

SEARS



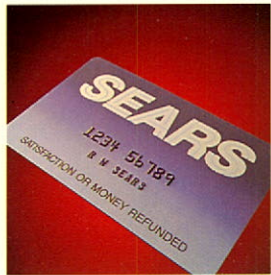
Sears Canada Inc.
Annual Report
1987

Company Profile



Sears Canada Inc. has built its reputation — and its continuing success — on the principle of satisfying Canadians' needs for products and services of superior value through convenient retail and catalogue shopping. This fundamental commitment to service and quality has guided the company's growth from the day it was founded in September, 1952, into one of Canada's largest merchandising operations.

Sears operates 80 department stores coast to coast, primarily in suburban locations. In addition to convenient catalogue ordering facilities in every store, there are now well over 1,600 separate catalogue sales offices in smaller communities throughout Canada. More than 4 million Canadian families receive Sears catalogues each year.



Extending credit to more than 4.3 million Canadians, the Sears Card has become the largest department store credit card in the country. The nationwide electronic on-line credit network not only makes shopping at Sears' stores and from its catalogues more convenient, it also ensures fast, efficient credit authorization at the point of sale.

All credit accounts are transferred to the wholly-owned subsidiary, Sears Acceptance Company Inc.

Central administration for the Company is located in Toronto at 222 Jarvis Street. Buying for the Company is centralized in the headquarters building with the exception of women's fashion buying which is located in Montreal.



Affiliated participation in such activities as trucking, insurance and printing assures Sears and its customers of better overall service in areas that are vital to its operations.

The company's large trucking fleet is operated by its wholly owned subsidiary, SLH Transport Inc.. Sears has a 25-percent share in Allstate Insurance Company of Canada, and Allstate maintains locations in most Sears department stores. Sears also has a 44-percent share in Photo Engravers & Electrotypers Ltd., which produces Sears catalogues.

In related real estate investments, the company maintains extensive holdings, through joint ventures, in regional and suburban shopping centres.



Retailing technology today has assumed a vital role in meeting Sears' needs for speed and efficiency throughout its operations.

For the catalogue customer, Sears Comp-U-Shop® is being implemented in selected free-dial areas to turn touch-tone telephones into complete ordering instruments. Likewise, Catalogue Order Entry offers a central information and ordering service that operates 24 hours a day in major centres across Canada.

Sears has also launched a computer-based communication program called Electronic Data Interchange designed to streamline the ordering, shipping and invoicing of millions of manufactured products. And for faster, more accurate check-out and better inventory control, Sears has undertaken to convert to bar code marking beginning in 1988.



Service, that very special commodity provided by Sears full-time and part-time employees throughout Canada, may seem impossible to quantify. However, it can be measured in part by the activity of the company's service departments.

Currently, there are more than 1,000 Sears technicians who respond from 71 different service locations, driving approximately 700 service vehicles to homes near and far to fulfill the Sears promise of superior customer service before and after every purchase. They are daily proof that in fact "we service what we sell."

In 1987, these dedicated professionals answered more than one million service calls.

Cover
Mall entrance to Sears' store
in the Promenade Mall,
Thornhill, Ontario.

Edition française du rapport annuel

On peut se procurer l'édition française de ce rapport en écrivant au
Relations Extérieures, D/703,
Sears Canada Inc.
222 Jarvis Street
Toronto, Ontario
Canada M5B 2B8

Financial Highlights

Sears Canada Inc.

Year ended December 31
1987 1986
restated

The **Annual Meeting** of Shareholders of Sears Canada Inc. will be held in the Burton-Wood Auditorium Sears Canada Inc. Main floor, 222 Jarvis Street, Toronto, on Monday, April 25, 1988 at 10:00 a.m.

Results for the Year (in thousands)

Total revenues	\$4,035,098	\$3,889,114
Earnings from operations before income taxes	139,193	137,839
Earnings before extraordinary items	82,074	78,347
Net earnings	106,860	78,697
Income taxes	68,004	68,557
Interest costs	143,535	139,858
Contributions to the Plan for Sharing Profits with Employees	7,369	7,328
Contributions to Company and Government Pension Plans	36,286	76,399

Year-End Position (in thousands)

Working capital	1,148,109	1,040,619
Total assets	2,622,452	2,527,429
Shareholders' equity	824,536	738,951

Per Share of Capital Stock (in dollars)

