



HUDSON'S BAY COMPANY

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THIRTEEN AND TWENTY-SIX WEEKS ENDED
JULY 29, 2017**

Dated September 5, 2017

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

The following management's discussion and analysis ("MD&A") is intended to assist readers in understanding the business environment, strategies and performance and risk factors of Hudson's Bay Company and its direct and indirect subsidiaries and predecessors or other entities controlled or jointly controlled by them, referred to herein as "HBC", the "Company", or "our". It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company and notes thereto for the thirteen and twenty-six week periods ended July 29, 2017. Unless otherwise indicated, all amounts are expressed in Canadian dollars.

The Company's audit committee approved the contents of this MD&A. This MD&A reflects information as of September 5, 2017, unless otherwise indicated.

Basis of Presentation

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

General Information

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

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

On July 9, 2015, the Company and RioCan Real Estate Investment Trust ("RioCan") closed the first tranche of their joint venture, RioCan-HBC Limited Partnership (the "RioCan-HBC JV"), which focuses on real estate growth opportunities in Canada. The second tranche of the RioCan-HBC JV closed on November 25, 2015. As of July 29, 2017, HBC had an 88.1% ownership interest in the RioCan-HBC JV. Also see the "Real Estate Joint Ventures" section of this MD&A.

On July 22, 2015, the Company and Simon Property Group Inc. ("Simon") closed their joint venture, Simon HBC Opportunities LLC (the "HBC-Simon JV"). On September 30, 2015, prior to the Kaufhof Acquisition discussed below, the HBC-Simon JV became a wholly-owned subsidiary of HBS Global Properties LLC (the "HBS Joint Venture"), which focuses on credit tenant, net-leased and multi-tenant retail buildings in the United States and internationally. As of July 29, 2017, HBC had a 63.1% ownership interest in the HBS Joint Venture. Also see the "Real Estate Joint Ventures" section of this MD&A.

On September 30, 2015 (the "Kaufhof Acquisition Date"), the Company completed the acquisition of GALERIA Holding ("Kaufhof"), the parent company of Germany's leading department store Galeria Kaufhof and Belgium's only department store Galeria INNO, for a purchase price of €2.3 billion (the "Kaufhof Acquisition"). In conjunction with the Kaufhof Acquisition, the HBS Joint Venture acquired 41 properties from Kaufhof.

On February 1, 2016 (the "Gilt Acquisition Date"), the Company completed the acquisition of Gilt Groupe Holdings, Inc. ("Gilt") for U.S.\$237 million in cash, excluding debt (the "Gilt Acquisition"). Gilt is an e-commerce fashion retailer with a large millennial customer base.

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

References in this MD&A to HBC Europe refer, collectively to, the Galeria Kaufhof, Galeria INNO, Sportarena and, most recently, Saks Fifth Avenue OFF 5TH Europe ("Saks OFF 5TH Europe") banners.

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

Accounting Periods

This MD&A is based on information in the unaudited interim condensed consolidated financial statements and accompanying notes thereto for the thirteen and twenty-six week periods ended July 29, 2017. This MD&A also references the fifty-three week period ended February 3, 2018 (“Fiscal 2017”), the fifty-two week period ended January 28, 2017 (“Fiscal 2016”), the fifty-two week period ended January 30, 2016 (“Fiscal 2015”) and the fifty-two week period ended January 31, 2015 (“Fiscal 2014”).

Forward-Looking Statements

Certain statements made in this MD&A, including, but not limited to, the benefits of the Company’s model of combining world class real estate assets with diverse retail businesses, the anticipated benefits and annualized savings from HBC’s Transformation Plan (as defined herein), including anticipated timing of realizing such savings, one-time charges related to the Transformation Plan, sharpen capabilities that give the Company a competitive edge and re-align its expenses to focus on growing our digital business and ability to execute key components of the Transformation Plan, including creating dedicated leadership teams for each of Hudson’s Bay and Lord & Taylor, integrating digital functions throughout the organization, realigning Company resources to increase efficiencies and leverage scale, optimizing in-store service and enhanced training to store associates, reducing headcount by approximately 2,000 positions, the Company’s strategy with respect to the joint ventures, the Company’s anticipated gross capital investments and capital investments, net of landlord incentives, for Fiscal 2017, and the intended use and benefits of such capital investments, including expansion into the Netherlands, ongoing store renovations and the installation of automated fulfillment technology the Pottsville distribution centre, the benefits that are expected to result from the acquisitions of HBC Europe and Gilt, the benefits of reduced promotional activity at Saks OFF 5TH, an enhanced return policy at Gilt and the integration of inventory at HBC Off Price, the company’s ongoing exploration and evaluation of real estate strategies and its ability to generate value from HBC’s extensive real estate portfolio, the Company’s prospects for future growth opportunities, including targeting acquisitions, ongoing store openings, the Company’s growth strategies of improving retail operations, programs to drive incremental sales, partnerships and exclusive launches and collaborations and actions the Company may take to unlock the value of real estate, and other statements that are not historical facts, are forward-looking. Often but not always, forward-looking statements can be identified by the use of forward-looking terminology such as “may”, “will”, “expect”, “believe”, “estimate”, “plan”, “could”, “should”, “would”, “outlook”, “forecast”, “anticipate”, “foresee”, “continue” or the negative of these terms or variations of them or similar terminology.

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

Implicit in forward-looking statements in respect of capital investments, including, among others, the Company’s anticipated Fiscal 2017 total capital investments, net of landlord incentives, to be approximately \$550 million, are certain assumptions regarding, among others, the overall retail environment and currency exchange rates for Fiscal 2017. Gross capital investment is expected to be \$1.1 billion, of which approximately \$800 million is related to growth initiatives. Specifically, the Company has assumed the following exchange rates for Fiscal 2017: USD:CAD = 1:1.25 and EUR:CAD = 1:1.50. These current assumptions, although considered reasonable by the Company at the time of preparation, may prove to be incorrect. Readers are cautioned that actual capital investments could differ materially from what is currently expected and are subject to a number of risks and uncertainties, including, among others described below, general economic, geo-political, market and business conditions, changes in foreign currency rates from those assumed, the risk of unseasonal weather patterns and the risk that the Company may not achieve overall anticipated financial performance.

Many factors could cause the Company’s actual results, level of activity, performance, achievements, future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in the Company’s annual information form (“AIF”) dated April 28, 2017 and under “Risk Factors” in this MD&A: ability to execute retailing growth strategies, ability to continue comparable sales growth, changing consumer preferences, marketing and advertising program success, damage to brands, dependence on vendors, ability to realize synergies and growth from strategic acquisitions, ability to make successful acquisitions and investments, successful inventory management, loss or disruption in centralized distribution centres, ability to upgrade and maintain the Company’s information systems

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

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

Non-IFRS Measures

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

Following the creation of the real estate joint ventures, management believes that Adjusted EBITDAR best reflects the performance of the retail business. This metric provides the most consistent view of the Company's retail performance as it is not impacted by, among other things, HBC's ownership levels of the joint ventures and resulting

impact on net rents. The Company believes that Adjusted EBITDA is less useful when evaluating the performance of the retail business, but will continue to disclose this metric for reference purposes.

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

Since the fourth quarter of Fiscal 2016, EBITDA as reported in prior quarters, has been redefined to exclude the add back for ‘certain non-cash items’. These add backs are summarized below and in footnote 2 to the reconciliation of net earnings (loss) to EBITDA, Adjusted EBITDA and Adjusted EBITDAR in the “Selected Consolidated Financial Information - Reconciliation Tables” section of this MD&A. As a result of this change, previous references to EBITDA have been updated to conform to this basis.

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

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

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

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

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

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

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

Second Quarter Events

- On May 8, 2017, Standard & Poor's Global Ratings downgraded the Company's credit rating from B+ to B, and on June 14, 2017, Moody's Investors Services downgraded the Company's credit ratings from B1 to B2.
- On June 8, 2017, the Company announced the launch of its transformation plan (the "Transformation Plan") for its North American operations including key leadership changes. For further details, refer to the "Overview - Evolving Business Model" section of this MD&A.
- On June 8, 2017, the Company announced the Board of Directors reset the quarterly dividend to \$0.0125 per share.
- The Company opened two Saks OFF 5TH stores located in Winnipeg, Manitoba in Canada and Honolulu, Hawaii in the U.S. The Company also opened five Saks OFF 5TH Europe stores in Germany located in Düsseldorf, Frankfurt, Wiesbaden, Heidelberg and Stuttgart. The Company closed one Home Outfitters store in Toronto, Ontario and two Galeria Kaufhof stores in the cities of Berlin and Aachen in Germany.

Subsequent Events

- On August 17, 2018, the Company announced the appointment of Edward Record as Chief Financial Officer ("CFO"), effective August 28, 2017. Mr. Record reports to the Company's Chief Executive Officer ("CEO"), Jerry Storch, and serves as a member of the Company's Operating Committee. Mr. Record succeeds Paul Beesley who, as previously announced, has agreed to remain with the Company for a period of time to ensure a smooth transition.
- On August 24, 2017, the Company announced the departure of Don Watros, President, HBC International, effective September 29, 2017.
- On September 5, 2017, the Company announced the opening of its first Hudson's Bay store in Amsterdam, Netherlands.

Overview

Our Business

HBC is a diversified global retailer focused on driving the performance of high quality stores and their all-channel offerings, growing through acquisitions, and unlocking the value of real estate holdings. Founded in 1670, HBC is the oldest company in North America. HBC's portfolio today includes formats ranging from luxury to premium department stores to off price fashion shopping destinations, with more than 480 stores and over 66,000 employees around the world. It is a leader in the all-channel retail experience with a combination of physical store locations and e-commerce capabilities that enable customers to shop whenever, wherever and however they choose. HBC has a top tier management team comprised of seasoned leaders of the retail sector committed to driving growth and long-term profitability across all banners. The Company has a track record of acquisitions and looks for targets that have great brands, undermanaged retail operations, opportunities for synergies and/or own great real estate locations. The Company is supported by a solid foundation of valuable real estate which enhances its financial flexibility.

Evolving Business Model

The Company believes there is an opportunity to realize meaningful operating margin improvements through the following initiatives:

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

Comprehensive operational review. HBC has substantially completed the comprehensive review of its North American business operations started in late 2016. As a result of this review, the Company implemented changes to drive its business forward and improve the Company's all-channel business model. The Transformation Plan, announced on June 8, 2017, is expected to increase operational synergies, sharpen capabilities and reduce expenses. Including the \$75 million in annual savings announced in February, annual savings from the Transformation Plan initiative are currently expected to total more than \$350 million by the

end of Fiscal 2018. The Company anticipates realizing approximately \$170 million in savings during Fiscal 2017, with a large majority of this amount being realized in the second half of the fiscal year. Of this \$170 million, the actions necessary to secure \$140 million are complete as of the second quarter and the Company remains on track to secure the remainder of the savings. These savings are required to help offset revenue, margin and cost pressures the Company is facing in the current retail environment.

As part of this initiative, the Company is in the process of reducing total headcount by approximately 2,000 positions, including those announced in February. Including the severance charges incurred as part of the Company's actions in February, the Company currently expects one-time charges related to this plan of approximately \$115 million. On a year-to-date basis, the Company has incurred one-time charges of approximately \$68 million related to the Transformation Plan.

