costs and any idle capacity, are capitalized as merchandise inventories.

The Company manages its businesses to improve gross margin in a number of different ways. The Company manages the level of promotional activity relative to regular price activity and manages inventory levels to minimize the need for substantial clearance activity. The Company sources private label products and directly imports certain branded products from overseas markets including, among others, China, India, Indonesia, Bangladesh, Vietnam, Cambodia and Europe. As a result, the Company's cost of sales for its Canadian operations is impacted by the fluctuation of foreign currencies against the Canadian dollar. In particular, the Company purchases a significant amount of its imported merchandise from suppliers in Asia using U.S. dollars. Therefore, the Company's cost of sales is also impacted by the fluctuation of the U.S. dollar against the Canadian dollar.

The Company enters into forward contracts to hedge some of its exposure to fluctuations in the value of the U.S. dollar against the Canadian dollar. Increases in the price of merchandise, raw materials, fuel and labour, or their reduced availability could increase the Company's cost of goods and negatively impact its financial results. Generally, the Company offsets these cost increases with pricing adjustments in order to maintain a consistent gross profit on the merchandise, which may cause changes in the Company's unit volume but typically has a minimal impact on its gross profit rates.

Foreign Exchange

The Company's net investments in Lord & Taylor Acquisition Inc. ("L&T Acquisition", the indirect parent of Lord & Taylor and Saks), Gilt and HBC Europe, whose functional currencies are not Canadian dollars, present foreign exchange risks to HBC. The Company is using a net investment hedge to mitigate a portion of the U.S. dollar foreign exchange risk by designating U.S.\$245 million of U.S. Term Loan B as a hedge of the first U.S.\$245 million of net assets of L&T Acquisition. Foreign currency translation of the net earnings (loss) of L&T Acquisition, Gilt and HBC

Europe impacts consolidated net earnings (loss). Foreign currency translation of HBC's investments in L&T Acquisition, Gilt and HBC Europe impacts other comprehensive income (loss).

Foreign currency gains and losses on certain intra-group monetary liabilities between group entities with different functional currencies impact the Company's consolidated net earnings (loss).

Selling, General & Administrative Expenses

Our SG&A consists of store labour and maintenance costs, store occupancy costs, advertising and marketing costs, salaries and related benefits of corporate and field management associates, administrative office expenses, services purchased and other related expenses. SG&A includes buying and occupancy costs and excludes transportation and distribution centre costs included in inventory and cost of sales. It also includes pension, restructuring and other non-recurring items and excludes depreciation and amortization expenses. Although the Company's average hourly wage rate is generally higher than the minimum wage, an increase in the mandated minimum wage could significantly increase the Company's payroll costs unless the Company realizes offsetting productivity gains and cost reductions.

Our occupancy costs are driven primarily by rent expense, which may include escalation clauses over existing lease terms, including option periods. The Company believes that its existing leases are generally consistent with current market rates. When entering into new leases, the Company is generally able to negotiate leases at attractive market rates due to the increased consumer traffic that its stores generate in strip malls and shopping centres.

Effective January 1, 2015, the Company entered into a new credit card program that replaced its legacy credit card programs. Under this program, the Company shares in the income and losses of the credit card program related to private label and co-branded credit cards at Hudson's Bay, Lord & Taylor and Saks. The new credit card program was effective as of January 1, 2015 with respect to Hudson's Bay and Saks. In June 2015, the Company completed the transition to include Lord & Taylor's active participation to the program. Income related to the new program is included in SG&A.

See also "Overview - Retail Strategy - Operating Expense Management" section of this MD&A.

Finance Costs

Our finance costs are expenses resulting from the financing activities of the Company, including interest expense on long and short-term borrowings, gains or losses on the early extinguishment of debt and fair value gains or losses and amortization charges related to embedded derivatives. In addition to credit ratings and credit spreads, the Company's finance costs are dependent on fluctuations in the underlying indices used to calculate interest rates, including, but not limited to, the Canadian prime rate, the Canadian Dealer Offered Rate ("CDOR") and the London Interbank Offered Rate ("LIBOR").

In connection with the Saks Acquisition, the Company issued Common Share purchase warrants to private placement investors and permitted transferees. The non-cash charges associated with the warrants fluctuate with changes in the Common Share trading price and other factors, as they require mark-to-market adjustments each reporting period. The Company records the mark-to-market valuation adjustment of these warrants as finance costs/income based on their end-of-period valuations.

Weather

Extreme weather conditions in the areas in which the Company's stores are located could adversely affect the Company's business and results of operations. For example, frequent or unusually heavy snowfall, ice storms, rainstorms, earthquakes, or other extreme weather conditions could make it difficult for the Company's customers to travel to its stores and thereby reduce the Company's sales and profitability. The Company's business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could result in lower sales and more promotional activity to clear merchandise at the end of the season. Reduced sales from extreme or prolonged unseasonable weather conditions could materially and adversely affect the Company's business and results of operations.

Competition

The Company conducts its retail merchandising business under highly competitive conditions. Although the Company is one of the largest retailers in North America, Germany and Belgium, it has numerous and varied competitors at the international, national and local levels, including conventional and specialty department stores, other specialty

stores, mass merchants, value retailers, discounters, digital and mail-order retailers. Competition may intensify as new competitors enter into the markets in which the Company's banners operate including U.S. competitors entering into the Canadian market, competitors to HBC Europe entering the German, Belgian and the Netherlands markets and/or if the Company's competitors enter into business combinations or alliances. Competition is characterized by many factors, including assortment, advertising, price, quality, service, location, digital applications, reputation and credit availability. If the Company does not compete effectively with regard to these factors, its business and results of operations could be materially and adversely affected.

Consumer Trends

The fashion and retail industries are subject to sudden shifts in consumer trends and consumer spending. The Company's sales and operating results depend, in part, on its ability to predict or respond to changes in fashion trends and consumer preferences in a timely manner. The Company develops new retail concepts and continuously adjusts its market positioning in branded and private-label merchandise and product categories in an effort to satisfy customer demand. Any sustained failure to anticipate, identify and respond to emerging trends in lifestyle and consumer preferences could have a material adverse effect on the Company's business and results of operations. Consumers' discretionary spending impacts the Company's sales and may be affected by many factors outside of the Company's control, including general economic conditions, consumer disposable income levels, consumer confidence levels, the availability, cost and level of consumer debt, the costs of basic necessities and other goods, and the effects of weather or natural disasters.

Seasonality

The quarterly sales and earnings of the Company are significantly impacted by customer sales patterns. As a result, sales in the fiscal fourth quarter, due to the holiday shopping season, represent a much greater portion of the Company's annual sales volume and a substantial portion of its annual earnings. The Company generates approximately one-third of its sales during the fourth quarter of each fiscal year due to the Christmas and holiday shopping season. See also "Summary of Consolidated Quarterly Results" section of this MD&A.

Selected Consolidated Financial Information

The following table provides selected annual audited consolidated financial information for the last three fiscal periods. The financial information has been prepared in accordance with IFRS.

(millions of Canadian dollars except per share amounts)	2016	2015	2014
	\$	\$	\$
Retail sales	14,455	11,162	8,169
Net (loss) earnings.....	(516)	387	233
Net (loss) earnings per Common Share — basic	(2.83)	2.13	1.28
Net (loss) earnings per Common Share — diluted	(2.83)	1.88	1.27
Total assets.....	12,211	12,645	9,122
Total long-term financial liabilities ⁽¹⁾	3,173	3,217	3,039
Declared dividend per Common Share	0.20	0.20	0.20

Note:

1. Includes loans and borrowings and financial liabilities (including current portion).

The following tables set out summary audited consolidated financial information and supplemental information for the periods indicated. The summary annual financial information for each of Fiscal 2016 and Fiscal 2015 has been derived from audited consolidated financial statements, prepared in accordance with IFRS. The summary financial information for the quarters ended January 28, 2017 and January 30, 2016 is unaudited. The unaudited financial information presented has been prepared on a basis consistent with the Company's audited consolidated financial statements for Fiscal 2016 and Fiscal 2015, respectively. In the opinion of the Company's management, such unaudited financial data reflects all adjustments, consisting of normal and recurring adjustments, necessary for a fair presentation of the results for those periods. The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year or any future period.

(millions of Canadian dollars except per share amounts)	Fiscal Quarter Ended				Fiscal Year			
	January 28, 2017		January 30, 2016		2016		2015	
	\$	% ⁽¹⁾	\$	% ⁽¹⁾	\$	% ⁽¹⁾	\$	% ⁽¹⁾
Earnings results								
Retail sales	4,600	100.0%	4,486	100.0%	14,455	100.0%	11,162	100.0%
Cost of sales	(2,752)	(59.8%)	(2,704)	(60.3%)	(8,481)	(58.7%)	(6,638)	(59.5%)
Gross profit	1,848	40.2%	1,782	39.7%	5,974	41.3%	4,524	40.5%
Selling, general and administrative expenses	(1,669)	(36.3%)	(1,499)	(33.4%)	(5,692)	(39.4%)	(4,066)	(36.4%)
Depreciation and amortization	(219)	(4.8%)	(149)	(3.3%)	(695)	(4.8%)	(460)	(4.1%)
Gain on sale of investments in joint ventures	—	—	516	11.5%	45	0.3%	516	4.6%
Gain on contribution of assets to joint ventures	—	—	35	0.8%	—	—	168	1.5%
Operating (loss) income	(40)	(0.9%)	685	15.3%	(368)	(2.6%)	682	6.1%
Finance costs, net	(43)	(0.9%)	(60)	(1.3%)	(192)	(1.3%)	(188)	(1.7%)
Share of net loss in joint ventures	(54)	(1.1%)	(68)	(1.6%)	(158)	(1.1%)	(139)	(1.2%)
Dilution gains from investments in joint ventures	6	0.1%	16	0.4%	24	0.2%	164	1.5%
(Loss) earnings before income tax	(131)	(2.8%)	573	12.8%	(694)	(4.8%)	519	4.7%
Income tax (expense) benefit	(21)	(0.5%)	(203)	(4.6%)	178	1.2%	(132)	(1.2%)
Net (loss) earnings for the period	(152)	(3.3%)	370	8.2%	(516)	(3.6%)	387	3.5%
Net (loss) earnings per Common Share — basic	(0.83)		2.03		(2.83)		2.13	
Net (loss) earnings per Common Share — diluted	(0.83)		1.88		(2.83)		1.88	
Weighted average Common Shares outstanding — basic (millions)	182		182		182		182	
Weighted average Common Shares outstanding — diluted (millions)	182		184		182		186	
Supplemental information								
Adjusted SG&A ⁽¹²⁾	1,442	31.3%	1,372	30.6%	5,275	36.5%	3,779	33.9%
EBITDA ⁽¹²⁾	131	2.8%	782	17.4%	193	1.3%	1,167	10.5%
Adjusted EBITDAR ⁽¹²⁾	564	12.3%	626	14.0%	1,353	9.4%	1,200	10.8%
Adjusted EBITDA ⁽¹²⁾	404	8.8%	455	10.1%	636	4.4%	781	7.0%
Normalized net earnings (loss) for the period ⁽¹²⁾	2	0.0%	145	3.2%	(313)	(2.2%)	55	0.5%
Normalized net earnings (loss) per Common Share — basic ⁽¹²⁾	0.01		0.80		(1.72)		0.30	
Normalized net earnings (loss) per Common Share — diluted ⁽¹²⁾	0.01		0.79		(1.72)		0.30	
Declared dividend per Common Share	0.05		0.05		0.20		0.20	

	Fiscal Quarter Ended		Fiscal Year	
	January 28, 2017	January 30, 2016	2016	2015
Reported consolidated retail sales percentage change....	2.5%	70.4%	29.5%	36.6%
Comparable sales percentage change ⁽²⁾				
Consolidated.....	(3.7%)	11.0%	(0.7%)	12.1%
Consolidated (constant currency basis).....	(1.2%)	1.8%	(1.7%)	2.5%
DSG	0.6%	4.0%	0.4%	4.7%
Saks Fifth Avenue ⁽³⁾	0.1%	(1.2%)	(2.8%)	(1.0%)
HBC Off Price ⁽⁴⁾	(5.9%)	2.0%	(7.4%)	6.3%
HBC Europe ⁽⁵⁾	(2.0%)	0.4%	(1.2%)	1.7%
Store information				
Store count ⁽⁶⁾				
Hudson's Bay.....	90	90		
Lord & Taylor.....	50	50		
Saks Fifth Avenue.....	41	38		
Saks OFF 5TH	117	90		
Home Outfitters	53	62		
HBC Europe	129	131		
Total.....	480	461		
Gross leasable area/Square footage (thousands) ⁽⁶⁾				
Hudson's Bay.....	15,834	16,006		
Lord & Taylor.....	6,898	6,898		
Saks Fifth Avenue.....	5,148	4,741		
Saks OFF 5TH	3,491	2,595		
Home Outfitters	1,864	2,214		
HBC Europe	28,566	29,114		
Total.....	61,801	61,568		

Balance Sheet Data (millions of Canadian dollars)	<i>(restated⁽¹¹⁾)</i>	
	2016	2015
	\$	\$
Cash.....	122	507
Trade and other receivables	391	512
Inventories ⁽⁷⁾	3,376	3,404
Current assets	4,065	4,617
Property, plant and equipment	5,284	5,156
Intangible assets and goodwill	1,786	1,779
Investment in joint ventures ⁽⁸⁾	581	658
Total assets.....	12,211	12,645
Current liabilities ⁽⁹⁾	2,947	2,799
Loans and borrowings (including current portion)	3,162	3,180
Finance leases (including current portion).....	523	527
Investment in the RioCan-HBC JV ⁽⁸⁾	9	27
Other liabilities (including current portion) ⁽¹⁰⁾	1,726	1,367
Shareholders' equity.....	2,410	3,099

Notes:

- (1) As a percentage of retail sales.
- (2) The Company calculates comparable sales on a year-over-year basis from stores operating for at least 13 months and includes digital sales and clearance store sales. The calculation for comparable sales excludes sales related accounting adjustments for DSG, Saks Fifth Avenue, HBC Off Price and HBC Europe. Consolidated comparable sales include results for all banners. See "Factors Affecting Our Performance - Comparable Sales".
- (3) Comparable sales of Saks Fifth Avenue are calculated in U.S. dollars.
- (4) Includes the Saks OFF 5TH, Gilt and Find @ Lord & Taylor banners (see "General Information") and is calculated on a constant currency basis. The results of Gilt are included from the Gilt Acquisition Date.
- (5) Comparable sales of HBC Europe are calculated in Euros and are included from the Kaufhof Acquisition Date.
- (6) Hudson's Bay Company operates one Find @ Lord & Taylor store, one Hudson's Bay outlet, two Zellers clearance centres and two Lord & Taylor outlets that are excluded from the store count and gross leasable area.
- (7) Inventories decreased by \$28 million compared to the prior year and, on a comparable basis, increased by approximately 0.2%.
- (8) See "Real Estate Joint Ventures" section.
- (9) Excludes current loans and borrowings of \$418 million as at January 28, 2017 and \$451 million as at January 30, 2016; current other liabilities of \$137 million as at January 28, 2017 and \$126 million as at January 30, 2016; and current finance leases of \$24 million as at January 28, 2017 and \$25 million as at January 30, 2016.
- (10) Includes deferred landlord incentives of \$909 million as at January 28, 2017 and \$648 million as at January 30, 2016.
- (11) Restated for measurement period adjustments related to the Kaufhof Acquisition based on new information. Please see note 5 of the Company's audited consolidated financial statements for the fifty-two week period ended January 28, 2017.
- (12) See below for relevant definitions and tables for reconciliations of net earnings (loss) to EBITDA, Adjusted EBITDA and Adjusted EBITDAR, SG&A to Adjusted SG&A and net earnings (loss) to Normalized net earnings (loss). These performance metrics have been identified by the Company as Non-IFRS measures. For the relevant definitions, please refer to the "Non-IFRS Measures" section of this MD&A and for the relevant reconciliations of the nearest IFRS measures, please refer to the "Selected Consolidated Financial Information - Reconciliation Tables" section of this MD&A.

Reconciliation tables

The following table presents the reconciliation of net (loss) earnings to EBITDA, Adjusted EBITDA and to Adjusted EBITDAR:

(millions of Canadian dollars)	Fiscal Quarter Ended		Fiscal Year	
	January 28, 2017	January 30, 2016	2016	2015
	\$	\$	\$	\$
Net (loss) earnings for the period	(152)	370	(516)	387
Finance costs, net.....	43	60	192	188
Income tax expense (benefit).....	21	203	(178)	132
Depreciation and amortization.....	219	149	695	460
EBITDA ^{(1) (5)}	131	782	193	1,167
Certain non-cash items ⁽²⁾	207	(492)	282	(665)
Normalization adjustments ⁽³⁾	68	189	224	318
Net rent expense to joint ventures ⁽⁴⁾	43	33	164	37
Cash rent to joint ventures.....	(114)	(112)	(448)	(190)
Cash distributions from joint ventures.....	69	55	221	114
Total adjustments.....	273	(327)	443	(386)
Adjusted EBITDA ⁽⁵⁾	404	455	636	781
Rent adjustments				
Third party rent expense ⁽⁶⁾	115	114	490	343
Cash rent to joint ventures.....	114	112	448	190
Cash distributions from joint ventures.....	(69)	(55)	(221)	(114)
Adjusted EBITDAR ⁽⁵⁾	564	626	1,353	1,200
Adjusted EBITDAR as a percentage of retail sales	12.3%	14.0%	9.4%	10.8%

Notes:

(1) EBITDA as previously reported has been redefined to exclude the add back for 'Certain non-cash items'. These add backs are summarized in footnote 2 and are now included as part of the adjustments to calculate Adjusted EBITDA. See the definition of EBITDA in the 'Non-IFRS measures' section of this MD&A.

(2) Certain non-cash items consist of:

Share of net loss in joint ventures.....	54	68	158	139
Gain on sale of investments in joint ventures.....	—	(516)	(45)	(516)
Gain on contribution of assets to joint ventures.....	—	(35)	—	(168)
Dilution gains from investments in joint ventures ⁽ⁱ⁾	(6)	(16)	(24)	(164)
Non-cash pension expense.....	(4)	(3)	19	17
Impairment and other non-cash items ⁽ⁱⁱ⁾	145	5	129	5
Share based compensation.....	18	5	45	22
	207	(492)	282	(665)

(i) Represents gains realized as a result of the changes in ownership related to the Company's investments in the joint ventures.

(ii) Includes impairment expenses of \$150 million and \$174 million for the the thirteen and fifty-two week periods ended January 28, 2017, respectively (refer to the "Results of Operations - SG&A" section of this MD&A for more information), and gain on the sale of the Company's leasehold interest in a Saks Fifth Avenue store at Short Hills mall in New Jersey during the third quarter of Fiscal 2016 of \$25 million.

(3) Normalization adjustments consist of:

Acquisition and integration related expenses ⁽ⁱ⁾	10	32	51	133
Lease guarantee provision ⁽ⁱⁱ⁾	(2)	—	12	—
Joint ventures transaction costs.....	—	11	—	46
Amortization of inventory purchase price accounting adjustments.....	—	69	—	75
Home Outfitters onerous lease provision.....	—	2	—	2
Foreign exchange adjustment ⁽ⁱⁱⁱ⁾	21	51	29	4
Restructuring ^(iv)	17	14	64	48
Credit card chargeback expense ^(v)	2	—	13	—
European expansion ^(vi)	20	—	28	—
Other ^(vii)	—	10	27	10
	68	189	224	318

- (i) Includes acquisition and integration expenses related to the acquisitions of Saks, Kaufhof and Gilt.
 - (ii) Represents the Company's expected share of costs associated with default on subleases guaranteed by the Company.
 - (iii) Represents the impact of unrealized gains/losses related to the translation of U.S. dollar and Euro denominated monetary asset and liability balances related to the overall tax and legal structure of the Company.
 - (iv) Restructuring includes preliminary costs associated with programs initiated by HBC Europe to optimize operating efficiencies and additional costs associated with the North American realignment program announced in the third quarter of Fiscal 2015.
 - (v) Represents additional non-recurring credit card chargeback expenses attributed to industry legal liability changes effective October 2015.
 - (vi) Includes one-time start-up and expansion costs related to HBC Europe's opening of Hudson's Bay and Saks OFF 5TH stores in the Netherlands and Germany.
 - (vii) Primarily represents duplicative costs associated with the U.S. office consolidation of \$5 million and \$42 million for the thirteen and fifty-two week periods ended January 28, 2017, respectively, offset by other smaller items totaling a net of \$2 million and \$4 million for the thirteen and fifty-two week periods ended January 28, 2017 respectively, and share based compensation expense adjustment of \$3 million and \$11 million for the thirteen and fifty-two week periods ended January 28, 2017 (see note 19 to the Company's audited consolidated financial statements for the fifty-two week period ended January 28, 2017).
- (4) Rent expense to the joint ventures net of reclassification of rental income related to the Company's ownership interest in the joint ventures (see note 13 to the Company's audited consolidated financial statements for the fifty-two week period ended January 28, 2017).
- (5) These performance metrics have been identified by the Company as Non-IFRS measures. For the relevant definitions, please refer to the "Non-IFRS Measures" section of this MD&A.
- (6) Previously included rent expense related to leases at Home Outfitters that have been classified as onerous lease contracts. As of the second quarter of Fiscal 2016, amounts related to these onerous lease contracts have been removed and any previously reported amounts impacted by this adjustment have been restated. See footnote 1 in "Summary of Consolidated Quarterly Results".

The following table presents the reconciliation of SG&A to Adjusted SG&A:

(millions of Canadian dollars)	Fiscal Quarter Ended		Fiscal Year	
	January 28, 2017	January 30, 2016	2016	2015
	\$	\$	\$	\$
SG&A	1,669	1,499	5,692	4,066
Certain non-cash items ⁽¹⁾	(159)	(7)	(193)	(44)
Normalization adjustments ⁽²⁾	(68)	(120)	(224)	(243)
Total adjustments	(227)	(127)	(417)	(287)
Adjusted SG&A ⁽³⁾	1,442	1,372	5,275	3,779
Adjusted SG&A as a percentage of retail sales	31.3%	30.6%	36.5%	33.9%

Notes:

- (1) Certain non-cash items consist of:

Non-cash pension expense	4	3	(19)	(17)
Impairment and other non-cash items ⁽ⁱ⁾	(145)	(5)	(129)	(5)
Share based compensation	(18)	(5)	(45)	(22)
	(159)	(7)	(193)	(44)

- (i) For details, refer to footnote 2 to the reconciliation of net (loss) earnings to EBITDA, Adjusted EBITDA and to Adjusted EBITDAR table above.

- (2) Normalization adjustments consist of:

Acquisition and integration related expenses ⁽ⁱ⁾	(10)	(32)	(51)	(133)
Lease guarantee provision ⁽ⁱ⁾	2	—	(12)	—
Joint ventures transaction costs	—	(11)	—	(46)
Home Outfitters onerous lease provision	—	(2)	—	(2)
Foreign exchange adjustment ⁽ⁱ⁾	(21)	(51)	(29)	(4)
Restructuring ⁽ⁱ⁾	(17)	(14)	(64)	(48)
Credit card chargeback expense ⁽ⁱ⁾	(2)	—	(13)	—
European expansion ⁽ⁱ⁾	(20)	—	(28)	—
Other ⁽ⁱ⁾	—	(10)	(27)	(10)
	(68)	(120)	(224)	(243)

- (i) For details, refer to footnote 3 to the reconciliation of net (loss) earnings to EBITDA, Adjusted EBITDA and to Adjusted EBITDAR table above.

- (3) This performance metric has been identified by the Company as a Non-IFRS measure. For the relevant definition, please refer to the "Non-IFRS Measures" section of this MD&A.

The following table presents the reconciliation of net (loss) earnings to Normalized net earnings (loss):

(millions of Canadian dollars)	Fiscal Quarter Ended		Fiscal Year	
	January 28, 2017	January 30, 2016	2016	2015
	\$	\$	\$	\$
Net (loss) earnings for the period	(152)	370	(516)	387
Certain non-cash items ⁽¹⁾	113	(367)	72	(565)
Normalization adjustments ⁽²⁾	38	105	131	184
Financing related adjustments	(1)	24	1	37
Adjustments to share of net loss in joint ventures ⁽³⁾	4	13	(1)	32
Tax related adjustments	—	—	—	(20)
Total adjustments ⁽⁴⁾	154	(225)	203	(332)
Normalized net earnings (loss) ⁽⁵⁾	2	145	(313)	55

Notes:

(1) Certain non-cash items consist of:

Impairment of goodwill	116	—	116	—
Gain on contribution of assets to joint ventures	—	(27)	—	(134)
Gain on sale of investments in joint ventures	—	(333)	(28)	(333)
Dilution gains from investments in joint ventures	(3)	(7)	(16)	(98)
	113	(367)	72	(565)

(2) Normalization adjustments consist of:

Acquisition and integration related expenses and finance costs	(4)	(2)	10	73
Joint ventures transaction costs	—	8	—	31
Restructuring ⁽ⁱⁱ⁾	11	9	43	30
Amortization of inventory purchase price accounting adjustments	—	49	—	53
Home Outfitters onerous lease provision	—	1	—	1
Foreign exchange adjustment ⁽ⁱⁱⁱ⁾	16	35	26	(9)
Lease guarantee provision ^(iv)	(1)	—	9	—
Credit card chargeback expense ^(v)	1	—	8	—
European expansion ^(vi)	15	—	19	—
Other ^(vii)	—	5	16	5
	38	105	131	184

(i) Includes acquisition and integration expenses related to the acquisitions of Saks, Kaufhof and Gilt. In addition, includes the recognition of non-cash finance income related to Common Share purchase warrants of \$11 million and \$26 million for the thirteen and fifty-two week periods ended January 28, 2017, respectively (the thirteen and fifty-two week periods ended January 30, 2016: \$25 million and \$37 million, respectively).

(ii) Restructuring includes preliminary expected costs associated with programs initiated by HBC Europe to optimize operating efficiencies and additional costs associated with the North American realignment program announced in the third quarter of Fiscal 2015.

(iii) Represents the impact of unrealized losses (gains) on the translation of U.S. dollar and Euro denominated monetary asset and liability balances related to the overall tax and legal structure of the Company.

(iv) Represents the Company's expected share of costs associated with default on subleases guaranteed by the Company.

(v) Represents additional non-recurring credit card chargeback expenses attributed to industry legal liability changes effective October 2015.

(vi) Includes one-time start-up and expansion costs related to HBC Europe's opening of Hudson's Bay and Saks OFF 5TH stores in the Netherlands and Germany.

(vii) Primarily represents duplicative costs associated with the U.S. office consolidation of \$3 million and \$25 million for the thirteen and fifty-two week periods ended January 28, 2017, respectively, offset by other smaller items totaling \$2 million for the thirteen and fifty-two week periods ended January 28, 2017, respectively, and share based compensation expense adjustment of \$1 million and \$7 million for the thirteen and fifty-two week periods ended January 28, 2017, respectively (see note 19 to the Company's audited consolidated financial statements for the fifty-two week period ended January 28, 2017).

(3) Relates to the Company's share of net non-recurring items incurred by the HBS Joint Venture.

(4) All adjustments are tax-effected as appropriate.

(5) This performance metric has been identified by the Company as a Non-IFRS measure. For the relevant definition, please refer to the "Non-IFRS Measures" section of this MD&A.

Results of Operations

Thirteen week period ended January 28, 2017 compared to the thirteen week period ended January 30, 2016

HBC has now anniversaried the Kaufhof Acquisition as well as the formation of the real estate joint ventures with RioCan and Simon. Accordingly, reported results for the fourth quarter are largely comparable to the previous year, excluding the impact of the Gilt Acquisition which closed on February 1, 2016, the first day of Fiscal 2016.

Retail Sales

Retail sales, which include digital sales from all banners, were \$4,600 million for the thirteen week period ended January 28, 2017, an increase of \$114 million or 2.5% from \$4,486 million for the thirteen week period ended January 30, 2016. The increase was primarily driven by the addition of Gilt, which generated \$177 million in sales during the quarter, as well as the opening of five Saks Fifth Avenue and 32 Saks OFF 5TH stores contributing a \$123 million in sales, offset in part by a \$110 million negative foreign exchange impact on the translation of U.S. dollar and Euro denominated sales, lower comparable sales of approximately \$42 million and other insignificant items.

Consolidated comparable sales decreased by 3.7% and, on a constant currency basis, decreased by 1.2% over the comparable thirteen week period in Fiscal 2015. On a constant currency basis, comparable sales increased by 0.6% at DSG, increased by 0.1% at Saks Fifth Avenue, decreased by 5.9% at HBC Off Price and decreased by 2.0% at HBC Europe. Comparable sales during the quarter were impacted by a highly promotional environment across HBC's markets. Additionally, sales at Gilt continue to be impacted by lower traffic, while Saks OFF 5TH has experienced lower sales driven in part by the decision to introduce more moderately priced apparel during Fiscal 2016. Saks OFF 5TH is in the process of re-merchandising its product mix to have a higher concentration of products at the top end of its offering range. This is expected to drive increased traffic and conversion as well as a higher overall basket size. The updated product mix is expected to be fully implemented by the third quarter of Fiscal 2017.

