HUDSON'S BAY COMPANY

2018 ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended

February 2, 2019

Table of Contents

Independent auditor’s report		3
Consolidated statements of loss		5
Consolidated statements of comprehensive loss		6
Consolidated statements of shareholders’ equity		7
Consolidated balance sheets		8
Consolidated statements of cash flows		9
Notes to consolidated financial statements		10
Note 1.	General information	10
Note 2.	Significant accounting policies	10
Note 3.	Critical accounting judgments and key sources of estimation uncertainty	20
Note 4.	Asset held for sale	23
Note 5.	Discontinued operations	23
Note 6.	Revenue	24
Note 7.	Inventories	24
Note 8.	Depreciation and amortization	24
Note 9.	Finance costs	25
Note 10.	Investments in real estate joint ventures	25
Note 11.	Investment in the EDS Group	29
Note 12.	Income taxes	30
Note 13.	Cash	32
Note 14.	Property, plant and equipment	33
Note 15.	Intangible assets and goodwill	35
Note 16.	Pensions and employee benefits	36
Note 17.	Loans and borrowings	41
Note 18.	Leases	43
Note 19.	Other liabilities	44
Note 20.	Financial instruments	45
Note 21.	Share based compensation	48
Note 22.	Share capital	51
Note 23.	Loss per share	53
Note 24.	Related party transactions	53
Note 25.	Compensation	54
Note 26.	Contingent liabilities	54
Note 27.	Guarantees	54
Note 28.	Segmented reporting	55
Note 29.	Supplementary cash flows information	56
Note 30.	Subsequent event	56

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Hudson's Bay Company

Opinion

We have audited the consolidated financial statements of Hudson's Bay Company and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as at February 2, 2019 and February 3, 2018, and the consolidated statements of loss, comprehensive loss, shareholders' equity and cash flows for the 52 and 53 week periods ended February 2, 2019 and February 3, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at February 2, 2019 and February 3, 2018, and its financial performance and its cash flows for the 52 and 53 week periods ended February 2, 2019 and February 3, 2018 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is

a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Stephen Di Giacomo.

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
April 2, 2019

HUDSON'S BAY COMPANY

CONSOLIDATED STATEMENTS OF LOSS

For the 52 weeks ended February 2, 2019 and 53 weeks ended February 3, 2018
(millions of Canadian dollars, except per share amounts)

	Notes	February 2, 2019 (Fiscal 2018)	February 3, 2018 (Fiscal 2017) (restated - note 5)
Retail sales	6	**9,376**	9,490
Cost of sales	7	**(5,727)**	(5,805)
Selling, general and administrative expenses ("SG&A")		**(3,677)**	(3,619)
Depreciation and amortization	8	**(505)**	(463)
Gain on sale of investment in real estate joint venture	10	**113**	—
Operating loss		**(420)**	(397)
Finance costs, net	9	**(211)**	(189)
Share of net (loss) earnings in real estate joint ventures	10	**(63)**	78
Share of net loss in the EDS Group (as defined in note 1)	11	**(147)**	—
Dilution gains from investments in joint ventures	10	**4**	10
Loss before income tax		**(837)**	(498)
Income tax benefit	12	**206**	359
Net loss - continuing operations		**(631)**	(139)
Net income (loss) - discontinued operations, net of taxes	5	**89**	(442)
Net loss		**(542)**	(581)
(Loss) income per share - basic and diluted	23		
Continuing operations		**(2.67)**	(0.73)
Discontinued operations		**0.38**	(2.31)
Total operations		**(2.29)**	(3.04)

(See accompanying notes to the consolidated financial statements)

HUDSON'S BAY COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

For the 52 weeks ended February 2, 2019 and 53 weeks ended February 3, 2018
(millions of Canadian dollars)

	February 2, 2019 (Fiscal 2018)	February 3, 2018 (Fiscal 2017)
Net loss	**(542)**	(581)
Other comprehensive income (loss), net of tax as applicable:		
Item that will not be reclassified to earnings or loss:		
Net actuarial (loss) gain of employee benefit plans	**(7)**	13
Items that may be reclassified subsequently to earnings or loss:		
Currency translation adjustment	**91**	(88)
Reclassification of cumulative currency translation adjustments relating to foreign operations disposed of during the year	**(2)**	—
Net (losses) gains on net investment hedge	**(19)**	17
Net (losses) gains on derivatives designated as cash flow hedges	**(2)**	7
Reclassification of net gains on derivatives designated as cash flow hedges relating to foreign operations disposed of during the year	**(2)**	—
Reclassification to non-financial assets of net (gains) losses on derivatives designated as cash flow hedges	**(8)**	6
Reclassification to statement of loss of net losses (gains) on derivatives designated as cash flow hedges	**15**	(11)
Other comprehensive income (loss)	**66**	(56)
Total comprehensive loss	**(476)**	(637)

HUDSON'S BAY COMPANY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the 52 weeks ended February 2, 2019 and 53 weeks ended February 3, 2018 (millions of Canadian dollars)

					Accumulated Other Comprehensive Income ("AOCI")					
	Notes	**Share capital**	**Retained earnings (Deficit)**	**Contributed surplus**	Currency translation adjustment	Employee benefits	Net investment hedge	Cash flow hedges	**Total AOCI**	**Total shareholders' equity**
As at January 28, 2017		**1,422**	**477**	**117**	430	(2)	(37)	3	**394**	**2,410**
Issuance of preferred shares	22	618	—	—	—	—	—	—	—	618
Total comprehensive loss		—	(581)	—	(88)	13	17	2	(56)	(637)
Share based compensation	21	5	—	27	—	—	—	—	—	32
Dividends	22	—	(16)	—	—	—	—	—	—	(16)
As at February 3, 2018		**2,045**	**(120)**	**144**	342	11	(20)	5	**338**	**2,407**
IFRS 9 transitional adjustment	2(aa)	—	15	—	—	—	—	—	—	15
Reclassification of actuarial losses relating to disposed foreign operations		—	(35)	—	—	35	—	—	35	—
Total comprehensive loss		—	(542)	—	89	(7)	(19)	3	66	(476)
Share based compensation	21	7	—	42	—	—	—	—	—	49
Dividends	22	—	(9)	—	—	—	—	—	—	(9)
As at February 2, 2019		**2,052**	**(691)**	**186**	431	39	(39)	8	**439**	**1,986**

(See accompanying notes to the consolidated financial statements)

HUDSON'S BAY COMPANY

CONSOLIDATED BALANCE SHEETS

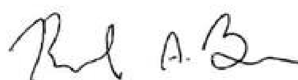
As at February 2, 2019 and February 3, 2018
(millions of Canadian dollars)

	Notes	February 2, 2019 (Fiscal 2018)	February 3, 2018 (Fiscal 2017)
Assets			
Cash	13	**21**	70
Trade and other receivables		**157**	388
Inventories	7	**2,513**	3,367
Asset held for sale	4	**279**	263
Other current assets		**171**	214
Total current assets		**3,141**	4,302
Property, plant and equipment	14	**3,872**	5,155
Intangible assets and goodwill	15	**1,097**	1,629
Pensions and employee benefits	16	**171**	171
Deferred tax assets	12	**322**	339
Investments in real estate joint ventures	10	**816**	602
Investment in the EDS Group	11	**284**	—
Other assets		**73**	36
Total assets		**9,776**	12,234
Liabilities			
Loans and borrowings	17	**471**	363
Finance leases	18	**29**	35
Trade payables		**988**	1,422
Other payables and accrued liabilities		**655**	1,031
Deferred revenue		**112**	139
Provisions		**143**	220
Other liabilities	19	**246**	290
Total current liabilities		**2,644**	3,500
Loans and borrowings	17	**2,527**	2,616
Finance leases	18	**318**	526
Provisions		**78**	85
Pensions and employee benefits	16	**177**	714
Deferred tax liabilities	12	**161**	308
Investment in real estate joint venture	10	**230**	227
Other liabilities	19	**1,655**	1,851
Total liabilities		**7,790**	9,827
Shareholders' equity			
Share capital	22	**2,052**	2,045
Deficit		**(691)**	(120)
Contributed surplus		**186**	144
Accumulated other comprehensive income		**439**	338
Total shareholders' equity		**1,986**	2,407
Total liabilities and shareholders' equity		**9,776**	12,234

(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 February 2, 2019 and 53 weeks ended February 3, 2018 (millions of Canadian dollars)

	Notes	**Feb 2, 2019 (Fiscal 2018)**	Feb 3, 2018 (Fiscal 2017) (restated - note 5)
Operating activities			
Net loss - continuing operations		**(631)**	(139)
Income tax benefit		**(206)**	(359)
Dilution gains from investments in joint ventures	10	**(4)**	(10)
Share of net loss in the EDS Group	11	**147**	—
Share of net loss (earnings) in real estate joint ventures	10	**63**	(78)
Finance costs, net	9	**211**	189
Operating loss		**(420)**	(397)
Net cash income taxes paid		**(5)**	(2)
Interest paid in cash		**(189)**	(171)
Distributions of earnings from joint ventures	10	**204**	216
Depreciation and amortization	8	**505**	463
Impairment and loss on disposal of assets		**81**	11
Net defined benefit pension and employee benefits expense		**17**	15
Other operating activities		**(11)**	(37)
Share of rent expense to real estate joint ventures	10	**(193)**	(192)
Gain on sale of investment in real estate joint venture	10	**(113)**	—
Share based compensation	21	**51**	31
Settlement of share based compensation grants	21	**(5)**	(4)
Changes in operating working capital	29	**135**	28
Cash inflow (outflow) for operating activities from continuing operations		**57**	(39)
Cash outflow for operating activities from discontinued operations		**(532)**	(289)
Net cash outflow for operating activities		**(475)**	(328)
Investing activities			
Capital investments		**(465)**	(478)
Proceeds from capital and non-capital landlord incentives		**271**	178
Capital investments less proceeds from landlord incentives		**(194)**	(300)
Net proceeds from lease terminations		**7**	31
Deposits for sale of Lord & Taylor Fifth Avenue building	4	**66**	96
Proceeds on disposal of assets		**10**	3
Proceeds on sale of investment in real estate joint venture	10	**259**	—
Proceeds on sale of HBC Europe (as defined in note 1)	5	**375**	—
Transaction costs paid		**(34)**	—
Proceeds on sale of Gilt operations	5	**41**	—
Return of capital from real estate joint venture	10	**—**	213
Other investing activities		**(13)**	(15)
Cash inflow from investing activities from continuing operations		**517**	28
Cash outflow for investing activities from discontinued operations		**(166)**	(297)
Net cash inflow (outflow) for investing activities		**351**	(269)
Financing activities			
Issuance	29	**—**	24
Repayments	29	**(240)**	(7)
Long-term loans and borrowings		**(240)**	17
Net borrowings from asset-based credit facilities	29	**55**	(39)
Borrowing costs		**(1)**	(3)
Short-term loans and borrowings		**54**	(42)
Issuance of preferred shares, net of transaction costs paid	22	**—**	615
Payments on finance leases	29	**(35)**	(24)
Dividends paid	22	**(9)**	(16)
Cash (outflow) inflow for financing activities from continuing operations		**(230)**	550
Cash inflow (outflow) from financing activities from discontinued operations		**302**	(14)
Net cash inflow from financing activities		**72**	536
Foreign exchange gain on cash		**3**	9
Decrease in cash		**(49)**	(52)
Cash at beginning of year		**70**	122
Cash at end of year		**21**	70

(See accompanying notes to the 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 real estate 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 real estate joint venture, Simon HBC Opportunities LLC (the "HBC-Simon JV"). On September 30, 2015, prior to the acquisition discussed below, the HBC-Simon JV became a wholly-owned subsidiary of HBS Global Properties LLC (the "HBS Joint Venture").