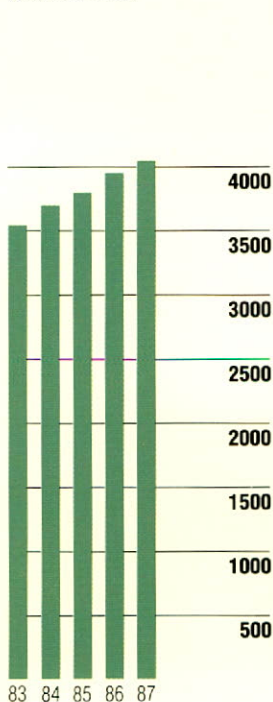
Earnings before extraordinary items	.94	.90
Net earnings	1.22	.90
Dividends declared	.24	.24
Shareholders' equity	9.43	8.45

Financial Ratios

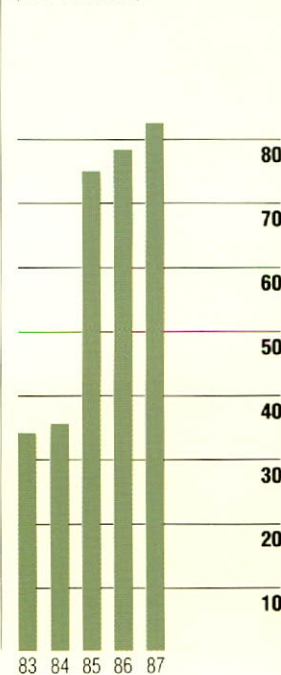
Return on capital employed*	13.9%	14.5%
Return on equity	10.5%	11.0%

*Pretax earnings plus interest and earnings of associated companies as a percent of average total debt plus deferred income taxes and shareholders' equity.

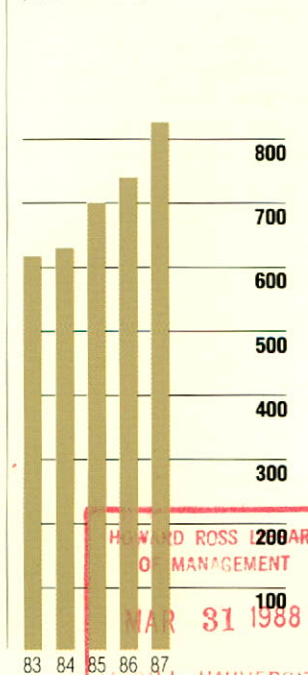
Revenues
(in \$ millions)



Earnings before Extraordinary Items
(in \$ millions)



Shareholders' Equity**
(in \$ millions)



**Total shareholders' equity increased from \$593,493,000 at the end of 1982 to \$824,536,000 at December 31, 1987 and shows a compounded annual growth of 6.8% over the five-year period. Equity per share, which was \$6.80 at the end of 1982, increased to \$9.43 at the end of 1987.

HOWARD ROSS LIBRARY
OF MANAGEMENT
MAR 31 1988
UNIVERSITY

Report to Shareholders and Employees

Year in Review

In 1987 our total revenues went over \$4 billion for the first time with an increase of 3.75%. Our share of Canadian department store sales increased in 1987, and after-tax net profits (excluding extraordinary items) increased 4.8% to \$82.1 million — the highest in our history.

In April we introduced the exciting new Sears Club. An extension of the Catalogue Club that was inaugurated in Summer 1986, the Sears Club is open to all Sears account card holders. Sears Club points are accumulated on all Sears credit card purchases and can be converted into merchandise certificates and redeemed on the over 50,000 items and services available to our retail and catalogue customers.

In October we opened three new retail stores in as many weeks. The St. Thomas and Brockville, Ontario stores were the second and third in a series of new smaller Sears stores tailored to meet the needs of smaller communities. (The first of this type was opened in New Glasgow, Nova Scotia in October 1986.) As well, a full-line department store was opened in Owen Sound, Ontario. We also took the regrettable decision to vacate our Harbour Centre store in Vancouver as of December 31, 1987.

Also in December we opened our first “free-standing” Travel Service office, in Toronto. Sears opened its first Travel Service office in our Ottawa store 15 years ago, and today operates over 60 offices in retail stores from St. John’s to Victoria. This first office located outside of a Sears store location will offer vacation travel packages and corporate travel services to businesses in the Toronto area.