Digital sales increased by 52.8% while comparable digital sales increased by 13.3% on a constant currency basis over the comparable thirteen week period in Fiscal 2015, reflecting the Company's continued strategic focus on growing this channel. Excluding Gilt, comparable digital sales increased 20.9% on a constant currency basis.

Gross Profit¹

Gross profit¹ was \$1,848 million for the thirteen week period ended January 28, 2017, compared to \$1,782 million for the thirteen week period ended January 30, 2016. Adjusting for the negative impact associated with the amortization of inventory related purchase accounting adjustments of \$69 million in the prior year related to HBC Europe, comparable gross profit decreased by \$3 million.

Gross profit as a percentage of retail sales was 40.2%, which improved by 50 basis points over the same comparable thirteen week period ended January 30, 2016. Gross profit as a percentage of retail sales declined by 110 basis points when the prior year is adjusted for the negative impacts associated with the purchase accounting adjustments related to the acquisition of HBC Europe as discussed above. Reduced gross profit rates were the result of lower gross margins realized in the majority of HBC banners, largely driven by the highly promotional environment experienced during the quarter. For additional discussion see "Factors Affecting Our Performance – Gross Profit".

Selling, General & Administrative Expenses

SG&A was \$1,669 million for the thirteen week period ended January 28, 2017, compared to \$1,499 million for the thirteen week period ended January 30, 2016. The increase is primarily attributable to non-cash impairment charges of \$150 million including the impairment of goodwill described below, the addition of Gilt, which added \$77 million in SG&A during the quarter, as well as a reduction in the Company's ownership in its real estate joint ventures, which resulted in a \$10 million increase in net rent expense. Moreover, the shift to digital sales from traditional in-store sales contributed to the higher percentage due to higher costs of fulfilling digital orders. Profit margins are expected to improve over time, as the Company continues to invest in its digital supply chain, reduces expenses related to its digital operations and introduces store centric all-channel delivery options.

These increases were partially offset by a decrease in non-recurring charges of \$52 million, a \$43 million favourable foreign exchange impact related to the translation of U.S. dollar and Euro denominated SG&A expenses and other insignificant items.

Fourth quarter results include a non-cash goodwill impairment charge of \$116 million related to HBC Off Price. This charge was driven by recent weakness at Gilt and Saks OFF 5TH as described above, which has resulted in management prudently lowering its future earnings expectations as compared to initial internal estimates.

Notwithstanding this charge, the Company's management continues to believe that both Saks OFF 5TH and Gilt have strong strategies in place with the potential to generate long term profitable growth for the Company. The acquisition of Gilt continues to provide HBC with best in class digital capabilities and a strong online presence with the millennial audience. The Company expects to fully combine the inventory at Saks OFF 5TH and Gilt by the end of the year, allowing Saks OFF 5TH merchandise to be sold online through Gilt. To further improve the customer experience at HBC Off Price, the Company is working on a number of other initiatives, including: expanded brand partnerships; refocusing on higher end core offerings; and, the ongoing roll out of technology enhancements related to enhanced website navigation, personalization and delivery options.

Adjusted SG&A¹ was \$1,442 million for the thirteen week period ended January 28, 2017, compared to \$1,372 million for the thirteen week period ended January 30, 2016, or an increase of \$70 million. The increase is primarily attributable to the addition of Gilt, a reduction in the Company's ownership in its real estate joint ventures and the shift of in-store sales to digital sales as described above. This increase was offset in part by a favourable foreign exchange impact of \$38 million related to the translation of U.S. dollar and Euro denominated SG&A expenses.

As a percentage of retail sales, Adjusted SG&A¹ was 31.3% in the fourth quarter of Fiscal 2016 compared to 30.6% in the fourth quarter of the prior year. The factors described above, combined with the impacts associated with lower than expected comparable sales, resulted in an increase to SG&A as a percentage of sales.

The impact of net rent expense to the joint ventures was \$43 million for the thirteen week period ended January 28, 2017, compared to \$33 million for the thirteen week period ended January 30, 2016. Adjusting for this impact, Adjusted SG&A as a percentage of retail sales is reduced to 30.4% in the fourth quarter of Fiscal 2016 compared to 29.8% in the fourth quarter of the prior year. See also "Overview - Retail Strategy - Operating Expense Management".

Depreciation and Amortization

During the quarter the Company completed its purchase price allocation for Gilt. This included finalization of the amortization methodology related to customer lists. As a result, amortization expense in the quarter reflects a cumulative adjustment of approximately \$37 million.

Adjusted EBITDA¹ and Adjusted EBITDAR¹

Adjusted EBITDAR¹ was \$564 million compared to \$626 million for the prior year, a decrease of \$62 million. As a percentage of retail sales, Adjusted EBITDAR¹ was 12.3% in the fourth quarter of Fiscal 2016 compared to 14.0% for the fourth quarter of Fiscal 2015. The decline in Adjusted EBITDAR¹ can be primarily attributed to an increase in Adjusted SG&A¹ expenses as discussed above, combined with relatively flat gross profit dollars compared to the prior year excluding the impacts of purchase price accounting adjustments.

Adjusted EBITDA¹ was \$404 million compared to \$455 million in the prior year, a decrease of \$51 million. As a percentage of retail sales, Adjusted EBITDA¹ was 8.8% in the fourth quarter of Fiscal 2016 compared to 10.1% in the fourth quarter of the prior year. The decrease is largely in line with the decrease in Adjusted EBITDAR¹, offset by a smaller cash impact from the Company's joint ventures resulting from the distribution during the quarter of excess funds that had been reserved to pay taxes in Germany. The HBS Joint Venture expects to begin paying cash taxes in 2018, and will set aside approximately 1.5 million Euros per month beginning in July of 2017 for future amounts owed.

Net (Loss) Earnings

Net loss was \$152 million in the thirteen week period ended January 28, 2017 compared to net earnings of \$370 million in the thirteen week period ended January 30, 2016, a decrease of \$522 million. The decrease is primarily due to after tax gains on sale of investments in joint ventures of \$333 million and gains on contribution of assets to joint ventures of \$27 million in the prior year as well as after tax impairment expenses of \$136 million in the current year as described above.

Finance Costs

Finance costs were \$43 million in the thirteen week period ended January 28, 2017, compared to \$60 million for the thirteen week period ended January 30, 2016, a decrease of \$17 million. The decrease primarily relates to

reductions in the write-off associated with deferred financing costs compared to the prior year. This was partially offset by a reduction of \$14 million in non-cash finance income generated from mark-to-market adjustments associated with the valuation of Common Share purchase warrants outstanding for the thirteen week period ended January 28, 2017. Interest paid in cash was \$46 million compared to \$40 million in the prior year.

Income Tax Expense

Income tax expense was \$21 million in the thirteen week period ended January 28, 2017, compared to \$203 million for the thirteen week period ended January 30, 2016. The effective income tax rate decreased primarily due to the impact of certain tax losses of the Company not recognized in the current period and other non-deductible expenses.

Normalized Net Earnings¹

Normalized net earnings¹ were \$2 million in the thirteen week period ended January 28, 2017 compared to \$145 million in the thirteen week period ended January 30, 2016, a decrease of \$143 million. This decrease is primarily a result of higher Adjusted SG&A¹, as described above, as well as increased depreciation and amortization expenses.

Note:

1. These performance metrics have been identified by the Company as Non-IFRS measures. For the relevant definitions, please refer to the “Non-IFRS Measures” section of this MD&A and for the relevant reconciliations of the nearest IFRS measures, please refer to the “Selected Consolidated Financial Information - Reconciliation Tables” section of this MD&A.

Fifty-two week period ended January 28, 2017 compared to the fifty-two week period ended January 30, 2016

Retail Sales

Retail sales were \$14,455 million for the fifty-two week period ended January 28, 2017, an increase of \$3,293 million or 29.5% from \$11,162 million for the fifty-two week period ended January 30, 2016. Approximately \$3 billion of this increase is related primarily to the addition of HBC Europe, and to a lesser extent Gilt, during the year. The remainder of the increase has been driven by the opening of five Saks Fifth Avenue and 32 Saks OFF 5TH stores during the year which contributed \$320 million in sales and a \$26 million positive foreign exchange impact on the translation of U.S. dollar and Euro denominated sales. These positive sales impacts have been offset in part by lower overall comparable sales of approximately \$164 million.

Consolidated comparable sales decreased by 0.7% and, on a constant currency basis, decreased by 1.7% over the comparable fifty-two week period ended January 30, 2016. On a constant currency basis, comparable sales increased by 0.4% at DSG, decreased by 2.8% at Saks Fifth Avenue, decreased by 7.4% at HBC Off Price and decreased by 1.2% at HBC Europe.

Comparable sales during the year were impacted by a highly promotional environment across HBC’s markets. Additionally, sales at Gilt continue to be under pressure, while Saks OFF 5TH has experienced lower sales driven in part by the decision to introduce more moderately priced apparel during the current fiscal year.

Digital sales increased by 69.6% for the fifty-two week period ended January 28, 2017 while comparable digital sales increased by 8.1% on a constant currency basis over the comparable fifty-two week period ended January 30, 2016, reflecting the Company’s continued strategic focus on growing this channel. Excluding Gilt, comparable digital sales increased 16.6% on a constant currency basis.

Gross Profit¹

Gross profit¹ as reported was \$5,974 million for the fifty-two week period ended January 28, 2017, compared to \$4,524 million for the fifty-two week period ended January 30, 2016. Adjusting for the negative impact associated with the amortization of inventory related purchase accounting adjustments of \$75 million in the prior year related to HBC Europe, the Company’s gross profit¹ improved by \$1,375 million. The increase is primarily driven by the addition of HBC Europe (contributing approximately 80% of the increase) and to a lesser extent Gilt. This combined with improved volume performance at Saks Fifth Avenue and Saks OFF 5TH due to new store openings contributed to the overall increase. These improvements were offset by a lower realized gross profit rate in the majority of HBC banners. For additional discussion see “Factors Affecting Our Performance – Gross Profit”.

Gross profit¹ as a percentage of retail sales, was 41.3% for the fifty-two week period ended January 28, 2017, which improved by 80 basis points over the comparable fifty-two week period ended January 30, 2016. The majority

of the improvement is the result of the addition of HBC Europe which operates on a different cost structure with gross profit rates in excess of HBC's other banners. The positive impact associated with HBC Europe was offset by lower margins realized at HBC's other banners.

Selling, General & Administrative Expenses

SG&A as reported was \$5,692 million for the fifty-two week period ended January 28, 2017 compared to \$4,066 million for the fifty-two week period ended January 30, 2016. The majority of the increase is primarily attributable to the addition of HBC Europe and Gilt, which drove a \$1.5 billion increase in SG&A. Additionally, non-cash impairment charges increased by \$174 million which includes impairment on goodwill as described above and net rent expense related to the Company's joint ventures increased by \$127 million. Moreover, the shift to digital sales from traditional in-store sales contributed to the overall increase in this rate, due to the higher costs of fulfilling digital orders.

These increases were partially offset by gains on sale of assets of \$33 million, a decline in non-recurring expenses of \$19 million, a favourable foreign exchange impact of \$11 million related to the translation of U.S. dollar and Euro denominated SG&A expenses and other insignificant items.

Adjusted SG&A¹ was \$5,275 million compared to \$3,779 million for the fifty-two week period ended January 30, 2016, or an increase of \$1,496 million. The increase is primarily attributable to the additions of HBC Europe and Gilt contributing Adjusted SG&A¹ of approximately \$1.4 billion combined with the increased rent expense associated with the Company's joint ventures of \$127 million. These increases were partially offset by a favourable foreign exchange impact of \$11 million as described above.

As a percentage of retail sales, Adjusted SG&A¹ was 36.5% for the fifty-two week period ended January 28, 2017 compared to 33.9% for the fifty-two week period ended January 30, 2016, or an increase of 260 basis points. The factors described above, combined with the impacts associated with lower than expected comparable sales, all resulted in deleveraging of the Company's SG&A.

The impact of net rent expense to the joint ventures was \$164 million for the fifty-two week period ended January 28, 2017, compared to \$37 million for the fifty-two week period ended January 30, 2016. Adjusting for this impact, Adjusted SG&A¹ as a percentage of retail sales is reduced to 35.4% for the fifty-two week period ended January 28, 2017 compared to 33.5% for the fifty-two week period ended January 30, 2016.

Adjusted EBITDA¹ and Adjusted EBITDAR¹

Adjusted EBITDAR¹ was \$1,353 million for the fifty-two week period ended January 28, 2017 compared to \$1,200 million for the fifty-two week period ended January 30, 2016, an increase of \$153 million. The increase in Adjusted EBITDAR¹ can be attributed to an increase in gross profit dollars compared to the prior year, offset by an increase in Adjusted SG&A¹ expenses as discussed above. As a percentage of retail sales, Adjusted EBITDAR¹ was 9.4% compared to 10.8% for the fifty-two week period ended January 30, 2016.

Adjusted EBITDA¹ was \$636 million for the fifty-two week period ended January 28, 2017 compared to \$781 million in the fifty-two week period ended January 30, 2016, a decrease of \$145 million. As a percentage of sales, Adjusted EBITDA¹ was 4.4% compared to 7.0% in the prior year. The real estate joint ventures had a \$227 million impact on Adjusted EBITDA¹ during Fiscal 2016, compared to a \$76 million impact in Fiscal 2015 (the impact is comprised of cash rent to joint ventures net of cash distributions from joint ventures). This increased joint venture impact plus the rent expenses associated with the additions of HBC Europe and Gilt drove the majority of the decline in Adjusted EBITDA¹ relative to Adjusted EBITDAR¹.

Net (Loss) Earnings

Net loss was \$516 million in the fifty-two week period ended January 28, 2017 compared to net earnings of \$387 million in the fifty-two week period ended January 30, 2016, a decrease of \$903 million. The decrease is primarily due to after tax gain on sale of investments in joint ventures of \$333 million in the prior year compared to \$28 million in the current year, after tax impairment expenses of \$150 million in the current year, after tax gains of \$134 million in the prior year related to the contribution of assets to the joint ventures and after tax dilution gains in the prior year of \$98 million compared to \$16 million in the current year.

Finance Costs

Finance costs were \$192 million in the fifty-two week period ended January 28, 2017 compared to \$188 million for the fifty-two week period ended January 30, 2016, an increase of \$4 million. The increase relates to increase in interest costs related to short-term borrowings, costs associated with finance leases added as a result of both the joint ventures and the Kaufhof Acquisition and increases in the net interest on pensions and employee benefits related to HBC Europe. These increases were offset by reductions in the write-off associated with deferred financing costs and the reduction in non-cash finance income generated from mark-to-market adjustments associated with the valuation of Common Share purchase warrants outstanding compared to the prior year. Interest paid in cash was \$173 million compared to \$147 million in the prior year.

Income Tax Benefit (Expense)

Income tax benefit was \$178 million for the fifty-two week period ended January 28, 2017 compared to an expense of \$132 million for the fifty-two week period ended January 30, 2016. The marginal increase in the effective income tax rate for the fifty-two week period was primarily due to the impact of international tax rate differentials offset in part by the impact of certain tax losses of the Company not recognized in the current period and other non-deductible expenses.

Normalized Net (Loss) Earnings¹

Normalized net loss¹ was \$313 million in the fifty-two week period ended January 28, 2017 compared to Normalized net earnings¹ of \$55 million in the fifty-two week period ended January 30, 2016, a decrease in earnings of \$368 million. This decrease is primarily driven by the factors outlined above as well as an increase in depreciation and amortization expense.

Note:

1. These performance metrics have been identified by the Company as Non-IFRS measures. For the relevant definitions, please refer to the “Non-IFRS Measures” section of this MD&A and for the relevant reconciliations of the nearest IFRS measures, please refer to the “Selected Consolidated Financial Information - Reconciliation Tables” section of this MD&A.

Gilt Acquisition

On February 1, 2016, the Company completed the Gilt Acquisition for U.S.\$239 million in cash, excluding debt, subject to customary adjustments. Subsequent to the acquisition date, the Company received a purchase price adjustment of U.S.\$2 million that decreased the purchase price to U.S.\$237 million.

With the Gilt Acquisition, the Company has added a leading and innovative online shopping destination, which offers its customers special access to inspiring fashion merchandise and experiences. The Gilt Acquisition reflects the Company’s ongoing focus on advancing its all-channel model, while continuing to grow its off-price business through the integration of Gilt with Saks OFF 5TH locations.

The Company has finalized the purchase price allocation for the acquisition of Gilt including goodwill. The following table summarizes the estimated fair value of the consideration given and the fair value assigned to the assets acquired and the liabilities assumed of Gilt as at February 1, 2016:

(millions)	\$ U.S.	\$ CDN
Cash	7	10
Inventories	62	87
Property, plant and equipment.....	26	36
Intangible assets.....	178	249
Goodwill.....	59	83
Other assets.....	20	28
Trade payables.....	(50)	(70)
Other payables and accrued liabilities.....	(53)	(74)
Deferred tax liabilities	(7)	(10)
Other liabilities	(5)	(7)
Total identifiable net assets acquired and cash consideration given.....	237	332

For further discussion on the Gilt Acquisition, please refer to note 4 to the Company's audited consolidated financial statements for the fifty-two week period ended January 28, 2017.

Kaufhof Acquisition

On September 30, 2015, HBC and the HBS Joint Venture completed the Kaufhof Acquisition by acquiring GALERIA Holding, the parent company of Germany's leading department store GALERIA Kaufhof and Belgium's only department store, Galeria INNO, for a total purchase price of €2.3 billion (\$3.5 billion). In conjunction with the Kaufhof Acquisition, the HBS Joint Venture acquired 41 Kaufhof properties.

The transaction was structured such that the Company effectively acquired the operating business and certain properties of Kaufhof for €0.7 billion (\$1.1 billion) while the HBS Joint Venture acquired the property business ("Kaufhof Property Business") valued at €1.6 billion (\$2.4 billion), in each case, for accounting purposes.

The acquisition was financed in part by new real estate debt secured by 41 Kaufhof properties acquired by the HBS Joint Venture that had a transaction value of €2.6 billion (\$4.0 billion). Additional financing for the transaction was provided by a new term loan at HBC and cash contributions by Simon to the HBS Joint Venture.

The Kaufhof Acquisition creates an international retail platform for the Company and provides the Company with an opportunity to grow internationally both through acquisitions and the eventual introduction of Saks Fifth Avenue and Saks OFF 5TH into the German market. The Kaufhof Acquisition also provided the Company with a strong foundation to explore additional strategic growth prospects throughout Europe, such as the launch of Hudson's Bay and Saks OFF 5TH stores in the Netherlands.

For further details on the Kaufhof Acquisition, see note 5 of the Company's Fiscal 2016 audited consolidated financial statements.

Real Estate Joint Ventures

The joint ventures have created new growth platforms for the Company. The joint ventures have mandates to acquire additional assets that are expected to diversify the portfolios and tenant base of each joint venture creating additional value for the Company's shareholders.

On closing of the first tranche of the RioCan-HBC JV on July 9, 2015, HBC contributed seven owned or ground leased properties (including Hudson's Bay flagship properties in downtown Vancouver, Calgary, Ottawa, and Montreal) with approximately 2.6 million square feet and valued at approximately \$1.3 billion. RioCan contributed a 50% interest in two mall properties in Ontario, Oakville Place and Georgian Mall. HBC received \$352 million in cash proceeds from new debt issued by the RioCan-HBC JV.

On November 25, 2015, the second tranche of the RioCan-HBC JV closed. On closing of the second tranche of the RioCan-HBC JV, the Company indirectly contributed three additional ground leased properties, being the Yorkdale Shopping Centre, Scarborough Town Centre and Square One (collectively the “YSS Properties”), totaling approximately 736,000 square feet, to the RioCan-HBC JV, with a transaction value of approximately \$379 million based on a capitalization rate of 5.26%. RioCan has committed to contribute a total of \$325 million to the RioCan-HBC JV for an eventual pro-forma equity stake of approximately 20%. The balance of these contributions will consist of \$53 million in tenant inducements (\$26 million of which was provided in Fiscal 2016), and \$125 million to be used to fund future property acquisitions to increase the value and diversify the tenant base of the RioCan-HBC JV. These contributions are expected to be made by the third anniversary of the first tranche closing date.

For reporting purposes, the leases related to the YSS Properties were assessed and classified as operating leases. In the fourth quarter of Fiscal 2015, the Company recognized a pre-tax gain on the contribution of the YSS Properties of approximately \$35 million based on RioCan’s interest in the RioCan-HBC JV after the closing of the second tranche. Additionally, as part of the transaction, the Company’s mortgage on the Yorkdale ground lease of approximately \$47 million was assumed by an entity related to the RioCan-HBC JV.

On closing of the HBC-Simon JV on July 22, 2015, the Company contributed 42 owned or ground leased properties valued at approximately U.S.\$1.7 billion, including the Saks Fifth Avenue Beverly Hills flagship and the Westchester and Manhasset Lord & Taylor stores. The contributed properties total approximately 5.4 million square feet. HBC received U.S.\$600 million in cash proceeds from new debt issued at the HBC-Simon JV. Simon contributed an initial amount of U.S.\$1 million upon closing. On September 30, 2015, prior to the Kaufhof Acquisition, the HBC-Simon JV became a wholly owned subsidiary of HBS Joint Venture. Simon contributed an additional U.S.\$178 million to the HBS Joint Venture as part of the acquisition of the Kaufhof Property Business. Simon has committed to provide an additional U.S.\$99 million to the HBS Joint Venture (U.S.\$44 million of which was provided in Fiscal 2016) for improvements to properties contributed by HBC to the joint venture.

In conjunction with the Kaufhof Acquisition, the HBS Joint Venture acquired 41 Kaufhof properties valued, for accounting purposes, at approximately €1.8 billion (\$2.7 billion). This transaction was financed by a combination of a ten year real estate loan secured by the 41 properties, available cash held by the HBS Joint Venture and cash contributions by Simon and HBC.

On November 17, 2015, the Company sold a portion of its equity in the HBS Joint Venture (including a related entity) to three new third party investors, for total proceeds of U.S.\$533 million. Proceeds from the equity sale, together with cash-on-hand, were used to reduce the Company’s outstanding U.S. Term Loan B from U.S.\$1,085 million to U.S.\$500 million. The total third party investment of U.S.\$533 million valued the HBS Joint Venture’s portfolio at approximately U.S.\$4.5 billion based on a blended capitalization rate of 5.90%, and comprised of individual investments from the following entities:

- U.S.\$250 million equity investment by Ivanhoé Cambridge;
- U.S.\$150 million equity investment by Madison; and
- U.S.\$133 million equity investment by a large U.S. pension.

On March 30, 2016, the Company sold a further portion of its investment in the HBS Joint Venture (including a related entity) to Madison for total proceeds of U.S.\$50 million. The proceeds of U.S.\$50 million from the sale were used to pay down the Global ABL. As a result of the transaction, the Company recognized a pre-tax gain on the equity sale of approximately U.S.\$34 million (\$45 million).

The joint ventures have been established with dedicated management teams focused on overseeing the contributed properties and growing the portfolio, with support from HBC, Simon, RioCan and Ivanhoé Cambridge. The RioCan-HBC JV’s board of directors is comprised of four directors, two of whom have been appointed by each of HBC and RioCan. The HBS Joint Venture’s board of directors is comprised of five directors, two of whom have been appointed by each of HBC and Simon and one of whom has been appointed by Ivanhoé Cambridge. Unanimous Board consent of HBC and Simon members is required for all major operating decisions.

The joint ventures have been structured to facilitate an eventual listing of the entities as publicly traded real estate investment trusts. At the closing time of these transactions, the Company had estimated that it would take approximately three years to prepare for an eventual listing, depending on the joint ventures’ ability to diversify their asset base and overall market conditions.

RioCan-HBC JV

The following provides additional information relating to the RioCan-HBC JV:

Statements of Earnings

(millions of Canadian dollars)	Fiscal Quarter Ended		Fifty-two week period ended January 28, 2017	Period from July 9, 2015 to January 30, 2016
	January 28, 2017	January 30, 2016		
Rental revenue	28	26	111	53
Rental revenue - recoveries	3	2	9	5
Property operating costs	(3)	(3)	(10)	(6)
Operating income	28	25	110	52
Depreciation and amortization ..	(11)	(11)	(43)	(21)
Finance costs, net.....	(2)	—	(6)	(2)
Net earnings	15	14	61	29

Balance Sheets

(millions of Canadian dollars)	January 28, 2017	January 30, 2016
Assets		
Cash.....	2	1
Accounts receivable	7	—
Other current assets	3	—
Total current assets	12	1
Investment properties	1,730	1,733
Other non-current assets	142	142
Total assets	1,884	1,876
Liabilities		
Accounts payable and accrued liabilities	4	3
Loans and borrowings	5	2
Total current liabilities	9	5
Loans and borrowings	539	546
Other non-current liabilities	1	1
Total liabilities	549	552
Partners' Equity		
Partners' capital.....	1,360	1,334
Deficit.....	(25)	(10)
Total partners' equity	1,335	1,324
Total liabilities and partners' equity	1,884	1,876

Statements of Cash Flows

(millions of Canadian dollars)	Fifty-two week period ended January 28, 2017	Period from July 9, 2015 to January 30, 2016
Operating activities		
Net earnings for the period	61	29
Add: Finance costs, net.....	6	2
Earnings before finance costs	67	31
Less: Net cash interest paid	(12)	(1)
Items not affecting cash flows:		
Depreciation and amortization.....	43	21
Non-cash rental income	(17)	(9)
Change in working capital.....	1	—
Net cash inflow from operating activities	82	42
Investing activities		
Capital investments	(2)	(1)
Tenant incentives paid.....	(20)	—
Promissory note to tenant.....	(6)	—
Net cash outflow for investing activities	(28)	(1)
Financing activities		
Long-term loans and borrowings:		
Issuance	—	352
Repayments	(3)	(1)
Contributions received.....	26	—
Proceeds paid to HBC.....	—	(352)
Distributions paid.....	(76)	(39)
Net cash outflow for financing activities.....	(53)	(40)
Increase in cash	1	1
Cash at beginning of period	1	—
Cash at end of period.....	2	1

HBS Joint Venture

The following provides additional information relating to the HBS Joint Venture:

Statements of Net Earnings and Comprehensive Income

(millions of U.S. dollars)	Fiscal Quarter Ended		Fifty-two week period ended January 28, 2017	Period from July 22, 2015 to January 30, 2016
	January 28, 2017	January 30, 2016		
Rental revenue.....	82	81	331	136
Rental revenue - recoveries.....	6	6	20	6
Property operating costs.....	(10)	(13)	(20)	(14)
Operating income	78	74	331	128
General and administrative expenses ⁽¹⁾	(14)	(21)	(13)	(48)
Depreciation and amortization..	(19)	(20)	(83)	(37)
Finance costs.....	(23)	(25)	(88)	(42)
Earnings before income taxes	22	8	147	1
Income tax (expense) benefit....	(5)	2	(15)	1
Net earnings	17	10	132	2
Other comprehensive income (loss)				
Currency translation adjustment.....	3	5	(2)	9
Total comprehensive income..	20	15	130	11

- (1) Includes foreign exchange losses on translation of a Euro denominated monetary liability related to the tax and legal structure of the joint venture of \$14 million and \$6 million for the thirteen and fifty-two week periods ended January 28, 2017.

Balance Sheets

(millions of U.S. dollars)	January 28, 2017	January 30, 2016
Assets		
Cash	13	103
Other current assets	13	13
Total current assets	26	116
Investment properties	3,833	3,841
Intangible assets	47	53
Assets controlled by non-controlling interest	121	143
Other non-current assets	15	40
Total assets	4,042	4,193
Liabilities		
Loans and borrowings	150	3
Deferred revenue	—	23
Other current liabilities	84	165
Total current liabilities	234	191
Loans and borrowings	2,101	2,267
Deferred tax liabilities	194	196
Liabilities controlled by non-controlling interest	99	106
Other non-current liabilities	111	103
Total liabilities	2,739	2,863
Members' equity		
Members' capital	1,396	1,355
Deficit	(123)	(71)
Accumulated other comprehensive income	6	9
Non-controlling interest	24	37
Total members' equity	1,303	1,330
Total liabilities and members' equity	4,042	4,193

Statements of Cash Flows

(millions of U.S. dollars)	Fifty-two week period ended January 28, 2017	Period from July 22, 2015 to January 30, 2016
Operating activities		
Net earnings for the period	132	2
Add: Income tax expense (benefit)	15	(1)
Add: Finance costs	88	42
Earnings before finance costs and income taxes	235	43
Interest paid in cash	(88)	(32)
Items not affecting cash flows:		
Depreciation and amortization	83	37
Unrealized foreign exchange losses	7	22
Non-cash rental income	(56)	(24)
Changes in operating working capital	(32)	11
Net cash inflow from operating activities	149	57
Investing activities		
Tenant inducements	(46)	—
Acquisition of Kaufhof Property Business, net of cash acquired	—	(1,810)
Net cash outflow for investing activities	(46)	(1,810)
Financing activities		
Long-term loans and borrowings:		
Issued	—	2,357
Repayments	(60)	(99)
Borrowing costs	—	(29)
	(60)	2,229
Contributions received	52	307
Proceeds paid to members	—	(600)
Distributions paid	(184)	(73)
Net cash (outflow for) inflow from financing activities	(192)	1,863
Foreign exchange loss on cash	(1)	(7)
(Decrease) increase in cash	(90)	103
Cash at beginning of period	103	—
Cash at end of period	13	103

Summary of Consolidated Quarterly Results

The following table summarizes quarterly financial information of the Company for the past eight quarters.