Key actions undertaken by HBC as part of the Transformation Plan are as follows:

- Within DSG, separate leadership teams have been established to run each banner independently. With a dedicated team in Canada focused on Hudson's Bay and Home Outfitters, and a dedicated team focused on Lord & Taylor in the United States, HBC expects each banner to be better positioned to react faster to their respective market conditions. As part of this change, Alison Coville was named President of Hudson's Bay and has end-to-end responsibility for the Canadian banners. Ms. Coville and the Hudson's Bay focused leadership team will leverage HBC's realigned world class support functions to more quickly execute already established plans to fuel the banner's growth, building on the iconic Canadian retailer's successful transformation. Liz Rodbell, President of Lord & Taylor, is fully focused on leading that U.S. banner, together with a dedicated leadership team. The new streamlined organization, coupled with changes at the store operations level, will allow Lord & Taylor to accelerate all-channel strategies designed to drive the banner's digital opportunities while operating its stores more efficiently.
- HBC's digital group has been fully integrated throughout the business so that strategic decisions are made holistically around a seamless in-store and online shopping experience, further supporting HBC's all-channel retail model of the future. The HBC technology group is focused on integrating store technology with online platforms into one centre of excellence ("COE") to better meet customer needs today and in the future. HBC's digital marketing group is now part of the Company's marketing COE, which will partner with the banners to develop all-channel marketing strategies to support each banner's distinct voice and message and reach consumers across all touchpoints. Finally, HBC's digital operations group is now part of the Company's logistics and supply chain COE, which ensures a streamlined fulfillment process for products ordered online, purchased in store or shipped from a store to a customer. These changes are expected to increase efficiencies and leverage HBC's scale to generate cost savings in addition to improving customer service.
- HBC is currently in the process of re-aligning in-store coverage across its North American banners to better serve its customers while placing further emphasis on the all-channel nature of today's shopping experience. The Company is also implementing additional training for its store based associates in order to enhance customer interactions. In addition, store operations across all of HBC's North American banners have been centralized so that best practices and processes are shared across all stores.
- HBC's buying and planning teams have been restructured; reducing layers, harmonizing roles and expanding responsibilities. This more flexible merchant organization enables agile decision making, clarity of responsibilities, efficient operations, and greater accountability across the organization. As part of this, the Company is developing distinct career paths to foster talent growth and movement throughout the organization.
- Marketing support functions at HBC, including digital marketing, have now been centralized to allow for cohesive all-channel marketing development across all of HBC's banners. This marketing COE, operating like a world-class in-house agency, will support the execution of each banners' distinct marketing strategy with comprehensive media, creative and marketing support, and leverage best practices across the organization. This change enables banners to focus on strategy that will drive business, streamline activities across marketing functions, and leverage the scale of combined resources.
- Over the next several months, the Company expects to identify procurement opportunities to further leverage the size and scale of its business to generate significant savings. This includes aligning purchasing

contracts among banners, decreasing the number of vendors, and consolidating the Company's purchases in areas including media, services and supply chain.

Leveraging technology to reduce fulfillment time and costs for digital sales. The Company is working to drive innovation and expense reductions by implementing state-of-the-art automated fulfillment solutions at the Company's distribution centres. Robotic fulfillment technology at the Scarborough, Ontario was unveiled on November 4, 2016 and is now fully operational. Installation of similar technology at the Company's Pottsville, Pennsylvania distribution centre is currently underway and is scheduled to be operational in the spring of Fiscal 2018. The automation of the Company's distribution centres are expected to result in a reduction in fulfillment costs per unit.

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

Retail Strategy

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

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

- *Driving Sales Across All Channels.* The Company is focused on driving sales in its stores and through digital channels. Management believes that HBC will succeed by offering compelling merchandise in innovative online and in-store shopping environments and, most importantly, by seamlessly combining the two to deliver one enhanced customer experience. This all-channel model, where the consumer is able to shop and receive their purchase whenever, wherever and however they choose, leverages HBC's existing network of stores while fully integrating an online ecosystem of websites, mobile applications and other selling tools. Concurrently, the Company is working to differentiate its store merchandise, increase the number of exclusive offerings and offer engaging store experiences to enhance the attractiveness of its retail destinations, as described in more detail below.
- *Expanding the Company's Off-Price Business.* The Company plans to continue opening new stores across North America while further integrating its Gilt and Saks OFF 5TH banners. The off-price market is growing in North America, and management continues to believe that there is untapped demand in Europe for a similar offering. During the quarter, the Company opened its first five Saks OFF 5TH stores in Germany, and continues to believe that there is an opportunity to open up to 40 stores in this country.
- *Establishing Saks Fifth Avenue and Saks OFF 5TH in Canada.* The Company has leveraged its existing Canadian infrastructure, institutional knowledge and experience to expand Saks Fifth Avenue and Saks OFF 5TH into the Canadian market. As at the end of second quarter of Fiscal 2017, the Company has opened two Saks Fifth Avenue locations and 14 Saks OFF 5TH locations.
- *Emphasizing digital sales by investing further in improving its digital platforms and online capabilities.* The Company is focused on increasing the efficiency of its digital order fulfillment, as well as improving the customer experience at all of its businesses. During the quarter, Lord & Taylor moved onto the same online platform as Saks Fifth Avenue and Saks OFF 5TH, while Hudson's Bay is expected to migrate over in early 2018. Using a combined platform allows HBC to leverage the same infrastructure across all of its banners, including improving the ability to test and implement new features. The Company is also extending Gilt to an intent based offering while leveraging the Saks OFF 5TH banner. Saks OFF 5TH inventory is expected to be offered on Gilt in time for the holiday season, further integrating HBC's luxury off price banners. Additionally, the "New Gilt", including a redesigned website, was launched to better reflect the buying habits of Gilt's member base.
- *Creating exciting in-store experiences and unique offerings.* The Company continues to explore ways to differentiate the in-store experiences at all of its banners by offering events, pop-up shops, food areas and wellness activations. Recent highlights include the launch of the justBobbi Concept Shop at Lord & Taylor

in New York and the opening of Topshop and Sephora store-within-store concepts at multiple Galeria Kaufhof stores in Germany.

- *Growing HBC's presence in the luxury market.* Significant progress has been made on the transformational renovation of the Saks Fifth Avenue New York City flagship, including the opening of its fifth floor, featuring new concepts in women's contemporary and advanced designer ready-to-wear. As a part of the renovation, Saks debuted an innovative wellness-oriented concept called the Saks Wellery and is preparing to officially launch the newly renovated third floor, a one-of-a-kind destination for extraordinary designer fashion from around the world. Finally, Saks Fifth Avenue continued to advance its efforts to integrate the in-store and online experiences with the introduction of first-to-market shareability and styling functionality on its Saks mobile app as well as further development of its capabilities to connect Saks store associates with Saks.com customers.
- *Driving Sales Growth.* As discussed in the first quarter, the Company has specific plans to drive sales growth across all banners including:
 - Ongoing initiatives at Hudson's Bay include an increased focus on key categories such as active, dresses, home and men's, as well as focused digital marketing designed to drive all-channel sales. Additionally, Hudson's Bay is optimizing its home goods business while better utilizing existing space through the addition of new categories such as toys. Lord & Taylor continues to heighten its focus on key categories such as active, dresses, denim and fine jewelry while investing in value-focused messaging and new and existing partnerships. Lord & Taylor is also dedicating additional resources to its digital business in an effort to drive performance of this channel. Both banners will continue to emphasize top-performing brands and products that are "Exclusively Ours" while targeting increased growth on the mobile segment of the digital market.
 - Saks Fifth Avenue is very focused on sourcing exclusive and limited distribution product in order to differentiate its offerings. SaksFirst, the Saks Fifth Avenue customer loyalty program, is dedicating its service towards driving loyalty among emerging customers and creating one-of-a-kind experiences for existing members. Saks Fifth Avenue is also equipping all of its sales associates with tools that allow them to market themselves locally and take greater control over their success.
 - Galeria Kaufhof is continuing to renovate and modernize its selling space while introducing new and exciting brands. Topshop's first Galeria Kaufhof location opened within the Berlin Alexanderplatz store, and a second Topshop was introduced in the Munich store in August. In addition, Sephora store-within-store concepts have been introduced at multiple Galeria Kaufhof locations. While renovations at key stores may impact sales in the near term, these initiatives are expected to drive long-term sales growth and improve the shopping experience across the banner. In addition to the ongoing renovations, Galeria Kaufhof is investing in its digital offerings as it works towards creating a best-in-class all-channel experience. Digital sales are currently a small portion of the banner's overall sales and management believes that there is significant opportunity to grow sales in this channel.
 - HBC's OffPrice banners are refocusing on their core strategy: offering high end brands at everyday value. Saks OFF 5TH is in the process of re-merchandising its product mix to have a higher concentration of products at the top end of Saks OFF 5TH's offering range, which is expected to drive increased traffic and conversion as well as a higher overall basket size. The integration of Gilt and Saks OFF 5TH is ongoing, with the expectation that Saks OFF 5TH assortments will be available on Gilt's website by the holiday season, providing customers with more access to top designer products and categories at attractive values. As part of making Gilt more relevant to its members, a redesigned website was launched earlier today featuring easier navigation and advanced personalization for a tailored customer experience.

Real Estate Strategy

In addition to successfully operating and integrating its retail business and banners, the Company has demonstrated a history of leveraging value from its substantial real estate holdings. The Company's valuable real estate portfolio also serves to strengthen both the Company's balance sheet and operating businesses, in addition to providing the Company with increased financial flexibility. Previous transactions and initiatives include the sale of the Zellers leases for \$1.8 billion in 2011, and in Fiscal 2014, both the sale and leaseback of the Toronto flagship Queen Street

property for \$650 million and the U.S.\$1.25 billion mortgage financing of the ground portion of the Saks Fifth Avenue flagship property in New York City.

While stores are a critical part of HBC's long-term all-channel strategy, management continues to evaluate all opportunities to generate value from HBC's extensive real estate portfolio, including:

- *Increasing the productivity of HBC's real estate.* Management is actively re-purposing existing floor space for use by partners or others who drive additional traffic and key customer segments to HBC's stores. Examples of this include the Pusateri's food hall in the Saks Fifth Avenue Toronto flagship, the recent introductions of Topshop and Sephora in Germany, and the Wellery installation at the Saks Fifth Avenue flagship in New York.
- *Streamlining the store portfolio.* HBC's strategy includes exiting owned and leased stores when the economic incentives are accretive to its shareholders and it makes sense for the business. This could include the sale of existing leases or the sale or leasing of owned real estate. Previous actions include the sale of the Saks lease in the Short Hills Mall in New Jersey, the sale-leaseback of the downtown Toronto flagship building, and the sale of Zellers leases to Target. Total proceeds from these transactions were greater than \$2.5 billion.
- *Diversifying the assets in HBC's Real Estate Joint Ventures.* Management continues to seek accretive real estate acquisition and sublease opportunities for its real estate joint ventures, HBS Joint Venture and the RioCan-HBC JV, to diversify the asset base and overall credit of each joint venture portfolio. HBC has deliberately structured its real estate joint ventures to facilitate the future public listing of these entities, and management believes that further diversification would improve the opportunity to undertake an initial public offering, subject to favourable market conditions.

Mergers, Acquisitions and Strategic Expansions

On September 30, 2015, the Company closed the Kaufhof Acquisition, which added retail locations across two countries in Europe, further strengthening the Company's retail portfolio as well as providing a platform for additional growth throughout Europe. The Kaufhof Acquisition provides the Company with an opportunity to grow internationally both through acquisitions and the introduction of Saks Fifth Avenue and Saks OFF 5TH into the German market. In May 2016, the Company leveraged its existing infrastructure in Europe and announced its intention to expand its European presence with plans to open up to 20 new stores in the Netherlands over the following 24 months.

