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The word "Simpsons" is written in a white, cursive script font, centered within a dark green, wavy horizontal banner that spans the width of the page. The banner is set against a background of alternating grey and white wavy horizontal stripes.

Simpsons, Limited 1977 Annual Report

HOWARD ROSS LIBRARY
OF MANAGEMENT
APR 5 1978
MCGILL UNIVERSITY

Directors

Jack C. Barrow
Thomas J. Bell, *M.C.*
Betty Kennedy Burton
Edgar G. Burton
G. Allan Burton, *D.S.O., E.D., LL.D.*
Charles L. Gundy, *LL.D.*
Raymond Lavoie, *Appointed January, 1978*
Alfred Powis, *LL.D.*
Elmer L. Rounding, *Resigned January, 1978*
J. Michael G. Scott
Ian D. Sinclair, *Q.C., LL.D.*
Charles B. Stewart
James M. Tory, *Q.C.*
William P. Wilder
A. Ernest Wilkes

Officers

G. Allan Burton, *D.S.O., E.D., LL.D., Chairman of the Board and Chief Executive Officer*
Charles B. Stewart, *Deputy Chairman of the Board*
Edgar G. Burton, *President*
Charles L. Gundy, *LL.D., Vice-President*
James M. Tory, *Q.C., Vice-President*
Ronald J. Crichton, *Vice-President, Stores*
J. Richard Davidson, *Vice-President, Personnel*
Kenneth W. Kerraghan, *Q.C., Vice-President and Secretary*
Ian C. McSweeney, *Vice-President, Merchandising*
A. Ernest Wilkes, *Vice-President, Finance*
Ian M. Gibson, *Treasurer*
Ronald L. Radley, *Q.C., Assistant Secretary*

Head Office

The Simpson Tower,
401 Bay Street, Toronto, Ontario M5H 3K2

Transfer Agents

National Trust Company, Limited, *Toronto and Montreal*
Canada Permanent Trust Company,
Halifax, Winnipeg and Calgary
The Canada Trust Company, *Vancouver*

Registrars

The Royal Trust Company, *Toronto and Montreal*
Canada Permanent Trust Company,
Halifax, Winnipeg and Calgary
The Canada Trust Company, *Vancouver*

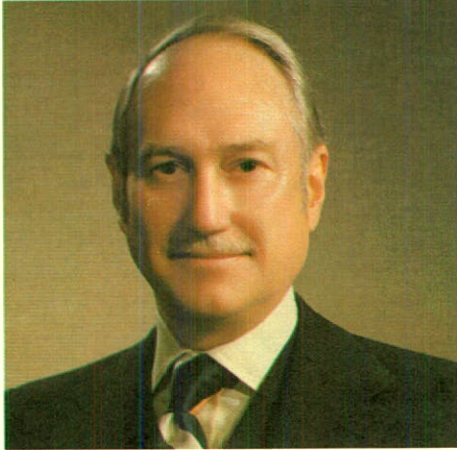
Highlights

| | 1977 | 1976 |
|--------------------------------------------------------------------------------------------------------------|----------------------|---------------|
| Net sales | \$638,695,000 | \$605,297,000 |
| Earnings from operations | 10,848,000 | 10,341,000 |
| Equity in net earnings of Simpsons-Sears Limited and shopping centre companies, net of attributable interest | 16,853,000 | 11,860,000 |
| Earnings before extraordinary item | 27,701,000 | 22,201,000 |
| Per share* | 59.0¢ | 47.3¢ |
| Net earnings** | 28,059,000 | 22,201,000 |
| Per share* | 59.7¢ | 47.3¢ |
| Dividends paid | 10,333,000 | 10,333,000 |
| Per share | 22.0¢ | 22.0¢ |
| Shareholders' equity | 295,563,000 | 277,836,000 |
| Per share | 6.29 | 5.92 |
| Contributions to employee retirement plans | 8,743,000 | 7,085,000 |
| Expenditures for fixed assets including departmental improvements | 11,021,000 | 10,157,000 |
| Provision for depreciation | 5,583,000 | 5,486,000 |
| Write-off on departmental improvements | 4,884,000 | 4,456,000 |

*Earnings per share are based on weighted average number of shares outstanding during the year.

**Net earnings for 1977 have been increased by approximately \$3,650,000 as a result of the 3% inventory allowance for income tax purposes including \$2,290,000 applicable to the company's equity in Simpsons-Sears Limited.

Directors' Report to the Shareholders:



G. Allan Burton, Chairman of the Board

Sales for 1977 were \$638,695,000, an increase of 5.5% over 1976 sales of \$605,297,000. Net earnings after taxes were \$28,059,000, or 59.7¢ per share, compared with \$22,201,000, or 47.3¢ per share in 1976. Dividends of 22¢ per share were paid during the year on 46,968,554 shares to over 17,000 shareholders.

On August 15, 1977, we issued \$25,000,000 Simpsons Acceptance Company Limited 9 $\frac{7}{8}$ % Secured Debentures, Series H, due August 15, 1997. We do not anticipate the need to raise additional capital in 1978, even though capital expenditures, principally for store facilities, will be about 16 million dollars.

1977 was a year when consumer confidence was further eroded by high unemployment, continuing inflation and an unresolved political situation. The retailer was hit by a sudden softening of demand at a time when most suppliers were filling as many orders as possible as quickly as possible with the result that inventories during the year rose beyond plan. Interest rates, carrying charges and sharply competitive pricing reduced profitability, particularly in the early part of the year. However, the last six months saw sales and profits improve and much of the lost ground was recovered before the end of the year.

Most concerns wisely amended or postponed expansion plans that were not irrevocably committed. Simpsons

had already started on a new store in Les Promenades St-Bruno, on the south shore of Montreal, which will open in August. Three other major retailers also will have stores in this regional centre. Until conditions improve, we have no immediate plans for new stores, but will concentrate on refurbishing and realigning existing stores, particularly in Ontario. During the year we leased and refurbished a 100,000 square foot store in the White Oaks Mall in London, Ontario, our second in London and twentieth in Canada. This venture has proven successful, and if further existing stores in good locations become available, they will be considered.

