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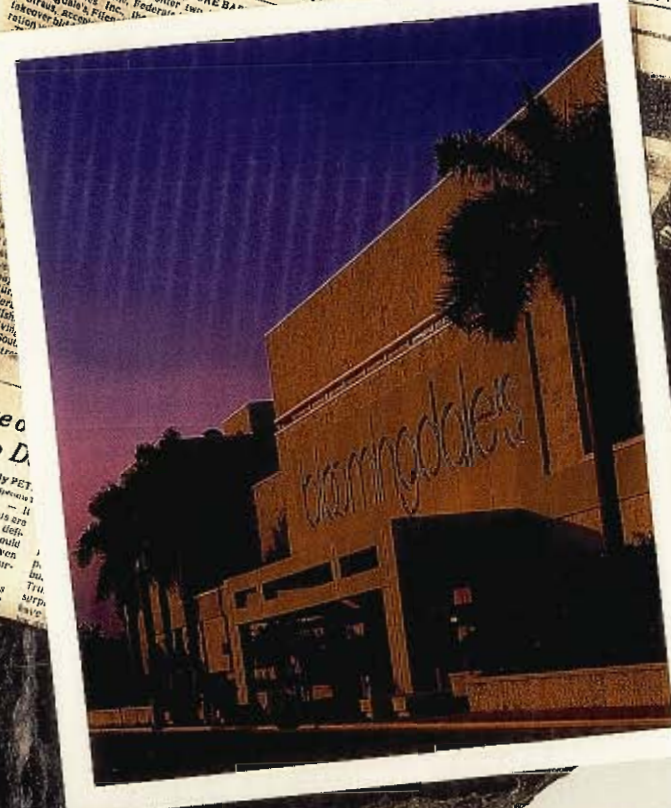
CAMPEAU
CORPORATION

VOL. CXXXVII... No. 47,463

The New York Times

**Canadian Bidder Beats Macy
In Fight for Federated**

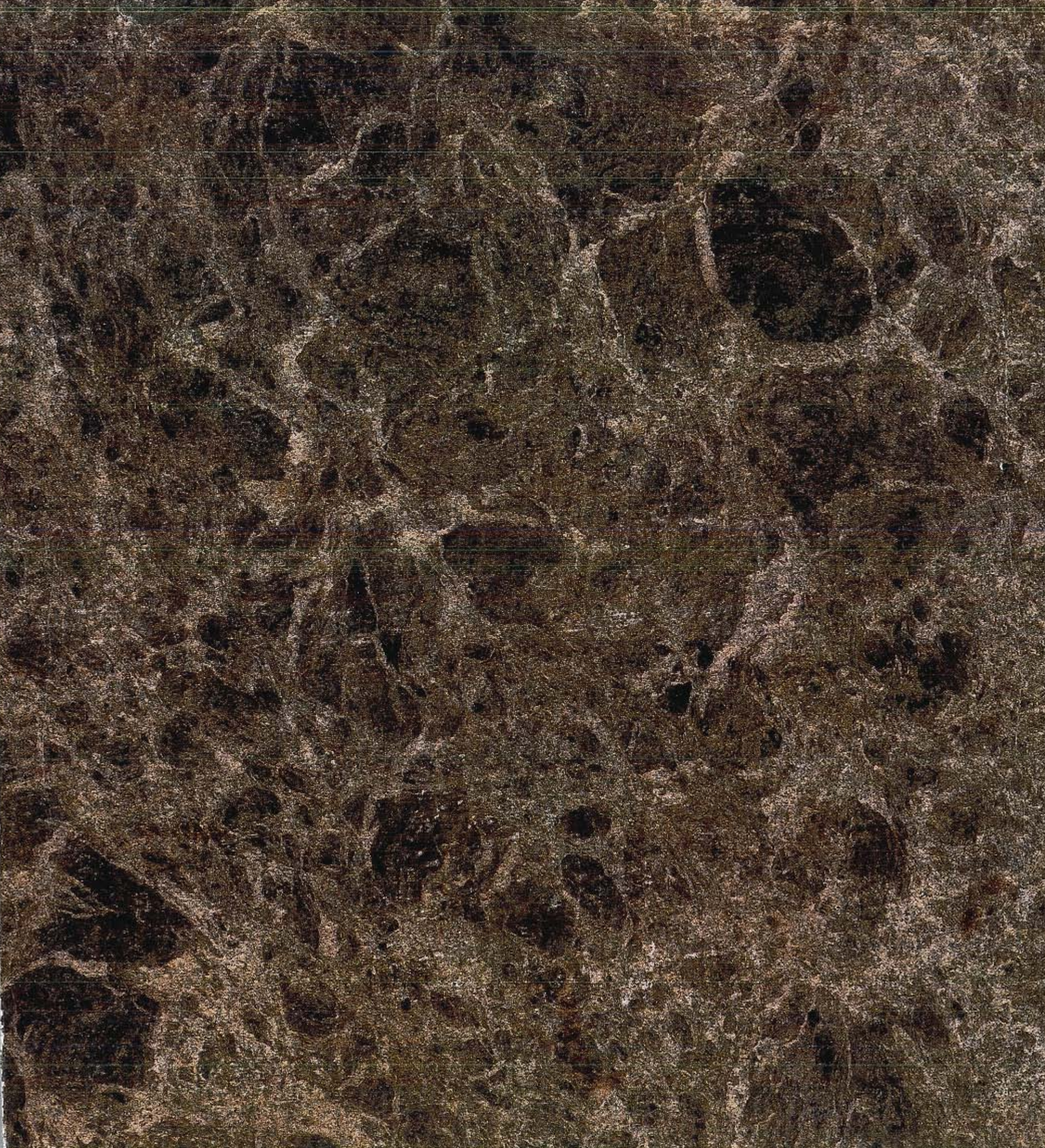
By ISADORE BA...

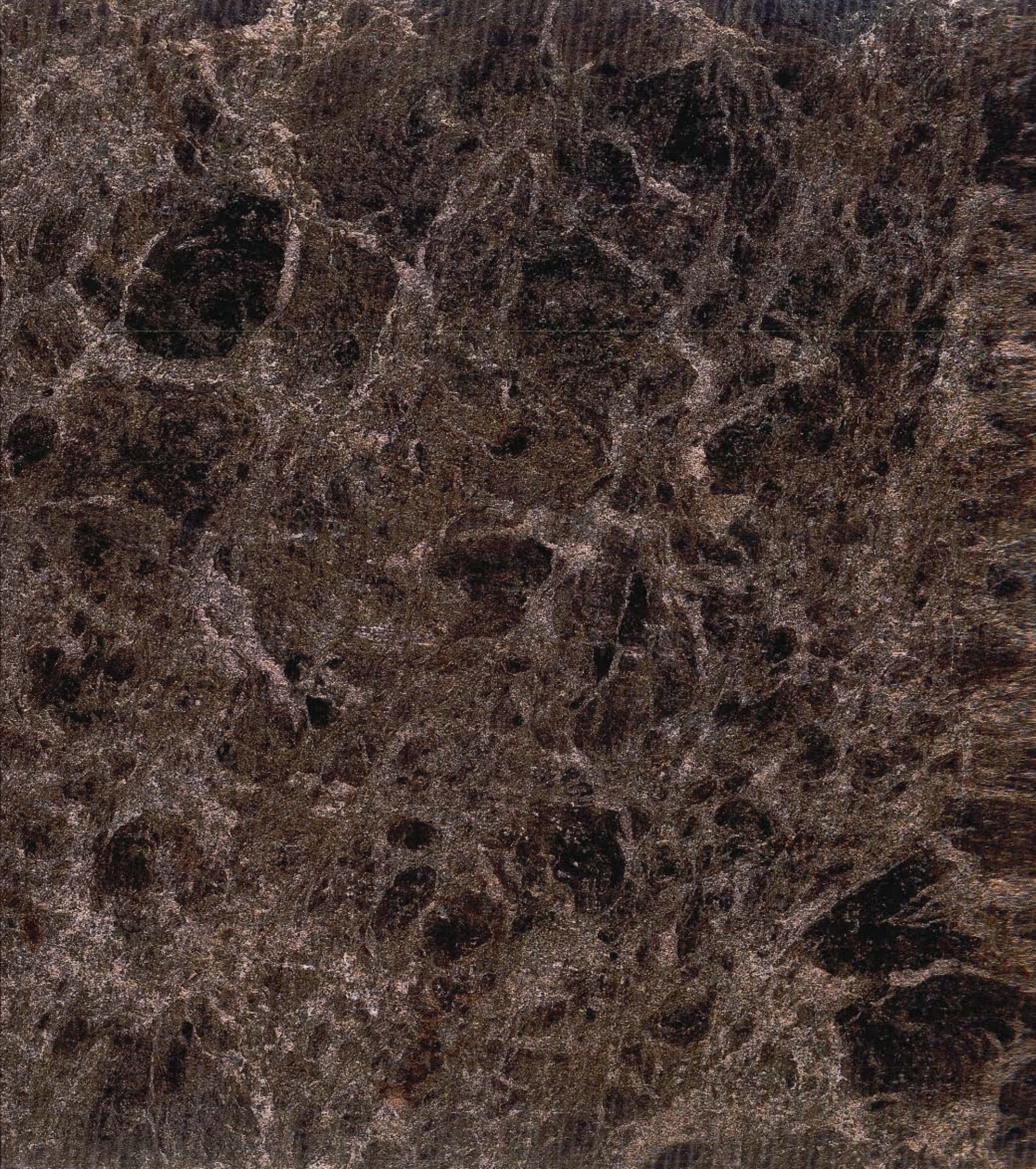


**New Issue of
What to Do**

WASHINGTON, April 1 — It may be hard to believe in this era of continuous Federal budget deficits, but the Government could soon be showing surpluses, even decades of large and growing surpluses.

The Social Security system is beginning to take in more money than it spends, says a report by the Congressional Budget Office.





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ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 11 o'clock in the forenoon on Thursday, the 30th of June, 1988 in the Upper Canada Room, Royal York Hotel, 100 Front Street West, in the City of Toronto, Ontario.

COVER

With its May 1988 acquisition of Federated Department Stores, Inc., owner of Bloomingdale's and other fine chains, Campeau Corporation became one of the largest department store operators in the United States.

Campeau Corporation is a distinguished developer of commercial income properties in North America, and a prominent force in retailing in the United States. Campeau's commercial income properties include shopping centres and office complexes totalling 15.8 million square feet. Through its investments in Allied Stores Corporation and Federated Department Stores, Inc., Campeau is now one of the largest department store retailers in the United States, and owns 487 department, supermarket and specialty stores.

Campeau intends to retain control of the preeminent department store divisions of Allied and Federated, together with Ralphs Grocery Company and the Ann Taylor specialty retail stores. From New England to Florida and in select geographic areas across the United States, Campeau owns the strongest department store chain in each of the more than 20 major urban markets in which it operates.

Allied and Federated own approximately 50 per cent of the real estate in their retail operations, with the balance leased from third parties. Both companies will acquire minority equity interests in many future real estate developments in exchange for their commitments as anchor tenants. Campeau is pruning its commercial real estate portfolio and will retain only key, strategic properties located in select, high-growth urban centres in Canada and the United States.

Three strategies are pivotal in achieving Campeau's objective of using its sizable asset base and resources to create and enhance value for shareholders:

- ◆ Campeau retains only a portfolio of assets with strong potential for capital appreciation;
- ◆ Campeau is analytical and action-oriented in its deployment of capital; and
- ◆ Campeau is uncompromising and opportunistic in its commitment to value creation.



R

ETAILED OPERATIONS

- ◆ The acquisition of Federated Department Stores, Inc. was completed in May 1988.
- ◆ The sale of 16 of Allied Stores Corporation's smaller or less productive divisions was substantially completed by the end of 1987, with disposition proceeds in excess of \$1.0 billion.
- ◆ A vast restructuring of Allied's internal organization and management team was completed. Rationalizing and simplifying operations, transferring several management functions from corporate to divisional levels, and installing key divisional executives have resulted in the creation of a streamlined, more efficient Allied.
- ◆ Debt related to the Allied acquisition was reduced through proceeds of a \$1.15 billion offering of Allied's preferred stock and long-term debt, completed in March 1987. These placements were oversubscribed and accordingly increased to take advantage of an historical low point in interest rates for such issues.
- ◆ A \$410 million, long-term, fixed rate mortgage facility was put in place for certain of Allied's real estate assets. Proceeds were used to refinance short-term, floating rate bank debt.
- ◆ The refinancing and restructuring of Allied reduced its long-term debt by about \$1.4 billion to \$2.2 billion. The sale of Brooks Brothers to Marks and Spencer p.l.c. in May 1988 further decreased Allied's debt to the \$1.7 billion level.

REAL ESTATE OPERATIONS

- ◆ A 50 per cent interest in the Scotia Plaza office development in downtown Toronto was sold in April 1987, enabling Campeau to realize a substantial portion of the project's future profit potential.
- ◆ Four smaller shopping centres in Quebec and one in Ontario were sold for \$67 million in early 1988.
- ◆ Campeau's discontinued residential land holdings in southern California were sold for \$110 million in October 1987.
- ◆ Long-term financing of \$187.5 million was secured, replacing previous bridge financing for the Corporation's 50 per cent ownership interest in five regional shopping centres in the United States, acquired in March 1987.
- ◆ A \$500 million asset disposition program, initiated in 1987, produced bids for substantially all identified properties. Many contracts are now in place and closings are expected to begin this June.

CONTINUING OPERATIONS

| <i>(in millions of United States dollars)</i> | 1987 | 1986 | 1985 | 1984 | 1983 |
|---|-------|-------|-------|-------|-------|
| Revenue | 3,530 | 977 | 156 | 160 | 146 |
| Operating profit | 450 | 260 | 97 | 97 | 76 |
| Net earnings (loss) | (203) | 61 | 24 | 21 | 17 |
| Total assets | 5,746 | 7,036 | 1,707 | 1,547 | 1,452 |

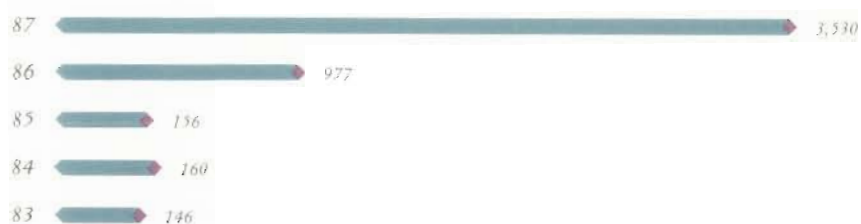
REPORTING CURRENCY

As a result of the increase in activities within the United States, the U.S. dollar has become Campeau Corporation's principal operating currency. Accordingly, the Corporation has chosen to prepare its consolidated financial statements in United States dollars for the first time and all references to dollars in this Annual Report are denominated in U.S. dollars unless otherwise specified.

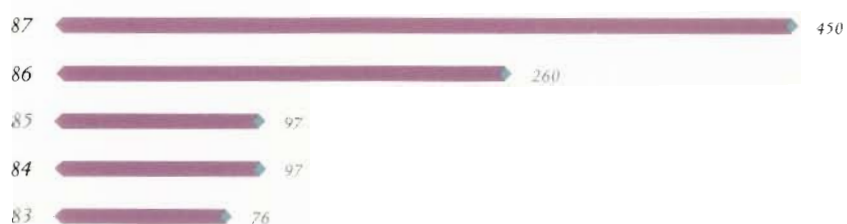
FISCAL YEAR

The Corporation has changed its fiscal year end to January 31, effective January 31, 1988. Hereinafter where appropriate, references to the year 1987 will include the thirteen-month period ended January 31, 1988.

REVENUE



OPERATING PROFIT



The vision on which Campeau Corporation was founded remains the fundamental philosophy of its business. With imagination, foresight and energy, Campeau creates value for its shareholders. The success of this value creation philosophy is amply demonstrated by the sale of Brooks Brothers for \$750 million. The Brooks Brothers sale represents a pre-tax gain for the Corporation of approximately \$350 million in a period of just 18 months.

Campeau manages its real estate and retailing assets like an investment portfolio as it continually pursues the highest returns against capital employed. Identifying the potential of existing assets and new opportunities involves rigorous quantitative evaluations, instinctive qualitative judgments and the willingness to take calculated risks.

RETAILING

The Corporation's investments in Allied and Federated are precisely that: prime investments in companies whose day-to-day operations are managed by experienced retailing organizations within the parameters of broad, corporate directives. Campeau participates in their planning processes, location decisions, financing, company organization, selection of key personnel and the development of business-building strategies.

Allied's capital structure has solidified as a result of its refinancing and reorganization, completed in 1987. Further asset enhancement will occur through operating improvements and the escalation of gross operating margins, the foundations for which were laid in 1987. A similar restructuring and refinancing of Federated will take place over the ensuing months, focussing on improved profitability, and redevelopment and expansion plans for the most strategically important department store divisions.

REAL ESTATE

Following an extensive, three-month evaluation of its real estate portfolio, the Corporation has developed an asset disposition plan. Because the most significant value is typically created at the development stage, Campeau's role as a portfolio owner and manager is diminishing to

encompass a select number of projects which possess exciting, long-term potential. In keeping with the Corporation's stringent investment objectives, properties that do not provide appropriate rates of return or do not display opportunities for substantial value creation will be sold in whole or in part.

SYNERGY

As both retailing and real estate are location-driven businesses, the Corporation believes that a remarkable synergy can be generated when the two are united under common objectives. The combination of Campeau's long-established real estate activities and its more recently acquired retailing operations provides unique opportunities through two-way exposure to the development and retailing industries:

- ♦ Commitments by its department stores as potential anchor tenants in new shopping centre developments permit Campeau to pursue more opportunities in the U.S. retail real estate market, including those in joint venture with established U.S. developers who control the best available sites.
- ♦ Campeau's real estate experience brings a vision to the retail operations of Allied and Federated of the untapped potential of many of North America's choice retail locations and the ability to maximize the value of underdeveloped or underutilized properties.

ENTREPRENEURIAL MANAGEMENT

Campeau has the entrepreneurial ability not only to perceive opportunities, but to act on them. An uncomplicated organizational structure and an experienced management team facilitate quick, intelligent decision-making. In retailing and real estate, industries that have become predictably conservative over the years, Campeau is a company that is prepared to take calculated risks. Campeau Corporation has the visionary qualities to see what others do not, to act while others hesitate, and to create value in innovative ways.