On September 30, 2015, the Company and the HBS Joint Venture acquired GALERIA Holding GmbH for €2,317 million ($3,490 million). The transaction was structured such that effectively, the Company acquired the operating business and certain properties of GALERIA Holding GmbH ("Galeria Kaufhof") while the HBS Joint Venture acquired a portfolio of 41 German properties.

On February 1, 2016, the Company acquired Gilt Groupe Holdings Inc. and its subsidiaries ("Gilt"). During the second quarter of fiscal 2018, the Company completed the divestment of the Gilt business (note 5).

On December 6, 2017, the Company issued mandatory convertible preferred shares ("Convertible Preferred Shares") to an affiliate of Rhône Capital LLC ("Rhône") for an aggregate purchase price of U.S.$500 million ($638 million) (note 22).

On October 7, 2018, HBS Joint Venture distributed to its partners the portfolio of 41 German properties to form a new real estate joint venture (the "European Real Estate JV") (note 10). On November 30, 2018, SIGNA Retail Holdings GmbH ("SIGNA") acquired a 12.4% equity interest from HBC and a 37.6% equity interest from other limited partners in the European Real Estate JV, resulting in a 50-50 joint venture between HBC and SIGNA.

During the fourth quarter of fiscal 2018, the Company closed several strategic transactions with SIGNA for its European retail operations and 18 additional German properties (collectively, "HBC Europe"). On November 30, 2018, the Company combined HBC Europe's retail operations with the retail operations of Karstadt Warenhaus GmbH ("Karstadt"), a subsidiary of SIGNA, to form a newly-formed European department store group joint venture (the "EDS Group"), in which HBC has a 49.99% interest. On January 31, 2019, the Company sold to SIGNA a 50% equity interest in 18 additional German properties of HBC Europe (notes 5, 10).

The Company owns and operates department stores in Canada and the United States under Hudson's Bay, Lord & Taylor, Saks Fifth Avenue, Saks Fifth Avenue OFF 5TH ("Saks OFF 5TH") and Home Outfitters banners. The address of the registered office of HBC is 401 Bay Street, Suite 500, Toronto, ON, M5H 2Y4.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

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

The consolidated financial statements for the fifty-two weeks ended February 2, 2019 were authorized for issuance by the Board of Directors of HBC on April 2, 2019.

b) Basis of presentation

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

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

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

c) Basis of consolidation

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

d) Fiscal year

The fiscal year of the Company consists of a fifty-two or fifty-three week period. Fiscal year 2018 represents fifty-two weeks ended on February 2, 2019 and fiscal year 2017 represents fifty-three weeks ended on February 3, 2018. References to years in the consolidated financial statements and notes to the consolidated financial statements relate to fiscal years rather than calendar years, unless otherwise noted.

e) Foreign currency translation

i) Functional and presentation currency

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

ii) Transactions and balances

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

iii) Foreign operations

The results and financial position of HBC Europe (up until disposal dates, note 5), and L&T Acquisition (and its subsidiaries Lord & Taylor Holdings LLC ("L&T"), Saks and Gilt (up until disposal dates, note 5)), whose functional currencies are not Canadian dollars, are translated into the presentation currency as follows:

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

f) Business combinations and goodwill

Business combinations are accounted for using the acquisition method.

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

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

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

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

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

g) Cash

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

h) Trade and other receivables

Trade and other receivables consisting of credit card issuer, vendor and other receivables are recognized initially at fair value and subsequently measured at amortized cost less allowance for impairment.

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) Non-current assets held for sale and discontinued operations

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell and are no longer depreciated or amortized. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Assets and liabilities classified as held for sale are presented separately as current items on the consolidated balance sheet. A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as after tax income or loss from discontinued operations in the consolidated statement of income (loss) and comparative periods have been restated.

Additional disclosures are provided in note 5. All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

k) Property, plant and equipment

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

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

Estimated useful lives are as follows:

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

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

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

l) Intangible assets

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

Estimated useful lives are as follows:

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

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

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

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

m) 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(p).

Gains or losses are recognized at the full amount upon the loss of control of a subsidiary in a transaction with a joint venture and are based on the fair value of the proceeds received.

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 or loss 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.

When the financial statements of a joint venture are prepared as at a different date from the reporting date of Company's financial statements, adjustments are made for the effects of significant transactions or events that occurred between the reporting date of the joint venture and the reporting date of the Company. Where necessary, adjustments are made to harmonize the accounting policies of the joint venture with those of the Company.

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 in the consolidated statements of income (loss).

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 real estate joint ventures to rent expense recorded in selling, general and administrative expenses.

n) Impairment of non-financial assets

The carrying amount of property, plant and equipment and intangible assets is 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 valuators. 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 income (loss) 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. Impairment losses related to goodwill are not reversed.

o) 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. As provisions are estimates, the actual amount 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.

p) 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 income (loss) 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.

q) Income taxes

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

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

Income tax expense or benefit comprises current and deferred income taxes. Income tax is recognized in net income (loss), except to the extent that it relates to items recognized either in other comprehensive income (loss) 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.

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

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

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 income (loss) 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.

s) Financial assets

Financial assets have been classified in one of the following categories: at amortized cost, fair value through other comprehensive income and fair value through profit or loss. 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) Amortized cost

Financial assets are subsequently measured at amortized cost if both the following conditions are met and they are not designated as fair value through profit or loss: the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets are subsequently measured at amortized cost using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

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

Asset	Category
Cash	Amortized cost
Restricted cash	Amortized cost
Short-term deposits	Amortized cost
Trade and other receivables	Amortized cost

ii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets that are held for trading or do not meet the conditions noted above. 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 income (loss). Subsequent changes in the fair value of financial assets at fair value through profit or loss are also recorded in net income (loss).

iii) Impairment

The Company assesses, at each balance sheet date, whether there is an indicator that a financial asset or group of financial assets is impaired using the 'expected credit loss' ("ECL") model. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The impairment model is applied to financial assets measured at amortized cost or those measured at fair value through other comprehensive income or loss, except for investments in equity instruments. The ECL model results in an allowance for credit losses being recorded on financial assets irrespective of whether there has been an actual loss event.

Loss allowances are measured on either of the following bases:

• 12 month ECLs: These are ECLs that result from possible default events within the 12 months after the reporting date; and

• Lifetime ECLs: These are ECLs that result from all possible default events over the expected life of a financial instrument.

t) 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 income (loss) as finance costs over the period of the borrowings using the effective interest method, unless related to a qualifying asset (note 2(v)). A substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

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.

u) 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 income (loss).

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 and a net investment hedge outstanding as at February 2, 2019 and February 3, 2018.

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 (loss). The gain or loss relating to the ineffective portion is recognized immediately in net income (loss) within SG&A. Amounts accumulated in other comprehensive income (loss) are recycled in net income (loss) 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 (loss) 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 (loss) and is recognized when the forecasted transaction is ultimately recognized in net income (loss). When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income (loss) is immediately transferred to net income (loss).

Hedges of net investments in foreign operations

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

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 designated in a hedging relationship are recognized immediately in net income (loss). 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.

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.

v) 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 income (loss) in the period in which they occur.

w) 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 customer obtains control of the related goods or services. 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.

x) Credit operations

The Company shares in the income and losses of the credit card program related to private label and co-branded credit cards at Hudson's Bay, Lord & Taylor and Saks. Income related to this program is included in SG&A.

y) Vendor allowances

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

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.

z) 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.

aa) Accounting standards implemented in fiscal 2018

Revenue

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15"), which provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 and was applied for the first time by the Company in the first quarter of fiscal 2018.

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

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

Financial Instruments

In July 2014, the IASB issued IFRS 9 - Financial Instruments ("IFRS 9"), which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 and the related consequential amendments to IFRS 7 - Financial Instruments: disclosures are effective for annual periods beginning on or after January 1, 2018 and were applied for the first time by the Company in the first quarter of fiscal 2018.

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

The impact of implementing IFRS 9 on the carrying amounts of the Company's financial assets and financial liabilities is related to a prior period modification of the Company's U.S. Term Loan B (note 17), which at the time of modification did not result

in the derecognition of that loan. Under IFRS 9, this modification reduces the carrying value of U.S. Term Loan B by $15 million, which has been recognized in the opening deficit of the current year.

Classification and measurement of financial assets and financial liabilities

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

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

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

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

Impairment of financial assets

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

Hedge accounting

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

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(z)). The amount of revenue deferred relating to the loyalty programs is sensitive to changes in customer behaviour and the impact of changes in the loyalty programs. Deferred revenue reported in the consolidated balance sheets relates entirely to the loyalty programs.

Impairment and reversal of impairment of long-lived assets

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

Impairment of goodwill and indefinite lived intangible assets

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

Valuation of warrants

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

Provisions

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

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

Sales returns

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

Share based compensation

The Company operates a share option plan, phantom share plan, restricted share unit plan, performance share unit plan, performance restricted share unit plan and profits interests plan for employees. The grant date fair values are calculated using valuation models, which use a number of assumptions and estimates, including expected volatility, the risk-free interest rate, the dividend yield, the non-marketability discount and the expected life of the grants. Details of these assumptions and estimates are set out in note 21.

Income taxes

The Company recognizes expected liabilities for income taxes based on an estimation of the likely income taxes due, which requires judgment as to the ultimate income tax determination of certain items. In addition, the Company has made estimates of future profitability in relation to an assessment of the recoverability of income tax losses. Details of the income tax benefit and deferred taxes are set out in note 12.

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 income (loss) are dependent on the interest rate of high quality corporate bonds. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 16.

Lease accounting

The Company leases a significant number of store locations as part of its operations. The determination of classification between finance and operating leases requires the exercise of management judgment, including estimates of fair value, the useful and economic lives of the leased assets, the existence of lower than market renewal options and appropriate discount rates. Operating and finance leases are discussed in note 18.

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

Joint ventures

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

The Company holds ownership interests in real estate (note 10) and retail (note 11) joint ventures. Based on the contractual terms of each arrangement, the Company identified the relevant activities of each joint venture and determined that all significant decisions require the joint consent of both parties to each of the joint arrangements. 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. ASSET HELD FOR SALE

(millions of Canadian dollars)	2018	2017
Lord & Taylor Fifth Avenue building	**279**	263

On October 24, 2017, the Company announced the sale of the Lord & Taylor Fifth Avenue building with a transaction value of U.S.$850 million (approximately $1.1 billion) to an affiliate of WeWork Property Advisors (“WPA”), which holds preferred shares of the Company jointly with Rhône (note 22). The carrying value of the property was classified as an asset held for sale as at February 2, 2019 and February 3, 2018. The Lord & Taylor Mortgage (note 17) is secured by this property and will become due and payable upon its sale.

During fiscal 2018, the Company received deposits totalling U.S.$50 million ($66 million) in connection with the sale of this property (fiscal 2017: U.S.$75 million ($96 million)). The deposits are non-refundable, subject to certain limited exceptions and have been recorded in other current liabilities (note 19).

On January 25, 2019, WPA exercised its option to convert a U.S.$125 million portion of the U.S.$850 million transaction value from a cash payment into an equity interest in the building to be held by the Company through a joint venture structure. This equity interest is subject to certain return and liquidity rights.

NOTE 5. DISCONTINUED OPERATIONS

Discontinued operations for fiscal 2018 were comprised of the following:

a) HBC Europe

On November 30, 2018, HBC Europe’s retail operations were combined with Karstadt’s retail operations to form the EDS Group, in which SIGNA has a 50.01% interest and HBC has a 49.99% interest. The Company’s interest in the EDS Group was recorded as a joint venture (note 11).

On January 31, 2019, HBC received €250 million ($375 million) from SIGNA for the sale of a 50% equity interest in 18 German properties owned by HBC Europe, which were unencumbered and had not previously been contributed to any joint venture. As a result, the 18 German properties became a 50-50 joint venture between HBC and SIGNA, which was combined with the European Real Estate JV (note 10).