In the stock market crash of October 19, the price of Sears Canada Inc. shares fell below book value. The stock, therefore, represented an attractive investment and so we announced in November our intent to purchase up to 5% of the 87,515,408 common shares then issued and outstanding.

Last year we also announced the beginning of Project 2000, a full-scale assessment of Sears Canada’s distribution facilities, systems and capabilities. The aim is to ensure that we become one of the most efficient distributors of general merchandise and meet all our distribution needs through the end of the century.

Expansion

In 1988 we will open retail stores in Deux-Montagnes, Québec, as well as in the Toronto suburban markets of Brampton/ Bramalea and Pickering. Our store in Lethbridge, Alberta will be relocated to new premises. We will continue our small store expansion program, and open a number of catalogue pick-up depots designed to increase the convenience of catalogue shopping.

Financial

The financial statements detail the results for 1987. In summary, consolidated revenues for the year ended December 31, 1987 were \$4,035,098,000, an increase of 3.75% over the reported figure of \$3,889,114,000 for the year ended December 31, 1986.

Earnings before extraordinary items were \$82,074,000 or 94¢ per share compared with \$78,347,000 or 90¢ per share in 1986.

C. R. Sharpe



We concluded four major extraordinary items in 1987: the sale of our 20% interest in Inglis Limited of Canada to Whirlpool Corporation USA; the sale of 50% of our interest in the St. Laurent Shopping Centre in Ottawa to Cadillac Fairview/JMB Investment Limited Partnership; the sale of our interest in the Surrey Place Shopping Centre in British Columbia; and the closure of the Harbour Centre store in Vancouver. The net after tax gain from all extraordinary items was \$24.8 million.

Associated Companies contributed 12¢ per share to the earnings of the Company compared with 10¢ in 1986.

Final Net Earnings after including all extraordinary items were \$106,860,000 or \$1.22 per share compared with \$78,697,000 or 90¢ per share in 1986.

Corporate Changes

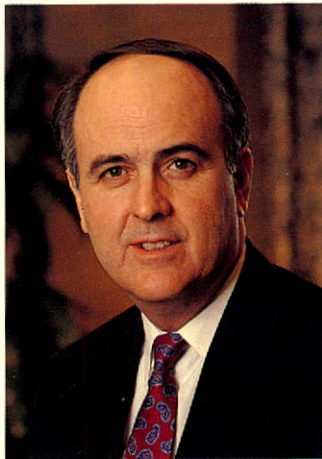
Mr. MacLean E. Jones, Q.C., retired from the Board as a result of the mandatory retirement policy of the Corporation for directors. We thank him for the great contribution during his 9 years of service and wish him good health and happiness.

Following the resignation of Bruce McLaren, Corporate Comptroller, on January 31, 1988, Mr. Larry E. Ginther who has been Vice-President, Finance and Treasurer since January 1985, was appointed Vice-President, Chief Financial Officer and Treasurer. Mr. Ginther will assume responsibility for all corporate financing, accounting, auditing and financial reporting for the Company.

Outlook

Forecasts for 1988 remain optimistic. Consumer confidence is at a reasonable level and sales in the retail sector are expected to show modest real growth. Competition for the consumers' disposable income will remain keen and Sears will garner its share by providing goods and services of superior value to Canadians from coast-to-coast.

L. E. Cudmore



C.R. Sharpe
Chairman of the Board

L.E. Cudmore
President

Focus on the Customer

While Sears' growth rate and size are impressive benchmarks by which to measure any organization, we believe it is the exchange between individuals that decides our success and foretells our future. For it is only during the personal, one-on-one communication between a Sears customer and a Sears employee that real courtesy is possible. Only through direct contact can a person with questions feel "taken care of". Only when a rapport and sense of trust is established will a new Sears "guest" be won over to become a repeat Sears customer – often for a lifetime.

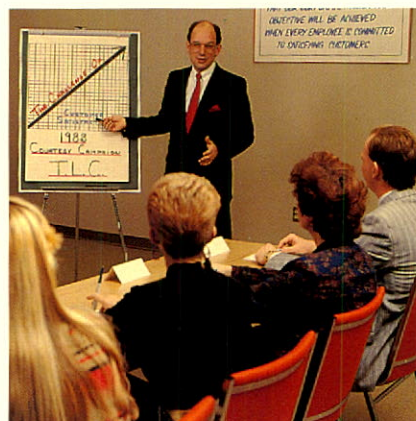
In 1987, Sears Canada rededicated itself to serving the customer. The commitment ran deeper than departmental pep talks or short-term sales incentives. It reached to the core of the company's philosophy about customer relations, and the response from customers and employees alike was tremendous.