*The Columbia Shopping Center
is the first U.S. property to
undergo expansion and renovation
in Campeau's plan to create value
by maximizing the potential of its
retail and real estate assets.*

Campeau Corporation's value creation strategy made a dramatic advance in 1987. The growing synergy of recently acquired retailing operations and long-established real estate expertise is expected to enhance the underlying value of these previously independent operations in upcoming years. Both retailing and real estate are location-driven businesses: a retailer can benefit from real estate development expertise in the management of its property assets, and a developer who controls prime anchor tenants can participate in the best new shopping centre opportunities.

RETAILING OPERATIONS

On April 1, 1988, Campeau Corporation emerged victoriously from an arduous takeover battle that spanned ten weeks. The Corporation subsequently acquired Federated Department Stores, Inc., the fifth-largest retailer in the United States, in May 1988. Coupled with the 1986 acquisition of Allied Stores Corporation, the Federated acquisition makes Campeau one of the largest department store retailers in the United States. The combined retailing scope of Allied and Federated will bring exponential benefits to Campeau by:

- ♦ Positioning it strongly to serve the East Coast market from New England to Florida, with Jordan Marsh, Bloomingdale's, Abraham & Straus, Stern's, Rich's, Maas Brothers and Burdines.
- ♦ Providing it with flexibility in selecting marketing strategies that improve total market share and achieve economies of scale.
- ♦ Allowing the Corporation to expand its presence in the mid-west and west through Lazarus, The Bon and Goldsmith's, while maintaining footholds in other key geographic areas.
- ♦ Enabling it to expand certain chains nationally, namely Ann Taylor and Bloomingdale's.

Federated also owns Ralphs Grocery Company, a supermarket chain with \$2 billion in sales and a key market position in the geographic areas it serves in southern California. Campeau plans to operate Ralphs independently from the department store divisions and to allow Ralphs' management to purchase a meaningful equity interest in the operations.

ALLIED RESTRUCTURING

Just one year after the acquisition of Allied, a "new Allied" has emerged: a company whose financial, organizational and management structure is significantly stronger as a result of achieving the three objectives outlined in Campeau Corporation's 1986 Annual Report:

- ♦ All the debt incurred for the acquisition of Allied has been refinanced through a series of public and privately placed issues which have resulted in a capital structure financed on a longer-term basis at more favorable interest rates.
- ♦ The sale of 16 smaller or less productive divisions was completed one year ahead of scheduled bank requirements, reducing annualized interest costs on related acquisition debt by more than \$100 million. The proceeds of this disposition program totalled more than \$1.0 billion.
- ♦ Allied's corporate office was pared down to one-third of its former size, with many head office management functions transferred to more autonomous divisional levels. Significant savings of more than \$125 million in annualized operating cost reductions will be realized from the rationalization and streamlining of operations.

Having accomplished its 1987 objectives, Allied is now turning its attention to improving operating efficiencies. Prior to the Federated acquisition, several programs had been developed to address specific operating activities. A new, computerized point-of-sale system is modernizing the company's inventory and sales control systems. Allied's private label programs are being stepped up in an effort to improve operating margins and build customer loyalty. Employee incentive and benefit programs are being introduced this year, and an incentive compensation program, tied to the appreciation in the trading value of Campeau's subordinate voting shares, was implemented. The combination of certain administrative, corporate, electronic data processing, buying, private label and distribution functions of Allied and Federated will play a leading role in contributing to Campeau's growing value in the years ahead.

R EAL ESTATE

Campeau's real estate strategy is to create value through the development of new projects, the expansion of existing properties and acquisitions. Several major developments neared or reached completion in 1987, and other new projects were introduced.

Real estate activities in the United States are focussed largely on retail developments. Campeau Corporation (U.S.) Inc. made important strides in strengthening its presence in the retail real estate sector by entering into a 50/50 joint venture arrangement with The Edward J. DeBartolo Corporation. The joint venture will develop, own and manage retail real estate projects throughout the United States.

This arrangement is significant in many respects: it provides Campeau with access to more development opportunities; it capitalizes on the synergy of Campeau's retailing and real estate investments; and it brings together two of North America's most prominent real estate developers. Three existing Campeau/DeBartolo joint venture shopping centres are scheduled for expansion and renovation over the next three years, and two new centres are slated for development in the early 1990s. In total, these five centres represent 5.5 million square feet of prime retail space.

Apart from Campeau's joint venture arrangements, the Corporation has four of its own U.S. retail centres in various stages of planning and development. In historic downtown Boston, Campeau has acquired control of the main parcels of land for a \$500 million, integrated, double-anchor, retail/office project. The redeveloped complex will ultimately contain about 1.1 million square feet of department store and ancillary retail space, and up to 1.75 million square feet of office space. Ground-breaking is expected to take place in mid-1989.

Another prime historic site will undergo reconfiguration and renovation beginning this year. Through an innovative retailing concept, much of the floor space in The Bon's art deco, flagship store in Seattle is being reconfigured to facilitate the leasing of 265,000 square feet of specialty retail

and office space. This exciting project is scheduled to be completed before Christmas 1989—the eve of The Bon's 100th anniversary.

Also, construction of two regional centres in Framingham, Massachusetts and Naples, Florida could begin in 1989 and 1990 respectively.

In Canada, Scotia Plaza received its first tenants this April. This celebrated Toronto office development, owned 50 per cent by Campeau, will be fully completed this October. Scotia Plaza's core location, bold architectural composition and esteemed tenants illustrate the world-class qualities of this premier development. The project is presently 62 per cent leased, and the continued buoyancy of Toronto's leasing market is expected to provide for rapid completion of lease-up.

On Toronto's flourishing waterfront, Campeau is proceeding with Phase II of its WaterPark Place development. Upon completion in September 1989, the 320,000 square foot building will be connected to WaterPark Place Phase I by a two-level retail galleria. Plans are also being developed for additional commercial projects in Ottawa, Toronto and Montreal.

In Canadian retail real estate, a major renovation and expansion project is underway at Galleria London, soon to become southwestern Ontario's largest downtown shopping centre. The former London Eaton Square is being expanded and renovated into a 776,000 square foot mall. Leasing interest is strong, and construction is proceeding on schedule towards an August 1989 completion. Also, an expansion of the Corporation's Oshawa Centre and construction of a new regional centre in Ottawa are in the planning stage.

In 1987, the Corporation completed or contracted the disposition of several assets that did not meet its revised investment criteria. Properties sold included discontinued residential land holdings in southern California, four smaller shopping centres in Quebec, and one in Ontario.

Strategically, Campeau has narrowed the base of its real estate portfolio to the choice properties that possess strong capital appreciation potential. The Corporation believes that these key properties in high-growth areas provide the best opportunities for creating value for its shareholders.

FINANCIAL

The Corporation changed its fiscal year end to January 31st, reflecting the significance of the merchandising activities of the Corporation and the traditional year end timing for the retailing industry. Accordingly, information relating to the financial condition and results of operations in 1987 is generally not comparable to the 1986 results. This is particularly true of Allied where the 1987 results cover thirteen months, but the 1986 figures reflect only two months of operation. The new year end, the disposition of assets and the restructuring of retained divisions have also contributed to the lack of comparability in results.

Consolidated revenue from continuing operations totalled \$3,530 million for the thirteen-month period ended January 31, 1988. Operating profit amounted to \$450 million and the net loss from continuing operations was \$203 million. The loss in 1987 is attributable to non-cash costs including amortization of goodwill, depreciation charges and amortization of financing costs. Also, a portion of the loss is attributable to non-recurring expenses associated with the acquisition and restructuring of Allied, whose positive effects will be reflected in 1988.

APPOINTMENTS

On July 14, 1987 the Corporation announced the appointment of David King as Campeau's Deputy Chairman in recognition of his 13 years of dedicated service. James T. Roddy, who played an integral role in the acquisition and restructuring of Allied, was named President and Chief Operating Officer of Campeau Corporation.

OUTLOOK

1987 was a year of many changes, not only for Campeau Corporation, but in world capital markets, political arenas and business communities. Predictably, 1988 will be another year of changes, although even the most thoughtful forecasts cannot predict with certainty what lies ahead. What is certain is that Campeau, through the Allied and Federated acquisitions, has demonstrated the ability to successfully manage change. Whatever the business, political or economic environment, the Corporation will endeavour to create value through an enterprising spirit that allows Campeau to originate bold initiatives—and to act swiftly on its convictions.

ACKNOWLEDGEMENTS

Just as retailing and real estate are both location-driven businesses, they are also businesses that are driven by people with energy and vision—the kind of talented, enthusiastic people for which Campeau Corporation is known. On behalf of the Board of Directors, we wish to express our genuine appreciation to all employees and advisors for their dedication in what has been a challenging year. It is their considerable efforts that allow Campeau Corporation to turn opportunities into achievements.



Robert Campeau
Chairman of the Board
and Chief Executive Officer



James T. Roddy
President and
Chief Operating Officer

May 12, 1988



*The flagship store at 59th and
Lexington in New York illustrates
how exclusive product lines,
inspired presentation and impecca-
ble customer service combine to
make Bloomingdale's the crown
jewel of U.S. department stores.*

Following a 10-week takeover battle, on April 1, 1988 Campeau Corporation reached an agreement to acquire Federated Department Stores, Inc. — the fifth-largest corporate merger in U.S. history and the largest outside of the petroleum industry. Federated, the fifth-largest retailer in the United States, then owned 669 department stores, supermarkets and other outlets whose 1987 revenues totalled \$11 billion.

In reaching a definitive merger agreement with Federated, the first stage of which was consummated in early May 1988, Campeau Corporation successfully ended a seesaw struggle for control that captured daily headlines across North America. Campeau's initial public offer, made on January 25, 1988, was amended on several occasions in response to adverse reactions by Federated's Board of Directors and a competing offer by R.H. Macy & Co., Inc. Now, through an amicably reached final agreement, Campeau has acquired substantially all of the outstanding shares of Federated for a total of \$6.7 billion.

As part of its restructuring plans, Campeau sold four Federated chains: Bullock's/Bullocks Wilshire and I. Magnin to R.H. Macy & Co., Inc. for approximately \$1.1 billion; and Filene's and Foley's to The May Department Stores Company for approximately \$1.5 billion. With the established base of Allied Stores Corporation, the Federated acquisition will enhance and consolidate Campeau's presence in the eastern United States, and expand its presence into geographic areas where it was not previously represented.

In addition to these asset sales, Olympia & York Developments Limited has purchased \$260 million of subordinated convertible debentures of Campeau Corporation. Of these proceeds, approximately \$225 million were used in the acquisition financing. Also, Campeau sold Brooks Brothers, an Allied specialty retailer, to British-based Marks and Spencer p.l.c. for \$750 million.

This sale price illustrates the significant value creation established since Campeau acquired Allied, and represents a pre-tax gain on sale of approximately \$350 million. Future sales are expected to include Filene's Basement stores and Federated's specialty and discount store chains.

The disposition and restructuring programs planned for Federated mirror the streamlining of Allied following its acquisition in 1986. Campeau will focus its attention on six of Federated's finest department store units and a highly successful supermarket chain which together operate 258 stores in the eastern U.S. and California. These seven divisions will be strengthened through upgrading and a rationalization of certain functions with those of Allied, although management of the respective retail chains will remain autonomous. Also, this collection of the most successful Federated units will be expanded selectively as part of Campeau's combined retailing/real estate strategy. The seven Federated divisions to be maintained are:

- ♦ Bloomingdale's, an upscale department store chain established in 1872, with 16 locations on the East Coast and in Texas.
- ♦ Abraham & Straus, a full-line department store operation with 14 stores in New York City, Long Island and New Jersey.
- ♦ Burdines, whose 29 department stores are situated throughout Florida.
- ♦ Lazarus, with 44 department stores serving Ohio, Indiana, Kentucky and West Virginia.
- ♦ Rich's, whose 20 department stores are located in urban areas of Georgia, South Carolina and Alabama.
- ♦ Goldsmith's, with six department stores in Tennessee.
- ♦ Ralphs, a supermarket chain in southern California with 15 Ralphs Giant stores and 114 other locations.

The acquisition of Federated has also broadened Campeau's shopping centre opportunities in the United States through a preferred developer agreement reached with The Edward J. DeBartolo Corporation, as detailed on page 20 of this report.

By the end of 1987, Campeau successfully completed a comprehensive restructuring of Allied Stores Corporation following the 1986 acquisition of the U.S. retailer. Financially, Allied's improved capital structure now has substantially more equity and lower-cost debt than immediately following the acquisition. Operationally, Allied is now a streamlined organization with a sharp strategic focus in department store and specialty retailing.

ASSET SALES

The sale of 16 of Allied's smaller or less productive divisions was completed in one year. Proceeds of more than \$1.0 billion were realized through the disposition of Block's, Cain-Sloan, Dey's, Donaldson's, Herpolsheimer's, Heer's, Joske's, Miller's, Miller & Rhoads and both Pomeroy's department store divisions, and the Bonwit Teller, Catherine's, Garfinckel's, Jerry Leonard and Plymouth Shops specialty store divisions. Two other department store units—Read's and Jordan Marsh Florida—were merged into the Jordan Marsh New England and Maas Brothers operations respectively, through a reorganization of regional operations. The remaining department store and specialty store divisions, including Brooks Brothers, historically have accounted for about 63 per cent of Allied's sales and, more importantly, 87 per cent of store profit. The five continuing operations—Jordan Marsh, Stern's, Maas Brothers and The Bon department stores, along with the Ann Taylor specialty stores—constitute the "new Allied."

FINANCIAL RESTRUCTURING

Within weeks of its acquisition of Allied, Campeau Corporation began implementing its financial restructuring of the company to reduce overall debt levels and lower interest costs on the debt that would remain outstanding. A \$1.15 billion offering of Allied's preferred stock and long-term debt was completed in March 1987.

Short-term, floating rate debt was repaid from the sale of five shopping centres for \$400 million to Campeau Corporation (U.S.) Inc. in a joint venture with The Edward J. DeBartolo Corporation, and from a new \$410 million mortgage facility on certain of Allied's store assets. An incremental \$550 million, representing the majority of the proceeds received from the sale of Brooks Brothers, was used to repay in full the bank acquisition credit, leaving only receivable and working capital bank financing outstanding in Allied by May 1988.

Extensive use of interest rate hedging techniques also reduced Allied's exposure to higher short-term rates on \$600 million of debt. Full details of the financial restructuring are provided in the Financial Review of this Report, beginning on page 26. In total, the refinancing and restructuring program reduced Allied's long-term debt by about \$1.4 billion to approximately \$2.2 billion by January 31, 1988. Today, Allied's debt has been reduced to the \$1.7 billion level through the Brooks Brothers sale.



For generations, Jordan Marsh has been "the place" for high-style executives to shop in New England. Steeped in tradition, yet at the forefront of present trends, it maintains a key position in this growing, upscale market.



Maas Brothers, and its east coast affiliate Jordan Marsh Florida, are leaders in department store retailing in Florida. Visually, the stores capsulize the colourful beauty and tranquility of this warm-weather peninsula state.

ADMINISTRATIVE RESTRUCTURING

From an organizational perspective, a vast realignment of Allied's infrastructure and management team was implemented in 1987. By transferring several management functions from corporate to divisional levels, the corporate office was downsized decisively. The rationalization and streamlining of operations are expected to result in operating cost reductions of more than \$125 million annually. Sales staff on the floor, however, was not reduced, in keeping with Allied's strong customer service orientation.

Also in 1987, a number of new executives were appointed to senior positions, bringing together some of the finest talent in U.S. retailing. Management teams in the six retail divisions were bolstered by appointing a Chairman and President at each division. These personnel changes in key leadership positions will be instrumental in improving productivity and accelerating Allied's future growth.

OPERATING IMPROVEMENTS

At the operations level, Allied embarked on a number of programs designed to improve cost and operating efficiencies. Allied's competitive edge will be enhanced through its newly initiated ACE program, a computerized point-of-sale system that meets the needs of today's retailing environment. For customers, the inventory control benefits of ACE ensure the right merchandise is in the right location, on time. For Allied, the centralized system streamlines its buying and replenishment processes. This program, introduced in June 1987, will be fully operational throughout Allied in 1989, producing an estimated \$25 million in annualized cost savings beginning that year.

OPERATING AND PERSONNEL POLICIES

A product knowledge program, being introduced to the department store divisions this year, will foster smarter buying and selling, and assist in the development of specialized skills in what is typically an industry of generalists. Also underway is a logistics study that analyzes the movement of merchandise from purchase sources to individual stores, with a view to increasing throughput efficiency and time lapsed. Another objective for 1988 is enhancing the effectiveness of point-of-sale displays, an initiative that will be extended into a longer-range program to include the installation of new store fixtures, store renovations and lifestyle displays that capsule themes rather than traditional product groupings.

An employee incentive program, successfully tested at the Maas Brothers division in 1987, will be rolled out into all other divisions this year. Allied has found that a combination of base salary and sales bonuses encourages stronger sales performance in employees on the sales floor. Other changes which recognize the importance of a motivated salesperson to Allied's retailing success include a new national employee benefits program. To be introduced this year, the program improves benefits across all divisions and lowers their cost through a single administration. Also, an incentive compensation program, tied to the performance of the subordinate voting shares of Campeau Corporation, was implemented for senior management, together with an incentive bonus for sales personnel.

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ERCHANDISING STRATEGIES

To increase operating margins and build customer loyalty, Allied's department store merchandise mix is shifting to more of an upscale fashion orientation. An important element of this initiative is Allied's private label programs. Quality lines of ladies' and men's sportswear will make their debut this summer, with the ultimate goal of elevating private label sales to 25 to 30 per cent of total sales. In 1987, Allied's private label brands accounted for 10 to 11 per cent of sales. By contracting the manufacture of its own merchandise, Allied can eliminate steps in the distribution network, thus providing better value for its customers and higher margins for itself. Private labels also provide exclusivity for each of Allied's divisions and a competitive edge against price-sensitive branded merchandise.

MERCHANDISING PERFORMANCE

For the 13 months ended January 31, 1988, Allied's revenue was \$3,263 million and operating profit totalled \$335 million. The 1987 results are not comparable to 1986 because the 1986 figures reflected only two months of operation under Campeau's control, whereas the 1987 results incorporate 13 months. The change in the Corporation's year end to January 31st, the disposition of assets and the restructuring of Allied also contribute to non-comparability.