These transactions are consistent with the Company’s long-term strategy to streamline operations and improve profitability. HBC Europe represented a separate line of business of the Company which, as a result of the transaction, the Company will no longer control. As a result, the revenue, expenses and cash flows related to HBC Europe’s operations have been presented in these consolidated financial statements as discontinued operations on a retroactive basis.

The Company recorded a net gain of $497 million upon disposal of HBC Europe.

b) Gilt

The sale of the Gilt business was completed through two separate transactions during the second quarter of fiscal 2018. Under the terms of the agreement with Rue La La (“RLL”), which closed on July 9, 2018, RLL acquired certain assets and liabilities of the Gilt business from certain U.S. and Irish subsidiaries of the Company. Under the terms of the second agreement, which closed on July 27, 2018, the Company sold the shares of Gilt Groupe K.K., a Japanese subsidiary of Gilt, to Gladd Inc. These disposals are also consistent with the Company’s long-term strategy to streamline operations and improve profitability. As Gilt represented a separate line of business of the Company the revenue, expenses and cash flows related to Gilt’s operations have been presented in these consolidated financial statements as discontinued operations on a retroactive basis.

Upon closing of the transactions, the Company received aggregate cash proceeds of $41 million and a promissory note of $2 million, subject to customary adjustments. During fiscal 2018, the Company recognized a net loss on disposal of $55 million.

The net loss on disposal of Gilt was comprised of the following components:

(millions of Canadian dollars)	
Impairment loss	**(81)**
Gain on disposal	**26**
Net loss on disposal	**(55)**

c) Financial results of the discontinued operations

The combined net loss from discontinued operations was comprised of:

(millions of Canadian dollars)	2018	2017
Revenue	**3,441**	4,859
Cost of sales	**(1,920)**	(2,709)
Selling, general and administrative expenses [1]	**(1,296)**	(2,338)
Depreciation and amortization	**(115)**	(224)
Operating income (loss)	**110**	(412)
Finance costs	**(41)**	(39)
Income (loss) before income tax	**69**	(451)
Income tax benefit	**20**	9
Net income (loss)	**89**	(442)

(1) Includes the net gain on disposal of HBC Europe and the net loss on disposal of Gilt.

NOTE 6. REVENUE

Revenue by major customer market was as follows:

(millions of Canadian dollars)	2018	2017 (restated - note 5)
Department Store	**4,451**	4,666
Luxury	**3,636**	3,496
Off Price	**1,289**	1,328
	9,376	9,490

NOTE 7. INVENTORIES

Inventories on hand at February 2, 2019 and February 3, 2018 were available for sale. The cost of merchandise inventories recognized as expense for fiscal 2018 was $5,727 million (2017: $5,805 million). The write-down of merchandise inventories below cost to net realizable value as at February 2, 2019 was $76 million (February 3, 2018: $100 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 17.

NOTE 8. DEPRECIATION AND AMORTIZATION

(millions of Canadian dollars)	2018	2017 (restated - note 5)
Property, plant and equipment	**387**	363
Intangible assets	**121**	103
Deferred credits	**(3)**	(3)
	505	463

NOTE 9. FINANCE COSTS, NET

(millions of Canadian dollars)	**2018**	2017 (restated - note 5)
Interest expense on long-term loans and borrowings	**142**	137
Interest expense on short-term loans and borrowings	**39**	31
Interest expense on finance leases	**26**	24
Loss on debt modification (note 17)	**6**	—
Net interest on pensions and employee benefits	**—**	1
Interest income	**(1)**	(1)
Total interest expense, net	**212**	192
Saks acquisition-related finance income (note 22)	**(1)**	(3)
	211	189

NOTE 10. INVESTMENTS IN REAL ESTATE JOINT VENTURES

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

		2018		2017	
(millions of Canadian dollars, except ownership interest)	**Principal Place of Business** [1]	**Ownership Interest**	**Carrying Value**	Ownership Interest	Carrying Value
RioCan-HBC JV	Canada	**87.4%**	**(230)**	88.0%	(227)
HBS Joint Venture	United States	**62.4%**	**81**	62.4%	509
European Real Estate JV	Germany	**50.0%**	**683**	—	—
Other joint venture	Germany	**50.0%**	**52**	62.4%	93
			586		375

(1) Following the distribution of net assets of the 41 German Properties into the European Real Estate JV on October 7, 2018, the HBS Joint Venture continued its operations in the United States.

a) RioCan-HBC JV

During fiscal 2018, RioCan made capital contributions of $10 million (2017: $2 million) to the RioCan-HBC JV. As a result of these contributions, the Company's ownership interest in the RioCan-HBC JV decreased from 88.0% as at February 3, 2018 to 87.4% as at February 2, 2019 and the Company realized dilution gains of $4 million during fiscal 2018 (2017: $1 million).

On October 11, 2017, RioCan-HBC JV refinanced an existing mortgage on one of its properties. As a result of the refinancing and based on the Company's ownership interest in the joint venture, HBC received net cash proceeds of $39 million as a return of capital.

On October 31, 2017, the RioCan-HBC JV obtained a $200 million mortgage on one of its properties. The Company received net cash proceeds of $198 million, comprised of a $174 million return of capital from the RioCan-HBC JV and a $24 million loan from RioCan, which is included in loans and borrowings. The Company primarily used the funds received as a result of the two mortgage financings to pay down the Global ABL (as defined in note 17).

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

(millions of Canadian dollars)	**2018**	2017
Equity investment as at the beginning of the year	**(227)**	(9)
Share of net earnings from joint venture	**50**	67
Dilution gains from changes in equity interest	**4**	1
Return of capital from joint venture	**—**	(213)
Distributions of earnings from joint venture	**(57)**	(73)
Equity investment as at the end of the year	**(230)**	(227)

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

(millions of Canadian dollars)	2018	2017
Cash	**5**	3
Non-current financial assets	**149**	147
Non-current other assets	**1,658**	1,703
Current financial liabilities	**(364)**	(450)
Current other liabilities	**(8)**	(8)
Non-current financial liabilities	**(412)**	(338)
Net assets at 100%	**1,028**	1,057
Company's share of net assets in the RioCan-HBC JV based on ownership interest	**898**	930
Adjustments for items recognized by the Company	**(1,128)**	(1,157)
Company's carrying value of investment in the RioCan-HBC JV	**(230)**	(227)

Summarized statements of earnings of the RioCan-HBC JV:

(millions of Canadian dollars)	2018	2017
Rental revenue	**111**	110
Rental revenue - recoveries	**8**	9
Property operating costs	**(12)**	(12)
Depreciation and amortization	**(44)**	(44)
Impairment	**(18)**	(8)
Finance income	**10**	10
Finance costs	**(33)**	(20)
Net earnings at 100%	**22**	45
Company's share of net earnings in the RioCan-HBC JV based on ownership interest	**19**	40
Adjustment for the Company's share of expenses recognized by HBC	**31**	27
Company's share of net earnings from the RioCan-HBC JV	**50**	67
Reclassification of rental income to SG&A related to the Company's ownership interest in the RioCan-HBC JV	**(86)**	(83)
Company's share of net loss in the RioCan-HBC JV	**(36)**	(16)

b) HBS Joint Venture

On October 7, 2018, the HBS Joint Venture distributed to its partners the portfolio of 41 German properties. As a result, the assets, liabilities, revenue, expenses and cash flows related to the 41 German properties are not included in the financial results of the HBS Joint Venture subsequent to the distribution date. As the 41 German properties represented a separate line of business of the HBS Joint Venture, their financial results prior to the distribution date have been presented as discontinued operations on a retroactive basis.

During fiscal 2018, Simon made no capital contributions to the HBS Joint Venture (2017: U.S.$23 million ($30 million)). As a result of the contributions made during fiscal 2017, the Company's ownership interest in the HBS Joint Venture decreased from 63.4% as at January 28, 2017 to 62.4% as at February 3, 2018 and the Company realized dilution gains of $9 million during fiscal 2017.

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

(millions of Canadian dollars)	2018	2017
Equity investment as at the beginning of the year	**509**	481
Share of net earnings from joint venture	**70**	203
Dilution gains from changes in equity interest	**—**	9
Distributions of earnings from joint venture	**(116)**	(143)
Distribution of net assets of the 41 German properties	**(402)**	—
Net foreign currency exchange and other	**20**	(41)
Equity investment as at the end of the year	**81**	509

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

(millions of Canadian dollars)	2018	2017
Cash	**13**	51
Current other financial assets	**—**	20
Non-current other assets	**2,092**	5,267
Current financial liabilities	**(210)**	(313)
Current other liabilities	**(13)**	(32)
Non-current financial liabilities	**(900)**	(2,920)
Non-current other liabilities	**—**	(411)
Net assets at 100%	**982**	1,662
Company's share of net assets in the HBS Joint Venture based on ownership interest	**613**	1,037
Adjustments for items recognized by the Company	**(532)**	(528)
Company's carrying value of investment in the HBS Joint Venture	**81**	509

Summarized statements of earnings of the HBS Joint Venture:

(millions of Canadian dollars)	2018	2017 (restated) [1]
Rental revenue	**171**	171
Rental revenue - recoveries	**8**	6
Property operating costs	**(8)**	(8)
General and administrative expenses	**(4)**	(4)
Impairment	**(25)**	—
Depreciation and amortization	**(60)**	(59)
Finance costs	**(61)**	(59)
Net earnings - continuing operations	**21**	47
Net earnings - discontinued operations, net of taxes	**40**	251
Net earnings	**61**	298
Company's share of net earnings in the HBS Joint Venture based on ownership interest	**38**	186
Adjustment for the Company's share of expenses recognized by HBC	**32**	17
Company's share of net earnings from the HBS Joint Venture	**70**	203
Reclassification of rental income to SG&A related to the Company's ownership interest in the HBS Joint Venture [2]	**(107)**	(109)
Company's share of net (loss) earnings in the HBS Joint Venture	**(37)**	94

(1) Previously reported balances have been restated to present the financial results of the 41 German properties as discontinued operations.

(2) As a result of the presentation of HBC Europe as a discontinued operation (note 5), the reclassification of rental income to SG&A related to the Company's ownership in the HBS Joint Venture has been restated to exclude amounts related to rental income from HBC Europe.

c) European Real Estate JV

The European Real Estate JV was formed on October 7, 2018 upon distribution of the portfolio of 41 German properties by the HBS Joint Venture to its partners. As the distribution did not result in a change of control of these properties, net assets of the 41 German properties were recorded at their carrying values by the European Real Estate JV.

Upon formation of the European Real Estate JV, a 12.4% equity interest held by the Company was recorded as an asset held for sale. On November 30, 2018, the Company sold the 12.4% equity interest in the European Real Estate JV to SIGNA for net cash proceeds, excluding transaction fees and related expenses, of €171 million ($259 million). The Company recorded a gain of $113 million, net of transaction costs of $22 million.

On January 31, 2019, the Company sold a 50% equity interest in 18 additional German properties (note 5). The resulting 50-50 joint venture between HBC and SIGNA has been combined with the European Real Estate JV as it is governed by the European Real Estate JV's management agreement.