During the year we have completed a most exhaustive study of past results and are working on a plan for the next several years to ensure continued growth and an improved return on our total investment. We are completing a data base of merchandise and operating information of considerable depth which will enable us to accelerate the development of modern systems in merchandising, operating and personnel administration in which we have pioneered in the past several years. We believe the systems we have developed have no superior in North America and will be of key importance to our continuing a leading role in merchandising in Canada.

As our affiliated company Simpsons-Sears Limited, equally controlled by Simpsons, Limited and Sears, Roebuck

and Co., has completed its 25th year of growth across Canada, we are jointly studying further areas of co-operation to ensure that we achieve the maximum coverage and share of market in Canada available to us in our traditional fields. In addition, we are actively expanding various services, such as our Travel Service, through our combined country-wide system of stores and thousands of credit accounts.

While we do not expect 1978 to be a year of strong economic growth in Canada, we do expect steady progress in most areas. Quebec will drag in uncertainty until the present political situation is resolved, hopefully soon.

In line with our Long Range Plan, we have adopted a new internal organization and created a new position of Vice-President, Stores. Mr. R.J. Crichton, responsible for service and operations for many years, assumes that important responsibility. We have appointed Mr. J.R. Davidson, Vice-President, Personnel, with the intention of greatly expanding our expertise in recruiting, career training and personnel development. Mr. I.C. McSweeney was appointed Vice-President, Merchandising, to replace Mr. D.R. Steele, who retired after completing 45 years of notable service to the Company.

In January of this year, Mr. E.L. Rounding, retired Vice-President, Planning and Development, resigned from the Board of Directors. We are most

pleased that Mr. Raymond Lavoie of Montreal consented to fill this vacancy on the Board and he will stand for re-election at the Annual Meeting.

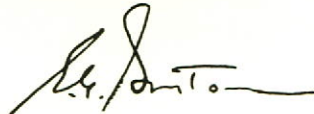
We are proud of the men and women who make up the Simpsons staff. We have over 3,000 career people with over 25 years' service, and the great majority of Simpsons employees are shareholders in the Company through the Profit Sharing and Stock Purchase plans. Last year the Company contributed over \$9,300,000 to pensions and profit sharing for the benefit of our employees.

The Board of Directors would like to record their appreciation of the dedication, courtesy and expertise of the Simpsons people who, under most difficult economic conditions, served more Canadians than ever before, and gave real meaning to our slogan – "You'll enjoy Shopping at Simpsons."

On behalf of the Board



Chairman of the Board and
Chief Executive Officer



President

March 16, 1978



Edgar G. Burton, President

Consolidated Statement of Earnings

| | Fiscal year ended January 4, 1978 | Fiscal year ended January 5, 1977 |
|-----------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|--------------------------------------|
| Net sales | \$638,695,000 | \$605,297,000 |
| Rentals and other income | 4,251,000 | 4,026,000 |
| | 642,946,000 | 609,323,000 |
| Deduct: | | |
| Cost of merchandise sold and selling and administrative expenses | 599,422,000 | 565,705,000 |
| Provision for depreciation | 5,583,000 | 5,486,000 |
| Write-off on departmental improvements | 4,884,000 | 4,456,000 |
| Interest expense (Note 4) | 14,871,000 | 14,185,000 |
| | 624,760,000 | 589,832,000 |
| Earnings from operations before income taxes | 18,186,000 | 19,491,000 |
| Provision for income taxes | 7,338,000 | 9,150,000 |
| Earnings from operations | 10,848,000 | 10,341,000 |
| Equity in net earnings of other companies: | | |
| Simpsons-Sears Limited (dividends received 1977-\$7,392,000; 1976-\$7,392,000) | 18,560,000 | 13,596,000 |
| Shopping centre companies (dividends received 1977-\$2,012,000; 1976-\$1,450,000) | 1,058,000 | 1,108,000 |
| Interest attributable to investments in these companies, net of income taxes 1977-\$2,553,000; 1976-\$2,625,000 (Note 4) | (2,765,000) | (2,844,000) |
| | 16,853,000 | 11,860,000 |
| Earnings before extraordinary item | 27,701,000 | 22,201,000 |
| Non-recurring gain (Note 5) | 358,000 | - |
| Net earnings for the fiscal year (Note 9) | \$ 28,059,000 | \$ 22,201,000 |
| Earnings per share before extraordinary item | 59.0¢ | 47.3¢ |
| Net earnings per share | 59.7¢ | 47.3¢ |

Consolidated Statement of Retained Earnings

| | | |
|-------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| Balance at beginning of year | \$224,449,000 | \$212,092,000 |
| Net earnings for the fiscal year | 28,059,000 | 22,201,000 |
| Increase in equity in Simpsons-Sears Limited on issue by that company of additional Class A shares (Note 3(b)) | - | 489,000 |
| | 252,508,000 | 234,782,000 |
| Dividends on common shares (22¢ per share) | 10,333,000 | 10,333,000 |
| Balance at end of year | \$242,175,000 | \$224,449,000 |

Consolidated Statement of Changes in Financial Position

| | Fiscal year ended January 4, 1978 | Fiscal year ended January 5, 1977 |
|----------------------------------------------------------------------------------------------|--------------------------------------|--------------------------------------|
| Sources of Working Capital: | | |
| Earnings before extraordinary item | \$ 27,701,000 | \$ 22,201,000 |
| Non-cash charges deducted (added) in arriving at earnings: | | |
| Provision for depreciation and write-off on departmental improvements | 10,467,000 | 9,942,000 |
| Deferred income taxes | 1,098,000 | (721,000) |
| Gain on retirement of long-term debt | (359,000) | (373,000) |
| Other | 279,000 | 254,000 |
| Equity in undistributed net earnings of Simpsons-Sears Limited and shopping centre companies | (10,214,000) | (5,862,000) |
| Working capital from operations | <u>28,972,000</u> | <u>25,441,000</u> |
| Proceeds from sale of investments | 3,866,000 | - |
| Decrease in other investments and advances | 165,000 | 1,238,000 |
| Decrease in non-current accounts receivable | 81,000 | 719,000 |
| Proceeds from issue of common shares (Note 8) | 1,000 | 6,000 |
| Decrease in loans to a Trustee under Employees' Stock Purchase Plan | 8,000 | 7,000 |
| Disposals of fixed assets | 93,000 | 45,000 |
| Proceeds from sale of debentures | 24,457,000 | - |
| | <u>57,643,000</u> | <u>27,456,000</u> |
| Applications of Working Capital: | | |
| Additions to fixed assets | 5,173,000 | 4,166,000 |
| Expenditures on departmental improvements | 5,848,000 | 5,991,000 |
| Increase in other investments and advances | 2,490,000 | 464,000 |
| Retirement of long-term debt | 3,683,000 | 1,880,000 |
| Dividends on common shares | 10,333,000 | 10,333,000 |
| | <u>27,527,000</u> | <u>22,834,000</u> |
| Resulting in an increase in working capital of | <u>\$ 30,116,000</u> | <u>\$ 4,622,000</u> |
| Working capital at end of year | <u>\$177,761,000</u> | <u>\$147,645,000</u> |

