HUDSON'S BAY COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THIRTEEN AND FIFTY-TWO WEEKS ENDED FEBRUARY 2, 2019

Dated April 3, 2019

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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 February 2, 2019. 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 2, 2019, unless otherwise indicated.

General Information

Hudson's Bay Company is a Canadian corporation amalgamated under the Canada Business Corporations Act. On November 26, 2012, the Company completed an initial public offering of its common shares, which trade on the Toronto Stock Exchange. On December 6, 2017, the Company issued series "A" 8-year mandatory convertible preferred shares ("Convertible Preferred Shares") to an affiliate of Rhône Capital LLC ("Rhône") for an aggregate purchase price of U.S.$500 million. The Convertible Preferred Shares are convertible into the Company's common shares (the "Common Shares").

References in this MD&A to Department Store Group ("DSG") refer, collectively to, the Hudson's Bay, Lord & Taylor and Home Outfitters businesses. HBC Europe refers collectively to, Galeria Kaufhof, including 18 German properties, Galeria INNO, Saks Fifth Avenue OFF 5TH Europe ("Saks OFF 5TH Europe") and Hudson's Bay Netherlands businesses. References to the European Department Store Group (the "EDS Group") refer to a newly formed retail joint venture, European Department Store Holding S.à r.l.

Retail

In January 2012, through an internal reorganization, Lord & Taylor LLC ("Lord & Taylor") became a wholly owned subsidiary of HBC.

On November 4, 2013, the Company completed its acquisition of all of the outstanding shares of Saks Incorporated ("Saks"), for U.S.$16 per share, in an all-cash transaction valued at U.S.$2,973 million, including assumed debt (the "Saks Acquisition").

On September 30, 2015, the Company completed the acquisition of GALERIA Holding GmbH ("Kaufhof"), the parent company of Germany's leading department store Galeria Kaufhof and Belgium's only department store Galeria INNO, with an enterprise value of €2.5 billion and a cash purchase price of €2.3 billion (the "Kaufhof Acquisition"). On November 30, 2018, the Company completed the combination of the retail operations of HBC Europe and SIGNA Retail Holdings GmbH's ("SIGNA") Karstadt Warenhaus GmbH ("Karstadt") to form the EDS Group. SIGNA has a 50.01% interest and HBC has a 49.99% interest in the EDS Group.

On February 1, 2016, the Company completed the acquisition of Gilt Groupe Holdings Inc. and its subsidiaries ("Gilt"), and on July 27, 2018, the Company completed the divestment of the Gilt business.

Real estate

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 February 2, 2019, HBC had an 87.4% ownership interest in the RioCan-HBC JV. 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, which, on September 2015, became a wholly-owned subsidiary of HBS Global Properties LLC (the "HBS Joint Venture"). The HBS Joint Venture focuses on credit tenant, net-leased and multi-tenant retail buildings in the United States. As of February 2, 2019, HBC had a 62.4% ownership interest in the HBS Joint Venture.

In conjunction with the Kaufhof Acquisition, the HBS Joint Venture acquired 41 properties from Kaufhof in September 2015. On October 7, 2018, the HBS Joint Venture distributed to its partners the net assets of the 41 German properties to form a new real estate joint venture (the "European Real Estate JV"). On November 30, 2018, a subsidiary of SIGNA acquired a 12.4% equity interest from HBC together with a 37.6% equity interest from other limited partners in the European Real Estate JV, resulting in a 50-50 joint venture between HBC and SIGNA. On January 31, 2019, HBC completed the sale of a 50% interest in 18 German properties of HBC Europe to a subsidiary of SIGNA. These properties are included in the European Real Estate JV. See both the "Fourth Quarter Events" section and the "Real Estate Joint Ventures" section of this MD&A.

On February 8, 2019, HBC sold the Lord & Taylor Fifth Avenue building to an affiliate of WeWork Property Investors ("WPI") in a transaction valued at $1.1 billion (U.S.$850 million) for cash proceeds of approximately $950 million (U.S. $725 million) and a $163 million (U.S.$125 million) preferred equity interest in the building, held by HBC through a joint venture structure. See both the "Fourth Quarter Events" and "Subsequent Events" sections of this MD&A.

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").

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 February 2, 2019 ("Fiscal 2018"). This MD&A also references the fifty-two week period ending February 1, 2020 ("Fiscal 2019"), and the fifty-three week period ended February 3, 2018 ("Fiscal 2017"). The fourth quarter of Fiscal 2018 included thirteen weeks as compared to fourteen weeks for the fourth quarter of Fiscal 2017. All comparable sales figures contained in this MD&A are for the thirteen week period ended February 2, 2019 compared to the thirteen week period ended February 3, 2018.

Discontinued Operations

As a result of the Company's divestment of its controlling interest in HBC Europe, the operations of HBC Europe, together with the operations of the Gilt business, have been presented as discontinued operations and the Company's operational results have been retroactively restated, as required. Net earnings (loss) of discontinued operations for Fiscal 2018 includes the financial results of the Gilt and HBC Europe businesses for the periods from February 4, 2018 to their respective disposal dates. See the "Supplemental Information - Discontinued Operations" section of this MD&A.

Investment in the EDS Group

The Company's investment in the EDS Group joint venture is accounted for using the equity method. Under the equity method, the Company recognizes its share of the profit or loss of the EDS Group in its statements of earnings or loss. The EDS Group's fiscal year end is September 30. The Company records its share of net income or loss in the EDS Group on a one-month lag. As a result, in Fiscal 2018, the Company recognized earnings related to the EDS Group for the period from date of acquisition, November 30, 2018, to December 31, 2018. To the extent that the EDS Group has material transactions during the one-month lag period, the Company records its share of income or loss related to these transactions in the current reporting period.

Forward-Looking Statements

Certain statements made in this MD&A, including, but not limited to, the Company's ability to grow sales, including digital sales, increase margins, and improve profitability, expected improvement in financial performance in 2019, including cadence of Adjusted EBITDA (as defined herein) in 2019, the anticipated completion of the follow on real estate transactions with SIGNA, including the sale of two German properties, the proceeds therefrom, the success of the strategic partnership with SIGNA, including the combination of HBC Europe's retail operations with SIGNA's retail operations and the anticipated performance of the combined retail operating company; the expected transformation of the Lord & Taylor Fifth Avenue building into a higher use, the amount of gain on the Lord & Taylor Fifth Avenue building recognized in the first quarter of Fiscal 2019, the real estate joint venture, the expected closures of Lord & Taylor stores and the closing of Home Outfitters stores, including the timing of the closure of Home Outfitters business and the expectation that, once completed, the closures will be slightly favorable to Adjusted EBITDA, the timing and expected impact of the major renovations of the New York Saks Fifth Avenue flagship store, the Company's ability to increase productivity of HBC's real estate, pursue and achieve accretive asset sales, diversify the assets in HBC's real estate joint ventures, the ability to enhance margins, leverage selling, general and administrative expenses and improve cash flow through improved inventory management and an improved cost structure, the Company's plan to reduce total inventory, the Company's anticipated North American capital investments, net of landlord incentives, for Fiscal 2019, continued investment in digital capabilities, potential future obligations with respect to the Bon-Ton Lease Guarantees (as defined herein) and the Netherlands Leases (as defined herein), the Company's prospects for future growth opportunities, including targeting acquisitions, ongoing store openings and other statements that are not historical facts, are forward-looking. Often, but not always, forward looking statements can be identified by the forward-looking terminology such as the words "may", "will", "expect", "believe", "estimate", "plan", "could", "should", "would", "anticipate", "foresee", "continue", "intends", "trends", "indications", "anticipates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements.

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 Adjusted EBITDA and capital investments, including, among others, the Company's anticipated Fiscal 2019 total North American capital investments, net of landlord incentives, to be between $300 million and $325 million, are certain assumptions regarding, among others, the overall retail environment and currency exchange rates for Fiscal 2019. Specifically, the Company has assumed the exchange rate of USD:CAD = 1:1.31 for Fiscal 2019. These current assumptions, although considered reasonable by the Company at the time of preparation, may prove to be incorrect. Readers are cautioned that actual Adjusted EBITDA and 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 or achievements or 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 "Risk Factors" section of this MD&A and the Company's Annual Information Form ("AIF"): ability to be successfully complete the remaining components of the strategic partnership with SIGNA, the ability to realize the benefits from the strategic partnership with SIGNA, the risks related to not running day-to-day management and operations of the combined European retail business, the ability of the combined European retail business to successfully maintain certain key relationships following the closing of the strategic partnership transactions with SIGNA, the risks related to accounting for the combined European retail business using the equity method of accounting, ability to execute retailing growth strategies, ability to continue comparable store sales growth, changing consumer preferences, demands and fashion trends, marketing and advertising program success, damage to brands and dependence on vendors, ability to realize synergies and growth from strategic acquisitions, ability to make successful acquisitions, investments, expansions and divestitures, ability to realize savings from the implementation of the transformation plan and ability to further reduce overhead, effect of actions of activities shareholders, ability to successfully manage inventory levels, loss or disruption in centralized distribution centers, ability to upgrade and maintain the Company's information systems to support the needs of the Company and protect against cyber-security threats, risks related to privacy breaches, risks relating to the Company's size and scale, loss of key personnel, ability to attract and retain qualified employees, deterioration in labor relations, risks related to labor costs and other challenges from a large workforce, ability to maintain pension plan surplus, funding requirements of Saks' pension plan, limits on insurance policies, loss of intellectual property rights, insolvency risk of parties with which we do business or their unwillingness to perform their obligations, exposure to changes in the real estate market, loss of flexibility with respect to properties in the real estate joint ventures, successful operation of the real estate joint ventures to allow us to realize the anticipated benefits or the ability to effect a future monetization transaction with each of the real estate joint ventures, exposure to environmental liabilities, liabilities associated with third parties who have assumed leases from the Company, changes in demand for current real estate assets, increased competition, change in spending of consumers, extreme weather conditions or natural disasters, international operational risks, fluctuations in the U.S. dollar, Canadian dollar, Euro and other foreign currencies, increase in raw material costs, seasonality of business, ability to manage indebtedness and cash flow, risks related with increasing indebtedness, restrictions of existing credit facilities reducing flexibility, loss of flexibility due to restrictive debt covenants, future availability of financing, limitations related to a decrease in credit rating, 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 (as defined herein) by significant shareholders could affect share price, constating documents discouraging favorable takeover attempts, effect of existence and creation of Convertible Preferred Shares on holders of Common Shares, increase in regulatory liability, increase in product liability or recalls, increase in litigation, inability to comply with laws and regulations that impact the Company's business could lead to litigation or regulatory actions against the Company, non-compliance with changing privacy regulatory environment, exposure to significant additional costs and expenses relating to losing foreign private issuer status in the future, changes in accounting standards, other risks inherent to the Company's business and/or factors beyond the Company's control which could have a material adverse effect on us. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time. 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 EBITDA of the EDS Group, Combined Adjusted EBITDA, Adjusted EBITDAR, Adjusted EBITDAR for the EDS Group, Adjusted selling, general & administrative expenses ("Adjusted 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.

The non-IFRS measures identified below and in applicable tables exclude the effect of discontinued operations related to the divestments of Gilt and HBC Europe. Also see the "Supplemental Information – Discontinued Operations" section of this MD&A.

Gross profit is defined as revenue less cost of sales.

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 real estate joint ventures.

Adjusted EBITDA is defined as EBITDA adjusted to exclude: (A) gain on sale of investment in real estate joint venture, (B) share of net earnings (loss) in real estate joint ventures, (C) share of net loss in the EDS Group, (D) dilution gains from investments in joint ventures, (E) normalization adjustments which include: (i) non-cash pension expense, (ii) impairment and other non-cash items, (iii) non-cash share based compensation expense, (iv) business and organization restructuring/realignment charges, (v) merger/acquisition costs and expenses and (vi) adjustments, including those related to purchase accounting, if any, related to transactions that are not associated with day-to-day operations; and (F) joint venture adjustments which include net rent expense to joint ventures, cash rent to joint ventures and cash distributions from joint ventures. Cash rent to joint ventures includes cash rent paid to the joint ventures for full calendar months that end in the respective reporting periods. Cash distributions from joint ventures include cash distributions received from the joint ventures for full calendar months that end in the respective reporting periods.

Adjusted EBITDA of the EDS Group is defined as EBITDA of the EDS Group adjusted for normalization adjustments which include: (i) restructuring charges and (ii) adjustments related to purchase accounting.

Combined Adjusted EBITDA equals Adjusted EBITDA plus Adjusted EBITDA of the EDS Group.

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

Adjusted EBITDAR of the EDS Group is defined as Adjusted EBITDA of the EDS Group before rent expense to third parties.

Adjusted SG&A is defined as selling, general & administrative expenses ("SG&A") adjusted to exclude normalization adjustments which include: (i) non-cash pension expense, (ii) impairment and other non-cash items, (iii) non-cash share based compensation expense, (iv) business and organization restructuring/realignment charges, (v) merger/acquisition costs and expenses and (vi) 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) gain on sale of investment in real estate joint venture, (B) dilution gains from investments in joint ventures, (C) normalization adjustments which include: (i) impairment and other non-cash items (ii) business and organization restructuring/realignment charges, (iii) merger/acquisition costs and expenses and (iv) adjustments, including those related to purchase accounting, if any, related to transactions that are not associated with day-to-day operations, (D) financing related adjustments; (E) adjustments to share of net earnings (loss) in real estate joint ventures; (F) adjustments to share of net loss in the EDS Group and (G) tax related adjustments.