The following table details the changes in the Company's investment in the European Real Estate JV:

(millions of Canadian dollars)	Period from Oct 7, 2018 (date of formation) to Feb 2, 2019
Equity investment as at the beginning of the year	—
Transfer of net assets of the 41 German properties	**322**
Share of net earnings from joint venture	**10**
Distributions of earnings from joint venture	**(31)**
Contribution of net assets of 18 additional German properties, including transaction costs of $5	**377**
Net foreign currency exchange	**5**
Equity investment as at the end of the year	**683**

Summarized financial information of the European Real Estate JV and reconciliation to the carrying amount of the investment in the consolidated balance sheet are set out below:

(millions of Canadian dollars)	2018
Cash	**63**
Current other financial assets	**451**
Non-current other assets	**3,625**
Current financial liabilities	**(148)**
Current other liabilities	**(25)**
Non-current financial liabilities	**(2,155)**
Non-current other liabilities	**(455)**
Net assets at 100%	**1,356**
Company's share of net assets in the European Real Estate JV based on ownership interest	**678**
Plus capitalized transaction costs	**5**
Company's carrying value of investment in the European Real Estate JV	**683**

Summarized statement of earnings of the European Real Estate JV:

(millions of Canadian dollars)	Period from Oct 7, 2018 (date of formation) to Feb 2, 2019
Rental revenue	**89**
Rental revenue - recoveries	**6**
Property operating costs	**(10)**
Impairment	**(23)**
Depreciation and amortization	**(16)**
Finance costs	**(21)**
Income tax expense	**(5)**
Net earnings at 100%	**20**
Company's share of net earnings in the European Real Estate JV	**10**

NOTE 11. INVESTMENT IN THE EDS GROUP

On November 30, 2018, HBC Europe's retail operations were contributed to the EDS Group, in which HBC has a 49.99% interest. The Company capitalized transaction costs of $20 million related to external legal fees, consulting fees, due diligence costs and investment banking fees.

The EDS Group's fiscal year end is September 30. The Company records its share of net loss in the EDS Group on a one-month lag. To the extent that the EDS Group has material transactions during the one-month lag period, the Company records its share of income or loss related to these transactions in the current period.

The following table details the changes in the Company's investment in the EDS Group:

(millions of Canadian dollars)	Period from Nov 30, 2018 (date of formation) to Feb 2, 2019
Investment as at the beginning of the year	**—**
Contribution of HBC Europe's retail operations	**431**
Share of net loss from the EDS Group	**(147)**
Equity investment as at the end of the year	**284**

Summarized financial information of the investment as at December 31, 2018 and reconciliation to the carrying amount of the investment in the EDS Group in the consolidated balance sheets are set out below:

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

Summarized statement of net loss of the investment in the EDS Group:

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

NOTE 12. INCOME TAXES

The major components of the income tax benefit and the statutory income tax rate for fiscal 2018 and 2017 are as follows:

(millions of Canadian dollars)	2018	2017
Current tax (benefit) expense	**(31)**	29
Deferred tax benefit	**(175)**	(388)
Income tax benefit	**(206)**	(359)
Statutory income tax rate	**26.7%**	26.6%

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

(millions of Canadian dollars)	2018	2017
Loss before income tax	**(837)**	(499)
Income tax benefit calculated at statutory income tax rate	**(223)**	(133)
Change in income taxes resulting from:		
Effect of tax rate increase (decrease)	**12**	(181)
Effect of international tax rate differentials	**(6)**	(38)
Permanent differences	**14**	(25)
Tax losses for which no deferred tax asset is recognized	**6**	22
Other	**(9)**	(4)
Income tax benefit	**(206)**	(359)

The changes in the components of net deferred tax assets and liabilities for fiscal 2018 and 2017 are as follows:

	Year ended February 2, 2019					
(millions of Canadian dollars)	Balance, beginning of year	Discontinued operations	Recognized in net loss	Recognized in other comprehensive loss	Net foreign currency exchange	Balance, end of year
Property, plant and equipment	**(518)**	**228**	**53**	**—**	**(14)**	**(251)**
Investment in real estate joint ventures	**(269)**	**—**	**21**	**(2)**	**(12)**	**(262)**
Employee benefits	**29**	**—**	**12**	**—**	**2**	**43**
Pensions	**136**	**(130)**	**(2)**	**(8)**	**1**	**(3)**
Other assets	**49**	**4**	**(185)**	**(2)**	**(3)**	**(137)**
Long-term liabilities and other	**238**	**(97)**	**216**	**4**	**3**	**364**
Tax losses and other carryforward amounts	**355**	**(27)**	**60**	**—**	**19**	**407**
	20	**(22)**	**175**	**(8)**	**(4)**	**161**
Net change relating to discontinued operations	**11**	**(11)**	**—**	**—**	**—**	**—**
Net deferred tax assets (liabilities)	**31**	**(33)**	**175**	**(8)**	**(4)**	**161**
Comprising:						
Deferred tax assets	339					322
Deferred tax liabilities	(308)					(161)
	31					**161**

	February 3, 2018 (restated - note 5)					
(millions of Canadian dollars)	Balance, beginning of year	Recognized in net loss	Recognized in other comprehensive loss	Recognized in share capital	Net foreign currency exchange	Balance, end of year
Property, plant and equipment	(704)	180	—	—	6	(518)
Investment in real estate joint ventures	(388)	101	—	—	18	(269)
Employee benefits	29	1	—	—	(1)	29
Pensions	127	(4)	2	—	11	136
Other assets	(70)	125	4	6	(16)	49
Long-term liabilities and other	251	(20)	(2)	—	9	238
Tax losses and other carryforward amounts	343	5	—	—	7	355
	(412)	388	4	6	34	20
Net change relating to discontinued operations	—	7	—	—	4	11
Net deferred tax (liabilities) assets	(412)	395	4	6	38	31
Comprising:						
Deferred tax assets	301					339
Deferred tax liabilities	(713)					(308)
	(412)					31

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

The amount of temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements for which deferred tax liabilities have not been recognized was $552 million as at February 2, 2019 (February 3, 2018: $219 million).

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act which has been referred to as U.S. tax reform. A significant

change under this reform was the reduction of the U.S. federal statutory corporate income tax rate from 35% to 21% beginning in calendar 2018. In addition to the change in the corporate income tax rate, a number of other changes were introduced including the limitation of deductible net interest to 30% of adjusted taxable income; the ability to elect to accelerate bonus depreciation on certain qualified assets; and the Base Erosion and Anti-Abuse Tax, amongst other changes.

As a result of this tax rate change, the Company revalued its deferred income tax balances accordingly. For fiscal 2018, there were no revaluations of deferred tax balances associated with this change (2017: recovery of $181 million). These recoveries are estimated based on the Company's analysis of the Tax Cuts and Jobs Act. These estimates may be impacted as U.S. authorities issue additional regulations and interpretations in the future.

As at February 2, 2019, the Company’s taxable entities had tax loss carryforwards of $1,977 million available in the United States and Canada as follows:

(millions of Canadian dollars)	
Available until year ending:	
January 2028	140
January 2029	19
January 2030	1
January 2031	14
January 2032	6
January 2033	107
January 2034	83
January 2035	75
January 2036	89
January 2037	135
Indefinite	1,308
	1,977

Of the $1,977 million tax loss carryforwards available to offset future taxable income, the Company has not recognized $609 million as deferred tax assets in the consolidated balance sheet. This amount includes $47 million of tax loss carryforwards that expire from January 2028 to January 2034 and $562 million which carryforward indefinitely.

NOTE 13. CASH

As at February 2, 2019, the Company did not hold any restricted cash (February 3, 2018: $3 million).

NOTE 14. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Year ended February 2, 2019					
	Freehold Land	Buildings	Leasehold Improvements	Fixtures & Fittings	Assets held under Finance Leases	Total
Cost						
Balance at beginning of year	803	1,263	1,766	2,168	804	6,804
Additions	—	102	124	106	5	337
Transfers	(7)	2	5	—	—	—
Disposals and write-offs	(3)	(103)	(71)	(54)	—	(231)
Net change relating to discontinued operations	(197)	(169)	(571)	(438)	(226)	(1,601)
Net foreign currency exchange	33	61	40	69	20	223
Balance at end of year	**629**	**1,156**	**1,293**	**1,851**	**603**	**5,532**
Accumulated depreciation and impairment						
Balance at beginning of year	—	95	419	942	193	1,649
Depreciation expense	—	53	106	194	34	387
Impairment losses	—	—	5	7	—	12
Transfers	—	(2)	2	—	—	—
Disposals and write-offs	—	(82)	(28)	(52)	—	(162)
Net change relating to discontinued operations	—	(12)	(100)	(134)	(34)	(280)
Net foreign currency exchange	—	4	11	34	5	54
Balance at end of year	**—**	**56**	**415**	**991**	**198**	**1,660**
Net book value at end of year	**629**	**1,100**	**878**	**860**	**405**	**3,872**

(millions of Canadian dollars)	Year ended February 3, 2018 (restated - note 5)					
	Freehold Land	Buildings	Leasehold Improvements	Fixtures & Fittings	Assets held under Finance Leases	Total
Cost						
Balance at beginning of year	999	1,430	1,397	2,026	751	6,603
Additions	—	38	149	129	56	372
Transfers	(1)	4	(1)	(2)	—	—
Disposals and write-offs	—	(3)	(4)	(31)	(1)	(39)
Transfer to asset held for sale (note 4)	(174)	(154)	—	—	—	(328)
Net change relating to discontinued operations	24	21	266	118	18	447
Net foreign currency exchange	(45)	(73)	(41)	(72)	(20)	(251)
Balance at end of year	803	1,263	1,766	2,168	804	6,804
Accumulated depreciation and impairment						
Balance at beginning of year	—	102	275	789	153	1,319
Depreciation expense	—	59	101	174	29	363
Impairment losses	—	—	7	3	—	10
Transfers	—	4	(3)	(1)	—	—
Disposals and write-offs	—	(3)	(4)	(31)	(2)	(40)
Transfer to asset held for sale (note 4)	—	(65)	—	—	—	(65)
Net change relating to discontinued operations	—	6	54	42	17	119
Net foreign currency exchange	—	(8)	(11)	(34)	(4)	(57)
Balance at end of year	—	95	419	942	193	1,649
Net book value at end of year	803	1,168	1,347	1,226	611	5,155

Certain property, plant and equipment have been pledged as security for borrowings as further described in note 17. There were $61 million in capital commitments, net of leasehold improvement allowances, as at February 2, 2019.

Impairment of property, plant and equipment

Impairment losses of $12 million incurred in fiscal 2018 (2017: $10 million) represented the write-down of certain property, plant and equipment on the higher of fair value less costs of disposal or value in use basis. The impairment losses in fiscal 2018 occurred in the Department Store Group ("DSG", as defined in note 28) and Saks OFF 5TH segments while the impairment losses in fiscal 2017 occurred in the Company's DSG and Saks Fifth Avenue segments. The losses resulted from a decline in the operating performance of certain stores which affected the related leasehold improvements and fixtures and fittings asset classes. The impairment and write off related losses related to the Company's property, plant and equipment were recognized in the consolidated statements of loss within SG&A. There was no reversal of impairments in fiscal 2018 or fiscal 2017.