The first phase of the Netherlands expansion was launched on September 5, 2017 with the opening of the first Hudson's Bay store. Further expansion will continue with the opening of new stores which will operate under the Hudson's Bay and Saks OFF 5TH Europe banners. This expansion will utilize the Company's existing information technology, procurement and digital support platforms. In preparation for this expansion, the Company has signed long-term lease agreements for 16 locations in the Netherlands, representing approximately 2.4 million square feet of gross leasable area. New future store openings announced included Hudson's Bay stores in Amsterdam, Den Bosch, The Hague, Enschede, Zwolle, Amstelveen, Almere and Utrecht.

On June 22, 2017, the Company opened its first Saks OFF 5TH Europe store in Germany in the city of Frankfurt followed by the opening of four more stores located in the cities of Düsseldorf, Wiesbaden, Heidelberg and Stuttgart.

On February 1, 2016, the Company closed the Gilt Acquisition. The Company is continuing to integrate Gilt within HBC Off Price. The Gilt Acquisition brought HBC improved digital capabilities, particularly in the increasingly important mobile and personalization technologies. HBC provides Gilt with an outlet to manage inventory more efficiently through the use of Saks OFF 5TH stores. With the Gilt Acquisition, the Company has added a leading and innovative online shopping destination, which offers its customers special access to inspiring fashion merchandise and experiences. The Gilt Acquisition reflects the Company's ongoing focus on advancing its all-channel model, while continuing to grow its off-price business through the integration of Gilt with Saks OFF 5TH locations.

Highlights of the thirteen week period ended July 29, 2017 compared to the thirteen week period ended July 30, 2016

- Retail sales, which include digital sales from all banners, were \$3,291 million, an increase of \$39 million or 1.2% from \$3,252 million.
- Consolidated comparable sales increased by 0.4% and decreased on a constant currency basis by 1.3%. On a constant currency basis, comparable sales increased by 1.7% at Saks Fifth Avenue and decreased by 1.6% at DSG, 2.3% at HBC Off Price and 2.8% at HBC Europe. See “Factors Affecting Our Performance - Comparable Sales”.
- Digital sales increased by 12.7% while comparable digital sales increased by 11.0% on a constant currency basis, reflecting the Company’s continued strategic focus on growing this channel. Excluding Gilt, comparable digital sales increased by 19.8% on a constant currency basis.
- Gross profit¹, as a percentage of retail sales, was 40.2%, a 130 basis point decline.
- Adjusted EBITDAR¹ was \$207 million compared to \$263 million, a decrease of \$56 million. As a percentage of retail sales, Adjusted EBITDAR¹ was 6.3% compared to 8.1%.
- Adjusted EBITDA¹ was \$16 million compared to \$81 million, a decrease of \$65 million. As a percentage of retail sales, Adjusted EBITDA¹ was 0.5% compared to 2.5%.
- Net loss was \$201 million compared to \$142 million, an increase in loss of \$59 million.
- Normalized net loss¹ was \$164 million compared to \$122 million, an increase in loss of \$42 million.

Highlights of the twenty-six week period ended July 29, 2017 compared to the twenty-six week period ended July 30, 2016

- Retail sales, which include digital sales from all banners, were \$6,494 million, a decrease of \$61 million or 0.9% from \$6,555 million.
- Consolidated comparable sales decreased by 1.7% and on a constant currency basis, by 2.1%. On a constant currency basis, comparable sales decreased by 2.0% at DSG, 1.8% at Saks Fifth Avenue, 4.6% at HBC Off Price and 1.4% at HBC Europe. See “Factors Affecting Our Performance - Comparable Sales”.
- Digital sales increased by 8.7% while comparable digital sales increased by 7.9% on a constant currency basis, reflecting the Company’s continued strategic focus on growing this channel. Excluding Gilt, comparable digital sales increased by 16.2% on a constant currency basis.
- Gross profit¹, as a percentage of retail sales, was 40.9%, an 80 basis point decline.
- Adjusted EBITDAR¹ was \$375 million compared to \$513 million, a decrease of \$138 million. As a percentage of retail sales, Adjusted EBITDAR¹ was 5.8% compared to 7.8%.
- Adjusted EBITDA¹ was a loss of \$5 million compared to income of \$143 million, or a decrease of \$148 million. As a percentage of retail sales, Adjusted EBITDA¹ was negative 0.1% compared to 2.2%.
- Net loss was \$422 million compared to \$239 million, an increase in loss of \$183 million.
- Normalized net loss¹ was \$381 million compared to \$213 million, an increase in loss of \$168 million.

Note:

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

Factors Affecting Our Performance

Retail Sales

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

Comparable Sales

The Company calculates comparable sales on a year-over-year basis from stores operating for at least thirteen months and includes digital sales and clearance store sales. Stores undergoing remodeling remain in the comparable sales calculation base unless the store is closed for a significant period of time. Effective Fiscal 2015, the calculation of comparable sales for the Company's operating segments DSG, Saks Fifth Avenue, HBC Off Price and HBC Europe excludes sales related accounting adjustments. In calculating the comparable sales change including digital sales on a constant currency basis, where applicable, prior year foreign exchange rates are applied to both current year and prior year comparable sales. This enhances the ability to compare underlying sales trends by excluding the impact of foreign currency exchange rate fluctuations. Digital sales include sales and returns based on where the sale was originated. Definitions and calculations of comparable sales differ among companies in the retail industry.

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

Gross Profit

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

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

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

Foreign Exchange

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

Europe impacts consolidated net earnings (loss). Foreign currency translation of the net assets of L&T Acquisition, Gilt and HBC Europe impacts other comprehensive income (loss).

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

Selling, General & Administrative Expenses

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

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

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

See also "Overview - Evolving Business Model" section of this MD&A.

Finance Costs

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

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

Weather

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

Competition

The Company conducts its retail merchandising business under highly competitive conditions. Although the Company is one of the largest retailers in North America, Germany and Belgium, it has numerous and varied competitors at the international, national and local levels, including conventional and specialty department stores, other specialty stores, mass merchants, value retailers, discounters, digital and mail-order retailers. Competition may intensify as new competitors enter into the markets in which the Company's banners operate including U.S. competitors entering into the Canadian market, competitors to HBC Europe entering the German, Belgian and the Netherlands markets and/or

if the Company's competitors enter into business combinations or alliances. Competition is characterized by many factors, including assortment, advertising, price, quality, service, location, digital applications, reputation and credit availability. If the Company does not compete effectively with regard to these factors, its business and results of operations could be materially and adversely affected.

Consumer Trends

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

Seasonality

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

Selected Consolidated Financial Information

The following tables set out summary consolidated financial information and supplemental information for the periods indicated. The summary financial information set out below has been derived from unaudited interim condensed consolidated financial statements, prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, for the thirteen and twenty-six week periods ended July 29, 2017. The unaudited financial information presented has been prepared on a basis consistent with our audited consolidated financial statements for Fiscal 2016. In the opinion of the Company's management, such unaudited financial data reflects all adjustments, consisting of normal and recurring adjustments, necessary for a fair presentation of the results for those periods. The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year or any future period.

(millions of Canadian dollars except per share amounts)	Thirteen week period ended				Twenty-six week period ended			
	July 29, 2017		July 30, 2016		July 29, 2017		July 30, 2016	
	\$	% ⁽¹⁾	\$	% ⁽¹⁾	\$	% ⁽¹⁾	\$	% ⁽¹⁾
Earnings results								
Retail sales	3,291	100.0%	3,252	100.0%	6,494	100.0%	6,555	100.0%
Cost of sales	(1,967)	(59.8%)	(1,901)	(58.5%)	(3,835)	(59.1%)	(3,821)	(58.3%)
Gross profit	1,324	40.2%	1,351	41.5%	2,659	40.9%	2,734	41.7%
Selling, general and administrative expenses	(1,392)	(42.2%)	(1,286)	(39.5%)	(2,765)	(42.6%)	(2,681)	(40.9%)
Depreciation and amortization	(173)	(5.3%)	(154)	(4.7%)	(346)	(5.3%)	(312)	(4.8%)
Gain on sale of investments in joint ventures	—	—	—	—	—	—	45	0.7%
Operating loss	(241)	(7.3%)	(89)	(2.7%)	(452)	(7.0%)	(214)	(3.3%)
Finance costs, net	(53)	(1.6%)	(56)	(1.7%)	(110)	(1.7%)	(101)	(1.5%)
Share of net earnings (loss) in joint ventures	4	0.1%	(51)	(1.6%)	(23)	(0.3%)	(53)	(0.8%)
Dilution gains from investments in joint ventures	—	—	8	0.2%	3	0.0%	12	0.2%
Loss before income tax	(290)	(8.8%)	(188)	(5.8%)	(582)	(9.0%)	(356)	(5.4%)
Income tax benefit	89	2.7%	46	1.4%	160	2.5%	117	1.8%
Net loss for the period	(201)	(6.1%)	(142)	(4.4%)	(422)	(6.5%)	(239)	(3.6%)
Net loss per Common Share — basic and diluted	(1.10)		(0.78)		(2.32)		(1.31)	
Weighted average Common Shares outstanding — basic and diluted (millions)	182		182		182		182	
Supplemental information								
Adjusted SG&A ⁽²⁾	1,287	39.1%	1,249	38.4%	2,628	40.5%	2,549	38.9%
EBITDA ⁽²⁾	(64)	(1.9%)	22	0.7%	(126)	(1.9%)	57	0.9%
Adjusted EBITDAR ⁽²⁾	207	6.3%	263	8.1%	375	5.8%	513	7.8%
Adjusted EBITDA ⁽²⁾	16	0.5%	81	2.5%	(5)	(0.1%)	143	2.2%
Normalized net loss for the period ⁽²⁾	(164)	(5.0%)	(122)	(3.8%)	(381)	(5.9%)	(213)	(3.2%)
Normalized net loss per Common Share — basic and diluted ⁽²⁾	(0.90)		(0.67)		(2.09)		(1.17)	
Declared dividend per Common Share	0.01		0.05		0.03		0.10	

	Thirteen week period ended		Twenty-six week period ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Reported consolidated retail sales percentage change	1.2%	59.6%	(0.9%)	59.5%
Comparable sales percentage change ⁽³⁾				
Consolidated.....	0.4%	2.0%	(1.7%)	3.2%
Consolidated (constant currency basis).....	(1.3%)	(1.2%)	(2.1%)	(1.1%)
DSG ⁽⁴⁾	(1.6%)	1.1%	(2.0%)	1.7%
Saks Fifth Avenue ⁽⁴⁾	1.7%	(1.3%)	(1.8%)	(3.7%)
HBC Off Price ⁽⁴⁾	(2.3%)	(11.4%)	(4.6%)	(7.8%)
HBC Europe ⁽⁵⁾	(2.8%)	(0.7%)	(1.4%)	(0.1%)
Store information				
Store count ⁽⁶⁾				
Hudson's Bay.....	90	90		
Lord & Taylor.....	50	50		
Saks Fifth Avenue.....	41	41		
Saks OFF 5TH.....	124	102		
Home Outfitters.....	51	59		
HBC Europe ⁽⁷⁾	127	130		
Total.....	483	472		
Gross leasable area/Square footage (thousands) ⁽⁶⁾				
Hudson's Bay.....	15,837	15,864		
Lord & Taylor.....	6,895	6,898		
Saks Fifth Avenue.....	5,188	5,051		
Saks OFF 5TH.....	3,727	3,028		
Home Outfitters.....	1,793	2,102		
HBC Europe ⁽⁷⁾	27,854	28,609		
Total.....	61,294	61,552		