For additional detail on specific normalization adjustments, refer to the Company's tables outlining reconciliations of net earnings (loss) to EBITDA, Adjusted EBITDA, Combined Adjusted EBITDA and Adjusted EBITDAR, SG&A to Adjusted SG&A, and net earnings (loss) 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 30, 2018, the Company completed the combination of the retail operations of HBC Europe and Karstadt to form the EDS Group. Also on November 30, 2018 SIGNA acquired a 50% interest of the European Real Estate JV. See the "Investment in the European Department Stores Group" and "Real Estate Joint Ventures" sections in this MD&A.
- On January 25, 2019, WPI exercised its option to convert a $163 million (U.S. $125 million) portion of the of the $1.1 billion ($850 million) Lord & Taylor Fifth Avenue building transaction value from a cash payment into a preferred equity interest in the building.
- On January 31, 2019 the Company sold a 50% ownership interest in 18 German properties to a subsidiary of SIGNA, which resulted in a 50-50 joint venture between the Company and SIGNA. See the "Real Estate Joint Ventures" section in this MD&A.
- During the quarter, the Company closed three Lord and Taylor stores in Oakbrook (Illinois), Eatontown (New Jersey) and New York City (New York), four Saks OFF 5TH stores in Leesburg (Virginia), Santa Barbara (California), Auburn Hills (Michigan) and Mercedes (Texas) and one Home Outfitters store in Markham (Ontario). In addition, the Company closed the Saks Fifth Avenue women's store located in lower Manhattan, New York City (New York).

Subsequent Events

- On February 8, 2019, the Company sold the Lord & Taylor Fifth Avenue building to WPI for cash proceeds of approximately $950 million (U.S.$725 million), excluding transaction costs. The Company retained a $163 million (U.S. $125 million) preferred equity interest in the building held through a joint venture structure, which is expected to be transformed into a higher use by our partners. The Company expects to recognize a gain of approximately $800 million (not including transaction costs) on this transaction in Q1 2019. The Company used a portion of the cash proceeds to retire the $510 million (U.S.$400 million) mortgage loan on the property (the "Lord & Taylor Mortgage"), and to pay down $252 million (U.S. $190 million) of the Global ABL (as defined herein).
- On February 21, 2019, the Company announced the closure of its Home Outfitters business in Canada and the review of its Saks OFF 5TH portfolio of 129 stores with an estimate of closing 20 locations in the United States. Home Outfitters business is expected to close at the end of second quarter of Fiscal 2019. Once completed, the closures are expected to be slightly favourable to Adjusted EBITDA.
- Effective March 1, 2019, Alison Coville stepped down as President of Hudson's Bay and Home Outfitters. The Company has retained an executive search firm to recruit a new President of Hudson's Bay to further enhance the business's strategies and drive its next phase of growth. In the interim Hudson's Bay is led by key executives from the HBC team, under the direction of the Company's Chief Executive Officer ("CEO"), Helena Foulkes, until a permanent successor is found.
- Effective for the first quarter of Fiscal 2019, the Company will prepare its financial statements in accordance with United States generally accepted accounting principles ("US GAAP") in place of IFRS. Comparative figures will be restated from IFRS to US GAAP. The Company is in the process of finalizing its evaluation of the impact of the conversion to US GAAP on the consolidated financial statements. See the "Future Changes in Significant Accounting Policies " section in the MD&A.

Overview

Our Business

Founded in 1670, HBC is the oldest company in North America. HBC is a North American retailer with a global portfolio of real estate assets. The Company serves customers through some of the world's most iconic businesses, including Hudson's Bay, Lord & Taylor, Saks Fifth Avenue, and Saks OFF 5TH. Underlying the Company's retail operations is a portfolio of valuable real estate in the United States, Canada and Germany concentrated in top metropolitan regions characterized by greater population density and higher than average household income.

During Fiscal 2018, the Company appointed a new CEO Helena Foulkes. Under Ms. Foulkes' leadership, the Company set out to simplify its real estate and retail strategies to create a financially stronger Company. As a result of its intensive review of businesses, systems, and operations, HBC took decisive actions including the divestiture of Gilt, rightsizing of Lord & Taylor, and the merger of its European retail operations in Germany. Those decisions allow the Company to focus on its North America businesses, which represent its greatest opportunities for growth.

HBC is committed to fixing the fundamentals and improving the productivity of its retail businesses, enhancing the customer experience across all channels, reducing complexity and operating costs, and capitalizing on the value of its real estate. Key components of the Company's strategy are:

- *Focus on the Company's best opportunities for growth.* HBC is committed to evaluating all opportunities while focusing its resources on the retail businesses that provide best opportunity for growth - Saks Fifth Avenue and Hudson's Bay. In both Saks Fifth Avenue and Hudson's Bay, the Company benefits from scale and unique positions within their respective markets. Saks Fifth Avenue is synonymous with luxury in the U.S. Saks continues to build upon its long-term strategy to elevate the brand through a fashion-forward offering, which returned the business unit to consistent growth in 2018. Hudson's Bay has a rich Canadian heritage, which affords the business unit strong top of mind awareness within its markets and in key merchandise categories.
- *Deeply connect with customers.* HBC is relentlessly focused on understanding its customers to provide a level of service that anticipates needs and exceeds expectations. During Fiscal 2018, HBC developed a net promoter score framework across North America, which utilizes direct customer feedback to understand customer challenges and enhance the customer experience. The Company believes these insights will allow it to deepen the customer connection to HBC's businesses and allow the Company to acquire new customers and increase its share of relevant spending of existing customers.
- *Deliver an exceptional omnichannel experience.* HBC is committed to making key investments in its stores, digital applications, technology and marketing to simplify our customers' omnichannel experience. Each channel has inherent advantages - experience and associates in stores connecting with customers on a one-to-one basis, and convenience, merchandise breadth, and expansive market opportunity online. HBC believes each channel is more powerful when considered holistically, exactly the way customers interact with our business units. To make its services seamless, relevant, differentiated and personalized in-store and online, the Company is leveraging data-driven insights, growing its capabilities in marketing and digital, and advancing tools connecting our store teams with an enhanced client view that allows for direct connection.
- *Improve profitability, inventory efficiency and free cash flow***.** Management believes HBC has significant opportunity to simplify its cost structure and improve profitability without sacrificing the customer experience. Because HBC grew opportunistically through acquisition, the Company added inefficiencies and redundancies for our customers and employees. By reducing complexity, the Company believes fundamental improvements can lead to a lower cost structure, better inventory management, and improved free cash flow. Based on our strategic plans, we expect our financial performance will improve in 2019. In term of cadence, we anticipate Adjusted EBITDA will be lower in the first half of the year - by comparison to the prior year. That is driven by a late start to spring selling, in part, driven by the later Easter holiday, and the timing of the expected benefits from our strategic initiatives, which are expected to fully take effect in the fall season.
- *Increasing the productivity of HBC's real estate.* Management is actively strengthening its retail businesses and re-purposing existing floor space for use by partners such as WeWork, Topshop, Sephora and Pusateri's to maximize productivity and drive additional traffic in key customer segments to HBC's stores. These efforts provide opportunities to better utilize existing space and improve the financial profile of a given building. Management will continue to explore opportunities with other partners for similar arrangements, which adds to the predictability of the Company's cash flows.
- *Pursuing accretive asset sales.* The management team has a demonstrated track record of success in realizing the underlying value through sale, sale-leaseback, and other value enhancing transactions. HBC's strategy includes exiting owned and leased stores when the economic incentives are accretive to its shareholders and it makes sense for the business. This could include the sale of existing leases or the sale or leasing of owned real estate. The sale of the Lord & Taylor Fifth Avenue building is the most recent example of this strategy.

- *Diversifying the assets in HBC's Real Estate Joint Ventures.* Management continues to seek accretive real estate acquisition and sublease opportunities for its real estate joint ventures, HBS Joint Venture, European Real Estate JV and the RioCan-HBC JV, to diversify the asset base and overall credit profile of each joint venture portfolio. HBC has deliberately structured its real estate joint ventures to facilitate the future public listing of these entities and management believes that further diversification would improve the opportunity to undertake an initial public offering, subject to favourable market conditions.

Mergers, Acquisitions and Strategic Partnerships

The Company has a successful track record of completing accretive mergers and acquisitions of retail businesses and undervalued retail real estate assets. Pursuing mergers, acquisitions and strategic partnerships continues to be a core component of HBC's overall strategy and future opportunities could include retail businesses, retail businesses that include a real estate component, or stand-alone retail real estate assets. Our activities have included the acquisitions of Saks Incorporated and Galeria Kaufhof. In addition, the Company completed a series of strategic transactions with WeWork and Rhône, including the sale of the Lord & Taylor Fifth Avenue building to WPI. Further, the Company has formed a strategic partnership with SIGNA encompassing certain of SIGNA's retail assets, HBC's European retail and German real estate assets.

Highlights of the Results of Operations

(millions of Canadian dollars)	Fiscal Quarter Ended					Fiscal Year				
	Feb 2, 2019		Feb 3, 2018 *restated (1)*		*Change*	2018		2017 *restated (1)*		*Change*
	$	% (2)	$	% (2)		$	% (2)	$	% (2)	
Revenue	2,885	100%	3,052	100%	*(167)*	9,376	100%	9,490	100%	*(114)*
Gross profit (3)	1,058	36.7%	1,181	38.7%	*(200) bps*	3,649	38.9%	3,685	38.8%	*10 bps*
Adjusted EBITDA (3)	187	6.5%	216	7.1%	*(29)*	338	3.6%	261	2.8%	*77*
Combined Adjusted EBITDA (3)	275	9.5%	216	7.1%	*59*	426	4.5%	261	2.8%	*165*
Adjusted EBITDAR (3)	384	13.3%	303	9.9%	*81*	784	8.4%	603	6.4%	*181*
Net (loss) earnings – continuing operations	(226)	(7.8%)	180	5.9%	*(406)*	(631)	(6.7%)	(139)	(1.5%)	*(492)*

	Fiscal Quarter Ended		Fiscal Year	
	Feb 2, 2019 (7)	Feb 3, 2018 *restated (1)*	2018 (7)	2017 *restated (1)*
Comparable sales percentage change (4)				
Consolidated (5)	(1.4%)	(0.5%)	(0.2%)	(1.5%)
DSG	(5.2%)	(2.6%)	(3.3%)	(2.6%)
Saks Fifth Avenue (6)	3.9%	3.1%	5.3%	0.3%
Saks OFF 5TH (6)	(2.1%)	(2.0%)	(4.3%)	(2.3%)
Comparable digital sales percentage change (4)				
Consolidated	8.7%	9.1%	7.6%	12.7%

Please refer to the "Selected Consolidated Financial Information" and "Results of Operations" sections of this MD&A for details and commentary on the highlights.

Notes:

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the "Supplemental Information – Discontinued Operations" section of this MD&A.

(2) As a percentage of revenue.

(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, includes digital sales and clearance store sales and excludes stores undergoing liquidation and sales related accounting adjustments. Consolidated comparable sales include results for continuing operations. See “Factors Affecting Our Performance – Comparable Sales”.

(5) Previously reported consolidated comparable sales have been restated to exclude sales related accounting adjustments and the results for discontinued operations.

(6) Previously reported comparable sales for Saks Fifth Avenue and Saks OFF 5TH have been restated to exclude promotional sales related accounting adjustments which were previously included in reported results.

(7) The Company follows the retail operating calendar which included a 53rd week in Fiscal 2017. All comparable sales figures are for the 13 and 52 weeks ended February 2, 2019, compared to the same periods ended February 3, 2018.

Factors Affecting Our Performance

Revenue

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 – Our Business” section of this MD&A.

Comparable Sales

All comparative sales figures are for the 13 and 52 weeks ended February 2, 2019, compared to same periods ended February 3, 2018. The Company calculates comparable sales on a year-over-year basis from stores operating for at least 13 months on a constant currency basis and includes digital sales and clearance store sales. Consolidated comparable sales include results for continuing operations. Stores undergoing liquidation and sales related accounting adjustments are excluded from comparable sales. Stores undergoing remodeling remain in the comparable sales calculation base unless the store is closed for a significant period of time. 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. 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. Digital sales include sales and returns based on where the sale was originated. Definitions and calculations of comparable sales differ among companies in the retail industry. See also “Non-IFRS measures”.

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 either a reduction of inventory cost or a reduction in cost of sales. 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 endeavors to manage inventory levels so as 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 operations is impacted by the fluctuation of foreign currencies. 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 investment in Lord & Taylor Acquisition Inc. ("L&T Acquisition", the indirect parent of Lord & Taylor and Saks), whose functional currency is U.S. dollars, presents foreign exchange risks to HBC. In the prior years, the Company used a net investment hedge to mitigate a portion of the U.S. dollar foreign exchange risk by designating U.S.$245 million of the U.S. Term Loan B (as defined herein) as a hedge of the first U.S.$245 million of net assets of L&T Acquisition. In Fiscal 2018, the hedge was reduced to U.S.$70 million upon repayment of $233 million (U.S.$175 million) of the U.S. Term Loan B. Foreign currency translation of the net earnings (loss) of L&T Acquisition impacts consolidated net earnings (loss). Foreign currency translation of the net assets of L&T Acquisition impacts other comprehensive income (loss).

Foreign currency gains and losses on certain intra-group monetary assets and 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 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.

Under the Company's credit card program, HBC shares in the income and losses of the credit card programs related to private label and co-branded credit cards at Hudson's Bay, Lord & Taylor and Saks. Income related to the programs is included in SG&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 modification 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 U.S. prime rate, Federal Funds rate, Canadian prime rate, the Canadian Dollar Offered Rate and the London Interbank Offered Rate ("LIBOR").

In connection with the Saks Acquisition, the Company issued 6.75 million Common Share purchase warrants to private placement investors and permitted transferees. The non-cash charges associated with the warrants fluctuated with changes in the Common Share trading price and other factors as they required mark-to-market adjustments at each reporting period. These warrants expired during Fiscal 2018.

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 or extreme weather conditions such as hurricanes. 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, 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 businesses operate including U.S. competitors entering into the Canadian market, 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.

	Fiscal Year		
		restated [1]	
(millions of Canadian dollars except per share amounts)	**2018**	**2017**	**2016**
	$	$	$
Retail sales	9,376	9,490	9,560
Net loss - continuing operations	(631)	(139)	(202)
Net loss - continuing operations, per share — basic and diluted	(2.67)	(0.73)	(1.11)
Total assets	9,776	12,234	12,204
Total long-term financial liabilities [2]	2,845	3,142	3,243
Declared dividend per Common Share	0.05	0.08	0.20

Note:

1. Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the "Supplemental Information – Discontinued Operations" section of this MD&A.
2. Represents long-term portion of loans and borrowings and finance leases in the consolidated balance sheets.