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

NOTE 15. INTANGIBLE ASSETS AND GOODWILL

(millions of Canadian dollars)	Year ended February 2, 2019							
	Goodwill	Software	Favourable lease rights	Private label brands	Banner names	Credit cards	Customer Lists	Total
Cost								
Balance at beginning of year	305	867	330	65	776	31	124	2,498
Additions	—	106	—	—	—	—	—	106
Disposals and write-offs	—	(17)	(21)	—	—	(33)	—	(71)
Net change relating to discontinued operations	(74)	(229)	(134)	(35)	(314)	—	(124)	(910)
Net foreign currency exchange	13	20	11	2	27	2	—	75
Balance at end of year	**244**	**747**	**186**	**32**	**489**	**—**	**—**	**1,698**
Accumulated amortization and impairment								
Balance at beginning of year	109	489	91	11	63	26	80	869
Amortization expense	—	88	28	—	—	5	—	121
Disposals and write-offs	—	(8)	(21)	—	—	(33)	—	(62)
Net change relating to discontinued operations	(74)	(105)	(14)	(10)	(63)	—	(80)	(346)
Net foreign currency exchange	2	10	5	—	—	2	—	19
Balance at end of year	**37**	**474**	**89**	**1**	**—**	**—**	**—**	**601**
Net book value at end of year	**207**	**273**	**97**	**31**	**489**	**—**	**—**	**1,097**

(millions of Canadian dollars)	Year ended February 3, 2018 (restated - note 5)							
	Goodwill	Software	Favourable lease rights	Private label brands	Banner names	Credit cards	Customer Lists	Total
Cost								
Balance at beginning of year	323	764	327	64	789	33	132	2,432
Additions	—	85	—	—	—	—	—	85
Transfers	—	3	(3)	—	—	—	—	—
Disposals and write-offs	—	—	(5)	—	—	—	—	(5)
Net change relating to discontinued operations	(4)	34	20	3	15	—	(8)	60
Net foreign currency exchange	(14)	(19)	(9)	(2)	(28)	(2)	—	(74)
Balance at end of year	305	867	330	65	776	31	124	2,498
Accumulated amortization and impairment								
Balance at beginning of year	115	379	75	3	—	21	53	646
Amortization expense	—	81	16	—	—	6	—	103
Impairment losses	—	1	—	—	—	—	—	1
Disposals and write-offs	—	—	(4)	—	—	—	—	(4)
Net change relating to discontinued operations	(4)	37	9	8	63	—	27	140
Net foreign currency exchange	(2)	(9)	(5)	—	—	(1)	—	(17)
Balance at end of year	109	489	91	11	63	26	80	869
Net book value at end of year	196	378	239	54	713	5	44	1,629

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

Impairment of goodwill

The Company completed its annual goodwill impairment test in the fourth quarter of fiscal 2018 and fiscal 2017 and concluded there was no impairment.

Impairment of intangible assets

During the fourth quarter of fiscal 2018 and fiscal 2017 the Company performed its annual impairment test of intangible assets with indefinite lives. It was concluded there was no impairment in fiscal 2018. In fiscal 2017, impairment losses were recognized in the consolidated statements of loss within SG&A . There was no reversal of impairments in fiscal 2018 or fiscal 2017.

NOTE 16. PENSIONS AND EMPLOYEE BENEFITS

Aggregate information about the Company's Canadian ("CDN"), U.S. and European pension and benefit plans are presented below. The U.S. pension plans are sponsored by Saks for which there are no future benefit accruals for all remaining participants. Both L&T and Saks sponsor defined contribution plans (401(k) retirement savings plans) which are discussed in the Defined Contribution ("DC") Pension Plans section below. The European pension plan was disposed of as part of the divestiture of the HBC Europe's retail operations (note 5).

Amounts Recognized in Consolidated Balance Sheets

	2018			2017			
(millions of Canadian dollars)	CDN Pension and Benefit Plans	U.S. Pension Plans	Total	CDN Pension and Benefit Plans	U.S. Pension Plans	European Pension Plans	Total
Pension and employee benefits - asset [(1)]	**171**	**—**	**171**	170	—	1	171
Pension and benefit plans in deficit positions	**(124)**	**(44)**	**(168)**	(124)	(43)	(515)	(682)
Less: current portion	**3**	**2**	**5**	3	2	—	5
	(121)	**(42)**	**(163)**	(121)	(41)	(515)	(677)
Other long-term employee benefits liability	**(14)**	**—**	**(14)**	(17)	—	(20)	(37)
Pension and employee benefits - liability	**(135)**	**(42)**	**(177)**	(138)	(41)	(535)	(714)
Net pension and benefit plans asset (liability) [(2)]	**47**	**(44)**	**3**	46	(43)	(514)	(511)

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

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

Employer contributions to defined benefit pension plans in fiscal 2019 will approximate $7 million.

Changes in the Fair Value of Plan Assets

(millions of Canadian dollars)	2018				2017			
	CDN Pension and Benefit Plans(1)	U.S. Pension Plans	European Pension Plans	Total	CDN Pension and Benefit Plans(1)	U.S. Pension Plans	European Pension Plans	Total
Fair value at beginning of year	**1,212**	**118**	**134**	**1,464**	1,221	129	125	1,475
Net change relating to discontinued operations	**—**	**—**	**(134)**	**(134)**	—	—	9	9
Return on plan assets (excluding interest)	**7**	**(3)**	**—**	**4**	15	11	—	26
Interest income	**33**	**4**	**—**	**37**	60	4	—	64
Employer contributions	**5**	**7**	**—**	**12**	3	2	—	5
Employee contributions	**10**	**—**	**—**	**10**	10	—	—	10
Administration costs	**(2)**	**(2)**	**—**	**(4)**	(2)	(3)	—	(5)
Benefits paid	**(106)**	**(15)**	**—**	**(121)**	(95)	(17)	—	(112)
Net foreign currency exchange	**—**	**7**	**—**	**7**	—	(8)	—	(8)
Fair value at end of year	**1,159**	**116**	**—**	**1,275**	1,212	118	134	1,464

(1) Includes defined contribution plan assets of $505 million (February 3, 2018: $530 million)

Changes in the Defined Benefit Obligation

(millions of Canadian dollars)	2018				2017			
	CDN Pension and Benefit Plans(1)	U.S. Pension Plans	European Pension Plans	Total	CDN Pension and Benefit Plans(1)	U.S. Pension Plans	European Pension Plans	Total
Balance, beginning of year	**1,166**	**161**	**648**	**1,975**	1,159	177	591	1,927
Net change relating to discontinued operations	**—**	**—**	**(648)**	**(648)**	—	—	57	57
Current service cost	**15**	**1**	**—**	**16**	15	1	—	16
Past service recovery	**—**	**—**	**—**	**—**	(1)	—	—	(1)
Employee contributions	**10**	**—**	**—**	**10**	10	—	—	10
Interest expense	**32**	**5**	**—**	**37**	58	5	—	63
Benefits paid	**(106)**	**(15)**	**—**	**(121)**	(95)	(17)	—	(112)
Change in demographic assumptions	**—**	**—**	**—**	**—**	(3)	—	—	(3)
Change in financial assumptions	**(7)**	**(2)**	**—**	**(9)**	14	2	—	16
Experience adjustments	**2**	**1**	**—**	**3**	9	3	—	12
Net foreign currency exchange	**—**	**9**	**—**	**9**	—	(10)	—	(10)
Balance, end of year	**1,112**	**160**	**—**	**1,272**	1,166	161	648	1,975

(1) Includes defined contribution plan liabilities of $507 million (February 3, 2018: $530 million)

Cumulative Actuarial Gains (Losses)

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

(millions of Canadian dollars)	2018 CDN Pension and Benefit Plans	2018 U.S. Pension Plans	2018 European Pension Plans	2018 Total	2017 CDN Pension and Benefit Plans	2017 U.S. Pension Plans	2017 European Pension Plans	2017 Total
Cumulative amount, beginning of year	**40**	**5**	**(40)**	**5**	45	(1)	(49)	(5)
Net actuarial gains (losses) recognized	**12**	**(2)**	**(7)**	**3**	(5)	6	9	10
Reclassification to deficit	—	—	**47**	**47**	—	—	—	—
Cumulative amount, end of year	**52**	**3**	—	**55**	40	5	(40)	5

Pension and Benefit Plan Expense

Fiscal 2018 and 2017 pension and benefit plan expense is comprised of the following:

(millions of Canadian dollars)	2018 CDN Pension and Benefit Plans	2018 U.S. Pension Plans	2018 European Pension Plans	2018 Total	2017 (restated - note 5) CDN Pension and Benefit Plans	2017 (restated - note 5) U.S. Pension Plans	2017 (restated - note 5) European Pension Plans	2017 (restated - note 5) Total
Current service cost	**15**	**2**	—	**17**	15	1	—	16
Past service recovery	—	—	—	—	(1)	—	—	(1)
Administration costs	**2**	**1**	—	**3**	2	3	—	5
Net expense recognized in SG&A	**17**	**3**	—	**20**	16	4	—	20
Interest income on plan assets	**(33)**	**(4)**	—	**(37)**	(60)	(4)	—	(64)
Interest expense on plan obligations	**32**	**5**	—	**37**	58	5	—	63
Net (income) expense recognized in finance costs	**(1)**	**1**	—	—	(2)	1	—	(1)
Net expense recognized in net loss	**16**	**4**	—	**20**	14	5	—	19
Changes in demographic assumptions	—	—	**6**	**6**	(3)	—	—	(3)
Changes in financial assumptions	**(7)**	**(2)**	**5**	**(4)**	14	2	(9)	7
Experience adjustments	**2**	**1**	**(4)**	**(1)**	9	3	5	17
Return on plan assets (excluding interest income)	**(7)**	**3**	—	**(4)**	(15)	(11)	(5)	(31)
Net (income) expense recognized in other comprehensive loss	**(12)**	**2**	**7**	**(3)**	5	(6)	(9)	(10)
Net expense (income) recognized in total comprehensive loss	**4**	**6**	**7**	**17**	19	(1)	(9)	9

Defined Contribution Pension Plans

Included in CDN Pension Plans' current service cost above is a $13 million expense in fiscal 2018 (2017: $13 million) that represents contributions made in connection with the defined contribution plans.

In fiscal 2018, Saks and L&T contributed $12 million (2017: $12 million) to their U.S. defined contribution plans.

Other Long Term Employee Benefits

During fiscal 2018, the Company paid $5 million (2017: $5 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.

	2018		2017		
	CDN Pension and Benefits Plans and Other Long Term Benefits	U.S. Pension Plans	CDN Pension and Benefits Plans and Other Long Term Benefits	U.S. Pension Plans	European Pension Plans
Defined benefit obligations, end of the fiscal year:					
Discount rate	**3.20% - 3.60%**	**3.60%**	3.20% - 3.50%	3.40%	1.50% - 2.10%
Rate of compensation increase	**3.00%**	**N/A**	3.00%	N/A	N/A
Pensions-in-payment increase rate	**N/A**	**N/A**	N/A	N/A	1.50%
Net benefit expense for the fiscal year:					
Discount rate	**3.20% - 3.50%**	**3.40%**	3.00% - 3.70%	3.50%	1.40% - 2.00%
Rate of compensation increase	**3.00%**	**N/A**	3.00%	N/A	N/A
Health care trend rate:					
Defined benefit obligations, end of the fiscal year					
Immediate	**5.77%**	**N/A**	6.00%	N/A	N/A
Ultimate	**4.00%**	**N/A**	4.50%	N/A	N/A
Net benefit expense for the fiscal year					
Immediate	**6.00%**	**N/A**	6.21%	N/A	N/A
Ultimate	**4.50%**	**N/A**	4.50%	N/A	N/A
Life expectancy (years):					
Life expectancy					
Male	**86.8**	**85.8**	86.7	85.8	N/A
Female	**89.2**	**87.5**	89.1	87.5	N/A

Defined Benefit Obligation by Participant Status

	2018			2017			
(millions of Canadian dollars)	CDN Pension and Benefit Plans and Other Long Term Benefits[(1)]	U.S. Pension Plans	Total	CDN Pension and Benefit Plans and Other Long Term Benefits[(1)]	U.S. Pension Plans	European Pension Plans	Total
Active members	**125**	**36**	**161**	153	39	311	503
Vested deferred members	**62**	**56**	**118**	68	55	48	171
Retirees	**443**	**68**	**511**	442	67	289	798
Total	**630**	**160**	**790**	663	161	648	1,472

(1) Excludes plan liabilities of $507 million (February 3, 2018: $530 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 20) is presented below:

	2018				2017			
(millions of Canadian dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
CDN Pension Plans								
Short-term and cash	**34**	**8**	**—**	**42**	33	10	—	43
Canadian equities	**—**	**—**	**—**	**—**	53	—	—	53
Foreign equities	**—**	**—**	**—**	**—**	61	—	—	61
Real estate equities	**—**	**—**	**4**	**4**	—	—	5	5
Private equity funds and other	**—**	**—**	**183**	**183**	—	—	193	193
Pooled funds	**—**	**930**	**—**	**930**	—	857	—	857
	34	**938**	**187**	**1,159**	147	867	198	1,212
U.S. Pension Plans								
Pooled funds	**—**	**116**	**—**	**116**	—	118	—	118
European Pension Plans								
Fixed interest securities					38	—	—	38
Assets held by insurance company					—	96	—	96
					38	96	—	134

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.

