



HUDSON'S BAY COMPANY
2015 ANNUAL CONSOLIDATED
FINANCIAL STATEMENTS

For the Year Ended

January 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Hudson's Bay Company

We have audited the accompanying consolidated financial statements of Hudson's Bay Company, which comprise the consolidated balance sheets as at January 30, 2016, January 31, 2015 and February 2, 2014, and the consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of shareholders' equity and consolidated statements of cash flows for the 52 weeks ended January 30, 2016 and January 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hudson's Bay Company as at January 30, 2016, January 31, 2015 and February 2, 2014, and its financial performance and its cash flows for the 52 weeks ended January 30, 2016 and January 31, 2015 in accordance with International Financial Reporting Standards.



Chartered Professional Accountants
Licensed Public Accountants

April 4, 2016
Toronto, Canada

HUDSON'S BAY COMPANY
CONSOLIDATED STATEMENTS OF EARNINGS

For the 52 weeks ended January 30, 2016 and January 31, 2015
(millions of Canadian dollars, except per share amounts)

	Notes	January 30, 2016 (Fiscal 2015)	(restated – note 9) January 31, 2015 (Fiscal 2014)
Retail sales		11,162	8,169
Cost of sales	9	(6,638)	(4,901)
Selling, general and administrative expenses		(4,066)	(2,759)
Depreciation and amortization	5	(460)	(344)
Gain on contribution of assets to joint ventures ..	12	168	—
Gain on sale of investments in joint ventures	12	516	—
Gain on sale and leaseback transaction	26	—	308
Operating income		682	473
Finance costs, net	6	(188)	(262)
Share of net loss in joint ventures	12	(139)	—
Dilution gain from investment in joint venture ...	12	164	—
Earnings before income tax		519	211
Income tax (expense) benefit	7	(132)	22
Net earnings for the year		387	233
Earnings per common share	20		
Basic		2.13	1.28
Diluted		1.88	1.27

(See accompanying notes to the consolidated financial statements)

HUDSON'S BAY COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the 52 weeks ended January 30, 2016 and January 31, 2015
(millions of Canadian dollars)

	January 30, 2016 (Fiscal 2015)	(restated – note 9) January 31, 2015 (Fiscal 2014)
Net earnings	387	233
Other comprehensive income, net of tax:		
Item that will not be reclassified to earnings or loss:		
Net actuarial gain (loss) of employee benefit plans, net of taxes of \$6 (2014: \$4)....	23	(6)
Items that may be reclassified subsequently to earnings or loss:		
Currency translation adjustment	227	233
Net loss on net investment hedge, net of taxes of nil (2014: \$4)	—	(2)
Net gain on derivatives designated as cash flow hedges, net of taxes of \$8 (2014: \$3)	22	13
Reclassification to non-financial assets of net gains on derivatives designated as cash flow hedges, net of taxes of \$7 (2014: \$2)	(20)	(5)
Reclassification to earnings of net gains on derivatives designated as cash flow hedges, net of taxes of \$1 (2014: \$2)	(4)	(6)
Other comprehensive income	248	227
Total comprehensive income	635	460

HUDSON'S BAY COMPANY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the 52 weeks ended January 30, 2016 and January 31, 2015
(millions of Canadian dollars)

	Notes	Share Capital	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income ("AOCI")				Total AOCI	Total Shareholders' Equity
					Currency Translation Adjustment	Employee Benefits	Net Investment Hedge	Cash Flow Hedges		
As at February 1, 2014		1,420	491	43	146	(6)	(54)	3	89	2,043
Impact of change in accounting policy	9	—	(10)	—	—	—	—	—	—	(10)
As at February 2, 2014 (restated)		1,420	481	43	146	(6)	(54)	3	89	2,033
Total comprehensive income (restated)	9	—	233	—	233	(6)	(2)	2	227	460
Share based compensation ..	18	—	—	17	—	—	—	—	—	17
Dividends	19	—	(36)	—	—	—	—	—	—	(36)
As at January 31, 2015 (restated)	9	1,420	678	60	379	(12)	(56)	5	316	2,474
Total comprehensive income		—	387	—	227	23	—	(2)	248	635
Share based compensation ..	18	—	—	26	—	—	—	—	—	26
Dividends	19	—	(36)	—	—	—	—	—	—	(36)
As at January 30, 2016		1,420	1,029	86	606	11	(56)	3	564	3,099

(See accompanying notes to the consolidated financial statements)

HUDSON'S BAY COMPANY
CONSOLIDATED BALANCE SHEETS

As at January 30, 2016, January 31, 2015 and February 2, 2014
(millions of Canadian dollars)

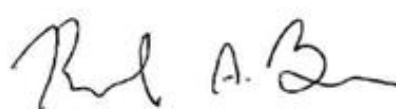
	Note	January 30, (Fiscal 2015)	(restated – note 9)	
			January 31, 2015 (Fiscal 2014)	February 2, 2014
Assets				
Cash	8	507	168	21
Trade and other receivables		512	212	137
Inventories	9	3,415	2,319	2,031
Other current assets		194	100	102
Assets of discontinued operations		—	—	2
Total current assets		4,628	2,799	2,293
Property, plant and equipment	10	5,154	4,606	4,110
Intangible assets and goodwill	11	1,774	1,313	1,188
Pensions and employee benefits	15	166	149	141
Deferred tax assets	7	253	240	249
Investments in joint ventures	12	658	—	—
Other assets		16	15	13
Total assets		12,649	9,122	7,994
Liabilities				
Loans and borrowings	13	451	246	513
Finance leases	14	25	19	19
Trade payables		1,494	945	585
Other payables and accrued liabilities		1,020	603	489
Deferred revenue		132	130	152
Provisions		148	115	149
Other liabilities	16	126	86	11
Liabilities of discontinued operations		—	—	89
Total current liabilities		3,396	2,144	2,007
Loans and borrowings	13	2,729	2,723	2,792
Finance leases	14	500	136	131
Provisions		89	63	16
Pensions and employee benefits	15	681	189	165
Deferred tax liabilities	7	887	656	624
Investment in joint venture	12	27	—	—
Other liabilities	16	1,241	737	226
Total liabilities		9,550	6,648	5,961
Shareholders' equity				
Share capital	19	1,420	1,420	1,420
Retained earnings		1,029	678	481
Contributed surplus		86	60	43
Accumulated other comprehensive income		564	316	89
Total shareholders' equity		3,099	2,474	2,033
Total liabilities and shareholders' equity		12,649	9,122	7,994

(See accompanying notes to the consolidated financial statements)

On behalf of the Board:



Director



Director

HUDSON'S BAY COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 52 weeks ended January 30, 2016 and January 31, 2015
(millions of Canadian dollars)

	Notes	January 30, 2016 (Fiscal 2015)	(restated – note 9) January 31, 2015 (Fiscal 2014)
Operating activities			
Net earnings for the year		387	233
Add: Income tax expense (benefit)	7	132	(22)
Deduct: Dilution gain from investment in joint venture	12	(164)	—
Add: Share of net loss in joint ventures	12	139	—
Add: Finance costs, net	6	188	262
Operating income		682	473
Net cash income taxes (paid) received		(1)	4
Interest paid in cash		(147)	(143)
Distributions of earnings from joint ventures	12	114	—
Items not affecting cash flows:			
Depreciation and amortization	5	460	344
Net defined benefit pension and employee benefits expense		17	6
Other operating activities		(11)	(56)
Share of rent expense to joint ventures	12	(188)	—
Gain on contribution of assets to joint ventures	12	(168)	—
Gain on sale of investments in joint ventures	12	(516)	—
Gain on sale and leaseback transaction	26	—	(308)
Share based compensation	18	31	17
Settlement of share based compensation grants	18	(5)	—
Changes in operating working capital:			
Increase in trade and other receivables		(150)	(142)
Increase in inventories		(99)	(78)
Increase in other assets		(52)	(2)
(Decrease) increase in trade and other payables, accrued liabilities and provisions		(52)	326
Increase in other liabilities		103	106
Net cash inflow from operating activities		18	547
Investing activities			
Capital investments		(610)	(426)
Proceeds from landlord incentives		234	113
		(376)	(313)
Proceeds from lease terminations and other non-capital landlord incentives		22	71
Proceeds from sale of assets		—	35
Proceeds from sale and leaseback transaction	26	—	650
Proceeds from contribution of assets to joint ventures	12	1,134	—
Acquisition of Kaufhof Operating Business, net of cash acquired	4	(745)	—
Investment in joint ventures	12	(299)	—
Proceeds from sale of joint ventures' equity	12	712	—
Other investing activities		—	(2)
Net cash inflow from investing activities		448	441
Financing activities			
Long-term loans and borrowings:			
Issuance		1,453	1,420
Repayments		(1,626)	(1,873)
Borrowing costs		(60)	(48)
		(233)	(501)
Short-term loans and borrowings:			
Net borrowings from (repayments to) asset-based credit facilities		158	(287)
Borrowing costs		—	(2)
Net decrease in other short-term borrowings		(2)	(2)
		156	(291)
Payments on finance leases		(25)	(20)
Dividends paid	19	(36)	(36)
Net cash outflow for financing activities		(138)	(848)
Foreign exchange gain on cash		11	7
Increase in cash		339	147
Cash at beginning of year		168	21
Cash at end of year		507	168

(See accompanying notes to the Consolidated Financial Statements)

HUDSON'S BAY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. GENERAL INFORMATION

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

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

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

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

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

On September 30, 2015, prior to the acquisition discussed below, the HBC-Simon JV became a wholly-owned subsidiary of HBS Global Properties LLC ("the HBS Joint Venture") (note 12).

On September 30, 2015, the Company and the HBS Joint Venture acquired GALERIA Holding ("Kaufhof") for €2,317 million (\$3,490 million) (the "Kaufhof Acquisition") (note 4). The transaction was structured such that effectively, the Company acquired the operating business and certain properties of Kaufhof (the "Kaufhof Operating Business") for €709 million (\$1,068 million) while the HBS Joint Venture acquired the property business (the "Kaufhof Property Business") for €1,608 million (\$2,422 million).

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

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

The consolidated financial statements for the 52 weeks ended January 30, 2016 were authorized for issuance by the Board of Directors of HBC on April 4, 2016.

b) Basis of presentation

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

- provided comparative financial information; and
- applied the same accounting policies throughout all periods presented, except as discussed in note 9.

The preparation of financial statements in accordance with IFRS requires the use of critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. These areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in note 3.

c) Basis of consolidation

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

d) Fiscal year

The fiscal year of the Company consists of a 52 or 53 week period. Fiscal years 2015 and 2014 represent 52 week periods ended on January 30, 2016 and January 31, 2015, respectively. References to years in the consolidated financial statements and notes to the consolidated financial statements relate to fiscal years rather than calendar years.

e) Foreign currency translation

i) Functional and presentation currency

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

ii) Transactions and balances

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

iii) Foreign operations

The results and financial position of L&T Acquisition and its subsidiaries including Lord & Taylor Holdings LLC ("L&T") and Saks, which have a U.S. dollar functional currency, and the Kaufhof Operating Business, which has a Euro functional currency, are translated into the presentation currency as follows:

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

f) Business combinations and goodwill

Business combinations are accounted for using the acquisition method.