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 2018 and Fiscal 2017 has been derived from audited consolidated financial statements, prepared in accordance with IFRS. The summary financial information for the quarters ended February 2, 2019 and February 3, 2018 is unaudited. The unaudited financial information presented has been prepared on a basis consistent with the Company's audited consolidated financial statements for Fiscal 2018 and Fiscal 2017, 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 Feb 2, 2019 $	% [2]	*restated [1]* Feb 3, 2018 $	% [2]	Fiscal Year 2018 $	% [2]	*restated [1]* 2017 $	% [2]
Earnings results								
Retail Sales	2,885	100.0%	3,052	100.0%	9,376	100.0%	9,490	100.0%
Cost of sales	(1,827)	(63.3%)	(1,871)	(61.3%)	(5,727)	(61.1%)	(5,805)	(61.2%)
Gross profit	1,058	36.7%	1,181	38.7%	3,649	38.9%	3,685	38.8%
Selling, general and administrative expenses	(1,077)	(37.3%)	(1,019)	(33.4%)	(3,677)	(39.2%)	(3,619)	(38.1%)
Depreciation and amortization	(135)	(4.7%)	(122)	(4.0%)	(505)	(5.4%)	(463)	(4.9%)
Gain on sale of investment in real estate joint venture	113	3.9%	—	—	113	1.2%	—	—
Operating (loss) income	(41)	(1.4%)	40	1.3%	(420)	(4.5%)	(397)	(4.2%)
Finance costs, net	(57)	(2.0%)	(46)	(1.5%)	(211)	(2.2%)	(189)	(1.9%)
Share of net (loss) earnings in real estate joint ventures	(26)	(0.9%)	23	0.8%	(63)	(0.6%)	78	0.8%
Share of net loss in the EDS Group [3]	(147)	(5.1%)	—	—	(147)	(1.6%)	—	—
Dilution gains from investments in joint ventures	1	—	—	—	4	—	10	0.1%
(Loss) income before income tax	(270)	(9.4%)	17	0.6%	(837)	(8.9%)	(498)	(5.2%)
Income tax benefit	44	1.6%	163	5.3%	206	2.2%	359	3.7%
Net (loss) earnings for the period – continuing operations	(226)	(7.8%)	180	5.9%	(631)	(6.7%)	(139)	(1.5%)
Net earnings (loss) for the period – discontinued operations, net of taxes	512	17.7%	(96)	(3.1%)	89	0.9%	(442)	(4.6%)
Net earnings (loss) for the period	286	9.9%	84	2.8%	(542)	(5.8%)	(581)	(6.1%)
Net (loss) earnings per share [4] — basic and diluted								
Continuing operations	(0.95)		0.84		(2.67)		(0.73)	
Discontinued operations	2.15		(0.45)		0.38		(2.31)	
Weighted average shares outstanding [4] — basic and diluted (millions)	238		214		236		191	
Supplemental information – continuing operations								
Adjusted SG&A [5]	922	31.9%	978	32.0%	3,416	36.4%	3,472	36.6%
EBITDA [5]	(78)	(2.7%)	185	6.1%	(121)	(1.3%)	154	1.6%
Adjusted EBITDA [5]	187	6.5%	216	7.1%	338	3.6%	261	2.8%
Combined Adjusted EBITDA [5]	275	9.5%	216	7.1%	426	4.5%	261	2.8%
Adjusted EBITDAR [5]	384	13.3%	303	9.9%	784	8.4%	603	6.4%
Normalized net earnings (loss) for the period [5]	98	3.4%	13	0.4%	(238)	(2.5%)	(300)	(3.2%)
Normalized net earnings (loss) per share – basic and diluted [4] [5]	0.41		0.06		(1.00)		(1.57)	
Declared dividend per Common Share	0.01		0.01		0.05		0.08	

Notes:

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the "Supplemental Information – Discontinued Operations" section of this MD&A.

(2) As a percentage of revenue.

(3) Includes the Company's 49.99% share of net loss of the EDS Group for the month of December 2018 adjusted for the cost of restructuring initiatives undertaken by the EDS Group in January 2019 - See also 'Investment in the European Department Store Group' section of this MD&A.

(4) The calculation of net earnings (loss) per share includes the impact of the Convertible Preferred Shares issued to Rhône. This added approximately 54 million (2017: 31 million) and 53 million (2017: 8 million) shares to the weighted average shares outstanding for the fiscal quarter and fiscal year ended February 2, 2019.

(5) See tables below for reconciliations of net (loss) earnings – continuing operations to EBITDA, Adjusted EBITDA, Combined Adjusted EBITDA and Adjusted EBITDAR, SG&A to Adjusted SG&A and net (loss) earnings – continuing operations to Normalized net (loss) earnings. 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.

	Fiscal Quarter Ended		Fiscal Year	
	Feb 2, 2019	Feb 3, 2018	2018	2017
Reported consolidated revenue percentage change	(5.5%)	(0.1%)	(1.2%)	(0.7%)
Comparable sales percentage change (1) (5)				
Consolidated (2)	(1.4%)	(0.5%)	(0.2%)	(1.5%)
DSG	(5.2%)	(2.6%)	(3.3%)	(2.6%)
Saks Fifth Avenue (3)	3.9%	3.1%	5.3%	0.3%
Saks OFF 5TH (3)	(2.1%)	(2.0%)	(4.3%)	(2.3%)
Store information				
Store count (4)				
Hudson's Bay	89	89		
Lord & Taylor	45	50		
Saks Fifth Avenue	42	41		
Saks OFF 5TH	129	129		
Home Outfitters	37	44		
Total	342	353		
Gross leasable area/Square footage (thousands) (4)				
Hudson's Bay	15,771	15,731		
Lord & Taylor	5,768	6,930		
Saks Fifth Avenue	5,216	5,187		
Saks OFF 5TH	3,868	3,879		
Home Outfitters	1,280	1,529		
Total	31,903	33,256		

Notes:

(1) The Company calculates comparable sales on a year-over-year basis from stores operating for at least 13 months, includes digital sales and clearance store sales and excludes stores undergoing liquidation and sales related accounting adjustments. Consolidated comparable sales include results for continuing operations. See "Factors Affecting Our Performance – Comparable Sales".

(2) Previously reported consolidated comparable sales have been restated to exclude sales related accounting adjustments and the results for discontinued operations.

(3) Previously reported consolidated comparable sales for Saks Fifth Avenue and Saks OFF 5TH have been restated to exclude promotional sales related accounting adjustments which were previously included in reported results.

(4) The Company operates one Hudson's Bay outlet, two Zellers clearance centres and three Lord & Taylor outlets that are excluded from the store count and gross leasable area.

(5) The Company follows the retail operating calendar which included a 53rd week in Fiscal 2017. All comparable sales figures are for the 13 and 52 weeks ended February 2, 2019, compared to the same periods ended February 3, 2018.

Balance Sheet Data (millions of Canadian dollars)	**2018**	**2017**
	$	$
Cash	21	70
Trade and other receivables	157	388
Inventories [1]	2,513	3,367
Asset held for sale	279	263
Current assets	3,141	4,302
Property, plant and equipment	3,872	5,155
Intangible assets and goodwill	1,097	1,629
Investments in real estate joint ventures [2]	816	602
Investment in the EDS Group [3]	284	—
Total assets	9,776	12,234
Current liabilities [4]	1,898	2,812
Loans and borrowings (including current portion)	2,998	2,979
Finance leases (including current portion)	347	561
Investment in the RioCan-HBC JV [2]	230	227
Other liabilities (including current portion) [5]	1,901	2,141
Shareholders' equity	1,986	2,407

Notes:

(1) Inventories decreased by $854 million compared to the prior year. This reduced balance at the end of the year includes a nearly 5% reduction in comparable inventory at the Company's North American business units, as well as the divestments of Gilt and HBC Europe.

(2) See "Real Estate Joint Ventures" section. See also note 10 of the Company's audited consolidated financial statements for the fifty-two week period ended February 2, 2019.

(3) See "Investment in European Department Store Group" section. See also note 11 of the Company's audited Consolidated Financial Statements for the fifty-two week period ended February 2, 2019.

(4) Excludes current loans and borrowings of $471 million as at February 2, 2019 and $363 million as at February 3, 2018; current other liabilities of $246 million as at February 2, 2019 and $290 million as at February 3, 2018; current finance leases of $29 million as at February 2, 2019 and $35 million as at February 3, 2018.

(5) Includes deferred landlord incentives of $1,109 million as at February 2, 2019 and $1,113 million as at February 3, 2018 and straight-line rent liabilities of $293 million as at February 2, 2019 and $393 million as at February 3, 2018.

Reconciliation tables

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

	Fiscal Quarter Ended		Fiscal Year	
		restated [1]		*restated* [1]
(millions of Canadian dollars)	**Feb 2, 2019**	**Feb 3, 2018**	**2018**	**2017**
	$	$	$	$
Net (loss) earnings – continuing operations	**(226)**	180	**(631)**	(139)
Finance costs, net	57	46	211	189
Income tax benefit	(44)	(163)	(206)	(359)
Depreciation and amortization	135	122	505	463
EBITDA [2]	**(78)**	185	**(121)**	154
Gain on sale of investment in real estate joint venture	(113)	—	(113)	—
Share of net loss (earnings) in real estate joint ventures	26	(23)	63	(78)
Share of net loss in the EDS Group [3]	147	—	147	—
Dilution gains from investments in joint ventures [4]	(1)	—	(4)	(10)
Normalization adjustments [5]	191	41	320	147
Net rent expense to joint ventures [6]	28	21	85	75
Cash rent to joint ventures	(62)	(59)	(243)	(237)
Cash distributions from joint ventures	49	51	204	210
Total adjustments	265	31	459	107
Adjusted EBITDA [2]	**187**	216	**338**	261
Adjusted EBITDA of the EDS Group [2] [7]	88	—	88	—
Combined Adjusted EBITDA [2]	**275**	216	**426**	261
Rent adjustments				
Third party rent expense [8]	96	79	319	315
Cash rent to joint ventures	62	59	243	237
Cash distributions from joint ventures	(49)	(51)	(204)	(210)
Adjusted EBITDAR [2]	**384**	303	**784**	603
Adjusted EBITDAR [2] **as a percentage of revenue**	**13.3%**	9.9%	**8.4%**	6.4%

Notes:

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the “Supplemental Information – Discontinued Operations” section of this MD&A.

(2) 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.

(3) Includes the Company’s 49.99% share in net loss of the EDS Group for the month of December 2018 adjusted for the cost of restructuring initiatives undertaken by the EDS Group in January 2019 - See also “Investment in the European Department Store Group” section of this MD&A.

(4) Represents gains realized as a result of the changes in ownership related to the Company’s investments in the real estate joint ventures.

(5) Normalization adjustments consist of:

(millions of Canadian dollars)	Fiscal Quarter Ended		Fiscal Year	
	Feb 2, 2019	*restated* [(i)] Feb 3, 2018	2018	*restated* [(i)] 2017
Non-cash pension expense	—	—	16	16
Impairment and other non-cash items	49	3	56	14
Non-cash share based compensation	7	3	40	30
Restructuring [(ii)]	23	6	52	95
Acquisition and integration related expenses [(iii)]	10	1	24	17
Lord & Taylor optimization [(iv)]	42	—	67	—
Home Outfitters closure initiative [(v)]	42	—	42	—
Foreign exchange adjustment [(vi)]	3	(12)	17	(36)
Net gain on store closures [(vii)]	—	—	(28)	—
Data security issue [(viii)]	—	—	3	—
White Flint settlement [(ix)]	—	—	—	(42)
Lease guarantee provision [(x)]	—	31	—	31
Other	15	9	31	22
	191	41	320	147

Notes:

(i) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the "Supplemental Information – Discontinued Operations" section of this MD&A.

(ii) Restructuring includes expected costs associated with HBC's Transformation plan, announced in June 2017 and the $75 million initiative announced in February 2017.

(iii) Includes costs associated with acquisition and integration related activities.

(iv) Lord & Taylor optimization includes expected costs associated with the planned closures of certain Lord & Taylor stores beginning in the fourth quarter of Fiscal 2018. For the thirteen week period ended February 2, 2019 costs included a $27 million reduction in gross margin and $15 million of additional SG&A expenses. For the fifty-two week period ended February 2, 2019 costs included a $46 million reduction in gross margin and $21 million of additional SG&A expenses.

(v) Home Outfitters closure initiative includes expected costs associated with the planned closure of the Home Outfitters' business in Fiscal 2019. For the thirteen and fifty-two week periods ended February 2, 2019 the Company recorded provisions which resulted in a $9 million reduction in gross margin and $33 million of additional SG&A expenses.

(vi) Represents the net impact of unrealized (gains) losses resulting from the translation of certain intra-group monetary assets and liabilities related to the overall tax and legal structure of the Company.

(vii) Net gain on store closures represents lease termination fee income of $32 million received with respect to two Lord & Taylor stores that closed during Fiscal 2018 net of a $4 million reduction in gross margin.

(viii) This represents costs related to the data security issue which occurred during the first quarter of Fiscal 2018 that will not be recoverable under the Company's insurance policies.

(ix) This represents a $42 million payment received for a favourable verdict with respect to a 2013 lawsuit brought forth by the Company relating to White Flint mall.

(x) Represents the Company's expected share of costs associated with default on subleases guaranteed by the Company. See "Guarantees and Off-Balance Sheet Arrangements".

(6) Rent expense to the joint ventures net of reclassification of rental income related to the Company's ownership interest in the real estate joint ventures (see note 10 to the Company's audited consolidated financial statements for the fifty-two week period ended February 2, 2019).