	2018		2017		
(millions of Canadian dollars)	**CDN Pension and Benefit Plans and Other Long Term Benefits**	**U.S. Pension Plans**	**CDN Pension and Benefit Plans and Other Long Term Benefits**	**U.S. Pension Plans**	**European Pension Plans**
Health care trend rate					
Effect of 1% increase	**2**	**N/A**	2	N/A	N/A
Effect of 1% decrease	**(2)**	**N/A**	(2)	N/A	N/A
Discount rate					
Effect of 1% increase	**(62)**	**(10)**	(67)	(10)	(87)
Effect of 1% decrease	**75**	**11**	82	12	111
Rate of compensation/inflation					
Effect of 1% increase	**6**	**N/A**	5	N/A	N/A
Effect of 1% decrease	**(5)**	**N/A**	(5)	N/A	N/A
Pensions-in payment increase rate					
Effect of 0.25% increase	**N/A**	**N/A**	N/A	N/A	18
Effect of 0.25% decrease	**N/A**	**N/A**	N/A	N/A	(17)
Life expectancy					
Effect of 1 year increase	**23**	**4**	23	4	N/A
Effect of 1 year decrease	**(23)**	**(4)**	(23)	(4)	N/A

Supplementary executive retirement plan

The Company guarantees an annual pension to certain executives in the supplementary executive retirement plan (the "SERP") which is included in the CDN Pension Plans' defined benefit obligation presented earlier. The Company's guaranteed obligation pursuant to the SERP for service up to November 10, 2005 is secured by a trust fund for certain members. Total assets of the trust fund as at February 2, 2019 were $62 million (February 3, 2018: $66 million). The obligation in respect of service after November 10, 2005 is not secured.

Effective September 30, 2015, benefits under the existing defined benefit SERP ceased and members began accruing benefits under the DC SERP. In addition, the Company has a U.S. DC SERP which is offered to certain executives.

NOTE 17. LOANS AND BORROWINGS

The Company's debt consists of a global U.S. dollar denominated asset based revolving credit facility ("Global ABL"), a U.S. term loan ("U.S. Term Loan B"), mortgages and other loans.

a) Current loans and borrowings

As at February 2, 2019 and February 3, 2018, current loans and borrowings are comprised of:

(millions of Canadian dollars)	2018	2017
Global ABL	**472**	375
Current portion of long-term loans and borrowings	**8**	8
	480	383
Less: unamortized costs	**(9)**	(20)
	471	363

Global ABL

On February 5, 2016, the Company entered into the Global ABL, a U.S. $1.9 billion senior secured asset-based revolving credit facility, for the benefit of the Company's Canadian, U.S. and European operations with Bank of America, N.A. as the administrative agent and collateral agent. On February 6, 2017, the Global ABL was expanded by U.S.$350 million to include a Dutch subfacility. On November 30, 2018, in connection with the merger of HBC's European retail operations with Karstadt's retail operations, the German and Dutch subfacilities were terminated, which resulted in a reduction of the borrowing line from U.S.$2.25 billion to U.S.$1.94 billion. The Global ABL's borrowing line of U.S.$1.94 billion consists of a U.S. subfacility and a Canadian subfacility.

The Global ABL has a maturity date of February 5, 2021 and is subject to a borrowing base, based on eligible inventory and accounts receivable of HBC and certain subsidiaries (other than real estate subsidiaries). The Global ABL's borrowing line of U.S. $1.94 billion is available for general corporate purposes and is drawn in local currencies. The Global ABL has multiple interest rate charge options that are based on the U.S. prime rate, Federal Funds rate, London Interbank Offered Rate ("LIBOR"), Canadian prime rate and Canadian Dealer Offered Rate.

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

The Global ABL is secured by a first priority security interest over all inventory and accounts receivable of the Company. The agreement contains covenants including restrictions on the incurrence of indebtedness, financial maintenance covenants and restrictions on payments to affiliates and shareholders. The agreement also contains events of default and representations and warranties.

HBC was in compliance with all covenants contained in the agreement as at February 2, 2019 and February 3, 2018.

The effective interest rate based on the average balance drawn and finance costs of the Global ABL for fiscal 2018 and 2017 was as follows:

(millions of Canadian dollars)	2018	2017
Average balance drawn, calculated on a daily basis	**1,010**	1,155
Finance costs (1) (2)	**45**	45
Effective interest rate	**4.5%**	3.9%

(1) Finance costs during fiscal 2018 included $5 million (2017: $11 million) related to discontinued operations.

(2) Includes amortization of finance costs of $6 million (2017: $5 million), of which $2 million were related to discontinued operations (2017: $2 million).

As at February 2, 2019 and February 3, 2018, details of the borrowing base availability on the Global ABL were as follows:

(millions of Canadian dollars)	2018	2017
Gross borrowing base availability	**1,948**	2,435
Drawings	**(472)**	(375)
Outstanding letters of credit [1]	**(240)**	(332)
Borrowing base availability net of drawings and letters of credit	**1,236**	**1,728**

(1) As at February 2, 2019, outstanding letters of credit included $149 million in letters of credit issued by the Company with respect to the EDS Group.

b) Long-term loans and borrowings

As at February 2, 2019 and February 3, 2018, long-term loans and borrowings are comprised of:

(millions of Canadian dollars)	2018	2017
U.S. Term Loan B	**426**	619
Lord & Taylor Mortgage	**510**	488
Saks Mortgage	**1,638**	1,548
Other loans	**28**	36
	2,602	2,691
Less: unamortized costs	**(67)**	(67)
Less: amounts due within one year	**(8)**	(8)
	2,527	2,616

Maturities of long-term debt are as follows:

(millions of Canadian dollars)	
Fiscal year:	
2019 [1]	8
2020 [1]	9
2021 [1]	521
2022	426
2023	—
Thereafter	1,638
	2,602

(1) Includes contractual maturities related to the Lord & Taylor Mortgage which was repaid subsequent to February 2, 2019 (note 30).

U.S. Term Loan B

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

On November 17, 2015, HBC repaid U.S.$585 million of U.S. Term Loan B using cash on hand and proceeds from the sale of a portion of its equity investment in the HBS Joint Venture and other joint venture.

On November 30, 2018, HBC repaid U.S.$175 million ($233 million) of U.S. Term Loan B using proceeds from the sale to SIGNA of HBC's 12.4% equity interest in the European Real Estate JV. In connection with the repayment,the Company recorded a $6 million loss on debt modification (note 9).

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

U.S. Term Loan B contains representations and warranties, positive and negative covenants, reporting requirements and events of default. As at February 2, 2019 and February 3, 2018, the Company was in compliance with the covenants contained in the U.S. Term Loan B.

Lord & Taylor Mortgage

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

On July 19, 2016, the mortgage loan was refinanced by entering into a U.S.$400 million syndicated floating rate senior mortgage loan with an affiliate of CIBC World Markets Inc., as the administrative agent.

The Lord & Taylor Mortgage is guaranteed by L&T. The Lord & Taylor Mortgage matures August 10, 2021 and carries an interest rate of LIBOR plus 3.25%. The Lord & Taylor Mortgage is subject to mandatory principal repayments over the term of the loan and allows for the ability to prepay the entire amount outstanding after the first 2 years with a fee payable to the lenders at 2% of the outstanding loan principal. This prepayment fee is reduced to 1% after 3 years, and further reduced to nil after August 10, 2020. Any prepayments made are applied to reduce the remaining scheduled installments. As security for the Lord & Taylor Mortgage, the Company granted a first priority mortgage in the Lord & Taylor Fifth Avenue building (note 4).

The Lord & Taylor Mortgage contains customary representations and warranties, positive and negative covenants, reporting requirements and events of default. As at February 2, 2019 and February 3, 2018, the borrower, LT 424, was in compliance with the covenants contained in the Lord & Taylor Mortgage.

The Lord & Taylor Mortgage was repaid subsequent to February 2, 2019 (note 30).

Saks Mortgage

On December 3, 2014, Saks Flagship Real Property LLC ("Saks Flagship"), an indirect subsidiary of Saks, obtained a U.S.$1.25 billion, 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 revenues.

The Saks Mortgage contains representations and warranties, positive and negative covenants, reporting requirements and events of default. As at February 2, 2019 and February 3, 2018, the borrower, Saks Flagship, was in compliance with the covenants contained in the Saks Mortgage.

Other loans

Included in other loans as at February 2, 2019 and February 3, 2018 is a $24 million unsecured promissory note from the Company to RioCan in connection with issuance of a $200 million mortgage by the RioCan-HBC JV (note 10). The promissory note matures on November 1, 2021 and requires interest-only payments at the higher of 4.20% or the bank's prime lending rate plus a margin of 1.00%.

NOTE 18. LEASES

Operating lease arrangements

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

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

Rental expense related to operating leases charged to earnings, net of reclassification of the Company's share of rental income from its share of earnings in the joint ventures of $193 million (2017: $192 million) (note 10), was $404 million in fiscal 2018 (2017: $390 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:	
2018	559
2019	562
2020	554
2021	532
2022	528
Thereafter	6,143
Total minimum lease payments	8,878

Finance leases

The future required minimum gross rental payments under finance leases for property, plant and equipment, and their net present values as at February 2, 2019 are as follows:

(millions of Canadian dollars)	
Less than 1 year	33
Between 1 and 5 years	72
Thereafter	1,251
Total minimum lease payments	1,356
Less: imputed interest	(1,009)
Total finance lease obligations	347

NOTE 19. OTHER LIABILITIES

(millions of Canadian dollars)	**2018**	2017
Deferred landlord incentives	**1,109**	1,113
Straight-line rent liabilities	**293**	393
Deferred gain on sale and leaseback transaction	**202**	212
Deposits for sale of Lord & Taylor Fifth Avenue building (note 4)	**164**	93
Deferred proceeds from lease terminations	**63**	65
Income taxes payable	**34**	60
Financial liabilities	**2**	18
Operating lease intangible liability	**—**	87
Other	**34**	100
	1,901	2,141
Current	**246**	290
Non-current	**1,655**	1,851
	1,901	2,141

NOTE 20. FINANCIAL INSTRUMENTS

The following table provides a comparison of carrying and fair values of certain financial instruments as at February 2, 2019 and February 3, 2018:

	2018		2017	
(millions of Canadian dollars)	Carrying Value	Fair Value	Carrying Value	Fair Value
Classified as fair value through profit or loss				
Warrants[1]	—	—	(1)	(1)
Financial derivatives designated as cash flow hedges				
Forward foreign currency contracts[2]	**1**	**1**	(15)	(15)
Interest rate swaps[3]	**17**	**17**	21	21
Classified as amortized cost				
Global ABL	**(472)**	**(472)**	(375)	(375)
U.S. Term Loan B	**(426)**	**(418)**	(619)	(600)
Lord & Taylor Mortgage	**(510)**	**(494)**	(488)	(464)
Saks Mortgage	**(1,638)**	**(1,620)**	(1,548)	(1,505)
Other loans	**(28)**	**(28)**	(36)	(36)

(1) Included in current other liabilities in fiscal 2017.
(2) Included in other current assets and other current liabilities.
(3) Included in other current assets.

As at February 2, 2019 and February 3, 2018, the fair value of all other current financial assets and liabilities approximate their carrying value due to their short-term nature.