(millions of Canadian dollars except per share amounts)	Fiscal Quarter Ended							
	Jan 28, 2017	Oct 29, 2016	Jul 30, 2016	Apr 30, 2016	Jan 30, 2016	Oct 31, 2015	Aug 1, 2015	May 2, 2015
	\$	\$	\$	\$	\$	\$	\$	\$
Retail sales	4,600	3,300	3,252	3,303	4,486	2,566	2,038	2,072
Net (loss) earnings	(152)	(125)	(142)	(97)	370	7	59	(49)
Net (loss) earnings per Common Share - basic ⁽¹⁾	(0.83)	(0.69)	(0.78)	(0.53)	2.03	0.04	0.33	(0.27)
Net (loss) earnings per Common Share - diluted ⁽⁷⁾	(0.83)	(0.69)	(0.78)	(0.58)	1.88	(0.04)	0.28	(0.27)
Reported consolidated retail sales percentage change	2.5%	28.6%	59.6%	59.4%	70.4%	34.1%	15.2%	11.7%
Adjusted EBITDAR ⁽²⁾⁽³⁾	564	276	263	250	626	280	123	171
Adjusted EBITDA ⁽³⁾	404	89	81	62	455	170	52	104
Normalized net earnings (loss) ⁽³⁾ ..	2	(102)	(122)	(91)	145	(1)	(61)	(28)
Comparable sales percentage change ⁽³⁾⁽⁴⁾								
Consolidated	(3.7%)	(3.9%)	2.0%	4.4%	11.0%	12.9%	14.3%	11.7%
Consolidated (constant currency basis)	(1.2%)	(3.5%)	(1.2%)	(1.0%)	1.8%	2.0%	4.2%	2.7%
DSG	0.6%	(2.4%)	1.1%	2.3%	4.0%	5.1%	4.9%	4.9%
Saks Fifth Avenue ⁽⁵⁾	0.1%	(4.6%)	(1.3%)	(5.7%)	(1.2%)	(3.6%)	0.1%	0.6%
HBC Off Price ⁽⁶⁾	(5.9%)	(8.4%)	(11.4%)	(4.1%)	2.0%	2.8%	12.7%	10.3%
HBC Europe ⁽⁷⁾	(2.0%)	(2.0%)	(0.9%)	0.6%	0.4%	6.6%	N/A	N/A

Notes:

- (1) Net earnings (loss) per Common Share ("EPS") in each quarter is computed using the weighted-average number of Common Shares outstanding during that quarter, while EPS for the full year is computed using the weighted-average number of Common Shares outstanding during the year. Thus, the sum of the four quarters' EPS may not equal the full-year EPS.
- (2) Previously included rent expense related to leases at Home Outfitters that have been classified as onerous lease contracts. As of the second quarter of Fiscal 2016, the Company has removed amounts related to these onerous lease contracts and have restated any previously reported amounts impacted by this adjustment. The impact to Fiscal 2015 was a decrease of \$11 million (\$2 million to \$4 million per quarter).
- (3) These performance metrics have been identified by the Company as Non-IFRS measures. For the relevant definitions, please refer to the "Non-IFRS Measures" section of this MD&A and for the relevant reconciliations of the nearest IFRS measures, please refer to the "Selected Consolidated Financial Information - Reconciliation Tables" section of this MD&A.
- (4) The Company calculates comparable sales on a year-over-year basis from stores operating for at least 13 months and includes digital sales and clearance store sales. The calculation for comparable sales excludes sales related accounting adjustments for DSG, Saks Fifth Avenue, HBC Off Price and HBC Europe. Consolidated comparable sales include results for all banners. See "Factors Affecting Our Performance - Comparable Sales".
- (5) Comparable sales of Saks Fifth Avenue are calculated in U.S. dollars.
- (6) Includes the Saks OFF 5TH and Gilt banners (see "General Information") and is calculated in U.S. dollars. The results of Gilt are included from the Gilt Acquisition Date.
- (7) Comparable sales of HBC Europe are calculated in Euros following the Kaufhof Acquisition Date.

Outlook

The Company is dedicated to prudent capital management, and given the current retail environment, is focusing its capital investment program on in-progress and expected high-return projects. HBC currently expects total capital investments in Fiscal 2017, net of landlord incentives, to be between \$450 million and \$550 million. Gross capital investment is expected to be between \$1,025 million and \$1,125 million. Of this gross amount, approximately \$800 million is related to growth initiatives, with the remainder allocated towards maintenance projects. The Company remains focused on creating a best in class all-channel shopping experience, and will continue to invest in growth

initiatives. This includes the Company's expansion of its Hudson's Bay banner into the Netherlands, the ongoing renovation of its Aachen, Düsseldorf, and Frankfurt stores in Germany, and the installation of automated fulfillment technology at the Pottsville distribution centre. Other areas of focus include store renovations in North America, the continued expansion of Saks OFF 5TH in the U.S., Canada and Germany, as well as the build out of increased all-channel capabilities both online and in-store for Fiscal 2017.

The above capital investment expectations reflect exchange rate assumptions of USD:CAD = 1:1.34 and EUR:CAD = 1:1.43. Any variation in these foreign exchange rate assumptions and/or other material assumptions and factors described in the "Forward-Looking Statements" section of this MD&A could impact the above outlook.

Liquidity and Capital Resources

Cash Flows

Total cash, including restricted cash, is managed to remain at minimal levels by drawing on or repaying the Company's revolving credit facilities. The Company's liquidity and capital resources are primarily impacted by: (i) current cash and cash equivalents; (ii) operating activities; (iii) investing activities; and (iv) financing activities. The following table summarizes cash flows by activity:

(millions of Canadian dollars)	Fiscal Quarter Ended		Fiscal Year	
	January 28, 2017	January 30, 2016	2016	2015
	\$	\$	\$	\$
Operating activities.....	983	656	312	18
Investing activities.....	(132)	483	(793)	448
Financing activities.....	(829)	(948)	89	(138)
Increase (decrease) in cash.....	22	191	(392)	328
Foreign exchange gain on cash	14	24	7	11
Cash at beginning of period.....	86	292	507	168
Cash at end of period.....	122	507	122	507

Net Cash Flow - Operating Activities

For the thirteen week period ended January 28, 2017, net cash inflow from operating activities was \$983 million compared to \$656 million for the thirteen week period ended January 30, 2016, an increase of \$327 million. The increase is due primarily to lower investments in working capital, higher cash from operations and higher distribution of earnings from joint ventures, offset in part by higher cash income taxes and interest paid.

Net cash inflow from operating activities was \$312 million for the fifty-two week period ended January 28, 2017 compared to \$18 million for the fifty-two week period ended January 30, 2016, an increase of \$294 million. The increase is primarily due to lower investments in working capital and higher distributions of earnings from joint ventures offset in part by a decrease in cash from operations and higher cash income taxes and interest paid.

Net Cash Flow - Investing Activities

For the thirteen week period ended January 28, 2017, net cash outflow for investing activities was \$132 million compared to an inflow of \$483 million for the thirteen week period ended January 30, 2016 an increase in outflow of \$615 million. The inflow in the prior year was primarily due to the proceeds on the sale of a portion of the Company's equity in the HBS Joint Venture.

Net cash outflow for investing activities was \$793 million for the fifty-two week period ended January 28, 2017 compared to an inflow of \$448 million for the fifty-two week period ended January 30, 2016, an increase in outflow of \$1,241 million. The net inflow in the prior year was primarily driven by the proceeds received from the contribution of assets to the joint ventures and proceeds from the sale of investments in joint ventures offset by the acquisition of Kaufhof and investments in the joint ventures. The Gilt Acquisition and increased capital expenditure contributed to the net increase in outflow, offset in part by proceeds on the disposition of assets and sale of investments in the joint ventures in the current year.

Capital Expenditures

The tables below summarize the Company's capital investments by major areas:

(millions of Canadian dollars)	Fiscal Year	
	2016	2015
Merchandising	786	392
Information technology	118	96
Digital commerce	77	46
Maintenance	104	76
Total capital expenditures⁽¹⁾	1,085	610
Landlord incentives	(428)	(234)
Net capital expenditures	657	376

Note:

(1) Capital expenditures are inclusive of software development costs.

In addition to capital investments, the Company received combined vendor allowances and landlord incentives related to capital expenditures of \$428 million and \$234 million in Fiscal 2016 and Fiscal 2015, respectively. Accordingly, capital expenditures net of vendor allowances and landlord incentives were \$657 million and \$376 million, respectively. For capital expenditures expected in Fiscal 2017, please see the "Outlook" section of this MD&A.

Net Cash Flow - Financing Activities

For the thirteen week period ended January 28, 2017, net cash outflow for financing activities was \$829 million compared to \$948 million for the thirteen week period ended January 30, 2016, a decrease of \$119 million. The decrease primarily relates to lower repayments of long-term borrowings offset in part by higher repayments of short-term borrowings in the current year.

Net cash inflow for financing activities was \$89 million for the fifty-two week period ended January 28, 2017 compared to an outflow of \$138 million for the fifty-two week period ended January 30, 2016, an increase of \$227 million. The increase primarily relates to a net increase in long-term borrowings offset in part by a net decrease in short-term borrowings.

Cash Balances and Liquidity

The Company's primary needs for cash are to fund: (i) operations; (ii) capital expenditures in connection with the Company's new store opening and renovation programs, technology investments and strategic initiatives; (iii) seasonal inventory purchases and other working capital requirements; (iv) debt service and (v) acquisitions. Working capital requirements are at their highest in the latter half of the fiscal year as inventory builds through the fall, peaking just before the holiday selling season.

The Company's primary sources of funds are cash flows provided by operations, landlord incentives, the Company's Global ABL (see "Subsequent Events" section of this MD&A) revolving credit facilities, and mortgage backed real estate financing. Other potential sources of funding may include, among others, new corporate loans and mortgages, the sale and leaseback of real estate properties, selling real estate, selling other company assets and investments or the issuance of equity. The availability of funding sources is dependent, among other factors, on economic conditions, capital markets and the Company's financial condition.

The Company may consider additional acquisitions of, and investments in, retail businesses, real estate and other complimentary assets or companies. Transactions, if any, are expected to be financed through a combination of the following sources: cash on hand, borrowing under existing or new credit facilities and the issuance of long term debt or other securities, including equity securities such as Common Shares.

Funding Capacity

The Company anticipates that it will be able to satisfy its working capital requirements, planned capital expenditures and debt service requirements with proceeds from cash flows from operations, short-term trade credit,

seasonal borrowings under its Global ABL revolving credit facilities and other sources of financing. The Company expects to generate adequate cash flow from operating activities to sustain current levels of operations.

Management believes that there is not a significant risk of default and/or arrears on lease payments, interest or principal payment of debt, or of a breach of debt covenants.

There is no provision in debt, lease, or other arrangements that could trigger an additional funding requirement for the Company. There are no legal or practical restrictions on the ability of subsidiaries to transfer funds to the Company that would affect the ability to meet its obligations as and when they fall due.

Global ABL

On February 5, 2016, the Company entered into a senior secured asset-based revolving credit facility, the Global ABL, with Bank of America, N.A. as the administrative agent and collateral agent replacing the HBC Revolving Credit Facility (as defined herein) and the U.S. Revolving Credit Facility existing at January 30, 2016. The Global ABL of U.S.\$1.9 billion has a maturity date of February 5, 2021 with key terms that are consistent with the credit facilities existing at January 30, 2016. The Global ABL is divided into three tranches consisting of: (i) a U.S. subfacility, (ii) a Canadian subfacility and (iii) a German subfacility, and is subject to a borrowing base, based predominantly on eligible inventory and accounts receivable of HBC, L&T Acquisition, Saks, Kaufhof and certain of their respective subsidiaries (other than real estate subsidiaries). The Global ABL is available on a revolving basis to, among other things, finance working capital needs, capital expenditures, operating activities and to support the issuance of standby letters of credit. The Global ABL has multiple interest rate charge options that are based on the U.S. prime rate, Federal Funds rate, LIBOR, Canadian prime rate, CDOR and European LIBOR.

The Global ABL contains restrictive covenants customary for credit facilities of this nature, including restrictions on the incurrence of indebtedness, financial maintenance covenants, and restrictions on payments to affiliates and shareholders. It also includes events of default and representations and warranties that are customary for credit facilities of this nature. HBC is in compliance with all covenants contained in the Global ABL.

The Global ABL is secured by a first priority security interest over all inventory and accounts receivable in Canada (HBC), the United States (L&T Acquisition and Saks and certain of their subsidiaries) and Germany (Kaufhof and certain of its subsidiaries).

Subsequent to the year end, on February 6, 2017, the Global ABL was amended to introduce another tranche consisting of a Dutch subfacility and to expand the amount of the facility by U.S.\$350 million, increasing the size of the total borrowing line availability to U.S.\$2.25 billion. The increase in the credit facility is intended to finance the working capital needs, capital expenditures and operating activities of the Company's Canadian, U.S. and European operations. The amended facility has a maturity date of February 5, 2021 with key terms that are consistent with the initial Global ABL facility closed in February 2016.

U.S. Term Loan B

On September 30, 2015, in connection with the closing of the Kaufhof Acquisition, the Company entered into a U.S.\$1.1 billion senior secured term loan facility with Bank of America, N.A. as the administrative agent (the "U.S. Term Loan B"). On November 17, 2015, HBC repaid U.S.\$585 million of U.S. Term Loan B using cash on hand and proceeds from the sale of its equity investment in the HBS Joint Venture (including a related entity). In connection with the repayment, \$32 million of deferred financing costs were written off. As of January 28, 2017, the Company owed U.S.\$500 million under the U.S. Term Loan B. The Company is in compliance with all covenants contained in the U.S. Term Loan B credit agreement.

The U.S. Term Loan B matures on September 20, 2022 and carries an interest rate of LIBOR (with a LIBOR Floor) plus 3.25% per annum. The U.S. Term Loan B is subject to mandatory prepayments.

The U.S. Term Loan B contains restrictive covenants customary for credit facilities of this nature, including restrictions on the incurrence of indebtedness, financial maintenance covenants, and restrictions on payments to affiliates and shareholders. It also includes events of default and representations and warranties that are customary for credit facilities of this nature.

The U.S. Term Loan B is secured by a second priority security interest over inventory and accounts receivables, a first priority security interest over substantially all other assets of the Company and certain of its subsidiaries (excluding

real estate subsidiaries) as well as a pledge of the shares of certain subsidiaries of the Company and certain of their subsidiaries.

Saks Mortgage

On December 3, 2014, the Company announced the closing of a U.S.\$1.25 billion, 20-year mortgage loan, on the ground portion of the Company's Saks Fifth Avenue flagship property at 611 Fifth Avenue, New York, with a syndicate of lenders including an affiliate of Morgan Stanley Canada Limited (the "Saks Mortgage"). The mortgage is secured by a first mortgage lien on the fee interest in the property, together with all ground lease rents, profits and revenue. Saks Mortgage contains restrictive covenants, events of default and representations and warranties that are customary for credit facilities of this nature.

All proceeds from the Saks Mortgage, net of associated fees and expenses, were utilized to permanently pay down U.S.\$1.2 billion of an existing senior secured term loan facility. The Saks Mortgage is interest-only, with a fixed interest rate of 4.39%, and does not require any principal amortization over its 20 year term. The borrower, Saks Flagship Real Property LLS, is in compliance with the terms of its indebtedness to the lenders under the Saks Mortgage.

Lord & Taylor Mortgage

On September 7, 2012, LT 424 LLC ("LT 424"), which is an indirect subsidiary of Lord & Taylor, entered into a U.S.\$250 million syndicated floating rate senior mortgage loan with an affiliate of CIBC World Markets Inc., as administrative agent of the syndicate of lenders, which matures on September 10, 2017.

On July 19, 2016, LT 424 refinanced its previous U.S.\$250 million mortgage loan by entering into a U.S.\$400 million syndicated floating rate senior mortgage loan ("the Lord & Taylor Mortgage") with an affiliate of CIBC World Markets Inc., as the administrative agent.

The Lord & Taylor Mortgage matures on August 10, 2021 and carries an interest rate of LIBOR plus 3.25%. LT 424 has entered into interest rate swap arrangements, the effect of which is to fix the effective interest rate related to the Lord & Taylor Mortgage at 4.3% over the term of the loan.

The Lord & Taylor Mortgage is subject to mandatory principal repayments over the term of the loan and allows for the ability to prepay the entire amount outstanding after the first two years with a fee payable to the lenders at 2% of the outstanding loan principal. This prepayment fee is reduced to 1% after three years, and further reduced to nil after August 10, 2020. Any prepayments made are applied to reduce the remaining scheduled installments.

The Lord & Taylor Mortgage contains customary representations and warranties, positive and negative covenants, reporting requirements and events of default. The borrower, LT 424, is in compliance with all covenants contained in the Lord & Taylor Mortgage. As security for the Lord & Taylor Mortgage, the Company granted a first priority mortgage in the Fifth Avenue Lord & Taylor property.

HBC Revolving Credit Facility

Prior to entering into the Global ABL on February 5, 2016 (see above for details), HBC was party to a revolving credit facility with Bank of America, N.A. (through its Canadian branch), as administrative agent and collateral agent (the "HBC Revolving Credit Facility").

The HBC Revolving Credit Facility had a total availability of \$600 million (reduced from \$750 million pursuant to an amendment dated December 17, 2014, which also extended the maturity date to December 17, 2019). The HBC Revolving Credit Facility was subject to a borrowing base, based predominantly on eligible inventory of HBC (excluding L&T Acquisition and its subsidiaries and any real estate subsidiaries) and eligible credit card receivables of HBC and certain of its subsidiaries (excluding L&T Acquisition and its subsidiaries and any real estate subsidiaries). The HBC Revolving Credit Facility bore interest based on various rates depending on which facility was utilized, including the Canadian prime rate, CDOR, U.S. index rate and LIBOR. The HBC Revolving Credit Facility was available to finance working capital requirements, capital expenditures or other general corporate purposes and to make certain restricted payments, investments and repayments of indebtedness, and could be drawn in both U.S. and Canadian dollars.

The HBC Revolving Credit Facility contained restrictive covenants customary for credit facilities of this nature, including restrictions on the incurrence of indebtedness, restrictions on capital expenditures and restrictions on payments to affiliates and shareholders. It also included events of default and representations and warranties that are customary for credit facilities of this nature.

The HBC Revolving Credit Facility was secured by a first priority security interest over all inventory and accounts receivable in Canada.

This HBC Revolving Credit Facility was terminated and replaced by the Global ABL as of February 5, 2016 (see above for details).

U.S. Revolving Credit Facility

Prior to entering into the Global ABL on February 5, 2016 (see above for details), L&T Acquisition was party to a revolving credit agreement with Bank of America, N.A. as administrative agent and collateral agent as of November 4, 2013 (the “U.S. Revolving Credit Facility”).

The U.S. Revolving Credit Facility provided a U.S.\$1.1 billion revolving line of credit through November 4, 2018 (increased from U.S.\$950 million pursuant to an amendment dated December 17, 2014) and refinanced revolving credit facilities previously in place for Saks and Lord & Taylor. The U.S. Revolving Credit Facility was subject to a borrowing base, based predominantly on eligible inventory and accounts receivable of Lord & Taylor, Saks and their respective subsidiaries (other than real estate subsidiaries). The U.S. Revolving Credit Facility was available to finance working capital needs, capital expenditures, operating activities and to support the issuance of standby letters of credit. The U.S. Revolving Credit Facility had multiple interest rate charge options that were based on the U.S. prime rate, Federal Funds rate and LIBOR. As the U.S. Revolving Credit Facility was available for and used to finance working capital requirements, capital expenditures and other operating activities, it has been classified in the consolidated balance sheets as part of current loans and borrowings.

The U.S. Revolving Credit Facility contained restrictive covenants customary for credit facilities of this nature, including restrictions on the incurrence of indebtedness, financial maintenance covenants, and restrictions on payments to affiliates and shareholders. It also included events of default and representations and warranties that are customary for credit facilities of this nature.

The U.S. Revolving Credit Facility was secured by a first priority security interest over all inventory and accounts receivables in the United States (L&T Acquisition and Saks and certain of their respective subsidiaries).

On February 5, 2016, this facility was repaid in full and replaced by the Global ABL (see above for details).

Contractual Obligations

Our significant contractual obligations and commitments as of January 28, 2017 are as follows:

(millions of Canadian dollars ⁽¹⁾)	Total	Fiscal Year					Thereafter
		2017	2018	2019	2020	2021	
	\$	\$	\$	\$	\$	\$	\$
Lease financing							
Operating lease arrangements ⁽²⁾	16,105	947	978	967	935	906	11,372
Short-term borrowings							
Global ABL ⁽³⁾	434	434	—	—	—	—	—
Long-term borrowings							
U.S. Term Loan B.....	657	—	—	—	—	—	657
Lord & Taylor Mortgage.....	523	5	6	6	8	498	—
Saks Mortgage.....	1,642	—	—	—	—	—	1,642
Other loans	7	2	2	2	1	—	—
Finance leases.....	523	24	25	23	23	14	414
Purchase obligations⁽⁴⁾	422	287	62	36	15	8	14
Other obligations⁽⁵⁾	1,675	1,670	5	—	—	—	—
Total obligations.....	21,988	3,369	1,078	1,034	982	1,426	14,099

Notes:

(1) U.S. dollar and Euro denominated amounts are translated to Canadian dollars at the rates of USD:CAD = 1:1.32 and EUR:CAD = 1:1.40, respectively. These rates are as of the end of Fiscal 2016.

- (2) Represents future minimum lease payments under non-cancellable operating leases. Minimum lease payments are defined as the payments over the lease term that the Company is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, and excluding guaranteed amounts.
- (3) As the Global ABL is available for and used to finance working capital needs, capital expenditures, and other general corporate purposes, it has been classified in the consolidated balance sheets as part of current loans and borrowings. However, the Company is not required to repay any balance outstanding until the maturity date of February 5, 2021.
- (4) Includes contractual obligations to purchase goods or services of a material amount where the contract prescribes minimum volumes to be purchased or payments to be made within a fixed period of time for a set price. These purchase obligations do not include purchase orders issued or agreements made in the ordinary course of business which are solely for goods which are meant for resale, nor do they include any contracts which may be terminated on relatively short notice or with relatively insignificant cost or liability to the Company.
- (5) Other obligations include trade payables, derivatives and other financial liabilities.

Leases

The Company has long-term operating lease obligations that are not capitalized on the consolidated balance sheet in accordance with IFRS. These leases are related to store locations, warehouse facilities and equipment and are reflected within “Operating lease arrangements” included in the table above. Leases typically have an original term ranging from 15 to 25 years and provide for renewal periods exercisable at the Company’s option. Operating leases relating to property typically require that the Company pays associated real estate taxes and common area maintenance costs in addition to the minimum lease payments noted above. In addition to operating leases relating to store locations, the Company also holds finance leases related to certain store locations, property and equipment, which are capitalized on the consolidated balance sheet in accordance with IFRS.

Lease Guarantees

As part of normal operations, the Company regularly reviews its real estate portfolio and store locations. Based on the reviews conducted in prior years, the Company has closed certain store premises that it deemed to be non-strategic. Where these premises were leased, when possible, the Company assigned its leases to other retail operators, but remained obligated to the landlord on those leases as the original tenant thereunder despite the assignment. If the assignee were to default on the lease agreement, the Company would remain obligated to the landlord for payment of amounts due under the lease. The terms of these assigned leases can extend up to the year 2024. As of January 28, 2017, these leases have future minimum lease payments of \$114 million (January 30, 2016: \$192 million), in addition to other lease related expenses, such as property taxes and common area maintenance.

In 2008, the Company assigned nine leases to Les Ailes de la Mode, Inc. (“Les Ailes”) and obtained a full, unconditional and continuing guarantee and indemnity for the obligations thereunder from its related company, International Clothiers Inc. (“ICI”). As of January 28, 2017, the remaining leases had future minimum lease payments of \$11 million (January 30, 2016: \$29 million). In December 2015, Les Ailes filed a notice of intention to make a proposal under section 50.4 of the Bankruptcy and Insolvency Act. The Quebec Superior Court has approved a Debtors Proposal with respect to the Les Ailes bankruptcy proceeding. On March 28, 2016, ICI filed a notice of intention to make a proposal under section 50.4 of the Bankruptcy and Insolvency Act. On June 6, 2016, the proposal trustee for ICI filed a Proposal in the ICI bankruptcy proceeding, which was approved by a majority of its creditors. In August 2016, the Quebec Superior Court approved a Debtors Proposal with respect to the ICI bankruptcy proceedings. HBC has filed a Proof of Claim under the ICI proposal, but anticipates minimal, if any, recovery. The Company currently believes that the maximum claim against it with respect to these leases is approximately \$11 million.

Potential liabilities related to these lease guarantees may be subject to certain defences by the Company. The Company’s obligations under the assigned leases would be offset by payments from existing or future assignees and their obligations to the Company to comply with the assigned leases.

Loans and borrowings

On November 17, 2015, HBC repaid U.S.\$585 million of U.S. Term Loan B using cash on hand and proceeds from the sale of its equity investment in the HBS Joint Venture (including a related entity). In connection with the repayment, \$32 million of deferred financing costs were written off.

On February 5, 2016, the Company entered into the Global ABL with Bank of America, N.A. as the administrative agent and collateral agent replacing the HBC Revolving Credit Facility and the U.S. Revolving Credit Facility existing at January 30, 2016. The Global ABL of U.S.\$2.25 billion has a maturity date of February 5, 2021 with key terms that are consistent with the revolving credit facilities existing at January 30, 2016. See also “Liquidity and Capital Resources – Cash Balances and Liquidity – Global ABL” section in this MD&A.

Procurement

The above contractual obligations table includes purchase orders for goods not for resale that are enforceable and legally binding on the Company and which specify all significant terms including: fixed or minimum quantities to be purchased; fixed minimum or variable price provisions; and the approximate timing of the transaction. The purchase obligations figures disclosed above also include obligations in respect of minimum royalty payments due to certain key suppliers.

Pensions

The defined benefit component of the Company's Canadian pension plan is currently over-funded, and as a result the Company does not expect to make significant contributions to it over the next five years, subject to the performance of the plan assets. The Company has non pension Canadian employee benefit plans, which are not funded. For Canadian defined contribution plans, the Company pays contributions to pension plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. Contributions are recognized as an employee benefit expense as incurred, which is as the related employee service is rendered.

In the U.S., Saks sponsors a funded defined-benefit cash balance pension plan and an unfunded supplemental executive retirement plan for certain employees. The pension plan no longer admits new participants and in 2009 future benefit accruals were suspended. The funding policy requires contributions to the pension plan to be at least equal to the minimum funding requirement, as determined under the Employee Retirement Income Security Act of 1974. There were no funding requirements for the Fiscal 2016 plan year.

In Europe, the Kaufhof Group offers retirement, disability and surviving dependents benefits through defined benefits and defined contribution plans. In Germany there is no minimum funding requirement whereas in Belgium, a minimum funding requirement is stipulated by Belgian regulatory law. The Belgian benefits are generally funded through group insurance contracts. In addition to these pension plans, Kaufhof offers non-pension benefits such as anniversary allowances and death benefits.

Other

As of January 28, 2017, the Company had other long-term liabilities that included an accrued benefit plan liability and an accrued self-insurance provision. The Company also had obligations in respect of equity grants and incentive units that may be settled with cash or shares of the Company. These have not been classified as contractual obligations for the following reasons:

- future payments of accrued benefit plan liability, principally post-retirement benefits, depend on when and if retirees submit claims;
- future payments of equity grants and incentive units depend on whether the grants or incentive units have vested, and whether any will be elected to be cash settled; and
- future payments of insurance claims can extend over several years and depend on the timing of anticipated settlements and results of litigation.

Guarantees and Off-Balance Sheet Arrangements

The Company has guarantees and general indemnification commitments to counterparties. Historically, the Company has not made any significant payments with respect to these guarantees and indemnification provisions, and management believes that the risk of significant loss is low.

Standby and documentary letters of credit are used in connection with certain obligations mainly related to purchase orders and Workers Compensation Collateral requirements. The aggregate gross potential liability related to the Company's letters of credit is approximately \$76 million as at January 28, 2017.