Balance Sheet Data (millions of Canadian dollars)	<i>(restated⁽¹²⁾)</i>		
	July 29, 2017	July 30, 2016	January 28, 2017
	\$	\$	\$
Cash.....	112	114	122
Trade and other receivables.....	343	505	391
Inventories ⁽⁸⁾	3,324	3,322	3,376
Current assets.....	3,978	4,140	4,065
Property, plant and equipment.....	5,273	5,204	5,284
Intangible assets and goodwill.....	1,705	1,984	1,786
Investment in joint ventures ⁽⁹⁾	588	610	581
Total assets.....	12,094	12,416	12,211
Current liabilities ⁽¹⁰⁾	2,706	2,589	2,947
Loans and borrowings (including current portion).....	3,810	3,559	3,162
Finance leases (including current portion).....	528	517	523
Investment in the RioCan-HBC JV ⁽⁹⁾	4	14	9
Other liabilities (including current portion) ⁽¹¹⁾	1,840	1,577	1,726
Shareholders' equity.....	1,890	2,665	2,410

Notes:

- (1) As a percentage of retail sales.
- (2) See below for relevant definitions and tables for reconciliations of net loss to EBITDA, Adjusted EBITDA and Adjusted EBITDAR, SG&A to Adjusted SG&A and net loss to Normalized net loss. These performance metrics have been identified by the Company as Non-IFRS measures. For the relevant definitions, please refer to the "Non-IFRS Measures" section of this MD&A and for the relevant reconciliations of the nearest IFRS measures, please refer to the "Selected Consolidated Financial Information - Reconciliation Tables" section of this MD&A.
- (3) The Company calculates comparable sales on a year-over-year basis from stores operating for at least 13 months and includes digital sales and clearance store sales. The calculation for comparable sales excludes sales related accounting adjustments for DSG, Saks Fifth Avenue, HBC Off Price and HBC Europe. Consolidated comparable sales include results for all banners. See "Factors Affecting Our Performance - Comparable Sales".
- (4) Comparable sales at DSG, Saks Fifth Avenue and HBC Off Price are calculated on a constant currency basis.
- (5) Comparable sales at HBC Europe are calculated in Euros.
- (6) Hudson's Bay Company operates one Find @ Lord & Taylor store, one Hudson's Bay outlet, two Zellers clearance centres and two Lord & Taylor outlets that are excluded from the store count and gross leasable area.
- (7) Includes five Saks OFF 5TH Europe stores opened in Germany during the quarter. See "Second Quarter Events" section of this MD&A.
- (8) Inventories increased by \$2 million compared to the prior year and, on a comparable basis, increased by approximately 1.8%. This increase was driven primarily by higher inventory at HBC Europe, largely as a result of the introduction of new brands and upgraded concepts at Galeria Kaufhof, as well as the roll out of Saks OFF 5TH in Germany and Hudson's Bay in the Netherlands. Saks Fifth Avenue and Saks OFF 5TH also experienced a moderate increase in inventory levels due to the addition of new stores. These increases were almost entirely offset by foreign exchange rate movements and lower inventory at DSG.
- (9) See "Real Estate Joint Ventures" section. See also note 10 of the Company's unaudited interim condensed consolidated financial statements for the thirteen and twenty-six week periods ended July 29, 2017.
- (10) Excludes current loans and borrowings of \$1,206 million as at July 29, 2017, \$830 million as at July 30, 2016 and \$418 million as at January 28, 2017; current other liabilities of \$157 million as at July 29, 2017, \$140 million as at July 30, 2016 and \$137 million as at January 28, 2017; and current finance leases of \$28 million as at July 29, 2017, \$24 million as at July 30, 2016 and \$24 million as at January 28, 2017.
- (11) Includes deferred landlord incentives of \$979 million as at July 29, 2017, \$823 million as at July 30, 2016 and \$909 million as at January 28, 2017 and straight-line rent liabilities of \$334 million as at July 29, 2017, \$186 million as at July 30, 2016 and \$267 million as at January 28, 2017.
- (12) Restated for measurement period adjustments related to the Gilt Acquisition and Kaufhof Acquisition based on new information. Please see note 4 and note 5, respectively, of the Company's unaudited interim condensed consolidated financial statements for the thirteen and twenty-six week periods ended July 29, 2017.

Reconciliation tables

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

(millions of Canadian dollars)	Thirteen week period ended		Twenty-six week period ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
	\$	\$	\$	\$
Net loss for the period	(201)	(142)	(422)	(239)
Finance costs, net	53	56	110	101
Income tax benefit.....	(89)	(46)	(160)	(117)
Depreciation and amortization	173	154	346	312
EBITDA ^{(1) (5)}	(64)	22	(126)	57
Certain non-cash items ⁽²⁾	16	53	59	19
Normalization adjustments ⁽³⁾	85	27	98	109
Net rent expense to joint ventures ⁽⁴⁾	43	40	86	80
Cash rent to joint ventures	(115)	(110)	(227)	(222)
Cash distributions from joint ventures	51	49	105	100
Total adjustments.....	80	59	121	86
Adjusted EBITDA ⁽⁵⁾	16	81	(5)	143
Rent adjustments				
Third party rent expense	127	121	258	248
Cash rent to joint ventures	115	110	227	222
Cash distributions from joint ventures	(51)	(49)	(105)	(100)
Adjusted EBITDAR ⁽⁵⁾	207	263	375	513
Adjusted EBITDAR as a percentage of retail sales	6.3%	8.1%	5.8%	7.8%

Notes:

(1) Since the fourth quarter of Fiscal 2016, EBITDA as previously reported has been redefined to exclude the add back for 'Certain non-cash items'. These add backs are summarized in footnote 2 and are now included as part of the adjustments to calculate Adjusted EBITDA. See the definition of EBITDA in the "Non-IFRS measures" section of this MD&A.

(2) Certain non-cash items consist of:

Share of net (earnings) loss in joint ventures	(4)	51	23	53
Dilution gains from investments in joint ventures ⁽ⁱ⁾	—	(8)	(3)	(12)
Non-cash pension expense	8	7	15	14
Impairment and other non-cash items	6	(6)	5	(8)
Share based compensation.....	6	9	19	17
Gain on sale of investments in joint ventures.....	—	—	—	(45)
	16	53	59	19

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

(3) Normalization adjustments consist of:

Acquisition and integration related expenses ⁽ⁱ⁾	3	12	8	32
Lease guarantee provision ⁽ⁱⁱ⁾	—	—	—	16
Foreign exchange adjustment ⁽ⁱⁱⁱ⁾	(18)	1	(29)	3
Restructuring ^(iv)	51	7	88	34
Credit card chargeback expense ^(v)	—	2	1	10
European expansion ^(vi)	29	4	50	4
Onerous lease provisions ^(vii)	10	—	9	—
Other ^(viii)	10	1	(29)	10
	85	27	98	109

(i) Includes acquisition and integration expenses related to the acquisitions of Kaufhof and Gilt.

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

- (iii) Represents the impact of unrealized (gains) losses resulting from the translation of certain intra-group monetary asset and liabilities related to the overall tax and legal structure of the Company.
 - (iv) Restructuring includes expected costs associated with the Transformation Plan, the \$75 million initiative announced in February and programs initiated by HBC Europe to optimize operating efficiencies
 - (v) Represents additional non-recurring credit card chargeback expenses attributed to industry legal liability changes effective October 2015.
 - (vi) Includes one-time start-up and expansion costs related to HBC Europe's opening of Hudson's Bay and Saks OFF 5TH stores in the Netherlands and Germany.
 - (vii) Represents provisions for the estimated costs associated with certain leased locations in excess of anticipated recoveries.
 - (viii) Other normalized expenses for the thirteen week period ended July 29, 2017, includes duplicative costs associated with the U.S. office consolidation of \$6 million and other smaller items totaling a net of \$4 million. Other normalized income for the twenty-six week period ended July 29, 2017 includes \$42 million received in the first quarter of Fiscal 2017 for a favourable verdict with respect to a 2013 lawsuit brought forth by the Company relating to White Flint mall, which was partly offset by duplicative costs associated with the U.S. office consolidation of \$8 million and other smaller items totaling a net of \$5 million. Prior year balances primarily represent duplicative costs associated with the U.S. office consolidation of \$9 million and \$14 million for the thirteen and twenty-six week periods ended July 30, 2016, respectively and other smaller items totaling nil and \$4 million for the thirteen and twenty-six week periods ended July 30, 2016, offset by the share based compensation expense adjustment of \$8 million for the thirteen and twenty-six week periods ended July 30, 2016.
- (4) Rent expense to the joint ventures net of reclassification of rental income related to the Company's ownership interest in the joint ventures (see note 10 to the Company's unaudited interim condensed consolidated financial statements for the thirteen and twenty-six week periods ended July 29, 2017).
- (5) These performance metrics have been identified by the Company as Non-IFRS measures. For the relevant definitions, please refer to the "Non-IFRS Measures" section of this MD&A.

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

(millions of Canadian dollars)	Thirteen week period ended		Twenty-six week period ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
	\$	\$	\$	\$
SG&A	1,392	1,286	2,765	2,681
Certain non-cash items ⁽¹⁾	(20)	(10)	(39)	(23)
Normalization adjustments ⁽²⁾	(85)	(27)	(98)	(109)
Total adjustments.....	(105)	(37)	(137)	(132)
Adjusted SG&A ⁽³⁾	1,287	1,249	2,628	2,549
Adjusted SG&A ⁽³⁾ as a percentage of retail sales	39.1%	38.4%	40.5%	38.9%

Notes:

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

Non-cash pension expense.....	(8)	(7)	(15)	(14)
Impairment and other non-cash items.....	(6)	6	(5)	8
Share based compensation	(6)	(9)	(19)	(17)
	(20)	(10)	(39)	(23)

- (2) Normalization adjustments consist of:

Acquisition and integration related expenses ⁽ⁱ⁾	(3)	(12)	(8)	(32)
Lease guarantee provision ⁽ⁱ⁾	—	—	—	(16)
Foreign exchange adjustment ⁽ⁱ⁾	18	(1)	29	(3)
Restructuring ⁽ⁱ⁾	(51)	(7)	(88)	(34)
Credit card chargeback expense ⁽ⁱ⁾	—	(2)	(1)	(10)
European expansion ⁽ⁱ⁾	(29)	(4)	(50)	(4)
Onerous lease provisions ⁽ⁱ⁾	(10)	—	(9)	—
Other ⁽ⁱ⁾	(10)	(1)	29	(10)
	(85)	(27)	(98)	(109)

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

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

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

(millions of Canadian dollars)	Thirteen week period ended		Twenty-six week period ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
	\$	\$	\$	\$
Net loss for the period	(201)	(142)	(422)	(239)
Certain non-cash items ⁽¹⁾	—	(7)	(2)	(38)
Normalization adjustments ⁽²⁾	60	16	72	74
Financing related adjustments	—	2	—	2
Adjustments to share of net earnings (loss) in joint ventures ⁽³⁾	(23)	9	(29)	(12)
Total adjustments ⁽⁴⁾	37	20	41	26
Normalized net loss ⁽⁵⁾	(164)	(122)	(381)	(213)

Notes:

(1) Certain non-cash items consist of:

Gain on sale of investments in joint ventures	—	—	—	(28)
Dilution gains from investments in joint ventures	—	(7)	(2)	(10)
	—	(7)	(2)	(38)

(2) Normalization adjustments consist of:

Acquisition and integration related expenses and finance costs ⁽ⁱ⁾	(1)	9	4	15
Restructuring ⁽ⁱⁱ⁾	33	5	58	23
Foreign exchange adjustment ⁽ⁱⁱⁱ⁾	(7)	(1)	(15)	10
Lease guarantee provision ^(iv)	—	—	—	12
Credit card chargeback expense ^(v)	1	1	1	6
European expansion ^(vi)	21	2	35	2
Onerous lease provisions ^(vii)	7	—	6	—
Other ^(viii)	6	—	(17)	6
	60	16	72	74

(i) Includes acquisition and integration expenses related to the acquisitions of Kaufhof and Gilt. In addition, includes the recognition of non-cash finance (loss) income related to Common Share purchase warrants of \$2 million and \$1 million for the thirteen and twenty-six week periods ended July 29, 2017, respectively (thirteen and twenty-six week periods ended July 30, 2016: nil and \$8 million, respectively).