Consolidated Balance Sheet

| Assets | January 4, 1978 | January 5, 1977 |
|------------------------------------------------------------------|------------------------|----------------------|
| Current Assets: | | |
| Cash | \$ 2,092,000 | \$ 119,000 |
| Accounts receivable (Note 2) | 198,694,000 | 178,499,000 |
| Inventories | 90,874,000 | 97,425,000 |
| Prepaid expenses | 6,144,000 | 5,367,000 |
| | <u>297,804,000</u> | <u>281,410,000</u> |
| Investments and Other Assets: | | |
| Simpsons-Sears Limited (Note 3) | 161,509,000 | 150,341,000 |
| Other investments and advances (Note 5) | 12,057,000 | 14,315,000 |
| Loans to a Trustee under Employees' Stock Purchase Plan (Note 8) | 4,044,000 | 4,052,000 |
| Accounts receivable (Note 2) | 620,000 | 701,000 |
| | <u>178,230,000</u> | <u>169,409,000</u> |
| Fixed Assets: | | |
| Land and buildings | 135,183,000 | 132,455,000 |
| Equipment and fixtures | 51,210,000 | 49,482,000 |
| | <u>186,393,000</u> | <u>181,937,000</u> |
| Less accumulated depreciation | 60,730,000 | 55,771,000 |
| | <u>125,663,000</u> | <u>126,166,000</u> |
| Departmental improvements, less amounts written off | 21,788,000 | 20,824,000 |
| | <u>147,451,000</u> | <u>146,990,000</u> |
| Unamortized Debenture Discount and Expense | <u>1,809,000</u> | <u>1,424,000</u> |
| | <u>\$625,294,000</u> | <u>\$599,233,000</u> |

| Liabilities | January 4, 1978 | January 5, 1977 |
|-------------------------------------------------------------------|------------------------|--------------------|
| Current Liabilities: | | |
| Demand and short-term notes (Note 6) | \$ 47,269,000 | \$ 62,561,000 |
| Accounts payable | 46,107,000 | 46,833,000 |
| Accrued wages, rent, interest, etc. | 17,741,000 | 15,691,000 |
| Customers' deposit accounts | 876,000 | 909,000 |
| Income and other taxes | 7,332,000 | 7,477,000 |
| Principal payments on long-term debt due within one year (Note 7) | 718,000 | 294,000 |
| | <u>120,043,000</u> | <u>133,765,000</u> |
| Long-Term Debt (Note 7) | 195,780,000 | 174,822,000 |
| Deferred Income Taxes | 13,908,000 | 12,810,000 |
| | <u>329,731,000</u> | <u>321,397,000</u> |

Shareholders' Equity

Capital Stock (Note 8):

| | | |
|---------------------------------------------------------------------------------------------------|----------------------|----------------------|
| Authorized—60,000,000 common shares without nominal or par value | | |
| Issued—46,968,554 shares (January 5, 1977—46,968,239 shares) | 36,533,000 | 36,532,000 |
| Retained Earnings | 242,175,000 | 224,449,000 |
| Appraised Value of Land and Buildings in Excess of Depreciated Book Value on July 31, 1952 | 16,855,000 | 16,855,000 |
| | <u>295,563,000</u> | <u>277,836,000</u> |
| | <u>\$625,294,000</u> | <u>\$599,233,000</u> |

Approved by the Board of Directors:

G.A. Burton, Director
J.M. Tory, Director

Notes to Consolidated Financial Statements

1. Summary of Accounting Policies:

Principles of consolidation—The consolidated financial statements include the accounts of Simpsons, Limited and all subsidiary companies.

Inventories—Inventories are valued at the lower of approximate cost and realizable value. Cost is determined for retail store inventories on a first-in, first-out basis applied by the retail inventory method, and for supplies and miscellaneous inventories on a first-in, first-out or average cost basis applied by individual items.

Investments—The investment in Simpsons-Sears Limited is carried at cost plus equity in undistributed net earnings. The equity method of accounting has also been applied to 25% to 50% ownership interests in shopping centre companies. Other investments are carried at the lower of cost and realizable value.

Fixed assets—Fixed assets are stated at cost except for land and buildings included at 1952 appraised values of \$34,920,000. Depreciation provided on the buildings has reduced the net depreciated book value of the appraised land and buildings to \$22,866,000 at January 4, 1978.

Depreciation provisions are computed by the straight-line method at rates based on the estimated useful lives of the depreciable assets. The depreciation rates are 2% for buildings and generally from 7½% to 20% for equipment and fixtures. Departmental improvements are written off over their estimated useful lives of generally 5 to 20 years.

Unamortized debenture discount and expense—Debenture discount and expense are amortized by the reducing balance method or by the straight-line method, as applicable, to the due dates of the respective debentures.

Profits on instalment sales—Profits on instalment sales are taken into earnings at the time of sale. The service charges are taken into earnings, and included in net sales, as earned.