The fair values of the Global ABL, U.S. Term Loan B, Lord & Taylor Mortgage, Saks Mortgage and other loans are determined using either quoted prices for identical or similar securities or a discounted cash flow model that uses current market interest rates for items of similar risk.

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

The change in fair value of financial instruments designated as fair value through profit or loss that has been recognized in net loss for the year is income of $1 million (2017: $3 million) relating to warrants (note 9).

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)	2018	2017
Loans and borrowings (including current portion)	**2,998**	2,979
Finance leases (including current portion)	**347**	561
Common shares	**1,434**	1,427
Preferred shares	**618**	618
Contributed surplus	**186**	144
Deficit	**(691)**	(120)
	4,892	5,609

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

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

Financial risk management

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

a) Credit risk

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

b) Liquidity risk

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

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

(millions of Canadian dollars)	Trade payables	Derivatives	Loans and borrowings	Total
Fiscal year:				
2019 (1)	988	2	601	1,591
2020 (1)	—	—	130	130
2021 (1)	—	—	632	632
2022	—	—	515	515
2023	—	—	73	73
Thereafter	—	—	2,428	2,428
	988	2	4,379	5,369

(1) Includes contractual maturities related to the Lord & Taylor Mortgage which was repaid subsequent to February 2, 2019 (note 30).

The Global ABL matures February 5, 2021 and has been reflected as due in fiscal 2019 in the table above to be consistent with presentation in the consolidated balance sheets (note 17).

c) Market risk

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

i. Foreign currency risk

HBC purchases a significant amount of inventory for its Canadian and European operations (up until disposal dates, note 5) in U.S. dollars, which exposes the Company to foreign currency risk with respect to movements in the Canadian dollar and Euro against the U.S. dollar. 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 or the Euro (up until disposal dates, note 5) as their functional currency.

HBC's net U.S. dollar exposure as at February 2, 2019 and February 3, 2018, excluding its investments in subsidiaries with a U.S. functional currency is as follows:

U.S. Dollar Exposure (millions of U.S. dollars)	2018	2017
Trade payables	**(42)**	(96)
U.S. Term Loan B	**(325)**	(500)
Outstanding purchase orders	**(19)**	(84)
Forward foreign exchange contracts	**238**	310
U.S. dollar denominated inter-company receivables	**561**	505
U.S. dollar denominated inter-company payables	**—**	(1)
Total exposure	**413**	134

For fiscal 2018, HBC recorded a loss of $19 million (2017: gain of $45 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 $13 million.

The Company's net investment in L&T Acquisition whose functional currency is U.S. dollars presents 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.$245 million of U.S. Term Loan B as a hedge of the first U.S.$245 million of net assets of L&T Acquisition. In fiscal 2018, the hedge was reduced to U.S.$70 million upon repayment of U.S.$175 million to U.S. Term Loan B (note 17). Foreign currency translation of the net earnings (loss) of L&T Acquisition, Gilt and HBC Europe impacts consolidated net (loss) earnings. Foreign currency translation of HBC's investments in L&T Acquisition, Gilt and HBC Europe impacts other comprehensive loss. During fiscal 2018, as a result of the divestiture of Gilt and HBC Europe, $2 million of net cumulative translation gains were reclassified from accumulated other comprehensive loss to consolidated net (loss) earnings.

On an annualized basis, after considering the Company's hedge of exposure to foreign currency risk, a strengthening of the U.S. dollar against the Canadian dollar by 1% at February 2, 2019 would have impacted net loss for fiscal 2018 by $2 million (2017: $3 million).

As at February 2, 2019, due to the divestiture of HBC Europe (note 5), the Company had no exposure to Euro foreign currency risk. As at February 3, 2018, on an annualized basis, a strengthening of Euro against the Canadian dollar by 1% would have impacted net loss for fiscal 2017 by $2 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 2018 and 2017, the Company's variable rate borrowings were denominated in U.S. and Canadian dollars, and Euros.

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

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

On July 19, 2016, the Company entered into 2 interest rate swap arrangements related to the Lord & Taylor Mortgage (note 17) to reduce its future cash flow exposure to floating interest rates. The Company fixed the interest rate at approximately 4.3% over the term of the mortgage. Each interest rate swap is designated as a cash flow hedge and accounted for using hedge accounting. The interest rate swaps are valued based on the difference between the exercise rate and the spot rate, volatility of exchange rates and market interest rates at the period-end date. On February 8, 2019, these interest rate swap arrangements were settled upon repayment of the Lord & Taylor mortgage (note 30)**.**

An increase of 100 basis points in the selected interest rate over the past year would have increased net loss for fiscal 2018 by $12 million (2017: $13 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.

NOTE 21. SHARE BASED COMPENSATION

Option Plan

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

Senior executive options vest over periods ranging from 6 months to 5 years. The options have 7 to 10 year terms and will be forfeited immediately in the event a grantee's employment is terminated for cause, and after forty-five days in the event of a voluntary resignation or termination without cause. Share options are subject to a pro-rata vesting schedule if the grantee's employment is terminated. Of the senior executive options outstanding, 864,538 shares (2017: 3,379,586) 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:

	2018		2017	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	16,303,997	$15.55	16,289,564	$19.03
Granted	450,000	$10.12	6,877,265	$9.78
Exercised	(92,252)	$8.95	(18,436)	$8.95
Forfeited	(2,149,794)	$17.07	(6,844,396)	$18.06
Expired	(504,048)	$17.54	—	—
Outstanding at end of year	14,007,903	$15.11	16,303,997	$15.55
Share options exercisable at end of year	8,182,247	$17.14	4,903,888	$16.84

During fiscal 2018, the grant date fair value of senior executive options granted was $2 million (2017: $23 million). The weighted average share price at the date of exercise for options exercised during the year ended February 2, 2019 was $10.16.

The following table summarizes information about the senior executive share options outstanding and exercisable as at February 2, 2019:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at Feb 2, 2019	Weighted average exercise price
$8.50 to $8.99	1,885,063	5.4	$8.95	942,525	$8.95
$10.00 to $10.49	3,805,704	5.9	$10.39	951,426	$10.39
$11.00 to $11.49	308,641	5.7	$11.45	102,880	$11.45
$15.00 to $15.49	99,126	4.4	$15.01	66,080	$15.01
$16.00 to $16.49	87,096	4.0	$16.28	87,096	$16.28
$16.50 to $16.99	105,709	4.7	$16.96	70,470	$16.96
$17.00 to $17.49	5,496,563	4.0	$17.01	3,741,769	$17.01
$17.50 to $17.99	385,311	2.3	$17.61	385,311	$17.61
$23.50 to $23.99	1,074,780	3.5	$23.82	1,074,780	$23.82
$24.00 to $24.49	100,000	3.7	$24.22	100,000	$24.22
$28.00 to $28.49	659,910	3.4	$28.34	659,910	$28.34
Total	14,007,903	4.6	$15.11	8,182,247	$17.14

Other management options 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:

	2018		2017	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	1,371,466	$19.05	1,861,600	$19.13
Forfeited	(218,668)	$19.32	(490,134)	$19.32
Expired	(13,866)	$18.35	—	—
Outstanding at end of year	1,138,932	$19.01	1,371,466	$19.05
Share options exercisable at end of year	1,094,610	$19.11	979,425	$17.29

During fiscal 2018 and fiscal 2017, no other management options were granted.

The following table summarizes information about the other management share options outstanding and exercisable as at February 2, 2019:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at Feb 2, 2019	Weighted average exercise price
$15.00 to $15.49	28,800	4.4	$15.01	19,188	$15.01
$16.00 to $16.49	11,200	4.0	$16.28	11,200	$16.28
$17.00 to $17.49	590,132	1.7	$17.03	555,422	$17.03
$17.50 to $17.99	302,400	2.3	$17.61	302,400	$17.61
$23.50 to $23.99	41,600	3.6	$23.86	41,600	$23.86
$28.00 to $28.49	164,800	3.4	$28.34	164,800	$28.34
Total	1,138,932	2.2	$19.01	1,094,610	$19.11

The assumptions used to measure the fair value of senior executive options granted during fiscal 2018 and 2017 under the Black-Scholes option pricing model at the grant date were as follows:

	2018	**2017**
Expected dividend yield	0.5%	0.4% to 0.6%
Expected share price volatility	42.6%	38.8% to 42.9%
Risk-free interest rate	1.9%	1.1% to 1.6%
Expected life of options (years)	3.9 to 5.4	3.8 to 5.5

During fiscal 2018 and fiscal 2017, the following share based units were granted:

	2018		2017	
	New grants	**Dividend equivalents**	New grants	Dividend equivalents
Deferred share units ("DSUs")	**189,111**	**3,142**	142,391	3,079
Restricted share units ("RSUs")	**1,612,293**	**31,824**	5,394,804	20,015
Performance share units ("PSUs")	**917,604**	**29,527**	5,720,846	10,345
Performance restricted units ("PRSUs")	**—**	**7,441**	257,802	11,936
Phantom share units	**—**	**—**	506,083	—

Deferred share units

The Company grants DSUs to members of the Board of Directors. The grant date fair value of DSUs granted during fiscal 2018 was $2 million (2017: $1 million). The fair values of the grants were determined based on the Company's share price at the date of the grant. No Director will have the right to receive any benefit under the DSU plan until the participant ceases to be a Director. As at February 2, 2019, 600,263 DSUs (February 3, 2018: 408,010) were outstanding.

Restricted share units

The Company grants RSUs to certain employees. The grant date fair value of RSUs granted during fiscal 2018 was $17 million (2017: $54 million). The fair values of the grants were determined based on the Company's share price at the date of the grant. RSUs granted vest over terms ranging from 6 to 36 months. As at February 2, 2019, 4,668,863 RSUs (February 3, 2018: 5,965,908) were outstanding.

Performance share units

PSUs transactions were as follows:

	2018	**2017**
Outstanding at beginning of year	5,967,522	1,789,497
Granted	917,604	5,720,846
Dividend equivalents	29,527	10,345
Forfeited	(1,475,756)	(1,553,166)
Outstanding at end of year	5,438,897	5,967,522
Weighted average contract life (years) remaining at end of year	2.9	3.4

During fiscal 2018, the grant date fair value of the PSUs granted was $8 million (2017: $51 million), of which $8 million (2017: $46 million) is expected to vest. The fair value was determined based on the Company's share price at the date of the grant and an award life of 4 years. Based on the achievement of specified performance targets, which are linked to the maximum 90-day average share price observed over the vesting period, the number of PSUs that vest will range from 50% and 150% of the number of units awarded. If at the expiry date the performance targets are not met, no PSUs will vest. Unvested and vested-but-unreleased PSUs are forfeited if a senior executive is terminated with cause.

Performance restricted share units

During fiscal 2018, the Company did not issue any new grants of PRSUs. During fiscal 2017, granted PRSUs with a grant date fair value of $2 million to senior executives. The PRSUs have a life of 4 years and have vesting conditions similar to the PSUs issued in fiscal 2017 mentioned above.

Phantom shares

The grant date fair value of phantom shares granted during fiscal 2017 was $5 million. Phantom share units granted in fiscal 2017 vest over terms ranging from 6 to 36 months. Phantom share units granted prior to fiscal 2017 have a vesting period of 3 years. Phantom share units will be settled in common shares of the Company or in cash at the Company's option. As at February 2, 2019, 207,407 phantom share units (February 3, 2018: 696,332) were outstanding.

Share based compensation expense

Total share based compensation expense for fiscal 2018 and 2017 is summarized as follows:

(millions of Canadian dollars)	2018	2017 (restated - note 5)
Share options	**8**	12
PSUs	**11**	—
RSUs	**27**	15
Other share based compensation [1]	**5**	4
	51	31

(1) Includes phantom shares, DSUs and PRSUs.

During fiscal 2018, $12 million (2017: $9 million) of share based compensation was settled. Of the total settlement, $5 million (2017: $4 million) of common shares were purchased on the open market while the Company issued common shares for the remainder.