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

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

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

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

Where goodwill forms part of a CGU and part of the operations within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operation disposed of and the portion of the CGU retained.

g) Cash

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

h) Trade and other receivables

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

i) Inventories

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

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

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

j) Property, plant and equipment

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

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

Estimated useful lives are as follows:

<u>Asset</u>	<u>Amortization Periods</u>
Buildings	up to 50 years
Leasehold improvements	up to 20 years
Fixtures and fittings	up to 20 years
Assets held under finance leases	up to 50 years

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

k) Intangible assets

Private label brands and banner names with indefinite lives are measured at cost less any accumulated impairment losses and are not amortized.

Intangible assets with finite useful lives are carried at cost less accumulated amortization and impairment losses. These assets are amortized on a straight-line basis over their estimated useful lives.

Estimated useful lives are as follows:

Asset	Amortization Periods
Software including internally developed costs	up to 7 years
Banner names	indefinite
Private label brands	indefinite
Credit cards	up to 5 years
Favourable lease rights	up to 75 years

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

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

l) Interest in joint ventures

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

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

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

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

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

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

m) Impairment of non-financial assets

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

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

Any impairment loss identified for a particular CGU is allocated to the assets within that unit on a pro-rata basis, except where the recoverable amount of an asset is based on FVLCD, in which case no portion of the impairment loss is allocated to that asset. Any impairment charge is recognized in net earnings in the year in which it occurs. Where an impairment loss subsequently

reverses due to a change in the original estimate, the impairment loss is reversed but is restricted to increasing the carrying value of the relevant assets to the carrying value that would have been recognized had the original impairment not occurred.

n) Provisions

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

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

i) Self-insurance

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

ii) Restructuring

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

iii) Onerous leases and contracts

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

iv) Asset retirement obligations

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

v) Legal

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

o) Leases

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

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

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

The accounting treatment of a sale and leaseback transaction depends upon the substance of the transaction and whether the sale price reflects fair value. For sale and finance leasebacks, any gain or loss from the sale is deferred and amortized over the term of the lease. For sale and operating leasebacks, if the transaction is established at fair value, any gain or loss is recognized

immediately. If the sale price is below fair value, any gain or loss is recognized immediately except that if the loss is compensated for by future lease payments at below market price, the loss is deferred and amortized in proportion to the lease payments over the term of the lease. If the sale price is above fair value, the excess over fair value is deferred and amortized over the term of the lease.

p) Income taxes

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

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

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

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

q) Employee benefits

i) Short-term employee benefits

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

ii) Post-employment benefits

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

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

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

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

iii) Other long-term employee benefits

The Company provides long-term disability benefits to certain employees dependent on the legal employer. The entitlement to these benefits is usually conditional on the completion of a minimum service period. The expected costs of these benefits are recognized when an event occurs that causes the long-term disability. Actuarial gains and losses

arising from experience adjustments and changes in actuarial assumptions are recognized in net earnings in the period in which they arise. These obligations are calculated annually.

iv) Termination benefits

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

v) Share based payments

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

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

r) Financial assets

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

i) Financial assets at fair value through profit or loss

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

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

ii) Loans and receivables

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

iii) Held-to-maturity

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

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

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

iv) *Impairment*

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

v) *Financial assets carried at amortized cost*

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

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

s) Financial liabilities

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

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

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

t) Derivative financial instruments

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

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

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

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

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

The Company does not use derivatives for trading or speculative purposes. The Company had cash flow hedges outstanding as at January 30, 2016 and January 31, 2015.

Cash flow hedges

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

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

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

Derivatives at fair value through profit or loss

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

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

Offsetting of financial instruments

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

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

u) Borrowing costs

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

v) Revenue recognition

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

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

i) Retail merchandise sales

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

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

ii) *Gift cards*

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

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

w) **Credit operations**

Legacy agreements

Under the legacy credit agreements, the Company earned royalty payments from credit card issuers based on the total of Company and other sales charged to either the Private Label Credit Cards (“PLCC”) or MasterCard. Royalty rates changed based on the year-to-date credit volume of out-of-store credit card sales. The Company also received bounty payments from credit card issuers for each approved PLCC or MasterCard account. Bounty and royalty payments were recognized based on expected or actual performance over the life of the credit card agreements. With respect to the legacy credit agreement for Saks, the Company earned a blend of royalty payments, bounty payments and shared in the income and losses of the legacy credit program. In addition, pursuant to a servicing agreement with a credit card issuer, the Company received compensation for providing key customer service functions including new account openings, transaction authorizations, billing adjustments and customer inquiries. All credit card revenues related to the legacy credit agreements are included as a reduction of SG&A in the consolidated financial statements. The Company had no risk of credit loss on the credit card receivables in the underlying portfolio.

New credit card program

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

x) **Vendor allowances**

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

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

y) **Loyalty programs**

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

z) **Future accounting standards not yet adopted**

Financial Instruments

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

Classification and measurement

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

Impairment

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

Hedge accounting

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

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

Revenue

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”), which provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is assessing the potential impact of IFRS 15.

Joint Arrangements

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

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments to IFRS 11 are effective for annual periods beginning on or after January 1, 2016, and must be applied prospectively. Early adoption is permitted. The Company has concluded that the amendment will not have an impact on its results of operations, financial position or disclosure.

Leases

In January 2016, the IASB issued the final publication of the IFRS 16 – Leases (“IFRS 16”), standard which is to replace the current IAS 17 lease accounting standard and related interpretations. IFRS 16 is required to be adopted either retrospectively or by recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 is effective for fiscal years beginning on or after January 1, 2019 with earlier adoption permitted if IFRS 15 has also been adopted. The Company is assessing the potential impact of IFRS 16.

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

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

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

Business combinations

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

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

Inventory valuation

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

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

Loyalty programs

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

Impairment and reversal of impairment of long-lived assets

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

Impairment of goodwill

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

Valuation of warrants

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

Provisions

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

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

Sales returns

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

Share based compensation

The Company operates a share option plan, phantom share plan, restricted share unit plan, performance share unit plan, performance restricted share unit plan and profits interests plan for employees. The grant date fair values are calculated using valuation models, which use a number of assumptions and estimates, including expected volatility, the risk-free interest rate,

the dividend yield, the non-marketability discount and the expected life of the grants. Details of these assumptions and estimates are set out in note 18.

Income taxes

The Company recognizes expected liabilities for income taxes based on an estimation of the likely income taxes due, which requires judgment as to the ultimate income tax determination of certain items. In addition, the Company has made estimates of future profitability in relation to an assessment of the recoverability of income tax losses. Details of the income tax expense and deferred taxes are set out in note 7.

Pensions and employee benefits

The Company operates various defined benefit plans for its employees. The present value of the plans' liabilities recognized at the balance sheet date and net financing charges recognized in net earnings are dependent on the interest rate of high quality corporate bonds. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 15.

Lease accounting

The Company leases a significant number of store locations as part of its operations. The determination of classification between finance and operating leases requires the exercise of management judgment, including estimates of fair value, the useful and economic lives of the leased assets, the existence of lower than market renewal options and appropriate discount rates. Operating and finance leases are discussed in note 14.

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

Joint ventures

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

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

NOTE 4. ACQUISITION OF GALERIA HOLDINGS

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

The transaction was structured in a manner such that HBC effectively acquired the Kaufhof Operating Business while the HBS Joint Venture acquired the Kaufhof Property Business (note 12). Both transactions are intended to drive growth going forward consistent with the Company's previously announced fiscal 2014 strategic initiatives; namely through global and all-channel growth in both its retail and real estate businesses.

The acquisition of the Kaufhof Operating Business by the Company was financed through proceeds from the U.S. Term Loan B facility (note 13).

The following table summarizes the estimated fair value of the consideration given and the fair value assigned to the assets acquired and liabilities assumed of the Kaufhof Operating Business:

(millions)	€ Euros	\$ CAD
Cash	214	323
Inventories	518	780
Property, plant and equipment	700	1,055
Intangible assets	344	519
Other assets	136	203
Finance leases	(145)	(218)
Provisions	(43)	(64)
Deferred tax liabilities	(32)	(49)
Pensions and employee benefits	(318)	(479)
Other liabilities	(665)	(1,002)
Total identifiable net assets acquired and cash consideration given	709	1,068

The total Kaufhof purchase price of €2,317 million (\$3,490 million) is subject to certain adjustments to the fair values assigned to the assets acquired and liabilities assumed (“the purchase price adjustment period”) as agreed upon between the Company and METRO, which could result in a final amount paid that is higher or lower than the purchase price disclosed above. The purchase price adjustment period was 90 business days from September 30, 2015, within which the Company’s proposed adjustment was submitted and is currently in negotiation. We expect the purchase price to be finalized in the first quarter of fiscal 2016.

The Company has not yet finalized the purchase price allocation including any potential goodwill and therefore, the information disclosed above for identifiable net assets acquired is subject to change.

During the thirteen weeks ended January 30, 2016, the Company identified measurement period adjustments based on new information relating primarily to inventories and finance leases. The impacts of the adjustments to previously reported amounts are as follows:

(millions of Canadian dollars)	Sep 30, 2015
Increase in inventories	18
Decrease in intangibles	(18)
Decrease in property, plant and equipment	(18)
Decrease in finance leases	18

Retail sales and a net loss of the Kaufhof Operating Business included in the consolidated statement of earnings for fiscal 2015 are \$1,869 million and \$3 million, respectively.

The Company has incurred acquisition-related costs (including costs related to the acquisition of the Kaufhof Property Business by the HBS Joint Venture) of \$149 million related to external legal fees, consulting fees, due diligence costs and investment banking fees of which \$58 million was deferred and is being amortized within finance costs. The remaining costs of \$91 million have been included in SG&A in the consolidated statements of earnings.