(ii) Restructuring includes expected costs associated with the Transformation Plan, the \$75 million initiative announced in February and programs initiated by HBC Europe to optimize operating efficiencies.

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

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

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

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

(vii) Represents provisions for the estimated costs associated with certain leased locations in excess of anticipated recoveries.

(viii) Other normalized expenses for the thirteen week period ended July 29, 2017, includes duplicative costs associated with the U.S. office consolidation of \$4 million and other smaller items totaling a net of \$2 million. Other normalized income for the twenty-six week period ended July 29, 2017 includes \$42 million (\$25 million net of tax) received in the first quarter of Fiscal 2017 for a favourable verdict with respect to a 2013 lawsuit brought forth by the Company relating to White Flint mall, which was partly offset by duplicative costs associated with the U.S. office consolidation of \$5 million and other smaller items totaling a net of \$3 million. Prior year balances primarily represent duplicative costs associated with the U.S. office consolidation of \$5 million and \$9 million for the thirteen and twenty-six week periods ended July 30, 2016, respectively, and other smaller items totaling \$1 million and \$3 million for the thirteen and twenty-six week periods ended July 30, 2016, offset by the share based compensation expense adjustment of \$6 million for the thirteen and twenty-six week periods ended July 30, 2016.

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

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

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

Results of Operations

Thirteen week period ended July 29, 2017 compared to the thirteen week period ended July 30, 2016

Retail Sales

Retail sales, which include digital sales from all banners, were \$3,291 million for the thirteen week period ended July 29, 2017, an increase of \$39 million or 1.2% from \$3,252 million for the thirteen week period ended July 30, 2016. The increase was primarily driven by a \$59 million positive net foreign exchange impact on the translation of U.S. dollar and Euro denominated sales. In addition, the opening of three Saks Fifth Avenue stores, 26 Saks OFF 5TH stores and five Saks OFF 5TH Europe stores contributed to approximately \$64 million in increased sales compared to the prior year. These increases were partially offset by lower overall comparable sales of approximately \$43 million and the impact of closed stores of \$41 million.

Consolidated comparable sales increased by 0.4% and, on a constant currency basis, decreased by 1.3% over the comparable thirteen week period in Fiscal 2016. On a constant currency basis, comparable sales increased by 1.7% at Saks Fifth Avenue and decreased by 1.6% at DSG, 2.3% at HBC Off Price and 2.8% at HBC Europe.

Comparable sales during the quarter were generally impacted by lower traffic and a highly promotional environment in many of the markets that we operate in.

Positive comparable sales at Saks Fifth Avenue, the largest quarterly increase in more than two years, reflect the ongoing improvements that are being made to deliver a seamless luxury all-channel offering. Particular areas of strength included handbags and men's, while women's designer apparel saw a notable increase in full price sales. Additionally, there was a small positive impact from the timing shift of a promotional event. Through the remainder of the year, Saks Fifth Avenue will continue its focus on investing in its digital business and creating unique experiences that combine instore and online environments while offering a differentiated and unique assortment of modern fashion.

Although overall comparable sales at DSG declined, constant currency comparable sales increased at Hudson's Bay, driven primarily by strong overall digital sales. Active, kids and dresses performed well while sportswear and accessory sales declined year-over-year. Ongoing initiatives at Hudson's Bay include an increased focus on key categories such as active, dresses, home and men's, as well as focused digital marketing designed to drive all-channel sales. Lower constant currency comparable sales at Lord & Taylor were driven primarily by reduced traffic, partially offset by improved conversion. Stronger categories included active, beauty, denim and modern sportswear, while handbags, watches and classic sportswear were weaker. In addition to increasing the marketing reach of Lord & Taylor's value-focused messaging, Lord & Taylor is rolling out a new GUIDE service model that allows store associates to be more consumer-centric and travel with their clients from the beginning to the end of their visit.

As previously announced, the Company created dedicated leadership teams for each of Hudson's Bay and Lord & Taylor. These teams are driving market-specific strategies that support plans for continued growth at Hudson's Bay in Canada and increase the pace of change at Lord & Taylor, with an emphasis on driving digital opportunities within DSG.

The comparable sales decline at HBC Off Price was largely driven by lower traffic at Saks OFF 5TH and Gilt, partially offset by robust digital sales growth at Saks OFF 5TH. The Company continues to focus on elevating the assortment at Saks OFF 5TH, while growing the amount of unique product both in store and online through exclusive capsules and collections. The integration of Gilt and Saks OFF 5TH is ongoing, with the expectation that Saks OFF 5TH assortments will be available on Gilt's website by the holiday season, providing customers with more access to top designer products and categories at attractive values. As part of making Gilt more relevant to its members, a redesigned website was launched on September 5, 2017, featuring easier navigation and advanced personalization for a tailored customer experience.

While HBC Europe experienced lower overall traffic, this was partially offset by an increase in average basket size as HBC Europe continues to fine tune its marketing activities and introduce new brands both in-store and online. The Company continues to execute on its growth strategy in Germany and achieved significant milestones during the quarter including the opening of the first five Saks OFF 5TH stores, as well as the introduction of Sephora store-within-store concepts at Galeria Kaufhof. All of these new concepts were very well received in Germany, with Saks OFF 5TH attracting more than 1 million visits in the time since its introduction. Looking ahead, creative marketing campaigns combined with the ongoing roll-out of store-within-store concepts and the further introduction of new brands are expected to drive sales in Europe through the back half of the fiscal year. In the Netherlands, HBC Europe opened its first Hudson's Bay store and expects to open a total of ten Hudson's Bay and two Saks Off 5TH stores over the coming weeks.

Digital sales increased by 12.7% while comparable digital sales increased by 11.0% on a constant currency basis over the comparable thirteen week period, reflecting the Company's continued strategic focus on growing this channel. Excluding Gilt, comparable digital sales increased by 22.3% and on a constant currency basis, increased by 19.8%.

Gross Profit¹

Gross profit¹ was \$1,324 million for the thirteen week period ended July 29, 2017, compared to \$1,351 million for the thirteen week period ended July 30, 2016. The decrease was primarily driven by lower comparable sales and reduced gross margins as a result of higher promotional and clearance activity. These negative impacts were offset in part by a \$23 million positive net foreign exchange impact on the translation of U.S. Dollar and Euro denominated sales. For additional discussion see "Factors Affecting Our Performance – Gross Profit".

Gross profit as a percentage of retail sales was 40.2%, which decreased by 130 basis points over the comparable thirteen week period ended July 30, 2016. The decrease in gross profit rate was driven primarily by higher promotional and clearance activity at the majority of the Company's banners. For additional discussion see "Factors Affecting Our Performance – Gross Profit".

Selling, General & Administrative Expenses

SG&A was \$1,392 million for the thirteen week period ended July 29, 2017, compared to \$1,286 million for the thirteen week period ended July 30, 2016. The increase was primarily attributable to higher restructuring costs of approximately \$44 million resulting primarily from the Transformation Plan, the negative impact of foreign exchange of approximately \$25 million, higher one-time costs associated with the expansion into the Netherlands of approximately \$25 million and higher rent expense of \$9 million.

Additionally, both the shift to digital sales from traditional in-store sales as well as overall digital sales growth during the quarter had a negative impact on SG&A expenses as a result of higher fulfillment costs associated with this channel. Profit margins on digital sales are expected to improve over time as the Company continues to invest in its digital supply chain, reduces expenses related to its digital operations and introduces store centric all-channel delivery options.

These increases are being partially offset by initial savings from the Company's Transformation Plan including the initial \$75 million cost reduction initiative announced earlier in the year, an \$18 million net positive foreign exchange impact resulting from the translation of certain intra-group monetary assets and liabilities and various other items.

Adjusted SG&A¹ was \$1,287 million for the thirteen week period ended July 29, 2017, compared to \$1,249 million for the thirteen week period ended July 30, 2016, or an increase of \$38 million. This increase in SG&A dollars was driven by the negative impact of foreign exchange rate movements of approximately \$25 million, additional investment in digital resources combined with an increase in fulfillment expenses related to the sales growth in this channel shift, additional SG&A related to new stores opened during the last 12 months and various other items. These factors, combined with the impacts associated with lower comparable sales, resulted in an increased Adjusted SG&A¹ expense rate.

As a percentage of retail sales, Adjusted SG&A¹ was 39.1% in the second quarter of Fiscal 2017 compared to 38.4% in the second quarter of the prior year. The factors described above, combined with the impacts associated with lower comparable sales, resulted in an increase to Adjusted SG&A¹ as a percentage of sales.

The Company is focused on reducing its overall expense rate, and is progressing as expected on its recently announced Transformation Plan. Management expects that the cost savings from this initiative will have a much larger impact on financial results in the second half of the fiscal year, due both to timing of the initial action and additional progress that has been made over the last several months.

Adjusted EBITDAR¹ and Adjusted EBITDA¹

Adjusted EBITDAR¹ was \$207 million compared to \$263 million for the prior year, a decrease of \$56 million. The decline in Adjusted EBITDAR¹ can be attributed to an increase in Adjusted SG&A¹ (excluding rent) expenses as discussed above, combined with lower gross profit dollars compared to the prior year. As a percentage of retail sales, Adjusted EBITDAR¹ was 6.3% in the second quarter of Fiscal 2017 compared to 8.1% for the second quarter of Fiscal 2016.

Total rent expense during the second quarter, including net cash rent associated with the Company's joint ventures, was slightly higher compared to the prior year. Accordingly, Adjusted EBITDA¹ was \$16 million compared to \$81 million in the prior year, a decrease of \$65 million. While rent expenses are spread evenly over the course of the fiscal year, the Company's pre-rent earnings are typically highly seasonal, with the majority of earnings generated

in the back half of the fiscal year. The formation of the two real estate joint ventures and the establishment of additional rents payable to these entities significantly increased rental expense as a percentage of the seasonally low pre-rent earnings generated during the first half of the fiscal year. As a percentage of retail sales, Adjusted EBITDA¹ was 0.5% in the second quarter of Fiscal 2017 compared to 2.5% in the second quarter of the prior year.