NOTE 22. SHARE CAPITAL

The Company's share capital consists of common shares and preferred shares as follows:

(millions of Canadian dollars)	2018	2017
Authorized:		
Unlimited number of common shares		
Unlimited number of preferred shares, issued in series		
Issued:		
183,895,329 common shares (February 3, 2018: 182,853,504)	1,434	1,427
50,919,608 preferred shares (February 3, 2018: 50,919,608)	618	618
	2,052	2,045

Common shares

The change in common shares issued and outstanding is as follows:

(millions of Canadian dollars, except shares)	Number of Common Shares	Common Shares ($)
Issued and outstanding as at January 28, 2017	182,251,145	1,422
Common shares issued as settlement of share based awards	602,359	5
Issued and outstanding as at February 3, 2018	182,853,504	1,427
Common shares issued as settlement of share based awards	1,041,825	7
Issued and outstanding as at February 2, 2019	183,895,329	1,434

The holders of common shares are entitled to receive dividends as declared on common shares from time to time and are entitled to one vote per share at meetings of the shareholders except where holders of another class or series are entitled to vote separately as a class or series as provided in the Canada Business Corporations Act. During the year ended February 2, 2019, the Company's Board of Directors declared and the Company paid $9 million (2017: $16 million) dividends to the holders of the common shares.

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, may 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 will be entitled to distribution of any property or assets in the event of the Company's liquidation, dissolution or winding-up, whether voluntary or involuntary.

On December 6, 2017 (the "issuance date"), the Company issued 50,919,608 series "A" 8-year mandatory Convertible Preferred Shares to an affiliate of Rhône Capital LLC for gross proceeds of U.S.$500 million ($638 million) net of costs of $26 million and an income tax benefit of $6 million.

The changes in preferred shares issued and outstanding are as follows:

(millions of Canadian dollars, except shares)	Number of Preferred Shares	Preferred Shares ($)
Issued and outstanding as at January 28, 2017	—	—
Convertible Preferred Shares issued (net of offering costs and income taxes of $20 million)	50,919,608	618
Issued and outstanding as at February 3, 2018 and February 2, 2019	50,919,608	618

The holder of Convertible Preferred Shares is entitled to receive dividends expressly declared on the Convertible Preferred Shares and is entitled to one vote per share at all meetings of the shareholders of the Company, except where holders of another class or series are entitled to vote separately as a class or series as provided in the Canada Business Corporations Act.

The holder of Convertible Preferred Shares has the option to convert any or all outstanding Convertible Preferred Shares into common shares. The conversion amount is equal to U.S.$500 million plus cumulative interest accrued at 5% per annum, divided by conversion price that was set at U.S.$9.82 on the issuance date. The conversion price is subject to adjustment from time to time in accordance with the terms of the Convertible Preferred Shares. As at February 2, 2019, the outstanding Convertible Preferred Shares could have been converted into 54,295,115 (February 3, 2018: 51,398,944) common shares.

Subject to the terms of the Convertible Preferred Shares, on the 3rd and 6th anniversaries of the issuance date, the Company has the option to convert any or all outstanding Convertible Preferred Shares into common shares. On the 8th anniversary of the issuance date, all outstanding Convertible Preferred Shares are automatically converted into common shares.

Warrants

In connection with the acquisition of Saks, the Company issued 6.75 million warrants as consideration for the equity commitments. These warrants were 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 1.5 million warrants issued concurrently with the execution of the merger agreement expired on July 26, 2018 and the 5.25 million warrants issued upon closing of the acquisition of Saks expired on November 4, 2018.

NOTE 23. LOSS PER SHARE

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

(millions of Canadian dollars or shares except per share amounts)	2018	2017 (restated - note 5)
Net loss from continuing operations	**(631)**	(139)
Net income (loss) from discontinued operations	**89**	(442)
Total net loss for basic and diluted earnings per share	**(542)**	(581)
Weighted average common shares outstanding	**183**	183
Weighted average common shares that could be issued upon conversion of Convertible Preferred Shares (note 22)	**53**	8
Basic and diluted weighted average common shares outstanding	**236**	191
(Loss) income per share - basic and diluted		
Continuing operations	**(2.67)**	(0.73)
Discontinued operations	**0.38**	(2.31)
Total operations	**(2.29)**	(3.04)

Excluded from the computation of diluted net loss per share were 19,769,958 (2017: 30,416,854) potentially dilutive instruments, as they were anti-dilutive.

NOTE 24. 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.

The Company has entered into an agreement to sell the Lord & Taylor Fifth Avenue building to a holder of its preferred shares (note 4).

A subsidiary of L&T Acquisition has a lease with SP 35 L.P. (the "Landlord") for approximately 31,000 square feet in Shrewsbury, NJ. Amounts charged to the Company under the rental arrangement for fiscal 2018 were U.S. $440 thousand (2017: 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.

HBC has entered into vendor agreements with 2 related companies in which Earl Rotman, a director of the Company, has a non-controlling ownership interest. The agreements relate to menswear and womenswear sold in Saks Fifth Avenue and the DSG. During fiscal 2018, HBC purchased goods of approximately $1 million (2017: $2 million) from these companies.

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

Excluding returns of capital and distributions received (note 10), transactions with the RioCan-HBC, the HBS Joint Venture and the European Real Estate JV comprised the following:

(millions of Canadian dollars)	2018	2017 (restated - note 5)
Management agreements reimbursement - continuing operations	**1**	1
Rent expense - continuing operations	**267**	267
Rent expense - discontinued operations	**242**	273

Balances due from (to) the real estate joint ventures are comprised of:

(millions of Canadian dollars)	RioCan-HBC JV		HBS Joint Venture		European Real Estate JV
	2018	2017	**2018**	2017	**2018**
Prepaid rents (included in other current assets)	**9**	7	**13**	32	**—**
Receivables (included in trade and other receivables)	**—**	—	**1**	16	**5**
Payables (included in other current liabilities)	**—**	—	**—**	(4)	—
Loans payable (included in other current liabilities)	**—**	—	**—**	(12)	—

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

NOTE 25. COMPENSATION

The remuneration of key management personnel for fiscal 2018 and 2017 is as follows:

(millions of Canadian dollars)	2018	2017
Short-term benefits	**17**	17
Post-employment benefits	**2**	2
Other long-term benefits	**6**	7
Share based compensation	**32**	9
	57	35

The compensation noted in the above table forms part of the total employee benefits expense recorded by the Company, including discontinued operations, of $2.8 billion in fiscal 2018 (2017: $3.2 billion).

NOTE 26. CONTINGENT LIABILITIES

As at February 2, 2019, 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 27. GUARANTEES

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

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

Standby letters of credit

Standby and documentary letters of credit are used in connection with certain obligations. The aggregate gross potential liability related to the Company's letters of credit is approximately $240 million as at February 2, 2019 (February 3, 2018: $332 million) (note 17).

Lease agreements

Based on regular reviews of its real estate portfolio and store locations, the Company has assigned certain leases to third parties. The Company remains contingently liable for these lease obligations in the event any of the assignees are in default on their lease obligations. The minimum rent, excluding rent of the 15 leases discussed below, is approximately $12 million as at February 2, 2019 (February 3, 2018: $17 million). Minimum rent does not include other lease related expenses. In addition, the Company could be required to make payments for percentage rents, realty taxes, and common area costs. No amount has been accrued in the consolidated financial statements with respect to these lease agreements.

As part of the sale of the Northern Department Store Group to The Bon-Ton Stores, Inc. ("Bon-Ton") in 2006, the Company

provided guarantees on 6 leases (the "Bon-Ton Lease Guarantees"). The terms of the Bon-Ton Lease Guarantees extended up to the year 2024. On February 5, 2018, Bon-Ton filed voluntary petitions for a court-supervised financial restructuring under Chapter 11 of the United States Bankruptcy Code. While the ultimate treatment of these underlying leases to which the Bon-Ton Lease Guarantees may apply has not yet been determined, as at February 2, 2019 the Company has recorded an amount of $34 million (February 3, 2018: $32 million) which represents the Company's best estimate of the potential future obligation with respect to the Bon-Ton Lease Guarantees. This amount is included within provisions in the consolidated balance sheet of the Company.

In 2008, the Company assigned 9 leases to Les Ailes de la Mode, Inc. ("Les Ailes") and obtained a full, unconditional and continuing guarantee and indemnity for the obligations thereunder from its related company, International Clothiers Inc. In December 2015, Les Ailes filed a notice of intention to make a proposal under section 50.4 of the Bankruptcy and Insolvency Act. As at February 2, 2019, the Company had a legal provision of $9 million (February 3, 2018: $10 million) recorded in provisions in the consolidated balance sheet.

Other indemnification agreements

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

NOTE 28. SEGMENTED REPORTING

The Company has five operating segments: Hudson's Bay, Lord & Taylor, and Home Outfitters (collectively referred to as DSG); Saks Fifth Avenue; and Saks OFF 5TH, which are aggregated into 1 reportable segment, Department Stores, as they have similar economic characteristics, products and services and customers. The Department Stores segment earns revenue from the sale of fashion apparel, accessories, cosmetics and home products to customers in a similar target market, is managed by the Chief Operating Decision Maker and supported by an integrated shared services function.

HBC Europe ceased being an operating segment of the Company following reclassification into discontinued operations during fiscal 2018 (note 5).

The following summarizes retail sales and non-current assets by country/region of origin:

(millions of Canadian dollars)	**2018**	2017 (restated - note 5)
Retail sales		
Canada	**3,200**	3,278
United States	**6,176**	6,212
	9,376	9,490

(millions of Canadian dollars)	**2018**	2017
Non-current assets[1]		
Canada	**1,019**	1,004
United States	**4,023**	4,006
Europe	**—**	1,810
	5,042	6,820

(1) Excludes deferred tax assets, pensions and employee benefits, investments in real estate joint ventures and investment in the EDS Group.

NOTE 29. SUPPLEMENTARY CASH FLOWS INFORMATION

(millions of Canadian dollars)	**2018**	2017 (restated - note 5)
Decrease in trade and other receivables	**52**	14
Decrease (increase) in inventories	**191**	(6)
Increase in other assets	**(33)**	(20)
Increase in trade and other payables, accrued liabilities and provisions	**9**	120
Decrease in other liabilities	**(84)**	(80)
	135	28

The following table details the changes in the Company's liabilities arising from financing activities, including cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Company's consolidated statements of cash flows as cash flows from financing activities.

(millions of Canadian dollars)	Year ended February 2, 2019			Year ended February 3, 2018 (restated - note 5)		
	Global ABL	Long-term loans and borrowings	Finance leases	Global ABL	Long-term loans and borrowings	Finance leases
Balance at beginning of year	375	2,691	561	434	2,829	523
Net change relating to discontinued operations	—	(7)	(204)	—	7	9
Cash changes from continuing operations:						
Net borrowings from asset-based credit facilities	55	—	—	(39)	—	—
Issuance of long-term loans and borrowings	—	—	—	—	24	—
Repayments of long-term loans and borrowings	—	(240)	—	—	(7)	—
Payments on finance leases	—	—	(35)	—	—	(24)
	55	(240)	(35)	(39)	17	(24)
Non-cash changes from continuing operations:						
Finance lease additions	—	—	5	—	—	56
Net foreign currency exchange	42	158	17	(20)	(162)	(6)
Other	—	—	3	—	—	3
	42	158	25	(20)	(162)	53
Balance at end of year	472	2,602	347	375	2,691	561

NOTE 30. SUBSEQUENT EVENT

On February 8, 2019, the Company received sale proceeds of U.S.$725 million excluding transaction costs, which were used, in part, to retire the Lord & Taylor Mortgage (note 17). The two interest rate swap arrangements related to the Lord & Taylor Mortgage were settled upon repayment of the mortgage.