NOTE 5. DEPRECIATION AND AMORTIZATION

(millions of Canadian dollars)	2015	2014
Property, plant and equipment	360	271
Intangible assets	103	77
Deferred credits	(4)	(4)
Other	1	—
	460	344

NOTE 6. FINANCE COSTS

(millions of Canadian dollars)	2015	2014
Interest expense on long-term borrowings	124	120
Interest expense on short-term borrowings	23	22
Interest expense on finance leases	24	12
Write-off of deferred financing costs (note 13)	50	52
Net interest on pensions and employee benefits (note 15)	6	1
Penalties and fees on term loans (note 13)	—	12
Interest income	(2)	(1)
Total interest expense, net	225	218
Saks acquisition-related finance (income) costs (note 17)	(37)	44
	188	262

NOTE 7. INCOME TAXES

The major components of the income tax expense (benefit) and the statutory income tax rate for fiscal 2015 and 2014 are as follows:

(millions of Canadian dollars)	2015	(restated - note 9) 2014
Current tax expense	45	8
Deferred tax expense (benefit)	87	(30)
Income tax expense (benefit)	132	(22)
Statutory income tax rate	26.5%	26.3%

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

(millions of Canadian dollars)	2015	(restated - note 9) 2014
Earnings before income tax	519	211
Income tax expense calculated at statutory income tax rate	138	55
Change in income taxes resulting from:		
Permanent differences	(40)	(34)
Effect of international tax rate differentials	39	(38)
Increase in valuation allowance	—	1
Adjustments related to prior years	(5)	(8)
Other	—	2
Income tax expense (benefit)	132	(22)

The changes in the components of net deferred tax assets and liabilities for fiscal 2015 and 2014 are as follows:

(millions of Canadian dollars)	Year ended January 30, 2016						Jan 30, 2016
	Jan 31, 2015	Assumed through business combination	Recognized in net earnings	Recognized in other comprehensive income	Recognized in equity	Net foreign currency exchange	
Property, plant and equipment	(582)	(231)	(52)	—	152	(64)	(777)
Investment in joint ventures	—	—	(244)	—	(150)	—	(394)
Employee benefits	17	—	3	—	—	—	20
Pensions	1	117	14	(6)	—	5	131
Other assets	(196)	(17)	124	—	(2)	(28)	(119)
Long-term liabilities and other	106	82	5	—	—	3	196
Tax losses and other carryforward amounts	253	—	63	—	—	9	325
	<u>(401)</u>	<u>(49)</u>	<u>(87)</u>	<u>(6)</u>	<u>—</u>	<u>(75)</u>	<u>(618)</u>
Valuation allowance	(15)	—	—	—	—	(1)	(16)
Net deferred tax liabilities	<u>(416)</u>	<u>(49)</u>	<u>(87)</u>	<u>(6)</u>	<u>—</u>	<u>(76)</u>	<u>(634)</u>
Comprising:							
Deferred tax assets	240						253
Deferred tax liabilities	(656)						(887)
	<u>(416)</u>						<u>(634)</u>

(millions of Canadian dollars)	Year ended January 31, 2015 (restated - note 9)					Jan 31, 2015
	Feb 2, 2014	Recognized in net earnings	Recognized in other comprehensive income	Net foreign currency exchange		
Property, plant and equipment	(466)	(40)	—	(76)		(582)
Employee benefits	22	(6)	1	—		17
Pensions	(8)	4	3	2		1
Other assets	(217)	48	1	(28)		(196)
Long-term liabilities and other	62	34	4	6		106
Tax losses and other carryforward amounts	245	(9)	—	17		253
	<u>(362)</u>	<u>31</u>	<u>9</u>	<u>(79)</u>		<u>(401)</u>
Valuation allowance	(13)	(1)	—	(1)		(15)
Net deferred tax (liabilities) assets	<u>(375)</u>	<u>30</u>	<u>9</u>	<u>(80)</u>		<u>(416)</u>
Comprising:						
Deferred tax assets	249					240
Deferred tax liabilities	(624)					(656)
	<u>(375)</u>					<u>(416)</u>

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

The amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint arrangements for which deferred tax liabilities have not been recognized is \$266 million as at January 30, 2016 (January 31, 2015: nil).

As at January 30, 2016, the Company's taxable entities have non-capital tax losses carried forward of \$1,032 million available in the United States, Canada and Germany as follows (millions of Canadian dollars):

Available until year ending	
January 2026	67
January 2027	109
January 2028	233
January 2029	20
January 2030	60
January 2031	43
January 2032	7
January 2033	111
January 2034	194
January 2035	98
January 2036	90
	1,032

NOTE 8. CASH

As at January 30, 2016 and January 31, 2015, cash includes restricted cash of \$94 million (2014: \$15 million).

NOTE 9. INVENTORIES

Inventories on hand at January 30, 2016 and January 31, 2015 were available for sale. The cost of merchandise inventories recognized as expense for fiscal 2015 was \$6,638 million (2014: \$4,901 million). The write-down of merchandise inventories below cost to net realizable value as at January 30, 2016 was \$86 million (January 31, 2015: \$48 million). There was no reversal of write-downs previously taken on merchandise inventories that are no longer estimated to sell below cost. Inventory has been pledged as security for certain borrowing agreements as described in note 13.

Change in accounting policy

During the fourth quarter of fiscal 2015, the Company changed its policy with respect to the valuation of Saks' inventory from the retail method to cost, as well as, the method of calculating the adjustment required to value inventory to its net realizable value. The change in policy was implemented retrospectively to February 2, 2014. The Company was unable to quantify the impact of the accounting change prior to February 2, 2014 as data required for this was not historically maintained at the necessary level of detail.

Prior to February 2, 2014, item cost was determined using the retail method, which reduced the selling price of inventories to cost using the application of average department mark-up. The adjustment to net realizable value was then calculated by assessing department aging and mark down status of items in the department. Subsequent to February 2, 2014, cost is determined using the weighted average cost (cost method) on an individual style basis. The net realizable value calculation is now performed integrating item level analysis as well as aging and markdown status.

As of February 2, 2014, January 31, 2015 and for fiscal 2014 the impact of this change in policy is as follows:

Consolidated Balance Sheets

(millions of Canadian dollars)	Jan 31, 2015	Feb 2, 2014
Decrease in inventories	(30)	(17)
Decrease in deferred tax liabilities	(12)	(7)
Decrease in retained earnings	(15)	(10)
Decrease in accumulated other comprehensive income	(3)	—

Consolidated Statements of Earnings and Comprehensive Income

(millions of Canadian dollars)	2015	2014
Decrease (increase) in cost of sales	13	(8)
(Increase) decrease in income tax expense	(5)	3
Increase (decrease) in net earnings for the year	8	(5)
Decrease in currency translation adjustment	(1)	(3)
Increase (decrease) in total comprehensive income	7	(8)
Earnings (loss) per common share - basic and diluted	0.04	(0.03)

NOTE 10. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Year ended January 30, 2016					Total
	Freehold Land	Buildings	Leasehold Improvements	Fixtures & Fittings	Assets held under Finance Leases	
Cost						
Balance at beginning of year	1,076	2,374	641	1,076	321	5,488
Additions	—	57	219	290	158	724
Acquired through business combination	184	145	218	282	226	1,055
Disposals including transfer to joint ventures	(280)	(1,237)	(82)	(41)	(6)	(1,646)
Net foreign currency exchange	84	142	51	94	31	402
Balance at end of year	1,064	1,481	1,047	1,701	730	6,023
Accumulated depreciation and impairment						
Balance at beginning of year	5	288	155	368	66	882
Depreciation expense	—	81	72	170	37	360
Impairment losses	—	—	—	1	—	1
Eliminated on disposal including transfer to joint ventures	(5)	(347)	(32)	(41)	(6)	(431)
Net foreign currency exchange	—	6	12	35	4	57
Balance at end of year	—	28	207	533	101	869
Net book value at end of year	1,064	1,453	840	1,168	629	5,154

Year ended January 31, 2015

(millions of Canadian dollars)	Freehold Land	Buildings	Leasehold Improvements	Fixtures & Fittings	Assets held under Finance Leases	Total
Cost						
Balance at beginning of year	1,055	2,085	456	801	283	4,680
Additions	—	55	134	199	5	393
Disposals	(97)	(41)	(4)	(21)	—	(163)
Net foreign currency exchange	118	275	55	97	33	578
Balance at end of year	<u>1,076</u>	<u>2,374</u>	<u>641</u>	<u>1,076</u>	<u>321</u>	<u>5,488</u>
Accumulated depreciation and impairment						
Balance at beginning of year	5	185	103	239	38	570
Depreciation expense	—	86	45	115	25	271
Impairment losses	—	—	1	—	—	1
Eliminated on disposal	—	(15)	(6)	(18)	—	(39)
Net foreign currency exchange	—	32	12	32	3	79
Balance at end of year	<u>5</u>	<u>288</u>	<u>155</u>	<u>368</u>	<u>66</u>	<u>882</u>
Net book value at end of year	<u>1,071</u>	<u>2,086</u>	<u>486</u>	<u>708</u>	<u>255</u>	<u>4,606</u>

Certain property, plant and equipment have been pledged as security for borrowings as further described in note 13. There were \$184 million in material capital commitments, net of leasehold improvement allowances as at January 30, 2016.

NOTE 11. INTANGIBLE ASSETS AND GOODWILL

Year ended January 30, 2016

(millions of Canadian dollars)	Goodwill	Software	Favourable lease rights	Private label brands	Banner names	Credit cards	Total
Cost							
Balance at beginning of year	237	382	415	61	444	32	1,571
Additions	—	90	—	—	—	—	90
Acquired through business combination	—	114	139	35	231	—	519
Disposals including transfer to joint ventures	—	(5)	(185)	—	—	—	(190)
Net foreign currency exchange	24	22	29	7	48	3	133
Balance at end of year	<u>261</u>	<u>603</u>	<u>398</u>	<u>103</u>	<u>723</u>	<u>35</u>	<u>2,123</u>
Accumulated amortization and impairment							
Balance at beginning of year	—	190	60	—	—	8	258
Amortization expense	—	70	27	—	—	6	103
Disposals including transfer to joint ventures	—	(3)	(25)	—	—	—	(28)
Net foreign currency exchange	—	9	6	—	—	1	16
Balance at end of year	<u>—</u>	<u>266</u>	<u>68</u>	<u>—</u>	<u>—</u>	<u>15</u>	<u>349</u>
Net book value at end of year	<u>261</u>	<u>337</u>	<u>330</u>	<u>103</u>	<u>723</u>	<u>20</u>	<u>1,774</u>

Year ended January 31, 2015

(millions of Canadian dollars)	Goodwill	Software	Favourable lease rights	Private label brands	Banner names	Credit cards	Total
Cost							
Balance at beginning of year.....	208	314	364	53	389	28	1,356
Additions.....	—	49	—	—	—	—	49
Net foreign currency exchange.....	29	19	51	8	55	4	166
Balance at end of year.....	237	382	415	61	444	32	1,571
Accumulated amortization and impairment...							
Balance at beginning of year.....	—	139	28	—	—	1	168
Amortization expense.....	—	46	25	—	—	6	77
Net foreign currency exchange.....	—	5	7	—	—	1	13
Balance at end of year.....	—	190	60	—	—	8	258
Net book value at end of year.....	237	192	355	61	444	24	1,313

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

NOTE 12. INVESTMENTS IN JOINT VENTURES

The following table summarizes the details of the RioCan-HBC JV, HBS Joint Venture and other joint venture:

(millions of Canadian dollars)	Principal Activity	Principal Place of Business	2015	
			Ownership Interest	Carrying Value
RioCan-HBC JV	Real estate investment	Canada	89.7%	(27)
HBS Joint Venture	Real estate investment	United States, Germany	67.4%	545
Other joint venture	Real estate investment	United States, Germany	67.4%	113
				631

RioCan-HBC JV

Upon closing of the first tranche of the joint venture with RioCan, HBC contributed 7 properties with a combined value of approximately \$1.3 billion. Based on RioCan's interest in the joint venture, the total gain on contribution of the owned and ground-leased properties to the RioCan-HBC JV was \$150 million of which \$18 million was deferred and recorded in non-current other liabilities. The Company also received cash proceeds of \$352 million from the RioCan-HBC JV which it primarily used to repay the Senior Term Loan B and the HBC Revolving Credit Facility.