Income taxes—Income taxes are accounted for on the tax allocation method whereby income taxes are fully provided on reported earnings at current tax rates.

| 2. Accounts Receivable: | January 4, 1978 | January 5, 1977 |
|--------------------------------------|----------------------------|----------------------------|
| Customer instalment accounts | \$167,506,000 | \$147,384,000 |
| Charge and other customer accounts | 34,045,000 | 35,266,000 |
| Miscellaneous accounts | 4,772,000 | 3,350,000 |
| | 206,323,000 | 186,000,000 |
| Less allowance for doubtful accounts | 7,009,000 | 6,800,000 |
| | 199,314,000 | 179,200,000 |
| Non-current accounts receivable | 620,000 | 701,000 |
| | \$198,694,000 | \$178,499,000 |

In accordance with recognized trade practices, instalment accounts receivable include amounts which will not become due within one year. However, other accounts receivable not expected to be collected within one year, arising from large-scale contracts of the Contract Division, have been classified as non-current accounts receivable.

3. Simpsons-Sears Limited:

- (a) The investment in Simpsons-Sears Limited, representing 40.9% of the outstanding shares of that company, is carried at cost plus equity in undistributed net earnings. Simpsons, Limited equity in net earnings of Simpsons-Sears Limited for each fiscal year is included in the earnings of Simpsons, Limited for the corresponding fiscal year. See page 15 for summarized financial information on Simpsons-Sears Limited.
- (b) Simpsons, Limited and Sears, Roebuck and Co. each own an equal number of the voting shares of Simpsons-Sears Limited while the non-voting Class A shares are owned by other shareholders. The issue of additional Class A shares by Simpsons-Sears Limited at an amount per share in excess of book value increases Simpsons, Limited equity in Simpsons-Sears Limited. Effective in the fiscal year ended January 4, 1978, the increase has been included in net earnings. Previously such items were credited to retained earnings. The effect of this change has been to increase net earnings for the fiscal year ended January 4, 1978 by \$186,000 (0.4¢ per share).

4. Interest Expense:

| Interest expense charged to operations has been determined as follows: | Fiscal year ended | |
|---------------------------------------------------------------------------------------------------|----------------------------|--------------------|
| | January 4, 1978 | January 5, 1977 |
| Interest on long-term debt, including amortization of discount and expense | \$14,993,000 | \$14,156,000 |
| Other interest | 5,196,000 | 5,498,000 |
| | 20,189,000 | 19,654,000 |
| Less interest attributable to investments in Simpsons-Sears Limited and shopping centre companies | 5,318,000 | 5,469,000 |
| | \$14,871,000 | \$14,185,000 |

The interest attributable to investments in Simpsons-Sears Limited and shopping centre companies, calculated by applying Simpsons, Limited average borrowing rate to the cost of the investments, is presented separately in the consolidated statement of earnings, net of income taxes, as a deduction from the equity in the earnings of these companies.

5. Other Investments and Advances:

| | January 4, 1978 | January 5, 1977 |
|-----------------------------------------------------|---------------------|---------------------|
| Shares in and advances to shopping centre companies | \$ 3,827,000 | \$ 4,134,000 |
| Long term prepaid rent | 3,480,000 | 3,601,000 |
| Shares in public companies | 644,000 | 1,974,000 |
| Miscellaneous | 4,106,000 | 4,606,000 |
| | <u>\$12,057,000</u> | <u>\$14,315,000</u> |

In 1977 the investment in shares of a public company was sold and the remaining investment in another public company was written down to estimated realizable value resulting in a net gain of \$358,000.

6. Demand and Short-Term Notes:

At January 5, 1977 these notes included \$22,670,000 payable to banks.

7. Long-Term Debt:

| | January 4, 1978 | January 5, 1977 |
|---------------------------------------------------------|----------------------|----------------------|
| Simpsons, Limited Debentures— | | |
| 5½% Series C due September 15, 1979 | \$ 63,000 | \$ 76,000 |
| 5¾% Series D due February 1, 1984 | 7,439,000 | 8,000,000 |
| 5¾% Series E due July 15, 1985 | 9,668,000 | 9,996,000 |
| 6½% Series F due March 15, 1987 | 8,953,000 | 9,757,000 |
| 9½% Series G due December 15, 1989 | 11,675,000 | 12,287,000 |
| 8¾% Series H due June 1, 1993 | 23,700,000 | 25,000,000 |
| 9½% Series I due February 15, 1994 | 15,000,000 | 15,000,000 |
| 11¾% Series J due November 15, 1995 | 25,000,000 | 25,000,000 |
| | <u>101,498,000</u> | <u>105,116,000</u> |
| Less principal payments due within one year | 718,000 | 294,000 |
| | <u>100,780,000</u> | <u>104,822,000</u> |
| Simpsons Acceptance Company Limited Secured Debentures— | | |
| 6 % Series B due May 15, 1981 | 15,000,000 | 15,000,000 |
| 5½% Series C due June 15, 1982 | 10,000,000 | 10,000,000 |
| 5¾% Series D due April 1, 1984 | 10,000,000 | 10,000,000 |
| 6¾% Series E due June 15, 1986 | 10,000,000 | 10,000,000 |
| 8¾% Series F due March 15, 1992 | 10,000,000 | 10,000,000 |
| 8¾% Series G due December 15, 1992 | 15,000,000 | 15,000,000 |
| 9½% Series H due August 15, 1997 | 25,000,000 | — |
| | <u>95,000,000</u> | <u>70,000,000</u> |
| | <u>\$195,780,000</u> | <u>\$174,822,000</u> |

Principal payments required subsequent to January 4, 1978 for the fiscal years shown are as follows: 1978—\$718,000; 1979—\$7,105,000; 1980—\$7,200,000; 1981—\$22,450,000; 1982—\$17,450,000.

The Secured Debentures of Simpsons Acceptance Company Limited are secured by an assignment of the customer instalment accounts receivable referred to in Note 2.

8. Capital Stock:

Under the terms of the Employees' Stock Option Plan 315 common shares were issued during the fiscal year ended January 4, 1978 for \$1,745. The Employees' Stock Option Plan provides that the option price shall be the market price of the shares on the day immediately preceding the date of grant and that the options may not be exercised later than ten years from the date of grant.