Net Loss

Net loss was \$201 million in the thirteen week period ended July 29, 2017 compared to \$142 million in the thirteen week period ended July 30, 2016, an increase in loss of \$59 million. The increase is primarily due to lower gross profit and higher SG&A as discussed above, as well as higher depreciation and amortization expenses. These negative impacts were offset in part by a higher share of earnings from the joint ventures and increased income tax benefit compared to the prior year. The change in the net earnings from joint ventures was primarily driven by the impact of foreign exchange gains on translation of Euro denominated asset and liability balances related to the overall tax and legal structure of the HBS Joint Venture.

Finance Costs

Finance costs were \$53 million in the thirteen week period ended July 29, 2017, compared to \$56 million for the thirteen week period ended July 30, 2016, a decrease of \$3 million. Prior year finance costs were marginally higher due to a write-off of deferred financing costs of \$3 million. Interest paid in cash was \$49 million compared to \$37 million in the prior year. This increase in cash interest was primarily a result of timing differences on the payment of the Saks Fifth Avenue flagship mortgage, as well as the increased size of the Lord & Taylor flagship mortgage and higher outstanding borrowings on the Global ABL.

Income Tax Benefit

Income tax benefit was \$89 million in the thirteen week period ended July 29, 2017, compared to \$46 million for the thirteen week period ended July 30, 2016. The effective income tax rate increased primarily due to a significant portion of the Company's overall results being incurred in a higher tax rate jurisdiction.

Normalized Net Loss¹

Normalized net loss¹ was \$164 million in the thirteen week period ended July 29, 2017 compared to \$122 million in the thirteen week period ended July 30, 2016, an increase in loss of \$42 million. The increase was primarily driven by the factors outlined above.

Twenty-six week period ended July 29, 2017 compared to the twenty-six week period ended July 30, 2016

Retail Sales

Retail sales were \$6,494 million for the twenty-six week period ended July 29, 2017, a decrease of \$61 million or 0.9% from \$6,555 million for the twenty-six week period ended July 30, 2016. The decrease was primarily related to lower overall comparable sales of approximately \$137 million and the impact of closed stores of \$66 million. The decrease was partially offset by a \$28 million positive net foreign exchange impact on the translation of U.S. dollar and Euro denominated sales and by the opening of three Saks Fifth Avenue stores, 26 Saks OFF 5TH stores and five Saks OFF 5TH Europe stores which contributed approximately \$114 million in sales.

Consolidated comparable sales decreased by 1.7% and, on a constant currency basis, by 2.1% over the comparable twenty-six week period ended July 30, 2016. On a constant currency basis, comparable sales decreased by 2.0% at DSG, 1.8% at Saks Fifth Avenue, 4.6% at HBC Off Price and 1.4% at HBC Europe.

Comparable sales were generally impacted by lower traffic and a highly promotional environment in many of the markets that we operate in.

Digital sales increased by 8.7% for the twenty-six week period ended July 29, 2017 while comparable digital sales increased by 7.9% on a constant currency basis over the comparable twenty-six week period ended July 30, 2016. Excluding Gilt, comparable digital sales increased by 16.2%, on a constant currency basis reflecting the Company's continued strategic focus on growing this channel.

Gross Profit¹

Gross profit¹ as reported was \$2,659 million for the twenty-six week period ended July 29, 2017, compared to \$2,734 million for the twenty-six week period ended July 30, 2016. The decrease was primarily driven by lower comparable sales and reduced gross margins at the majority of the Company's banners as a result of higher promotional and clearance activity. These negative impacts were offset in part by a \$13 million positive net foreign exchange impact

on the translation of U.S. Dollar and Euro denominated sales and higher margins at Saks Fifth Avenue. For additional discussion see “Factors Affecting Our Performance – Gross Profit”.

Gross profit¹ as a percentage of retail sales, was 40.9% for the twenty-six week period ended July 29, 2017, which decreased by 80 basis points over the comparable twenty-six week period ended July 30, 2016. The majority of the decrease was the result of lower margins realized at all banners due to increased promotional and clearance activity.

Selling, General & Administrative Expenses

SG&A as reported was \$2,765 million for the twenty-six week period ended July 29, 2017 compared to \$2,681 million for the twenty-six week period ended July 30, 2016. The increase is mainly due to a \$54 million increase in restructuring charges primarily due to the Company’s Transformation Plan, \$46 million increase in expenses related to HBC’s expansion into Europe, a \$16 million increase in rent expense, as well as incremental expenses related to new stores and various other items.

Additionally, both the shift to digital sales from traditional in-store sales as well as overall digital sales growth during the year had a negative impact on SG&A expenses as a result of higher fulfillment costs associated with this channel. Profit margins on digital sales are expected to improve over time as the Company continues to invest in its digital supply chain, reduces expenses related to its digital operations and introduces store centric all-channel delivery options.

As reported in the first quarter of Fiscal 2017, the Fourth Circuit Court affirmed a U.S. \$31 million judgment in favour of the Company with respect to its Lord & Taylor store in White Flint, Maryland. This judgment was for damages resulting from changes made to the attached White Flint mall that were undertaken without Lord & Taylor’s consent. Cash proceeds from the judgment were received during the first quarter and the amount has been recorded in SG&A in the Company’s statement of loss.

SG&A expenses year to date also benefited from the absence of lease guarantee provisions of \$16 million in the prior year, a \$24 million reduction in acquisition and integration related expenses, as well as initial savings from the Company’s Transformation Plan and \$75 million cost reduction initiative announced earlier in the year.

Adjusted SG&A¹ was \$2,628 million compared to \$2,549 million for the twenty-six week period ended July 30, 2016, or an increase of \$79 million. This increase in SG&A dollars was driven by additional SG&A related to new stores opened in the last 12 months, additional investment in digital resources combined with an increase in fulfillment expenses related to the sales growth in this channel shift, increase in rent expense and various other items, offset in part by initial savings from the Company’s Transformation Plan and \$75 million cost reduction initiative announced earlier in the year.

As a percentage of retail sales, Adjusted SG&A¹ was 40.5% for the twenty-six week period ended July 29, 2017 compared to 38.9% for the twenty-six week period ended July 30, 2016, an increase of 160 basis points. The factors described above, combined with the impacts associated with lower comparable sales, all resulted in deleveraging of the Company’s Adjusted SG&A¹. Profit margins on digital sales are expected to improve over time, as the Company continues to invest in its digital supply chain, reduces expenses related to its digital operations and introduces store centric all-channel delivery options.

Adjusted EBITDAR¹ and Adjusted EBITDA¹

Adjusted EBITDAR¹ was \$375 million for the twenty-six week period ended July 29, 2017 compared to \$513 million for the twenty-six week period ended July 30, 2016, a decrease of \$138 million. The decrease in Adjusted EBITDAR¹ can be primarily attributed to a decrease in gross profit dollars combined with an increase in Adjusted SG&A¹ expenses (excluding rent) as discussed above. As a percentage of retail sales, Adjusted EBITDAR¹ was 5.8% compared to 7.8% for the twenty-six week period ended July 30, 2016.

Total rent including net cash rent associated with the Company’s joint ventures, was slightly higher compared to the prior year. Accordingly, Adjusted EBITDA¹ was a loss of \$5 million for the twenty-six week period ended July 29, 2017 compared to income of \$143 million in the twenty-six week period ended July 30, 2016, or a decrease of \$148 million. As a percentage of retail sales, Adjusted EBITDA¹ was negative 0.1% compared to 2.2% in the prior year.

Net Loss

Net loss was \$422 million in the twenty-six week period ended July 29, 2017 compared to \$239 million in the twenty-six week period ended July 30, 2016, an increase in loss of \$183 million. The increase in loss was primarily due to lower gross profit and higher SG&A as discussed above, higher depreciation and amortization expenses and finance costs, offset in part by a lower share of net loss from the joint ventures and higher income tax benefit in the current year. In addition, the prior year included a net of tax gain on sale of investments in joint ventures of \$28 million.

Finance Costs

Finance costs were \$110 million in the twenty-six week period ended July 29, 2017 compared to \$101 million for the twenty-six week period ended July 30, 2016, an increase of \$9 million. The increase is primarily related to the change of \$7 million in non-cash finance income/loss generated from mark-to-market adjustments associated with the valuation of Common Share purchase warrants outstanding compared to the prior year and an increase in interest expenses on long-term borrowings. Interest paid in cash was \$94 million compared to \$86 million in the prior year.

Income Tax Benefit

Income tax benefit was \$160 million for the twenty-six week period ended July 29, 2017 compared to \$117 million for the twenty-six week period ended July 30, 2016. The effective income tax rate decreased primarily due to the impact of certain tax losses of the Company not recognized in the current period.

Normalized Net Loss¹

Normalized net loss¹ was \$381 million in the twenty-six week period ended July 29, 2017 compared to \$213 million in the twenty-six week period ended July 30, 2016, an increase in loss of \$168 million. This increase in loss was primarily driven by the factors outlined above.

Note:

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

Real Estate Joint Ventures

The joint ventures have created additional growth platforms for the Company. The mandates of the joint ventures are to acquire additional assets that are expected to diversify the portfolios and tenant base of each joint venture creating additional value for the Company’s shareholders. Management continues to seek accretive real estate acquisition and sublease opportunities for its real estate joint ventures, HBS Joint Venture and the RioCan-HBC JV, to diversify the asset base and overall credit of each joint venture portfolio. HBC has deliberately structured its real estate joint ventures to facilitate the future public listing of these entities, and management believes that further diversification would improve the opportunity to undertake an initial public offering, subject to favorable market conditions. See “Overview - Real Estate Strategy” section of this MD&A.

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

On November 25, 2015, the second tranche of the RioCan-HBC JV closed. On closing of the second tranche of the RioCan-HBC JV, the Company indirectly contributed three additional ground leased properties, being the Yorkdale Shopping Centre, Scarborough Town Centre and Square One (collectively the “YSS Properties”), totaling approximately 736,000 square feet, to the RioCan-HBC JV, with a transaction value of approximately \$379 million based on a capitalization rate of 5.26%. Additionally, as part of the transaction, the Company’s mortgage on the Yorkdale ground lease of approximately \$47 million was assumed by an entity related to the RioCan-HBC JV.

RioCan has committed to contribute a total of \$325 million to the RioCan-HBC JV for an eventual pro-forma equity stake of approximately 20%. The balance of these contributions will consist of \$53 million in tenant inducements (\$26 million of which was provided to date) and \$125 million to be used to fund future property acquisitions to increase

the value and diversify the tenant base of the RioCan-HBC JV. These contributions are expected to be made by the third anniversary of the first tranche closing date.

On closing of the HBC-Simon JV on July 22, 2015, the Company contributed 42 owned or ground leased properties valued at approximately U.S.\$1.7 billion, including the Saks Fifth Avenue Beverly Hills flagship and the Westchester and Manhasset Lord & Taylor stores. The contributed properties total approximately 5.4 million square feet. As part of the transaction, HBC received U.S.\$600 million in cash proceeds from new debt issued at the HBC-Simon JV. Simon contributed an initial amount of U.S.\$1 million upon closing.

On September 30, 2015, prior to the Kaufhof Acquisition, the HBC-Simon JV became a wholly owned subsidiary of HBS Joint Venture. Simon contributed an additional U.S.\$178 million to the HBS Joint Venture as part of the acquisition of 41 Kaufhof properties ("Kaufhof Property Business").

Simon has committed to provide an additional U.S.\$99 million to the HBS Joint Venture (U.S.\$51 million of which was provided to date) for improvements to properties contributed by HBC to the joint venture.