(7) The following table presents the reconciliation of share of net loss in the EDS Group to Adjusted EBITDA of the EDS Group and to Adjusted EBITDAR of the EDS Group:

	Fiscal Quarter Ended		Fiscal Year	
		restated [1]		*restated* [1]
(millions of Canadian dollars)	**Feb 2, 2019**	**Feb 3, 2018**	**2018**	**2017**
	$	$	$	$
Share of net loss in the EDS Group	**(147)**	—	**(147)**	—
Income tax benefit	(9)	—	(9)	—
Finance costs	3	—	3	—
Depreciation and amortization	9	—	9	—
Restructuring	194	—	194	—
Inventory purchase price adjustment included in cost of sales	31	—	31	—
Other	7	—	7	—
Total adjustments	**235**	—	**235**	—
Adjusted EBITDA of the EDS Group	**88**	—	**88**	—
Rent adjustments				
Third party rent expense	26	—	26	—
Adjusted EBITDAR of the EDS Group	**114**	—	**114**	—

(8) Includes third party rent expense related to the EDS Group of $26 million.

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

SG&A – continuing operations	**1,077**	1,019	**3,677**	3,619
Normalization adjustments [2]	(155)	(41)	(261)	(147)
Adjusted SG&A [3]	**922**	978	**3,416**	3,472
Adjusted SG&A [3] as a percentage of revenue	**31.9%**	32.0%	**36.4%**	36.6%

Notes:

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the "Supplemental Information – Discontinued Operations" section of this MD&A.

(2) Normalization adjustments consist of:

Non-cash pension expense	—	—	(16)	(16)
Impairment and other non-cash items	(49)	(3)	(56)	(14)
Non-cash share based compensation	(7)	(3)	(40)	(30)
Acquisition and integration related expenses [i]	(10)	(1)	(24)	(17)
Restructuring [i]	(23)	(6)	(52)	(95)
Lord & Taylor optimization [i]	(15)	—	(21)	—
Home Outfitters store closure cost [i]	(33)	—	(33)	—
Foreign exchange adjustment [i]	(3)	12	(17)	36
Gain on store closures [i]	—	—	32	—
Data security issue [i]	—	—	(3)	—
White Flint settlement [i]	—	—	—	42
Lease guarantee provision [i]	—	(31)	—	(31)
Other	(15)	(9)	(31)	(22)
	(155)	(41)	(261)	(147)

(i) For details, refer to footnote 5 to the reconciliation of net loss – continuing operations to EBITDA, Adjusted EBITDA, Combined 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 – continuing operations to Normalized net earnings (loss):

(millions of Canadian dollars)	Fiscal Quarter Ended Feb 2, 2019	Fiscal Quarter Ended restated (1) Feb 3, 2018	Fiscal Year 2018	Fiscal Year restated (1) 2017
	$	$	$	$
Net (loss) earnings – continuing operations	**(226)**	180	**(631)**	(139)
Gain on sale of investment in real estate joint venture	(89)	—	(89)	—
Dilution gains from investments in joint ventures	(1)	—	(4)	(6)
Normalization adjustments (2)	163	29	213	66
Financing related adjustments	4	—	4	—
Adjustments to share of net earnings (loss) in joint ventures (3)	24	(15)	46	(40)
Adjustments to share of net loss in the EDS Group	223	—	223	—
Tax related adjustments (4)	—	(181)	—	(181)
Total adjustments (5)	324	(167)	393	(161)
Normalized net earnings (loss) (6)	**98**	13	**(238)**	(300)

Notes:

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the "Supplemental Information – Discontinued Operations" section of this MD&A.

(2) Normalization adjustments consist of:

(millions of Canadian dollars)	Fiscal Quarter Ended Feb 2, 2019	Fiscal Quarter Ended restated (i) Feb 3, 2018	Fiscal Year 2018	Fiscal Year restated (i) 2017
Impairment and other non-cash items	56	—	56	—
Restructuring (ii)	18	6	39	65
Acquisition and integration related expenses (iii)	7	2	16	7
Lord & Taylor optimization (iv)	34	—	52	—
Home Outfitters closure initiative (v)	33	—	33	—
Foreign exchange adjustment (vi)	4	(4)	13	(17)
Net gain on store closures (vii)	—	—	(20)	—
Data security issue (viii)	—	—	2	—
White Flint settlement (ix)	—	—	—	(25)
Lease guarantee provision (x)	—	23	—	23
Other	11	2	22	13
	163	29	213	66

(i) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the "Supplemental Information – Discontinued Operations" section of this MD&A.

(ii) Restructuring includes expected costs associated with the Company's Transformation Plan and the $75 million initiative announced in February of 2017.

(iii) Includes costs associated with acquisition and integration related activities.

(iv) Lord & Taylor optimization includes expected costs associated with the planned closures of certain Lord & Taylor stores beginning in the fourth quarter of Fiscal 2018.

(v) Home Outfitters closure initiative includes expected costs associated with the planned closure of the Home Outfitter's business in Fiscal 2019.

(vi) Represents the net impact of unrealized (gains) losses resulting from the translation of certain intra-group monetary assets and liabilities related to the overall tax and legal structure of the Company.

(vii) Net gain on store closures represents lease termination fee income received with respect to two Lord & Taylor stores that closed during Fiscal 2018, net of associated costs.

(viii) This represents costs related to the data security issue which occurred during the first quarter of Fiscal 2018 that will not be recoverable under the Company's insurance policies.

(ix) This represents a $42 million ($25 million net of tax) payment received for a favourable verdict with respect to a 2013 lawsuit brought forth by the Company relating to White Flint mall.

(x) Represents the Company's expected share of costs associated with default on subleases guaranteed by the Company. See "Guarantees and Off-Balance Sheet Arrangements".

(3) Relates to the Company's share of net non-recurring items incurred which primarily includes the impact of unrealized losses (gains) of the HBS Joint Venture which result from the translation of certain intra-group monetary assets and liabilities related to the overall tax and legal structure of the joint venture.

(4) To adjust for the one-time impacts associated with the U.S. tax reform changes in Fiscal 2017. As a result of this change, HBC's effective US tax rate has been reduced from approximately 39% to approximately 26%, effective January 1, 2018.

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

(6) 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 – Continuing Operations

Thirteen week period ended February 2, 2019 compared to the fourteen week period ended February 3, 2018

Revenue

Revenue was $2,885 million in the fourth quarter, a decrease of $167 million or 5.5%. Total reported sales in the fourth quarter of 2017 reflect a fourteenth week of sales, whereas year over year comparable sales are on the same thirteen week basis. The decrease in sales was primarily driven by the impact of an additional week of sales in the prior year period and lower comparable sales of approximately $40 million. These decreases were partially offset by a positive net foreign exchange impact of $65 million.

Consolidated comparable sales reported on a week for week basis decreased by 1.4% in the fourth quarter. Comparable sales increased by 3.9% at Saks Fifth Avenue, decreased by 5.2% at DSG and decreased by 2.1% at Saks OFF 5TH. Comparable digital sales increased by 8.7%.

- Saks Fifth Avenue's fourth quarter comparable sales grew 3.9%, its seventh consecutive quarter of comparable sales growth despite being hampered by significant construction on the main floor during the holiday season at Saks Fifth Avenue's New York flagship during the holiday season. Saks Fifth Avenue is benefiting from its unwavering focus on the luxury customer, with notably strong performance at its personal shopping service, the Fifth Avenue Club, during the fourth quarter. Over the last two year period, Saks Fifth Avenue comparable sales were 7.0%
- DSG comparable sales decreased 5.2%. Subsequent to the end of the quarter the Company announced its intention to close Home Outfitters, and also announced a leadership transition at Hudson's Bay. The Hudson's Bay business unit is being led by key executives from the HBC team, under the direction of Helena Foulkes, until a permanent successor is found. Lord & Taylor sales continued to decline year-over-year.
- Saks OFF 5TH comparable sales declined 2.1%. The rate of decline at Saks OFF 5TH continues to moderate, due in part to a substantial year over year sales increase in its digital channel.

Gross profit[1]

Gross profit[1] decreased by $123 million to $1,058 million. This was the result of lower comparable sales and the negative impact of eight store closures during the quarter, including $27 million from liquidating three Lord & Taylor stores, as well as a $9 million inventory reserve related to the planned closure of the Home Outfitters business. These decreases were partially offset by a positive foreign exchange impact of $25 million.

Gross profit as a percentage of revenue decreased by 200 basis points to 36.7%. Gross profit as a percentage of revenue improved to 38.5% when adjusted for the negative impact of the eight stores closed during the quarter and additional reserve discussed above. For additional discussion see "Factors Affecting Our Performance – Gross Profit".

Selling, general & administrative expenses

SG&A increased by $58 million to $1,077 million. The increase was primarily related to one-time costs including increased impairment charges of $46 million, $15 million for Lord & Taylor optimization, $33 million related to the planned closure of Home Outfitters and higher restructuring charges of $17 million. SG&A also included a negative foreign exchange of $28 million. These increases were partially offset by the absence of an extra week of operating costs compared to the prior year period, lower variable costs of $16 million, lower store variable costs of $16 million and a $31 million reduction in a one-time charge related to a lease guarantee provision. Impairment charges during the thirteen week period ended February 2, 2019 are primarily related to the write-off of store assets at Saks and Lord &Taylor stores that closed during the period as well as assets disposed from our Saks Fifth Avenue flagship store, which is undergoing significant renovation.

Adjusted SG&A[1] decreased by $56 million to $922 million. This decrease was driven primarily by the absence of an additional week of operating costs, fewer stores, lower variable store costs and lower variable compensation partially offset by foreign exchange impacts as discussed above.

As a percentage of revenue, Adjusted SG&A[1] improved to 31.9% compared to 32.0% in the prior year. This was driven by lower adjusted lower Adjusted SG&A[1] dollars.

Adjusted EBITDA[1]

Adjusted EBITDA decreased by $29 million to $187 million. Lower gross margin dollars offset by improvement in Adjusted SG&A expense resulted in the decline.

Combined Adjusted EBITDA[1]

Combined Adjusted EBITDA[1] increased by $59 million to $275 million. This increase was primarily due to the addition of the Adjusted EBITDA of the EDS Group[(1)], contributing $88 million, and lower Adjusted SG&A expenses offset in part by lower gross margin dollars. As a percentage of revenue, Combined Adjusted EBITDA[1] improved by 240 basis points to 9.5% compared to 7.1% in the prior year. Excluding Adjusted EBITDA of the EDS Group[(1)], Adjusted EBITDA[(1)] was down $29 million and 60 basis points to 6.5% compared to prior year.

Adjusted EBITDAR[1]

Adjusted EBITDAR[1] increased by $81 million to $384 million. As a percentage of revenue, Adjusted EBITDAR[1] improved by 340 basis points to 13.3% compared to 9.9% in the prior year. This increase is primarily attributed to higher Combined Adjusted EBITDA. In addition, the Company's investment in the EDS Group, added $26 million to third-part rent expenses. Excluding Adjusted EBITDAR of the EDS Group[(1)], Adjusted EBITDAR[1] decreased by $33 million and 50 basis points to 9.4% compared to prior year.

Finance costs

Finance costs increased by $11 million to $57 million. Finance costs in the fourth quarter included a $6 million charge related to $233 million early repayment of the U.S. Term Loan B.

Income tax benefit

In the fourth quarter, total income tax benefit decreased by $119 million to $44 million. The decrease in the tax benefit was primarily due a lower effective income tax rate, driven by the decrease in the U.S. federal corporate income tax rate (implemented as part of the U.S tax reform in late 2017). This reduced tax rate was offset in part by permanent differences, as well as the one-time impact U.S tax reform had on reducing our cumulative deferred tax liabilities.

Net loss - continuing operations

Net loss from continuing operations increased to $226 million compared to net income of $180 million in the prior year. The increase in loss is primarily related to lower income tax benefits being recognized in the current year, the addition of the Company's share in the reported loss of the EDS Group, a higher reported losses from the Company's share in the real estate joint ventures (largely driven by the impact of non-cash foreign exchange) and to a lesser extent, lower gross margin dollars and higher SG&A expenses. These impacts were partially offset by a $113 million gain on the partial sale of the Company's investment in its European real estate assets.

Normalized net earnings[1]

Normalized net earnings[1] increased by $85 million to $98 million. The improvement was primarily driven by normalized net earnings from the EDS Group of $76 million, improved Adjusted SG&A of $56 million offset by reduced normalized gross profits of $87 million (adjusted for one-time optimization initiatives related to Lord & Taylor and Home Outfitters).

Fifty-two week period ended February 2, 2019 compared to the fifty-three week period ended February 3, 2018

Revenue

Revenue was $9,376 million, a decrease of $114 million or 1.2% compared to the prior year. The decrease was primarily driven by the impact of one less week of sales in the current period, lower comparable sales of approximately $17 million and the negative impact of closed stores. These decreases were partially offset by the positive net foreign exchange impact of $39 million.

Consolidated comparable sales reported on a week for week basis decreased by 0.2%. Comparable sales increased by 5.3% at Saks Fifth Avenue and decreased by 3.3% at DSG and 4.3% at Saks OFF 5TH. Comparable digital sales increased by 7.6% over the comparable fifty-two week period ended February 3, 2018.

Gross profit[1]

Gross profit[1] decreased by $36 million to $3,649 million. This decrease was driven by increased inventory reserves: $46 million related to liquidation pricing as part of the Lord & Taylor optimization initiative, a $4 million charge for markdowns related to the closure of two Lord & Taylor stores and $9 million related to the planned closure of the Home Outfitters business. Offsetting these charges was a positive foreign exchange impact of $16 million.

Gross profit[1] as a percentage of revenue improved by 10 basis points to 38.9%. Higher margins were driven by a proportionately higher mix of full price selling versus promotional or clearance sales. Excluding the negative impact of the Lord & Taylor liquidations and the additional Home Outfitters inventory reserves discussed above, gross profit as a percentage of revenue was 39.9%, up 110 basis points from the prior year, with each business unit contributing to the improvment. For additional discussion see “Factors Affecting Our Performance – Gross Profit”.

Selling, general & administrative expenses

SG&A increased by $58 million to $3,677 million. The increase was primarily related to $21 million in one-time costs related to the store closures at Lord & Taylor and $33 million related to the planned closure of Home Outfitters, higher unrealized foreign exchange losses of $53 million on translation of intra-group monetary assets and liabilities, higher impairment charges of $42 million as well as additional investments in digital. In addition the prior year period included the positive impact of a $42 million payment received for a favourable verdict with respect to a lawsuit relating to a property at White Flint mall.