Outstanding options at January 4, 1978 were as follows:

| Date options granted | Option price per share | Officer directors and other officers | Other employees | Total |
|----------------------|------------------------|--------------------------------------|-----------------|---------------|
| January 1969 | \$5.54 | — | 45,436 | 45,436 |
| February 1971 | 6.21 | 25,800 | — | 25,800 |
| | | <u>25,800</u> | <u>45,436</u> | <u>71,236</u> |

On January 19, 1973 the Board of Directors authorized a Stock Purchase Plan under which Simpsons, Limited made interest-free loans to a Trustee which in turn made interest-free loans to employees to enable them to purchase shares, and to repay loans arranged subsequent to June 1971 for the purchase of shares, under the Employees' Stock Option Plan.

9. Net Earnings:

Net earnings for the fiscal year ended January 4, 1978 have been increased by approximately \$3,650,000 (7.8¢ per share) as a result of the reduction in current income taxes arising from the 3% inventory allowance for income tax purposes including \$2,290,000 (4.9¢ per share) applicable to the company's equity in the allowance to Simpsons-Sears Limited.

10. Pension and Profit Sharing Plans:

Contributions by the companies to employee retirement plans, including the Canada and Quebec Pension Plans, were: 1977—\$8,743,000; 1976—\$7,085,000.

The unfunded obligation for past service under the contributory pension plan, estimated by independent actuaries to be approximately \$40,560,000 at January 4, 1978, is being amortized by annual payments through 1991.

Under the voluntary contributory Profit Sharing Stock Purchase Plan Simpsons, Limited contributes 2½% of consolidated earnings, as defined, up to a maximum equal to the total contribution of the members. All contributions are invested in shares of Simpsons, Limited. For the year ended January 4, 1978 the company contributed \$587,000 to the Plan (1976—\$613,000).

Notes to Consolidated Financial Statements

11. Commitments and Contingent Liabilities:

- (a) Annual rentals and other commitments under long-term leases and operating agreements amount to approximately \$6,100,000.
- (b) Simpsons, Limited and Hudson's Bay Company, part owners of Woodbine-Sheppard Shopping Centre Limited, have jointly and severally agreed to meet all payments of interest and principal on its \$16,700,000 principal amount of bonds. Cemp Investments Ltd., the other part owner of the company, has agreed to make available 50% of all funds which Simpsons, Limited and Hudson's Bay Company may be called upon to provide under their agreements.

12. Capital Expenditures:

Capital expenditures during the fiscal year ending January 3, 1979 are estimated at \$16,000,000 for the completion of construction in progress and other authorized and proposed additions to fixed assets.

13. Remuneration of Directors and Officers:

For the purposes of this note directors include past directors and officers include past officers.

For the fiscal year ended January 4, 1978 the eighteen directors received aggregate remuneration as directors of \$58,000 (1976—eighteen directors, \$50,000) and the eleven officers received aggregate remuneration as officers of \$1,223,000 (1976—eleven officers, \$1,243,000). In 1977 four of these officers (1976—six) also served as directors.

The total remuneration of directors and officers is paid by The Robert Simpson Company Limited, a subsidiary of Simpsons, Limited, and partly allocated to other operating subsidiaries.

14. Anti-Inflation Program:

The Federal Government, under the Anti-Inflation Program, has imposed restrictions on profit margins, prices, compensation and dividends. In the opinion of management Simpsons, Limited and its subsidiaries have complied with the provisions of the Legislation.

Auditors' Report:

To the Shareholders of
Simpsons, Limited:

We have examined the consolidated balance sheet of Simpsons, Limited as at January 4, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the fiscal year then ended. Our examination was 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, these consolidated financial statements present fairly the financial position of the company as at January 4, 1978 and the results of its operations and the changes in its financial position for the fiscal year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants
Toronto, March 15, 1978

The Personal Approach Benefits Customers

The objective of customer satisfaction... in fashions for every occasion, the furnishing of homes, dining, travel and a host of other services, is met by highly skilled personnel within Simpsons.

Professionalism at every level is promoted through specific in-service courses initiated by Corporate Training, and put into practice throughout the Simpsons organization.

Specialized use of modern technology speeds procedures and provides greater accuracy for improved service to customers right along the line through buying, distributing, phone orders, processing of accounts and delivering. "Magic" wands collect data at sales desks, instant print-outs confirm orders and a "master-mind" with a "memory" keeps track of location and stock status.

Genuine personal concern for customer service and satisfaction combines with effective facilities on the job to make Simpsons truly Among the Great Stores of the World.

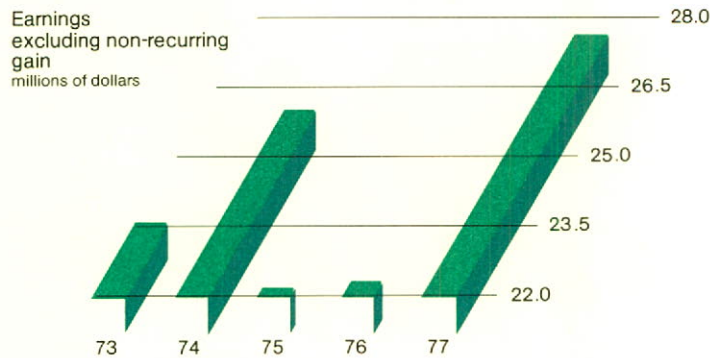
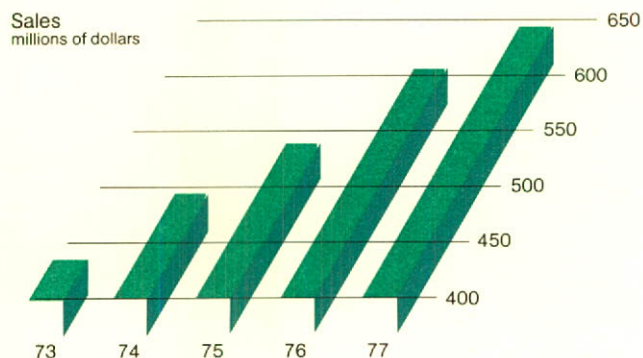
Simpsons First-person Approach to Unity: 1977 Introduced Entre Amis/Between Friends Visits

The company's project of an interchange among 60 teenage sons and daughters of Simpsons staff in Quebec and Ontario was an unqualified success. The visits included Canada Day celebrations in Toronto, a tour of historic Quebec City and other organized outings. The young people were personal guests in each others' homes. A score of other corporations requested Simpsons "blueprint" for similar programs, and Simpsons initiated steps for an even broader Entre Amis/Between Friends interchange to involve 80 staff families in all Simpsons areas in 1978.