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

On November 17, 2015, the Company sold a portion of its equity in the HBS Joint Venture (including a related entity) to three new third party investors for total proceeds of U.S.\$533 million. Proceeds from the equity sale, together with cash-on-hand, were used to reduce the Company's outstanding U.S. Term Loan B from U.S.\$1,085 million to U.S.\$500 million.

The total third party investment of U.S.\$533 million valued the HBS Joint Venture's portfolio at approximately U.S.\$4.5 billion based on a blended capitalization rate of 5.90%, and comprised of individual investments from the following entities:

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

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

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

RioCan-HBC JV

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

Statements of Earnings

(millions of Canadian dollars)	Thirteen week period ended		Twenty-six week period ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Rental revenue.....	28	28	55	56
Rental revenue - recoveries	2	2	4	4
Property operating costs	(2)	(2)	(5)	(5)
Operating income	28	28	54	55
Depreciation and amortization	(11)	(11)	(20)	(21)
Finance income	2	2	5	5
Finance costs	(4)	(4)	(8)	(8)
Net earnings for the period	15	15	31	31

Balance Sheets

(millions of Canadian dollars)	July 29, 2017	July 30, 2016	January 28, 2017
Assets			
Cash.....	1	1	2
Accounts receivable and other current assets	8	9	10
Total current assets	9	10	12
Investment properties.....	1,718	1,737	1,730
Other non-current assets	145	143	142
Total assets	1,872	1,890	1,884
Liabilities			
Accounts payable and accrued liabilities.....	3	5	4
Loans and borrowings.....	5	5	5
Total current liabilities	8	10	9
Loans and borrowings.....	537	541	539
Other non-current liabilities.....	1	1	1
Total liabilities	546	552	549
Total partners' equity	1,326	1,338	1,335
Total liabilities and partners' equity	1,872	1,890	1,884

Statements of Cash Flows

(millions of Canadian dollars)	Twenty-six week period ended	
	July 29, 2017	July 30, 2016
Operating activities		
Net earnings for the period	31	31
Add: Finance costs	8	8
Less: Finance income	(5)	(5)
Earnings before finance costs	34	34
Less: Cash interest paid	(9)	(11)
Add: Proceeds from finance lease receivables	4	4
Items not affecting cash flows:		
Depreciation and amortization	20	21
Non-cash rental income	(8)	(9)
Change in working capital	(1)	1
Net cash inflow from operating activities	40	40
Investing activities		
Capital investments	—	(1)
Tenant incentives paid	—	(15)
Promissory note to tenant	—	(6)
Net cash outflow for investing activities	—	(22)
Financing activities		
Long-term loans and borrowings:		
Repayments	(1)	(1)
Contributions received	—	21
Distributions paid	(40)	(38)
Net cash outflow for financing activities	(41)	(18)
Decrease in cash	(1)	—
Cash at beginning of period	2	1
Cash at end of period	1	1

HBS Joint Venture

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

Statements of Net Earnings and Comprehensive Income

(millions of U.S. dollars)	Thirteen week period ended		Twenty-six week period ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Rental revenue	82	85	162	167
Rental revenue - recoveries	5	5	9	9
Property operating costs	(1)	(5)	(5)	(6)
Operating income	86	85	166	170
General and administrative expenses	(1)	(3)	(3)	(4)
Foreign exchange gain (loss) ⁽¹⁾	44	(16)	55	22
Depreciation and amortization	(21)	(21)	(42)	(43)
Finance costs	(22)	(22)	(43)	(43)
Earnings before income taxes	86	23	133	102
Income tax expense	(4)	(4)	(7)	(7)
Net earnings	82	19	126	95
Other comprehensive (loss) income				
Currency translation adjustment	(8)	3	(10)	(8)
Total comprehensive income	74	22	116	87

Note:

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

Balance Sheets

(millions of U.S. dollars)	July 29, 2017	July 30, 2016	January 28, 2017
Assets			
Cash.....	16	61	13
Other current assets.....	7	16	13
Total current assets	23	77	26
Investment properties.....	4,034	3,911	3,833
Intangible assets.....	54	55	47
Other non-current assets	17	184	136
Total assets	4,128	4,227	4,042
Liabilities			
Loans and borrowings.....	150	1	150
Deferred revenue.....	—	24	—
Other current liabilities	85	129	84
Total current liabilities	235	154	234
Loans and borrowings.....	2,243	2,313	2,101
Deferred tax liabilities.....	213	202	194
Other non-current liabilities	120	211	210
Total liabilities	2,811	2,880	2,739
Total members' equity	1,317	1,347	1,303
Total liabilities and members' equity	4,128	4,227	4,042

Statements of Cash Flows

(millions of U.S. dollars)	Twenty-six week period ended	
	July 29, 2017	July 30, 2016
Operating activities		
Net earnings for the period	126	95
Add: Income tax expense	7	7
Add: Finance costs	43	43
Earnings before finance costs and income taxes	176	145
Interest paid in cash	(43)	(44)
Items not affecting cash flows:		
Depreciation and amortization	42	43
Unrealized foreign exchange gains	(55)	(22)
Non-cash rental income	(24)	(29)
Changes in operating working capital	(10)	(8)
Net cash inflow from operating activities	86	85
Investing activities		
Tenant inducements	(7)	(14)
Net cash outflow for investing activities	(7)	(14)
Financing activities		
Long-term loans and borrowings:		
Repayments	—	(45)
Contributions received.....	7	13
Return of capital to members	—	(4)
Distributions paid	(84)	(80)
Net cash outflow for financing activities	(77)	(116)
Foreign exchange gain on cash.....	1	3
Increase (decrease) in cash	3	(42)
Cash at beginning of period.....	13	103
Cash at end of period	16	61

Summary of Consolidated Quarterly Results

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

(millions of Canadian dollars except per share amounts)	Fiscal Quarter Ended							
	Jul 29, 2017	Apr 29, 2017	Jan 28, 2017	Oct 29, 2016	Jul 30, 2016	Apr 30, 2016	Jan 30, 2016	Oct 31, 2015
	\$	\$	\$	\$	\$	\$	\$	\$
Retail sales	3,291	3,203	4,600	3,300	3,252	3,303	4,486	2,566
Net (loss) earnings	(201)	(221)	(152)	(125)	(142)	(97)	370	7
Net (loss) earnings per Common Share - basic ⁽¹⁾	(1.10)	(1.21)	(0.83)	(0.69)	(0.78)	(0.53)	2.03	0.04
Net (loss) earnings per Common Share - diluted ⁽⁷⁾	(1.10)	(1.21)	(0.83)	(0.69)	(0.78)	(0.58)	1.88	(0.04)
Reported consolidated retail sales percentage change	1.2%	(3.0%)	2.5%	28.6%	59.6%	59.4%	70.4%	34.1%
Adjusted EBITDAR ⁽²⁾⁽³⁾	207	168	564	276	263	250	626	280
Adjusted EBITDA ⁽³⁾	16	(21)	404	89	81	62	455	170
Normalized net (loss) earnings ⁽³⁾ ..	(164)	(217)	2	(102)	(122)	(91)	145	(1)
Comparable sales percentage change ⁽³⁾⁽⁴⁾								
Consolidated	0.4%	(3.8%)	(3.7%)	(3.9%)	2.0%	4.4%	11.0%	12.9%
Consolidated (constant currency basis)	(1.3%)	(2.9%)	(1.2%)	(3.5%)	(1.2%)	(1.0%)	1.8%	2.0%
DSG ⁽⁵⁾	(1.6%)	(2.4%)	0.6%	(2.4%)	1.1%	2.3%	4.0%	5.1%
Saks Fifth Avenue ⁽⁵⁾	1.7%	(4.8%)	0.1%	(4.6%)	(1.3%)	(5.7%)	(1.2%)	(3.6%)
HBC Off Price ⁽⁵⁾	(2.3%)	(6.8%)	(5.9%)	(8.4%)	(11.4%)	(4.1%)	2.0%	2.8%
HBC Europe ⁽⁶⁾	(2.8%)	0.0%	(2.0%)	(2.0%)	(0.7%)	0.6%	0.4%	6.6%

Notes:

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

Outlook

HBC is dedicated to prudent capital management, and given the current retail environment, is focusing its capital investment program on in-progress and expected high-return projects. Management continues to expect total capital investments in Fiscal 2017, net of landlord incentives, to be approximately \$550 million, compared to \$657 million in Fiscal 2016.

The above capital investment expectations reflect exchange rate assumptions of USD:CAD = 1:1.25 and EUR:CAD = 1:1.50 for the remainder of the year. Any variation in these foreign exchange rate assumptions and/or other material

assumptions and factors described in the “Forward-Looking Statements” section of this MD&A could impact the above outlook.

Liquidity and Capital Resources

Cash Flows

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

(millions of Canadian dollars)	Thirteen week period ended		Twenty-six week period ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
	\$	\$	\$	\$
Operating activities	141	(45)	(458)	(380)
Investing activities	(200)	(174)	(349)	(556)
Financing activities	74	230	796	552
Increase (decrease) in cash	15	11	(11)	(384)
Foreign exchange (loss) gain on cash	(2)	2	1	(9)
Cash at beginning of period	99	101	122	507
Cash at end of period	112	114	112	114

Net Cash Flow - Operating Activities

For the thirteen week period ended July 29, 2017, net cash inflow from operating activities was \$141 million compared to an outflow of \$45 million for the thirteen week period ended July 30, 2016, an increase in net cash inflow of \$186 million. The increase was primarily due to lower investments in working capital and income tax refunds received during the quarter (versus income tax paid in the prior year). These increases were offset in part by lower cash from operations and higher interest paid in cash.

Net cash outflow from operating activities was \$458 million for the twenty-six week period ended July 29, 2017 compared to \$380 million for the twenty-six week period ended July 30, 2016, an increase in outflow of \$78 million. The increase in outflow was primarily due to lower cash from operations offset in part by lower investments in working capital.

Net Cash Flow - Investing Activities

For the thirteen week period ended July 29, 2017, net cash outflow for investing activities was \$200 million compared to \$174 million for the thirteen week period ended July 30, 2016 an increase of \$26 million. The increase was primarily due to lower proceeds from capital landlord incentives received in the current year offset in part by lower capital investments.

Net cash outflow from investing activities was \$349 million for the twenty-six week period ended July 29, 2017 compared to \$556 million for the twenty-six week period ended July 30, 2016, a decrease in outflow of \$207 million. The decrease was primarily driven by net outflow in the prior year consisting of the acquisition of Gilt offset in part by proceeds received from the sale of investments in joint ventures and disposal of assets.

Net Cash Flow - Financing Activities

For the thirteen week period ended July 29, 2017, net cash inflow from financing activities was \$74 million compared to \$230 million for the thirteen week period ended July 30, 2016, a decrease in net cash inflow of \$156 million. The decrease primarily related to a net decrease in long-term borrowings offset in part by an increase in net short-term borrowings.

Net cash inflow for financing activities was \$796 million for the twenty-six week period ended July 29, 2017 compared to \$552 million for the twenty-six week period ended July 30, 2016, an increase of \$244 million. The increase primarily related to a net increase in short-term borrowings offset in part by a net decrease in long-term borrowings.