The increase in SG&A expenses was partially offset by $88 million of savings from the Company’s previously announced restructuring programs and $43 million in fewer one-time restructuring charges, $32 million of income received in the first quarter for early lease terminations of two Lord & Taylor stores and other smaller items. SG&A in the prior year period was negatively impacted by an extra week of operating costs and a $31 million lease guarantee provision.

Adjusted SG&A[1] decreased by $56 million to $3,416 million. The savings in Adjusted SG&A were driven by $88 million of savings from the Company’s restructuring programs, the absence of an extra week of operating costs compared to the prior year period and positive foreign exchange impact of $18 million. These savings were partially offset by increased investment in digital resources, higher store variable costs and increased variable compensation.

As a percentage of revenue, Adjusted SG&A[1] improved 20 basis points to 36.4% compared to 36.6% in the prior year.

Adjusted EBITDA[1]

Adjusted EBITDA increased by $77 million to $338 million. The increase was attributed primarily to the improvement in Adjusted SG&A.

Combined Adjusted EBITDA[1]

Combined Adjusted EBITDA[1] increased by $165 million to $426 million. This increase was as a result of improved results in North America and the inclusion of the Adjusted EBITDA of the EDS Group[(1)] of approximately $88 million. As a percentage of revenue, Combined Adjusted EBITDA[1] improved by 170 basis points to 4.5% compared to 2.8% in the prior year. Excluding the Adjusted EBITDA of the EDS Group, Adjusted EBITDA as a percentage of revenue improved by 80 basis points to 3.6%.

Adjusted EBITDAR[1]

Adjusted EBITDAR[1] increased by $181 million to $784 million. As a percentage of revenue, Adjusted EBITDAR[1] improved by 190 basis points to 8.4% compared to 6.4% in the prior year. This increase can be attributed to improved full year EBITDAR related to North America and the inclusion of Adjusted EBITDAR related to the

Company's investment in the EDS Group which contributed $114 million. Excluding Adjusted EBITDAR[1] of the EDS Group, Adjusted EBITDAR[1] improved by $67 million and 70 basis points to 7.1% compared to prior year.

Finance costs

Finance costs increased by $22 million to $211 million. The increase was driven primarily by higher interest costs on short-term and long-term borrowings and a $6 million charge related to the early repayment of $233 million of the U.S. Term Loan B.

Income tax benefit

Income tax benefit decreased by $153 million to $206 million. This was driven by a lower effective income tax rate, which declined primarily due to the decrease in the U.S. federal corporate income tax rate (implemented as part of the U.S tax reform), offset in part by permanent differences, as well as the impact of the U.S tax reform being recognized in the prior year.

Net loss - continuing operations

Net loss from continuing operations increased by $492 million to $631 million. The increase is primarily related to higher reported losses from the Company's share in the real estate joint ventures (which was largely driven by the impact of non-cash foreign exchange), the inclusion of losses related to our investment in the EDS Group which includes restructuring charges of $194 million, additional one-time charges related to optimization initiatives related to Lord & Taylor and Home Outfitters, higher finance costs and depreciation and amortization expenses, and a reduction in the income tax benefit primarily due to decreases in the U.S. federal corporate income tax rates. These impacts were offset in part by the gain on the sale of our investment in real estate joint ventures.

Normalized net loss[1]

Normalized net loss[1] improved by $62 million to a loss of $238 million. The improvement was primarily driven by normalized net earnings from the EDS Group of $76 million, improved Adjusted SG&A of $56 million and improved normalized gross margins of $23 million (adjusted for one-time optimization initiatives related to Lord & Taylor and Home Outfitters). These improvements were partially offset by increases in depreciation and amortization, finance costs and increases in the share of net (loss) in real estate joint ventures.

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.

Supplemental Information – Discontinued Operations

HBC Europe Transaction

On November 30, 2018, the HBC Europe's retail operations were combined with Karstadt's retail operations, to form the EDS Group, in which SIGNA holds a 50.01% interest and HBC holds the remaining 49.99% interest. See also the "Investment in the European Department Store Group" section of this MD&A.

In addition, on January 31, 2019, the Company sold to SIGNA a 50% equity interest in 18 German properties owned by HBC Europe, which had not previously been contributed to any joint venture, for cash proceeds of $375 million (€250 million). As a result of the sale, the 18 German properties are now held within a new jointly controlled real estate joint venture as equal partners between HBC and SIGNA. These assets have been combined with the European Real Estate JV for presentation purposes. See also "Real Estate Joint Ventures" section of this MD&A.

As HBC Europe represents a separate line of business of the Company, revenue, expenses and cash flows related to HBC Europe's retail operations prior to November 30, 2018 have been presented in the audited consolidated financial statements for the Fiscal 2018 and in this MD&A as discontinued operations on a retroactive basis.

In the fourth quarter of Fiscal 2018, the Company recognized a net gain on disposal of HBC Europe of $497 million which has been included in net earnings (loss) for the thirteen and fifty-two week periods ended February 2, 2019. See also the " Financial results of the discontinued operations" section of this MD&A.

Sale of Gilt

The sale of the Gilt business was completed through two separate transactions, both of which closed during the second quarter of Fiscal 2018. Under the terms of the agreement with Rue La La ("RLL"), which closed on July 9, 2018, RLL acquired certain assets and liabilities of the Gilt business from certain U.S. and Irish subsidiaries of the Company. Under the terms of the second agreement, which closed on July 27, 2018, the Company sold the shares of Gilt Groupe K.K., a Japanese subsidiary of Gilt to Gladd Inc. As Gilt represented a separate line of business of the Company the revenue, expenses and cash flows related to Gilt's operations have been presented in the audited consolidated financial statements as discontinued operations on a retroactive basis.

Upon closing of the transactions, the Company received aggregate cash proceeds of $41 million and a promissory note of $2 million, subject to customary adjustments. During Fiscal 2018, the Company recognized a net loss on disposal of $55 million. The net loss on disposal of Gilt was comprised of the following components:

	Fiscal year
(millions of Canadian dollars)	**Feb 2, 2019**
Impairment loss	**(81)**
Gain on disposal	**26**
Net loss on disposal	**(55)**

Financial results of the discontinued operations

The following table sets out the combined financial results of the discontinued operations, Gilt and HBC Europe. Net earnings (loss) of discontinued operations for Fiscal 2018 includes the financial results of the Gilt businesses up to the disposal dates in July 2018 and of HBC Europe up to the disposal date of November 30, 2018. The Company's share of the financial results of HBC Europe subsequent to the formation of the EDS Group are included in continuing operations as share of net loss in the EDS Group. Net earnings (loss) for discontinued operations for Fiscal 2017 are for the fourteen and fifty-three week periods ended February 3, 2018.

(millions of Canadian dollars)	Fiscal Quarter ended 2018	Fiscal Quarter ended 2017	Fiscal Year 2018	Fiscal Year 2017
	$	$	$	$
Revenue	366	1,498	3,254	4,316
Cost of sales	(203)	(858)	(1,794)	(2,347)
Gross profit	163	640	1,460	1,969
Selling, general and administrative expenses	(157)	(601)	(1,663)	(2,086)
Depreciation and amortization	—	(36)	(104)	(175)
Gain on sale of HBC Europe	497	—	497	—
Operating income (loss)	503	3	190	(292)
Finance costs, net	(12)	(10)	(41)	(36)
Income (loss) before income tax	491	(7)	149	(328)
Income tax benefit (expense)	21	(20)	21	2
Net earnings (loss) for the period – HBC Europe	512	(27)	170	(326)
Net loss for the period – Gilt	—	(69)	(81)	(116)
Net earnings (loss) for the period – discontinued operations	512	(96)	89	(442)
Supplemental information – discontinued operations				
HBC Europe				
Adjusted EBITDA (1)	9	107	(167)	85
Adjusted EBITDAR (1)	47	229	234	520
Gilt				
Adjusted EBITDA (1)	—	(6)	(5)	—
Adjusted EBITDAR (1)	—	(4)	(2)	8

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.

Reconciliation tables

The following table presents the reconciliation of net loss – discontinued operations to EBITDA – discontinued operations, Adjusted EBITDA – discontinued operations and to Adjusted EBITDAR – discontinued operations:

	Fiscal Quarter		Fiscal Year	
(millions of Canadian dollars)	**2018**	**2017**	**2018**	**2017**
	$	$	$	$
Net earnings (loss) – discontinued operations	**512**	(96)	**89**	(442)
Finance costs, net	12	10	41	39
Income tax expense (benefit)	(21)	9	(20)	(9)
Depreciation and amortization	—	46	115	224
EBITDA [(1)] – discontinued operations	**503**	(31)	**225**	(188)
Gain on sale of HBC Europe	(497)	—	(497)	—
Normalization adjustments [(2)]	1	124	69	233
Net rent expense to joint ventures	21	65	225	260
Cash rent to joint ventures	(19)	(57)	(194)	(220)
Total adjustments	(494)	132	(397)	273
Adjusted EBITDA [(1)] – discontinued operations	**9**	101	**(172)**	85
Rent adjustments				
Third party rent expense	19	67	210	223
Cash rent to joint ventures	19	57	194	220
Adjusted EBITDAR [(1)] – discontinued operations	**47**	225	**232**	528

Notes:

(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.

(2) Normalization adjustments consist of:

Non-cash pension expense	—	3	—	9
Impairment and other non-cash items [(i)]	—	70	56	63
Non-cash share based compensation	—	2	2	5
Restructuring [(ii)]	—	42	1	67
Acquisition and integration related expenses [(iii)]	—	2	1	3
European expansion [(iv)]	—	5	8	78
Other	1	—	1	8
	1	124	69	233

(i) The amount for Fiscal Year 2018 is primarily comprised of the net loss on disposal of Gilt.
(ii) Restructuring includes expected costs associated with the Transformation Plan and programs initiated by HBC Europe to optimize operating efficiencies.
(iii) Includes costs associated with acquisition and integration related activities.
(iv) 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.

Summary of Consolidated Quarterly Results

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

	Fiscal Quarter Ended							
				restated (1)				
(millions of Canadian dollars except per share amounts)	**Feb 2, 2019**	**Nov 3, 2018**	**Aug 4, 2018**	**May 5, 2018**	**Feb 3, 2018**	**Oct 28, 2017**	**Jul 29, 2017**	**Apr 29, 2017**
	$	$	$	$	$	$	$	$
Revenue	2,885	2,187	2,160	2,144	3,052	2,072	2,204	2,162
Net (loss) earnings – continuing operations	(226)	(124)	(147)	(134)	180	(116)	(100)	(103)
Net earnings (loss) – discontinued operations, net of taxes	512	(40)	(117)	(266)	(96)	(127)	(101)	(118)
Net (loss) earnings per share - basic and diluted (2)								
Continuing operations	(0.95)	(0.52)	(0.62)	(0.57)	0.84	(0.64)	(0.55)	(0.57)
Discontinued operations	2.15	(0.17)	(0.50)	(1.13)	(0.45)	(0.69)	(0.55)	(0.65)
Reported consolidated revenue percentage change – continuing operations	(5.5%)	5.6%	(2.0%)	(0.8%)	(0.1%)	(5.1%)	3.2%	(1.1%)
Adjusted EBITDA (3)								
Continuing operations	187	63	33	55	216	40	3	2
Discontinued operations	9	(39)	(52)	(90)	101	(6)	13	(23)
Combined Adjusted EBITDA (3)	275	63	33	55	216	40	3	2
Adjusted EBITDAR (3)								
Continuing operations	384	141	119	140	303	121	89	90
Discontinued operations	47	82	69	34	225	107	118	78
Normalized net earnings (loss) (3)								
Continuing operations	98	(96)	(124)	(116)	13	(95)	(97)	(121)
Comparable sales percentage change – Continuing Operations (3) (4) (7)								
Consolidated (5)	(1.4%)	2.9%	(0.4%)	1.6%	(0.5%)	(2.0%)	(0.2%)	(3.6%)
DSG	(5.2%)	0.9%	(3.8%)	(0.6%)	(2.6%)	(3.7%)	(1.7%)	(2.4%)
Saks Fifth Avenue (6)	3.9%	7.3%	6.7%	6.0%	3.1%	1.0%	1.9%	(5.2%)
Saks OFF 5TH (6)	(2.1%)	(2.3%)	(7.6%)	(3.5%)	(2.0%)	(4.1%)	0.2%	(3.1%)

Notes:

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the "Supplemental Information – Discontinued Operations" section of this MD&A.

(2) 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. Beginning the fourth quarter of Fiscal 2017, the calculation of net earnings (loss) per share includes the impact of the Convertible Preferred Shares issued to Rhône. This increased the weighted average share outstanding by approximately 54 million shares for the thirteen week period ending February 2, 2019, 53 million for the thirteen week period ending November 3, 2018, 52 million shares for the thirteen week periods ending August 4, 2018 and May 5, 2018 and 31 million shares for the fourteen week period ended February 3, 2018.

(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, includes digital sales and clearance store sales and excludes stores undergoing liquidation and sales related accounting adjustments. Consolidated comparable sales include results for continuing operations. See "Factors Affecting Our Performance – Comparable Sales".

(5) Previously reported consolidated comparable sales have been restated to exclude sales related accounting adjustments and the results for discontinued operations.

(6) Previously reported comparable sales for Saks Fifth Avenue and Saks OFF 5TH have been restated to exclude promotional sales related accounting adjustments which were previously included in reported results.

(7) The Company follows the retail operating calendar which included a 53rd week in Fiscal 2017. All comparable sales figures are for the 13 and 52 weeks ended February 2, 2019, compared to the same periods ended February 3, 2018.

Investment in the European Department Store Group

As previously noted, on November 30, 2018, the HBC Europe's retail operations were combined with Karstadt's retail operations, to form the EDS Group, in which SIGNA has a 50.01% interest and HBC has a 49.99% interest. The board of directors of EDS Group is comprised of six directors, three appointed by SIGNA and three appointed by HBC. Governance of the EDS Group requires joint approval on all major decisions but SIGNA is ultimately responsible for management of day-to-day operations of the EDS Group.