On November 25, 2015, HBC had closed the second tranche of the RioCan-HBC JV which resulted in the Company indirectly contributing 3 additional ground-leased properties consisting of Yorkdale Shopping Centre, Scarborough Town Centre, and Square One with a value of approximately \$338 million ("YSS Properties"). The Company recorded a gain on the contribution of these properties of approximately \$35 million based on RioCan's interest in the joint venture after the closing of the second tranche. Additionally, as part of closing the second tranche of the RioCan-HBC JV, the Company's Yorkdale Mortgage of \$47 million was assumed by an entity related to the RioCan-HBC JV.

The following provides additional information relating to the RioCan-HBC JV which includes the indirect contribution of the YSS Properties as of November 25, 2015, for the periods indicated.

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

(millions of Canadian dollars)	2015
Equity investment as at the beginning of the year	—
Investment in joint venture	(30)
Share of net earnings from joint venture	37
Distributions from joint venture	(34)
Equity investment as at the end of the year	(27)

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

(millions of Canadian dollars)	2015
Cash	1
Non-current assets	1,897
Current financial liabilities	(5)
Non-current financial liabilities	(547)
Net assets at 100%	1,346
Company's share of net assets in the RioCan-HBC JV	1,207
Less gain on contributions of assets to the RioCan-HBC JV not recognized related to Company's ownership interest	(1,234)
Company's carrying value investment in the RioCan-HBC JV	(27)

Summarized statement of earnings of the RioCan-HBC JV:

(millions of Canadian dollars)	2015
Revenue	58
Property operating costs	(6)
Depreciation and amortization	(21)
Finance income	6
Finance costs	(8)
Net earnings and total comprehensive income at 100%	29
Company's share of net earnings in the RioCan-HBC JV prior to adjustment	25
Adjustment for the Company's share of depreciation on the fair value increment of the contributed properties	12
Company's share of net earnings from the RioCan-HBC JV	37
Reclassification of rental income to SG&A related to the Company's ownership interest in the RioCan-HBC JV	(40)
Company's share of net loss in the RioCan-HBC JV	(3)

HBS Joint Venture

Upon closing of the HBC-Simon JV on July 22, 2015, HBC contributed forty-two properties with a combined value of approximately \$2.1 billion. Based on Simon's interest in the joint venture, the total gain on contribution of the owned and ground-leased properties to the HBC-Simon JV was \$1 million. The Company also received cash proceeds of \$782 million from the HBC-Simon JV which is used to repay the Senior Term Loan B in full and to partially repay the outstanding balance on its U.S. Revolving Credit Facility.

On September 30, 2015, HBC and Simon exchanged their partnership units in the HBC-Simon JV, on a one-for-one basis, for partnership units of the newly formed HBS Joint Venture. As a result, the HBC-Simon JV became a wholly-owned subsidiary of the HBS Joint Venture.

The equity transactions resulting from the Kaufhof Acquisition (note 4) at the HBS Joint Venture resulted in HBC realizing a dilution gain of \$164 million. The gain is primarily attributable to Simon's capital contribution of \$231 million and the impact of HBC's increased net investment in the HBS Joint Venture which resulted in a reduction to HBC's ownership interest from 99.9% to 91.8%.

On September 30, 2015, as part of the Kaufhof Acquisition, the HBS Joint Venture acquired the Kaufhof Property Business for €1,608 million (\$2,422 million). The transaction resulted primarily in the acquisition of forty properties. One additional property was acquired for €154 million subsequent to the closing of the transaction.

The acquisition by the HBS Joint Venture was primarily financed through the incurrence of real estate debt in the amount of €1,184 million. Additional real estate debt was used to finance the property acquired subsequent to the closing of the transaction. The remainder was financed using equity contributions and existing cash at the HBS Joint Venture.

The following table summarizes the estimated fair value of the consideration given and the fair value assigned to the assets acquired and liabilities assumed of the Kaufhof Property Business:

<u>(millions)</u>	€ Euros	\$ CAD
Cash	152	229
Current assets	40	60
Non-current assets	1,927	2,902
Current liabilities	(226)	(341)
Non-current liabilities	(285)	(428)
Total identifiable net assets acquired and consideration given	<u>1,608</u>	<u>2,422</u>

On November 17, 2015, the Company sold a portion of its equity investment in the HBS Joint Venture for proceeds of U.S.\$515 million to third party investors. Proceeds from the equity sale, together with cash on hand, were used to reduce U.S. Term Loan B from U.S.\$1,085 million to U.S.\$500 million (note 13). As a result of the transaction, the Company recognized a gain on the equity sale of \$495 million and decreased its ownership interest in the HBS Joint Venture to 67.4%.

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

<u>(millions of Canadian dollars)</u>	2015
Equity investment as at the beginning of the year	—
Investment in joint venture	597
Share of net earnings from joint venture	12
Dilution gain from changes in equity interest	164
Sale of a portion of investment in joint venture	(191)
Distributions from joint venture	(80)
Other	43
Equity investment as at the end of the year	<u>545</u>

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

<u>(millions of Canadian dollars)</u>	2015
Cash	144
Other current financial assets	18
Non-current assets	5,710
Current liabilities	(32)
Current financial liabilities	(235)
Non-current liabilities	(423)
Non-current financial liabilities	(3,319)
Net assets at 100%	<u>1,863</u>
Company's share of net assets in the HBS Joint Venture	1,256
Less gain on contribution of assets to the HBS Joint Venture not recognized related to Company's ownership interest	(711)
Company's carrying value investment in the HBS Joint Venture	<u>545</u>

Summarized statement of earnings of the HBS Joint Venture:

(millions of Canadian dollars)	2015
Revenue	191
Property operating expenses	(19)
General and administrative expenses	(64)
Depreciation and amortization	(50)
Finance income	1
Finance costs	(57)
Income tax benefit	1
Net earnings at 100%	3
Company's share of net earnings in the HBS Joint Venture prior to adjustment	—
Adjustment for the Company's share of depreciation on the fair value increment of the contributed properties	12
Company's share of net earnings from the HBS Joint Venture	12
Reclassification of rental income to SG&A related to the Company's ownership interest in the HBS Joint Venture	(148)
Company's share of net loss in the HBS Joint Venture	(136)

Other joint venture

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

NOTE 13. LOANS AND BORROWINGS

a) Current loans and borrowings

As at January 30, 2016 and January 31, 2015, current loans and borrowings are comprised of:

(millions of Canadian dollars)	2015	2014
HBC Revolving Credit Facility	—	159
U.S. Revolving Credit Facility	464	108
Current portion of long-term loans and borrowings	7	4
	471	271
Less: unamortized costs	(20)	(25)
	451	246

HBC Revolving Credit Facility

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

The HBC Revolving Credit Facility is subject to a borrowing base, based predominantly on eligible inventory and eligible credit card receivables of HBC, excluding L&T Acquisition and its subsidiaries and any real estate subsidiaries. The HBC Revolving Credit Facility is available for general corporate purposes and can be drawn in both U.S. and Canadian dollars. The HBC Revolving Credit Facility has multiple interest rate charge options that are based on the Canadian prime rate, the Canadian Dealer Offered Rate ("CDOR"), U.S. index rate and the London Interbank Offered Rate ("LIBOR").

As the HBC Revolving Credit Facility is available for and used to finance working capital requirements, 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 December 17, 2019.

The HBC Revolving Credit Facility is secured by a first priority security interest over all inventory and accounts receivable in Canada. The Credit Agreement contains a number of representations and warranties and positive and negative covenants. These

provisions include, among other things, placing certain conditions and restrictions on making dividend payments and financial maintenance covenants. The Credit Agreement also contains extensive reporting requirements and a number of events of default.

HBC was in compliance with all covenants contained in the Credit Agreement as at January 30, 2016 and January 31, 2015.

The effective interest rate based on the average balance drawn and finance costs of the HBC Revolving Credit Facility for fiscal 2015 and 2014 was as follows:

(millions of Canadian dollars)	2015	2014
Average balance drawn, calculated on a daily basis	125	53
Finance costs	6	8
Effective interest rate	4.9%	15.1%

As at January 30, 2016 and January 31, 2015, details of the borrowing base availability on the HBC Revolving Credit Facility were as follows:

(millions of Canadian dollars)	2015	2014
Gross borrowing base availability	495	457
Drawings	—	(159)
Outstanding letters of credit	(13)	(9)
Borrowing base availability net of drawings and letters of credit	482	289

U.S. Revolving Credit Facility

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

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

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

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

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

The effective interest rate based on the average balance drawn and finance costs of the U.S. Revolving Credit Facility for fiscal 2015 and 2014 was as follows:

(millions of Canadian dollars)	2015	2014
Average balance drawn, calculated on a daily basis	311	389
Finance costs	15	14
Effective interest rate	4.7%	3.6%

As at January 30, 2016 and January 31, 2015, details of the borrowing base availability on the U.S. Revolving Credit Facility were as follows:

(millions of Canadian dollars)	2015	2014
Gross borrowing base availability	1,541	1,348
Drawings	(464)	(108)
Outstanding letters of credit	(28)	(19)
Borrowing base availability net of drawings and letters of credit	1,049	1,221

The U.S. Revolving Credit Facility contains certain non-financial operating covenants. L&T Acquisition was in compliance with all covenants as at January 30, 2016 and January 31, 2015.

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

Subsequent to January 30, 2016, both the HBC Revolving Credit Facility and the U.S. Revolving Credit Facility were replaced by the Global Revolving Credit Facility (note 27).

b) Long-term loans and borrowings

As at January 30, 2016 and January 31, 2015, long-term loans and borrowings are comprised of:

(millions of Canadian dollars)	2015	2014
Senior Term Loan B	—	826
U.S. Term Loan B	700	—
Yorkdale Mortgage	—	48
Lord & Taylor Mortgage	349	318
Saks Mortgage	1,760	1,599
Other loans	10	10
	2,819	2,801
Less: unamortized costs	(83)	(74)
Less: amounts due within one year	(7)	(4)
	2,729	2,723

Maturities of long-term debt are as follows:

(millions of Canadian dollars)	
Fiscal year:	
2016	7
2017	348
2018	3
2019	3
2020	3
Thereafter	2,455
	2,819

Senior Term Loan B

On November 4, 2013, the Company entered into an agreement for a U.S.\$2.0 billion senior secured term loan facility (“Senior Term Loan B”) with Bank of America, N.A. as the administrative agent.

Senior Term Loan B was scheduled to mature on November 4, 2020 and carried an interest rate of LIBOR plus 3.75% per annum. The agreement was structured such that LIBOR was deemed to be not less than 1% per annum (“LIBOR Floor”). Senior Term Loan B was subject to mandatory prepayments. The term loan was secured by a second priority security interest over all inventory and accounts receivables, a first priority security interest over substantially all other assets as well as a pledge of the shares of certain of the Company’s subsidiaries.

On February 25, 2014, HBC repaid U.S. \$150 million of Senior Term Loan B (note 26). In connection with the repayment, \$5 million of deferred financing costs were written off and \$1 million of penalties and fees for early repayment were incurred (note 6).