Cash Balances and Liquidity

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

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

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

Funding Capacity

The Company anticipates that it will be able to satisfy its working capital requirements, planned capital expenditures and debt service requirements with proceeds from cash flows from operations, short-term trade credit, seasonal borrowings under our Global ABL revolving credit facility and other sources of financing. The Company expects to generate adequate cash flow from operating activities to sustain current levels of operations.

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

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

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

On May 8, 2017, Standard & Poor's Global Ratings downgraded the Company's credit rating from B+ to B which is in line with an overall industry downgrade resulting from challenges facing the retail industry.

On June 8, 2017, the Company announced a reduction in its quarterly dividend. As the Company continues to invest in its all-channel business and evaluates other strategic initiatives, the Board of Directors has reset the quarterly dividend to \$0.0125 per share. This change in dividend policy is part of the Company's ongoing initiatives to improve operations and cash flow to capitalize on future opportunities. In the near term, management intends to reallocate the annual cash savings of approximately \$27 million to HBC's business operations and debt reduction on its revolving credit facility, while it remains focused on creating long-term shareholder value by making changes to drive the business forward and improve the Company's profitability.

On June 14, 2017, Moody's Investors Services downgraded the Company's credit ratings from B1 to B2.

At the end of the quarter, the Company had approximately \$1.1 billion in availability under the Global ABL compared to \$1.3 billion in the prior year.

Please refer to the Company's management's discussion and analysis for the thirteen and fifty-two weeks ended January 28, 2017 for details regarding the Company's current and legacy credit facilities and loans.

Contractual Obligations

The Company has a number of obligations related to leases, lease guarantees, loans and borrowings, procurement obligations, pensions and other obligations. As of July 29, 2017, except as disclosed elsewhere in this MD&A, there were no material changes to the Company's contractual obligations compared to those identified at year-end. For a complete description of the contractual obligations of the Company, please refer to the management's discussion and analysis for the thirteen and fifty-two weeks ended January 28, 2017.

In 2008, the Company assigned nine leases to Les Ailes de la Mode, Inc. (“Les Ailes”) and obtained a full, unconditional and continuing guarantee and indemnity for the obligations thereunder from its related company, International Clothiers Inc. (“ICI”). As of January 28, 2017, these leases had future minimum lease payments of \$11 million. In December 2015, Les Ailes filed a notice of intention to make a proposal under section 50.4 of the Bankruptcy and Insolvency Act. The Quebec Superior Court has approved a Debtors Proposal with respect to the Les Ailes bankruptcy proceeding. On March 28, 2016, ICI filed a notice of intention to make a proposal under section 50.4 of the Bankruptcy and Insolvency Act. On June 6, 2016, the proposal trustee for ICI filed a Proposal in the ICI bankruptcy proceeding, which was approved by a majority of its creditors. In August 2016, the Quebec Superior Court approved a Debtors Proposal with respect to the ICI bankruptcy proceedings. HBC has filed a Proof of Claim under the ICI proposal, but anticipates minimal, if any, recovery. The Company currently believes that the maximum claim against it with respect to these leases is approximately \$10 million.

Guarantees and Off-Balance Sheet Arrangements

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

Standby and documentary letters of credit are used in connection with certain obligations mainly related to purchase orders and Workers Compensation Collateral requirements. The aggregate gross potential liability related to the Company’s letters of credit was approximately \$90 million as at July 29, 2017.

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

Financial Instruments

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

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

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

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

The Company determines the fair value of its long-term loans and borrowings using 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 foreign currency options, interest rate swaps and forward foreign currency contracts reflect the estimated amounts that the Company would receive or pay if it were to settle the contracts at the reporting date.

In connection with the Saks Acquisition, the Company issued Common Share purchase warrants which, due to certain features, are being presented as financial liabilities. The warrants are classified as fair value through profit or loss and measured at fair value. Subsequent changes in the fair value are recognized in net earnings or loss in the period in which the change occurs. The fair values of the warrants are determined using the Black-Scholes option

pricing model. For a complete description of the derivative financial instruments of the Company and related risks, please refer to note 18 to the Company's audited consolidated financial statements for Fiscal 2016.

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

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

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

On July 19, 2016, the Company closed the Lord & Taylor Mortgage and entered into two interest rate swap arrangements with a notional amount of U.S.\$400 million to reduce its future cash flow exposure to floating interest rates. In relation to the U.S.\$400 million Lord & Taylor Mortgage, 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.

Tax Matters

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

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

Related Party Transactions

Transactions between HBC and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed herein. Details of certain transactions with other related parties are disclosed below. For further disclosure, see note 16 of the Company's unaudited interim condensed consolidated financial statements for the thirteen and twenty-six week periods ended July 29, 2017.

During the thirteen and twenty-six weeks ended July 29, 2017, the Company incurred rent expense of \$133 million and \$264 million, respectively (2016: \$131 million and \$265 million, respectively) related to both the RioCan-HBC JV and the HBS Joint Venture. As at July 29, 2017, other current assets included prepaid rents to the HBS Joint Venture of nil (July 30, 2016: \$31 million; January 28, 2017: nil) and to the RioCan-HBC JV of \$2 million (July 30, 2016: nil; January 28, 2017: \$2 million). The Company also paid additional rent in the amount of \$4 million and \$8 million, respectively (2016: \$6 million and \$10 million, respectively) during the thirteen and twenty-six weeks ended July 29, 2017 to reimburse the HBS Joint Venture for the Company's share of costs incurred to operate the properties.

The Company has outstanding receivables in the amount of \$14 million as at July 29, 2017 (July 30, 2016: \$49 million; January 28, 2017: \$17 million), due from the HBS Joint Venture with respect to transactions carried out on behalf of the joint venture.

The Company also has an outstanding payable to the HBS Joint Venture in the amount of \$8 million as at July 29, 2017 (July 30, 2016: \$11 million; January 28, 2017: \$8 million), which has been included in other liabilities.

In addition, the Company has an outstanding loan payable to the HBS Joint Venture in the amount of \$4 million

as at July 29, 2017 (July 30, 2016: nil; January 28, 2017: \$4 million). The loan matures on January 31, 2018 and carries an interest rate of 1.9% per annum.

Included in other current liabilities as at July 29, 2017, July 30, 2016 and January 28, 2017 are promissory notes in the aggregate amount of \$12 million to both the RioCan-HBC JV and RioCan (\$6 million each) which pertain to a tenant improvement advance from the joint venture to the Company. The promissory note is interest-free and will be settled over time as HBC satisfies its tenant improvement commitment.

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

Critical Accounting Policies

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

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

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

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

- Inventory valuation;
- Loyalty programs;
- Impairment and reversal of impairment of long-lived assets;
- Impairment of goodwill and indefinite lived intangible assets;
- Income taxes;
- Post-employment benefits;
- Valuation of financial instruments;
- Business combinations and
- Joint ventures

Changes in Accounting Policies Including Initial Adoption

Accounting Standards Implemented in Fiscal 2017

Income Taxes - In January 2016, the IASB amended IAS 12 – Income Taxes ("IAS 12") by issuing Recognition of Deferred Tax Assets for Unrealized Losses. These amendments address the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value and are effective for annual periods beginning on or after January 1, 2017. The Company implemented these amendments to IAS 12 at the beginning of its 2017 fiscal year and the implementation did not have an impact on its results of operations, financial position or disclosure.

Future Expected Changes

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

Classification and measurement

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

Impairment

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

Hedge accounting

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

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

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

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

Management's Report on Internal Controls over Financial Reporting

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

Disclosure Controls and Procedures

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

The Company's management, under the supervision of the CEO and the CFO, has designed and maintained a set of disclosure controls and procedures to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Internal Controls over Financial Reporting

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

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

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during the thirteen week period ended July 29, 2017, that have affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Additional Information

Additional information relating to the Company, including the most recently filed AIF dated April 28, 2017, is available on SEDAR at www.sedar.com.

Dividends

The Company's board of directors approved the payment of a quarterly dividend on September 5, 2017, which will be paid on October 13, 2017, to shareholders of record at the close of business September 29, 2017. The dividend was in the amount of \$0.0125 per Common Share and was designated as an "eligible dividend" for Canadian tax purposes. The declaration of dividends is at the discretion of the Company's Board of Directors.

Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series. As of September 5, 2017, the Company had 182,649,049 Common Shares issued and outstanding and no preferred shares issued and outstanding. As of September 5, 2017, the Company had 19,486,764 share options, 2,524,167 restricted share units and 6,750,000 warrants outstanding, all of which are convertible or exchangeable into Common Shares.

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

Risk Factors

For a detailed description of risk factors associated with the Company, refer to the "Risk Factors" section of the Company's AIF dated April 28, 2017, which is available on SEDAR at www.sedar.com. An additional risk factor related to the Transformation Plan is outlined below. The Company is not otherwise aware of any significant changes to the Company's risk factors from those disclosed at that time.

Risks Associated with our Strategic Initiatives, including the Transformation Plan

Our strategic initiatives, including the recently announced Transformation Plan, are subject to numerous assumptions, risks and factors, many of which are outside our control, and there are no assurances that such initiatives and the intended benefits of such initiatives will be realized or on the anticipated timeline. In order to operate our business, achieve our goals and remain competitive, we continuously seek to identify and devise, invest in, implement and pursue strategic, business, technological and other important initiatives. These initiatives, including activities relating to their development and implementation, may be adversely impacted by a wide range of factors, many of which are beyond our control. Such factors include those relating to foreign exchange rates, labour issues or wage increases, liquidity, competition, cost of raw materials and commodities, unanticipated expenses, economic conditions (including inflationary risk), the performance of third parties (including suppliers), the implementation and integration of such initiatives into the Company's other activities and processes as well as the adoption and acceptance of these initiatives by our customers, suppliers, employees and personnel.

While the retail apparel market remains particularly challenging, we are taking steps to adapt, beginning with our Transformation Plan - which is intended to drive our business forward and improve our all-channel business model. The Transformation Plan is designed to increase synergies across the Company's portfolio of businesses, sharpen capabilities that give the Company a competitive edge and re-align the Company's expenses to focus on growing its digital business. Including the \$75 million in savings announced in February, annual savings from the Transformation Plan initiative are currently expected to total more than \$350 million by the end of Fiscal 2018, with approximately \$170 million anticipated to be realized during this fiscal year. As part of this initiative, we will reduce total headcount by approximately 2,000 positions, including those previously announced in February. These savings are required to help offset revenue, margin and cost pressures the Company is facing in the current retail environment. Including the severance charges incurred as part of the savings initiative announced in February, we currently estimate one-time charges related to this initiative of approximately \$115 million. For further details regarding our Transformation Plan, please refer to the "Overview- Evolving Business Model" section of this MD&A.

Despite our plans and objectives, we may not be able to successfully achieve our anticipated savings from the Transformation Plan or fully realize its underlying objectives, including those which seek to increase operational synergies, sharpen capabilities and reduce expenses. The Transformation Plan is based on current market conditions and reasonable assumptions, estimates, analyses, beliefs and opinions of our management, including, but not limited to certain macro-economic factors, such as currency rates, as well as labour, raw material and other input costs remaining at or near current levels, which our management believes to be relevant as of the date hereof, but are subject to inherent risks and uncertainties, which give rise to the possibility that our assumptions, estimates, analyses, beliefs and opinions may not be correct and that our expectations, goals and initiatives will not be achieved.

Any delay or failure to sufficiently and successfully identify and devise, invest in or implement any of our strategic initiatives, including the Transformation Plan, could adversely affect our ability to operate our business, achieve our goals and remain competitive and could adversely affect our business and financial condition.