Other than in connection with the joint ventures (including a related entity), the Company has not created, and is not party to, any special purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating its business. The Company does not have any relationships or arrangements with entities that are not consolidated into its financial statements that are reasonably likely to materially affect liquidity or the availability of capital resources. The joint ventures are accounted for using the equity method of accounting. As a result, indebtedness

at the joint ventures is not consolidated in the Company's balance sheet and, based on HBC's current interests in the joint ventures, there is limited impact on cash flow. See the "Real Estate Joint Ventures" section of this MD&A.

Financial Instruments and Other Instruments

The Company utilizes certain derivatives as cash flow hedges for its exposure to foreign currency risk and interest rate risk. The effective portion of the changes in the fair value of the hedging derivatives, net of taxes, is recognized in other comprehensive income or loss.

The Company enters into forward foreign exchange contracts to fix the cost in Canadian dollars of certain U.S. dollar based purchases of merchandise from foreign suppliers. These forward exchange contracts have been designated as cash flow hedges and are reported at fair value in financial assets or financial liabilities, depending on their fair value. Once the inventory is recorded, the Company has elected to reclassify the related accumulated other comprehensive income or loss amount to merchandise inventories. Subsequent changes in the fair value of the forward foreign exchange contracts are recorded in net earnings (loss).

Derivative financial instruments not designated within an effective hedging relationship and embedded derivatives are classified as fair value through profit or loss and measured at fair value with any changes in their fair values recognized in net earnings (loss) during the period in which the change occurs. Short-term deposits are classified as held to maturity, which are measured at amortized cost using the effective interest method. All other financial assets are classified as loans and receivables and measured at amortized cost using the effective interest method.

All other financial liabilities are classified as other liabilities and measured at amortized cost using the effective interest method. Interest income and expense are included in finance costs.

The Company determines the fair value of its long-term loans and borrowings using a discounted cash flow model, taking into consideration the fixed interest rate spread included in the related debt compared to fixed interest rate spreads on similar debt available in the market at the balance sheet dates.

The fair values of foreign currency options, interest rate swaps and forward foreign currency contracts reflect the estimated amounts that the Company would receive or pay if it were to settle the contracts at the reporting date.

In connection with the Saks Acquisition, the Company issued Common Share purchase warrants which, due to certain features, are being presented as financial liabilities. The warrants are classified as fair value through profit or loss and measured at fair value. Subsequent changes in the fair value are recognized in net earnings (loss) in the period in which the change occurs. The fair values of the warrants are determined using the Black-Scholes option pricing model. For a complete description of the derivative financial instruments of the Company and related risks, please refer to note 18 to the Company's audited consolidated financial statements for Fiscal 2016.

In connection with the Kaufhof Acquisition, the Company had previously entered into two separate forward foreign exchange contracts (the "FX forward contracts") during the thirteen weeks ended August 1, 2015 that resulted in the Company eliminating its foreign currency exposure on a portion of the proceeds that were to be used in the Kaufhof Acquisition. Each FX forward contract was designated as a hedge of the exposure to changes in USD/EUR related to the then planned acquisition of Kaufhof denominated in Euro. Each hedging relationship was assessed to be highly effective throughout the designated hedging period which ended on September 30, 2015, the Kaufhof Acquisition Date.

The FX forward contracts generated a loss of \$6 million (and \$2 million of deferred taxes) which, prior to the close of the transaction, was included in other comprehensive (loss) income and represented the mark-to-market adjustment to fair value from the date of execution of each FX forward contracts to September 30, 2015. Upon close of the Kaufhof Acquisition, this amount was included as part of the purchase price allocation of the Kaufhof Property Business acquired by the HBS Joint Venture.

The fair value of each FX forward contract was determined using a valuation technique that employs the use of market observable inputs and based on the differences between the contract rate and the market rates as at the period-end date, taking into consideration discounting to reflect the time value of money (see note 18 of the Company's Fiscal 2016 audited consolidated financial statements).

Risks arising from Financial Instruments

Through its use of financial instruments, the Company has exposure to credit, liquidity and market risk. The following is a description of those risks and how the exposures are managed:

(i) Credit risk

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of the Company's counterparties to meet their payment obligations. The Company is exposed to minimal credit risk from customers, vendors, and financial counterparties as a result of ongoing credit evaluations and review of accounts receivable collectability. Credit risk is mitigated by various techniques including selecting counterparties based on acceptable credit ratings and minimizing the concentration of positions with individual counterparties. There is no concentration of accounts receivable balances. The Company does not consider its exposure to credit risk to be material.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by continuously monitoring actual and projected cash flows, taking into account the seasonality of the Company's working capital needs, sales and earnings. The Global ABL and the bank overdraft facilities are used to maintain liquidity.

(iii) Market risk

Market risk includes foreign currency risk and interest rate risk:

(a) Foreign currency risk

The Company is a Canadian dollar functional currency entity that purchases a significant amount of inventory for its Canadian operations in U.S. dollars. HBC enters into forward foreign exchange contracts and foreign currency options to reduce the foreign exchange risk with respect to these U.S. dollar denominated purchases.

In accordance with the Company's risk management policy, HBC may hedge up to 100% of all foreign currency transactions and economic exposures that are recognized on the consolidated balance sheet, or deemed as firm commitments (e.g. purchase orders that have been issued for goods and services in foreign currency). HBC may further hedge up to 70% of forecasted transactions (anticipated transactions for which there are no firm commitments).

Our net investments in L&T Acquisition, the indirect parent of Lord & Taylor and Saks, and HBC Europe, whose functional currencies are U.S. dollars and Euros respectively, presents a foreign exchange risk to HBC, whose functional currency is Canadian dollars.

Consolidated net earnings (loss) is impacted by foreign currency translation of the net earnings (loss) of L&T Acquisition and HBC Europe. Foreign currency translation of the Company's investments in L&T Acquisition and HBC Europe impact other comprehensive income or loss.

Foreign currency gains and losses on certain intra group monetary liabilities between group entities with different functional currencies affect the Company's consolidated net earnings (loss).

(b) Interest rate risk

The Company's interest rate risk arises from short-term and long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. The Company's variable rate borrowings are denominated in both U.S. and Canadian dollars.

Cash flow interest rate risk is mitigated by the use of interest rate swaps.

Classification of Financial Instruments

Derivative financial instruments not designated within an effective hedging relationship and embedded derivatives are classified as fair value through profit or loss and measured at fair value with any changes in their fair values recognized in net earnings or loss during the period in which the change occurs. Short-term deposits are classified as held to maturity, which are measured at amortized cost using the effective interest method. All other financial assets are classified as loans and receivables and measured at amortized cost using the effective interest method. All other financial liabilities are classified as other liabilities and measured at amortized cost using the effective interest method. Interest income and expense are included in finance costs.

The following table provides a summary of the fair values of financial instruments by classification as of January 28, 2017 and January 30, 2016:

(millions of Canadian dollars)	Fiscal Year	
	2016	2015
	\$	\$
Classified as fair value through profit or loss	(5)	(31)
Financial derivatives designated as cash flow hedges	11	16
Classified as other liabilities	(3,265)	(3,310)

Fair Value of Financial Instruments

The Company determines the fair value of its long term loans and borrowings using a discounted cash flow model, taking into consideration the fixed interest rate spread included in the related debt compared to fixed interest rate spreads on similar debt available in the market at the balance sheet dates.

The fair values of interest rate swaps and forward foreign currency contracts reflect the estimated amounts that the Company would receive or pay if it were to settle the contracts at the reporting date. Interest rate swaps are valued using a discounted cash flow model based on market interest rate curves at the period-end date. The forward foreign currency contracts are valued based on the difference between contract rates and spot rates at the period-end date, discounted to reflect the time-value of money. The fair values of embedded foreign currency derivatives reflect the estimated amounts the Company would receive or pay to settle forward foreign exchange contracts with similar terms using valuation techniques and observable market input data.

The Company records a mark-to-market valuation adjustment on warrants as finance costs based on a valuation at the end of each reporting period. For Fiscal 2016 and 2015, the Company recorded income of \$26 million and \$37 million, respectively, relating to warrants.

Tax Matters

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, from time to time certain matters are reviewed and challenged by the tax authorities.

The Company regularly reviews the potential for adverse outcomes in respect of tax matters. The Company believes that there are no tax matters that will have a material adverse effect on its liquidity, consolidated financial position or results of operations because the Company believes that it has adequate provisions for any tax matters. Should the ultimate tax liability materially differ from the provisions, the Company's effective tax rate and its earnings or loss could be affected, positively or negatively, during the period in which the matters are resolved.

Related Party Transactions

Transactions between HBC and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed herein. Details of certain transactions with other related parties are disclosed below. For further disclosure, see note 22 of the Company's audited consolidated financial statements for the the thirteen and fifty-two week periods ended January 28, 2017.

In connection with the closing of its agreements to sell and leaseback various U.S. properties to the HBS Joint Venture, HBC paid for certain cash reserves and financing and operating expenses on behalf of the HBS Joint Venture for which the Company received a promissory note in the amount of \$8 million. The promissory note was interest-free and matured on July 22, 2016. As at January 28, 2017, the promissory note was repaid in full (January 30, 2016: \$4 million).

During Fiscal 2016, the Company incurred rent expense of \$531 million (2015: \$225 million) related to both the RioCan-HBC JV and the HBS Joint Venture. As at January 28, 2017, other current assets included prepaid rent to the HBS Joint Venture of nil (January 30, 2016: \$13 million). The Company also paid additional rent in the amount of \$22 million to reimburse the HBS Joint Venture for the Company's share of costs incurred to operate the properties.

The Company has outstanding receivables in the amount of \$17 million as at January 28, 2017 (January 30, 2016: \$46 million), due from the HBS Joint Venture with respect to transactions carried out on behalf of the joint

venture.

The Company also has an outstanding payable to the HBS Joint Venture in the amount of \$8 million as at January 28, 2017 (January 30, 2016: nil). This liability has been included in other liabilities.

In addition, the Company has an outstanding loan payable to the HBS Joint Venture in the amount of \$4 million as at January 28, 2017. The loan matures on January 31, 2018 and carries an interest rate of 1.9% per annum.

Included in other current liabilities as at January 28, 2017 are promissory notes in the aggregate amount of \$12 million to both the RioCan-HBC JV and RioCan (\$6 million each) which pertain to a tenant improvement advance from the joint venture to the Company. The promissory note is interest-free and will be settled over time as HBC satisfies its tenant improvement commitment.

All of the above amounts have been recorded at the exchange value of the transaction.

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's audited consolidated financial statements, which have been prepared in accordance with IFRS. The Company's significant accounting policies are described in note 2 to the Fiscal 2016 audited consolidated financial statements.

The preparation of these financial statements requires management to make judgments, estimates and assumptions that are not readily apparent from other sources about the carrying amounts of assets and liabilities, and reporting of income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ materially from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognized during the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are certain critical judgments and estimations that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the audited consolidated financial statements (see note 3 to the Company's audited consolidated financial statements for Fiscal 2016):

Inventory Valuation

Inventories are valued at the lower of cost and net realizable value.

Cost is determined using the weighted average cost method based on individual items. Costs comprise all variable costs such as the merchandise cost, freight and handling, incurred in bringing inventories to their present location and condition. Storage and administrative overheads are expensed as incurred. Supplier rebates and discounts received or receivable based on vendor agreements are recorded as a reduction in the cost of purchases unless they relate to a reimbursement of specific incremental expenses. The Company receives significant support from vendors for promotional markdown activity and reflects this support as an offset to the cost of markdowns taken in cost of goods sold.

Net realizable value is the estimated selling price determined at the item level using historical markdown rates for similar items in the ordinary course of business, less estimated costs required to sell. At each balance sheet date, the Company reviews its on-hand inventory to identify items selling below cost at that date and uses historical trends and current inventory mix to determine an additional reserve for the impact of future markdowns which will take the net realizable value of inventory on-hand below cost.

Physical inventories are generally taken within each merchandise department annually, and inventory records are adjusted accordingly resulting in an adjustment within cost of goods sold. The Company records a shrink reserve utilizing historical shrink rates to reflect the incremental adjustment between the time of the physical inventory count and the reporting date.

Loyalty Programs

Loyalty program accounting allocates a portion of consideration paid by the customer at the time merchandise or services are acquired to the value of the loyalty entitlement earned as part of the transaction. This portion of the consideration is treated as deferred revenue and recognized when the customer redeems points and ultimately acquires additional merchandise or services. The Company retains an external actuary to estimate the percentage of rewards points earned by customers that ultimately will be redeemed.

Impairment and reversal of impairment of long-lived assets

Long-lived assets are subject to impairment and impairment reversal reviews based on whether current or future events and circumstances suggest that their recoverable amount may be more or less than their carrying value. In certain instances, the recoverable amount is based on a calculation of expected future cash flows which includes management assumptions and estimates of future performance.

Impairment of goodwill

The Company uses judgment in determining the grouping of assets to identify its cash generating units (“CGUs”) for purposes of testing for impairment of goodwill. In testing for impairment, goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from the synergies of the business combination. The calculations for impairment testing involve significant estimates and assumptions. Items estimated include cash flows, discount rates and assumptions on revenue growth rates. The Company’s future results may be impacted if current estimates of future performance and fair values change. Judgment is also used to determine whether an indication of impairment is present which would require the completion of an impairment test in addition to the annual testing.

Income Taxes

The Company recognizes expected liabilities for income taxes based on an estimation of the likely income taxes due, which requires judgment as to the ultimate income tax determination of certain items. In addition, the Company has made estimates of future profitability in relation to an assessment of the recoverability of income tax losses.

Pensions and employee benefits

Pensions and other employee benefits include pensions (both defined contribution and defined benefit) and non-pension post-retirement benefits (medical and life insurance benefits for retirees). The Company reports its obligations under these plans net of any plan assets.

The asset or liability recognized in the consolidated balance sheets in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. Independent actuaries calculate the defined benefit obligation annually.

Actuarial gains and losses, typically related to investment performance or interest rate movement different from management’s assumptions, are excluded from operating income and are recognized in other comprehensive income in the period in which they arise. Past service costs are recognized in operating income in the year in which they arise. For funded plans, surpluses are recognized only to the extent to which the Company can unilaterally reduce future contributions to the plan.

For defined contribution plans, the Company pays contributions to pension plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. Contributions are recognized as an employee benefit expense as incurred, which is as the related employee service is rendered.

Valuation of Warrants

In connection with the Saks Acquisition, the Company issued warrants. The classification of these instruments as financial liabilities is an area of significant judgment. The Company records the mark-to-market valuation adjustment of these warrants as finance costs based upon the end of period valuation.

Business Combinations

Business combinations are accounted for using the acquisition method.

Consideration transferred is measured at fair value, which is calculated as the sum of the fair value of the assets acquired (including cash), liabilities assumed, any contingent consideration and equity interests issued by the Company.

Transaction costs incurred in connection with a business combination are expensed in the period as incurred.

Joint Ventures

Judgment is used by management when determining what subsidiaries or entities to consolidate in the financial statements. Subsidiaries or entities are typically consolidated when the Company has control over the entities. In determining if control exists, management considers various factors including whether the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity either through an agreement or by voting rights, exposure or rights to variable returns from the Company's involvement with the entity, and the ability to use its power over the entity to affect the amount of the Company's returns.

The Company holds an 88.1% and 63.4% ownership interest in its joint arrangements with RioCan and Simon, respectively. Based on the contractual terms of each arrangement, the Company identified the relevant activities of each joint venture and determined that all significant decisions require the joint consent of both parties to each of the joint arrangements formed. The Company has assessed its rights and obligations arising from the joint arrangements by considering the structure and legal form of the arrangements, the terms agreed by the parties and other facts and circumstances. Based on this assessment, the arrangements have been classified as joint ventures. The Company will reassess the existence of joint control and the joint venture classification should facts and circumstances change.

Changes in Accounting Policies Including Initial Adoption

Accounting Standards Implemented in Fiscal 2016

Joint Arrangements - In May 2014, the IASB amended IFRS 11 – Joint Arrangements (“IFRS 11”) to require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 – Business Combinations principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments to IFRS 11 are effective for annual periods beginning on or after January 1, 2016, and must be applied prospectively. The Company implemented the amendments to IFRS 11 at the beginning of its 2016 fiscal year and the implementation did not have an impact on its results of operations, financial position or disclosure.

Future Expected Changes

Financial Instruments - In July 2014, the IASB issued IFRS 9 – Financial Instruments (“IFRS 9”), which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”).

Classification and measurement

Financial assets are classified and measured based on the business model under which they are managed and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified in a similar manner as under IAS 39, except that financial liabilities measured at fair value will have fair value changes resulting from changes in the entity's own credit risk recognized in other comprehensive income (loss) instead of net (loss) earnings.

Impairment

The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 also includes new disclosure requirements about expected credit losses and credit risk.

Hedge accounting

The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. The new model will provide more opportunities to apply hedge accounting to reflect actual risk management activities.

IFRS 9 will be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is assessing the potential impact of IFRS 9.

Revenue - In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”), which provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is assessing the potential impact of IFRS 15, but does not expect material changes to the amount and timing of revenue recognition due to the nature of the contracts it has in place. The Company expects to apply the standard with its mandatory effective date.

Leases - In January 2016, the IASB issued the final publication of IFRS 16 - Leases (“IFRS 16”), which is to replace the current IAS 17 lease accounting standard and related interpretations. IFRS 16 is required to be adopted either retrospectively or by recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with the approach under IFRS 16 substantially unchanged from the current IAS 17 lease accounting standard and related interpretations. IFRS 16 is effective for fiscal years beginning on or after January 1, 2019 with earlier adoption permitted if IFRS 15 has also been adopted. Although the Company is still in the process of assessing the potential impact of IFRS 16, it expects this standard will have a significant impact on its consolidated balance sheet, along with a change to the recognition, measurement, and presentation of lease expenses in the consolidated statement of earnings.

Income Taxes - In January 2016, the IASB amended IAS 12 - Income Taxes by issuing Recognition of Deferred Tax Assets for Unrealized Losses. These amendments address the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value and are effective for annual periods beginning on or after January 1, 2017. The implementation of these amendments is expected to have no impact on the Company.

Management’s Report on Internal Controls over Financial Reporting

National Instrument 52-109 - Certification of Disclosure in Issuers’ Annual and Interim Filing requires public companies in Canada to submit annual and interim certificates relating to the design and effectiveness of the internal control over financial reporting and disclosure controls and procedures that are in use at the company.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Governor and Executive Chairman, Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), on a timely basis so that appropriate decisions can be made regarding public disclosure.

The Company’s management, under the supervision of the CEO and the CFO, has designed and maintained a set of disclosure controls and procedures to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and have caused the effectiveness of such disclosure controls and procedures to be evaluated. Based on that evaluation, they have concluded that the design and operation of the Company’s disclosure controls and procedures were effective as of January 28, 2017.

Internal Controls over Financial Reporting

The CEO and the CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management conducted its evaluation based on

the framework set forth in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under this framework, management concluded that the company's internal control over financial reporting was effective as of January 28, 2017.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be designed effectively can provide only reasonable assurance with respect to financial reporting and financial statement preparation.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during the thirteen and fifty-two week periods ended January 28, 2017 that have affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Additional Information

Additional information relating to the Company, including the most recently filed AIF dated April 28, 2016, is available on SEDAR at www.sedar.com.

Dividends

The Company's board of directors approved the payment of a quarterly dividend on February 23, 2017, which will be paid on April 14, 2017, to shareholders of record at the close of business March 31, 2017. The dividend was in the amount of \$0.05 per Common Share and was designated as an "eligible dividend" for Canadian tax purposes.

Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series. As of April 4, 2017, the Company had 182,251,145 Common Shares issued and outstanding and no preferred shares issued and outstanding. As of April 4, 2017, the Company had 17,817,817 share options, 1,970,504 restricted share units and 6,750,000 warrants outstanding, all of which are convertible or exchangeable into Common Shares.

The Company's Common Shares trade on the Toronto Stock Exchange under the symbol "HBC" and began trading on November 20, 2012.

Risk Factors

For a detailed description of risk factors associated with the Company, refer to the "Risk Factors" section of the Company's AIF dated April 28, 2016, which is available on SEDAR at www.sedar.com.

HUDSON'S BAY COMPANY

2016 ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JANUARY 28, 2017



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hudson's Bay Company

We have audited the accompanying consolidated financial statements of Hudson's Bay Company, which comprise the consolidated balance sheets as at January 28, 2017 and January 30, 2016, and the consolidated statements of (loss) earnings, consolidated statements of comprehensive (loss) income, consolidated statements of shareholders' equity and consolidated statements of cash flows for the fifty-two week periods ended January 28, 2017 and January 30, 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hudson's Bay Company as at January 28, 2017 and January 30, 2016, and its financial performance and its cash flows for the fifty-two week periods ended January 28, 2017 and January 30, 2016 in accordance with International Financial Reporting Standards.



Chartered Professional Accountants
Licensed Public Accountants

April 4, 2017
Toronto, Canada

HUDSON'S BAY COMPANY

CONSOLIDATED STATEMENTS OF (LOSS) EARNINGS

For the 52 weeks ended January 28, 2017 and January 30, 2016
(millions of Canadian dollars, except per share amounts)

	Notes	January 28, 2017 (Fiscal 2016)	January 30, 2016 (Fiscal 2015)
Retail sales		14,455	11,162
Cost of sales	10	(8,481)	(6,638)
Selling, general and administrative expenses		(5,692)	(4,066)
Depreciation and amortization	6	(695)	(460)
Gain on contribution of assets to joint ventures	13	—	168
Gain on sale of investments in joint ventures	13	45	516
Operating (loss) income		(368)	682
Finance costs, net	7	(192)	(188)
Share of net loss in joint ventures	13	(158)	(139)
Dilution gains from investments in joint ventures	13	24	164
(Loss) earnings before income tax		(694)	519
Income tax benefit (expense)	8	178	(132)
Net (loss) earnings for the year		(516)	387
(Loss) earnings per common share	21		
Basic		(2.83)	2.13
Diluted		(2.83)	1.88

(See accompanying notes to the consolidated financial statements)

HUDSON'S BAY COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
For the 52 weeks ended January 28, 2017 and January 30, 2016
(millions of Canadian dollars)

	January 28, 2017 (Fiscal 2016)	January 30, 2016 (Fiscal 2015)
Net (loss) earnings	(516)	387
Other comprehensive (loss) income, net of tax:		
Item that will not be reclassified to earnings or loss:		
Net actuarial (loss) gain of employee benefit plans, net of taxes of \$3 (2015: \$6)....	(13)	23
Items that may be reclassified subsequently to earnings or loss:		
Currency translation adjustment, net of taxes of (\$2) (2015: nil).....	(176)	227
Net gain on net investment hedge, net of taxes of \$3 (2015: nil).....	19	—
Net (loss) gain on derivatives designated as cash flow hedges, net of taxes of nil (2015: \$8).....	(9)	22
Reclassification to non-financial assets of net losses (gains) on derivatives designated as cash flow hedges, net of taxes of \$1 (2015: \$7).....	4	(20)
Reclassification to earnings of net losses (gains) on derivatives designated as cash flow hedges, net of taxes of \$2 (2015: \$1).....	5	(4)
Other comprehensive (loss) income.....	(170)	248
Total comprehensive (loss) income.....	(686)	635

HUDSON'S BAY COMPANY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the 52 weeks ended January 28, 2017 and January 30, 2016
(millions of Canadian dollars)

	Notes	Share Capital	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income ("AOCI")				Total AOCI	Total Shareholders' Equity
					Currency Translation Adjustment	Employee Benefits	Net Investment Hedge	Cash Flow Hedges		
As at January 31, 2015.....		1,420	678	60	379	(12)	(56)	5	316	2,474
Total comprehensive income		—	387	—	227	23	—	(2)	248	635
Share based compensation ..	19	—	—	26	—	—	—	—	—	26
Dividends	20	—	(36)	—	—	—	—	—	—	(36)
As at January 30, 2016.....		1,420	1,029	86	606	11	(56)	3	564	3,099
Issuance of common shares ..	20	2	—	—	—	—	—	—	—	2
Total comprehensive loss		—	(516)	—	(176)	(13)	19	—	(170)	(686)
Share based compensation ..	19	—	—	31	—	—	—	—	—	31
Dividends	20	—	(36)	—	—	—	—	—	—	(36)
As at January 28, 2017.....		1,422	477	117	430	(2)	(37)	3	394	2,410

(See accompanying notes to the consolidated financial statements)

HUDSON'S BAY COMPANY
CONSOLIDATED BALANCE SHEETS

As at January 28, 2017 and January 30, 2016
(millions of Canadian dollars)

	Notes	January 28, 2017 (Fiscal 2016)	January 30, 2016 (Fiscal 2015) (restated – note 5)
Assets			
Cash	9	122	507
Trade and other receivables		391	512
Inventories	10	3,376	3,404
Other current assets		176	194
Total current assets		4,065	4,617
Property, plant and equipment	11	5,284	5,156
Intangible assets and goodwill	12	1,786	1,779
Pensions and employee benefits	16	175	166
Deferred tax assets	8	301	253
Investments in joint ventures	13	581	658
Other assets		19	16
Total assets		12,211	12,645
Liabilities			
Loans and borrowings	14	418	451
Finance leases	15	24	25
Trade payables		1,653	1,494
Other payables and accrued liabilities		999	1,020
Deferred revenue		128	132
Provisions		167	153
Other liabilities	17	137	126
Total current liabilities		3,526	3,401
Loans and borrowings	14	2,744	2,729
Finance leases	15	499	502
Provisions		59	80
Pensions and employee benefits	16	662	681
Deferred tax liabilities	8	713	885
Investment in joint venture	13	9	27
Other liabilities	17	1,589	1,241
Total liabilities		9,801	9,546
Shareholders' equity			
Share capital	20	1,422	1,420
Retained earnings		477	1,029
Contributed surplus		117	86
Accumulated other comprehensive income		394	564
Total shareholders' equity		2,410	3,099
Total liabilities and shareholders' equity		12,211	12,645

(See accompanying notes to the consolidated financial statements)

On behalf of the Board:



Director



Director

HUDSON'S BAY COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 52 weeks ended January 28, 2017 and January 30, 2016
(millions of Canadian dollars)

	Notes	January 28, 2017 (Fiscal 2016)	January 30, 2016 (Fiscal 2015)
Operating activities			
Net (loss) earnings for the year		(516)	387
Income tax (benefit) expense	8	(178)	132
Dilution gains from investments in joint ventures	13	(24)	(164)
Share of net loss in joint ventures	13	158	139
Finance costs, net	7	192	188
Operating (loss) income		(368)	682
Net cash income taxes paid		(37)	(1)
Interest paid in cash		(173)	(147)
Distributions of earnings from joint ventures	13	221	114
Items not affecting cash flows:			
Depreciation and amortization	6	695	460
Impairment	11, 12	174	—
Net defined benefit pension and employee benefits expense		19	17
Other operating activities		(24)	(11)
Share of rent expense to joint ventures	13	(367)	(188)
Gain on contribution of assets to joint ventures	13	—	(168)
Gain on sale of investments in joint ventures	13	(45)	(516)
Share based compensation	19	35	31
Settlement of share based compensation grants	19	(2)	(5)
Changes in operating working capital	27	184	(250)
Net cash inflow from operating activities		312	18
Investing activities			
Capital investments		(1,085)	(610)
Proceeds from landlord incentives		428	234
Capital investments less proceeds from landlord incentives		(657)	(376)
Proceeds from lease terminations and other non-capital landlord incentives		34	22
Proceeds from contribution of assets to joint ventures	13	—	1,134
Acquisition of Kaufhof, net of cash acquired	5	—	(745)
Investment in joint ventures	13	(10)	(299)
Proceeds on disposal of assets		85	—
Proceeds from sale of investments in joint ventures	13	65	712
Acquisition of Gilt Groupe Holdings Inc., net of cash acquired	4	(322)	—
Other investing activities		12	—
Net cash (outflow for) inflow from investing activities		(793)	448
Financing activities			
Long-term loans and borrowings:			
Issuance		522	1,453
Repayments		(328)	(1,626)
Borrowing costs		(16)	(60)
		178	(233)
Short-term loans and borrowings:			
Net (repayments) borrowings from asset-based credit facilities		(3)	158
Borrowing costs		(13)	—
Net decrease in other short-term borrowings		(2)	(2)
		(18)	156
Payments on finance leases		(35)	(25)
Dividends paid	20	(36)	(36)
Net cash inflow from (outflow for) financing activities		89	(138)
Foreign exchange gain on cash		7	11
(Decrease) increase in cash		(385)	339
Cash at beginning of year		507	168
Cash at end of year		122	507

(See accompanying notes to the consolidated financial statements)

HUDSON'S BAY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(For the Year Ended January 28, 2017)
(million of Canadian dollars unless otherwise stated)

NOTE 1. GENERAL INFORMATION

Hudson's Bay Company ("HBC" or the "Company") is a Canadian corporation amalgamated under the Canada Business Corporations Act and domiciled in Canada.