The EDS Group's fiscal year end is September 30. The Company records its share of net loss in the EDS Group on a one-month lag. As a result, during the thirteen weeks period ended February 2, 2019, the Company recognized earnings related to the EDS Group for the one month ending December 31, 2018. To the extent that the EDS Group has material transactions during the one-month lag period, the Company records its share of income or loss related to these transactions in the current reporting period. Included in the Company's share of net loss in the EDS Group for the period ended February 2, 2019 are $194 million of restructuring charges, which were accrued by the EDS Group during the one-month lag period.

Summarized financial information of the investment as at December 31, 2018 and reconciliation to the carrying amount of the investment in the EDS Group in the consolidated balance sheets are set out below. See also note 11 "Investment in the EDS Group" of the Company's audited consolidated financial statements for the fifty-two week period ended February 2, 2019.

Statement of Loss - EDS Group

(millions of Canadian dollars)	**2018**
Retail sales	**1,092**
Cost of sales	**(665)**
SG&A	**(325)**
Depreciation and amortization	**(19)**
Finance costs	**(9)**
Income tax benefit	**20**
Net earnings at 100%	**94**
Company's share of net earnings in the EDS Group based on ownership interest	**47**
Adjustments for the Company's share of material transactions during the one-month lag	**(194)**
Company's share of net loss in the EDS Group	**(147)**

Balance Sheet - EDS Group

(millions of Canadian dollars)	**Feb 2, 2019**
Cash	**729**
Current financial assets	**1,492**
Current other assets	**97**
Non-current other assets	**2,653**
Current financial liabilities	**(755)**
Current other liabilities	**(814)**
Non-current financial liabilities	**(990)**
Non-current other liabilities	**(1,496)**
Net assets at 100%	**916**
Company's share of net assets in the EDS Group based on ownership interest	**458**
Adjustments for the Company's share of material transactions during the one-month lag	**(194)**
Plus capitalized transaction costs	**20**
Company's carrying value of investment in the EDS Group	**284**

Real Estate Joint Ventures

The Company's real estate joint ventures highlight the value of HBC's real estate and act as additional growth platforms for the Company. HBC's three real estate joint ventures consist of premier retail real estate assets in Canada, the United States, and Germany. The Company accounts for its ownership in joint ventures using the equity method of accounting. To provide additional details on the results of these entities, unaudited financial statements have been provided in this MD&A as well as summarized in note 10 "Investments in real estate joint ventures" of the Company's audited consolidated financial statements for the fifty-two week period ended February 2, 2019.

Canada

HBC has partnered with RioCan REIT in Canada in the RioCan-HBC JV. The RioCan-HBC JV holds ten properties contributed by HBC, and a 50% interest in two mall assets contributed by RioCan REIT. HBC currently owns approximately 87% of this joint venture. 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. Unanimous board consent of HBC and RioCan is required for all major operating decisions.

United States

HBC has partnered with Simon, Ivanhoé Cambridge, Madison International, and a large U.S. pension fund, in the HBS Joint Venture. The HBS Joint Venture holds 42 properties in the United States, and HBC currently owns approximately 62% of this joint venture. 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, Simon and Ivanhoé Cambridge is required for all major operating decisions.

Germany

HBC has partnered with SIGNA in the European Real Estate JV.

On October 7, 2018, the HBS Joint Venture distributed to its owners the net assets of 41 German properties to form the European Real Estate JV. On November 30, 2018, the Company sold a 12.4% interest of the European Real Estate JV to SIGNA and recorded a gain on sale, net of $22 million of transaction costs, of $113 million. Proceeds from the sale were used to pay down the U.S. Term Loan B. Also on November 30, 2018, SIGNA acquired the 37.6% interest held by the other HBS Joint Venture limited partners in the European Real Estate JV, resulting in a 50% interest in the European Real Estate JV for each of HBC and SIGNA.

On January 31, 2019, a subsidiary of SIGNA acquired a 50% equity interest in the 18 German properties controlled by HBC Europe, which had not previously been contributed to any joint venture, for proceeds of $375 million (€250 million). As a result, the 18 German properties are included in a new 50-50 real estate joint venture between HBC and SIGNA, which is combined with the European Real Estate JV for presentation purposes. The proceeds were used to pay down part of the Global ABL (as defined herein).

The acquisition by SIGNA of the Kaufhof location in Cologne and the Carsch-Haus location in Duesseldorf, which are currently owned by the European Real Estate JV are expected to close in Fiscal 2019, subject to customary closing conditions. HBC will recognize its proportionate share of the gain or loss on the sale of the properties.

The advisory board of the European Real Estate Joint Venture is comprised of six members, three of whom have been appointed by each of HBC and SIGNA. Unanimous affirmative approval of all shareholders of the European Real Estate Joint Venture is required for all major operating decisions.

RioCan-HBC JV

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

Statements of Earnings

	Fiscal Quarter Ended		Fiscal Year	
(millions of Canadian dollars)	**Feb 2, 2019**	**Feb 3, 2018**	**2018**	**2017**
Rental revenue	**29**	28	**111**	110
Rental revenue – recoveries	**2**	3	**8**	9
Property operating costs	**(3)**	(2)	**(12)**	(12)
Operating income	**28**	29	**107**	107
Depreciation and amortization	**(11)**	(13)	**(44)**	(44)
Impairment	**(18)**	(8)	**(18)**	(8)
(Loss) earnings before finance costs	**(1)**	8	**45**	55
Finance income	**2**	2	**10**	10
Finance costs	**(10)**	(8)	**(33)**	(20)
Net (loss) earnings for the period	**(9)**	2	**22**	45

Balance Sheets

(millions of Canadian dollars)	**Feb 2, 2019**	**Feb 3, 2018**
Assets		
Cash	**5**	3
Investment properties	**1,658**	1,703
Finance lease receivables	**149**	147
Total assets	**1,812**	1,853
Liabilities		
Loans and borrowings	**359**	446
Accounts payable and accrued liabilities	**5**	4
Deferred revenue	**8**	8
Total current liabilities	**372**	458
Loans and borrowings	**412**	338
Total liabilities	**784**	796
Total partners' equity	**1,028**	1,057
Total liabilities and partners' equity	**1,812**	1,853

	Fiscal Year	
(millions of Canadian dollars)	2018	2017
Operating activities		
Net earnings for the period	**22**	45
Finance costs	**33**	20
Finance income	**(10)**	(10)
Earnings before finance costs	**45**	55
Cash interest paid	**(34)**	(19)
Proceeds from finance lease receivables	**8**	8
Items not affecting cash flows:		
Depreciation and amortization	**44**	44
Non-cash rental income	**(13)**	(15)
Impairment	**18**	8
Changes in working capital	**1**	13
Net cash inflow from operating activities	**69**	94
Investing activities		
Capital expenditures and tenant incentives paid	**(4)**	(10)
Net cash outflow for investing activities	**(4)**	(10)
Financing activities		
Long-term loans and borrowings:		
Issuance	**82**	245
Repayments	**(93)**	(2)
Borrowing costs	**(1)**	(3)
	(12)	240
Contributions received	**10**	2
Return of capital to partners	**—**	(243)
Distributions paid	**(61)**	(82)
Net cash outflow for financing activities	**(63)**	(83)
Increase in cash	**2**	1
Cash at beginning of year	**3**	2
Cash at end of year	**5**	3

HBS Joint Venture and European Real Estate JV

The HBS Joint Venture includes financial results related to the 41 German properties up to the distribution date of October 7, 2018. The European Real Estate JV includes financial results of these properties for the period from October 7, 2018 (date of formation) to February 2, 2019 and the financial results of the 18 German properties for the period from January 31 to February 2, 2019. In order to improve comparability against prior periods, the Company has presented the financial results for the HBS Joint Venture and the European Real Estate JV for the thirteen and fifty-two week period ended February 2, 2019, as well as the financial positions as at February 2, 2019, on a combined basis.

Combined Statements of Net Earnings and Comprehensive Income

	Fiscal Quarter Ended			
	2018			**2017**
(millions of U.S. dollars)	**HBS Joint Venture**	**European Real Estate JV**	**Combined**	**HBS Joint Venture**
Rental revenue	32	50	**82**	**85**
Rental revenue – recoveries	2	4	**6**	**7**
Property operating costs	—	(8)	**(8)**	**(8)**
Operating income	34	46	**80**	**84**
General and administrative expenses	(1)	—	**(1)**	**(1)**
Foreign exchange gain [1]	—	—	**—**	**42**
Depreciation and amortization	(11)	(9)	**(20)**	**(17)**
Impairment	(20)	(17)	**(37)**	**—**
Finance costs	(12)	(11)	**(23)**	**(25)**
(Loss) earnings before income taxes	(10)	9	**(1)**	**83**
Income tax expense	—	(2)	**(2)**	**(8)**
Net (loss) earnings for the period	(10)	7	**(3)**	**75**
Other comprehensive loss				
Currency translation adjustment	—	—	**—**	**(4)**
Total comprehensive (loss) income	(10)	7	**(3)**	**71**

	Fiscal Year			
	2018			**2017**
(millions of U.S. dollars)	**HBS Joint Venture**	**European Real Estate JV**	**Combined**	**HBS Joint Venture**
Rental revenue	271	67	**338**	**333**
Rental revenue – recoveries	17	5	**22**	**20**
Property operating costs	(10)	(8)	**(18)**	**(17)**
Operating income	278	64	**342**	**336**
General and administrative expenses	(5)	—	**(5)**	**(5)**
Foreign exchange (losses) gains [1]	(46)	—	**(46)**	**89**
Depreciation and amortization	(70)	(12)	**(82)**	**(80)**
Impairment	(20)	(17)	**(37)**	**—**
Finance costs	(78)	(16)	**(94)**	**(91)**
Earnings before income taxes	59	19	**78**	**249**
Income tax expense	(13)	(4)	**(17)**	**(18)**
Net earnings for the period	46	15	**61**	**231**
Other comprehensive income (loss)				
Currency translation adjustment	5	—	**5**	**(13)**
Total comprehensive income	51	15	**66**	**218**

Note:
(1) Represents the foreign exchange (losses) gains on the translation of Euro denominated monetary asset and liability balances related to the overall tax and legal structure of the joint venture.

Combined Balance Sheets

	2018			Feb 3, 2018
(millions of U.S. dollars)	HBS Joint Venture	European Real Estate JV	Combined	HBS Joint Venture
Assets				
Cash	10	48	**58**	41
Trade and other receivables	—	5	**5**	16
Asset held for sale	—	339	**339**	—
Total current assets	10	392	**402**	57
Investment properties	1,596	2,723	**4,319**	4,181
Intangible assets	—	29	**29**	56
Other assets	—	15	**15**	17
Total assets	1,606	3,159	**4,765**	4,311
Liabilities				
Loans and borrowings	150	1	**151**	150
Deferred revenue	10	19	**29**	26
Finance leases	—	5	**5**	1
Other payables and accrued liabilities	10	108	**118**	102
Total current liabilities	170	133	**303**	279
Loans and borrowings	687	1,524	**2,211**	2,338
Deferred tax liabilities	—	231	**231**	228
Finance leases	—	121	**121**	18
Other liabilities	—	117	**117**	106
Total liabilities	857	2,126	**2,983**	2,969
Total members' equity	749	1,033	**1,782**	1,342
Total liabilities and members' equity	1,606	3,159	**4,765**	4,311

Combined Statements of Cash Flows

(millions of U.S. dollars)	Fiscal Year			
	2018			2017
	HBS Joint Venture	European Real Estate JV	Combined	HBS Joint Venture
Operating activities				
Net earnings for the period	46	15	**61**	**231**
Income tax expense	13	4	**17**	**18**
Finance costs	78	16	**94**	**91**
Earnings before finance costs and income taxes	137	35	**172**	**340**
Interest paid in cash	(81)	(11)	**(92)**	**(92)**
Items not affecting cash flows:				
Depreciation and amortization	70	12	**82**	**80**
Impairment	20	17	**37**	**—**
Foreign exchange losses (gains)	46	—	**46**	**(89)**
Non-cash rental income	(34)	(9)	**(43)**	**(48)**
Changes in operating working capital	(6)	11	**5**	**11**
Net cash inflow from operating activities	152	55	**207**	**202**
Investing activities				
Tenant incentives paid	—	—	**—**	**(23)**
Net cash outflow for investing activities	—	—	**—**	**(23)**
Financing activities				
Borrowing costs	—	(4)	**(4)**	**—**
Payments on finance leases	(1)	—	**(1)**	**(1)**
Contributions received	—	—	**—**	**23**
Distributions paid	(144)	(42)	**(186)**	**(175)**
Distributions of cash included in 41 German Properties	(35)	35	**—**	**—**
Cash included in 18 additional German Properties	—	4	**4**	**—**
Net cash outflow for financing activities	(180)	(7)	**(187)**	**(153)**
Foreign exchange (loss) gain on cash	(3)	—	**(3)**	**2**
(Decrease) increase in cash	(31)	48	**17**	**28**
Cash at beginning of year	41	—	**41**	**13**
Cash at end of period	10	48	**58**	**41**

Outlook

We expect total North American capital investments in Fiscal 2019, to be between $300 million and $325 million, net of landlord incentives. This reflects a decrease of approximately $50 million to $100 million compared to our Fiscal 2018 capital expenditures, excluding a $152 million landlord inducement received for an amendment to the lease for the Hudson's Bay location at Oakridge Centre in Vancouver, BC. These capital investment expectations reflect exchange rate assumptions of USD:CAD = 1:1.31 for the Fiscal year. 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:

	Fiscal Quarter Ended					
				restated [(1)]		
(millions of Canadian dollars)	**Feb 2, 2019**			**Feb 3, 2018**		
	Continuing Operations	**Discontinued Operations**	**Total**	**Continuing Operations**	**Discontinued Operations**	**Total**
	$	$	$	$	$	$
Operating activities	460	34	494	283	227	510
Investing activities	488	(98)	390	266	(78)	188
Financing activities	(935)	(19)	(954)	(514)	(216)	(730)
Foreign exchange (losses) gains on cash	2	—	2	5	—	5
Increase (decrease) in cash	15	(83)	(68)	40	(67)	(27)
Transfer from continuing operations	(21)	21	—	(67)	67	—
Cash at beginning of period	27	62	89	97	—	97
Cash at end of period	21	—	21	70	—	70

	Fiscal Year					
				restated [(1)]		
(millions of Canadian dollars)	**Feb 2, 2019**			**Feb 3, 2018**		
	Continuing Operations	**Discontinued Operations**	**Total**	**Continuing Operations**	**Discontinued Operations**	**Total**
	$	$	$	$	$	$
Operating activities	57	(532)	(475)	(39)	(289)	(328)
Investing activities	517	(166)	351	28	(297)	(269)
Financing activities	(230)	302	72	550	(14)	536
Foreign exchange gains on cash	3	—	3	9	—	9
Increase (decrease) in cash	347	(396)	(49)	548	(600)	(52)
Transfer from continuing operations	(396)	396	—	(600)	600	—
Cash at beginning of year	70	—	70	122	—	122
Cash at end of year	21	—	21	70	—	70

Notes:

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the "Supplemental Information – Discontinued Operations" section of this MD&A.