On December 3, 2014, HBC repaid U.S. \$1.2 billion of Senior Term Loan B using proceeds from the Saks Mortgage. In connection with the repayment, \$34 million of deferred financing costs were written off (note 6).

On July 9, 2015 and July 23, 2015, HBC repaid U.S.\$150 million and U.S.\$500 million, respectively, of Senior Term Loan B using proceeds from the contribution of assets to joint ventures (note 12). In connection with the repayment, \$18 million of deferred financing fees were written off (note 6).

Junior Term Loan

Concurrently with obtaining the Senior Term Loan B, the Company obtained an incremental junior secured term loan facility of U.S.\$300 million (the “Junior Term Loan”). The Junior Term Loan was scheduled to mature on November 4, 2021 and had an initial interest rate of LIBOR (with a LIBOR Floor) plus 7.25% per annum. The remaining credit terms of the Junior Term Loan were substantially consistent with Senior Term Loan B with the exception that the Junior Term Loan was not subject to Senior Term Loan B’s previously required quarterly principal repayments.

The Junior Term Loan was secured by a third priority security interest over all inventory and accounts receivable, a second priority security interest over substantially all other assets as well as a pledge of the shares of certain of the Company’s subsidiaries. Proceeds from the Junior Term Loan were used to finance the acquisition of Saks.

On February 25, 2014, HBC repaid the Junior Term Loan in full (note 26). In connection with the repayment of the Junior Term Loan, \$13 million of deferred financing costs were written off and \$11 million of penalties and fees for early repayment were incurred (note 6).

U.S. Term Loan B

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

U.S. Term Loan B matures September 30, 2022 and carries an interest rate of LIBOR plus 3.75% per annum. The agreement is structured such that LIBOR will be deemed to be not less than 1% per annum (“LIBOR Floor”). U.S. Term Loan B is subject to mandatory prepayments. The term loan 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.

On November 17, 2015, HBC repaid U.S. \$585 million of U.S. Term Loan B using cash on hand and proceeds from the sale of its equity investment in the HBS Joint Venture and other joint venture (note 12). In connection with the repayment, \$32 million of deferred financing costs were written off (note 6).

Yorkdale Mortgage

On May 22, 2013, the Company entered into an agreement with Murray & Company Holdings Limited for a \$50 million mortgage (the “Yorkdale Mortgage”). The Yorkdale Mortgage matures on May 22, 2023, bears interest at 4.89% per annum over a twenty-five year amortization schedule and is secured by a first mortgage of a leasehold interest of the Hudson’s Bay store at the Yorkdale Shopping Centre in Toronto, Ontario. On December 1, 2014, Murray & Company Holdings Limited assigned the mortgage to GMI Servicing Inc.

On November 25, 2015, as part of the YSS contribution, the Yorkdale Mortgage was assumed by an entity related to the RioCan-HBC JV.

Lord & Taylor Mortgage

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

The Lord & Taylor Mortgage is guaranteed by L&T. Interest is charged at a rate of LIBOR plus 3%. The mortgage had no mandatory principal repayments during the first 3 years, with monthly amortization payments required during the final 2 years, based upon a thirty year straight line amortization schedule with an interest rate of 7%. LT 424 has the ability to prepay the Lord & Taylor Mortgage with a fee to the lenders of 1% (2% fee after the initial 2 years decreased to 1% after 3 years). After September 10, 2016, prepayments can be made without a fee. Any prepayments are applied to reduce the then remaining scheduled

installments. As security for the Lord & Taylor Mortgage, LT 424 granted a first priority mortgage on the Fifth Avenue Lord & Taylor property.

The Lord & Taylor Mortgage contains representations and warranties, positive and negative covenants, reporting requirements and events of default. As at January 30, 2016 and January 31, 2015, the borrower, LT424, was in compliance with the covenants contained in the Lord & Taylor Mortgage.

On November 26, 2012, LT 424 entered into interest rate swap arrangements, the effect of which is to fix the floating portion of the interest rate related to the Lord & Taylor Mortgage at 0.85%. The swap arrangements are being accounted for as a cash flow hedge (note 17).

Saks Mortgage

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

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

Net of associated fees and expenses, all proceeds from the Saks Mortgage were utilized to permanently pay down U.S.\$1.2 billion of Senior Term Loan B on December 3, 2014.

The Saks Mortgage contains representations and warranties, positive and negative covenants, reporting requirements and events of default. As at January 30, 2016 and January 31, 2015, the borrower, Saks Flagship, was in compliance with the covenants contained in the Saks Mortgage.

NOTE 14. LEASES

Operating lease arrangements

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

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

Rental expense related to operating leases charged to earnings in fiscal 2015 was \$391 million (2014: \$257 million).

Minimum payments under non-cancelable operating leases

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

(millions of Canadian dollars)

Fiscal year:	
2016	968
2017	989
2018	956
2019	916
2020	885
Thereafter	11,459
Total minimum lease payments	<u>16,173</u>

For those leases which have been assigned to Target Corporation or its affiliates (“Target”) and for which the Company remains the lessee on the master lease agreement, HBC has guaranteed the commitment over the remaining term of the lease (note 24).

Finance leases

The future required minimum gross rental payments under finance leases for property and equipment, and their net present values as at January 30, 2016 are as follows:

(millions of Canadian dollars)	
Less than 1 year	64
Between 1 and 5 years	194
Thereafter	1,603
Total minimum lease payments	1,861
Less: imputed interest	(1,336)
Total finance lease obligations	<u>525</u>

NOTE 15. PENSIONS AND EMPLOYEE BENEFITS

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

Amounts Recognized in Consolidated Balance Sheets

(millions of Canadian dollars)	2015			2014	
	CDN Pension and Benefit Plans	U.S. Pension Plans	European Pension Plans	CDN Pension and Benefit Plans	U.S. Pension Plans
Pension plan in surplus position	166	—	—	149	—
Pension and benefit plans in deficit positions	(107)	(56)	(475)	(116)	(46)
Less: current portion	3	1	—	3	1
	(104)	(55)	(475)	(113)	(45)
Other long-term employee benefits liability	(25)	—	(22)	(31)	—
Pension and employee benefits asset (liability)	37	(55)	(497)	5	(45)

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

Employer contributions to defined benefit pension plans in fiscal 2016 will approximate \$2 million.

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

Changes in the Fair Value of Plan Assets

(millions of Canadian dollars)	2015			2014	
	CDN Pension and Benefit Plans ¹	U.S. Pension Plans	European Pension Plans	CDN Pension and Benefit Plans ¹	U.S. Pension Plans
Fair value at beginning of year	1,264	151	—	1,213	135
Acquired through business combination	—	—	83	—	—
Return on plan assets (excluding interest)	—	(9)	—	65	8
Interest income	18	4	—	103	4
Employer contributions	4	—	—	4	—
Employee contributions	9	—	1	10	—
Administration costs	(2)	(3)	—	(3)	(2)
Benefits paid	(92)	(14)	(5)	(128)	(14)
Net foreign currency exchange	—	14	2	—	20
Fair value at end of year	1,201	143	81	1,264	151

¹ Includes defined contribution plan assets of \$498 million (January 31, 2015: \$527 million).

Changes in the Defined Benefit Obligation

(millions of Canadian dollars)	2015			2014	
	CDN Pension and Benefit Plans ²	U.S. Pension Plans	European Pension Plans	CDN Pension and Benefit Plans ²	U.S. Pension Plans
Balance, beginning of year	1,231	197	—	1,176	166
Assumed through business combination	—	—	540	—	—
Current service cost	17	—	3	17	—
Past service cost	—	—	—	1	—
Settlements	—	—	—	(12)	—
Employee contributions	9	—	1	10	—
Interest expense	17	5	4	101	5
Benefits paid	(92)	(14)	(5)	(128)	(14)
Change in demographic assumptions	—	3	—	2	4
Change in financial assumptions	(39)	(10)	8	72	12
Experience adjustments	(1)	—	1	(8)	1
Net foreign currency exchange	—	18	4	—	23
Balance, end of year	1,142	199	556	1,231	197

² Includes defined contribution plan liabilities of \$498 million (January 31, 2015: \$527 million).

Cumulative Actuarial Gains (Losses)

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

(millions of Canadian dollars)	2015			2014	
	CDN Pension and Benefit Plans	U.S. Pension Plans	European Pension Plans	CDN Pension and Benefit Plans	U.S. Pension Plans
Cumulative amount, beginning of year	(10)	(8)	—	(9)	1
Net actuarial gains (losses) recognized	40	(2)	(9)	(1)	(9)
Cumulative amount, end of year	30	(10)	(9)	(10)	(8)

Pension and Benefit Plan Expense

Fiscal 2015 and 2014 pension and benefit plan expense is comprised of the following:

(millions of Canadian dollars)	2015			2014	
	CDN Pension and Benefit Plans	U.S. Pension Plans	European Pension Plans	CDN Pension and Benefit Plans	U.S. Pension Plans
Current service cost	17	—	3	17	—
Past service cost	—	—	—	1	—
Settlements	—	—	—	(12)	—
Administration costs	2	3	—	3	2
Net expense recognized in SG&A	19	3	3	9	2
Interest income on plan assets	(18)	(4)	—	(103)	(4)
Interest expense on plan obligations	17	5	4	101	5
Net (income) expense recognized in finance costs	(1)	1	4	(2)	1
Net expense recognized in net earnings	18	4	7	7	3
Changes in demographic assumptions	—	3	—	2	4
Changes in financial assumptions	(39)	(10)	8	72	12
Experience adjustments	(1)	—	1	(8)	1
Return on plan assets (excluding interest income)	—	9	—	(65)	(8)
Net (income) expense recognized in other comprehensive income	(40)	2	9	1	9
Net (income) expense recognized in comprehensive income ..	(22)	6	16	8	12

Defined Contribution Pension Plans

Included in CDN Pension Plans' current service cost above is a \$12 million expense in fiscal 2015 (2014: \$12 million) that represents contributions made in connection with the defined contribution plans.

In fiscal 2015, Saks and L&T contributed \$12 million (2014: \$10 million) to their U.S. defined contribution plans.

Other Long Term Employee Benefits

During fiscal 2015, the Company paid \$7 million (2014: \$6 million) related to its other long term employee benefits.