The Corporation anticipates a slowing in the growth of retail sales in 1988 but, on balance, the year is expected to produce satisfactory results in merchandising operations. Although sales for the entire department store industry have been soft in the Spring season to date, consumer spending is expected to pick up by the end of the second quarter, and management is looking towards a healthy Fall season.

JORDAN MARSH

A high-end, full-line department store operator, Jordan Marsh is a retailing tradition in New England where most of its 25 stores are located. The majority of its stores are in the Greater Boston metropolitan area. The former Read's division, with six stores in Connecticut and New York

state, was merged into Jordan Marsh New England in 1987. From designer-exclusive apparel to home furnishings, Jordan Marsh caters to the predominantly upscale, career-minded sector of the New England populace. The service-based economy of this geographic region, emphasizing finance, insurance, medicine and education, gives rise to high disposable income per capita. In response to this demographic composition, Jordan Marsh has upgraded its product offerings in recent years, with emphasis on high-quality apparel.

In 1987, Jordan Marsh renovated its stores in Burlington, Vermont and Bedford, New Hampshire, opened one new store in New York state and closed a store in Connecticut. Expansion and renovation plans through to 1989 include building more stores in Connecticut, renovating seven other stores and adding stores in local markets where Jordan Marsh is currently not represented. Three new stores are scheduled to open during 1988 and 1989, expanding Jordan Marsh's key position in department store retailing in the New England area.

STERN'S

Stern's is a highly promotional department store operator whose broad, middle-class customer base is loyal to national branded merchandise. Accordingly, its merchandise mix is a cross-section of apparel, accessories and a strongly developed home furnishing business ranging from economy to exclusive lines. The Stern's division has 27 department stores in New York and New Jersey.

While Stern's operates in a competitive retail environment, its established stores remain strong performers in their respective markets. During 1987, two stores were renovated and three full-line Stern's stores opened in New Jersey and New York State. Two new stores will be opened in 1988.



A popular full-line department store, The Bon has enjoyed a commanding retail presence in Washington state and elsewhere in the Pacific Northwest throughout its almost 100-year history.



Ann Taylor offers tasteful fashions in a modern, richly appointed environment. Its merchandising strategy is based on a "wardrobe" approach, providing a single source of apparel and accessories for the career-minded woman.



MAAS BROTHERS

Consolidating the regional administration of the Maas Brothers division with that of the 17 Jordan Marsh Florida stores has created a powerful retail network in Florida, with 36 stores in that state and two stores in Savannah, Georgia. Operating efficiencies resulting from the combined operations have produced estimated annualized savings of \$12 million.

In previous years, Maas Brothers has been successful in selling traditional merchandise to a mature customer base representative of Florida's large retirement population. More recently, Maas Brothers has sought to round out its customer profile by attracting a younger, more fashion-conscious customer. Youthful merchandise lines complement established, classic lines, and stores have been renovated from outmoded earth tones to new Floridian atmospheres featuring marble floors, bright colors, natural lighting and landscaping.

As the fastest-growing state in the nation, Florida is expected to experience continued population growth, presenting many fine opportunities for retail expansion. A new Maas Brothers store was opened in Stuart, Florida and one store was closed in 1987. The opening of two further stores and the renovation of six existing locations are planned for 1988 and 1989.

THE BON

In the Pacific Northwest, The Bon is well-known as a popular, traditional department store chain. Most of The Bon's 40 stores are situated in the Greater Seattle-Tacoma area of Washington state. Four of these locations carry only furniture and home accessories, while all other stores offer a full line of merchandise at moderate to upper-moderate prices.

Smaller units are located in secondary markets in Idaho, Montana, Oregon, Utah and Wyoming, where The Bon serves a more rural, middle-income customer base. Headquartered in Seattle, The Bon division was a strong performer in the Allied organization in 1987.

During 1987, The Bon opened three new stores in Washington state and Idaho, renovated one store and closed three stores in Washington state, Idaho and Oregon. The Bon's expansion and renovation program for 1988 and 1989 includes the opening of three new stores and the renovation of six existing facilities. A feature project is the renovation and reconfiguration of the historic, flagship store in downtown Seattle, to be completed on the eve of The Bon's 1990 centennial.

ANN TAYLOR

Ann Taylor rapidly has become one of the most profitable and fastest-growing retail operations in the United States. The 99-store national retailer has been highly successful in niche retailing, catering to career-oriented women. Apparel, accessories and footwear strike a balance of business and casual wear with an updated classic twist.

Unlike many apparel stores, Ann Taylor's business is not item-driven. The success of this New York-based division lies largely with its "merchandise your wardrobe" concept that builds repeat customer business. Ann Taylor develops 80 per cent of its own merchandise which is contracted for manufacture, promoting strong private label loyalty.

Nine new Ann Taylor stores made their debut in urban centres throughout the United States in 1987. A store in Colorado was closed. An ambitious expansion program provides for the addition of up to 50 new Ann Taylor stores by the end of 1989, as well as the renovation of 10 existing stores in the same time frame.

Campeau's real estate portfolio includes 15.8 million square feet of prime shopping centre and office and mixed-use space in many of North America's major urban markets. Revenue from real estate operations for the 13-month period ended January 31, 1988 was \$220 million, as compared to \$156 million for the 12-month period of 1986. Rental operating profit totalled \$146 million, versus \$103 million for the 12-month period of 1986.

U.S. RETAIL REAL ESTATE

Concurrently with the Corporation acquiring Federated Department Stores, Inc., Campeau Corporation (U.S.) Inc. and The Edward J. DeBartolo Corporation entered into a 50/50 joint venture arrangement to develop retail real estate throughout the United States. DeBartolo has developed, owns and/or manages one of the largest retail real estate portfolios in the U.S., with 80 million square feet of retail space as well as a significant number of office buildings, industrial parks and hotels. Under the terms of the joint venture, DeBartolo will act as the development and managing partner, and will be providing a variety of development sites. The combination of Allied's and Federated's strengths in retailing with Campeau's and DeBartolo's expertise in real estate development will produce a dynamic joint venture with exciting future potential in retail real estate.

Three existing Campeau/DeBartolo centres are scheduled for expansion and renovation over the next three years, and two new centres are slated for development in the early 1990s. Conceptual design has been completed for the expansion and renovation of the Northshore Mall in Peabody, Massachusetts. Expansion plans call for the addition of a second retail level and up to three new major tenants to complement the three existing department stores, including Jordan Marsh. Developed to its full potential, the existing one million square foot centre will become a 1.5 million square foot regional mall. Construction is expected to begin this June, working toward a November 1990 completion.

Two retail expansions in Washington state are in various stages of planning and development. A 226,000 square foot expansion to the 589,000 square foot Columbia Shopping Center in Kennewick is expected to open this November. The Bon and another major tenant will be joined by two new department stores and 65,000 square feet of retail shops. In Seattle, a major expansion and upgrading of the one million square foot Northgate Mall is scheduled to begin in the fall of 1989. The Bon is one of the four existing anchors in this centre.

In Florida, two new joint venture developments are planned. A 790,000 square foot centre in Tampa, including a Maas Brothers department store, is expected to open in the spring of 1991. On the Atlantic Coast, Jordan Marsh Florida will anchor a 366,000 square foot centre in Vero Beach, planned to open in 1992.

Independent from the DeBartolo joint venture, Campeau has plans for four other U.S. retail real estate developments, the most spectacular of which is a major redevelopment project in historic downtown Boston. The existing Jordan Marsh headquarters store and a 300,000 square foot retail mall will be reconfigured and expanded into an integrated, double-anchor complex. When completed, the project will contain up to 1.75 million square feet of office space in two towers atop the 550,000 square foot renovated Jordan Marsh store and a 250,000 square foot complementary anchor. There will be 450,000 square feet of street retail and mall shops connecting the two termini. By helping to reorient pedestrian activity to city streets, this exciting mixed-use project promises to revitalize the south corridor of downtown Boston. Campeau has acquired control of the main parcels of land, and negotiations with city planners continue. Ground-breaking of the \$500 million project is expected to take place in mid-1989.



Campeau's biggest future venture in U.S. retail real estate is a mixed-use project that will combine the Jordan Marsh flagship store with more than two million square feet of office and retail space in downtown Boston.



Galleria London's redevelopment features continuous skylights and a dramatic, domed gallery. Granite floors, oak handrails and stately columns are strong details that recapture historic London's architectural heritage.

On the West Coast, The Bon's flagship department store in downtown Seattle is embarking on a major renovation and reconfiguration project. Floor space in the current 610,000 square foot store will be reallocated to facilitate the leasing of 100,000 square feet of specialty retail shops in the concourse levels and 165,000 square feet of office space on the two top floors. Architecturally, the integrity of the building's 1929 art deco features will be preserved. A central atrium is being planned to provide visual relief on several floors and a more appealing shopping environment for customers. The store will remain open through the construction period beginning later this year and ending before Christmas 1989, heralding the 100th anniversary of The Bon's founding.

Government and environmental approvals are proceeding for the demolition and reconstruction of the 725,000 square foot Shoppers World centre in Framingham, Massachusetts. To be rebuilt in two phases, the centre will ultimately contain 1.75 million square feet of retail space including a renovated Jordan Marsh store, six other major tenants, a freestanding cinema and retail shops. Construction is expected to commence in 1989.

Plans are being developed for a new regional centre in Naples, Florida, construction of which could begin in 1990. A Maas Brothers department store, up to four other major tenants and 350,000 square feet of mall space are anticipated.

CANADIAN RETAIL REAL ESTATE

Southwestern Ontario's largest downtown shopping centre is taking shape with the expansion and renovation of the former London Eaton Square. Situated in the heart of London, the new Galleria London will contain 776,000 square feet of retail space in a two-level mall anchored by Eaton's and The Bay. Continuous skylights and a dramatic, domed galleria will grace the new centre upon its August 1989 completion. Aside from the anchor tenant commitments, a 32,000 square foot cinema was leased in 1987, and the balance of the expanded retail space is expected to be substantially leased by the end of this year.

On the last regional shopping centre site within the Ottawa Greenbelt, Campeau is negotiating with the city and major tenants to develop a town centre project beginning in 1989. The corporation envisages a shopping centre containing up to 750,000 square feet of department store and ancillary retail space, as well as a large community centre component which could contain various amenities such as a day-care facility and a library.

Expansion plans are being finalized for a 200,000 square foot addition to the Oshawa Centre in Oshawa, Ontario, building on the market dominance the centre currently enjoys. In keeping with the Corporation's 20-year association with Oshawa, a major community component for the project is being studied. The expansion and renovation, valued at up to \$80 million, should begin near the end of this year, working towards a mid-1990 completion.

OFFICE AND MIXED-USE COMPLEXES

Four years of planning and three years of meticulous development culminate this year with the completion of the celebrated Scotia Plaza development in downtown Toronto. Scotia Plaza accepted its first tenants in April 1988 and will be completed in its entirety this October. The main tower's 68-storey height and unique, saw-tooth lines make it a distinctive landmark on Toronto's skyline. The inspired architectural design incorporates polished granite, bronze reflective glass finishes and two landscaped plazas. Located in North America's most attractive leasing market, the 1.5 million square foot project is already 62 per cent leased, with the remaining available space being the most marketable portion on the upper floors of the building.

In continuing its commitment to the development of Toronto's waterfront where Campeau was the pioneer developer, the Corporation has commenced construction of WaterPark Place Phase II. The 320,000 square foot building will be connected to Phase I by a two-level, 20,000 square foot retail galleria. The 18-storey tower will possess the same post-modern flair that made Phase I a waterfront landmark. Several tenant prospects have expressed strong interest in the project which is scheduled to open in September 1989.

Campeau's ability to perceive opportunities is demonstrated in a proposed new office and mixed-use development on the Yonge Street corridor. The Corporation has plans for a 350,000 square foot building at Yonge and Queen Streets – an historic location. The Bank of Montreal, whose landmark corner branch would highlight the new project's facade, is committed as a retail tenant. A lead office tenant is expected to be secured in 1989, which would facilitate a 1989 construction start and a 1991 completion.

Negotiations with the Province of Quebec for the sale of the Blue Bonnets racetrack operations are continuing and discussions with the City of Montreal have commenced for development approvals on the remaining lands. This 146-acre site, which has an ultimate development capacity of 15 million square feet of commercial space, represents the largest piece of developable land within the City of Montreal.



Scotia Plaza is a pivotal link in Toronto's growing financial district. A prestigious location, distinctive architecture and advanced technology give Scotia Plaza a commanding position in North America's strongest leasing market.

FISCAL YEAR

The acquisition of Allied in late 1986 has had a significant effect on the operations of Campeau Corporation. Since December is a period of peak activity for retailers, traditionally retailers have adopted January 31st as a preferred fiscal year end. By January 31st, returns from the Christmas selling season have been accounted for while inventory levels are still comparatively low, permitting a more accurate determination of income. In addition, adoption of a January 31st fiscal year end facilitates analysis and comparison of results to those of other retailers.

For these reasons, Campeau Corporation has changed its fiscal year end to January 31st effective January 31, 1988. Accordingly, the consolidated financial statements report the results of operations for a thirteen-month period. Details of the breakdown of operating results between the twelve-month period ended December 31, 1987 and the one-month period ended January 31, 1988 are provided in Note 2 to the consolidated financial statements located on page 39 of this Annual Report.

REPORTING CURRENCY

In the thirteen-month period ended January 31, 1988, 92.4 per cent of Campeau's consolidated revenue from continuing operations was generated in the merchandising operations and 69.2 per cent of consolidated assets used in continuing operations were employed in merchandising. Substantially all the merchandising operations are conducted within the United States. In addition, 32.2 per cent of revenue from real estate is derived from United States operations and 42.4 per cent of real estate assets used in continuing operations are located in that country.

As a result of the concentration of activities within the United States, the U.S. dollar has become Campeau Corporation's principal operating currency. Accordingly, the consolidated financial statements have been prepared in U.S. dollars as at and for the thirteen-month period ended January 31, 1988. Reporting in U.S. currency will reduce the significant distortions in results from year to year which could otherwise arise from fluctuations in foreign exchange rates.

BALANCE SHEET

As indicated on the consolidated balance sheet on page 33, there was a significant reduction in both assets and liabilities during the period ended January 31, 1988, attributable in general to the restructuring of Allied Stores Corporation. Total assets have been reduced by approximately \$1.3 billion and shareholders' equity, minority interest and subordinated debt were increased by a net amount of approximately \$300 million, making possible a reduction in secured debt during the period of over \$1.7 billion.

Rental Properties

Rental properties increased by over \$300 million, reflecting completion of the development process on several properties including an office building located at 333 Bush Street in San Francisco with a total leasable area of 520,000 square feet and the first office building in the WaterPark Place complex on Toronto's waterfront with a total leasable area of 500,000 square feet. Further details are provided in Note 6 to the consolidated financial statements located on page 42 of this Annual Report.

Development Properties

Development properties includes both land held for development and properties under development. The balance declined by approximately \$220 million during the period due to the completion of several properties, including the Bush Street and WaterPark Place Phase I office buildings referred to above. The decline was also partially attributable to the sale of a 50 per cent interest in the Scotia Plaza development

Goodwill

This asset category reflects the excess of the cost over the fair market value of the assets of Allied acquired by Campeau Corporation at the date of acquisition in 1986. This goodwill is being amortized on a straight-line basis over 40 years. Generally accepted accounting principles applicable to the determination of goodwill permit an adjustment and redetermination of amount within the first fiscal period following a major acquisition to reflect actual proceeds of sale for assets disposed of in that period and certain other adjustments. As a result of these adjustments, the balance of goodwill related to the Allied acquisition increased by \$198 million (net of amortization of \$35 million) during the period.

Assets for Sale

Upon the acquisition of Allied Stores Corporation, certain operating divisions and rental properties were designated "assets for sale" as part of the Corporation's restructuring plan. These assets were substantially disposed of during the period. As a result, the balance was reduced from \$1,320 million at the end of 1986 to \$46 million at January 31, 1988. It is anticipated that the remaining assets will be disposed of during the current year. Results of operations of these assets for sale have been identified separately in the consolidated statement of operations and, for the thirteen-month period ended January 31, 1988, had a net loss of \$51 million. Details on net earnings and cash provided by these assets are shown in Note 17 to the consolidated financial statements located on page 51 of this Annual Report.

Discontinued Real Estate Assets

The program to dispose of certain real estate assets, which was implemented in 1983, continued through the current period. The balance in discontinued assets was reduced from \$527 million at December 31, 1986 to \$435 million at January 31, 1988, a net reduction of some \$92 million. This reduction was attributable to the disposition of all of Campeau Corporation's remaining interest in residential land developments in southern California which occurred in October 1987 and to the dispositions earlier in the year of a major portion of the Evergreen business park in Seattle, the Colorado Place project in Santa Monica and residential land in Kanata, Ontario. Real estate prices are still depressed in the oil-based economies of Texas and Alberta. As a result, the Corporation's program for divestiture of real estate holdings in these geographic locations has proceeded more slowly than expected. However, Campeau Corporation is continuing its active disposal program and disposition of the remaining assets is expected to occur in an orderly manner. Management anticipates a net gain will be realized on the final disposition of these assets. However, due to economic uncertainties, it is impossible to make a precise determination of the eventual outcome. Additional information on the discontinued assets is provided in Note 18 to the consolidated financial statements located on page 53 of this Annual Report.

Secured Debt

During the period, Campeau Corporation made significant strides in strengthening its balance sheet and reducing its reliance on bank loans. Secured debt declined during the period from \$6.1 billion to \$4.4 billion, a reduction of \$1.7 billion. This reduction was attributable to net asset sales of approximately \$1.3 billion and a net increase in shareholders' equity, minority interest and subordinated debt of approximately \$300 million.

In addition to reducing the aggregate level of secured debt during the period, Campeau Corporation completed a program begun in 1986 to reduce exposure to variable interest rate debt. This program had two elements: refinancing short-term floating rate debt with longer-term fixed rate debt and "capping" interest rate exposure on remaining floating rate debt.

In March 1987, Allied completed a placement of \$900 million of long-term notes and debentures in the U.S. market. \$200 million of senior notes were placed with a 10½% coupon and \$700 million of senior subordinated debentures were placed at an 11½% coupon. The interest rates obtained on these placements were substantially below rates which had been forecast in the course of the acquisition of Allied and represented rates which may prove to be at the low end of the historical range for this type of financing. In addition, in December 1987, Allied completed the placement of a long-term mortgage facility in the U.S. secured by real estate assets. Borrowings under this facility totalled \$313 million at January 31, 1988 and further advances on the facility will be made when certain conditions have been fulfilled. This financial restructuring of Allied's debt reduced reliance on floating rate bank debt by over \$1.2 billion.