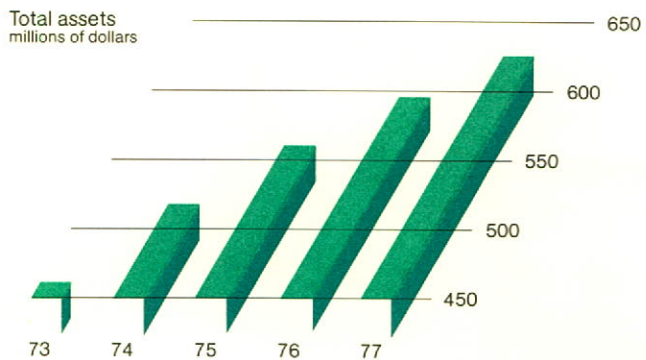
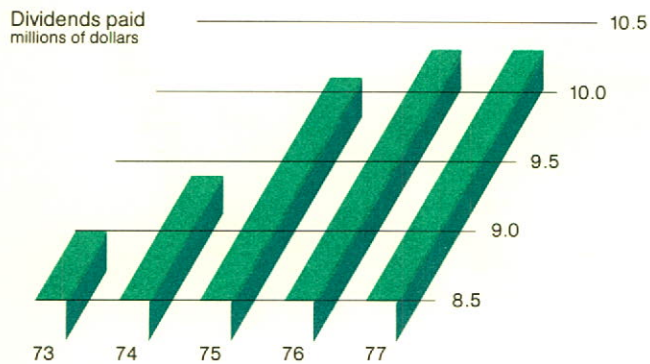
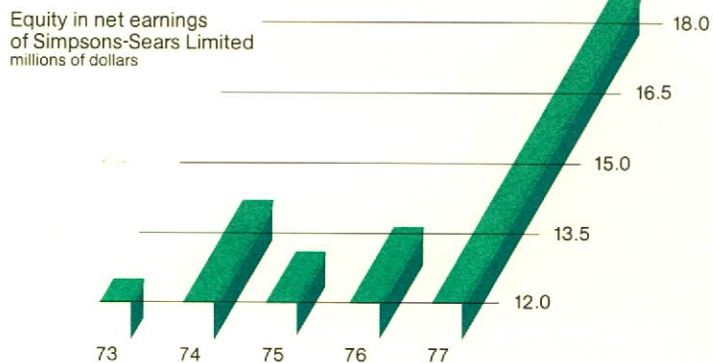
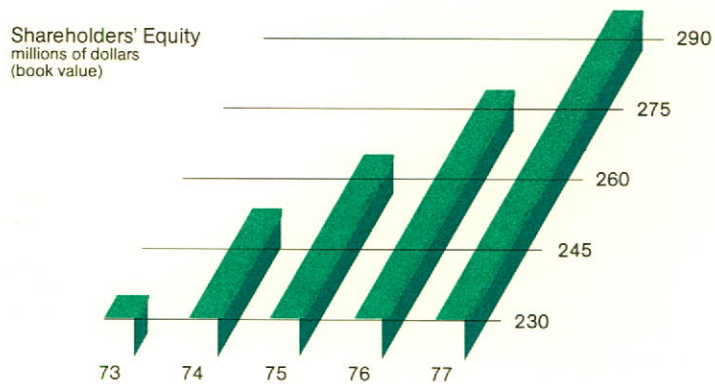


Five Years in Review

| | 1977 | 1976 |
|-------------------------------------------------------------------------------------------------------------------|----------------------------------------|-------------------------------------|
| Operating Results (in thousands) | | |
| Net sales | \$638,695 | \$605,297 |
| Provision for depreciation | 5,583 | 5,486 |
| Write-off on departmental improvements | 4,884 | 4,456 |
| Interest expense | 14,871 | 14,185 |
| Income taxes | 7,338 | 9,150 |
| Earnings from operations | 10,848 | 10,341 |
| Dividends from Simpsons-Sears Limited | 7,392 | 7,392 |
| Equity in undistributed net earnings of Simpsons-Sears Limited | 11,168 | 6,204 |
| Equity in net earnings of shopping centre companies | 1,058 | 1,108 |
| Interest attributable to investments in Simpsons-Sears Limited and shopping centre companies, net of income taxes | 2,765 | 2,844 |
| Net earnings | 27,701* | 22,201 |
| Dividends paid | 10,333 | 10,333 |
| Financial Position (in thousands) | | |
| Working capital | 177,761 | 147,645 |
| Land, buildings and equipment (after depreciation) | 125,663 | 126,166 |
| Total assets | 625,294 | 599,233 |
| Long-term debt | 195,780 | 174,822 |
| Shareholders' equity | 295,563 | 277,836 |
| Per Common Share (adjusted for stock splits) | | |
| Net earnings per share (in cents) | 59.0* | 47.3 |
| Dividends paid per share (in cents) | 22.0 | 22.0 |
| Ratios and Statistics | | |
| Ratio of current assets to current liabilities | 2.5-1 | 2.1-1 |
| Number of shares issued | 46,968,554 | 46,968,239 |
| Number of shareholders | 17,175 | 16,104 |
| Approximate price range per common share | 5³/₄-4.35 | 8 ¹ / ₈ -4.85 |
| *Excluding non-recurring gain | | †53 weeks |