Net Cash Flow - Operating Activities from Continuing Operations

For the thirteen week period ended February 2, 2019, net cash inflow from operating activities from continuing operations was $460 million compared to $283 million for the fourteen week period ended February 3, 2018, an increase of $177 million. This increase was primarily due to improvements in working capital partially offset by lower cash from operations.

Net cash inflow from operating activities for continuing operations was $57 million for the fifty-two week period ended February 2, 2019 compared to an outflow of $39 million for the fifty-three week period ended February 3, 2018, an increase in inflow of $96 million. The increase in inflow was primarily due to improvements in working capital.

Net Cash Flow - Investing Activities from Continuing Operations

For the thirteen week period ended February 2, 2019, net cash inflow for investing activities from continuing operations was $488 million compared to $266 million for the fourteen week period ended February 3, 2018 an increase in inflow of $222 million. The increase was primarily due to net proceeds received with respect to the HBC Europe transactions, partially offset by higher capital investments, lower net lease termination fees received from landlords and the absence of a return of capital from the RioCan-HBC JV received in the prior year period.

Net cash inflow from investing activities from continuing operations was $517 million for the fifty-two week period ended February 2, 2019 compared to $28 million for the fifty-three week period ended February 3, 2018, an increase in inflow of $489 million. The increase was primarily driven by proceeds from the divesture of the HBC Europe and Gilt operations and the receipt of higher landlord incentives partially offset by the receipt of a lower deposit for the pending sale of the Lord & Taylor Fifth Avenue building and the absence of a return of capital from the RioCan-HBC JV received in the prior year period.

Capital Expenditures

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

	Fiscal Year	
		restated (1)
(millions of Canadian dollars)	**2018**	**2017**
Merchandising	312	307
Information technology	71	58
Digital commerce	46	40
Maintenance and other capital expenditures	36	73
Total capital expenditures (2)	465	478
Proceeds from landlord incentives	(271)	(178)
Net capital expenditures	194	300

Note:

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the "Supplemental Information – Discontinued Operations" section of this MD&A.

(2) 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 $271 million and $178 million in Fiscal 2018 and Fiscal 2017, respectively. Accordingly, capital expenditures net of vendor allowances and landlord incentives were $194 million and $300 million, respectively. For capital expenditures expected in Fiscal 2019, please see the "Outlook" section of this MD&A.

Net Cash Flow - Financing Activities from Continuing Operations

For the thirteen week period ended February 2, 2019, net cash outflow from financing activities from continuing operations was $935 million compared to $514 million for the fourteen week period ended February 3, 2018, or an increase in outflow of $421 million. The increase in outflow was due to the partial repayment of U.S. Term Loan B, and reduction in other long-term borrowings partially offset by lower repayments of the Global ABL balance compared to the prior period. In addition, the prior year included proceeds received on the issuance of Convertible Preferred Shares of $615 million.

Net cash outflow for financing activities was $230 million for the fifty-two week period ended February 2, 2019 compared to an inflow of $550 million for the fifty-three week period ended February 3, 2018, an increase in outflow of $780 million. The increase primarily due to the reasons noted above.

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, 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 or preferred shares.

During the third quarter of Fiscal 2018, the Board of Directors determined that the Company met the requirements to qualify as a "foreign private issuer" under applicable U.S. securities laws and the rules of the United States Securities and Exchange Commission (the "SEC"). In the event the Company does not meet the requirements to qualify as a "foreign private issuer" in the future, the Company's ability to issue unrestricted equity on a public offering basis may be limited. Given other potential available sources of capital and liquidity (including, for example, asset and/or property sales, debt and/or mortgage financing, or equity issuances on a private placement basis), the Company does not currently anticipate that a loss of foreign private issuer status could adversely affect its business or financial condition. As a result of the equity investment by Rhône and the Company's obligation under the Rhône Investor Rights Agreement, the Company may register its securities with the SEC (under the multijurisdictional disclosure system) in connection with the expiry of the lock-up period under such agreement.

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 sufficient 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 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

The Company has credit availability under a U.S. $1.94 billion senior secured asset-based revolving credit facility, (the "Global ABL"), for the benefit of the Company's Canadian and U.S. operations, with Bank of America, N.A. as the administrative agent and collateral agent.

The Global ABL has a maturity date of February 5, 2021 and is divided into two tranches consisting of a U.S. subfacility, and a Canadian subfacility, that are available to be drawn in U.S. dollars and Canadian dollars and are subject to their respective borrowing base, supported predominantly by eligible inventory and accounts receivable of HBC, L&T Acquisition and certain of their respective subsidiaries (other than real estate subsidiaries). The Global ABL is available on a revolving basis to finance working capital needs, capital expenditures, operating activities of the Company and other general corporate purposes. The Global ABL has multiple interest rate options that are based on the U.S. prime rate, Federal Funds rate, LIBOR, Canadian prime rate and Canadian Dollar Offered Rate.

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. The agreement also contains events of default and representations and warranties. HBC is in compliance with all covenants required to be complied with under the Global ABL.

The Global ABL is secured by a first priority security interest over inventory and accounts receivable in Canada (HBC) and the United States (Lord & Taylor and Saks and certain of their subsidiaries).

At the end of the year, the Company had approximately $1.2 billion in availability under the Global ABL compared to $1.7 billion in the prior year.

In January 2019, proceeds of $375 million received from the sale of a 50% interest in the 18 German properties were used to pay down part of the Global ABL.

U.S. Term Loan B

The Company has entered into a U.S. dollar senior secured term loan facility with Bank of America, N.A. as the administrative agent (the "U.S. Term Loan B"). A portion of the principal amount outstanding under the U.S. Term Loan B in the amount of $233 million (U.S. $175 million), was repaid on November 30, 2018, using proceeds from the sale to SIGNA of HBC's 12.4% equity interest in the European Real Estate JV.

As at February 2, 2019, the principal amount outstanding under the U.S. Term Loan B was $426 million (U.S.$325 million). The Company is in compliance with all covenants required to be complied with under the U.S. Term Loan B.

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 certain 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

Saks Flagship Real Property LLC, which is an indirect subsidiary of Saks, has entered into a U.S.$1.25 billion, 20-year mortgage loan, on the ground portion of the Company's Saks Fifth Avenue flagship property in New York City, with Bank of America, N.A. as the administrative agent (the "Saks Mortgage").

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 revenues. The Saks Mortgage contains representations and warranties, positive and negative covenants, reporting requirements and events of default, restrictive covenants, events of default and representations and warranties that are customary for credit facilities of this nature. As at February 2, 2019, the Company was in compliance with all covenants required to be complied with under the Saks Mortgage.

Lord & Taylor Mortgage

As at February 2, 2019, LT 424 LLC ("LT 424"), which is an indirect subsidiary of Lord & Taylor, had a U.S.$400 million floating rate mortgage loan with an affiliate of CIBC World Markets Inc., as administrative agent of the syndicate of lenders. As security for the Lord & Taylor Mortgage, the Company granted a first priority mortgage in Lord & Taylor Fifth Avenue building in New York. On February 8, 2019, a portion of the proceeds from the sale of the Lord & Taylor Fifth Avenue building to WPI were used to fully retire the Lord & Taylor mortgage.

The Lord & Taylor Mortgage was set to mature on August 10, 2021 and carried an interest rate of LIBOR plus 3.25%. In order to mitigate the risk of rising interest rates, LT 424 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.

Contractual Obligations

Our significant contractual obligations and commitments as of February 2, 2019 are as follows:

		Fiscal Year					
(millions of Canadian dollars[1])	**Total**	**2019**	**2020**	**2021**	**2022**	**2023**	**Thereafter**
	$	$	$	$	$	$	$
Lease financing							
Operating lease arrangements [2]	8,878	559	562	554	532	528	6,143
Short-term borrowings							
Global ABL [3]	472	472	—	—	—	—	—
Long-term borrowings							
U.S. Term Loan B	426	—	—	—	426	—	—
Lord & Taylor Mortgage [4]	510	6	7	497	—	—	—
Saks Mortgage	1,638	—	—	—	—	—	1,638
Other loans	28	2	2	24	—	—	—
Finance leases	347	29	29	12	9	2	266
Purchase obligations[5]	56	37	15	4	—	—	—
Other obligations[6]	990	990	—	—	—	—	—
Total obligations	13,345	2,095	615	1,091	967	530	8,047

Notes:

(1) U.S. dollar denominated amounts are translated to Canadian dollars at the rates of USD:CAD = 1:1.31.

(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) Based on contractual maturities of the Lord & Taylor Mortgage which was repaid subsequent to February 2, 2019.

(5) 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.

(6) 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.

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 two 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 is a minimum funding requirement of $2.4 million for Fiscal 2019 for Saks defined-benefit pension plan.

Other

As of February 2, 2019, 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.

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 February 2, 2019, the future minimum lease payments, excluding lease payments of the 15 leases discussed below, is approximately $12 million (February 3, 2018: $17 million). Minimum lease payments do not include other lease related expenses. 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.

As part of the sale of the Northern Department Store Group to The Bon-Ton Stores, Inc. ("Bon-Ton") in 2006, the Company guarantees the remaining obligations on six leases (the "Bon-Ton Lease Guarantees"). The terms of the Bon-Ton Lease Guarantees can extend up to the year 2024. On February 5, 2018, Bon-Ton filed voluntary petitions for a court-supervised financial restructuring under Chapter 11 of the United States Bankruptcy Code. While the ultimate treatment of the underlying leases to which the Bon-Ton Lease Guarantees may apply has not yet been determined, an amount of $34 million (February 3, 2018: $32 million) has been accrued in the consolidated financial statements which at this time represents the Company's best estimate of potential future obligation with respect to these guarantees. This amount is included within provisions in the consolidated balance sheet of the Company.

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"). 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. As at February 2, 2019, the Company had a legal provision of $9 million (February 3, 2018: $10 million) recorded in provisions in the consolidated balance sheet.

Please also see "Related Party Transactions" for certain leases guarantees in respect of the EDS Group, including the Netherland leases (as defined herein).

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.

Letters of Credit

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 was $240 million as at February 2, 2019. The outstanding letters of credit included $149 million related to the EDS Group.

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. See the "Investment in the European Department Stores Group" and"Real Estate Joint Ventures" sections of this MD&A.

Financial 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 (loss).

The Company enters into forward foreign exchange contracts to fix the cost in Canadian dollars or, prior to the divestment of HBC Europe, in Euros of certain U.S. dollar based purchases of merchandise from foreign suppliers. These forward exchange contracts are designated as cash flow hedges and are reported at fair value in financial assets or financial liabilities. 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).

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 20 to the Company's audited consolidated financial statements for Fiscal 2018.

Risks arising from Financial Instruments

Through the 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 generate sufficient cash in order 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, earnings and diversifying sources of funding. The Global ABL is primarily used to maintain operational 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 Europe, prior to its disposal on November 30, 2018, which has a Euro functional currency, also purchased a significant amount of its inventory in U.S. dollars. The Company enters into foreign exchange forward contracts 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), whose functional currency is U.S. dollars 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, Gilt and HBC Europe (up until disposal dates, note 5 to the Company's audited consolidated financial statements for Fiscal 2018). 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 fluctuations in interest rates on its floating rate short-term and long-term borrowings. The Company manages interest rate risk by monitoring the mix of fixed and floating rate debt to ensure an appropriate balance based on prevailing market conditions. The Company aims to achieve an optimal debt profile with the use of financial derivatives, such as 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 though 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. All other financial assets are classified as loans and receivables 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 at February 2, 2019 and February 3, 2018:

	Fiscal Year	
(millions of Canadian dollars)	**2018**	**2017**
	$	$
Classified as fair value through profit or loss	—	(1)
Financial derivatives designated as cash flow hedges	18	6
Classified as amortized cost	(3,032)	(2,980)

Fair Value of Financial Instruments

The Company determines the fair value of its long term loans and borrowings using either quoted prices for identical or similar securities or a discounted cash flow model that uses current market interest rates for items of similar risk.

The fair values of interest rate swaps, forward foreign currency contracts and warrants reflect the estimated amounts that 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 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 2018 and 2017, the Company recorded income of $1 million and $3 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 24 of the Company's audited consolidated financial statements for the Fiscal 2018.

The Company has sold the Lord & Taylor Fifth Avenue building to WPI which may be deemed to hold an interest in the Convertible Preferred Shares held by Rhône.

On November 30, 2018, the Company entered into an agreement with a counterparty of the European Real Estate JV pursuant to which the Company, together with SIGNA, provides a guarantee of certain related party lease obligations of the EDS Group. Under the terms of the agreement, the Company guarantees 49.99% of these lease obligations to the European Real Estate JV, in the event that the EDS Group defaults on its lease commitments. In addition, the Company has provided guarantees of 100% of the EDS Group's lease obligations related to Hudson's Bay Netherlands (the "Netherlands Leases"). SIGNA in turn has provided the Company with a guarantee of 50.01% of the Netherlands Leases.