In December 1987, the Corporation closed a long-term mortgage loan to refinance its 50 per cent ownership interest in five regional shopping centres in the U.S. acquired in March 1987 from Allied. This refinancing further reduced the Corporation's reliance on floating rate bank debt by approximately \$187.5 million.

The results of this refinancing program coupled with asset sales have been dramatic. At December 31, 1986, the Corporation had approximately \$4.85 billion of floating rate debt outstanding, of which \$3.8 billion related to merchandising operations and \$1.05 billion to real estate. By January 31, 1988, floating rate debt had been reduced to \$1.95 billion, of which \$1.23 billion was attributable to merchandising operations and \$720 million to real estate. In addition, the Corporation purchased interest rate cap contracts at various times during the period with the result that, at January 31, 1988, the Corporation owned an inventory of such contracts covering principal amounts of indebtedness in excess of the remaining balance of variable rate debt exposure at that date. These cap contracts provide interest rate ceiling protection to the Corporation for \$2.29 billion of floating rate debt at rates ranging from 8¼% to 10% and maturing at various dates from September 1989 to September 1992. Additional information on the Corporation's long-term debt is provided in Note 8 to the consolidated financial statements located on page 43 of this Annual Report.

Capital Structure

The Corporation expanded its capital structure during the period by two securities underwritings. These issues further reduced floating rate bank debt by \$485 million and significantly strengthened the Corporation's balance sheet.

In March 1987, Allied completed the placement of \$250 million in preferred shares in the U.S. market. These preferred shares permit the Corporation, at its option, to pay dividends in additional shares of preferred stock until March 1990. The Corporation exercised this option with respect to all dividends paid during the period which totalled approximately \$30 million. The preferred shares are reflected as "minority interest" in the consolidated financial statements.

In August 1987, Campeau Corporation sold 4.6 million newly issued subordinate voting shares for \$91.2 million and issued \$144 million principal amount of 7½% convertible subordinated debentures, series A. The shares and debentures were offered in units priced at \$1,650 Cdn. per unit with each unit consisting of 25 subordinate voting shares and \$1,000 Cdn. principal amount of convertible subordinated debentures. The debentures are unsecured, mature September 30, 1997 and are convertible into subordinate voting shares of Campeau Corporation at a conversion price of \$31.50 Cdn. per share, being a conversion rate of approximately 31.75 shares per \$1,000 Cdn. principal amount of debentures.

Table 1 below provides an historical perspective of the Corporation's capital structure over the past three years:

Table 1

Capital Structure

| <i>(in millions of United States dollars)</i> | January 31 | December 31 | |
|---|------------|-------------|-------|
| | 1988 | 1986 | 1985 |
| Secured debt | \$4,430 | 6,162 | 1,399 |
| Convertible subordinated debentures | 144 | — | — |
| Deferred income taxes | 79 | 64 | 101 |
| Minority interest | 280 | — | — |
| Shareholders' equity | 94 | 248 | 164 |
| | \$ 597 | 312 | 265 |
| Debt to equity ratio (1) | 11.8X | 24.8X | 8.5X |

(1) Secured debt divided by the sum of minority interest and shareholders' equity.

The Corporation's reliance on secured debt declined significantly during the period. While debt relative to equity might be considered high based on book values, the ratios are reduced dramatically if shareholders' equity is adjusted to reflect, on an after-tax basis, the excess of the market value of the Corporation's assets over their book values. A significant portion of this "hidden" equity is expected to be realized by the Corporation in the current year as a result of the asset disposition program now under way which is referred to on page 4 of this Annual Report.

STATEMENT OF OPERATIONS

The Corporation's operating profit from continuing operations was \$450 million in the thirteen-month period ended January 31, 1988 compared to \$260 million in the twelve-month period ended December 31, 1986. Table 2 below provides an historical perspective of the Corporation's revenues and operating profit over the past three years and segregates merchandising revenue from rental revenue and sales of real estate.

Merchandising operating profit reflects revenue less cost of goods sold, selling expenses and administrative expenses. Rental operating profit reflects revenue from rentals less operating expenses, property taxes and administrative expenses. Operating profit from real estate and other is revenue less cost of sales.

Table 2

Revenue and Operating Profit

| <i>(in millions of United States dollars)</i> | Thirteen months ended January 31 | Year ended December 31 | |
|---|----------------------------------|------------------------|------|
| | 1988 | 1986 | 1985 |
| Revenue | | | |
| Merchandising | \$3,263 | 786 | — |
| Rental | 220 | 156 | 143 |
| Real estate sales | 47 | 35 | 13 |
| | \$3,530 | 977 | 156 |
| Operating Profit | | | |
| Merchandising | \$ 335 | 154 | — |
| Rental | 146 | 103 | 95 |
| Real estate sales | (31) | 3 | 2 |
| | \$ 450 | 260 | 97 |

In the thirteen-month period ended January 31, 1988, the Corporation had a net loss from continuing operations of \$203 million. As can be seen from the consolidated statements of changes in financial position appearing on page 36 of this Annual Report, the loss was due to non-cash charges including depreciation, amortization of financing costs, amortization of goodwill and minority interest.

A portion of the loss incurred in the thirteen-month period ended January 31, 1988 is attributable to non-recurring expenses associated with the acquisition and restructuring of Allied, whose positive effects will be reflected in 1988.

Positive cash flow provided by continuing operations was \$98 million in the period. When combined with positive cash flow provided by assets for sale of \$45 million, cash provided during the period by operating activities was \$143 million.

The operating results of the 16 retail divisions of Allied designated for sale were excluded from continuing operations. Since substantially all these retail operations had been sold by January 31, 1988, they will have no impact on the future financial results of the Corporation.

Merchandising results for 1986 and the thirteen-month period ended January 31, 1988 are not directly comparable due to the acquisition of Allied by Campeau part way through the prior period and the subsequent restructuring process. However, the total sales in divisions constituting continuing operations in the twelve-month period ended January 2, 1988 were \$3,105 million compared with \$2,775 million in the comparable twelve-month period ended January 3, 1987, an increase in sales of 11.9 per cent. Over the same period, gross margin increased from \$1,181 million to \$1,297 million, an increase of \$116 million or approximately 9.8 per cent.

Revenue and operating profit from rental operations increased sharply from the prior period. Rental revenue was \$199 million in the twelve-month period ended December 31, 1987 compared with \$156 million in the twelve-month period ended December 31, 1986, an increase of 27.6 per cent. Operating profit was \$130 million in 1987 compared to \$103 million in 1986, an increase of 26.2 per cent.

The Corporation recorded a loss from real estate and other operations of \$31 million in the thirteen-month period ended January 31, 1988. This loss was attributable to reserves totalling \$31 million established at January 31, 1988 to reduce the carrying value of land held for sale or development in California to amounts not in excess of estimated realizable value.

We have examined the consolidated balance sheets of Campeau Corporation and its subsidiaries as at January 31, 1988 and December 31, 1986 and the consolidated statements of operations, retained earnings (deficit) and changes in financial position for the thirteen months ended January 31, 1988 and the years ended December 31, 1986 and December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of the Corporation and its subsidiaries as at January 31, 1988 and December 31, 1986 and the results of their operations and the changes in their financial position for the thirteen months ended January 31, 1988 and the years ended December 31, 1986 and December 31, 1985 in accordance with accounting principles generally accepted in Canada applied on a consistent basis. With respect to accounting principles generally accepted in the United States, such principles differ from accounting principles generally accepted in Canada as set out in note 22 to the consolidated financial statements, and have been applied on a consistent basis after giving retroactive effect to the change, with which we concur, in the method of accounting for income taxes as described in note 22.

Toronto, Canada
May 11, 1988

Peat Marwick
Chartered Accountants

COMMENT ON CANADA - UNITED STATES
REPORTING STANDARDS

The above opinion is expressed in accordance with standards of reporting generally accepted in Canada. Had the report been prepared in accordance with United States reporting standards our opinion on the 1986 consolidated financial statements would have indicated that we did not examine the financial statements of Allied Stores Corporation, a consolidated company, which financial statements reflect: (a) total assets constituting 75 per cent at December 31, 1986 of the related consolidated totals; and (b) total revenues for the year ended December 31, 1986 as a percentage of the related consolidated totals of 81 per cent. These statements were examined by other auditors whose unqualified report thereon has been furnished to us and under United States reporting standards our opinion would express reliance on the report of the other auditors insofar as it relates to the amounts included in the consolidated financial statements for Campeau Corporation.

Toronto, Canada
May 11, 1988

Peat Marwick
Chartered Accountants

CONSOLIDATED BALANCE SHEET
(in millions of United States dollars)

| | Notes | January 31 1988 | December 31 1986 |
|--|------------|--------------------|---------------------|
| Assets | | | |
| Current assets | | | |
| Cash and short-term deposits | | \$ 19 | 302 |
| Accounts receivable | 4 | 803 | 801 |
| Merchandise inventory | | 513 | 438 |
| Total current assets | | 1,335 | 1,541 |
| Properties and equipment | 5 | 940 | 996 |
| Rental properties | 6 | 1,171 | 858 |
| Development properties | 7 | 336 | 556 |
| Other assets and deferred charges | | 308 | 261 |
| Goodwill | 17 | 1,175 | 977 |
| | | 3,930 | 3,648 |
| Assets for sale | 17 | 46 | 1,320 |
| Discontinued real estate assets | 18 | 435 | 527 |
| Total assets | | \$ 5,746 | 7,036 |
| Liabilities and shareholders' equity | | | |
| Current liabilities | | | |
| Accounts payable | | \$ 429 | 328 |
| Accrued expenses | | 262 | 140 |
| Income taxes payable | 16 | 28 | 94 |
| Short-term debt | 8 | 983 | 2,382 |
| Total current liabilities | | 1,702 | 2,944 |
| Long-term debt | 8 | 3,447 | 3,780 |
| Convertible subordinated debentures | 9 | 144 | - |
| Deferred income taxes | 16 | 79 | 64 |
| Minority interest | | 280 | - |
| Shareholders' equity | | | |
| Retractable Preference Shares | 10 | 101 | 107 |
| Second Preference Shares | 11 | - | - |
| Subordinate Voting Shares | 11 | 165 | 59 |
| Retained earnings (deficit) | | (176) | 93 |
| Equity adjustment from foreign currency translation | 12 | 4 | (11) |
| Total shareholders' equity | | 94 | 248 |
| Commitments, subsequent events and contingencies | 14, 20, 21 | | |
| Total liabilities and shareholders' equity | | \$ 5,746 | 7,036 |

See accompanying notes to consolidated financial statements.

On behalf of the Board:
Robert Campeau, Director
James T. Roddy, Director

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions of United States dollars except per share amounts)

| | Notes | Thirteen months ended January 31 1988 | Year ended December 31 1986 | 1985 |
|--|-------|---|-----------------------------------|-----------|
| Continuing operations | | | | |
| (Note 2) | | | | |
| Revenue | | | | |
| Merchandising | | \$ 3,263 | 786 | — |
| Real estate | | 267 | 191 | 156 |
| | 13 | 3,530 | 977 | 156 |
| Expenses | | | | |
| Cost of goods sold, including buying and occupancy costs | | 2,111 | 481 | — |
| Real estate | | 148 | 81 | 56 |
| Selling, general and administrative | | 861 | 166 | 10 |
| | | 3,120 | 728 | 66 |
| | | 410 | 249 | 90 |
| Financing | 15 | (495) | (92) | (48) |
| Depreciation and amortization | | (133) | (27) | (9) |
| Gain on sale of properties | | 8 | 9 | 9 |
| | | (210) | 139 | 42 |
| Income taxes | 16 | (37) | 78 | 18 |
| | | (173) | 61 | 24 |
| Minority interest | | (30) | — | — |
| Net earnings (loss) from continuing operations | | (203) | 61 | 24 |
| Net earnings (loss) from assets for sale | 17 | (51) | 14 | — |
| Net earnings (loss) from discontinued business assets | 18 | — | (65) | (4) |
| Net earnings (loss) | | (254) | 10 | 20 |
| Dividends on Second Preference and Retractable Preference Shares | | (10) | (6) | (1) |
| Net earnings (loss) attributable to Subordinate Voting Shareholders | | \$ (264) | 4 | 19 |
| Per Subordinate Voting Share | | | | |
| | 11 | | | |
| Net earnings (loss) from continuing operations | | \$ (5.23) | 1.43 | 0.59 |
| Net earnings (loss) | | \$ (6.49) | 0.10 | 0.50 |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)
(in millions of United States dollars)

| | <i>Notes</i> | <i>Thirteen months ended January 31 1988</i> | <i>Year ended December 31</i> | |
|---|--------------|--|-----------------------------------|-------------|
| | | | <i>1986</i> | <i>1985</i> |
| Balance—beginning of period | | \$ 93 | 93 | 80 |
| Net earnings (loss) | | (254) | (10) | 20 |
| | | (161) | 103 | 100 |
| Dividends | 10, 11 | | | |
| Preference | | | | |
| Second | | — | — | — |
| Retractable | | 10 | 6 | 1 |
| Subordinate Voting | | 3 | 3 | 2 |
| Costs incurred on issue of capital stock, net of taxes | 9 | 2 | 1 | — |
| Premium on repurchase of capital stock | | — | — | 4 |
| | | 15 | 10 | 7 |
| Balance—end of period | | \$ (176) | 93 | 93 |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
(in millions of United States dollars)

| | Notes | Thirteen months ended January 31 1988 | Year ended December 31 1986 | 1985 |
|--|-------|---|-----------------------------------|------------|
| Operating activities | | | | |
| Net earnings (loss) from continuing operations | | \$ (203) | 61 | 24 |
| Items not requiring a current outlay of cash: | | | | |
| Deferred income taxes | | (48) | 11 | 18 |
| Depreciation and amortization | | 98 | 23 | 9 |
| Amortization of financing costs | | 122 | 9 | — |
| Amortization of goodwill | | 35 | 4 | — |
| Minority interest | | 30 | — | — |
| | | 34 | 108 | 51 |
| Net changes in non-cash working capital balances related to operations: | | | | |
| Accounts receivable | | (2) | (130) | 7 |
| Merchandise inventory | | (75) | 79 | — |
| Accounts payable and accrued expenses | | 156 | (116) | (1) |
| Income taxes payable | | (15) | 67 | — |
| | | 64 | (100) | 6 |
| Cash provided by continuing operations | | 98 | 8 | 57 |
| Cash provided by assets for sale | 17 | 45 | 6 | — |
| Cash applied to discontinued business assets | 18 | — | — | (5) |
| Cash provided by operating activities | | 143 | 14 | 52 |
| Financing activities | | | | |
| Issue of capital stock, net | | 100 | 81 | 19 |
| Accounts payable related to development activity | | (4) | 41 | 4 |
| Debt issued | | 2,975 | 3,384 | 412 |
| Debt issue cost | | (112) | (177) | (1) |
| Debt repaid | | (4,610) | (3,005) | (257) |
| Debt issued on acquisition | | — | 3,477 | — |
| Minority interest | | 250 | — | — |
| Cash provided by (applied to) financing activities | | (1,401) | 3,801 | 177 |
| Investment activities | | | | |
| Properties and equipment | | 78 | 28 | — |
| Rental properties | | 309 | 45 | 102 |
| Development properties | | (81) | 158 | 158 |
| Costs recovered from sale of properties | | (242) | (46) | (18) |
| Acquisition of Allied Stores Corporation | | — | 3,583 | — |
| Other | | 21 | 2 | (8) |
| Assets for sale | | (1,010) | 13 | — |
| Discontinued business assets | 18 | (109) | (6) | (8) |
| Cash applied to (provided by) investment activities | | (1,034) | 3,777 | 226 |
| Dividends | | 13 | 9 | 3 |
| Increase (decrease) in cash during period | | (237) | 29 | — |
| Cash—beginning of period | | (178) | 2 | 2 |
| Cash deficiency acquired | | — | (209) | — |
| Cash—end of period | | \$ (415) | (178) | 2 |

Cash is comprised of cash and short-term deposits, bank overdrafts and revolving operating facilities.
See accompanying notes to consolidated financial statements.

BASIS OF PRESENTATION

The consolidated financial statements are expressed in United States dollars. As a result of the 1986 acquisition of Allied Stores Corporation ("Allied") (Note 17) the United States dollar is the principal currency of the Corporation's business. Accordingly, comparative figures have been restated from Canadian ("Cdn.") to United States dollars. In addition, certain of the comparative figures have been reclassified to conform with the presentation adopted in the current year.

I. SIGNIFICANT ACCOUNTING POLICIES

(a) General

The Corporation's accounting policies and standards of financial disclosure are in accordance with generally accepted accounting principles in Canada and conform in all material respects with historic cost International Accounting Standards. The accounting policies and standards of financial disclosure relating to real estate operations are in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies, of which the Corporation is a member. Reference is made to Note 22, with respect to significant differences between the Corporation's accounting policies and accounting principles generally accepted in the United States.

(b) Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and all of its subsidiaries together with the Corporation's proportionate share of the assets, liabilities, revenues and expenses relating to activities conducted jointly with other parties.

(c) Foreign exchange

All assets and liabilities denominated in currencies other than United States dollars have been translated into United States dollars at the rate of exchange in effect at the balance sheet date. Gains or losses resulting from the translation of assets and liabilities of self-sustaining operations denominated in currencies other than United States dollars are included as a separate component of shareholders' equity. Gains or losses resulting from the translation of all other assets and liabilities are included in the consolidated statements of operations.

Revenue and expense accounts are translated at the weighted average rates of exchange prevailing during the period.

(d) Inventories

Merchandise inventory is stated at the lower of cost or net realizable value determined by the retail inventory method using the first-in, first-out method.

(e) Properties and equipment

Properties and equipment are recorded at cost less accumulated depreciation.

Depreciation on properties and equipment is provided on a straight-line basis over their estimated useful lives.

The estimated useful lives of properties and equipment are mainly as follows:

| | |
|--|----------------|
| Store buildings and warehouses | 40 to 50 years |
| Elevators, escalators and building equipment | 15 to 20 years |
| Store fixtures and equipment | 3 to 15 years |

Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or their useful lives.

Capitalized leases are amortized over the lease term.

(f) Rental properties

Rental properties are recorded at cost less accumulated depreciation.