On November 26, 2012, the Company completed an initial public offering (the "IPO") of its common shares, which trade on the Toronto Stock Exchange.

On November 4, 2013, the Company acquired Saks Incorporated ("Saks") whereby all of the issued and outstanding shares (other than shares owned by Saks and its subsidiaries) of Saks were purchased through Lord & Taylor Acquisition Inc. ("L&T Acquisition"), a wholly-owned subsidiary of the Company for U.S.\$16.00 per share in an all-cash transaction valued at U.S.\$2,973 million (\$3,097 million), including debt assumed.

On July 9, 2015, the Company and RioCan Real Estate Investment Trust ("RioCan") closed the first tranche of their joint venture, RioCan-HBC Limited Partnership (the "RioCan-HBC JV"). The second tranche of the RioCan-HBC JV closed on November 25, 2015.

On July 22, 2015, the Company and Simon Property Group Inc. ("Simon") closed their joint venture, Simon HBC Opportunities LLC (the "HBC-Simon JV").

On September 30, 2015, prior to the acquisition discussed below, the HBC-Simon JV became a wholly-owned subsidiary of HBS Global Properties LLC (the "HBS Joint Venture").

On September 30, 2015, the Company and the HBS Joint Venture acquired GALERIA Holding ("Galeria Kaufhof") for €2,317 million (\$3,490 million) (the "Galeria Kaufhof Acquisition"). The transaction was structured such that effectively, the Company acquired the operating business and certain properties of Kaufhof ("Kaufhof") while the HBS Joint Venture acquired the property business (the "Kaufhof Property Business").

On February 1, 2016, the Company acquired Gilt Groupe Holdings Inc. ("Gilt") for U.S.\$237 million (\$332 million) in cash (the "Gilt Acquisition"), excluding debt (note 4).

The Company owns and operates department stores in Canada and the United States under Hudson's Bay, Lord & Taylor, Saks Fifth Avenue, Saks Fifth Avenue OFF 5TH ("Saks OFF 5TH"), Find @ Lord & Taylor, Gilt and Home Outfitters banners. In Europe, its banners include GALERIA Kaufhof, Galeria Inno, as well as Sportarena, together the "Kaufhof Banners". The address of the registered office of HBC is 401 Bay Street, Suite 500, Toronto, ON, M5H 2Y4.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements for the fifty-two weeks ended January 28, 2017 were authorized for issuance by the Board of Directors of HBC on April 4, 2017.

b) Basis of presentation

These consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through the statements of (loss) earnings. In accordance with IFRS, the Company has:

- provided comparative financial information; and
- applied the same accounting policies throughout all periods presented

The preparation of financial statements in accordance with IFRS requires the use of critical accounting estimates. It also requires

management to exercise judgment in applying the Company's accounting policies. These areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in note 3.

c) Basis of consolidation

These consolidated financial statements of the Company include the accounts of HBC and its subsidiaries. Inter-company transactions, balances, revenues and expenses have been eliminated.

d) Fiscal year

The fiscal year of the Company consists of a fifty-two or fifty-three week period. Fiscal years 2016 and 2015 represent fifty-two week periods ended on January 28, 2017 and January 30, 2016, respectively. References to years in the consolidated financial statements and notes to the consolidated financial statements relate to fiscal years rather than calendar years, unless otherwise noted.

e) Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These consolidated financial statements are presented in Canadian dollars, which is HBC's functional currency and the presentation currency of the Company.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the foreign exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at balance sheet date foreign exchange rates are recognized in net (loss) earnings, except when included in other comprehensive (loss) income as qualifying cash flow or net investment hedges.

iii) Foreign operations

The results and financial position of L&T Acquisition and its subsidiaries including Lord & Taylor Holdings LLC ("L&T"), Saks, Gilt and Kaufhof, whose functional currencies are not Canadian dollars, are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing foreign exchange rate at the date of each balance sheet;
- revenues and expenses are translated at average foreign exchange rates;
- equity transactions are translated at foreign exchange rates on the date the transactions occur; and
- all resulting foreign exchange translation differences are recognized as a currency translation adjustment in the consolidated statements of comprehensive (loss) income .

f) Business combinations and goodwill

Business combinations are accounted for using the acquisition method.

Consideration transferred is measured at fair value, which is calculated as the sum of the fair value of the assets transferred by the Company (including cash), liabilities incurred by the Company, any contingent consideration and equity interests issued by the Company.

Transaction costs incurred in connection with a business combination are expensed in the period as incurred.

Goodwill is measured as the excess of the consideration paid over the fair value of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. Goodwill is not amortized.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to cash-generating units ("CGUs") or groups of CGUs based on the level at which it is monitored by management. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

Where goodwill forms part of a CGU and part of the operations within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of

the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operation disposed of and the portion of the CGU retained.

g) Cash

Cash consists of cash on hand, deposits in banks, short-term deposits with maturities of less than 3 months and restricted funds. Restricted cash represents amounts deposited in escrow accounts which are maintained and managed by an independent agent.

h) Trade and other receivables

Trade and other receivables consisting of credit card issuer, vendor and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for impairment. An allowance for impairment of accounts receivable is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

i) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method based on individual items. Net realizable value is the estimated selling price determined at the item level using gross profit expectation and historical markdown rates for similar items in the ordinary course of business, less estimated costs required to sell.

Costs comprise all variable costs, and certain fixed costs, incurred in bringing inventories to their present location and condition. Storage and administrative overheads are expensed as incurred. Supplier rebates and discounts are recorded as a reduction in the cost of purchases unless they relate to a reimbursement of specific incremental expenses.

Merchandise that is subject to consignment or licensee (concession) agreements is not included in inventories.

j) Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Freehold land is stated at cost less any impairment loss. Cost includes expenditures that can be directly attributed to the acquisition of the asset and capitalized borrowing costs. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Company and the cost can be reliably measured. The carrying amount of the replaced asset is derecognized.

Freehold land and assets under construction are not depreciated. Depreciation commences when the assets are available for use and is recognized on a straight-line basis to depreciate the cost of the assets to their estimated residual value over their estimated useful lives. When significant parts of an asset have different useful lives, they are accounted for as separate components of the asset and depreciated over their respective estimated useful lives.

Estimated useful lives are as follows:

Asset	Amortization Periods
Buildings.....	up to 50 years
Leasehold improvements.....	up to 20 years
Fixtures and fittings.....	up to 20 years
Assets held under finance leases	up to 50 years

Although the table reflects maximum amortization periods, most assets are amortized over shorter periods. The assets' useful lives and residual values are reviewed, and adjusted if appropriate, annually.

In certain cases, HBC is responsible for the construction of leased property on behalf of the landlord, who will provide an allowance covering either all or a portion of the cost of construction. This primarily occurs in situations where the landlord delivers a parcel of vacant land. During the construction period, the Company capitalizes the construction costs incurred as it retains a significant portion of the risks and rewards of ownership. Allowances received from the landlord are deferred and recognized within other liabilities on the consolidated balance sheet and depreciation is not recorded. Upon completion of construction, as the risks and rewards of ownership transfer to the landlord, the Company derecognizes the constructed asset and the related liability. The Company then accounts for the lease on the property in accordance with the accounting policy outlined in note 2(o).

k) Intangible assets

Intangible assets with finite useful lives are carried at cost less accumulated amortization and impairment losses. These assets

are amortized on a straight-line basis or using a declining balance method over their estimated useful lives.

Estimated useful lives are as follows:

Asset	Amortization Period/Rate
Software including internally developed costs	up to 7 years
Banner names.....	indefinite
Private label brands.....	indefinite (with exceptions)
Credit cards.....	up to 5 years
Favourable lease rights	up to 75 years
Customer lists	declining balance at 40%

The assets' useful lives and residual values are reviewed, and adjusted if appropriate, annually.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company, including employee costs, are recognized as intangible assets.

Private label brands are not amortized except in circumstances where the Company has a formal plan to dispose of certain private label brands. Where such a plan exists, the Company amortizes the remaining cost over the period the brands are expected to be available for use by the Company. Banner names with indefinite lives are measured at cost less any accumulated impairment losses and are not amortized.

l) Interest in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Gains on contribution of assets to joint ventures that were leased back by the Company are recognized to the extent of the third party ownership interest in the joint ventures. The accounting treatment of the recognized gains is determined based on lease classification, as described in note 2(o).

Investments in joint ventures are accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the joint venture. When the Company's share of losses of a joint venture exceeds the Company's interest in that joint venture, the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its joint venture arrangements. At each reporting date, the Company determines whether there is objective evidence that the investment in its joint ventures is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognizes the loss as 'Share of net earnings (loss) in joint ventures' in the consolidated statement of (loss) earnings.

The Company has investments in joint ventures that are structured using separate vehicles that give each party to the arrangement rights to the net assets of the joint venture.

The Company reclassifies its share of inter-company rental income from its share of earnings in the joint ventures to rent expense recorded in selling, general and administrative expenses ("SG&A").

m) Impairment of non-financial assets

The carrying amount of property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Indefinite life intangible assets and goodwill are tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset may be impaired.

An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal ("FVLCD") and value in use. The FVLCD of an asset is assessed, where practicable, by external valuers. Value in use is estimated as the present value of the future cash flows that the Company expects to derive from the asset. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are largely independent cash inflows (CGUs). With the exception of certain corporate assets, which are

tested at the entity level, all assets are tested for impairment at the store level asset grouping.

Any impairment loss identified for a particular CGU is allocated to the assets within that unit on a pro-rata basis, except where the recoverable amount of an asset is based on FVLCD, in which case no portion of the impairment loss is allocated to that asset. Any impairment charge is recognized in net (loss) earnings in the year in which it occurs. Where an impairment loss subsequently reverses due to a change in the original estimate, the impairment loss is reversed but is restricted to increasing the carrying value of the relevant assets to the carrying value that would have been recognized had the original impairment not occurred.

n) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. Recoveries from third parties and other contingent gains are recognized when realized.

i) Self-insurance

The Company purchases third party insurance for automobile, product, workers' compensation, medical and general liability claims that exceed a certain dollar level and is responsible for the payment of claims below these insured limits. Provisions for self-insurance are determined actuarially on a discounted basis based on claims filed and an estimate of claims incurred but not yet reported.

ii) Restructuring

Provisions for restructuring costs are recognized when the Company has a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

iii) Onerous leases and contracts

Provisions for onerous leases are recognized when the Company believes that the unavoidable costs of meeting future lease obligations exceed the economic benefits expected to be received under the lease. Provisions for onerous contracts are recognized when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under that contract, and only after any impairment losses on assets dedicated to that contract have been recognized. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

iv) Asset retirement obligations

Asset retirement obligations are recognized for operating leases where the Company has a legal or constructive obligation to remove leasehold improvements and replace or remove other structures at the end of the lease term, and for owned locations and at locations subject to ground leases with similar requirements. Obligations are also booked for owned properties for constructive or legal obligations (such as environmental remediation). The obligation is measured at the present value of expected costs to settle the obligation using estimated cash flows and capitalized and amortized over the useful life of the asset to which it relates.

v) Legal

Legal provisions are recognized where there is a present obligation as a result of a past event, it is probable that there will be an outflow of economic resources and the amount can be reliably estimated.

o) Leases

Leases in which a significant portion of the risks and rewards of ownership are transferred to the Company are classified as finance leases. All other leases are classified as operating leases.

Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. The property, plant and equipment acquired under finance leases are depreciated over the lesser of the economic life of the asset or the lease term.

Payments made under operating leases (net of any incentives received from the lessor) are charged to net (loss) earnings on a straight-line basis over the term of the lease. Income from operating leases is recognized on a straight-line basis over the term of the lease. The lease term includes renewals where management is reasonably certain the renewal option will be exercised.

The accounting treatment of a sale and leaseback transaction depends upon the substance of the transaction and whether the sale price reflects fair value. For sale and finance leasebacks, any gain or loss from the sale is deferred and amortized over the term of the lease. For sale and operating leasebacks, if the transaction is established at fair value, any gain or loss is recognized immediately. If the sale price is below fair value, any gain or loss is recognized immediately except that if the loss is compensated for by future lease payments at below market price, the loss is deferred and amortized in proportion to the lease payments over the term of the lease. If the sale price is above fair value, the excess over fair value is deferred and amortized over the term of the lease.

p) Income taxes

Deferred income tax is recognized on taxable temporary differences arising from differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is recognized for all taxable temporary differences, except to the extent where it arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit. Deferred income tax is determined using income tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets have been recognized in respect of unused tax losses, unused tax credits and deductible temporary differences giving rise to deferred income tax assets because it is expected that these assets will be recovered by way of reversal of taxable temporary differences and management's expectation of future taxable profits within the loss expiry period.

Income tax expense or benefit comprises current and deferred income taxes. Income tax is recognized in net (loss) earnings, except to the extent that it relates to items recognized either in other comprehensive (loss) income or directly in equity. The income tax expense or benefit is calculated on the basis of the tax laws enacted or substantively enacted at the date of the consolidated balance sheet.

Deferred tax assets and liabilities are only netted when the Company has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to realize or settle current tax assets or liabilities simultaneously in future periods.

q) Employee benefits

i) Short-term employee benefits

Liabilities for wages, salaries (including non-monetary benefits), vacation entitlement and bonuses are measured on an undiscounted basis and are recognized in SG&A as the related service is provided. A liability is recognized for the amount expected to be paid under short-term bonus plans if the Company has a present legal or constructive obligation to this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

ii) Post-employment benefits

Post-employment benefits include pensions (both defined contribution and defined benefit) and non-pension post-retirement benefits (medical and life insurance benefits for retirees). The Company reports its obligations under these plans net of any plan assets.

The asset or liability recognized in the consolidated balance sheets in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses are recognized in other comprehensive (loss) income in the period in which they arise. Past service costs are recognized in SG&A during the year in which they arise. For funded plans, surpluses are recognized only to the extent that the surplus is considered recoverable. Recoverability is primarily based on the extent to which the Company can unilaterally reduce future contributions to the plan.

For defined contribution plans, the Company pays contributions to pension plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. Contributions are recognized as employee benefit expenses as incurred, which are as the related employee services are rendered.

iii) *Other long-term employee benefits*

The Company provides long-term disability benefits to certain employees dependent on the legal employer. The entitlement to these benefits is usually conditional on the completion of a minimum service period. The expected costs of these benefits are recognized when an event occurs that causes the long-term disability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in net (loss) earnings in the period in which they arise. These obligations are calculated annually.

iv) *Termination benefits*

Termination benefits are recognized as an expense and a liability at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

v) *Share based payments*

The Company operates share based incentive plans under which it receives services from certain employees as consideration. For equity settled awards, the fair value of the grant of equity interests is recognized as an expense over the period that the related service is rendered with a corresponding increase in equity. For cash-settled awards, the fair value of the liability is remeasured at the end of each reporting period, with the change in fair value recognized as an expense over the period that the related service is rendered. Certain awards provide the Company with a choice of settlement in cash or by issuing equity. In these cases, the award is accounted for as a cash-settled award when the Company has a present obligation to settle in cash.

The total amount to be expensed is determined by reference to the fair value of the equity interests granted. The total amount expensed is recognized over the vesting period on a tranche basis, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the estimate of the number of equity interests that are expected to vest is revised. The impact of the revision to original estimates, if any, is recognized in SG&A.

r) Financial assets

Financial assets have been classified in one of the following categories: at fair value through profit or loss, loans and receivables and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

i) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed immediately to net (loss) earnings. Subsequent changes in the fair value of financial assets at fair value through profit or loss are also recorded in net (loss) earnings.

ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than twelve months after the balance sheet date, which are classified as non-current assets. Loans and receivables are measured at amortized cost using the effective interest rate method.

iii) *Held-to-maturity*

Held-to-maturity investments are financial instruments with fixed or determinable payments and fixed maturities that the Company has the intention and ability to hold to maturity. They are included in current assets, except for maturities greater than twelve months after the balance sheet date, which are classified as non-current assets. Held-to-maturity investments are measured at amortized cost using the effective interest method.

The Company's non-derivative financial assets are classified and measured as follows:

Asset	Category
Cash	Loans and receivables
Restricted cash.....	Loans and receivables
Short-term deposits.....	Held-to-maturity
Trade and other receivables.....	Loans and receivables

iv) *Impairment*

The Company assesses, at each reporting date, whether there is an indicator that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is evidence of impairment as a result of one or more events that has occurred after the initial recognition of an asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

v) *Financial assets carried at amortized cost*

For financial assets carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has occurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

s) Financial liabilities

Trade payables and financial liabilities included in other payables and accrued liabilities are recognized initially at fair value, net of transaction costs incurred and subsequently measured at amortized cost using the effective interest method.

Loans and borrowings are recognized initially at fair value, net of transaction costs incurred. Loans and borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in net (loss) earnings as finance costs over the period of the borrowings using the effective interest method, unless related to a qualifying asset (note 2(t)).

Loans and borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

t) Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Company designates certain derivatives as:

- (a) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge);
- (b) hedges of foreign currency exposure (net investment hedge); and/or
- (c) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

When a derivative financial instrument is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in net (loss) earnings.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the maturity of the remaining hedged item is more than twelve months and as a current asset or liability when the remaining maturity of the hedged item is less than twelve months.

The Company does not use derivatives for trading or speculative purposes. The Company had cash flow hedges outstanding as at January 28, 2017 and January 30, 2016 and a net investment hedge outstanding as at January 28, 2017.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive (loss) income. The gain or loss relating to the ineffective portion is recognized immediately in net (loss) earnings within SG&A. Amounts accumulated in other comprehensive (loss) income are recycled in net (loss) earnings in the periods when the hedged item affects earnings.

When a forecasted transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment), the gains and losses previously deferred in accumulated other comprehensive income are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of sales in the case of inventory or in depreciation in the case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in accumulated other comprehensive (loss) income and is recognized when the forecasted transaction is ultimately recognized in net (loss) earnings. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive (loss) income is immediately transferred to net (loss) earnings.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gains or losses on the hedging instrument related to the effective portion of the hedge are recognized in other comprehensive income while any gains or losses related to the ineffective portion are recognized immediately in net (loss) earnings within SG&A. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the consolidated statements of net (loss) earnings.

Derivatives at fair value through profit or loss

Changes in the fair value of derivatives embedded in a host contract and derivatives that are not distinguished in a hedging relationship are recognized immediately in net (loss) earnings. Embedded derivatives (elements of contracts whose cash flows move independently from the host contract) are required to be separated and measured at their respective fair values unless certain criteria are met. The Company has recorded the fair value of embedded derivatives in HBC's U.S. dollar denominated purchase orders with certain non-U.S. based vendors. The fair value of these embedded derivatives is recorded in financial assets or financial liabilities, depending on the embedded derivative's fair value.

In connection with the acquisition of Saks, the Company also issued warrants. Certain features of the warrants result in their presentation as derivative financial liabilities that are classified as fair value through profit or loss and recorded at fair value.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheets if:

- There is currently a legally enforceable right to offset recognized amounts; and
- There is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of qualifying assets are capitalized to the cost of the asset. Qualifying assets are those that necessarily take a substantial period of time to prepare for their intended use. All other borrowing costs are recognized in net (loss) earnings in the period in which they occur.

v) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of sales tax and estimated returns.

The Company recognizes revenue when the amount can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

i) Retail merchandise sales

Revenue consists of sales through retail stores of the banners operated by the Company and includes sales through the Company's e-commerce ("Digital Commerce") operations. Merchandise sales through retail stores are recognized at the time of delivery to the customer which is generally at point of sale. Merchandise sales through Digital Commerce are recognized upon estimated receipt by the customer.

It is the Company's policy to sell merchandise to the customer with a right to return within a specified period. Accumulated experience is used to estimate and provide for such returns. Where it is determined that the Company acts as an agent rather than a principal in a transaction, revenue is recognized to the extent of the commission.

ii) Gift cards

Through its retail stores, websites and selected third parties, the Company sells gift cards that have no administrative fee charges or expiration dates. No revenue is recognized at the time gift cards are sold. Revenue is recognized as a merchandise sale when the gift card is redeemed by the customer.

The Company also recognizes income when the likelihood of the gift card being redeemed by the customer is remote ("gift card breakage"). Gift card breakage is estimated based on historical redemption patterns and is recognized in proportion to the redemption of gift card balances.

w) Credit operations

The Company shares in the income and losses of the credit card program related to private label and co-branded credit cards at Hudson's Bay, Lord & Taylor and Saks. This credit card program was effective as of January 1, 2015 with respect to Hudson's Bay and Saks. In June 2015, the Company completed the transition to include Lord & Taylor's active participation to the program. Income related to this program is included in SG&A.

x) Vendor allowances

The Company receives cash or allowances from vendors, the most significant of which are in respect of markdown allowances, volume rebates and advertising. Such amounts are recorded as a reduction of the cost of purchases.

Rebates that are based on specified cumulative purchase volumes are recognized if the rebate is probable and reasonably estimable; otherwise these rebates are recognized when earned. These rebates are applied as a reduction of the cost of purchases.

y) Loyalty programs

Award credits are accounted for as a separate component of the sales transaction in which they are granted and therefore, part of the fair value of the consideration received is allocated to the award credits. This allocation is reported as deferred revenue until the award credits are redeemed by the customer. The amount deferred is based on points outstanding that the Company estimates will be redeemed by customers and the estimated fair value of those points. The points expected to be redeemed are based on many factors, including an actuarial review, where required, of customers' past experience and trends.

z) Accounting standards implemented in fiscal 2016

Joint Arrangements

In May 2014, the IASB amended IFRS 11 – Joint Arrangements ("IFRS 11") to require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 – Business Combinations principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments to IFRS 11 are effective for annual periods beginning on or after January 1, 2016, and must be applied prospectively. The Company implemented the amendments to IFRS 11 at the beginning of its 2016 fiscal year and the implementation did not have an impact on its results of operations, financial position or disclosure.

aa) Future accounting standards not yet adopted

Financial Instruments

In July 2014, the IASB issued IFRS 9 – Financial Instruments ("IFRS 9"), which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39").

Classification and measurement

Financial assets are classified and measured based on the business model under which they are managed and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified in a similar manner as

under IAS 39, except that financial liabilities measured at fair value will have fair value changes resulting from changes in the entity's own credit risk recognized in other comprehensive (loss) income instead of net (loss) earnings.

Impairment

The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 also includes new disclosure requirements about expected credit losses and credit risk.

Hedge accounting

The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. The new model will provide more opportunities to apply hedge accounting to reflect actual risk management activities.

IFRS 9 will be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company will not be early adopting this standard. The potential financial and disclosure impact of adopting IFRS 9 is still being assessed by the Company.

Revenue

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”), which provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is assessing the potential impact of IFRS 15, but does not expect material changes to the amount and timing of revenue recognition due to the nature of the contracts it has in place. The Company expects to apply the standard with its mandatory effective date.

Leases

In January 2016, the IASB issued the final publication of IFRS 16 - Leases (“IFRS 16”), which is to replace the current IAS 17 lease accounting standard and related interpretations. IFRS 16 is required to be adopted either retrospectively or by recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with the approach under IFRS 16 substantially unchanged from the current IAS 17 lease accounting standard and related interpretations. IFRS 16 is effective for fiscal years beginning on or after January 1, 2019 with earlier adoption permitted if IFRS 15 has also been adopted. Although the Company is still in the process of assessing the potential impact of IFRS 16, it expects this standard will have a significant impact on its consolidated balance sheet, along with a change to the recognition, measurement, and presentation of lease expenses in the consolidated statement of earnings.

Income Taxes

In January 2016, the IASB amended IAS 12 - Income Taxes by issuing Recognition of Deferred Tax Assets for Unrealized Losses. These amendments address the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value and are effective for annual periods beginning on or after January 1, 2017. The implementation of these amendments is expected to have no impact on the Company.

NOTE 3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 2, and the preparation of the consolidated financial statements, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities, and reporting of income and expenses, that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ materially from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments and estimations that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

Business combinations

Fair value of assets acquired and liabilities assumed in a business combination is estimated based on information available at the date of acquisition and involves considerable judgment in determining the fair values assigned to property, plant and equipment and intangible assets acquired and liabilities assumed on acquisition. The determination of these fair values involves analysis

including the use of discounted cash flows, estimated future margins, future growth rates, market rents and capitalization rates. There is measurement uncertainty inherent in this analysis and actual results could differ from estimates.

Inventory valuation

Inventory is valued at the lower of cost and net realizable value. Current selling price and historical trends for estimating future markdowns are utilized to estimate net realizable value. Inventory valuation also incorporates a write-down to reflect future losses on the disposition of obsolete merchandise.

Inventory is adjusted to reflect estimated losses (“shortage”) incurred since the last inventory count. Shortage is estimated based on historical experience as a percentage of sales for the period from the date of the last inventory count to the end of the fiscal year.

Loyalty programs

Where loyalty award credits are issued in connection with a sales transaction that includes the loyalty program, a portion of the revenue has been deferred based on expected redemptions of points outstanding (note 2(y)). The amount of revenue deferred relating to the loyalty programs is sensitive to changes in customer behaviour and the impact of changes in the loyalty programs. Deferred revenue reported in the consolidated balance sheets relates entirely to the loyalty programs.

Impairment and reversal of impairment of long-lived assets

Long-lived assets are subject to impairment and impairment reversal reviews based on whether current or future events and circumstances suggest that their recoverable amount may be more or less than their carrying value. In certain instances, the recoverable amount is based on a calculation of expected future cash flows which includes management assumptions and estimates of future performance.

Impairment of goodwill and indefinite lived intangible assets

The Company uses judgment in determining the grouping of assets to identify its CGUs for the purposes of testing for impairment of goodwill and in determining the level of Company cash flows at which to test its indefinite lived intangible assets. In testing for impairment, goodwill acquired in a business combination is allocated to CGUs that are expected to benefit from the synergies of the business combination. The calculations for impairment testing of the Company’s goodwill and indefinite lived intangible assets also involve significant estimates and assumptions. Items estimated include cash flows, discount rates and assumptions on revenue growth rates. These estimates could affect the Company’s future results if the current estimates of future performance and fair values change. Judgment is also exercised to determine whether an indication of impairment is present that would require the completion of an impairment test in addition to the annual testing.

Valuation of warrants

In connection with the acquisition of Saks, the Company issued warrants. The classification of these instruments as financial liabilities is an area of significant judgment. The Company records a mark-to-market valuation adjustment on the warrants as finance costs based on a valuation at the end of each reporting period.

Provisions

Provisions have been made for various items including asset retirement obligations, general insurance liability and termination costs. Asset retirement obligations are based on uncertain estimates of remediation and the timing of the remediation. The Company purchases third party insurance for automobile, product, workers’ compensation, medical and general liability claims that exceed a certain dollar level and is responsible for the payment of claims below these insured limits. The self-insurance provision is based on claims filed and an estimate of claims incurred but not yet reported.

In the context of provisions for onerous contracts including leases, the Company uses judgment in determining when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting its obligations under the contract.

Sales returns

Sales returns are estimated on the basis of historical returns and are recorded so as to allocate them to the same period as the original revenue is recorded.

Share based compensation

The Company operates a share option plan, phantom share plan, restricted share unit plan, performance share unit plan, performance restricted share unit plan and profits interests plan for employees. The grant date fair values are calculated using valuation models, which use a number of assumptions and estimates, including expected volatility, the risk-free interest rate, the dividend yield, the non-marketability discount and the expected life of the grants. Details of these assumptions and estimates are set out in note 19.

Income taxes

The Company recognizes expected liabilities for income taxes based on an estimation of the likely income taxes due, which requires judgment as to the ultimate income tax determination of certain items. In addition, the Company has made estimates of future profitability in relation to an assessment of the recoverability of income tax losses. Details of the income tax (benefit) expense and deferred taxes are set out in note 8.

Pensions and employee benefits

The Company operates various defined benefit plans for its employees. The present value of the plans' liabilities recognized at the balance sheet date and net financing charges recognized in net (loss) earnings are dependent on the interest rate of high quality corporate bonds. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 16.

Lease accounting

The Company leases a significant number of store locations as part of its operations. The determination of classification between finance and operating leases requires the exercise of management judgment, including estimates of fair value, the useful and economic lives of the leased assets, the existence of lower than market renewal options and appropriate discount rates. Operating and finance leases are discussed in note 15.

Management judgment is also exercised in the assessment of sale and leaseback transactions, including the determination of leaseback classification between finance and operating leases, the fair value of the leased back property and appropriate discount rates.

Joint ventures

Judgment is used by management when determining what subsidiaries or entities to consolidate in the financial statements. Subsidiaries or entities are consolidated when the Company has control over the entities. In determining if control exists, management considers various factors including whether the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity either through an agreement or by voting rights, exposure or rights to variable returns from the Company's involvement with the entity, and the ability to use its power over the entity to affect the amount of the Company's returns.