Actuarial Assumptions

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

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

	2015			2014	
	CDN Pension and Benefit Plans and Other Long Term Benefits	U.S. Pension Plans	European Pension Plans	CDN Pension and Benefit Plans and Other Long Term Benefits	U.S. Pension Plans
Defined benefit obligations, end of the fiscal year:					
Discount rate.....	3.20% - 3.90%	3.60%	1.50% - 2.53%	2.75% - 3.40%	2.90%
Rate of compensation increase.....	3.00%	N/A	N/A	3.00%	N/A
Pensions-in-payment increase rate.....	N/A	N/A	1.50%	N/A	N/A
Net benefit expense for the fiscal year:					
Discount rate.....	2.75% - 3.40%	2.90%	2.20% - 2.60%	3.60% - 4.40%	3.80%
Rate of compensation increase.....	3.00%	N/A	N/A	3.00%	N/A
Health care trend rate:					
Defined benefit obligations, end of the fiscal year					
Immediate.....	6.32%	N/A	N/A	6.43%	N/A
Ultimate.....	4.50%	N/A	N/A	4.50%	N/A
Net benefit expense for the fiscal year					
Immediate.....	6.43% - 6.50%	N/A	N/A	6.04%	N/A
Ultimate.....	4.50%	N/A	N/A	4.50%	N/A
Life expectancy (years):					
Life expectancy from age 65					
Male.....	86.6	85.9	N/A	86.5	85.9
Female.....	89.0	87.6	N/A	89.0	87.5

Defined Benefit Obligation by Participant Status

(millions of Canadian dollars)	2015			2014	
	CDN Pension and Benefit Plans and Other Long Term Benefits ³	U.S. Pension Plans	European Pension Plans	CDN Pension and Benefit Plans and Other Long Term Benefits ³	U.S. Pension Plans
Active members.....	159	54	296	230	57
Vested deferred members.....	65	64	25	59	60
Retirees.....	456	81	235	459	80
Total.....	680	199	556	748	197

³ Excludes plan liabilities of \$498 million (January 31, 2015: \$527 million) for defined contribution plan participants.

Assets by Class and Level

Supplemental information regarding the assets of the Company's pension plans by class and level according to the fair value hierarchy (see note 17) is presented below:

(millions of Canadian dollars)	2015				2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
CDN Pension Plans								
Short-term and cash	37	11	—	48	51	11	—	62
Canadian equities	56	—	—	56	62	—	—	62
Foreign equities	60	—	—	60	80	—	—	80
Real estate equities	—	—	11	11	—	—	15	15
Private equity funds and other	—	—	219	219	—	—	185	185
Pooled funds	—	807	—	807	—	860	—	860
	153	818	230	1,201	193	871	200	1,264
U.S. Pension Plans								
Pooled funds	—	143	—	143	—	151	—	151
European Pension Plans								
Fixed interest securities	27	—	—	27	—	—	—	—
Assets held by insurance company	—	54	—	54	—	—	—	—
	27	54	—	81	—	—	—	—

Sensitivity analysis

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

(millions of Canadian dollars)	2015			2014		
	CDN Pension and Benefit Plans and Other Long Term Benefits	U.S. Pension Plans	European Pension Plans	CDN Pension and Benefit Plans and Other Long Term Benefits	U.S. Pension Plans	
Health care trend rate						
Effect of 1% increase	3	N/A	N/A	4	N/A	
Effect of 1% decrease	(2)	N/A	N/A	(2)	N/A	
Discount rate						
Effect of 1% increase	(68)	(14)	(78)	(75)	(13)	
Effect of 1% decrease	82	15	100	94	15	
Rate of compensation/inflation						
Effect of 1% increase	5	N/A	N/A	5	N/A	
Effect of 1% decrease	(3)	N/A	N/A	(4)	N/A	
Pensions-in payment increase rate						
Effect of 0.25% increase	N/A	N/A	15	N/A	N/A	
Effect of 0.25% decrease	N/A	N/A	(15)	N/A	N/A	
Life expectancy						
Effect of 1 year increase	20	4	N/A	23	4	
Effect of 1 year decrease	(21)	(4)	N/A	(23)	(4)	

Supplementary executive retirement plan

The Company guarantees an annual pension to certain executives in the supplementary executive retirement plan (the “SERP”) which is included in the CDN Pension Plans defined benefit obligation presented earlier. The Company’s guaranteed obligation pursuant to the SERP for service up to November 10, 2005 is secured by a trust fund for certain members. Total assets of the trust fund as at January 30, 2016 were \$66 million (January 31, 2015: \$71 million). The obligation in respect of service after November 10, 2005 is not secured.

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

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

NOTE 16. OTHER LIABILITIES

(millions of Canadian dollars)	2015	2014
Deferred landlord incentives	745	356
Deferred gain on sale and leaseback transaction	232	242
Operating lease intangible liability	123	—
Deferred proceeds from lease terminations	65	49
Income taxes payable	50	8
Financial liabilities	37	70
Other liabilities	115	98
	1,367	823
Current	126	86
Non-current	1,241	737
	1,367	823

Included in other liabilities is an interest-free advance of \$38 million (2014: \$65 million) repayable in equal installments of \$2 million with a final balloon payment on June 17, 2017.

NOTE 17. FINANCIAL INSTRUMENTS

The following table provides a comparison of carrying and fair values of certain financial instruments as at January 30, 2016 and January 31, 2015:

(millions of Canadian dollars)	2015		2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Classified as fair value through profit or loss				
Embedded foreign currency derivatives ⁽¹⁾	—	—	(1)	(1)
Warrants ⁽²⁾	(31)	(31)	(68)	(68)
Financial derivatives designated as cash flow hedges				
Forward foreign currency contracts ⁽³⁾	17	17	22	22
Interest rate swaps ⁽¹⁾	(1)	(1)	(1)	(1)
Classified as other liability				
HBC Revolving Credit Facility	—	—	(159)	(159)
U.S. Revolving Credit Facility	(464)	(464)	(108)	(108)
Senior Term Loan B	—	—	(826)	(830)
U.S. Term Loan B	(700)	(699)	—	—
Yorkdale Mortgage	—	—	(48)	(48)
Lord & Taylor Mortgage	(349)	(349)	(318)	(318)
Saks Mortgage	(1,760)	(1,760)	(1,599)	(1,599)
Other liability (note 16)	(38)	(38)	(65)	(63)

(1) Included in other liabilities — current

(2) Included in other liabilities — non-current

(3) Included in other current assets

As at January 30, 2016 and January 31, 2015, the fair value of all other current financial assets and liabilities approximate their carrying value due to their short-term nature.

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

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

The change in fair value of financial instruments designated as fair value through profit or loss that has been recognized in net earnings for the year is income of \$37 million (2014: cost of \$44 million) relating to warrants.

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

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

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

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

Capital management

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

(millions of Canadian dollars)	2015	(restated – note 9) 2014
Short-term loans and borrowings	451	246
Finance leases - current portion	25	19
Long-term loans and borrowings	2,729	2,723
Finance leases - non-current portion	500	136
Share capital	1,420	1,420
Contributed surplus	86	60
Retained earnings	1,029	678
	<u>6,240</u>	<u>5,282</u>

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

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

Financial risk management

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

a) Credit risk

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

b) Liquidity risk

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

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

(millions of Canadian dollars)	Derivatives	Loans and borrowings	Other liabilities	Total
Fiscal year:				
2016	1	607	27	635
2017	—	477	11	488
2018	31	115	—	146
2019	—	115	—	115
2020	—	115	—	115
Thereafter	—	3,589	—	3,589
	<u>32</u>	<u>5,018</u>	<u>38</u>	<u>5,088</u>

The HBC Revolving Credit Facility matures December 17, 2019 and the U.S. Revolving Credit Facility matures November 4, 2018. These amounts have been reflected as due in fiscal 2016 in the table above to be consistent with presentation in the consolidated balance sheets.

c) Market risk

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

i. Foreign currency risk

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

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

HBC's net U.S. dollar exposure as at January 30, 2016 and January 31, 2015, excluding its investment in L&T Acquisition, is as follows:

U.S. Dollar Exposure (millions of U.S. dollars)	2015	2014
Trade payables	(112)	(60)
HBC Revolving Credit Facility	—	(125)
Senior Term Loan B	—	(650)
U.S. Term Loan B	(500)	—
Outstanding purchase orders	(20)	(22)
Forward foreign exchange contracts	266	176
U.S. dollar denominated inter-company receivables	255	886
Total exposure	<u>(111)</u>	<u>205</u>

For fiscal 2015, HBC recorded a loss of \$15 million (2014: gain of \$11 million) relating to the translation or settlement of foreign currency denominated monetary items.

The estimated gains and losses on derivatives designated as cash flow hedges expected to be reclassified to earnings within the next twelve months is a net gain of \$7 million.

The Company's net investments in L&T Acquisition and the Kaufhof Operating Business, whose functional currencies are U.S. dollar and Euros, respectively, present foreign exchange risks to HBC. The Company used a net investment hedge to mitigate a portion of the U.S. dollar foreign exchange risk by originally designating U.S.\$800 million of Senior Term Loan B as a hedge of the first U.S.\$800 million of net assets of L&T Acquisition. In fiscal 2014, the hedge was reduced to U.S.\$350 million upon pay down of certain debt (note 26) and, further, to nil upon pay down of Senior Term Loan B (note 13). Senior Term Loan B was repaid in full during fiscal 2015 using proceeds from the joint ventures, which resulted in the disposal of the hedging

instrument previously designated as part of the net investment hedge. Foreign currency translation of the net earnings (loss) of L&T Acquisition and the Kaufhof Operating Business impacts consolidated net earnings. Foreign currency translation of HBC's investments in L&T Acquisition and the Kaufhof Operating Business impacts other comprehensive income.

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

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

On an annualized basis, after considering the Company's hedge of its exposure to foreign currency risk, a strengthening of the U.S. dollar against the Canadian dollar by 1% at January 30, 2016 would have impacted net earnings for fiscal 2015 by nil (2014: nil).

On an annualized basis, a strengthening of the Euro against the Canadian and U.S. dollar by 1% at January 30, 2016 would have impacted net earnings for fiscal 2015 by \$6 million.

ii. Interest rate risk

The Company's interest rate risk arises from short-term and long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. During fiscal 2015 and 2014, the Company's variable rate borrowings were denominated in both U.S. and Canadian dollars.

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

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

On November 26, 2012, LT 424 entered into interest rate swap arrangements, the effect of which is to fix the interest rate related to the Lord & Taylor Mortgage at 3.85%. The interest rate swap is designated as a cash flow hedge. The net interest income received under this arrangement is included in finance costs. The arrangements have an effective date of September 7, 2012 and a maturity date of September 10, 2017.

An increase of 100 basis points in LIBOR over the past year would have decreased net earnings for fiscal 2015 by \$6 million (2014: \$5 million). This sensitivity analysis does not include the impact that an increase of 1% in LIBOR rates would have on the fair value of the interest rate swaps.

The HBC Revolving Credit Facility described in note 13 bears interest at a variable rate based on the selected interest rate charge option plus a fixed spread. HBC is exposed to interest rate cash flow risk as the variable rate rises.

On an annualized basis, an increase of 100 basis points in the selected interest rate over the past year would have decreased net earnings for fiscal year 2015 by \$1 million (2014: nil).

iii. Other risks

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

In relation to the 1.5 million warrants issued concurrently with the execution of the Merger Agreement ("Merger Agreement Warrants") to H.S. Investment L.P. ("HSILP"), an entity affiliated with Ontario Teachers' Pension Plan Board, during fiscal 2015, the Company recognized finance related income of \$8 million (2014: cost of \$10 million) representing mark to market adjustments to fair value as at January 30, 2016. As at January 30, 2016, the fair value of the Merger Agreement Warrants was \$7 million (January 31, 2015: \$15 million).