Depreciation on buildings and improvements is provided on the sinking fund method in annual amounts increasing at the rate of 5% compounded annually, which is designed to fully amortize the costs of the buildings and improvements over their estimated useful lives.

The estimated useful lives of buildings are mainly as follows:

| | |
|---|----------------|
| Office and mixed-use buildings | 40 to 60 years |
| Shopping centres | 30 to 50 years |
| Commercial/Industrial buildings | 30 to 40 years |

Furniture and equipment are depreciated on the diminishing balance and straight-line methods at various rates.

Deferred leasing and other charges are amortized on a straight-line method over terms appropriate to the expenditures.

(g) Development properties

Development properties include rental properties under development and land held for development.

Rental properties under development are recorded at cost and include predevelopment expenditures related to projects with which the Corporation expects to proceed. Land held for development is carried at cost.

(h) Deferred charges

Deferred charges consisting primarily of deferred financing costs are amortized using the term of repayment of the related debt.

(i) Goodwill

Goodwill comprises the unamortized balance of the excess of the cost over the fair market value of identifiable assets acquired at the date of acquisition. Amortization is provided on a straight-line basis over 40 years.

(j) Store opening expenses

Expenses related to new store openings are charged to operations in the year incurred.

(k) Real estate costing

The Corporation capitalizes all direct costs, financing and certain indirect costs of development properties and discontinued real estate assets. Capitalized financing costs include interest and amortization of financing costs on both specific and general debt. Indirect costs include property taxes and administrative expenses applicable to such assets. Revenues relating specifically to such assets are treated as a reduction of costs.

(l) Income taxes

Income taxes are recorded on the tax allocation basis. Deferred income taxes result primarily from:

- (i) the difference between depreciation recorded for accounting purposes and amounts claimed for income tax purposes;
- (ii) the deferral of certain development and carrying costs for accounting purposes, deducted for income tax purposes; and
- (iii) the installment method of accounting for deferred payment sales.

Foreign withholding taxes that would be applicable to dividend payments from the Corporation's United States and other foreign subsidiaries are not provided for as the unremitted earnings of the subsidiaries are re-invested.

The Corporation uses the cost reduction method to account for investment tax credits.

(m) Revenue recognition—real estate

Revenue from a rental property is recognized once a property is deemed to be completed. Completion occurs once a break-even point in cash flow earnings is attained, subject to a reasonable maximum period of time or level of occupancy. Prior to achieving this level of cash flow, the Corporation classifies properties as development properties and treats the revenue therefrom as a deduction from the development cost.

Revenue from a real estate sale is recognized once all material conditions have been fulfilled and the Corporation has received a down payment that is appropriate in the circumstances having regard to the financial resources of the purchaser.

(n) Assets for sale

Upon the acquisition of Allied, certain operating divisions and rental properties were designated "Assets for sale" as part of a restructuring plan and were recorded at estimated net realizable values. Results of operations of assets for sale have been identified separately in the consolidated statements of operations. Gains or losses from the disposition of assets for sale within one year from the date of acquisition are recorded as an adjustment to goodwill.

(o) Discontinued real estate assets

On January 14, 1983, the Corporation announced its intention to withdraw from the housing and residential land development areas as well as from certain commercial land development in selected geographic areas which do not meet the Corporation's present investment criteria. The assets intended for disposition together with the related liabilities, revenues and expenses have been segregated in the financial statements from those of the continuing operations.

Commencing January 1, 1983, the disposal of the discontinued real estate assets is being accounted for using the cost recovery method. This method treats all proceeds as a recovery of costs with no recognition of profit until the costs are fully recovered and, thereafter, recognizes all proceeds as gains. Therefore, gains from some assets are offset against losses from others.

I. FISCAL YEAR

The Corporation has changed its fiscal year end to January 31. The year end change reflects the significance of the merchandising activities of the Corporation and the traditional year end timing for the retailing industry. The consolidated statements of operations and condensed statements of retained earnings (deficit) and changes in financial position for the month ended January 31, 1988 and the twelve months ended December 31, 1987 are as follows:

| <i>(a) Consolidated statements of operations</i> | Notes | One month ended January 31 1988 | Twelve months ended December 31 1987 |
|--|-------|---------------------------------------|--|
| <i>(in millions)</i> | | | |
| Continuing operations | | | |
| Revenue | | | |
| Merchandising | | \$ 158 | 3,105 |
| Real estate | | 20 | 247 |
| | | 178 | 3,352 |
| Expenses | | | |
| Cost of goods sold, including buying and occupancy costs | | 105 | 2,006 |
| Real estate | | 2 | 146 |
| Selling, general and administrative | | 73 | 788 |
| | | 180 | 2,940 |
| | | (2) | 412 |
| Financing | | (31) | (464) |
| Depreciation and amortization | | (12) | (121) |
| Gain (loss) on sale of properties | | (1) | 9 |
| | | (46) | (164) |
| Income taxes | | (13) | (24) |
| | | (33) | (140) |
| Minority interest | | (3) | (27) |
| Net earnings (loss) from continuing operations | | (36) | (167) |
| Net earnings (loss) from assets for sale | | — | (51) |
| Net earnings (loss) | | (36) | (218) |
| Dividends on Second Preference and Retractable Preference Shares | | — | (10) |
| Net earnings (loss) attributable to Subordinate Voting Shareholders | | \$ (36) | (228) |
| Per Subordinate Voting Share | 11 | | |
| Net earnings (loss) from continuing operations | | \$ (0.87) | (4.36) |
| Net earnings (loss) | | \$ (0.88) | (5.61) |
| <i>(b) Condensed statements of retained earnings (deficit)</i> | | | |
| Retained earnings (deficit)—beginning of period | | \$ (140) | 93 |
| Net earnings (loss) | | (36) | (218) |
| Dividends | | — | 13 |
| Costs incurred on issue of capital stock, net of taxes | | — | 2 |
| Retained earnings (deficit)—end of period | | \$ (176) | (140) |
| <i>(c) Condensed statements of changes in financial position</i> | | | |
| Cash provided by operating activities | | \$ 79 | 64 |
| Cash provided by (applied to) financing activities | | (7) | (1,394) |
| Cash applied to (provided by) investment activities | | 66 | (1,100) |
| Dividends | | — | (13) |
| Increase (decrease) in cash during period | | 6 | (243) |
| Cash—beginning of period | | (421) | (178) |
| Cash—end of period | | \$ (415) | (421) |

3. JOINT VENTURES

Assets and liabilities include the Corporation's proportionate interest in its activities conducted jointly with other parties, as follows:

| <i>(in millions)</i> | <i>January 31</i> 1988 | <i>December 31</i> 1986 |
|----------------------|---------------------------|----------------------------|
| Assets | \$ 462 | 302 |
| Liabilities | 407 | 245 |

Revenue and net earnings include the Corporation's proportionate interest in its activities conducted jointly with other parties, as follows:

| <i>(in millions)</i> | <i>Thirteen months ended January 31</i> 1988 | <i>Year ended December 31</i> | |
|----------------------|---|-------------------------------|------|
| | | 1986 | 1985 |
| Revenue | \$ 42 | 25 | 23 |
| Net earnings (loss) | 2 | (1) | 2 |

The Corporation has guaranteed certain of the obligations of its joint ventures and is contingently liable for the obligations of its associates in certain joint venture developments. The amount of such liability in excess of the liability recorded above on January 31, 1988 was \$182 million (December 31, 1986 - \$68 million). The assets of the joint ventures are available and are sufficient for the purpose of satisfying such obligations.

4. ACCOUNTS RECEIVABLE

| <i>(in millions)</i> | <i>January 31</i> 1988 | <i>December 31</i> 1986 |
|--------------------------------------|---------------------------|----------------------------|
| Revolving credit accounts | \$ 601 | 671 |
| Installment accounts | 47 | 70 |
| | 648 | 741 |
| Less allowance for doubtful accounts | 13 | 14 |
| | 635 | 727 |
| Other | 168 | 74 |
| | \$ 803 | 801 |

Revenue from finance service charges of \$129 million for the thirteen months ended January 31, 1988 (years ended December 31, 1986 - \$30 million; 1985 - nil) on revolving credit and installment accounts is deducted from selling, general and administrative expenses.

5. PROPERTIES AND EQUIPMENT

| <i>(in millions)</i> | <i>January 31</i> 1988 | <i>December 31</i> 1986 |
|---|---------------------------|----------------------------|
| Land | \$ 93 | 99 |
| Buildings, leaseholds and equipment | 646 | 635 |
| Store fixtures and equipment | 236 | 214 |
| | 975 | 948 |
| Less accumulated depreciation | 85 | 11 |
| | 890 | 937 |
| Capitalized leases, net of accumulated amortization of \$10 million (December 31, 1986 - \$1 million) | 50 | 59 |
| | \$ 940 | 996 |

6. RENTAL PROPERTIES

| <i>(in millions)</i> | <i>January 31</i> <i>1988</i> | <i>December 31</i> <i>1986</i> |
|------------------------------------|----------------------------------|-----------------------------------|
| Land | \$ 148 | 109 |
| Buildings and improvements | 1,025 | 755 |
| Furniture and equipment | 10 | 9 |
| Deferred leasing and other charges | 40 | 25 |
| | 1,223 | 898 |
| Less accumulated depreciation | 52 | 40 |
| | \$ 1,171 | 858 |

Basic rental revenues received from a single tenant for the thirteen months ended January 31, 1988 were \$57 million (years ended December 31, 1986—\$48 million; 1985—\$48 million). No other tenant contributes more than ten per cent of the Corporation's consolidated real estate revenues.

The basic rental revenues to be received under operating leases at January 31, 1988 are as follows:

| <i>(in millions)</i> | |
|----------------------|----------|
| January 31, 1989 | \$ 143 |
| 1990 | 135 |
| 1991 | 124 |
| 1992 | 103 |
| 1993 | 88 |
| subsequent to 1993 | 701 |
| | \$ 1,294 |

In addition to basic rents, the majority of the Corporation's leases with tenants provide for other revenues which reimburse the Corporation for certain of its operating expenses. Revenues related to operating expense recoveries for the thirteen months ended January 31, 1988 were \$50 million (years ended December 31, 1986—\$38 million; 1985—\$32 million).

7. DEVELOPMENT PROPERTIES

| <i>(in millions)</i> | <i>January 31</i> <i>1988</i> | <i>December 31</i> <i>1986</i> |
|------------------------------------|----------------------------------|-----------------------------------|
| Balance—beginning of period | \$ 556 | 422 |
| Increases: | | |
| Acquisitions | 35 | 23 |
| Development and construction costs | 138 | 128 |
| Capitalized financing | 49 | 43 |
| | 222 | 194 |
| | 778 | 616 |
| Decreases: | | |
| Cost of properties sold | 162 | 26 |
| Rental properties completed | 280 | 34 |
| | 442 | 60 |
| Balance—end of period | \$ 336 | 556 |

8. DEBT

Substantially all assets of the Corporation are collateralized under various debt agreements. The following table summarizes the types of financing provided to the Corporation and indicates, where appropriate, the primary security provided for each type of loan.

| (in millions) | Interest rates at January 31, 1988 | | Maturities of long-term debt | Long-term | Short-term | Total | |
|---|---------------------------------------|--------------------------|------------------------------------|-----------|------------|--------------------|---------------------|
| | Range % - % | Weighted average % | | | | January 31 1988 | December 31 1986 |
| Merchandising: | | | | | | | |
| Bridge facility | | | | \$ - | - | - | 850 |
| Bank loans - floating rate | 8.13- 8.70 | 8.38 | 1992 | 800 | 428 | 1,228 | 2,949 |
| Notes | 9.00-11.50 | 10.94 | 1997 | 1,057 | - | 1,057 | 152 |
| Mortgages, loans and bonds | 4.85-14.25 | 8.51 | 2011 | 345 | - | 345 | 109 |
| Rental properties: | | | | | | | |
| Mortgages, loans and bonds | 4.00-14.00 | 11.90 | 1988-2014 | 852 | - | 852 | 583 |
| Bank loans - floating rate | 6.88- 9.75 | 8.30 | 1988-1990 | 38 | 94 | 132 | 379 |
| Development properties: | | | | | | | |
| Mortgages | 0-12.75 | 5.30 | 1988-2001 | 19 | - | 19 | 83 |
| Bank loans - floating rate | 8.15-10.00 | 9.30 | 1988-1990 | 125 | 25 | 150 | 397 |
| Bank loans - fixed rate | 8.25-11.07 | 9.42 | 1988-1990 | 79 | 11 | 90 | 60 |
| Affiliated company | | | | - | - | - | 3 |
| General corporate indebtedness: | | | | | | | |
| Mortgages, loans and notes | 7.50-13.75 | 13.57 | 1993-1997 | 1 | - | 1 | 168 |
| Bank loans - floating rate | 6.98-13.50 | 8.70 | 1988-1992 | 311 | 128 | 439 | 280 |
| Bank loans - fixed rate | 8.25-11.07 | 10.20 | 1988-1992 | 60 | - | 60 | 90 |
| | | 9.80 | | 3,687 | 686 | 4,373 | 6,103 |
| Current maturities of long-term debt | | | | (294) | 294 | | |
| Capitalized lease obligations (note 14) | | | | 54 | 3 | 57 | 59 |
| | | | | \$3,447 | 983 | 4,430 | 6,162 |

The Corporation's debt agreements contain certain restrictive covenants which impose limitations customarily found in a loan agreement. Additionally, the agreements limit the amount of capital expenditures and require the maintenance of certain ratios including debt leverage, fixed charge coverage, net worth and working capital. The debt agreements and indentures also restrict Allied's ability to pay cash dividends or make loans or advances to the Corporation. The net assets of Allied as at January 31, 1988, subject to these restrictions, were approximately \$175 million.

As at January 31, 1988, total debt included \$1,383 million Cdn. (\$1,084 million U.S.) denominated in Canadian dollars. Floating rate bank loans bear interest at rates which vary based upon the prime rate or other indices.

Floating and fixed rate bank loans collateralized by development properties include, at January 31, 1988, \$114 million of advances under interim construction financing for which no permanent financing had been arranged.

The Corporation had bank lines of credit totalling \$1,655 million at January 31, 1988. The unused portions of these lines amounted to \$340 million at January 31, 1988. Certain conditions are attached to the availability of certain portions of these lines of credit.

Long-term debt balances at January 31, 1988 are due as follows:

| <i>(in millions)</i> | <i>Installment payments</i> | <i>Balance due at maturity</i> | <i>Total</i> |
|----------------------|-----------------------------|--------------------------------|--------------|
| January 31, 1989 | \$ 37 | 257 | 294 |
| 1990 | 32 | 431 | 463 |
| 1991 | 22 | 56 | 78 |
| 1992 | 10 | 671 | 681 |
| 1993 | 8 | 494 | 502 |
| subsequent to 1993 | | | 1,669 |
| | | \$ | 3,687 |

9. CONVERTIBLE SUBORDINATED DEBENTURES

On September 2, 1987, the Corporation issued 4,600,000 Subordinate Voting Shares and \$184 million Cdn. principal amount of 7½% convertible subordinated debentures, series A. Offered in units priced at \$1,650 Cdn., each unit consisted of 25 Subordinate Voting Shares and \$1,000 Cdn. principal amount of debentures. The debentures are unsecured, mature September 30, 1997 and are convertible into Subordinate Voting Shares of the Corporation at a conversion price of \$31.50 Cdn. per share. The debentures are not redeemable prior to October 1, 1990. On and after October 1, 1990 and prior to October 1, 1992, the debentures will not be redeemable unless the weighted average price at which the Subordinate Voting Shares have traded during 20 consecutive trading days ending not more than five trading days before the date on which the notice of redemption is given is not less than 125 per cent of the conversion price. On and after October 1, 1992, the debentures will be redeemable at any time at the option of the Corporation at par. Underwriters' fees and expenses of \$6 million Cdn. for the issue of debentures are included with other assets and deferred charges and are being amortized over the term of the debentures. Underwriters' fees and expenses for the issue of Subordinate Voting Shares of \$2 million Cdn. have been charged to retained earnings, net of deferred income taxes of \$2 million Cdn.

10. RETRACTABLE PREFERENCE SHARES

| | <i>January 31, 1988</i> | | <i>(in millions)</i> | |
|--------------|-------------------------|-------------------------------|------------------------|-------------------------|
| | <i>Authorized</i> | <i>Issued and outstanding</i> | <i>January 31 1988</i> | <i>December 31 1986</i> |
| Series A | 151,534 | 31,534 | \$ — | 6 |
| Series B | 1,250,000 | 1,199,700 | 22 | 22 |
| Series C | 3,000,000 | 2,000,000 | 36 | 36 |
| Series D | 4,800,000 | 2,401,650 | 43 | 43 |
| Unclassified | 9,350,000 | — | — | — |
| | | | \$ 101 | 107 |

The non-voting Preference Shares, authorized without par value, are issuable in series, each series ranking equally, and are senior to Second Preference Shares and Subordinate Voting Shares.

The Series A Preference Shares carry a fixed cumulative dividend of 7% per annum (\$0.35 Cdn. per share). These shares are retractable at the option of the holder and are redeemable at the option of the Corporation at any time, in all cases at \$5.00 Cdn. per share plus accrued and unpaid dividends. During the thirteen months ended January 31, 1988, 1,448,466 Series A Preference Shares were retracted and cancelled.

The Series B Preference Shares carry a fixed cumulative dividend of 8% per annum (\$2.00 Cdn. per share) until July 31, 1990, and thereafter at the rate per annum equal to 70 per cent of the average daily prime rate of a Canadian chartered bank. These shares are retractable at the option of the holder on July 31, 1990 and thereafter on each subsequent anniversary date and are redeemable at the option of the Corporation on or after July 31, 1991, in all cases at \$25.00 Cdn. per share plus accrued and unpaid dividends.

The Series C Preference Shares carry a fixed cumulative dividend of 8.74% per annum (\$2.185 Cdn. per share) until March 31, 1991 and a floating rate dividend thereafter equal to 70 per cent of the prime rate of a Canadian chartered bank. These shares are retractable at the option of the holder on March 31, 1991 and thereafter on each subsequent anniversary date and are redeemable at the option of the Corporation on or after March 31, 1991, in all cases at \$25.00 Cdn. per share plus accrued and unpaid dividends. During 1986, 2,000,000 Series C shares were issued for an aggregate issue price of \$50 million Cdn.