The Company holds an 88.1% (January 30, 2016: 89.7%) ownership interest in its joint arrangement with RioCan and 63.4% (January 30, 2016: 67.4%) ownership interest in its joint arrangement with Simon and other non-controlling third party investors. Based on the contractual terms of each arrangement, the Company identified the relevant activities of each joint venture and determined that all significant decisions require the joint consent of both parties to each of the joint arrangements formed. The Company has assessed its rights and obligations arising from the joint arrangements by considering the structure and legal form of the arrangements, the terms agreed by the parties and other facts and circumstances. Based on this assessment, the arrangements have been classified as joint ventures. The Company will reassess the existence of joint control and the joint venture classification should facts and circumstances change. Gains recognized upon the initial contributions into each joint venture were determined based on determinations of fair value that incorporated assumptions from a market participant's perspective under market conditions that existed at the measurement date. Changes in assumptions about these factors could affect the reported fair value of the initial contributions made by HBC into each of the joint venture arrangements formed.

NOTE 4. ACQUISITION OF GILT GROUPE HOLDINGS INC.

On February 1, 2016, the Company acquired Gilt Groupe Holdings Inc. for U.S.\$239 million (\$335 million) in cash, excluding debt. Subsequent to the acquisition date, the Company received a purchase price adjustment of U.S.\$2 million (\$3 million) that decreased the purchase price to U.S.\$237 million (\$332 million). With the Gilt Acquisition, the Company has added an online shopping destination, which offers its members special access to fashion merchandise and experiences. This transaction reflects the Company's ongoing focus on advancing its all-channel model, while continuing to grow its off-price business through the integration of Gilt with Saks OFF 5TH locations.

Purchase Price Allocation

The Company has finalized the purchase price allocation for the acquisition of Gilt including goodwill. The following table summarizes the fair value of the consideration given and the final fair values assigned to the assets acquired and liabilities assumed:

(millions)	\$ U.S.	\$ CDN
Cash.....	7	10
Inventories.....	62	87
Property, plant and equipment.....	26	36
Intangible assets.....	178	249
Goodwill.....	59	83
Other assets.....	20	28
Trade payables.....	(50)	(70)
Other payables and accrued liabilities.....	(53)	(74)
Deferred tax liabilities.....	(7)	(10)
Other liabilities.....	(5)	(7)
Total identifiable net assets acquired and cash consideration given.....	237	332

The Company incurred acquisition-related costs of \$28 million related to external legal fees, consulting fees, due diligence costs and investment banking fees, of which \$12 million have been included in SG&A in the consolidated statement of (loss) earnings for fiscal 2016 (fiscal 2015: \$16 million).

As a result of goodwill impairment tests performed as at January 28, 2017, the entire goodwill was written off through an impairment charge as described in note 12.

NOTE 5. ACQUISITION OF GALERIA HOLDINGS

On September 30, 2015, the Company and the HBS Joint Venture acquired Galeria Kaufhof for a purchase price of €2,317 million (\$3,490 million) from Metro AG (“METRO”) and Asset Immobilienbeteiligungen GmbH (“AIB”). The Company and the HBS Joint Venture paid cash for all of METRO and AIB’s shares in the department store business and non-store multi-channel retailing business that operate under the brands of the Kaufhof Banners. A nominal amount of shares in certain property companies of Galeria Kaufhof were held as at the acquisition date by METRO, AIB, or third parties.

The transaction was structured in a manner such that HBC effectively acquired Kaufhof while the HBS Joint Venture acquired the Kaufhof Property Business. Both transactions are intended to drive growth going forward consistent with the Company’s previously announced strategic initiatives; namely through global and all-channel growth in both its retail and real estate businesses.

Measurement Period Adjustments

During fiscal 2016, the Company identified measurement period adjustments based on new information relating primarily to inventories, intangible assets and provisions. The impacts of the adjustments to previously reported comparative amounts are as follows:

(millions of Canadian dollars)	Jan 30, 2016
Inventories.....	(11)
Property, plant and equipment.....	2
Intangible assets.....	5
Finance leases.....	2
Provisions (including current portion).....	(4)
Deferred tax liabilities.....	(2)

NOTE 6. DEPRECIATION AND AMORTIZATION

(millions of Canadian dollars)	2016	2015
Property, plant and equipment.....	478	360
Intangible assets	220	103
Deferred credits and other	(3)	(3)
	695	460

NOTE 7. FINANCE COSTS

(millions of Canadian dollars)	2016	2015
Interest expense on long-term borrowings	126	124
Interest expense on short-term borrowings	37	23
Interest expense on finance leases	40	24
Write-off of deferred financing costs (note 14).....	3	50
Net interest on pensions and employee benefits	13	6
Interest income	(1)	(2)
Total interest expense, net.....	218	225
Saks acquisition-related finance income (note 18)	(26)	(37)
	192	188

NOTE 8. INCOME TAXES

The major components of the income tax (benefit) expense and the statutory income tax rate for fiscal 2016 and 2015 are as follows:

(millions of Canadian dollars)	2016	2015
Current tax expense.....	5	45
Deferred tax (benefit) expense	(183)	87
Income tax (benefit) expense	(178)	132
Statutory income tax rate	26.6%	26.5%

Reconciliations of the income tax (benefit) expense at the above rates with the amounts presented in the consolidated statements of (loss) earnings are as follows:

(millions of Canadian dollars)	2016	2015
(Loss) earnings before income tax	(694)	519
Income tax (benefit) expense calculated at statutory income tax rate	(185)	138
Change in income taxes resulting from:		
Effect of international tax rate differentials	(52)	39
Permanent differences.....	28	(40)
Tax losses for which no deferred tax asset is recognized	34	—
Other	(3)	(5)
Income tax (benefit) expense	(178)	132

The changes in the components of net deferred tax assets and liabilities for fiscal 2016 and 2015 are as follows:

(millions of Canadian dollars)	Year ended January 28, 2017					
	Jan 30, 2016	Assumed through business combination	Recognized in net loss	Recognized in other comprehensive loss	Net foreign currency exchange	Jan 28, 2017
Property, plant and equipment.....	(778)	(10)	33	—	51	(704)
Investment in joint ventures	(394)	—	(19)	(2)	27	(388)
Employee benefits	20	—	9	—	—	29
Pensions	131	—	4	3	(11)	127
Other assets	(118)	—	33	(3)	18	(70)
Long-term liabilities and other	196	—	75	(3)	(17)	251
Tax losses and other carryforward amounts.....	311	—	48	—	(16)	343
Net deferred tax liabilities	(632)	(10)	183	(5)	52	(412)

Comprising:

Deferred tax assets	253	301
Deferred tax liabilities	(885)	(713)
	<u>(632)</u>	<u>(412)</u>

(millions of Canadian dollars)	Year ended January 30, 2016 (restated - note 5)						
	Jan 31, 2015	Assumed through business combination	Recognized in net earnings	Recognized in other comprehensive income	Recognized in equity	Net foreign currency exchange	Jan 30, 2016
Property, plant and equipment.....	(582)	(232)	(52)	—	152	(64)	(778)
Investment in joint ventures.....	—	—	(244)	—	(150)	—	(394)
Employee benefits	17	—	3	—	—	—	20
Pensions	1	117	14	(6)	—	5	131
Other assets	(198)	(14)	124	—	(2)	(28)	(118)
Long-term liabilities and other	106	82	5	—	—	3	196
Tax losses and other carryforward amounts.....	240	—	63	—	—	8	311
Net deferred tax liabilities	(416)	(47)	(87)	(6)	—	(76)	(632)

Comprising:

Deferred tax assets	240	253
Deferred tax liabilities	(656)	(885)
	<u>(416)</u>	<u>(632)</u>

The realization of the deferred income tax assets is dependent on the generation of future taxable income during the years in which those temporary differences become deductible. Based on management's projection of future taxable income and tax planning strategies, management expects to realize these net deferred income tax assets in advance of expiry, if applicable.

The amount of temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements for which deferred tax liabilities have not been recognized is \$79 million as at January 28, 2017 (January 30, 2016: \$266 million).

As at January 28, 2017, the Company's taxable entities have tax loss carryforwards of \$1,656 million available in the United States, Canada, Germany and Ireland as follows:

(millions of Canadian dollars)

Available until year ending:	
January 2018.....	4
January 2019.....	6
January 2020.....	6
January 2021.....	6
January 2022.....	5
January 2023.....	10
January 2024.....	12
January 2025.....	6
January 2027.....	96
January 2028.....	228
January 2029.....	19
January 2030.....	7
January 2031.....	42
January 2032.....	7
January 2033.....	107
January 2034.....	188
January 2035.....	84
January 2036.....	96
January 2037.....	158
Indefinite.....	569
	<u>1,656</u>

Of the \$1,656 million tax loss carryforwards available to offset future taxable income, the Company has not recognized \$547 million as deferred tax assets in the consolidated balance sheet. This amount includes \$55 million of tax loss carryforwards that expire from January 2018 to 2025 and \$492 million which carryforward indefinitely.

NOTE 9. CASH

As at January 28, 2017, cash includes restricted cash of \$22 million (January 30, 2016: \$94 million).

NOTE 10. INVENTORIES

Inventories on hand at January 28, 2017 and January 30, 2016 were available for sale. The cost of merchandise inventories recognized as expense for fiscal 2016 was \$8,481 million (2015: \$6,638 million). The write-down of merchandise inventories below cost to net realizable value as at January 28, 2017 was \$81 million (January 30, 2016: \$86 million). There was no reversal of write-downs previously taken on merchandise inventories that are no longer estimated to sell below cost. Inventory has been pledged as security for certain borrowing agreements as described in note 14.

NOTE 11. PROPERTY, PLANT AND EQUIPMENT

Year ended January 28, 2017						
(millions of Canadian dollars)	Freehold Land	Buildings	Leasehold Improvements	Fixtures & Fittings	Assets held under Finance Leases	Total
Cost						
Balance at beginning of year.....	1,065	1,496	1,047	1,697	720	6,025
Additions	—	76	493	386	53	1,008
Acquired through business combination...	—	—	16	11	9	36
Transfers.....	2	(37)	(55)	9	81	—
Disposals	—	(103)	(49)	(14)	(18)	(184)
Net foreign currency exchange	(68)	(93)	(56)	(89)	(38)	(344)
Balance at end of year	999	1,339	1,396	2,000	807	6,541
Accumulated depreciation and impairment						
Balance at beginning of year.....	—	28	207	533	101	869
Depreciation expense	—	66	119	240	53	478
Impairment losses	—	4	4	27	—	35
Transfers.....	—	(50)	(29)	2	77	—
Eliminated on disposal	—	(36)	(17)	(10)	(18)	(81)
Net foreign currency exchange	—	(1)	(10)	(29)	(4)	(44)
Balance at end of year	—	11	274	763	209	1,257
Net book value at end of year	999	1,328	1,122	1,237	598	5,284

Year ended January 30, 2016 (restated - note 5)						
(millions of Canadian dollars)	Freehold Land	Buildings	Leasehold Improvements	Fixtures & Fittings	Assets held under Finance Leases	Total
Cost						
Balance at beginning of year.....	1,076	2,374	641	1,076	321	5,488
Additions	—	57	219	290	158	724
Acquired through business combination...	185	160	218	278	216	1,057
Disposals including transfer to joint ventures	(280)	(1,237)	(82)	(41)	(6)	(1,646)
Net foreign currency exchange	84	142	51	94	31	402
Balance at end of year	1,065	1,496	1,047	1,697	720	6,025
Accumulated depreciation and impairment						
Balance at beginning of year.....	5	288	155	368	66	882
Depreciation expense	—	81	72	170	37	360
Eliminated on disposal	(5)	(347)	(32)	(41)	(6)	(431)
Net foreign currency exchange	—	6	12	36	4	58
Balance at end of year	—	28	207	533	101	869
Net book value at end of year	1,065	1,468	840	1,164	619	5,156

Certain property, plant and equipment have been pledged as security for borrowings as further described in note 14. There were \$129 million in material capital commitments, net of leasehold improvement allowances as at January 28, 2017.

Impairment of property, plant and equipment

During fiscal 2016, the impairment loss of \$35 million represented the write-down of certain property, plant and equipment across the Company's 4 operating segments on the higher of fair value less costs of disposal or value in use basis.

The impairment losses primarily occurred in the Company's Saks Fifth Avenue and the Department Store Group ("DSG") segments in the amount of \$30 million. The losses resulted from a decline in the operating performance of certain stores and exiting office space as part of the Company's U.S. corporate office consolidation both of which affected the related leasehold improvements and fixtures and fittings asset classes. The total impairment loss recorded related to the Company's property, plant and equipment was recognized in the consolidated statement of (loss) earnings within SG&A for fiscal 2016. There was no reversal of impairments in either fiscal 2016 or fiscal 2015.

The recoverable amount of the relevant assets within each CGU was determined in each case as the higher of fair value less costs of disposal or value in use. In calculating the value in use, management estimates future cash flows using approved budgets and forecasts for the following fiscal year and considers future opportunities and risks in determining an appropriate growth rate for future periods. In calculating fair value less costs of disposal, the Company receives independently appraised determinations of fair value.

NOTE 12. INTANGIBLE ASSETS AND GOODWILL

Year ended January 28, 2017								
(millions of Canadian dollars)	Goodwill	Software	Favourable lease rights	Private label brands	Banner names	Credit cards	Customer Lists	Total
Cost								
Balance at beginning of year	261	603	390	103	736	35	—	2,128
Additions.....	—	161	—	—	—	—	—	161
Acquired through business combination	83	31	7	—	71	—	140	332
Transfers	—	10	(10)	(32)	32	—	—	—
Disposals.....	—	(14)	(34)	—	—	—	—	(48)
Net foreign currency exchange.....	(21)	(27)	(26)	(7)	(50)	(2)	(8)	(141)
Balance at end of year	323	764	327	64	789	33	132	2,432
Accumulated amortization and impairment								
Balance at beginning of year	—	266	68	—	—	15	—	349
Amortization expense	—	128	29	3	—	7	53	220
Impairment losses	116	6	17	—	—	—	—	139
Disposals.....	—	(13)	(34)	—	—	—	—	(47)
Net foreign currency exchange.....	(1)	(8)	(5)	—	—	(1)	—	(15)
Balance at end of year	115	379	75	3	—	21	53	646
Net book value at end of year	208	385	252	61	789	12	79	1,786

Year ended January 30, 2016 (restated - note 5)								
(millions of Canadian dollars)	Goodwill	Software	Favourable lease rights	Private label brands	Banner names	Credit cards		Total
Cost								
Balance at beginning of year.....	237	382	415	61	444	32		1,571
Additions.....	—	90	—	—	—	—		90
Acquired through business combination.....	—	114	131	35	244	—		524
Disposals including transfer to joint ventures	—	(5)	(185)	—	—	—		(190)
Net foreign currency exchange	24	22	29	7	48	3		133
Balance at end of year.....	261	603	390	103	736	35		2,128
Accumulated amortization and impairment								
Balance at beginning of year.....	—	190	60	—	—	8		258
Amortization expense	—	70	27	—	—	6		103
Disposals including transfer to joint ventures	—	(3)	(25)	—	—	—		(28)
Net foreign currency exchange	—	9	6	—	—	1		16
Balance at end of year.....	—	266	68	—	—	15		349
Net book value at end of year	261	337	322	103	736	20		1,779

The banner names and certain private label brands have been assigned an indefinite useful life, as there is no foreseeable limit to the period over which the assets are expected to generate net cash inflows and the Company's intention is to continue to utilize these trade names for the foreseeable future.

Impairment of intangible assets

During fiscal 2016, the impairment loss of \$23 million (2015: nil) represented the write-down to nil of favourable lease intangible assets (recognized on the acquisition of Saks) in relation to office space that was exited as part of the Company's U.S. corporate office consolidation as well as the write down to nil of certain IT projects and systems within the Saks Fifth Avenue segment that were either abandoned or replaced by newer technology. The total impairment loss recorded related to all intangible assets of the Company was recognized in the consolidated statement of (loss) earnings within SG&A for fiscal 2016. There was no reversal of impairments in either fiscal 2016 or fiscal 2015.

Impairment of goodwill

During the fourth quarter of fiscal 2016, the Company performed its annual goodwill impairment test on October 30, 2016 (the first day of the fourth quarter) and an additional goodwill impairment test subsequent to the Company publicly announcing that actual results and cash flow projections were expected to fall short of previous estimates due primarily to the continuing challenging retail environment. Additional goodwill impairment tests were performed as at January 28, 2017 on all segments where goodwill had been allocated with only the HBC Off Price (which includes Saks OFF 5TH, Gilt and Find @ Lord & Taylor) segment being impacted. This goodwill test compared the carrying amount of the HBC Off Price segment, including goodwill to its recoverable amount.

The recoverable amount was based on a fair value less costs of disposal calculation as this was determined to be higher than a value in use calculation. In calculating the recoverable amount, management was required to make several assumptions concerning, but not limited to, future segment sales and profit growth rates, future levels of capital expenditures, expected future cash flows and discount rates. All assumptions resulted in a fair value less costs of disposal that is considered within the level 3 category of the fair value hierarchy. The Company's assumptions are influenced by current market conditions and a general future outlook for the retail industry and take into account market participant assumptions applicable to the retail industry and markets in which its HBC Off Price stores operate. In particular, the Company used a discounted cash flow approach in the determination of the fair value less costs of disposal which utilized cash flow projections based on financial forecasts prepared by Company management covering a 5 year period and a discount rate of 13%.

The additional goodwill impairment test performed resulted in writing off the entire goodwill related to the Company's HBC Off Price segment through an impairment charge of \$116 million. This charge was recognized in the Company's consolidated statement of (loss) earnings within SG&A.

NOTE 13. INVESTMENTS IN JOINT VENTURES

The following table summarizes the details of our joint ventures whose principal activities are real estate investments:

(millions of Canadian dollars, except ownership interest)	Principal Places of Business	2016		2015	
		Ownership Interest	Carrying Value	Ownership Interest	Carrying Value
RioCan-HBC JV	Canada	88.1%	(9)	89.7%	(27)
HBS Joint Venture	United States, Germany	63.4%	481	67.4%	545
Other joint venture	United States, Germany	63.4%	100	67.4%	113
			<u>572</u>		<u>631</u>

RioCan-HBC JV

Upon closing of the first tranche of the joint venture with RioCan on July 9, 2015, HBC contributed 7 properties with a combined value of approximately \$1.3 billion to the RioCan-HBC JV. Based on RioCan's ownership interest in the joint venture, the total gain on contribution of the owned and ground-leased properties was \$147 million of which \$15 million was deferred and recorded in non-current other liabilities. The Company also received cash proceeds of \$352 million from the RioCan-HBC JV which it primarily used to repay a senior secured term loan and the HBC Revolving Credit Facility.

On November 25, 2015, HBC closed the second tranche of the RioCan-HBC JV which resulted in the Company indirectly contributing 3 additional ground-leased properties consisting of Yorkdale Shopping Centre, Scarborough Town Centre, and Square One with a value of approximately \$338 million. The Company recorded a gain on the contribution of these properties of approximately \$35 million based on RioCan's interest in the joint venture after the closing of the second tranche. Additionally,

as part of closing the second tranche of the RioCan-HBC JV, the Company's Yorkdale Mortgage of \$47 million was assumed by an entity related to the RioCan-HBC JV.

During fiscal 2016, RioCan contributed \$26 million to the RioCan-HBC JV for improvements to properties contributed by HBC. As a result, the Company's ownership interest in the RioCan-HBC JV decreased from 89.7% as at January 30, 2016 to 88.1% as at January 28, 2017. In connection with this, the Company realized dilution gains of \$4 million during fiscal 2016.

The following table details the changes in the Company's investment in the RioCan-HBC JV:

(millions of Canadian dollars)	2016	2015
Equity investment as at the beginning of the year	(27)	—
Dilution gains from change in equity interest.....	4	—
Share of net earnings from joint venture.....	81	37
Distributions from joint venture.....	(67)	(34)
Investments in joint venture.....	—	(30)
Equity investment as at the end of the year	(9)	(27)

Summarized financial information of the RioCan-HBC JV and reconciliation with the carrying amount of the investment in the consolidated balance sheets are set out below:

(millions of Canadian dollars)	2016	2015
Cash.....	2	1
Current other financial assets.....	10	—
Non-current financial assets.....	142	142
Non-current other assets	1,730	1,733
Current financial liabilities	(9)	(5)
Non-current financial liabilities	(540)	(547)
Net assets at 100%	1,335	1,324
Company's share of net assets in the RioCan-HBC JV.....	1,176	1,188
Less gain on contributions of assets to the RioCan-HBC JV not recognized related to Company's ownership interest.....	(1,185)	(1,215)
Company's carrying value of investment in the RioCan-HBC JV	(9)	(27)

Summarized statements of earnings of the RioCan-HBC JV:

(millions of Canadian dollars)	2016	2015
Rental revenue	111	53
Rental revenue - recoveries.....	9	5
Property operating costs.....	(10)	(6)
Depreciation and amortization.....	(43)	(21)
Finance income	10	6
Finance costs.....	(16)	(8)
Net earnings at 100%.....	61	29
Company's share of net earnings in the RioCan-HBC JV prior to adjustment	54	25
Adjustment for the Company's share of depreciation on the fair value increment of the contributed properties	27	12
Company's share of net earnings from the RioCan-HBC JV	81	37
Reclassification of rental income to SG&A related to the Company's ownership interest in the RioCan-HBC JV	(85)	(40)
Company's share of net loss in the RioCan-HBC JV	(4)	(3)

HBS Joint Venture

Upon closing of the HBC-Simon JV on July 22, 2015, HBC contributed forty-two properties with a combined value of approximately \$2.1 billion to the HBC-Simon JV. Based on Simon's ownership interest in the joint venture, the total gain on contribution of the owned and ground-leased properties was \$1 million. The Company also received cash proceeds of \$782

million from the HBC-Simon JV which was used to repay a senior secured term loan in full and to partially repay the outstanding balance on its U.S. Revolving Credit Facility. On September 30, 2015, the HBC-Simon JV became a wholly-owned subsidiary of the HBS Joint Venture. As part of the Galeria Kaufhof Acquisition, on September 30, 2015, the HBS Joint Venture acquired the Kaufhof Property Business.

On November 17, 2015, the Company sold a portion of its equity investment in the HBS Joint Venture for proceeds of U.S.\$515 million (\$687 million) to third party investors. Proceeds from the equity sale, together with cash on hand, were used to reduce U.S. Term Loan B from U.S.\$1,085 million to U.S.\$500 million (note 14). As a result of the transaction, the Company recognized a gain on the equity sale of \$495 million and decreased its ownership interest in the HBS Joint Venture.

On March 30, 2016, HBC sold a further portion of its equity investment in the HBS Joint Venture (and other joint venture) to Madison International Realty for proceeds of U.S.\$50 million (\$65 million), reducing the Company's ownership interest in the HBS Joint Venture to 65.0%. Total proceeds from the sale were used to pay down the Global Revolving Credit Facility. As a result of the transaction, the Company recognized a pre-tax gain on the sale of \$45 million.

During fiscal 2016, Simon contributed U.S.\$44 million (\$57 million) towards its U.S.\$99 million commitment for improvements to properties contributed by HBC. As a result of these contributions and the sale noted above, the Company's ownership interest in the HBS Joint Venture decreased from 67.4% as at January 30, 2016 to 63.4% as at January 28, 2017. In connection with this, the Company realized dilution gains of \$22 million during fiscal 2016. During fiscal 2015, equity transactions from the Kaufhof Acquisition (note 5) at the HBS Joint Venture resulted in the Company realizing a dilution gain of \$164 million. The gain is primarily attributable to Simon's capital contribution of \$231 million and the impact of HBC's increased net investment in the HBS Joint Venture which resulted in a reduction to HBC's ownership interest.

The following table details the changes in the Company's investment in the HBS Joint Venture:

(millions of Canadian dollars)	2016	2015
Equity investment as at the beginning of the year	545	—
Share of net earnings from joint venture.....	128	12
Dilution gains from changes in equity interest	22	164
Sale of a portion of investment in joint venture.....	(17)	(191)
Distributions of earnings from joint venture.....	(154)	(80)
Return of capital from joint venture.....	(22)	—
Net foreign currency exchange and other	(31)	43
Investments in joint venture.....	10	597
Equity investment as at the end of the year	481	545

Summarized financial information of the HBS Joint Venture and reconciliation with the carrying amount of the investment in the consolidated balance sheets are set out below:

(millions of Canadian dollars)	2016	2015
Cash.....	18	144
Current other financial assets.....	17	18
Non-current assets.....	5,276	5,710
Current other liabilities	—	(32)
Current financial liabilities	(306)	(235)
Non-current liabilities	(385)	(423)
Non-current other financial liabilities.....	(2,908)	(3,319)
Net assets at 100%	1,712	1,863
Company's share of net assets in the HBS Joint Venture.....	1,084	1,256
Less gain on contribution of assets to the HBS Joint Venture not recognized related to Company's ownership interest.....	(603)	(711)
Company's carrying value of investment in the HBS Joint Venture	481	545

Summarized statements of earnings of the HBS Joint Venture:

(millions of Canadian dollars)	2016	2015
Rental revenue	438	182
Rental revenue - recoveries.....	25	9
Property operating costs.....	(26)	(19)
General and administrative expenses.....	(17)	(64)
Depreciation and amortization	(110)	(50)
Finance income	—	1
Finance costs.....	(116)	(57)
Income tax (expense) recovery	(20)	1
Net earnings at 100%	174	3
Company's share of net earnings in the HBS Joint Venture prior to adjustment.....	112	—
Adjustment for the Company's share of depreciation on the fair value increment of the contributed properties	16	12
Company's share of net earnings from the HBS Joint Venture.....	128	12
Reclassification of rental income to SG&A related to the Company's ownership interest in the HBS Joint Venture.....	(282)	(148)
Company's share of net loss in the HBS Joint Venture	(154)	(136)

Other joint venture

In addition, during fiscal 2015, the Company contributed \$116 million to its other joint venture. In conjunction with the sale of a portion of the equity investment in the HBS Joint Venture on November 17, 2015, the Company also sold 24.4% of its equity investment in its other joint venture for U.S.\$18 million (\$25 million) and recognized a gain on the equity sale of \$21 million.

During fiscal 2016, the Company's ownership interest in the other joint venture decreased from 67.4% as at January 30, 2016 to 63.4% as at January 28, 2017. In connection with this, the Company realized dilution losses of \$2 million.

NOTE 14. LOANS AND BORROWINGS

a) Current loans and borrowings

As at January 28, 2017 and January 30, 2016, current loans and borrowings are comprised of:

(millions of Canadian dollars)	2016	2015
Global Revolving Credit Facility.....	434	—
U.S. Revolving Credit Facility.....	—	464
Current portion of long-term loans and borrowings	7	5
	441	469
Less: unamortized costs.....	(23)	(18)
	418	451

Global Revolving Credit Facility

On February 5, 2016, the Company entered into a U.S. \$1.9 billion senior secured asset-based revolving credit facility, for the benefit of the Company's Canadian, U.S. and European operations ("Global Revolving Credit Facility") with Bank of America, N.A. as the administrative agent and collateral agent. The Global Revolving Credit Facility replaced both the HBC Revolving Credit Facility and the U.S. Revolving Credit Facility.

The Global Revolving Credit Facility has a maturity date of February 5, 2021 and is subject to a borrowing base, based predominantly on eligible inventory and accounts receivable of HBC, L&T Acquisition, Kaufhof and certain of their respective subsidiaries (other than real estate subsidiaries). The Global Revolving Credit facility is available for general corporate purposes and is divided into three tranches consisting of: (i) a U.S. subfacility, (ii) a Canadian subfacility and (iii) a German subfacility. The Global Revolving Credit Facility has multiple interest rate charge options that are based on the U.S. prime rate, Federal Funds rate, London Interbank Offered Rate ("LIBOR"), Canadian prime rate, Canadian Dealer Offered Rate ("CDOR"), and European LIBOR.

As the Global Revolving Credit Facility is available for and used to finance working capital needs, capital expenditures, and other general corporate purposes, it has been classified in the consolidated balance sheets as part of current loans and borrowings. However, the Company is not required to repay any balance outstanding until the maturity date of February 5, 2021.

The Global Revolving Credit Facility is secured by a first priority security interest over all inventory and accounts receivable in Canada, the United States and Germany. The agreement contains restrictive covenants including restrictions on the incurrence of indebtedness, financial maintenance covenants, and restrictions on payments to affiliates and shareholders. The agreement also contains events of default and representations and warranties.

HBC was in compliance with all covenants contained in the agreement as at January 28, 2017.

The effective interest rate based on the average balance drawn and finance costs of the Global Revolving Credit Facility for fiscal 2016 was as follows:

(millions of Canadian dollars)	2016
Average balance drawn, calculated on a daily basis.....	817
Finance costs	32
Effective interest rate.....	3.9%

As at January 28, 2017, details of the borrowing base availability on the Global Revolving Credit Facility were as follows:

(millions of Canadian dollars)	2016
Gross borrowing base availability	2,262
Drawings.....	(434)
Outstanding letters of credit	(76)
Borrowing base availability net of drawings and letters of credit.....	1,752

On February 6, 2017, the Global Revolving Credit Facility was amended to include a Dutch subfacility and to expand the amount of the facility by U.S.\$350 million, increasing the size of the total borrowing line to U.S. \$2.25 billion. The increase in the credit facility is intended to finance the working capital needs, capital expenditures, and operating activities of the Company's Canadian, U.S., and European operations.