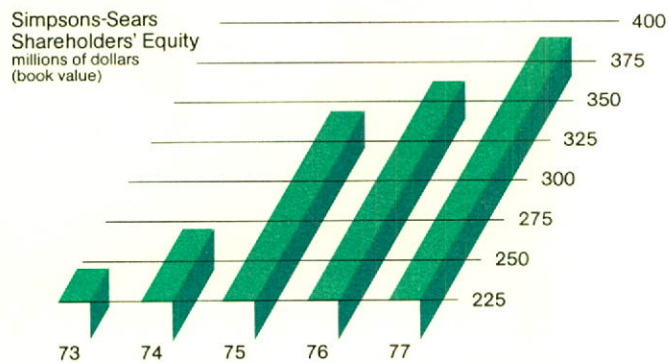
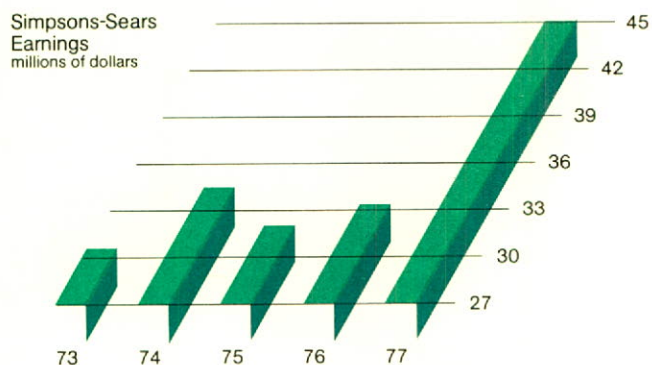
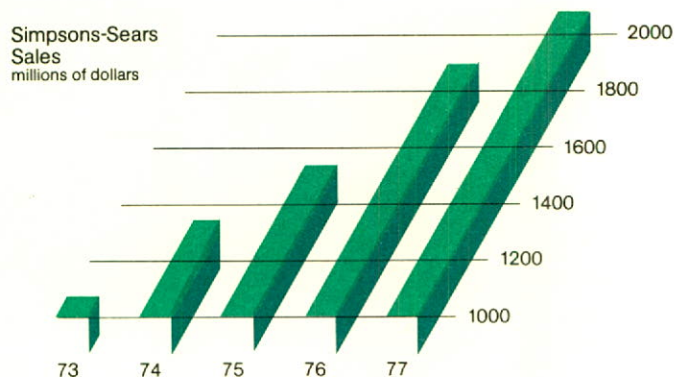
| | 1975 | 1974† | 1973 |
|--|--------------------------------------------------------------|--------------------------------------------------------------|---------------------------------------------------------------|
| | \$547,940 | \$494,920 | \$436,044 |
| | 5,176 | 4,550 | 4,075 |
| | 4,078 | 3,689 | 3,253 |
| | 11,957 | 10,595 | 8,416 |
| | 9,891 | 13,442 | 11,815 |
| | 9,999 | 12,461 | 11,846 |
| | 6,748 | 6,020 | 5,034 |
| | 6,463 | 8,207 | 7,511 |
| | 638 | 927 | 566 |
| | 1,658 | 1,498 | 1,382 |
| | 22,190 | 26,117* | 23,574 |
| | 10,096 | 9,388 | 8,970 |
| | 143,023 | 141,125 | 133,954 |
| | 127,541 | 126,710 | 112,336 |
| | 562,285 | 517,112 | 460,249 |
| | 177,075 | 154,152 | 141,606 |
| | 265,473 | 252,631 | 234,305 |
| | 47.3 | 55.6* | 50.5 |
| | 21.5 | 20.0 | 19.2 |
| | 2.3-1 | 2.4-1 | 2.8-1 |
| | 46,967,288 | 46,942,850 | 46,938,619 |
| | 15,255 | 15,344 | 14,546 |
| | 9 ¹ / ₈ -6 ¹ / ₂ | 9 ¹ / ₄ -5 ¹ / ₄ | 11 ⁵ / ₈ -7 ¹ / ₂ |



Investment in Simpsons-Sears Limited

The total amount invested by Simpsons in Simpsons-Sears since the formation of that company in 1952 amounts to \$64,350,800 including the additional amount of \$23,800,000 invested in the latter part of 1975. Dividends received by Simpsons during 1977 of \$7,392,000 represent a return of 11.5% on that investment. To the end of 1977 Simpsons has received from Simpsons-Sears cash dividends of \$58,713,000 and has an equity of \$97,158,000 in its undistributed earnings for a total of \$155,871,000.

The book value of Simpsons investment in Simpsons-Sears represents a value to a Simpsons shareholder of \$3.44 per share.



Highlights

| Operating Results for the Fiscal Year | 1977 | 1976 |
|-----------------------------------------------|------------------------|-----------------|
| Net sales, including rentals and other income | \$2,096,273,000 | \$1,894,222,000 |
| Cost and expenses | 2,027,654,000 | 1,837,168,000 |
| Earnings before income taxes | 68,619,000 | 57,054,000 |
| Provision for income taxes* | 27,700,000 | 26,906,000 |
| Earnings from operations | 40,919,000 | 30,148,000 |
| Equity in earnings of associated companies | 4,007,000 | 3,026,000 |
| Net earnings | \$ 44,926,000 | \$ 33,174,000 |
| Per share | 60¢ | 44¢ |
| Simpsons equity in earnings | \$ 18,560,000 | \$ 13,596,000 |
| Simpsons share of dividends paid | \$ 7,392,000 | \$ 7,392,000 |