The Series D Preference Shares carry a fixed cumulative dividend of 9% per annum (\$2.25 Cdn. per share). These shares are retractable at the option of the holder on September 30, 1993 and thereafter on each subsequent anniversary date at \$25.00 Cdn. per share plus accrued and unpaid dividends and are redeemable at the option of the Corporation on or after September 30, 1991 at \$26.00 Cdn. per share, declining to \$25.00 Cdn. per share on or after September 30, 1993, plus accrued and unpaid dividends. During 1986, 2,400,000 units, consisting of one Series D Preference Share and one Series D Preference Share Warrant, were issued for an aggregate issue price of \$60 million Cdn. The Series D Preference Share Warrants entitled the holder to purchase one Series D Preference Share at \$25.00 Cdn. on or before December 1, 1987. During the thirteen months ended January 31, 1988, 1,100 warrants were exercised (1986 - 550 warrants).

11. SECOND PREFERENCE SHARES AND SUBORDINATE VOTING SHARES

Effective August 15, 1987, the Subordinate Voting and Second Preference Shares were split on a two-for-one basis. All Subordinate Voting and Second Preference Share amounts and per share amounts in these consolidated financial statements have been restated to reflect this share split.

Second Preference Shares

There are 8,000,000 Second Preference Shares authorized of which 8,000,000 shares were issued and outstanding at January 31, 1988 and December 31, 1986, 1985 and 1984. The 3% non-cumulative, redeemable, Second Preference Shares have an amount paid up thereon of \$0.025 Cdn. each and entitle the holder to ten (10) votes per share (Note 20). The Corporation paid dividends of \$0.00075 Cdn. per share during the thirteen months ended January 31, 1988 (years ended December 31, 1986 - \$0.00075 Cdn.; 1985 - \$0.00075 Cdn.).

Subordinate Voting Shares

(a) The Subordinate Voting Shares entitle the holder to one (1) vote per share. The authorized number of Subordinate Voting Shares was increased to an unlimited amount on August 15, 1987. Shares issued at January 31, 1988 and the changes from December 31, 1984 to January 31, 1988 are as follows:

| | <i>Number of shares</i> | <i>Millions of U.S. dollars</i> |
|--|-----------------------------|-------------------------------------|
| Issued and outstanding – December 31, 1984 | 38,384,006 | \$ 60 |
| Issued for cash: | | |
| Under Subordinate Voting Share Warrants | 1,302 | – |
| Under Incentive Stock Option Plan | 10,400 | – |
| Purchase of Subordinate Voting Share Warrants for cancellation | – | (3) |
| Issued and outstanding – December 31, 1985 | 38,395,708 | 57 |
| Issued for cash: | | |
| Under Subordinate Voting Share Warrants | 215,774 | 2 |
| Under Incentive Stock Option Plan | 72,600 | – |
| Issued and outstanding – December 31, 1986 | 38,684,082 | 59 |
| Issued for cash: | | |
| Under Incentive Stock Option Plan | 84,800 | 1 |
| Public offering (Note 9) | 4,600,000 | 91 |
| Purchase of land (Note 18 D (i)) | 1,000,000 | 14 |
| Purchase of Subordinate Voting Shares for cancellation | (54,000) | – |
| Issued and outstanding – January 31, 1988 | 44,314,882 | \$ 165 |

The Corporation paid dividends of \$0.12 Cdn. per Subordinate Voting Share during the thirteen months ended January 31, 1988 (years ended December 31, 1986 – \$0.08 Cdn.; 1985 – \$0.07 Cdn.).

(b) Prior to August 29, 1986, the holder of each whole Subordinate Voting Share Warrant was entitled to purchase one Subordinate Voting Share for \$11.25 Cdn. During 1985, 2,773,992 warrants were purchased for cancellation for cash consideration of \$10 million Cdn.

(c) At January 31, 1988, options have been granted to purchase 3,511,000 Subordinate Voting Shares in accordance with the Corporation's Incentive Stock Option Plan. Under the terms of the plan, options to purchase Subordinate Voting Shares can be issued at not less than 90 per cent of the market value of the Subordinate Voting Shares at the date the options are granted and for a period not to exceed ten years. A summary of changes in outstanding options under the plan, prices and years at which they can be exercised is as follows:

| | <i>Thirteen months ended January 31</i> | | <i>Year ended December 31</i> | |
|-----------------------------------|---|-------------|-------------------------------|--|
| | <i>1988</i> | <i>1986</i> | <i>1985</i> | |
| Outstanding – beginning of period | 1,518,200 | 1,238,800 | 300,000 | |
| Options granted | 2,870,000 | 894,000 | 1,000,000 | |
| Options exercised | (84,800) | (72,600) | (10,400) | |
| Options cancelled | (792,400) | (542,000) | (50,800) | |
| Outstanding – end of period | 3,511,000 | 1,518,200 | 1,238,800 | |

(in Canadian dollars)

| <i>Option price</i> | <i>Years exercisable</i> | <i>Number of shares exercisable in each year</i> |
|---------------------|--------------------------|--|
| 10.25 | 1988 | 4,000 |
| | 1989-1994 | 1,000 |
| 10.375 | 1988 | 17,000 |
| | 1989-1994 | 6,200 |
| 11.00 | 1988-1997 | 32,000 |
| 11.563 | 1988-1997 | 2,000 |
| 11.75 | 1988 | 60,000 |
| | 1989-1995 | 20,000 |
| 12.50 | 1988 | 96,200 |
| | 1989-1990 | 46,800 |
| | 1991-1995 | 38,800 |
| 13.75 | 1988-1996 | 7,000 |
| 14.00 | 1988 | 988,000 |
| | 1989-1992 | 228,000 |
| 17.75 | 1988 | 4,000 |
| | 1989-1997 | 26,000 |
| | 1998 | 22,000 |
| 20.00 | 1988-1997 | 30,000 |

(d) Pursuant to the Corporation's Stock Purchase Plan established in 1975, the Corporation made non-interest bearing loans to a trustee which were used to acquire Subordinate Voting Shares from the Corporation for the account of certain executive officers. In 1983, the Board of Directors passed a resolution that there be no further designations under the Plan. The outstanding indebtedness of the trustee to the Corporation under the Plan is \$1 million at January 31, 1988 (December 31, 1986 - \$2 million).

(e) Per Subordinate Voting Share amounts are calculated after deducting preference share dividends and are based on the weighted average number of Subordinate Voting Shares outstanding during the period, as follows:

Thirteen months ended January 31, 1988 - 40,844,629 shares

Year ended December 31, 1986 - 38,513,750 shares

Year ended December 31, 1985 - 38,387,532 shares

For the year ended December 31, 1986, the fully diluted earnings per share from continuing operations was \$1.41 and from all operations \$0.08. For the thirteen months ended January 31, 1988 and the year ended December 31, 1985, there was no dilution.

12. EQUITY ADJUSTMENT FROM FOREIGN CURRENCY TRANSLATION

| <i>(in millions)</i> | <i>January 31</i> | <i>December 31</i> | |
|---|-------------------|--------------------|-------------|
| | <i>1988</i> | <i>1986</i> | <i>1985</i> |
| Balance - beginning of period | \$ (11) | (15) | (8) |
| Translation adjustments during the period | 15 | 4 | (7) |
| Balance - end of period | \$ 4 | (11) | (15) |

13. SEGMENTED INFORMATION

The Corporation carries on its merchandising activities through both department and specialty stores throughout the United States. The real estate business includes the ownership and operation of rental property including shopping centres, office buildings and mixed-use complexes, and the sale of real estate. The real estate operations are active in both Canada and the United States. Segmented information for the thirteen months ended January 31, 1988 and the years ended December 31, 1986 and 1985 is as follows:

| (in millions) | Canada | | | United States | | | Consolidated | | |
|--|--------------------|---------------------|---------------------|--------------------|---------------------|---------------------|--------------------|---------------------|---------------------|
| | January 31 1988 | December 31 1986 | December 31 1985 | January 31 1988 | December 31 1986 | December 31 1985 | January 31 1988 | December 31 1986 | December 31 1985 |
| Revenue | | | | | | | | | |
| Merchandising | \$ - | - | - | 3,263 | 786 | - | 3,263 | 786 | - |
| Rental | 178 | 140 | 132 | 42 | 16 | 11 | 220 | 156 | 143 |
| Real estate sales | 3 | 30 | 6 | 44 | 5 | 7 | 47 | 35 | 13 |
| | \$ 181 | 170 | 138 | 3,349 | 807 | 18 | 3,530 | 977 | 156 |
| Operating profit (loss) | | | | | | | | | |
| Merchandising | \$ - | - | - | 335 | 154 | - | 335 | 154 | - |
| Rental | 116 | 90 | 86 | 30 | 13 | 9 | 146 | 103 | 95 |
| Real estate sales | (2) | 11 | 1 | (29) | (8) | 1 | (31) | 3 | 2 |
| | \$ 114 | 101 | 87 | 336 | 159 | 10 | 450 | 260 | 97 |
| Gain on sale of properties | | | | | | | 8 | 9 | 9 |
| Financing | | | | | | | (495) | (92) | (48) |
| Depreciation and amortization | | | | | | | (133) | (27) | (9) |
| Corporate expenses | | | | | | | (40) | (11) | (7) |
| Income taxes | | | | | | | 37 | (78) | (18) |
| Minority interest | | | | | | | (30) | - | - |
| Net earnings (loss) from continuing operations | | | | | | | \$ (203) | 61 | 24 |
| Identifiable assets | | | | | | | | | |
| Merchandising | \$ - | - | - | 3,645 | 3,705 | - | 3,645 | 3,705 | - |
| Rental | 715 | 592 | - | 569 | 336 | - | 1,284 | 928 | - |
| Real estate | 218 | 255 | - | 118 | 301 | - | 336 | 556 | - |
| | \$ 933 | 847 | - | 4,332 | 4,342 | - | 5,265 | 5,189 | - |
| Depreciation and amortization | | | | | | | | | |
| Merchandising | \$ - | - | - | 115 | 16 | - | 115 | 16 | - |
| Rental | 10 | 8 | 7 | 8 | 3 | 2 | 18 | 11 | 9 |
| | \$ 10 | 8 | 7 | 123 | 19 | 2 | 133 | 27 | 9 |

Merchandising revenue above and revenue from assets for sale (Note 17) include sales from leased departments of \$271 million for the thirteen months ended January 31, 1988 (years ended December 31, 1986-\$89 million; 1985-nil).

Capital expenditures in the merchandising segment for the thirteen months ended January 31, 1988 were \$78 million (years ended December 31, 1986-\$28 million; 1985-nil).

14. COMMITMENTS

The Corporation has obligations under long-term leases for land, retail stores, warehousing, office facilities, fixtures and equipment for various lease periods up to the year 2079. The leases usually contain renewal options and provide for payment of real estate taxes and other expenses. In addition, certain leases have escalation clauses requiring adjustment to rents at various dates based on market value or other factors and increased rentals based on a percentage of sales.

Future minimum lease payments under long-term leases as at January 31, 1988 are as follows:

| <i>(in millions)</i> | | <i>Operating leases</i> | <i>Capital leases</i> |
|--|----|-------------------------|-----------------------|
| January 31, 1989 | \$ | 30 | 8 |
| 1990 | | 27 | 8 |
| 1991 | | 26 | 8 |
| 1992 | | 26 | 8 |
| 1993 | | 24 | 7 |
| subsequent to 1993 | | 394 | 97 |
| Total minimum lease payments | \$ | 527 | 136 |
| Less: Executory costs | | | 13 |
| Interest at an average rate of 10% | | | 66 |
| Capitalized lease obligations, including current maturities of capital leases of \$3 million | | | \$ 57 |

Rent expense charged against operations is as follows:

| <i>(in millions)</i> | | <i>Thirteen months ended January 31</i> | <i>Year ended December 31</i> | |
|----------------------|----|---|-------------------------------|------|
| | | 1988 | 1986 | 1985 |
| Minimum rentals | \$ | 67 | 4 | 2 |
| Percentage rentals | | 36 | 7 | - |
| | \$ | 103 | 11 | 2 |

Commitments for the construction of development properties in the ordinary course of business amount to approximately \$82 million at January 31, 1988 (December 31, 1986 - \$104 million).

15. FINANCING

| <i>(in millions)</i> | | <i>Thirteen months ended January 31</i> | <i>Year ended December 31</i> | |
|--------------------------------------|----|---|-------------------------------|------|
| | | 1988 | 1986 | 1985 |
| Financing costs incurred | \$ | 647 | 184 | 127 |
| Less capitalized: | | | | |
| Properties and equipment | | (1) | - | - |
| Development properties | | (49) | (43) | (37) |
| Discontinued real estate assets | | (18) | (26) | (34) |
| Financing charged against earnings | | 579 | 115 | 56 |
| Interest income included in earnings | | (17) | (4) | (3) |
| | \$ | 562 | 111 | 53 |
| Financing charged against: | | | | |
| Continuing operations | \$ | 495 | 92 | 48 |
| Assets for sale | | 67 | 19 | - |
| Discontinued operations | | - | - | 5 |
| | \$ | 562 | 111 | 53 |

Financing costs incurred on indebtedness with an initial term of more than one year amounted to \$523 million for the thirteen months ended January 31, 1988 (years ended December 31, 1986 - \$109 million; 1985 - \$110 million).

16. INCOME TAXES - CONTINUING OPERATIONS

The income tax expense reported differs from the amount computed by applying the average statutory Canadian federal and provincial income tax rates to earnings (loss) from continuing operations before income taxes. The reasons for this difference and their tax effects are as follows:

| | Thirteen months ended January 31 | | Year ended December 31 | |
|---|----------------------------------|-------|------------------------|-------|
| | | 1988 | 1986 | 1985 |
| Expected income tax rate | | 50.7% | 51.7% | 48.1% |
| <i>(in millions)</i> | | | | |
| Expected income tax provision (recovery) | \$ | (106) | 72 | 20 |
| Permanent differences arising from | | | | |
| purchase accounting | | 28 | 13 | - |
| Non-taxable portion of capital gains | | (1) | (3) | (2) |
| Difference between Canadian and foreign | | | | |
| tax rates | | 26 | (3) | - |
| Other | | 16 | (1) | - |
| Actual provision for (recovery of) income taxes | \$ | (37) | 78 | 18 |

The deferred income tax provision applicable to continuing operations, representing the tax effect of timing differences, is detailed below:

| | Thirteen months ended January 31 | | Year ended December 31 | |
|--|----------------------------------|------|------------------------|------|
| | | 1988 | 1986 | 1985 |
| <i>(in millions)</i> | | | | |
| Excess amounts claimed for income tax | | | | |
| purposes over depreciation and amortization | | | | |
| recorded for accounting purposes | \$ | 20 | - | 1 |
| Financing and carrying costs expensed for | | | | |
| income tax purposes but capitalized for | | | | |
| accounting purposes | | 27 | 28 | 17 |
| Losses for income tax purposes recognized | | | | |
| through a reduction of deferred income taxes | | (22) | (19) | (1) |
| Gains for income tax purposes deferred for | | | | |
| accounting purposes | | (17) | - | - |
| Installment method of accounting for sales | | (69) | - | - |
| Other | | 13 | 2 | 1 |
| | \$ | (48) | 11 | 18 |

The geographic components of earnings (loss) before income taxes and income taxes are summarized below:

| | Thirteen months ended January 31 | | Year ended December 31 | |
|--------------------------------------|----------------------------------|-------|------------------------|------|
| | | 1988 | 1986 | 1985 |
| <i>(in millions)</i> | | | | |
| Earnings (loss) before income taxes: | | | | |
| Canada | \$ | 20 | 50 | 40 |
| United States | | (230) | 89 | 2 |
| | \$ | (210) | 139 | 42 |
| Income taxes: | | | | |
| Canada | \$ | 9 | 24 | 17 |
| United States | | (46) | 54 | 1 |
| | \$ | (37) | 78 | 18 |

The Corporation has accumulated non-capital losses for income tax purposes at January 31, 1988 which are available for deduction in determining future taxable income. The losses aggregate approximately \$70 million for Canadian tax purposes which if not utilized will expire during the years 1991 through 1993. The Corporation's United States subsidiaries have tax losses aggregating approximately \$300 million which if not utilized will expire during the years 1993 through 2003. To the extent that these losses are applied to reduce future taxable income, deferred income taxes will be recorded in the balance sheet at the then current rate.

In addition, the Corporation has accumulated capital losses for income tax purposes which are available for deduction against future capital gains. The capital losses aggregate approximately \$35 million for Canadian tax purposes and have an indefinite expiration period. The Corporation's United States subsidiaries have capital losses aggregating approximately \$100 million for United States tax purposes which if not utilized will expire by 1993. No tax benefit has been recorded with respect to the capital losses.

17. ACQUISITION OF ALLIED STORES CORPORATION

On October 31, 1986, the Corporation acquired a majority interest in Allied and signed a merger agreement with Allied which provided for the acquisition of the remaining shares through a merger with a wholly-owned subsidiary of the Corporation. Accordingly, the purchase of the remaining shares has been accounted for as at November 1, 1986, after giving effect to all appropriate adjustments. Allied is a major retailer which operates department and specialty stores throughout the United States.

The acquisition has been accounted for by the purchase method. The consolidated financial statements include assets and liabilities acquired and the results of operations of Allied from November 1, 1986. The net assets acquired at fair market values were as follows:

(in millions)

| | |
|--------------------------|----------|
| Accounts receivable | \$ 634 |
| Merchandise inventory | 517 |
| Properties and equipment | 994 |
| Rental properties | 256 |
| Other | 107 |
| Goodwill | 981 |
| Accounts payable | (609) |
| Debt | (597) |
| | 2,283 |
| Assets for sale | 1,300 |
| Purchase price | \$ 3,583 |

The results of operations of the sixteen operating divisions and a 50 per cent interest in five regional shopping centres designated as assets for sale on acquisition have been segregated in the consolidated financial statements from those of continuing operations. The revenues, earnings (loss) and cash provided by operating activities of assets for sale are as follows:

| <i>(in millions)</i> | <i>Thirteen months ended January 31</i> | <i>Two months ended December 31</i> |
|--|---|-------------------------------------|
| | <i>1988</i> | <i>1986</i> |
| Net earnings from assets for sale | | |
| Revenue | \$ 854 | 456 |
| Earnings before the undernoted items | 20 | 66 |
| Financing | 67 | 19 |
| Depreciation and amortization | 34 | 9 |
| Corporate expenses | 7 | 3 |
| | 108 | 31 |
| | (88) | 35 |
| Income taxes | (37) | 21 |
| Net earnings (loss) from assets for sale | \$ (51) | 14 |
| Cash provided by operating activities | | |
| Net earnings (loss) from assets for sale | \$ (51) | 14 |
| Items not requiring a current outlay of cash: | | |
| Deferred income taxes | (42) | (5) |
| Depreciation and amortization | 34 | 9 |
| Amortization of financing cost | 13 | 3 |
| | (46) | 21 |
| Net changes in non-cash working capital balances relating to operations: | | |
| Accounts receivable | 107 | (83) |
| Merchandise inventory | 1 | 67 |
| Liabilities | (17) | 1 |
| Cash provided by operating activities | \$ 45 | 6 |

Substantially all of the operating divisions and assets designated as assets for sale have been sold as at January 31, 1988.