HBC Revolving Credit Facility

HBC was the borrower on an asset based credit facility (the "HBC Revolving Credit Facility") with Bank of America, N.A. as the administrative agent and collateral agent, made available through a credit agreement (the "Credit Agreement").

The HBC Revolving Credit Facility was subject to a borrowing base, based predominantly on eligible inventory and eligible credit card receivables of HBC, excluding L&T Acquisition and its subsidiaries and any real estate subsidiaries. The HBC Revolving Credit Facility was available for general corporate purposes and could be drawn in both U.S. and Canadian dollars. The HBC Revolving Credit Facility had multiple interest rate charge options that were based on the Canadian prime rate, CDOR, U.S. index rate and LIBOR.

As the HBC Revolving Credit Facility was utilized to finance working capital requirements, capital expenditures and other general corporate purposes, it had been classified in the consolidated balance sheets as part of current loans and borrowings. However, the Company was not required to repay any balance outstanding until the maturity date of December 17, 2019.

The HBC Revolving Credit Facility was secured by a first priority security interest over all inventory and accounts receivable in Canada. The Credit Agreement contained a number of representations and warranties and positive and negative covenants. These provisions include, among other things, placing certain conditions and restrictions on making dividend payments and financial maintenance covenants. The Credit Agreement also contained extensive reporting requirements and a number of events of default.

HBC was in compliance with all covenants contained in the Credit Agreement as at January 30, 2016.

The effective interest rate based on the average balance drawn and finance costs of the HBC Revolving Credit Facility for fiscal 2015 was as follows:

(millions of Canadian dollars)	2015
Average balance drawn, calculated on a daily basis.....	125
Finance costs	6
Effective interest rate.....	4.9%

As at January 30, 2016, details of the borrowing base availability on the HBC Revolving Credit Facility were as follows:

(millions of Canadian dollars)	2015
Gross borrowing base availability	495
Drawings.....	—
Outstanding letters of credit	(13)
Borrowing base availability net of drawings and letters of credit.....	<u>482</u>

U.S. Revolving Credit Facility

L&T Acquisition was the borrower on an asset based credit facility (“U.S. Revolving Credit Facility”) with Bank of America, N.A. as the administrative agent and collateral agent.

This revolving line of credit was subject to a borrowing base, based predominantly on eligible inventory and accounts receivable of L&T, Saks and their respective subsidiaries (other than real estate subsidiaries). The U.S. Revolving Credit Facility was available to finance working capital needs, capital expenditures, operating activities and to support the issuance of standby letters of credit. The U.S. Revolving Credit Facility had multiple interest rate charge options that were based on the U.S. prime rate, Federal Funds rate and LIBOR.

As the U.S. Revolving Credit Facility was utilized to finance working capital requirements, capital expenditures and other operating activities, it had been classified in the consolidated balance sheets as part of current loans and borrowings. However, the Company was not required to repay any balance outstanding until the maturity date of November 4, 2018.

The U.S. Revolving Credit Facility agreement contained restrictive covenants including restrictions on the incurrence of indebtedness, financial maintenance covenants, and restrictions on payments to affiliates and shareholders and also included events of default, representations and warranties.

The U.S. Revolving Credit Facility was secured by a first priority security interest over all inventory and accounts receivables in the United States (L&T Acquisition and Saks and certain of their respective subsidiaries).

The effective interest rate based on the average balance drawn and finance costs of the U.S. Revolving Credit Facility for fiscal 2015 was as follows:

(millions of Canadian dollars)	2015
Average balance drawn, calculated on a daily basis.....	311
Finance costs	15
Effective interest rate.....	4.7%

As at January 30, 2016, details of the borrowing base availability on the U.S. Revolving Credit Facility were as follows:

(millions of Canadian dollars)	2015
Gross borrowing base availability	1,541
Drawings.....	(464)
Outstanding letters of credit	(28)
Borrowing base availability net of drawings and letters of credit.....	<u>1,049</u>

The U.S. Revolving Credit Facility contained certain non-financial operating covenants. L&T Acquisition was in compliance with all covenants as at January 30, 2016.

In accordance with the U.S. Revolving Credit Facility, L&T Acquisition was limited in its ability to make distributions of earnings or returns of capital to its parent.

b) Long-term loans and borrowings

As at January 28, 2017 and January 30, 2016, long-term loans and borrowings are comprised of:

(millions of Canadian dollars)	2016	2015
U.S. Term Loan B	657	700
Lord & Taylor Mortgage.....	523	349
Saks Mortgage	1,642	1,750
Other loans	7	10
	<u>2,829</u>	<u>2,809</u>
Less: unamortized costs	(78)	(75)
Less: amounts due within one year.....	(7)	(5)
	<u>2,744</u>	<u>2,729</u>

Maturities of long-term debt are as follows:

(millions of Canadian dollars)	
Fiscal year:	
2017	7
2018	8
2019	8
2020	9
2021	498
Thereafter	2,299
	<u>2,829</u>

U.S. Term Loan B

On September 30, 2015, the Company entered into a U.S.\$1,085 million senior secured term loan facility (“U.S. Term Loan B”) with Bank of America, N.A. as the administrative agent.

On November 17, 2015, HBC repaid U.S.\$585 million of U.S. Term Loan B using cash on hand and proceeds from the sale of its equity investment in the HBS Joint Venture and other joint venture (note 13). In connection with the repayment, \$32 million of deferred financing costs were written off (note 7). Additionally, during fiscal 2015, a senior secured term loan was repaid in full using proceeds from the contribution of assets to joint ventures (note 13). In connection with the repayment, \$18 million of deferred financing fees were written off (note 7).

U.S. Term Loan B matures on September 20, 2022 and requires interest only payments. Subsequent to its refinancing on October 20, 2016, it now carries an interest rate of LIBOR plus 3.25% per annum. Prior to its refinancing, the term loan carried an interest rate of LIBOR plus 3.75% per annum. The term loan is secured by a second priority security interest over inventory and accounts receivable, a first priority security interest over substantially all other assets of the Company and certain of its subsidiaries (excluding real estate subsidiaries), as well as a pledge of the shares of certain subsidiaries of the Company and certain of their subsidiaries.

U.S. Term Loan B contains representations and warranties, positive and negative covenants, reporting requirements and events of default. As at January 28, 2017 and January 30, 2016, the Company was in compliance with the covenants contained in the U.S. Term Loan B.

Lord & Taylor Mortgage

On September 7, 2012, LT 424 LLC (“LT 424”), which is an indirect subsidiary of L&T, entered into a U.S.\$250 million syndicated floating rate senior mortgage loan with an affiliate of CIBC World Markets Inc. as the administrative agent of the syndicate of lenders (the “Lord & Taylor Mortgage”).

On July 19, 2016, the mortgage loan was refinanced by entering into a U.S.\$400 million syndicated floating rate senior mortgage loan with an affiliate of CIBC World Markets Inc., as the administrative agent. In connection with the refinancing, \$3 million of deferred financing costs were written off (note 7).

The Lord & Taylor Mortgage is guaranteed by L&T. The Lord & Taylor Mortgage matures August 10, 2021 and carries an interest rate of LIBOR plus 3.25% (note 18). The Lord & Taylor Mortgage is subject to mandatory principal repayments over the term of the loan and allows for the ability to prepay the entire amount outstanding after the first 2 years with a fee payable

to the lenders at 2% of the outstanding loan principal. This prepayment fee is reduced to 1% after 3 years, and further reduced to nil after August 10, 2020. Any prepayments made are applied to reduce the remaining scheduled installments. As security for the Lord & Taylor Mortgage, the Company granted a first priority mortgage in the Fifth Avenue Lord & Taylor flagship property.

The Lord & Taylor Mortgage contains customary representations and warranties, positive and negative covenants, reporting requirements and events of default. As at January 28, 2017 and January 30, 2016, the borrower, LT 424, was in compliance with the covenants contained in the Lord & Taylor Mortgage.

Saks Mortgage

On December 3, 2014, Saks Flagship Real Property LLC (“Saks Flagship”), an indirect subsidiary of Saks, obtained a U.S. \$1,250 million, twenty year mortgage on the ground portion of its Saks Fifth Avenue flagship store in New York City, located at 611 Fifth Avenue (the “Saks Mortgage”) with Bank of America, N.A. as the administrative agent.

The Saks Mortgage matures December 3, 2034, carries a fixed interest rate of 4.39% and requires interest only payments. The mortgage is secured by a first mortgage lien on the fee interest in the property, together with all ground lease rents, profits and revenue.

The Saks Mortgage contains representations and warranties, positive and negative covenants, reporting requirements and events of default. As at January 28, 2017 and January 30, 2016, the borrower, Saks Flagship, was in compliance with the covenants contained in the Saks Mortgage.

NOTE 15. LEASES

Operating lease arrangements

The Company conducts a substantial part of its operations from leased stores in shopping and power centres, and also leases warehouse facilities, administrative facilities and equipment.

Many of the Company’s store leases require equal monthly rent payments over the lease term. However, numerous store lease agreements include rent holidays, rent escalation clauses and/or contingent rent provisions that require additional payments based on a percentage of sales in excess of specified levels. Rent for renewal periods of the Company’s leases varies.

Rental expense related to operating leases charged to earnings, net of reclassification of the Company’s share of rental income from its share of earnings in the joint ventures of \$367 million (note 13), was \$654 million in fiscal 2016 (2015: \$380 million).

Minimum payments under non-cancelable operating leases

The future minimum payments under non-cancelable operating leases are as follows:

(millions of Canadian dollars)	
Fiscal year:	
2017	947
2018	978
2019	967
2020	935
2021	906
Thereafter	11,372
Total minimum lease payments	<u>16,105</u>

Finance leases

The future required minimum gross rental payments under finance leases for property and equipment, and their net present values as at January 28, 2017 are as follows:

(millions of Canadian dollars)	
Less than 1 year	52
Between 1 and 5 years	186
Thereafter	1,520
Total minimum lease payments	1,758
Less: imputed interest	(1,235)
Total finance lease obligations	523

NOTE 16. PENSIONS AND EMPLOYEE BENEFITS

Aggregate information about the Company's Canadian ("CDN"), U.S. and European pension and benefit plans are presented below. The U.S. pension plans are sponsored by Saks for which there are no future benefit accruals for all remaining participants. Both L&T and Saks sponsor defined contribution plans (401(k) retirement savings plans) which are discussed in the Defined Contribution ("DC") Pension Plans section below.

Amounts Recognized in Consolidated Balance Sheets

(millions of Canadian dollars)	2016				2015			
	CDN Pension and Benefit Plans	U.S. Pension Plans	European Pension Plans	Total	CDN Pension and Benefit Plans	U.S. Pension Plans	European Pension Plans	Total
Pension and employee benefits - asset ⁽¹⁾	174	—	1	175	166	—	—	166
Pension and benefit plans in deficit positions	(112)	(48)	(467)	(627)	(107)	(56)	(475)	(638)
Less: current portion	3	1	—	4	3	1	—	4
	(109)	(47)	(467)	(623)	(104)	(55)	(475)	(634)
Other long-term employee benefits liability	(20)	—	(19)	(39)	(25)	—	(22)	(47)
Pension and employee benefits - liability	(129)	(47)	(486)	(662)	(129)	(55)	(497)	(681)
Net pension and benefit plans asset (liability) ⁽²⁾	62	(48)	(466)	(452)	59	(56)	(475)	(472)

(1) Pension plans in surplus position

(2) Includes current portion of pension and benefit plans in deficit positions and excludes other long-term employee benefits liability

The current portion of the pension and employee benefits liability is included in other payables and accrued liabilities in the consolidated balance sheets.

Employer contributions to defined benefit pension plans in fiscal 2017 will approximate \$9 million.

Funding requirements for European Pension Plans vary by country. While Belgium has a minimum funding requirement, Germany does not.

Changes in the Fair Value of Plan Assets

(millions of Canadian dollars)	2016				2015			
	CDN Pension and Benefit Plans ⁽¹⁾	U.S. Pension Plans	European Pension Plans	Total	CDN Pension and Benefit Plans ⁽¹⁾	U.S. Pension Plans	European Pension Plans	Total
Fair value at beginning of year....	1,201	143	81	1,425	1,264	151	—	1,415
Acquired through business combination	—	—	—	—	—	—	83	83
Plan combination.....	—	—	34	34	—	—	—	—
Return on plan assets (excluding interest)	29	12	1	42	—	(9)	—	(9)
Interest income	64	4	2	70	18	4	—	22
Employer contributions.....	4	2	30	36	4	—	—	4
Employee contributions.....	10	—	1	11	9	—	1	10
Administration costs.....	(3)	(2)	—	(5)	(2)	(3)	—	(5)
Benefits paid.....	(84)	(22)	(15)	(121)	(92)	(14)	(5)	(111)
Net foreign currency exchange ...	—	(8)	(9)	(17)	—	14	2	16
Fair value at end of year	1,221	129	125	1,475	1,201	143	81	1,425

(1) Includes defined contribution plan assets of \$520 million (January 30, 2016: \$498 million)

Changes in the Defined Benefit Obligation

(millions of Canadian dollars)	2016				2015			
	CDN Pension and Benefit Plans ⁽¹⁾	U.S. Pension Plans	European Pension Plans	Total	CDN Pension and Benefit Plans ⁽¹⁾	U.S. Pension Plans	European Pension Plans	Total
Balance, beginning of year.....	1,142	199	556	1,897	1,231	197	—	1,428
Assumed through business combination	—	—	—	—	—	—	540	540
Plan combination.....	—	—	35	35	—	—	—	—
Current service cost.....	15	2	8	25	17	—	3	20
Settlements	—	(1)	—	(1)	—	—	—	—
Employee contributions.....	10	—	1	11	9	—	1	10
Interest expense	62	6	13	81	17	5	4	26
Benefits paid.....	(84)	(22)	(15)	(121)	(92)	(14)	(5)	(111)
Change in demographic assumptions.....	—	—	—	—	—	3	—	3
Change in financial assumptions.	14	2	46	62	(39)	(10)	8	(41)
Experience adjustments.....	—	1	(5)	(4)	(1)	—	1	—
Net foreign currency exchange ...	—	(10)	(48)	(58)	—	18	4	22
Balance, end of year	1,159	177	591	1,927	1,142	199	556	1,897

(1) Includes defined contribution plan liabilities of \$520 million (January 30, 2016: \$498 million)

Cumulative Actuarial Gains (Losses)

The cumulative actuarial gains (losses) recognized in other comprehensive (loss) income for the Company's plans are as follows:

(millions of Canadian dollars)	2016				2015			
	CDN Pension and Benefit Plans	U.S. Pension Plans	European Pension Plans	Total	CDN Pension and Benefit Plans	U.S. Pension Plans	European Pension Plans	Total
Cumulative amount, beginning of year	30	(10)	(9)	11	(10)	(8)	—	(18)
Net actuarial gains (losses) recognized	15	9	(40)	(16)	40	(2)	(9)	29
Cumulative amount, end of year	45	(1)	(49)	(5)	30	(10)	(9)	11

Pension and Benefit Plan Expense

Fiscal 2016 and 2015 pension and benefit plan expense is comprised of the following:

(millions of Canadian dollars)	2016				2015			
	CDN Pension and Benefit Plans	U.S. Pension Plans	European Pension Plans	Total	CDN Pension and Benefit Plans	U.S. Pension Plans	European Pension Plans	Total
Current service cost	15	2	8	25	17	—	3	20
Settlements	—	(1)	—	(1)	—	—	—	—
Administration costs	3	2	—	5	2	3	—	5
Net expense recognized in SG&A ..	18	3	8	29	19	3	3	25
Interest income on plan assets	(64)	(4)	(2)	(70)	(18)	(4)	—	(22)
Interest expense on plan obligations	62	6	13	81	17	5	4	26
Net (income) expense recognized in finance costs	(2)	2	11	11	(1)	1	4	4
Net expense recognized in net (loss) earnings	16	5	19	40	18	4	7	29
Changes in demographic assumptions	—	—	—	—	—	3	—	3
Changes in financial assumptions	14	2	46	62	(39)	(10)	8	(41)
Experience adjustments	—	1	(5)	(4)	(1)	—	1	—
Return on plan assets (excluding interest income)	(29)	(12)	(1)	(42)	—	9	—	9
Net (income) expense recognized in other comprehensive income ...	(15)	(9)	40	16	(40)	2	9	(29)
Net expense (income) recognized in comprehensive income	1	(4)	59	56	(22)	6	16	—

Defined Contribution Pension Plans

Included in CDN Pension Plans' current service cost above is a \$13 million expense in fiscal 2016 (2015: \$12 million) that represents contributions made in connection with the defined contribution plans.

In fiscal 2016, Saks and L&T contributed \$15 million (2015: \$12 million) to their U.S. defined contribution plans.

Other Long Term Employee Benefits

During fiscal 2016, the Company paid \$6 million (2015: \$7 million) related to its other long term employee benefits.

Actuarial Assumptions

HBC and its non-executive employees contribute in equal amounts to HBC's defined contribution plans. The defined benefit plans are funded by employee contributions, as a percentage of salary, and by HBC to support the actuarial based pension benefits. The defined benefit plans provide benefits based on members' earnings and service.

The Company's pension and benefits obligation and expense are dependent on the assumptions used in calculating these amounts. These assumptions include discount rate, rate of compensation increase and overall Canadian health care cost trend rate.

	2016			2015		
	CDN Pension and Benefits Plans and Other Long Term Benefits	U.S. Pension Plans	European Pension Plans	CDN Pension and Benefits Plans and Other Long Term Benefits	U.S. Pension Plans	European Pension Plans
Defined benefit obligations, end of the fiscal year:						
Discount rate	3.00% - 3.70%	3.50%	1.40% - 2.00%	3.20% - 3.90%	3.60%	1.50% - 2.53%
Rate of compensation increase	3.00%	N/A	N/A	3.00%	N/A	N/A
Pensions-in-payment increase rate	N/A	N/A	1.50%	N/A	N/A	1.50%
Net benefit expense for the fiscal year:						
Discount rate	3.20% - 3.90%	3.60%	1.50% - 2.53%	2.75% - 3.40%	2.90%	2.20% - 2.60%
Rate of compensation increase	3.00%	N/A	N/A	3.00%	N/A	N/A
Health care trend rate:						
Defined benefit obligations, end of the fiscal year						
Immediate	6.21%	N/A	N/A	6.32%	N/A	N/A
Ultimate	4.50%	N/A	N/A	4.50%	N/A	N/A
Net benefit expense for the fiscal year						
Immediate	6.32%	N/A	N/A	6.43% - 6.50%	N/A	N/A
Ultimate	4.50%	N/A	N/A	4.50%	N/A	N/A
Life expectancy (years):						
Life expectancy from age 65						
Male	86.6	85.8	N/A	86.6	85.9	N/A
Female	89.1	87.5	N/A	89.0	87.6	N/A

Defined Benefit Obligation by Participant Status

	2016				2015			
	CDN Pension and Benefit Plans and Other Long Term Benefits ⁽¹⁾	U.S. Pension Plans	European Pension Plans	Total	CDN Pension and Benefit Plans and Other Long Term Benefits ⁽¹⁾	U.S. Pension Plans	European Pension Plans	Total
(millions of Canadian dollars)								
Active members	156	48	307	511	159	54	296	509
Vested deferred members	66	55	37	158	65	64	25	154
Retirees	449	74	247	770	456	81	235	772
Total	671	177	591	1,439	680	199	556	1,435

(1) Excludes plan liabilities of \$520 million (January 30, 2016: \$498 million) for defined contribution plan participants

Assets by Class and Level

Supplemental information regarding the assets of the Company's pension plans by class and level according to the fair value hierarchy (see note 18) is presented below:

(millions of Canadian dollars)	2016				2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
CDN Pension Plans								
Short-term and cash	36	10	—	46	37	11	—	48
Canadian equities	69	—	—	69	56	—	—	56
Foreign equities	69	—	—	69	60	—	—	60
Real estate equities	—	—	8	8	—	—	11	11
Private equity funds and other	—	—	216	216	—	—	219	219
Pooled funds	—	813	—	813	—	807	—	807
	174	823	224	1,221	153	818	230	1,201
U.S. Pension Plans								
Pooled funds	—	129	—	129	—	143	—	143
European Pension Plans								
Short-term and cash	4	—	—	4	—	—	—	—
Fixed interest securities	39	—	—	39	27	—	—	27
Assets held by insurance company	—	82	—	82	—	54	—	54
	43	82	—	125	27	54	—	81

Sensitivity analysis

The following table provides a sensitivity analysis of changes in the health care trend rate, discount rate, rate of compensation and life expectancy assumptions. The impacts of the sensitivity analysis are shown as increases (decreases) to defined benefit obligations. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

(millions of Canadian dollars)	2016			2015		
	CDN Pension and Benefit Plans and Other Long Term Benefits	U.S. Pension Plans	European Pension Plans	CDN Pension and Benefit Plans and Other Long Term Benefits	U.S. Pension Plans	European Pension Plans
Health care trend rate						
Effect of 1% increase	3	N/A	N/A	3	N/A	N/A
Effect of 1% decrease	(2)	N/A	N/A	(2)	N/A	N/A
Discount rate						
Effect of 1% increase	(67)	(11)	(84)	(68)	(14)	(78)
Effect of 1% decrease	81	13	106	82	15	100
Rate of compensation/inflation						
Effect of 1% increase	5	N/A	N/A	5	N/A	N/A
Effect of 1% decrease	(4)	N/A	N/A	(3)	N/A	N/A
Pensions-in payment increase rate						
Effect of 0.25% increase	N/A	N/A	16	N/A	N/A	15
Effect of 0.25% decrease	N/A	N/A	(15)	N/A	N/A	(15)
Life expectancy						
Effect of 1 year increase	22	4	N/A	20	4	N/A
Effect of 1 year decrease	(22)	(4)	N/A	(21)	(4)	N/A

Supplementary executive retirement plan

The Company guarantees an annual pension to certain executives in the supplementary executive retirement plan (the “SERP”) which is included in the CDN Pension Plans’ defined benefit obligation presented earlier. The Company’s guaranteed obligation pursuant to the SERP for service up to November 10, 2005 is secured by a trust fund for certain members. Total assets of the trust fund as at January 28, 2017 were \$66 million (January 30, 2016: \$66 million). The obligation in respect of service after November 10, 2005 is not secured.

Effective September 30, 2015, benefits under the existing defined benefit SERP ceased and members began accruing benefits under the DC SERP.

In addition, the Company has a U.S. DC SERP which is offered to certain executives.

NOTE 17. OTHER LIABILITIES

(millions of Canadian dollars)	2016	2015
Deferred landlord incentives.....	909	648
Deferred gain on sale and leaseback transaction	222	232
Operating lease intangible liability	104	88
Deferred proceeds from lease terminations	77	65
Income taxes payable.....	28	50
Financial liabilities.....	11	37
Other liabilities	375	247
	<u>1,726</u>	<u>1,367</u>
Current	137	126
Non-current.....	1,589	1,241
	<u>1,726</u>	<u>1,367</u>

Included in other liabilities is an interest-free advance of \$11 million (January 30, 2016: \$38 million) repayable in equal monthly installments of approximately \$2 million with a final balloon payment on June 17, 2017.

NOTE 18. FINANCIAL INSTRUMENTS

The following table provides a comparison of carrying and fair values of certain financial instruments as at January 28, 2017 and January 30, 2016:

(millions of Canadian dollars)	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Classified as fair value through profit or loss				
Warrants ⁽¹⁾	(5)	(5)	(31)	(31)
Financial derivatives designated as cash flow hedges				
Forward foreign currency contracts ⁽²⁾	(3)	(3)	17	17
Interest rate swaps ⁽³⁾	14	14	(1)	(1)
Classified as other liability				
Global Revolving Credit Facility	(434)	(434)	—	—
U.S. Revolving Credit Facility	—	—	(464)	(464)
U.S. Term Loan B	(657)	(648)	(700)	(699)
Lord & Taylor Mortgage	(523)	(523)	(349)	(349)
Saks Mortgage	(1,642)	(1,642)	(1,750)	(1,750)
Other loans	(7)	(7)	(10)	(10)
Other liability (note 17)	(11)	(11)	(38)	(38)

(1) Included in other liabilities — non- current

(2) Included in other current liabilities (2015: other current assets)

(3) Included in other current assets (2015: other liabilities — current)

As at January 28, 2017 and January 30, 2016, the fair value of all other current financial assets and liabilities approximate their carrying value due to their short-term nature.

The fair value of the Global Revolving Credit Facility, U.S. Revolving Credit Facility, U.S. Term Loan B, Lord & Taylor Mortgage and Saks Mortgage are valued using a discounted cash flow model, taking into consideration the fixed interest rate spread included in the related debt compared to fixed interest rate spreads on similar debt available in the market at the balance sheet dates.

The fair values of interest rate swaps, forward foreign currency contracts and warrants reflect the estimated amounts the Company would receive or pay if it were to settle the contracts at the reporting date, and are determined using valuation techniques based on observable market input data. The fair values of embedded foreign currency derivatives reflect the estimated amounts the Company would receive or pay to settle forward foreign exchange contracts with similar terms using valuation techniques using observable market input data.

The change in fair value of financial instruments designated as fair value through profit or loss that has been recognized in net (loss) earnings for the year is income of \$26 million (2015: \$37 million) relating to warrants.

The fair value of financial instruments are classified and measured according to the following fair value hierarchy:

- Level 1: fair value measurement using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurement using inputs other than quoted prices included within Level 1 that are either directly or indirectly observable; and
- Level 3: fair value measurement using unobservable inputs in which little or no market activity exists, therefore, requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

All financial instruments measured at fair value are valued using inputs other than quoted prices that are observable for the asset or liability and are therefore categorized as Level 2 according to the fair value hierarchy.

Fair values of Level 2 financial instruments are determined using valuation models which require the use of inputs. Those inputs are based on external, readily observable market inputs, including factors such as interest rate yield curves, currency rates and price and rate volatilities, as applicable. Interest rate derivatives are valued using a discounted cash flow model based on market interest rate curves at the period-end date. The forward foreign currency contracts and embedded derivatives are valued based on the difference between contract rates and spot rates at the period-end date, discounted to reflect the time-value of money.

The interest rate swaps are valued based on the difference between the exercise rate and the spot rate, volatility of exchange rates and market interest rates at the period-end date. Warrants are valued using the Black-Scholes option pricing model utilizing inputs including maturity, dividend yield, share price and volatility.

Capital management

The Company includes the following items in its definition of capital:

(millions of Canadian dollars)	(restated – note 5)	
	2016	2015
Loans and borrowings (including current portion)	3,162	3,180
Finance leases (including current portion)	523	527
Share capital	1,422	1,420
Contributed surplus	117	86
Retained earnings	477	1,029
	<u>5,701</u>	<u>6,242</u>

The Company's objectives when managing capital are to maintain ample liquidity to support the operations of the Company, prudently utilize long-term debt to finance the Company's long-term assets and investments and provide adequate returns to its shareholders.

The Company manages its capital structure, and makes adjustments to it, in light of changes to economic conditions and its strategic objectives. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new equity interests, incur additional debt or sell assets to reduce debt.

Financial risk management

The Company has exposure to credit, liquidity and market risk from its use of financial instruments. The following is a description of those risks and how the exposures are managed:

a) Credit risk

The Company's exposure to credit risk arises if a debtor or counterparty to a financial instrument fails to meet its obligations, and arises principally from short-term deposits, receivables, and derivative instruments that are in a gain position. Credit risk is mitigated by various techniques including selecting counterparties based on acceptable credit ratings and minimizing the concentration of positions with individual counterparties. There is no concentration of accounts receivable balances. The Company does not consider its exposure to credit risk to be material.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by continuously monitoring actual and projected cash flows, taking into account the seasonality of the Company's working capital needs, sales and earnings. The Global Revolving Credit Facility and the bank overdraft facilities are used to maintain liquidity.

Undiscounted contractual maturities (including interest) of the Company's financial liabilities are as follows:

(millions of Canadian dollars)	Trade payables	Derivatives	Loans and borrowings	Other liabilities	Total
Fiscal year:					
2017.....	1,653	6	565	11	2,235
2018.....	—	5	132	—	137
2019.....	—	—	132	—	132
2020.....	—	—	132	—	132
2021.....	—	—	612	—	612
Thereafter	—	—	3,265	—	3,265
	<u>1,653</u>	<u>11</u>	<u>4,838</u>	<u>11</u>	<u>6,513</u>

The Global Revolving Credit Facility matures February 5, 2021 and has been reflected as due in fiscal 2017 in the table above to be consistent with presentation in the consolidated balance sheets (note 14).

c) Market risk

The Company is exposed to foreign currency risk and interest rate risk:

i. Foreign currency risk

HBC is a Canadian dollar functional currency entity that purchases a significant amount of inventory for its Canadian operations in U.S. dollars. HBC enters into forward foreign exchange contracts to reduce the foreign exchange risk with respect to these U.S. dollar denominated purchases. The forward foreign exchange contracts are designated and accounted for as a cash flow hedge of U.S. dollar purchases.