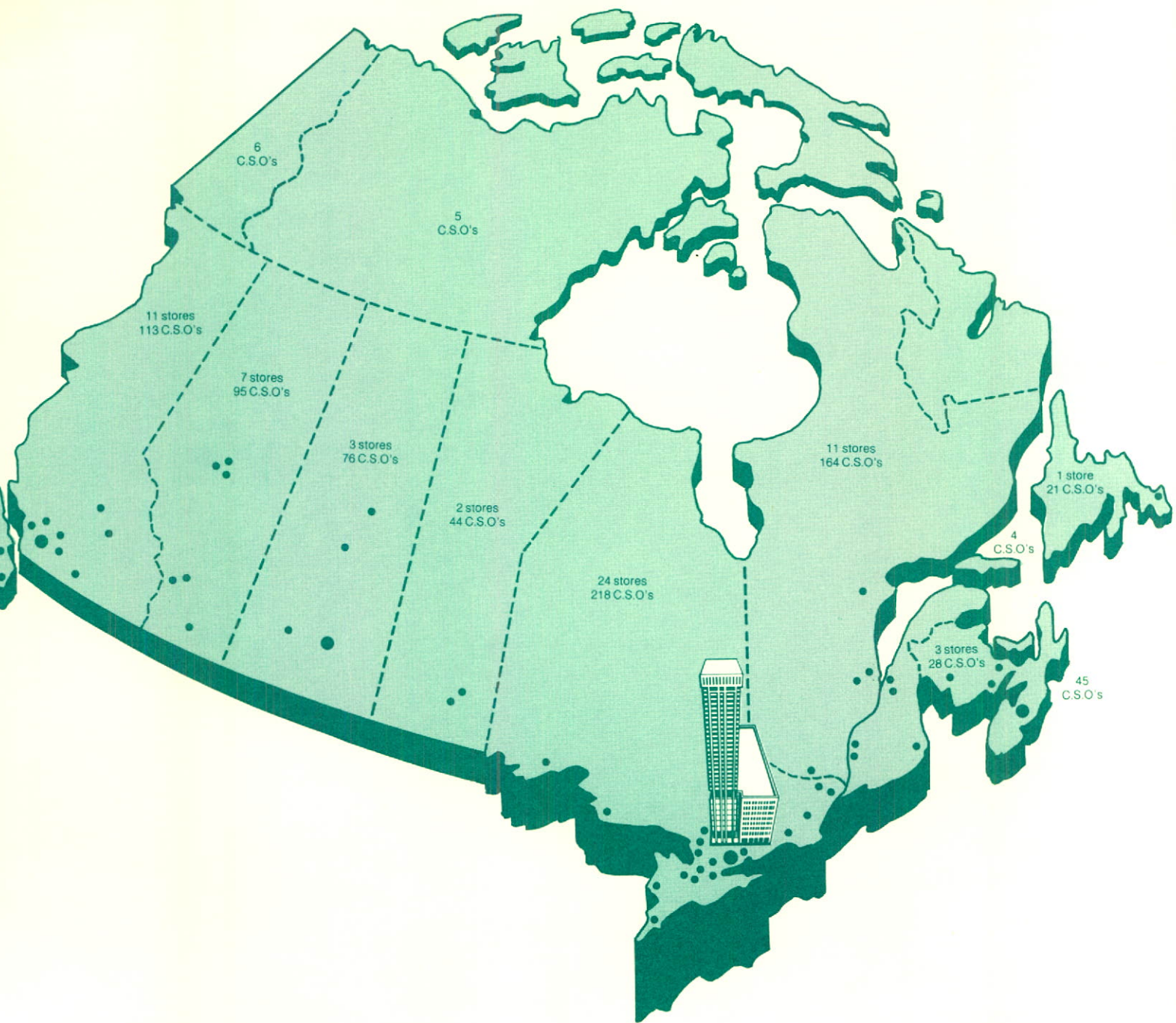
Financial Position at Fiscal Year-End**Assets:**

| | | |
|------------------------------|-------------------------------|------------------------|
| Current assets | \$ 973,259,000 | \$ 884,496,000 |
| Investments and other assets | 43,562,000 | 43,241,000 |
| Fixed assets, net | 323,106,000 | 310,333,000 |
| | <u>\$1,339,927,000</u> | <u>\$1,238,070,000</u> |

Liabilities and Shareholders' Equity:

| | | |
|-----------------------|-------------------------------|------------------------|
| Current liabilities | \$ 415,668,000 | \$ 397,823,000 |
| Long-term debt | 512,176,000 | 457,407,000 |
| Deferred income taxes | 21,622,000 | 20,243,000 |
| | 949,466,000 | 875,473,000 |
| Capital stock | 185,764,000 | 184,749,000 |
| Retained earnings | 204,697,000 | 177,848,000 |
| | <u>\$1,339,927,000</u> | <u>\$1,238,070,000</u> |

*After reduction in 1977 of approximately \$5,600,000 as a result of the 3% inventory allowance.



Simpsons Biggest Investment is Simpsons-Sears, Coast to Coast

Simpsons, Limited decision to incorporate Simpsons-Sears Limited in association with Sears, Roebuck and Co., of Chicago, has resulted in a quarter century of continuing growth and expansion. The basis of Simpsons mail order business with which the new company began its operations in 1953 quickly extended through retail stores in major cities not then

served by Simpsons department stores. Besides the 62 Sears retail stores now thriving in as many cities and shopping plazas, the Simpsons-Sears complex includes more than 800 catalogue sales offices throughout Canada.

Shared expertise, purchasing strength and a mutual emphasis on customer service have made the Simpsons, Simpsons-Sears affiliation paramount for the shopping public in Canada. The

availability of Simpsons Travel Service, access to Simpsons store merchandise and services, telephone order and delivery, acceptance of both companies' customer accounts in all outlets, the leadership of such renowned brand names as 'Kenmore' ... all are representative of the common ground that has been gained as the 25th Anniversary of Simpsons-Sears is celebrated.

**Simpsons
Department
Stores (21)**

Toronto Region

Downtown
Yorkdale Shopping Centre
Cedarbrae Plaza
Fairview Mall
Sherway Gardens
Shoppers' World – Brampton
Scarborough Town Centre
Hillcrest Mall – Richmond Hill

Montreal Region

Downtown
Fairview-Pointe Claire Shopping Centre
Les Galeries d'Anjou
Le Carrefour Laval
Les Promenades St-Bruno,
Opening August, 1978

Halifax Area

Mumford and Chebucto Roads
Micmac Mall–Dartmouth

London Area

Downtown
White Oaks Mall

Regina

Downtown

Ottawa

Downtown

Windsor

Devonshire Mall

Kitchener

Fairview Park Mall

Simpsons Contract Division Offices

(13) are located in Vancouver,
Calgary, Edmonton, Regina, Saskatoon,
Winnipeg, Sudbury, London, Toronto,
Ottawa, Montreal,
Fredericton and Halifax.

The word "Simpsons" is written in a white, cursive script font. It is centered within a dark green, wavy horizontal banner that spans across the upper portion of the page. The background of the entire page consists of alternating horizontal wavy bands of dark green and a light, yellowish-green color.

105 years of serving Canadians