The increase in goodwill of \$198 million during the thirteen months ended January 31, 1988 is attributable to the disposition of divisions held for sale in amounts less than the estimated fair value at the time of the business combination, estimated costs of certain assets to be disposed of and additional costs associated with the merger, net of amortization. As at January 31, 1988, goodwill is recorded net of accumulated amortization of \$39 million (December 31, 1986 - \$4 million).

18. DISCONTINUED REAL ESTATE ASSETS

During the thirteen months ended January 31, 1988, additional progress was made towards the completion of the disposal of the discontinued real estate assets, including the disposal for cash of all remaining assets in southern California. Continuing poor markets in some regions did adversely affect the Corporation's disposition plan, most notably in Texas and Alberta. The Corporation remains committed to the plan to dispose of substantially all the discontinued real estate assets and anticipates that a net gain will be realized on the final disposition of these assets. However, due to economic uncertainties, it is impossible to make a precise determination of the eventual outcome.

Financial information for discontinued real estate assets is set out below:

| <i>(in millions)</i> | <i>Note</i> | <i>January 31</i> <i>1988</i> | <i>December 31</i> <i>1986</i> |
|---|-------------|----------------------------------|-----------------------------------|
| Real Estate Asset Pool | | | |
| Properties, land and inventories | | \$ 437 | 396 |
| Amounts receivable | a | 106 | 239 |
| Reduction in the carrying value of assets | | (108) | (108) |
| | | \$ 435 | 527 |

(a) Amounts receivable

| <i>(in millions)</i> | <i>January 31</i> <i>1988</i> | <i>December 31</i> <i>1986</i> |
|----------------------------|----------------------------------|-----------------------------------|
| Secured receivables | \$ 104 | 224 |
| Advances to joint ventures | 1 | 1 |
| Other receivables | 1 | 14 |
| | \$ 106 | 239 |
| Due within one year | \$ 14 | 16 |

(b) Liabilities related to discontinued real estate assets

Accounts payable directly related to discontinued real estate assets amounted to \$6 million at January 31, 1988 (December 31, 1986—\$9 million). Debt allocated to these assets amounted to \$311 million at January 31, 1988 (December 31, 1986—\$413 million).

(c) Joint ventures

The Corporation's proportionate interest in its activities conducted jointly with other parties is as follows:

| <i>(in millions)</i> | <i>January 31</i> <i>1988</i> | <i>December 31</i> <i>1986</i> |
|----------------------|----------------------------------|-----------------------------------|
| Assets | \$ 9 | 80 |
| Liabilities | 4 | 56 |

The Corporation has guaranteed certain of the obligations of its joint ventures and is contingently liable for the obligations of its associates in certain joint venture developments. The amount of such liability in excess of the liability recorded above on January 31, 1988 was \$1 million (December 31, 1986—\$29 million). The assets of the joint ventures are available and are sufficient for the purpose of satisfying such obligations.

(d) Related party transactions

(i) During the thirteen months ended January 31, 1988, the Corporation purchased all of the shares of a Company which indirectly owned a one-half interest in certain lands from Robert Campeau, Chairman of the Board of Directors of the Corporation, for \$14 million, satisfied by the issue of 1,000,000 Subordinate Voting Shares of the Corporation. In October 1987, the Corporation disposed of these lands as part of its disposition of all of its southern California land holdings.

(ii) Amounts receivable include \$2 million (1986-\$14 million) due on varying dates to 1993, relating to the sale in 1985 of certain discontinued assets to companies controlled by a director of the Corporation.

(e) Operating results

| <i>(in millions)</i> | <i>Thirteen months ended January 31</i> | | <i>Year ended December 31</i> | |
|--|---|-------------|-------------------------------|-------------|
| | | <i>1988</i> | <i>1986</i> | <i>1985</i> |
| Revenue | \$ | - | - | 46 |
| Expenses | | - | - | 53 |
| Reduction in carrying value of assets | | - | 108 | - |
| | | - | 108 | 53 |
| | | - | (108) | (7) |
| Income taxes-deferred | | - | 43 | 3 |
| Net loss from discontinued business assets | \$ | - | (65) | (4) |

(f) Cash provided by (applied to) discontinued business assets

| <i>(in millions)</i> | <i>Thirteen months ended January 31</i> | | <i>Year ended December 31</i> | |
|--|---|-------------|-------------------------------|-------------|
| | | <i>1988</i> | <i>1986</i> | <i>1985</i> |
| Net loss from discontinued business assets | \$ | - | (65) | (4) |
| Items not requiring current outlay of cash: | | | | |
| Deferred income tax | | - | (43) | (3) |
| Depreciation and amortization | | - | - | 2 |
| Reduction in carrying value of assets | | - | 108 | - |
| Cash applied to operating activities | \$ | - | - | (5) |
| Decrease (increase) in discontinued business assets: | | | | |
| Financing and development costs | \$ | (93) | (61) | (64) |
| Proceeds from sale of discontinued business assets | | 204 | 50 | 112 |
| Decrease (increase) in amounts receivable | | (2) | 17 | (70) |
| Increase in discontinued other assets | | - | - | (23) |
| Costs recovered from the sale of discontinued other assets | | - | - | 53 |
| | \$ | 109 | 6 | 8 |

19. RETIREMENT AND COMPENSATION PROGRAMS

The Corporation has retirement plans for substantially all of its full-time employees. Campeau Corporation and all of its subsidiaries, except for Allied and its subsidiaries, are included in a defined contribution retirement and investment plan. Employers' contributions and costs are determined based on employee contributions and range from 64 per cent to 75 per cent of those contributions. Allied and its subsidiaries maintain several defined benefit pension plans. Benefits are based upon years of service and employee compensation.

The consolidated statement of operations for the thirteen months ended January 31, 1988 includes pension income of approximately \$12 million, comprised as follows:

| | |
|---|---------|
| <i>(in millions)</i> | |
| Service cost | \$ (10) |
| Interest cost | (21) |
| Actual return on assets | (3) |
| Net asset loss during the period deferred for later recognition | 36 |
| Amortization of the net transitional asset | 10 |
| | \$ 12 |

The assumed rate of return on plan assets was 10% which approximated the weighted average discount rates used in determining the actuarial present value of projected obligations. The rate of increase in future compensation levels was 6%. The unrecognized net transitional asset is being amortized over the average remaining service period of approximately nine years.

The funded status of Allied's pension plan and the net pension asset included in other assets and deferred charges at January 31, 1988 was as follows:

| | |
|---|--------|
| <i>(in millions)</i> | |
| Projected benefit obligation: | |
| Accumulated benefit obligation: | |
| Vested | \$ 254 |
| Nonvested | 7 |
| | 261 |
| Projected compensation increases | 11 |
| | 272 |
| Total projected benefit obligation | 272 |
| Net assets available for benefits: | |
| Market value of plan assets, primarily U.S. government and equity securities and pooled funds | (342) |
| | 70 |
| Excess assets over projected benefit obligation | 70 |
| Unrecognized net loss | 26 |
| Unrecognized net transitional asset | (88) |
| | \$ 8 |

Allied continues to fund the plan following the minimum funding standards under ERISA. At January 31, 1988, Allied had met the full funding limitation. In the 1986 year, Allied made a contribution to the program of approximately \$5 million, which was in excess of the minimum funding requirement.

Based on actuarially computed estimates as at the date of acquisition of Allied in 1986, it was determined that the pension was overfunded. Accordingly, the purchase accounting adjustments capitalized the present value of the overfunding which is being amortized over the average remaining service period of approximately nine years.

During 1987, the Corporation decided to adopt a Stock Appreciation Rights Plan for employees of Allied to tie an element of their compensation to shareholder values. Units granted under the plan entitle the recipient to receive the difference between the trading value of one Subordinate Voting Share of the Corporation at the exercise date and the base value of \$20.00 Cdn. The units have a term of ten years; ten per cent of the units granted in 1987 vested on January 1, 1988 and an additional ten per cent vest annually subject to the attainment of certain performance goals and continued employment. No units may be exercised before January 1, 1990, unless the employee is terminated prior to that date. Although the plan has not been finalized at January 31, 1988, approximately 2,700,000 units have been granted.

20. SUBSEQUENT EVENTS

Acquisition of Federated Department Stores, Inc.

On April 1, 1988, the Corporation signed a merger agreement with Federated Department Stores, Inc. ("Federated") which provided for the making of an offer by a subsidiary of the Corporation to purchase shares of Federated at \$73.50 per share and the acquisition of the remaining shares through a merger with a subsidiary of the Corporation. Federated operates department, supermarket and specialty stores in various regions in the United States. On May 3, 1988, the Corporation, through a subsidiary company, acquired 87,220,645 common shares for a total cash consideration of approximately \$6.4 billion. At May 3, 1988 the Corporation indirectly owned approximately 98 per cent of Federated's outstanding common shares. Under the terms of the merger agreement all of the remaining outstanding common shares will be acquired for \$73.50 per share through the merger.

In connection with the Corporation's restructuring plan for Federated, the Corporation sold four Federated divisions on May 3, 1988: Bullock's/Bullocks Wilshire and I. Magnin to R. H. Macy & Co., Inc. for approximately \$1.1 billion; and Filene's and Foley's to The May Department Stores Company for approximately \$1.5 billion. As consideration for these sales, the Corporation received a promissory note from R.H. Macy & Co., Inc. in the amount of \$400 million, bearing interest at LIBOR plus 1/2% and maturing in three equal installments in the ninth, tenth and eleventh years (the Corporation can require prepayment after six years); a promissory note from The May Department Stores Company in the amount of \$400 million, bearing interest at 9 1/2% per annum and maturing in equal installments in the ninth and tenth years; the remainder from both transactions was paid in cash.

At May 3, 1988, financing for the acquisition of the shares of Federated under the offer and related expenses is as follows:

(in millions)

| | |
|---|----------|
| Margin facility | \$ 3,220 |
| Bridge facility | 2,087 |
| Bank loan | 500 |
| Loan from The Edward J. DeBartolo Corporation | 480 |
| Other corporate funds | 420 |
| | |
| | \$ 6,707 |
| | |

Also on May 3, 1988, a subsidiary of the Corporation and The Edward J. DeBartolo Corporation ("EJDC") entered into an agreement to form a partnership, each partner owning a 50 per cent equity interest, for joint real estate development in the United States. Pursuant to an agreement with EJDC, the Corporation has agreed to contribute to the partnership 15 per cent of the capital stock of its subsidiary that indirectly owns the shares of Federated.

The margin facility bears interest at a rate that varies with the prime rate, is repayable on the earlier of 180 days and the time of the merger, and is secured by the shares of Federated. The bridge facility bears interest at floating rates, is repayable in 270 days, and is guaranteed by Campeau Corporation. If the bridge facility is not repaid at maturity and if at such time the merger has been consummated and certain other conditions are satisfied, the bridge facility will be exchanged for senior subordinated exchange notes of the merged company. The exchange notes would bear interest at a fixed rate and would not be guaranteed by Campeau Corporation unless certain events of default under the bridge facility had occurred and were continuing at the time of the exchange. The bank loan bears interest at floating rates, has a term of twelve months and is secured by the shares of Allied and certain real estate assets. At the time of the merger, the bank loan will also be secured by a pledge of shares of the indirect parent of the merged company. Campeau Corporation has guaranteed \$250 million principal amount of the bank loan plus interest and expenses. The loan from EJDC bears interest at approximately 9% per annum for the first three years, is guaranteed by Campeau Corporation, and will mature in ten years, except that EJDC has the right to require the loan to be repaid in full on its third anniversary. The loan is secured by the Corporation's interest in the aforementioned partnership and, in certain circumstances, may also be secured by the shares of the Corporation's direct U.S. subsidiary or Allied until its third anniversary.

The various loan agreements contain restrictive covenants which restrict payments of loans, advances and dividends to the Corporation by its U.S. subsidiaries.

The acquisition will be accounted for using the purchase method, which assigns fair values to the net assets acquired.

Rental property disposals

Subsequent to January 31, 1988, the Corporation has disposed of or contracted to sell rental properties or partial interests therein with a net book value of \$132 million. The expected aggregate sale proceeds are \$278 million. In addition, rental and development properties with a net book value of \$145 million are under active negotiation for sale.

Sale of Brooks Brothers, Inc.

On April 28, 1988, pursuant to a stock purchase agreement, the Corporation sold its indirect wholly-owned subsidiary Brooks Brothers, Inc. for proceeds of \$750 million, resulting in a pre-tax gain of approximately \$350 million. As consideration for this sale, the Corporation received a promissory note in the amount of \$450 million, bearing interest at LIBOR, repayable in ten years, and the remainder in cash. In accordance with the Corporation's bank agreements, a portion of the proceeds has been used to reduce bank loans.

Subordinated Convertible Debentures

On April 4, 1988, the Corporation issued \$260 million of subordinated convertible debentures to Olympia and York Developments Limited. The debentures are convertible into Subordinate Voting Shares of the Corporation on or before March 31, 1994 at a conversion price of \$26.00 and bear interest at 7% subject to increase during the period ending March 31, 1994 based on the amount of dividends paid on the Subordinate Voting Shares. The subordinated convertible debentures mature on March 31, 1998.

Second Preference Shares

Subject to shareholder approval, Robert Campeau Capital Inc., which is controlled by Robert Campeau, Chairman of the Board of Directors of the Corporation, has agreed with the Corporation to support the articles of the Corporation being amended to provide for its 8,000,000 Second Preference Shares being exchanged for or changed into 4,000,000 Convertible Subordinate Preference Shares.

The Convertible Subordinate Preference Shares will be subordinate to the Preference Shares of the Corporation, will be convertible on a one-for-one basis into 4,000,000 Subordinate Voting Shares on or before March 31, 1994 and will be redeemable by the Corporation after March 31, 1994 at \$0.05 Cdn. per share plus accrued and unpaid dividends. The Convertible Subordinate Preference Shares will be entitled to an annual dividend of \$1.82 per share subject to increase during the period ending March 31, 1994 based on the amount of dividends paid on the Subordinate Voting Shares and will entitle their holder to one vote per share. Upon the Second Preference Shares being exchanged for or changed into Convertible Subordinate Preference Shares, the Subordinate Voting Shares will be redesignated as Ordinary Shares.

21. CONTINGENT LIABILITIES

The Corporation is contingently liable with respect to litigation and claims which arise from time to time in the normal course of business. In the opinion of management, any liability that may arise from such contingencies would not have a significant adverse effect on the consolidated financial statements of the Corporation.

22. SIGNIFICANT DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Corporation's consolidated financial statements are prepared on the basis of Canadian generally accepted accounting principles and practices ("Canadian GAAP") which are different in some respects from those applicable in the United States ("U.S. GAAP"). Significant differences between Canadian GAAP and U.S. GAAP applicable to the Corporation are set out below.

Depreciation

In the consolidated financial statements, depreciation on buildings and improvements to rental properties has been provided using the sinking fund method. Under U.S. GAAP, this method of depreciation is not recognized. In computing the results of operations in accordance with U.S. GAAP, depreciation has been provided using the straight-line method over the estimated useful lives of the properties.

Capitalization of carrying costs

Under Canadian GAAP, carrying costs, including financing costs, property taxes and certain administrative costs considered applicable to land held for development, can be capitalized to assets not undergoing development or construction activities. Under U.S. GAAP, carrying costs can only be capitalized during the period when activities necessary to get the asset ready for its intended use are in progress.

Revenue recognition—real estate

The Corporation recognizes revenue from a rental property when the property is deemed to be completed, which occurs upon the property attaining a break-even point in cash flow earnings subject to a reasonable maximum period of time or level of occupancy. Under U.S. GAAP, a property is considered substantially complete and held available for occupancy upon completion of tenant improvements, but in no case later than one year from cessation of major construction activity. Revenue recognition commences under U.S. GAAP when the property is considered substantially complete and held available for occupancy.

In the consolidated financial statements, revenue from real estate sales is recognized on an accrual basis once all material conditions have been fulfilled and a down payment has been received that is appropriate in the circumstances having regard to the financial resources of the purchaser. U.S. GAAP requires that revenue from real estate sales be recognized in accordance with Financial Accounting Standards Board Statement No. 66. This statement sets out specific criteria to be met to recognize revenue from real estate sales and outlines specific revenue recognition methods to be utilized for real estate sales.

Discontinued business assets

In the consolidated financial statements, discontinued business assets intended for disposition were segregated into two pools, real estate and other. The disposals of the discontinued real estate assets, including housing and residential land development and properties, and certain commercial properties, are being accounted for using the cost recovery method. Gains or losses resulting from dispositions of discontinued other assets, including investments in securities, lumber and forestry operations and building products businesses, have been determined on the basis of their estimated net realizable values at December 31, 1982. Gains and losses on disposition of discontinued other assets, together with results of operations are reported in the consolidated statements of operations.

Under U.S. GAAP, criteria for the determination of whether an intended disposition constitutes a disposal of a segment of a business are set out in Accounting Principles Board Opinion No. 30, together with the required accounting treatment and disclosure. Based on these criteria, certain of the discontinued business assets would be accounted for as part of continuing operations under U.S. GAAP, with the related gains or losses on disposal of such assets being recognized in income in the year of disposal based on historical costs.

Amortization of financing costs

In the consolidated financial statements, deferred financing costs associated with bridge financing, together with similar costs of permanent financing, have been amortized using the term of repayment of permanent debt. Under U.S. GAAP, financing costs associated with bridge financing are amortized over the term of bridge financing.

Income taxes

Income taxes have been provided in the consolidated financial statements using the deferral method in accordance with Section 3470 of the Handbook of The Canadian Institute of Chartered Accountants. In prior years under U.S. GAAP, income taxes were also provided using the deferral method in accordance with Accounting Principles Board Opinion No. 11.