In accordance with the Company's risk management policy, HBC may hedge up to 100% of all foreign currency transactions and economic exposures that are recognized in the consolidated balance sheets, or deemed as firm commitments (e.g. purchase orders that have been issued for goods and services in foreign currency). It may further hedge up to 70% of forecasted transactions (anticipated transactions for which there are no firm commitments). HBC's net U.S. dollar exposure is determined based on entities with the Canadian dollar as their functional currency.

HBC's net U.S. dollar exposure as at January 28, 2017 and January 30, 2016, excluding its investments in subsidiaries with a U.S. functional currency is as follows:

U.S. Dollar Exposure (millions of U.S. dollars)	2016	2015
Trade payables	(97)	(112)
Global Revolving Credit Facility	—	—
U.S. Term Loan B	(500)	(500)
Outstanding purchase orders	(17)	(20)
Forward foreign exchange contracts	379	266
U.S. dollar denominated inter-company receivables	265	255
U.S. dollar denominated inter-company payables	(1)	—
Total exposure	29	(111)

For fiscal 2016, HBC recorded a loss of \$35 million (2015: \$15 million) relating to the translation or settlement of foreign currency denominated monetary items.

The estimated gains and losses on derivatives designated as cash flow hedges expected to be reclassified to earnings within the next twelve months is a net gain of \$1 million.

The Company's net investments in L&T Acquisition and Gilt (U.S. dollars) and Kaufhof (Euros), whose functional currencies are not Canadian dollars present foreign exchange risks to HBC. The Company is using a net investment hedge to mitigate a portion of the U.S. dollar foreign exchange risk by designating U.S.\$245 million of U.S. Term Loan B as a hedge of the first U.S.\$245 million of net assets of L&T Acquisition. Foreign currency translation of the net earnings (loss) of L&T Acquisition, Gilt and Kaufhof impacts consolidated net (loss) earnings. Foreign currency translation of HBC's investments in L&T Acquisition, Gilt and Kaufhof impacts other comprehensive (loss) income.

In connection with the Galeria Kaufhof Acquisition, the Company had previously entered into 2 separate forward foreign exchange contracts (the "FX forward contracts") during the thirteen weeks ended August 1, 2015 that resulted in the Company eliminating its foreign currency exposure on a portion of the proceeds that were to be used in the Galeria Kaufhof Acquisition. Each FX forward contract was designated as a hedge of the exposure to changes in USD/EUR related to the then planned acquisition of Galeria Kaufhof denominated in Euro. Each hedging relationship was assessed to be highly effective throughout the designated hedging period which ended on September 30, 2015, the Galeria Kaufhof acquisition date.

The FX forward contracts generated a loss of \$6 million (and \$2 million of deferred taxes) which, prior to the close of the transaction, was included in other comprehensive (loss) income and represents the mark-to-market adjustment to fair value from the date of execution of each FX forward contracts to September 30, 2015. Upon close of the Kaufhof Acquisition, this amount was included as part of the purchase price allocation of the Kaufhof Property Business acquired by the HBS Joint Venture.

On an annualized basis, after considering the Company's hedge of exposure to foreign currency risk, a strengthening of the U.S. dollar against the Canadian dollar by 1% at January 28, 2017 would have impacted net (loss) earnings for fiscal 2016 by \$1 million (2015: nil).

On an annualized basis, a strengthening of the Euro against the Canadian and U.S. dollar by 1% at January 28, 2017 would have impacted net (loss) earnings for fiscal 2016 by \$4 million (2015: \$6 million).

ii. Interest rate risk

The Company's interest rate risk arises from short-term and long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. During fiscal 2016 and 2015, the Company's variable rate borrowings were denominated in both U.S. and Canadian dollars.

Cash flow interest rate risk is mitigated by the use of interest rate swaps.

The U.S. Term Loan B, Global Revolving Credit Facility and the Lord & Taylor Mortgage all have a variable component to interest based on LIBOR. There is exposure to interest rate cash flow risk if variable rates rise.

On July 19, 2016, the Company entered into 2 interest rate swap arrangements related to the Lord & Taylor Mortgage (note 14) to reduce its future cash flow exposure to floating interest rates. The Company fixed the interest rate at approximately 4.3% over the term of the mortgage. Each interest rate swap is designated as a cash flow hedge and accounted for using hedge accounting. The interest rate swaps are valued based on the difference between the exercise rate and the spot rate, volatility of exchange rates and market interest rates at the period-end date.

An increase of 100 basis points in LIBOR over the past year would have decreased net (loss) earnings for fiscal 2016 by U.S. \$5 million (2015: \$6 million). This sensitivity analysis does not include the impact that an increase of 1% in LIBOR rates would have on the fair value of the interest rate swaps.

On an annualized basis, an increase of 100 basis points in the selected interest rate over the past year would have decreased net (loss) earnings for fiscal year 2016 by \$2 million (2015: \$1 million).

iii. Other risks

Certain features of the warrants issued in connection with the acquisition of Saks result in the warrants being presented as derivative financial liabilities recorded at fair value in other liabilities in the consolidated balance sheets.

In relation to the 1.5 million warrants issued concurrently with the execution of the merger agreement ("Merger Agreement Warrants") to H.S. Investment L.P. ("HSILP"), an entity affiliated with Ontario Teachers' Pension Plan Board, during fiscal 2016, the Company recognized finance related income of \$6 million (2015: \$8 million) representing mark to market adjustments to fair value as at January 28, 2017. As at January 28, 2017, the fair value of the Merger Agreement Warrants was \$1 million (January 30, 2016: \$7 million).

In relation to the 5.25 million warrants issued to HSILP and West Face Long Term Opportunities Global Master L.P. ("WF Fund"), a fund advised by West Face Capital Inc., on November 4, 2013 upon closing of the acquisition of Saks ("Acquisition Warrants"), the Company recognized finance related income during fiscal 2016 of \$20 million (2015: \$29 million) representing mark to market adjustments to fair value as at January 28, 2017. As at January 28, 2017, the fair value of the Acquisition Warrants was \$4 million (January 30, 2016: \$24 million). The Company will continue to record mark to market gains and losses on the warrants until the earlier of the date of exercise or expiry.

The fair values of the warrants were determined using the Black-Scholes option pricing model using the assumptions outlined in the table below:

Share price – January 28, 2017.....	\$10.36	
Share price – January 30, 2016.....	\$17.30	
	Jan 28, 2017	Jan 30, 2016
Expected volatility	42%	42%
Dividend yield	1.93%	1.16%
Risk free interest rate	1.05%	0.49%
Expected life – Merger Agreement Warrants.....	1.5 years	2.5 years
Expected life – Acquisition Warrants.....	1.8 years	2.8 years

NOTE 19. SHARE BASED COMPENSATION

Option Plan

The Company grants options to certain employees that allow each participant to exercise their share options to either subscribe for common shares or receive a cash payment at the option of the Company. The cash payment is calculated as the difference between the market price of the common shares as at the exercise date and the exercise price of the share option. The exercise price of each option equals the weighted average of the share price for the 5 day period preceding the date of grant. The Company uses the fair value method to account for share options issued which is established on the date of grant using the Black-Scholes

option pricing model.

Senior executive options vest over 3 to 5 years. The options have 7 to 10 year terms and will be forfeited immediately in the event a grantee's employment is terminated for cause, and after forty-five days in the event of a voluntary resignation or termination without cause. Share options are subject to a pro-rata vesting schedule if the grantee's employment is terminated. Of the senior executive options outstanding, 1,538,071 (2015: 1,623,907) shares have a performance condition and vest only if the weighted average closing share price for the twenty trading day period ending on the vesting date is at least 50% higher than the offering price of the company's IPO or if such performance condition is met after the vesting date but prior to the expiry date.

Senior executive option transactions were as follows:

	2016		2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year.....	10,656,936	\$20.37	8,945,597	\$18.07
Granted	6,750,896	\$16.94	3,488,062	\$25.64
Forfeited.....	(1,118,268)	\$19.25	(1,776,723)	\$19.11
Outstanding at end of year	16,289,564	\$19.03	10,656,936	\$20.37
Share options exercisable at end of year.....	1,447,634	\$17.00	—	—

During fiscal 2016, the grant date fair value of senior executive options granted was \$29 million (2015: \$22 million).

The following table summarizes information about the senior executive share options outstanding and exercisable as at January 28, 2017:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at Jan 28, 2017	Weighted average exercise price
\$15.00 to \$15.49.....	221,975	6.4	\$15.01	—	—
\$16.00 to \$16.49.....	285,482	6.0	\$16.28	—	—
\$16.50 to \$16.99.....	133,109	6.7	\$16.96	—	—
\$17.00 to \$17.49.....	11,004,752	6.0	\$17.01	1,447,634	\$17.00
\$17.50 to \$17.99.....	819,317	4.3	\$17.61	—	—
\$23.50 to \$23.99.....	2,143,217	5.3	\$23.72	—	—
\$24.00 to \$24.49.....	100,000	5.7	\$24.22	—	—
\$28.00 to \$28.49.....	1,581,712	5.4	\$28.34	—	—
Total.....	16,289,564	5.8	\$19.03	1,447,634	\$17.00

Options issued to other management have a vesting period of 3 years and have a 7 year term with no performance condition. The options are forfeited immediately in the event a grantee's employment is terminated for cause, and after forty-five days in the event of a voluntary resignation or termination without cause. Share options are subject to a pro-rata vesting schedule if the grantee's employment is terminated.

Other management option transactions were as follows:

	2016		2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year.....	1,843,600	\$19.72	1,729,400	\$17.35
Granted	332,800	\$16.70	516,800	\$27.13
Forfeited.....	(314,800)	\$19.80	(402,600)	\$19.09
Outstanding at end of year	1,861,600	\$19.13	1,843,600	\$19.72
Share options exercisable at end of year.....	615,200	\$17.03	563,600	\$17.00

During fiscal 2016, the grant date fair value of other management options granted was \$1 million (2015: \$3 million).

The following table summarizes information about the other management share options outstanding and exercisable as at January 28, 2017:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at Jan 28, 2017	Weighted average exercise price
\$15.00 to \$15.49.....	43,200	6.4	\$15.01	—	—
\$16.00 to \$16.49.....	16,000	6.0	\$16.28	—	—
\$17.00 to \$17.49.....	943,200	3.9	\$17.03	615,200	\$17.03
\$17.50 to \$17.99.....	495,467	4.3	\$17.61	—	—
\$23.50 to \$23.99.....	86,400	5.6	\$23.86	—	—
\$28.00 to \$28.49.....	277,333	5.4	\$28.34	—	—
Total.....	1,861,600	4.4	\$19.13	615,200	\$17.03

The assumptions used to measure the fair value of senior executive and other management options granted during fiscal 2016 and 2015 under the Black-Scholes option pricing model at the grant date were as follows:

	2016	2015
Expected dividend yield.....	1.2% to 1.3%	0.7% to 1.2%
Expected share price volatility.....	32.9% to 33.4%	28.0% to 31.2%
Risk-free interest rate.....	0.6% to 0.7%	0.4% to 0.8%
Expected life of options (years).....	4 to 5	5.0

Phantom share plan

The Company grants phantom shares to certain employees. During fiscal 2016, the Company granted 324,335 (2015: 109,250) phantom share units with a grant date fair value of \$5 million (2015: \$3 million). Phantom share units have a vesting period of 3 years that will be settled in common shares of the Company or in cash at the Company's option. As at January 28, 2017, 418,090 (January 30, 2016: 172,100) phantom share units were outstanding.

Restricted share units

The Company grants restricted share units ("RSUs") to certain employees. During fiscal 2016, the Company granted 2,001,196 (2015: 105,247) RSUs with grant date fair values of \$34 million (2015: \$3 million). During fiscal 2016, the Company granted 21,621 RSUs (2015: 7,627) as dividend equivalents. The fair values of the grants were determined based on the Company's share price at the date of the grant. RSUs were granted under similar terms and conditions as those granted concurrently with the IPO. RSUs granted in fiscal 2016 vest over 1, 2 and 3 year terms. RSUs granted prior to fiscal 2016 vest over a term of 3 years. As at January 28, 2017, 2,040,949 (January 30, 2016: 299,103) RSUs were outstanding.

Deferred share units

The Company grants deferred share units ("DSUs") to members of the Board of Directors. During fiscal 2016, the Company granted 87,775 (2015: 59,506) deferred share units ("DSUs") with grant date fair values of \$2 million (2015: \$2 million). During fiscal 2016, the Company granted 3,593 DSUs (2015: 1,445) as dividend equivalents. The fair values of the grants were determined based on the Company's share price at the date of the grant. No Director will have the right to receive any benefit under the DSU plan until the participant ceases to be a Director. As at January 28, 2017, 262,540 (January 30, 2016: 171,172) DSUs were outstanding.

Performance share units

Performance share units (“PSUs”) transactions were as follows:

	2016	2015
Outstanding at beginning of year	1,875,811	1,662,755
Granted.....	600,227	625,998
Settled	(517,942)	—
Forfeited.....	(168,599)	(412,942)
Outstanding at end of year	1,789,497	1,875,811
Weighted average contract life (years) remaining at end of year	1.2	1.4

During fiscal 2016, the grant date fair value of the PSUs granted was \$10 million (2015: \$18 million), of which \$8 million (2015: \$13 million) is expected to vest. The fair value was determined based on the Company’s share price at the date of the grant. The fair value was determined based on the Company’s share price at the date of the grant. Prior to fiscal 2016, the fair value was adjusted to reflect PSU’s non-entitlement of dividends. During fiscal 2016, the Company granted 6,415 PSUs as dividend equivalents. The PSUs vest 3 years from the date of grant at the end of that calendar year and are forfeited immediately in the event a grantee’s employment is terminated for cause, and after forty-five days in the event of a voluntary resignation or termination without cause, subject to a pro-rata vesting schedule if the grantee’s employment is terminated.

Performance restricted share units

During fiscal 2016, the Company granted 22,517 (2015: 10,632) performance restricted share units as dividend equivalents to senior executives. During fiscal 2015, the Company granted 1,611,333 PRSUs with a total grant date fair value of \$16 million. The PRSUs vest if the Company’s shares achieve at least a 10% Total Shareholder Return (“TSR”) over the 5 year performance period from the date of grant and the senior executive is still employed at the end of a service period of 7 years. The TSR is calculated using the sixty-day trading day volume-weighted average stock price immediately prior to the beginning and ending of the 5 year performance period. If this increase in TSR is not met, the PRSUs lapse without vesting. If this increase in TSR is met, but the Company is considered to have materially over-performed or under-performed, which is defined as ranking within the top 25% or bottom 50% of the TSR of peer companies (“Peer Group”) in both Canada and the United States, respectively, then at the discretion of the Company, the number of PRSUs which vest can be adjusted upward by up to 25% (in the cases of over performance relative to the Company’s Peer Group) or adjusted downward by up to 75% (in the cases of under-performance relative to the Company’s Peer Group).

Share based compensation expense

Total share based compensation expense for fiscal 2016 and 2015 is summarized as follows:

(millions of Canadian dollars)	2016	2015
Share options	24	15
PSUs	(10)	9
RSUs.....	16	3
Other share based compensation ⁽¹⁾	5	4
	35	31

(1) Includes phantom shares, DSUs and PRSUs.

During fiscal 2016, the Company’s regular review of performance targets and vesting conditions resulted in a reduction to cumulative expenses recorded in the current year for certain share based awards of \$26 million.

During fiscal 2016, \$4 million (2015: \$5 million) of share based compensation was settled. Of the total settlement, \$2 million of common shares were purchased on the open market while the Company issued common shares for the remainder.

NOTE 20. SHARE CAPITAL

As at January 28, 2017, the authorized shares of HBC consist of an unlimited number of common shares and an unlimited number of preferred shares issuable in series.

The holders of common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders.

Common Shares

The common shares issued and outstanding is as follows:

(millions of Canadian dollars, except shares)	Number of Shares	Share Capital (\$)
Issued and outstanding as at January 30, 2016	182,100,001	1,420
Common shares issued as settlement of share based awards	151,144	2
Issued and outstanding as at January 28, 2017	182,251,145	1,422

During the year ended January 28, 2017, the Company declared and paid dividends to the holders of the common shares totaling \$36 million (2015: \$36 million).

Preferred Shares

The preferred shares are issuable at any time and from time to time in one or more series. The Board of Directors are authorized to fix before issue the number of, the consideration per share of, the designation of, and the provisions attaching to, the preferred shares of each series, which may include voting rights. The preferred shares of each series will rank on parity with the preferred shares of every other series and will be entitled to preference over the common shares and any other shares ranking junior to the preferred shares with respect to payment of dividends and distribution of any property or assets in the event of the Company's liquidation, dissolution or winding-up, whether voluntary or involuntary.

As at January 28, 2017 and January 30, 2016, there were no preferred shares issued and outstanding.

Warrants

As at January 28, 2017 and January 30, 2016, the 6.75 million warrants issued to HSILP and WF Fund as consideration for the equity commitments are outstanding. The warrants are exercisable into common shares of the Company at an exercise price of \$17.00 per warrant which in certain circumstances is subject to adjustment. The warrants expire on November 4, 2018 (note 18).

NOTE 21. (LOSS) EARNINGS PER COMMON SHARE

Net (loss) earnings per common share and weighted average common shares outstanding are calculated as follows:

(millions of Canadian dollars or shares except per share amounts)	2016	2015
Net (loss) earnings for basic earnings per share	(516)	387
Impact of options and warrants	—	(37)
Net (loss) earnings for diluted earnings per share	(516)	350
Weighted average common shares outstanding	182	182
Dilutive effect of options and warrants	—	4
Diluted weighted average common shares outstanding	182	186
(Loss) earnings per common share		
Basic	(2.83)	2.13
Diluted	(2.83)	1.88

Excluded from the computation of diluted net (loss) earnings per common share were 26,902,160 (2015: 3,344,861) potentially dilutive instruments, as they were anti-dilutive.

NOTE 22. RELATED PARTY TRANSACTIONS

Transactions between HBC and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Details of transactions with other related parties are disclosed below.

On May 6, 2011, a subsidiary of L&T Acquisition entered into a 2 year lease with SP 35 L.P. (the “Landlord”) for approximately 31,000 square feet in Shrewsbury, NJ. The lease was amended on January 17, 2013 to include 3 renewal options. The first 2 renewal options are for terms of 2 and 3 years at an annual cost of U.S.\$440 thousand. The third renewal option is for a term of 5 years at an annual cost of U.S.\$484 thousand. The first and second renewal options were exercised. Amounts charged to the Company under the rental arrangement for fiscal 2016 were U.S.\$440 thousand (2015: U.S.\$440 thousand). The Landlord is an affiliate of National Realty & Development Corp. (“NRDC”). Richard and Robert Baker, the principals of NRDC, are directors of the Company.

On May 18, 2015, a subsidiary of L&T Acquisition entered into a 10 year lease with Mack Properties Co. No. 6 LLC (“Mack Properties”) for approximately 35,000 square feet in Paramus, NJ. The lease has 2 renewal options for terms of 10 and 5 years, respectively. The rent commencement date was November 19, 2015 and amounts charged to the Company under the rental arrangement for fiscal 2016 were U.S.\$875 thousand (2015: U.S.\$175 thousand). Mack Properties is owned by William Mack, a director of the Company.

HBC has entered into vendor agreements with 2 related companies in which Earl Rotman, a director of the Company, has an ownership interest. The agreements relate to menswear and womenswear sold in Saks and DSG. During fiscal 2016, HBC purchased goods of approximately \$2 million (2015: \$2 million) from these companies, and has committed to ordering approximately \$2 million for fiscal 2017.

In connection with the closing of its agreements to sell and leaseback various U.S. properties to the HBS Joint Venture, HBC paid for certain cash reserves and financing and operating expenses on behalf of the HBS Joint Venture for which the Company received a promissory note in the amount of \$8 million. The promissory note was interest-free and matured on July 22, 2016. As at January 28, 2017, the promissory note was repaid in full (January 30, 2016: \$4 million).

The Company entered into management agreements with the joint ventures upon their closing. Pursuant to the management agreements, HBC is reimbursed for expenses relating to advisory and administrative services it provides to the RioCan-HBC JV and the HBS Joint Venture. Reimbursement related to expenses for fiscal 2016 were \$628 thousand (2015: \$241 thousand).

During fiscal 2016, the Company incurred rent expense of \$531 million (2015: \$225 million) related to both the RioCan-HBC JV and the HBS Joint Venture. As at January 28, 2017, other current assets included prepaid rents to the HBS Joint Venture of nil (January 30, 2016: \$13 million). The Company also paid additional rent in the amount of \$22 million to reimburse the HBS Joint Venture for the Company’s share of costs incurred to operate the properties.

The Company has outstanding receivables in the amount of \$17 million as at January 28, 2017 (January 30, 2016: \$46 million), due from the HBS Joint Venture with respect to transactions carried out on behalf of the joint venture.

The Company also has an outstanding payable to the HBS Joint Venture in the amount of \$8 million as at January 28, 2017 (January 30, 2016: nil), which has been included in other liabilities.

In addition, the Company has an outstanding loan payable to the HBS Joint Venture in the amount of \$4 million as at January 28, 2017. The loan matures on January 31, 2018 and carries an interest rate of 1.9% per annum.

Included in other current liabilities as at January 28, 2017 are promissory notes in the aggregate amount of \$12 million to both the RioCan-HBC JV and RioCan (\$6 million each) which pertain to a tenant improvement advance from the joint venture to the Company. The promissory note is interest-free and will be settled over time as HBC satisfies its tenant improvement commitment.

All of the above amounts have been recorded at the exchange value of the transaction.

NOTE 23. COMPENSATION

The remuneration of key management personnel for fiscal 2016 and 2015 is as follows:

(millions of Canadian dollars)	2016	2015
Short-term benefits.....	17	23
Post-employment benefits.....	2	2
Other long-term benefits	—	3
Share based compensation	14	13
	33	41

The compensation noted in the above table forms part of the total employee benefits expense recorded by the Company in fiscal 2016 totaling \$3,230 million (2015: \$2,350 million).

NOTE 24. CONTINGENT LIABILITIES

As at January 28, 2017, the Company is involved in and potentially subject to various claims by third parties arising out of the normal course and conduct of its business. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, tax assessments and reassessments, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to the consolidated financial statements, but may have a material impact in future periods.

NOTE 25. GUARANTEES

In the normal course of business, the Company enters into numerous agreements that may contain features that meet the definition of a guarantee. A guarantee is defined to be a contract (including an indemnity) that contingently requires the Company to make payments to the guaranteed party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable that is related to an asset, a liability or an equity security of the counterparty; (ii) failure of another party to perform under an obligating agreement; or (iii) failure to pay its indebtedness when due.

The Company has provided the following significant guarantees and other commitments to third parties:

Standby letters of credit

Standby and documentary letters of credit are used in connection with certain obligations. The aggregate gross potential liability related to the Company's letters of credit is approximately \$76 million as at January 28, 2017 (January 30, 2016: \$41 million) (note 14).

Lease agreements

Based on regular reviews of its real estate portfolio and store locations, the Company has assigned certain leases to third parties. The Company remains contingently liable for these lease obligations in the event any of the assignees are in default on their lease obligations. The minimum rent, which does not include other lease related expenses, is approximately \$114 million as at January 28, 2017 (January 30, 2016: \$192 million). In addition, the Company could be required to make payments for percentage rents, realty taxes, and common area costs. No amount has been accrued in the consolidated financial statements with respect to these lease agreements.

Included in the Company's lease agreements guarantees as at January 28, 2017 are \$79 million (January 30, 2016: \$98 million) with respect to the sale of the Northern Department Store Group to The Bon-Ton Stores, Inc. in 2006. The terms of these guaranteed leases can extend up to the year 2024.

In 2008, the Company assigned 9 leases to Les Ailes de la Mode, Inc. ("Les Ailes") and obtained a full, unconditional and continuing guarantee and indemnity for the obligations thereunder from its related company, International Clothiers Inc. The remaining leases have future minimum lease payments of \$11 million as at January 28, 2017 (January 30, 2016: \$29 million). In December 2015, Les Ailes filed a notice of intention to make a proposal under section 50.4 of the Bankruptcy and Insolvency Act. As at January 28, 2017, the Company had a legal provision of \$11 million with respect to these lease agreements recorded in provisions in the consolidated balance sheet.

Other indemnification agreements

In the normal course of business, the Company has entered into agreements pursuant to which the Company provides indemnification commitments to counterparties. These indemnification commitments require the Company to compensate counterparties for costs incurred as a result of breaches of representations or warranties, compliance with laws or regulations or as a result of claims that may be suffered by the counterparty as a result of the transaction or occupancy of a particular location.

The Company also has director and officer indemnification agreements. The terms of the indemnification commitments will vary based on the contract and, in some instances, are subject to a cap on liability. Given the nature of these indemnification commitments, the Company is unable to estimate the maximum potential liability but does not expect to make any significant payments with respect to these commitments.

NOTE 26. SEGMENTED REPORTING

The Company has 4 operating segments (DSG which includes Hudson's Bay, Lord & Taylor, and Home Outfitters; Saks Fifth Avenue; the Kaufhof Banners; and HBC Off Price) which are aggregated into 1 reportable segment, Department Stores, as they have similar economic characteristics, products and services and customers. The Department Stores segment earns revenue from the sale of fashion apparel, accessories, cosmetics and home products to customers in a similar target market, is managed by the Chief Operating Decision Maker and supported by an integrated shared services function.

The following summarizes retail sales, operating (loss) income, non-current assets and total assets by geographic area:

(millions of Canadian dollars)	2016	2015
Retail sales		
Canada.....	3,283	2,957
United States	6,349	6,336
Europe	4,823	1,869
	<u>14,455</u>	<u>11,162</u>
 (millions of Canadian dollars)	 2016	 2015
Operating (loss) income		
Canada.....	(23)	148
United States	(48)	512
Europe	(297)	22
	<u>(368)</u>	<u>682</u>
 (millions of Canadian dollars)	 2016	 2015 (restated – note 5)
Non-current assets⁽¹⁾		
Canada.....	959	806
United States	4,514	4,580
Europe	1,616	1,565
	<u>7,089</u>	<u>6,951</u>
Total assets		
Canada.....	2,217	2,189
United States	7,375	7,764
Europe	2,619	2,692
	<u>12,211</u>	<u>12,645</u>

(1) Excludes deferred tax assets, pensions and employee benefits and investments in joint ventures

NOTE 27. CHANGES IN OPERATING WORKING CAPITAL

(millions of Canadian dollars)	2016	2015
Decrease (increase) in trade and other receivables	56	(150)
Increase in inventories	(76)	(99)
Decrease (increase) in other assets	13	(52)
Increase (decrease) in trade and other payables, accrued liabilities and provisions.....	91	(52)
Increase in other liabilities	100	103
	<u>184</u>	<u>(250)</u>

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STOCK EXCHANGE LISTING

Toronto Stock Exchange: "HBC"

ANNUAL GENERAL MEETING

Tuesday, June 13, 2017
at 2:30pm ET

Arcadian Lofts
401 Bay Street
Simpson Tower 8th Floor
Toronto, ON
CA

HBC CSR REPORT

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HUDSON'S BAY COMPANY

HBC IS A **DIVERSIFIED GLOBAL RETAILER** FOCUSED ON DRIVING THE PERFORMANCE OF HIGH QUALITY STORES AND THEIR ALL-CHANNEL OFFERINGS. GROWING THROUGH ACQUISITIONS, AND UNLOCKING THE VALUE OF REAL ESTATE HOLDINGS. **FOUNDED IN 1670**, HBC IS THE OLDEST COMPANY IN NORTH AMERICA. HBC'S PORTFOLIO TODAY INCLUDES FORMATS RANGING FROM LUXURY TO PREMIUM DEPARTMENT STORES TO OFF PRICE FASHION SHOPPING DESTINATIONS, WITH MORE THAN 480 STORES AND OVER 66,000 EMPLOYEES AROUND THE WORLD.

HBC'S **LEADING BANNERS ACROSS NORTH AMERICA AND EUROPE** INCLUDE HUDSON'S BAY, LORD & TAYLOR, SAKS FIFTH AVENUE, GILT, SAKS OFF 5TH, GALERIA KAUFHOF, THE LARGEST DEPARTMENT STORE GROUP IN GERMANY, AND BELGIUM'S ONLY DEPARTMENT STORE GROUP GALERIA INNO.

HBC HAS **SIGNIFICANT INVESTMENTS IN REAL ESTATE** JOINT VENTURES. IT HAS PARTNERED WITH SIMON PROPERTY GROUP INC. IN THE HBS GLOBAL PROPERTIES JOINT VENTURE, WHICH OWNS PROPERTIES IN THE UNITED STATES AND GERMANY. IN CANADA, IT HAS PARTNERED WITH RIOCAN REAL ESTATE INVESTMENT TRUST IN THE RIOCAN-HBC JOINT VENTURE.



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