In relation to the 5.25 million warrants issued to HSILP and West Face Long Term Opportunities Global Master L.P. ("WF Fund"), a fund advised by West Face Capital Inc., on November 4, 2013 upon closing of the acquisition of Saks ("Acquisition Warrants"), the Company recognized finance related income during fiscal 2015 of \$29 million (2014: cost of \$34 million) representing mark to market adjustments to fair value as at January 30, 2016. As at January 30, 2016, the fair value of the

Acquisition Warrants was \$24 million (January 31, 2015: \$53 million). The Company will continue to record mark to market gains and losses on the warrants until the earlier of the date of exercise or expiry.

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

Share price – January 30, 2016	\$17.30
Share price – January 31, 2015	\$23.42
	Jan 30, 2016 Jan 31, 2015
Expected volatility	42% 45%
Dividend yield	1.16% 0.85%
Risk free interest rate	0.49% 0.5%
Expected life – Merger Agreement Warrants	2.5 years 3.5 years
Expected life – Acquisition Warrants	2.8 years 3.8 years

NOTE 18. SHARE BASED COMPENSATION

Option plan

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

Senior executive options vest 50% in each of the fourth and fifth year following the grant date. The options have 7 to 10 year terms and will be forfeited immediately in the event a grantee’s employment is terminated for cause, and after forty-five days in the event of a voluntary resignation or termination without cause. Share options are subject to a pro-rata vesting schedule if the grantee’s employment is terminated. Of the senior executive options outstanding, 1,623,907 (2014: 1,864,437) shares have a performance condition and vest only if the weighted average closing share price for the twenty trading day period ending on the vesting date is at least 50% higher than the offering price of the company’s IPO or if such performance condition is met after the vesting date but prior to the expiry date.

Senior executive option transactions were as follows:

	2015		2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	8,945,597	\$18.07	6,562,603	\$17.13
Granted	3,488,062	\$25.64	3,264,118	\$19.70
Forfeited	(1,776,723)	\$19.11	(881,124)	\$17.14
Outstanding at end of year	10,656,936	\$20.37	8,945,597	\$18.07
Share options exercisable at end of year	—	—	—	—

During fiscal 2015, the grant date fair value of senior executive options granted was \$22 million (2014: \$16 million).

The following table summarizes information about the senior executive share options outstanding and exercisable as at January 30, 2016:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at Jan 30, 2016	Weighted average exercise price
\$16.00 to \$16.49	382,256	7.0	\$16.28	—	—
\$17.00 to \$17.49	5,278,758	6.7	\$17.01	—	—
\$17.50 to \$17.99	937,610	5.3	\$17.61	—	—
\$23.50 to \$23.99	2,172,995	6.3	\$23.73	—	—
\$24.00 to \$24.49	100,000	6.7	\$24.22	—	—
\$28.00 to \$28.49	1,785,317	6.4	\$28.34	—	—
Total	10,656,936	6.5	\$20.37	—	—

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

Other management option transactions were as follows:

	2015		2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	1,729,400	\$17.35	969,600	\$17.03
Granted	516,800	\$27.13	1,042,400	\$17.65
Forfeited	(402,600)	\$19.09	(282,600)	\$17.33
Outstanding at end of year	1,843,600	\$19.72	1,729,400	\$17.35
Share options exercisable at end of year	563,600	\$17.00	—	—

During fiscal 2015, the grant date fair value of other management options granted was \$3 million (2014: \$5 million).

The following table summarizes information about the other management share options outstanding and exercisable as at January 30, 2016:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at Jan 30, 2016	Weighted average exercise price
\$16.00 to \$16.49	16,000	7.0	\$16.28	—	—
\$17.00 to \$17.49	780,400	4.1	\$17.04	563,600	\$17.00
\$17.50 to \$17.99	597,600	5.3	\$17.61	—	—
\$23.50 to \$23.99	105,600	6.6	\$23.86	—	—
\$28.00 to \$28.49	344,000	6.4	\$28.34	—	—
Total	1,843,600	5.1	\$19.72	563,600	\$17.00

The assumptions used to measure the fair value at the grant date of senior executive and other management options granted during fiscal 2015 and 2014 under the Black-Scholes option pricing model at the grant date were as follows:

	2015	2014
Expected dividend yield	0.7% to 1.2%	0.9% to 1.2%
Expected share price volatility	28.0% to 31.2%	24.1% to 35.8%
Risk-free interest rate	0.4% to 0.8%	1.0% to 1.6%
Expected life of options (years)	5.0	5.0 to 6.5

Phantom share plan

The Company grants phantom shares to certain employees. During fiscal 2015, the Company granted 109,250 (2014: 183,150) phantom share units with a grant date fair value of \$3 million (2014: \$3 million). Phantom share units have a vesting period of 3 years that will be settled in common shares of the Company or in cash at the Company's option. As at January 30, 2016, 172,100 (January 31, 2015: 271,125) phantom share units were outstanding.

Restricted share units

The Company grants restricted share units ("RSUs") to certain employees. During fiscal 2015, the Company granted 112,874 (2014: 272,252) RSUs with a term of 3 years, all of which are expected to vest. The grant date fair value of the RSUs was \$3 million (2014: \$5 million) and was determined based on the Company's share price at the date of the grant. RSUs were granted under similar terms and conditions as those granted concurrently with the IPO. As at January 30, 2016, 299,103 (January 31, 2015: 414,240) RSUs were outstanding.

Performance share units

Performance share unit ("PSUs") transactions were as follows:

	2015	2014
Outstanding at beginning of year	1,662,755	660,162
Granted	625,998	1,158,187
Forfeited	(412,942)	(155,594)
Outstanding at end of year	1,875,811	1,662,755
Weighted average contract life (years) remaining at end of year	1.4	2.0

During fiscal 2015, the grant date fair value of the PSUs granted was \$18 million (2014: \$20 million), of which \$13 million (2014: \$15 million) is expected to vest. The fair value was determined based on the Company's share price at the date of the grant and adjusted to reflect non-entitlement of dividends to PSUs. The PSUs vest 3 years from the date of grant at the end of that calendar year and are forfeited immediately in the event a grantee's employment is terminated for cause, and after forty-five days in the event of a voluntary resignation or termination without cause, subject to a pro-rata vesting schedule if the grantee's employment is terminated.

Deferred share units

The Company grants deferred share units ("DSUs") to members of the Board of Directors. During fiscal 2015, the Company granted 60,951 units (2014: 52,240) with a grant date fair value of \$2 million (2014: \$1 million). The fair value was determined based on the Company's share price at the date of grant. No Director will have the right to receive any benefit under the DSU plan until the participant ceases to be a Director. As at January 30, 2016, 171,172 (January 31, 2015: 110,221) DSUs were outstanding.

Performance restricted share units

On June 1, 2015 and December 14, 2015, the Company granted 1,470,724 and 140,609 performance restricted share units ("PRSUs"), respectively, to senior executives with a grant date fair value of \$15 million and \$423 thousand, respectively. In addition, during fiscal 2015, the Company granted 10,632 PRSUs as dividend equivalents. The PRSUs vest if the Company's shares achieve at least a 10% Total Shareholder Return ("TSR") over the 5 year performance period from the date of grant and the senior executive is still employed at the end of a service period of 7 years. The TSR is calculated using the sixty-day trading day volume-weighted average stock price immediately prior to the beginning and ending of the 5 year performance period. If this increase in TSR is not met, the PRSUs lapse without vesting. If this increase in TSR is met, but the Company is considered to have materially over-performed or under-performed, which is defined as ranking within the top 25% or bottom 50% of the TSR of peer companies ("Peer Group") in both Canada and the United States, respectively, then at the discretion of the Company, the number of PRSUs which vest can be adjusted upward by up to 25% (in the cases of over performance relative to the Company's Peer Group) or adjusted downward by up to 75% (in the cases of under-performance relative to the Company's Peer Group).

The fair value at grant date is estimated based on a risk-neutral Monte Carlo simulation model taking into account the terms and conditions upon which the PRSUs were granted and using the following assumptions:

	June 1, 2015	Dec 14, 2015
Sixty-day volume-weighted average price at the performance period commencement date ..	\$26.85	\$26.85
Share price return volatility	26.4%	31.3%
Volatility range of Peer Group (Canada)	17% - 25%	17% - 25%
Volatility range of Peer Group (United States)	23% - 53%	24% - 55%
Exchange rate volatility (U.S. to Canadian)	5.64%	6.10%
Risk-free interest rate (Canada)	1.39%	0.88%
Risk-free interest rate (United States)	1.71%	1.21%

Share based compensation expense

Total share based compensation expense for fiscal 2015 and 2014 is summarized as follows:

(millions of Canadian dollars)	2015	2014
Share options	15	11
PSUs	9	2
RSUs	3	2
Other share based compensation ⁽¹⁾	4	2
	31	17

(1) Includes phantom shares, DSUs and PRSUs.

During fiscal 2015, \$5 million of forfeited share based compensation were settled.

NOTE 19. SHARE CAPITAL

As at January 30, 2016 the authorized shares of HBC consist of an unlimited number of common shares and an unlimited number of preferred shares issuable in series.

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

Common Shares

The common shares issued and outstanding is as follows:

(millions of Canadian dollars, except shares)	Number of Shares	Share Capital (\$)
Issued and outstanding as at January 30, 2016 and January 31, 2015	182,100,001	1,420

During the year ended January 30, 2016, the Company declared and paid dividends to the holders of the common shares totaling \$36 million (2014: \$36 million).

Preferred Shares

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

As at January 30, 2016 and January 31, 2015, there were no preferred shares issued and outstanding.

Warrants

As at January 30, 2016 and January 31, 2015, the 6.75 million warrants issued to HSILP and WF Fund as consideration for the equity commitments are outstanding. The warrants are exercisable into common shares of the Company at an exercise price of \$17.00 per warrant which in certain circumstances is subject to adjustment. The warrants expire on November 4, 2018.

NOTE 20. EARNINGS PER COMMON SHARE

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

<u>(millions of Canadian dollars or shares except per share amounts)</u>	<u>2015</u>	<u>2014</u>
Net earnings for basic earnings per share	387	233
Impact of options and warrants	(37)	—
Net earnings for diluted earnings per share	350	233
Weighted average common shares outstanding	182	182
Dilutive effect of options and warrants	4	1
Diluted weighted average common shares outstanding	186	183
Earnings per common share		
Basic	2.13	1.28
Diluted	1.88	1.27

Excluded from the computation of diluted net earnings per common share were 3,344,861 (2014: 7,321,079) potentially dilutive instruments, as they were anti-dilutive.

NOTE 21. RELATED PARTY TRANSACTIONS

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

On May 6, 2011, a subsidiary of L&T Acquisition entered into a 2 year lease with SP 35 L.P. (the “Landlord”) for approximately 31,000 square feet in Shrewsbury, NJ. The lease was amended on January 17, 2013 to include 3 renewal options. The first 2 renewal options are for terms of 2 and 3 years at an annual cost of U.S.\$440 thousand. The third renewal option is for a term of 5 years at an annual cost of U.S.\$484 thousand. The first and second renewal options were exercised. Amounts charged to the Company under the rental arrangement for fiscal 2015 were U.S.\$440 thousand (2014: U.S.\$440 thousand). The Landlord is an affiliate of National Realty & Development Corp. (“NRDC”). Richard and Robert Baker, the principals of NRDC, are Directors of the Company.