The Financial Accounting Standards Board in December 1987 issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" (SFAS No. 96). The statement requires that deferred tax liabilities at the end of each period be determined using the tax rate expected to be in effect when taxes are actually paid and/or recovered. Additionally, a deferred tax liability or asset is required to be recognized for differences between the assigned values and the tax basis of the assets and liabilities acquired in a purchase business combination.

For U.S. reporting purposes the Corporation has elected to retroactively adopt SFAS No. 96. Accordingly, balances previously reported in accordance with U.S. GAAP have been restated to retroactively apply the new method. This change resulted in a decrease in net loss of approximately \$10 million and \$61 million for the thirteen months ended January 31, 1988, and the year ended December 31, 1986, respectively, and an increase in net loss of approximately \$8 million for the year ended December 31, 1985. The cumulative effect of this change as at December 31, 1984 was an increase in deficit of approximately \$25 million.

Assets for sale

In the consolidated financial statements, earnings from assets for sale, net of related income taxes, have been segregated from earnings from continuing operations. For the determination of net earnings from continuing operations in accordance with U.S. GAAP, revenues, expenses and income taxes from assets for sale would be included in earnings from continuing operations.

Joint ventures

Joint ventures are reflected in the consolidated financial statements using the proportionate consolidation method. Under U.S. GAAP, principally the equity method is considered to be appropriate for non-controlled ventures. Accordingly, under U.S. GAAP the Corporation's interest in its joint ventures would be restated using the equity method.

Capital stock

— Share issuance costs

These costs, net of the related income tax effects, have been charged to retained earnings in the consolidated financial statements. Under U.S. GAAP, share issuance costs, net of related income tax effects, are charged to the related capital stock account.

— Amounts receivable—Corporation's Stock Purchase Plan

Under U.S. GAAP, Shareholders' Equity would be reduced by amounts receivable under the plan, which at January 31, 1988 amounted to \$1 million (December 31, 1986—\$2 million).

— Retractable Preference Shares

In the consolidated financial statements, Retractable Preference Shares have been included in shareholders' equity and have been translated into United States dollars using historic rates of exchange. Under U.S. GAAP, these shares would not be included in shareholders' equity and would be translated into U.S. dollars using rates of exchange in effect as at the date of the balance sheet.

— Per Subordinate Voting Share amounts

Under Canadian GAAP, basic earnings per share amounts are calculated based upon the weighted average number of Subordinate Voting Shares outstanding during the period. U.S. GAAP requires that common stock equivalents, including options and warrants, be included in the calculation of primary per share amounts using the treasury stock method, to the extent they are dilutive.

(a) Net earnings (loss) in accordance with U.S. GAAP:

| <i>(in millions except per share amounts)</i> | <i>Thirteen months</i> | <i>Year ended December 31</i> | |
|--|-------------------------|-------------------------------|-------------|
| | <i>ended January 31</i> | <i>(as restated)</i> | |
| | <i>1988</i> | <i>1986</i> | <i>1985</i> |
| Continuing operations | | | |
| Net earnings (loss) from continuing operations as reported | \$ (203) | 61 | 24 |
| Significant differences between Canadian GAAP and U.S. GAAP: | | | |
| Depreciation and amortization | (30) | (10) | (6) |
| Capitalized costs | (35) | (23) | (24) |
| Revenue recognition—real estate | 18 | 22 | 10 |
| Amortization of financing costs | (8) | (41) | — |
| Discontinued business assets | (8) | (16) | (14) |
| Assets for sale | (51) | 14 | — |
| Income taxes (including taxes on above items) | 31 | 14 | 8 |
| Net earnings (loss) from continuing operations in accordance with U.S. GAAP | \$ (286) | 21 | (2) |
| Discontinued operations | | | |
| Net loss from discontinued operations as reported | \$ — | (65) | (4) |
| Differences between Canadian GAAP and U.S. GAAP related to discontinued operations | — | 5 | 3 |
| Net loss from discontinued operations in accordance with U.S. GAAP | \$ — | (60) | (1) |
| Net earnings (loss) in accordance with U.S. GAAP | \$ (286) | (39) | (3) |
| Per Subordinate Voting Share in accordance with U.S. GAAP | | | |
| Primary | | | |
| Net earnings (loss) from continuing operations | \$ (7.26) | 0.38 | (0.10) |
| Net earnings (loss) | \$ (7.26) | (1.17) | (0.12) |
| Fully diluted | | | |
| Net earnings (loss) from continuing operations | \$ (7.26) | 0.37 | (0.10) |
| Net earnings (loss) | \$ (7.26) | (1.19) | (0.12) |

(b) Net loss in accordance with U.S. GAAP for the month ended January 31, 1988 was \$39 million and the twelve months ended December 31, 1987 was \$247 million.

(c) Significant differences in captions of the consolidated balance sheets as a result of the reconciliation between Canadian GAAP and U.S. GAAP:

| (in millions) | <i>As reported</i> | | <i>In accordance with U.S. GAAP (as restated)</i> | |
|--|----------------------------|-----------------------------|---|-----------------------------|
| | <i>January 31 1988</i> | <i>December 31 1986</i> | <i>January 31 1988</i> | <i>December 31 1986</i> |
| Properties and equipment | \$ 940 | 996 | 1,048 | 1,114 |
| Rental properties | 1,171 | 858 | 796 | 689 |
| Development properties | 336 | 556 | 250 | 610 |
| Equity in unconsolidated joint ventures | — | — | 51 | 29 |
| Discontinued real estate assets | 435 | 527 | 198 | 252 |
| Goodwill | 1,175 | 977 | 1,288 | 1,153 |
| Long-term debt | 3,447 | 3,780 | 3,079 | 3,674 |
| Deferred income taxes | 79 | 64 | 247 | 365 |
| Retractable Preference Shares | 101 | 107 | 109 | 105 |
| Subordinate Voting Shares | 165 | 59 | 162 | 57 |
| Retained earnings (deficit) | (176) | 93 | (406) | (107) |

| <i>Merchandising</i> | <i>Principal geographic location</i> | <i>Number of stores</i> | <i>Gross square feet</i> |
|--------------------------|--|-------------------------|--------------------------|
| Department Stores | | | |
| Lazarus | Ohio, Indiana, Kentucky, West Virginia | 44 | 8,268,000 |
| Maas Brothers | Florida | 38 | 5,845,000 |
| Abraham and Straus | New York, New Jersey | 14 | 5,344,000 |
| Stern's | New York, New Jersey | 27 | 5,172,000 |
| Burdines | Florida | 29 | 5,039,000 |
| Jordan Marsh | New England | 25 | 4,930,000 |
| Rich's | Georgia, South Carolina, Alabama | 20 | 4,878,000 |
| The Bon | Pacific Northwest | 40 | 4,547,000 |
| Bloomingdale's | National | 16 | 4,285,000 |
| Goldsmith's | Tennessee | 6 | 1,338,000 |
| Supermarkets | | | |
| Ralphs | Southern California | 129 | 5,366,000 |
| Specialty Stores | | | |
| Ann Taylor | National | 99 | 327,000 |
| Total Portfolio | | 487 | 55,339,000 |

| <i>Real Estate</i> | <i>Number of stores and services</i> | <i>Area of non-owned buildings (sq. ft.)</i> | <i>Total rentable area (sq. ft.)</i> | <i>Campeau interest (%)</i> | <i>Campeau interest (sq. ft.)</i> |
|--|--------------------------------------|--|--------------------------------------|-----------------------------|-----------------------------------|
| Shopping Centres | | | | | |
| Canada | | | | | |
| Oshawa Shopping Centre, Oshawa, Ont. | 185 | | 967,000 | 100 | 967,000 |
| Northwood Mall, Edmonton, Alta. | 106 | | 535,000 | 100 | 535,000 |
| New Sudbury Shopping Centre, Sudbury, Ont. | 113 | | 472,000 | 100 | 472,000 |
| London Eaton Square, London, Ont. | 64 | | 400,000 | 100 | 400,000 |
| Timmins Square, Timmins, Ont. | 60 | | 361,000 | 100 | 361,000 |
| Intercity Shopping Centre, Thunder Bay, Ont. | 90 | 144,000 | 417,000 | 100 | 273,000 |
| Eaton Market Square, Brantford, Ont. | 73 | | 242,000 | 100 | 242,000 |
| Golden Mile Plaza, Regina, Sask. | 57 | | 219,000 | 100 | 219,000 |
| Kingston Shopping Centre, Kingston, Ont. | 90 | 114,000 | 321,000 | 100 | 207,000 |
| Place Longueuil, Longueuil, Que. | 140 | | 406,000 | 50 | 203,000 |
| Hazeldean Mall, Kanata, Ont. | 48 | | 192,000 | 100 | 192,000 |
| Pinecrest Shopping Centre, Ottawa, Ont. | 55 | | 199,000 | 50 | 100,000 |
| Kanata Town Centre, Kanata, Ont. | 26 | | 91,000 | 100 | 91,000 |
| United States | | | | | |
| Shoppers World, Framingham, MA | 56 | | 730,000 | 100 | 730,000 |
| Northshore Mall, Peabody, MA | 108 | 138,000 | 1,419,000 | 50 | 641,000 |
| Tacoma Mall, Tacoma, WA | 140 | | 1,236,000 | 50 | 618,000 |
| Northgate Mall, Seattle, WA | 120 | | 1,175,000 | 50 | 588,000 |
| Bergen Mall, Paramus, NJ | 132 | | 1,111,000 | 50 | 556,000 |
| Douglaston Plaza, Douglaston, NY | 9 | | 298,000 | 100 | 298,000 |
| Columbia Shopping Center, Kennewick, WA | 68 | 181,000 | 589,000 | 50 | 204,000 |
| Total Portfolio | 1,740 | 577,000 | 11,380,000 | | 7,897,000 |

| <i>Real Estate</i> <i>Office and Mixed-Use Complexes</i> | Net rentable area (1) (sq. ft.) | | | Total | Campeau interest | |
|---|---------------------------------|----------------|----------------|------------------|------------------|------------------|
| | Office | Retail | Other (2) | | (%) | (sq. ft.) |
| Canada | | | | | | |
| Les Terrasses de la Chaudiere, Hull, Que. | 1,860,000 | 41,000 | | 1,901,000 | 100 | 1,901,000 |
| Place de Ville, Ottawa, Ont. | 1,169,000 | 75,000 | 81,000 | 1,325,000 | 100 | 1,325,000 |
| Place Guy Favreau, Montreal, Que. | 572,000 | | | 572,000 | 100 | 572,000 |
| Metropolitan Plaza, Edmonton, Alta. | 340,000 | 80,000 | | 420,000 | 50 | 210,000 |
| Oceanic Plaza, Vancouver, B.C. | 322,000 | 21,000 | 2,000 | 345,000 | 50 | 173,000 |
| Journal Towers, Ottawa, Ont. | 534,000 | 19,000 | 95,000 | 648,000 | 100 | 648,000 |
| Metro Centre, Ottawa, Ont. | 119,000 | 33,000 | 8,000 | 160,000 | 100 | 160,000 |
| Guinness Tower, Vancouver, B.C. | 251,000 | 8,000 | 9,000 | 268,000 | 50 | 134,000 |
| WaterPark Place, Toronto, Ont. | 493,000 | 7,000 | | 500,000 | 100 | 500,000 |
| Centennial Towers, Ottawa, Ont. | 376,000 | 12,000 | 33,000 | 421,000 | 100 | 421,000 |
| Marine Building, Vancouver, B.C. | 158,000 | 23,000 | 3,000 | 184,000 | 50 | 92,000 |
| Other | 1,037,000 | 203,000 | 43,000 | 1,283,000 | | 979,000 |
| United States | | | | | | |
| 333 Bush Street, San Francisco, CA | 512,000 | 8,000 | | 520,000 | 89 | 463,000 |
| Other | 350,000 | 11,000 | | 361,000 | | 283,000 |
| Total Portfolio | 8,093,000 | 541,000 | 274,000 | 8,908,000 | | 7,861,000 |

1. Excludes parking and hotel areas.
2. Primarily storage areas.

| <i>Real Estate</i> <i>Business Parks</i> | Net rentable area (sq. ft.) | Campeau interest (sq. ft.) |
|---|--------------------------------|----------------------------------|
| Canada | 1,614,000 | 1,614,000 |
| United States | 1,016,000 | 792,000 |
| Total Portfolio | 2,630,000 | 2,406,000 |

DIRECTORS

Robert Campeau
Chairman of the Board
and Chief Executive Officer,
Campeau Corporation

Ilse Campeau
Director,
Campeau Corporation

Daniel Campeau
Director,
Campeau Corporation

William J. Carroll
President,
Sagewood Holdings Limited

Edward J. DeBartolo, Sr.
Chairman of the Board
and Chief Executive Officer,
The Edward J. DeBartolo
Corporation

Robert Després, O.C.
President,
DRM Holdings, Inc.

Allen Finkelson
Partner,
Cravath, Swaine & Moore

George C. Hitchman
Chairman and Chief Executive
Officer,
Fine Line Circuits Limited

David King
Deputy Chairman
Campeau Corporation

François Mercier, O.C., Q.C.
Partner,
Stikeman, Elliott

James T. Roddy
President and Chief
Operating Officer,
Campeau Corporation

Ronald Tysoe
Senior Vice President,
Corporate Development,
Campeau Corporation

J. Roy Weir, Q.C.
Partner,
Blake, Cassels & Graydon

Jeannine G. Wood
Chairman and Chief
Executive Officer,
Guillevin International Inc.

OFFICERS

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Chief Executive Officer

David King
Deputy Chairman

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Operating Officer

Roger D. Ashton
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Finance and Chief
Financial Officer

Paul Campbell
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Eastern Region

Alan W. Kennedy
Senior Vice President,
General Counsel and Secretary

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Corporate Finance

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Urban Group, Western Region

Ronald Tysoe
Senior Vice President,
Corporate Development

Paul B. Temple
Vice President and
Assistant Treasurer

Roland Villemaire
Vice President,
Accounting

David Warren
Vice President,
Corporate Marketing

OFFICES AND PRINCIPAL
SUBSIDIARIES

Head Office
Campeau Corporation
5th Floor
320 Bay Street
Toronto, Ontario
M5H 2P2

Branch Offices
Calgary
Ottawa
Toronto
Vancouver
Cincinnati
New York
San Francisco

Principal Subsidiaries
Campeau Corporation (U.S.) Inc.
Allied Stores Corporation
Federated Department Stores, Inc.

(all amounts stated in Canadian dollars)

CAPITAL STOCK

At January 31, 1988, there were 44,314,882 Subordinate Voting Shares issued and outstanding.

STOCK LISTINGS

The Subordinate Voting Shares of the Corporation are listed on the Toronto and Montreal stock exchanges under the symbol "CMP" and are traded on the NASDAQ national market system in the United States under the symbol "CMAFC".

SHARE PRICE HISTORY

The following table sets out the high and low prices of the Corporation's Subordinate Voting Shares on The Toronto Stock Exchange on a quarterly basis over the past five years, adjusted to reflect a two-for-one stock split on August 15, 1987:

| Year | Quarter | High | Low |
|------|---------|---------------------------------|---------------------------------|
| 1983 | 1 | 7 ¹ / ₄ | 4 ¹ / ₈ |
| | 2 | 9 ⁷ / ₈ | 6 ¹ / ₁₆ |
| | 3 | 9 ⁵ / ₈ | 8 ¹ / ₄ |
| | 4 | 10 ³ / ₄ | 7 ³ / ₄ |
| 1984 | 1 | 11 ¹ / ₈ | 9 ¹ / ₄ |
| | 2 | 11 ⁷ / ₁₆ | 9 ³ / ₄ |
| | 3 | 12 | 10 ³ / ₈ |
| | 4 | 11 ¹ / ₄ | 10 |
| 1985 | 1 | 12 ⁷ / ₈ | 10 ⁷ / ₈ |
| | 2 | 12 ³ / ₄ | 12 ¹ / ₈ |
| | 3 | 14 ¹ / ₄ | 12 |
| | 4 | 13 ⁵ / ₈ | 11 ¹ / ₁₆ |
| 1986 | 1 | 13 ³ / ₄ | 11 |
| | 2 | 15 ¹ / ₄ | 13 |
| | 3 | 15 ¹ / ₂ | 12 ¹ / ₂ |
| | 4 | 14 ³ / ₁₆ | 10 ³ / ₄ |
| 1987 | 1 | 17 ⁷ / ₁₆ | 9 ³ / ₄ |
| | 2 | 19 ⁹ / ₁₆ | 15 ¹ / ₂ |
| | 3 | 30 ³ / ₈ | 19 ¹ / ₂ |
| | 4 | 24 ¹ / ₂ | 12 |

TRANSFER AGENT AND REGISTRAR

National Trust Company, at its principal offices in Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver.

DIVIDEND HISTORY

The following table sets out the dividends per share paid by the Corporation during the past five years:

| Class | 1987 (1) | 1986 | 1985 | 1984 | 1983 |
|----------------|----------|---------|---------|---------|---------|
| Subordinate | | | | | |
| Voting (2) | 0.12 | 0.08 | 0.07 | 0.06 | 0.05 |
| Second | | | | | |
| Preference (2) | 0.00075 | 0.00075 | 0.00075 | 0.00075 | 0.00075 |
| Series A | | | | | |
| Preference | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 |
| Series B | | | | | |
| Preference (3) | 2.00 | 2.00 | 0.89315 | - | - |
| Series C | | | | | |
| Preference (4) | 2.185 | 1.85575 | - | - | - |
| Series D | | | | | |
| Preference (5) | 2.25 | 0.8091 | - | - | - |

1. Thirteen months ended January 31, 1988.
2. Adjusted to reflect a two-for-one stock split on August 15, 1987.
3. Issued on July 22, 1985.
4. Issued on February 25, 1986.
5. Issued on August 21, 1986.

CALENDAR OF FINANCIAL EVENTS

Fiscal year end: January 31
 Quarter ends: April, July and October
 Quarterly reports: late June, September and December

Annual report: late May
 Annual meeting: late June
 Preference Share

dividend payments: March 31, June 30, September 30 and December 31

VERSION FRANÇAISE DU RAPPORT ANNUEL

On peut se procurer la version française du présent rapport en écrivant au Secrétaire.

FURTHER INFORMATION

Shareholder inquiries may be addressed to the Secretary, Campeau Corporation, 6th floor, 320 Bay Street, Toronto, Ontario M5H 2P2, Telephone (416) 868-6460.

C R E D I T S

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