Excluding returns of capital and distributions received (see note 10 of the Company's audited consolidated financial statements for the Fiscal 2018), transactions with the RioCan-HBC JV, the HBS Joint Venture and the European Real Estate JV comprised the following:

	Fiscal Quarter Ended		**Fiscal Year**	
		restated [(1)]		*restated* [(1)]
(millions of Canadian dollars)	**Feb 2, 2019**	**Feb 3, 2018**	**2018**	**2017**
Management agreements reimbursement - continuing operations	**—**	1	**1**	1
Rent expense - continuing operations	**68**	66	**267**	267
Rent expense - discontinued operations	**25**	67	**242**	273

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the "Supplemental Information – Discontinued Operations" section of this MD&A.

Balances due from (to) the the RioCan-HBC JV, the HBS Joint Venture and the European Real Estate JV are comprised of:

	RioCan-HBC JV		HBS Joint Venture		European Real Estate JV
(millions of Canadian dollars)	**Feb 2, 2019**	**Feb 3, 2018**	**Feb 2, 2019**	**Feb 3, 2018**	**Feb 2, 2019**
Prepaid rents (included in other current assets)	**9**	7	**13**	32	—
Receivables (included in trade and other receivables)	**—**	—	**1**	16	5
Payables (included in other current liabilities)	**—**	—	**—**	(4)	—
Loans payable (included in other current liabilities)	**—**	—	**—**	(12)	—

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 2018 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 2018):

Inventory valuation

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

Cost is determined using the weighted average cost method based on individual items. 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.

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

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.

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 cash generating units ("CGUs") for 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 the 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. 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.

Post-employment 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 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 income (loss) 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 are incurred, which are as the related employee services are 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 valuation at the end of each reporting period.

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 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.

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.

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 ownership interests in real estate and retail joint ventures. 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.

Changes in Accounting Policies Including Initial Adoption

Accounting Standards Implemented in Fiscal 2018

Revenue

In May 2014, the IASB issued IFRS 15 - Revenue from Contracts with Customers (“IFRS 15”), which provides a comprehensive framework for the 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 effective for annual periods beginning on or after January 1, 2018 and was applied for the first time by the Company in the first quarter of Fiscal 2018.

The Company adopted IFRS 15 using the modified retrospective method with the cumulative effect of any adjustments recognized in the opening balance of retained earnings as of February 4, 2018. Comparative information has not been restated and continues to be reported under previous accounting standards. IFRS 15 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Company made use of a practical expedient and elected to apply IFRS 15 retrospectively only to contracts that are not completed contracts as at February 4, 2018.

After completing the analysis of its significant customer contracts, the Company has determined that the implementation of IFRS 15 did not result in any adjustments to the opening balance of deficit or to the presentation of the Company’s consolidated balance sheet.

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”). IFRS 9 and the related consequential amendments to IFRS 7 - Financial Instruments: disclosures are effective for annual periods beginning on or after January 1, 2018 and were applied for the first time by the Company in the first quarter of fiscal 2018.

As permitted by the transitional provision of IFRS 9, the Company elected not to restate comparative figures. Adjustments to the carrying amount of financial assets and financial liabilities at the date of transition were recognized in the opening deficit of the current period. Accordingly, the information presented in these consolidated financial statements for the prior year does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented in the current year under IFRS 9.

The impact of implementing IFRS 9 on the carrying amounts of the Company’s financial assets and financial liabilities is related to a prior period modification of the Company’s U.S. Term Loan B, which at the time of modification did not result in the derecognition of that loan. Under IFRS 9, this modification reduces the carrying value of U.S. Term Loan B by $15 million, which has been recognized in the opening deficit of the current year.

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their contractual cash flow characteristics. Financial assets are classified and measured based on these categories: amortized cost, fair value through other comprehensive income, and fair value through profit or loss. Financial liabilities are classified and measured based on two categories: amortized cost or fair value through profit and loss. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated, but the hybrid financial instrument as a whole is assessed for classification.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at February 4, 2018.

Asset/Liability	Original classification under IAS 39	New classification under IFRS 9
Cash	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Short-term deposits	Held-to-maturity	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Trade payables and other liabilities	Other liabilities	Amortized cost
Loans and borrowings	Other liabilities	Amortized cost
Derivatives, not in a hedging relationship	Fair value through profit or loss	Fair value through profit or loss

Financial assets are not reclassified subsequent to their initial recognition, unless the Company identifies changes in its business model in managing financial assets and would reassess the classification of financial assets.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking expected credit ("ECL") model. The Company applied the practical expedient to determine ECLs for its trade receivables based on historical credit loss experiences to estimate lifetime ECLs. The Company determined that the initial application of IFRS 9's impairment requirements at February 4, 2018 resulted in no additional recorded impairment allowance.

Hedge accounting

As permitted by IFRS 9, the Company has elected to continue applying the hedge accounting requirements of IAS 39 instead of the requirements set out in IFRS 9. This election applies to all of the Company's hedging relationships.

Future Changes in Significant Accounting Policies

The Company will adopt US GAAP in place of IFRS as the Company's financial reporting framework for interim and annual periods commencing after February 2, 2019. Comparative US GAAP information for Fiscal 2017 and Fiscal 2018 will also be provided.

The following discussion has been prepared using the Accounting Standards Codifications ("ASCs"), Accounting Standards Updates ("ASUs") and interpretations currently issued and expected to be effective at the end of the Company's first annual US GAAP reporting period, which will be February 1, 2020.

Management does not expect the adoption of US GAAP to have a material impact on the Company's business activities or cash flows. However, it will impact certain aspects of the reported financial results, the more significant of which are described below:

1. *Investment in real estate joint ventures*

   The initial value of the Company's investment in its real estate joint ventures at inception is expected to be significantly lower due to the measurement of the initial contributions of real estate or in-substance real estate assets at cost (i.e. carrying value at time of contribution) under US GAAP versus fair value under IFRS. This will also impact initial gain on contribution, dilution gains realized and gains on sale of units to third parties.

2. *Adoption of ASC 842 - Leases*

   Effective February 3, 2019, the Company has adopted *ASC 842 - Leases* ("ASC 842"), using a modified retrospective method and will not restate comparative periods. ASC 842 will have a material impact on the Company's consolidated balance sheets, primarily with the addition of lease liabilities and right-of-use assets. The Company does not expect this standard to have a material impact on its consolidated statements of earnings (loss) or consolidated statements of cash flows.

   As permitted under the transition guidance, the Company has elected to use the following practical expedients upon adoption:

- the Company has elected to carry forward the assessment of whether its contracts contain or are leases, its lease classification, initial direct costs and remaining lease terms;
- the Company has lease agreements with lease and non-lease components and will elect not to separate them and treat them as a single lease component;
- the Company will make an accounting policy election whereby short-term leases with an initial term of 12 months or less will not be recorded on the consolidated balance sheets based on applicable asset classes; and
- the Company will use a single discount rate to a portfolio of leases based on lease term.

The Company has purchased and implemented a separate system to facilitate the identification, tracking and reporting of leases based on the requirements of the new lease standard. The Company has also implemented processes and internal controls to enable the application of ASC 842 for fiscal 2019.

3. *Pensions and employee benefits*

Applicable policy choices under US GAAP relating to the measurement of interest costs, expected return on plan assets ("EROA"), and pension benefit obligation is expected to have a significant impact on the Fiscal 2017 and 2018 results. Specifically with the use of split discount rates in determining the interest cost and EROA.

4. *Onerous lease accruals*

The Company expects material changes in the timing of recognition and measurement of onerous leases under US GAAP. The concept of onerous contracts is not defined under US GAAP, but is discussed within the scope of disposal or exit cost obligations. Hence, any accruals for onerous lease contracts would be recognized upon "*Cease-Use Date*" based on any one-time exit/restructuring costs and remaining lease payments net of estimated sublease income, versus the "*least net cost*" to fulfill an onerous contract under IFRS.

5. *Presentation and disclosures*

The Company expects changes to the presentation and disclosure of certain items in the consolidated balance sheets, statements of loss, comprehensive loss and cash flows, and notes to the consolidated financial statements to conform to the requirements of the applicable ASCs, ASUs and, if applicable, U.S. securities laws and the rules of the SEC.

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 interim and annual certificates relating to the design (quarterly) and effectiveness (annual) 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, the 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.

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 February 2, 2019.

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 February 2, 2019, 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 May 4, 2018, is available on SEDAR at www.sedar.com.

Dividends

The Company's board of directors approved the payment of a quarterly dividend on March 18, 2019, which will be paid on April 15, 2019, to shareholders of record at the close of business on March 29, 2019. The dividend will be in the amount of $0.0125 per Common Share and was designated as an "eligible dividend" for Canadian tax purposes. The declaration of dividends is at the discretion of the Company's board of directors.

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 2, 2019, the Company had 183,909,046 Common Shares issued and outstanding and 50,919,608 Convertible Preferred Shares issued and outstanding, which are convertible into 54,824,168 Common Shares as of such date. As of April 2, 2019, the Company had 14,589,126 share options and 5,850,509 restricted share units 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.

Voting Rights of Convertible Preferred Shares

The holders of the Convertible Preferred Shares are entitled to receive notice of, attend and vote (in person or by proxy) at all meetings of the shareholders of the Company. Each Convertible Preferred Shares will be entitled to a single vote. Each holder of Convertible Preferred Shares shall be deemed to hold, for the sole purpose of voting at any meeting of shareholders of the Company at which such holder is entitled to vote, the number of Convertible Preferred Shares equal to the number of whole Common Shares into which such holder's registered Convertible Preferred Shares are convertible as of the record date for the determination of shareholders entitled to vote at such shareholders meeting.

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 May 4, 2018, which is available on SEDAR at www.sedar.com. Additional risk factors are outlined below. The Company is not otherwise aware of any significant changes to the Company's risk factors from those disclosed at that time.

The Company may not be able to successfully complete the remaining components of the strategic partnership transactions with SIGNA.

There can be no assurance that the sale of two German properties from the European Real Estate JV and receipt of proceeds therefrom will be completed in accordance with the contemplated timeline, on the proposed terms or at all. HBC intends to use certain net proceeds of the sale to repay amounts outstanding under its Global ABL. The completion of the remaining component of the strategic partnership transactions is subject to customary closing conditions and will depend in part on the ability of SIGNA to fulfill its funding commitments. The failure to consummate the remaining components of the strategic partnership transactions with SIGNA, on the contemplated timeline, on the proposed terms or at all, could have a material adverse effect on the business, financial condition, results of operations and prospects of the Company.

There can be no assurance that the Company will realize the expected benefits from the strategic partnership transactions with SIGNA.

While the Company believes the strategic partnership transactions with SIGNA will enhance its balance sheet and provide a better operating platform for its European retail business, there is risk that some or all of the anticipated benefits associated with these transactions may fail to materialize, or may not occur within the time periods currently anticipated by the Company. The realization of such benefits may be affected by a number of factors, many of which are beyond the control of the Company. See additional risk factors below.

While each of HBC Europe and SIGNA's Karstadt have been subject to similar risks operating independently in the European retail market, the challenge of integrating previously independent businesses makes evaluating the combined European retail business and future financial prospects difficult. The past financial performance of each of HBC Europe and Karstadt may not be indicative of the future financial performance of the combined European retail business. The anticipated combination synergies, assessed based on operational improvements and cost savings, may not be as substantial as anticipated or realized on the anticipated timeline or at all. If the anticipated benefits are not achieved, or the performance or liquidity of the EDS Group deteriorates, additional contributions, credit support or payment on lease guarantees may be required or requested, as applicable, by HBC and SIGNA, subject to the terms and conditions of the Joint Venture agreements.

There also can be no assurance that the new real estate joint venture with SIGNA will provide the expected benefits, including, among others, enabling the Company to diversify the tenant base, identify new real estate growth opportunities such as future property acquisitions, or that the Company will be able to monetize its investment in the new joint venture at a future date.

While the Company and SIGNA share joint oversight over all major decisions affecting the combined European retail business, the Company does not run the day-to-day management and operations.

While the Company and SIGNA share joint oversight over all major decisions regarding the combined European retail business, SIGNA is ultimately responsible for its day-to-day management and operations. The Company therefore has a non-controlling interest in the combined European retail business and is not in a position to exercise sole decision-making authority or run its day-to-day management and operations. Consequently, there can be no assurance by the Company that the combined European retail business will be well-managed or properly operated on a regular basis. Poor management or even mismanagement of the combined European retail business could, in turn, have a material adverse effect on the business, financial condition, results of operations and prospects of the Company.

The combined European retail business may not be successful in maintaining certain key relationships following closing of the strategic partnership transactions with SIGNA.

While the Company will not have day-to-day management and operational control over the combined European retail business, the Company currently anticipates that SIGNA or the combined European retail business will maintain certain key relationships. However, SIGNA or the combined European retail company may not be successful in retaining the services of certain key personnel or maintaining relationships with certain key customers, business partners, suppliers, distributors, employee unions or other third parties following completion of the proposed transactions. SIGNA's or the combined European retail business' failure to do so or any changes in its relationship with key stakeholders could have a material adverse effect on the business, financial condition, results of operations and prospects of the Company.

The Company accounts for the combined European retail business using the equity method of accounting as a result of its joint interest

Using the equity method of accounting, the Company recognizes the fair value of its interest in the combined European retail business as an investment at the date of close and then subsequently, at each reporting date, recognizes its proportionate share of the combined European retail business' net earnings (loss) and the value of the investment is adjusted to reflect the change. This method of accounting is applied as the Company does not have a controlling interest in the combined European retail business and does not run the day-to-day management and operations. See "Basis of

Presentation - Investment in the EDS Group". As described above, the past financial performance of each of HBC Europe and Karstadt may not be indicative of the future financial performance of the combined European retail business, and anticipated benefits of the combination may not materialize, or may not occur within the time periods currently anticipated by the Company.