On February 25, 2014, the Company closed its agreement to sell its downtown Toronto flagship retail complex and the Simpson’s Tower to an affiliate of The Cadillac Fairview Corporation Limited, an affiliate of HSILP, for a purchase price of \$650 million (note 26). 2380162 Ontario Limited, a subsidiary of Ontario Teachers’ Pension Plan and successor in interest to HSILP, is a shareholder of the Company.

On May 18, 2015, a subsidiary of L&T Acquisition entered into a 10 year lease with Mack Properties Co. No. 6 LLC (“Mack Properties”) for approximately 35,000 square feet in Paramus, NJ. The lease has 2 renewal options for terms of 10 and 5 years, respectively. The rent commencement date was November 19, 2015 and amounts charged to the Company under the rental arrangement for the period ended January 30, 2016 were U.S.\$175 thousand. Mack Properties is owned by William Mack, a Director of the Company.

As at January 30, 2016, the Company has an outstanding receivable in the amount of \$269 thousand (2014: \$314 thousand) due from Hudson’s Bay Trading Company, LP, a shareholder of the Company, with respect to the reimbursement of expenses for services provided by HBC on their behalf. Subsequent to the end of the year, the Company received payment in full.

HBC has entered into vendor agreements with two related companies that are affiliated with Earl Rotman, a Director of the Company. The agreements relate to menswear and womenswear sold in Saks and DSG (note 25). During fiscal 2015, HBC purchased approximately \$2 million of goods from these companies, and has committed to ordering approximately \$2 million for fiscal 2016.

In connection with the closing of its agreements to sell and leaseback various U.S. properties to the HBS Joint Venture, HBC paid for certain cash reserves and financing and operating expenses on behalf of the HBS Joint Venture for which the Company received a promissory note in the amount of \$8 million. The promissory note matures on July 22, 2016 and carries an interest rate of 5% per annum. As at January 30, 2016, the promissory note had an outstanding balance of \$4 million and was included in trade and other receivables.

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

As part of the acquisition of the Kaufhof Operating Business, the Company assumed a \$22 million liability due to a wholly-owned subsidiary of the HBS Joint Venture. The liability relates to 2 properties the Company controls as a result of the acquisition. In addition, the Company acquired options to purchase these properties that when exercised, would relieve this liability. This liability has been included in other liabilities.

During fiscal 2015, the Company incurred rent expense of \$226 million related to both the RioCan-HBC JV and the HBS Joint Venture. As at January 30, 2016, other current assets included prepaid rent to the HBS Joint Venture of \$13 million.

The Company has an outstanding receivable in the amount of \$46 million, as at January 30, 2016, due from the HBS Joint Venture with respect to transactions carried out on behalf of the Company.

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

NOTE 22. COMPENSATION

The remuneration of key management personnel for fiscal 2015 and 2014 is as follows:

(millions of Canadian dollars)	2015	2014
Short-term benefits	23	10
Post-employment benefits	2	1
Other long-term benefits	3	10
Share based compensation	13	8
	41	29

The compensation noted in the above table forms part of the total employee benefits expense recorded by the Company in fiscal 2015 totaling \$2,350 million (2014: \$1,681 million).

NOTE 23. CONTINGENT LIABILITIES

As of January 30, 2016, the Company is involved in and potentially subject to various claims by third parties arising out of the normal course and conduct of its business. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, tax assessments and reassessments, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to the consolidated financial statements, but may have a material impact in future periods.

NOTE 24. 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 at January 30, 2016, these leases have future minimum lease payments of \$94 million (January 31, 2015: \$154 million), of which \$68 million (January 31, 2015: \$113 million) relates to leases assigned to Target, in addition to other lease related expenses, such as property taxes and common area maintenance. The Company has a full, unconditional and continuing guarantee and indemnity from the ultimate parent of Target, regarding all ongoing obligations related to the store leases acquired by Target (or its affiliates), which include the assumption of all obligations and liabilities of Zellers arising under these leases after closing of such sale. On March 6, 2015, Target Canada's affiliates surrendered eleven leases (which Zellers previously assigned to Target, or its affiliates) to the applicable landlords in connection with Target Canada affiliates' proceedings under the Companies' Creditors Arrangement Act. In connection with such surrender of leases, the applicable landlords released certain parties, including HBC, Zellers and their respective predecessors, from all claims arising out of or relating to, among

other things, such leases. The Company's obligation would be offset by payments from existing or future assignees and their obligations to the Company to comply with the assigned leases. Potential liabilities related to these guarantees may be subject to certain defenses by the Company. The Company does not expect to make any significant payments with respect to these lease obligations and believes that the risk of significant loss is low.

In connection with the sale of leasehold interests to Target, the Company has indemnified Target up to a maximum of \$1,825 million in respect of any damages arising from any failure to comply with any representation or warranty under the transaction agreement to be true, any failure of the Company to fulfill any of its obligations under the agreement, the use of any of the leased properties prior to transfer to Target, environmental liabilities associated with any of the leased properties, and any liabilities associated with the leased properties not assumed by Target.

From time to time, Saks has issued guarantees to landlords under leases of stores operated by its subsidiaries. Certain of these stores were sold in connection with the sale of the Saks Department Store Group to Belk, Inc. in 2005 and the sale of the Northern Department Store Group to The Bon-Ton Stores, Inc. in 2006. If the purchasers fail to perform certain obligations under the leases guaranteed, the Company could have obligations to landlords under such guarantees. The terms of these guaranteed leases can extend up to the year 2024. As of January 30, 2016, these leases have future minimum lease payments of \$98 million (January 31, 2015: \$103 million). Based on the information currently available, the Company does not believe that its potential obligations under these lease guarantees would be material.

In 2008, the Company assigned nine leases to Les Ailes de la Mode, Inc. ("Les Ailes") and obtained a full, unconditional and continuing guarantee and indemnity for the obligations thereunder from its related company, International Clothiers Inc. ("ICI"). As of January 30, 2016, these leases have future minimum lease payments of \$29 million. In December 2015, Les Ailes filed a *Notice of Intention to Make a Proposal* under section 50.4 of the Bankruptcy and Insolvency Act. Subsequent to year end, on March 23, 2016, ICI advised us that it was filing a *Notice of Intention to Make a Proposal* under section 50.4 of the Bankruptcy and Insolvency Act. The Company currently believes that the maximum claim against it with respect to these leases is approximately \$16 million.

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

In the normal course of business, the Company has entered into agreements pursuant to which the Company provides indemnification commitments to counterparties. These indemnification commitments require the Company to compensate counterparties for costs incurred as a result of breaches of representations or warranties, changes in laws or regulations or as a result of litigation claims that may be suffered by the counterparty as a result of the transaction. The Company also has director and officer indemnification agreements. The terms of the indemnification commitments will vary based on the contract. Given the nature of these indemnification commitments, the Company is unable to estimate the maximum potential liability but does not expect to make any significant payments with respect to these commitments.

NOTE 25. SEGMENTED REPORTING

The Company has four operating segments (the Department Stores Group ("DSG") which includes Hudson's Bay, Lord & Taylor, Find @ Lord & Taylor and Home Outfitters; Saks Fifth Avenue; OFF 5TH; and the Kaufhof Banners) which are aggregated into one reportable segment, Department Stores, as they have similar economic characteristics, products and services and customers. The Department Stores segment earns revenue from the sale of fashion apparel, accessories, cosmetics and home products to customers in a similar target market, is managed by the Chief Operating Decision Maker and supported by an integrated shared services function.

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

(millions of Canadian dollars)	2015	2014
Retail sales		
Canada	2,957	2,810
United States	6,336	5,359
Europe	1,869	—
	11,162	8,169

(millions of Canadian dollars)	2015	(restated - note 9) 2014
Operating income		
Canada	148	413
United States	512	60
Europe	22	—
	682	473
		(restated – note 9)
(millions of Canadian dollars)	2015	2014
Non-current assets⁽¹⁾		
Canada	806	666
United States	4,580	5,268
Europe	1,558	—
	6,944	5,934
Total assets		
Canada	2,189	1,983
United States	7,764	7,139
Europe	2,696	—
	12,649	9,122

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

NOTE 26. SALE AND LEASEBACK TRANSACTION

On February 25, 2014, the Company sold its downtown Toronto flagship retail complex and the Simpson's Tower located at 401 Bay Street to an affiliate of The Cadillac Fairview Corporation Limited for a purchase price of \$650 million. The Company has leased the entire retail and office complex back for a base term of twenty-five years with renewal options of up to approximately twenty-five years. Proceeds of the transaction were used to retire in entirety the Junior Term Loan, which bore interest at a rate of 8.25%, permanently pay down U.S.\$150 million of the Senior Term Loan B, which bore interest at a rate of 4.75% and reduce the outstanding balance of the HBC Revolving Credit Facility.

The total gain on the sale and leaseback transaction was \$560 million, \$308 million of which was recognized immediately in the consolidated statements of earnings. The remaining \$252 million of the gain was deferred and is being amortized over the term of the lease as a reduction in rent expense. The deferred gain is included in non-current other liabilities in the consolidated balance sheets.

NOTE 27. SUBSEQUENT EVENTS

On February 1, 2016, the Company successfully completed the acquisition of Gilt Groupe Holdings Inc. ("Gilt") for U.S.\$250 million in cash, excluding debt, subject to customary adjustments. With this acquisition ("Gilt Acquisition"), the Company has added an online shopping destination, which offers its members special access to fashion merchandise and experiences. This transaction reflects the Company's ongoing focus on advancing its all-channel model, while continuing to grow its off-price business through the integration of Gilt with Saks OFF 5TH locations. The Company does not have enough information to complete the purchase price accounting as at the date of the consolidated financial statements.

On February 5, 2016, HBC entered into a senior secured asset-based revolving credit facility ("Global Revolving Credit Facility") with Bank of America, N.A. as the administrative agent and collateral agent replacing the HBC Revolving Credit Facility and the U.S. Revolving Credit Facility existing at January 30, 2016. The Global Revolving Credit Facility of U.S. \$1.9 billion has a maturity date of February 5, 2021 with key terms that are consistent with the credit facilities existing at January 30, 2016.

On March 21, 2016, HBC's Board of Directors declared a dividend of \$0.05 per common share, payable on April 15, 2016 to shareholders of record as of March 31, 2016.

On March 30, 2016, the Company announced that it sold a further portion of its investment in the HBS Joint Venture and other joint venture to Madison International Realty for total proceeds of U.S.\$50 million, reducing HBC's ownership interest to approximately 65%. Madison International Realty previously invested U.S.\$150 million as part of the Company's sale of a

portion of the same investment in the HBS Joint Venture and other joint venture for proceeds of U.S.\$533 million on November 17, 2015. Proceeds from the sale were used to pay down the Global Revolving Credit Facility. As a result of the transaction, the Company expects to recognize a pre-tax gain on the equity sale of approximately U.S.\$40 million (\$56 million).