The effort started with a series of 130 internal workshops called "Focus for Excellence" – the largest training program ever undertaken by Sears Canada. During 1987, more than 50,000 Sears employees gathered, listened and exchanged invaluable ideas on ways to incorporate excellence into every facet of Sears operations nationwide, and specifically, how to improve customer satisfaction.

From that major training program emerged the 1987 national courtesy campaign, and the Chairman's Challenge to Satisfy the Customer. The campaign pursued two key strategies: motivate front-line employees to take individual responsibility for completely satisfying the customer, and recognize and reward people for outstanding acts of courtesy, caring and commitment in their everyday dealings with customers.



Courtesy Award Winner Nancy Georgina is a part-time sales person in our Saint John, New Brunswick store.



Training Manager Tony Adriaans conducting a workshop in our Promenade store (Thornhill, Ontario)

TLC – Think Like a Customer

Motivation and recognition take many forms. The battle cry for the comprehensive courtesy campaign became “Think Like a Customer”, an attitude the best Sears employees have shown customers for years. The motto was taken up not just by salespeople, but by employees on every level, from catalogue order representatives to service personnel to delivery drivers.

Managers implemented an extensive award program based on direct observations as well as letters of praise from customers. Worthy Sears people, selected by an appointed Courtesy Committee in each store, wore a distinctive 1987 Courtesy Award Winner name badge acknowledging their achievement. They also received a handsome certificate as a permanent record of their contribution, and complimentary dinner-for-two vouchers. The names of monthly award winners appeared on a prominently displayed plaque proclaiming each store’s 1987 Honour Roll, and their photographs were mounted on large posters. Store managers declared their commitment to courtesy in a signed poster that invited comments and suggestions from customers. The message was loud and clear: We’re proud to be Sears people, and we’re committed to making our customers absolutely satisfied.



Rob Evers is a service technician for Kenmore laundry products in the metro-Toronto service area.



Courtesy Award Winner Madeleine Therrien is a part-time sales person in our Victoria, British Columbia store.



Bill Moore is buyer of Canada's Best Selling lines in the bathshop.

Canada's Best Sellers are Leaders

People are drawn to success. They gain faith in products that so many others have purchased. That's why the "Canada's Best Sellers" and "Sears Best" programs continue to inspire customer confidence in the quality and value of Sears products — and in Sears.

Reflected in both retail and catalogue sales, Sears now carries over 100 lines that sell more units than any other company or brand in Canada. We literally sell more of what our customers want than any other retailer in the country.

"Canada's Best Sellers" are based on current independent national research surveys. Each is carefully surveyed to establish this recognition, and each is given an expiration date after which a new survey is conducted to reaffirm its leadership position. Every line has been selected by the National Merchandise Manager and approved by both our research and legal departments.

In the same spirit, the "Sears Best" symbol signifies that an item is made to high quality standards, is exclusive in some way to Sears, and is superior in quality and price — in other words, value — to all items within its line or category. This excellence in sales performance allows us to create a marketing strength none of our competitors can claim.

Names you can trust

Arnold Palmer is a man you feel you'd like to get to know — someone whose judgment you'd trust without reservation. He's just one example of the way the Sears image continues to benefit from association with respected fashion, sports and media personalities and the quality and style they have come to represent. In the past few years especially, by developing recognition for names such as Boulevard Club, Toughskins and Jessica, Sears has worked hard to broaden its fashion profile in order to appeal to an even more diverse range of market segments.

And by dint of sheer sales volume, product performance and enduring presence, names like DieHard, Kenmore and Craftsman have become synonymous with quality and reliability. Sears exclusive brand products have achieved an extraordinary marketing momentum that is helping us overtake our competitors at record rates.

Courtesy Award Winner Lewis DaSilva from our Newmarket, Ontario store



It's in the book

By the end of 1988, 16 editions of the Sears catalogue will have reached more than four million Canadians. Forty-four million catalogues will have been printed, the pages of which, if placed end to end, would encircle the earth 92 times.

Even more impressive than the size and scope of this publishing feat is the fact that when a customer picks up her catalogue and selects a bed or a washing machine or a pair of skates, she is declaring her confidence in Sears' ability to deliver exactly what she ordered. Having made her selection from among the catalogue's more than 50,000 items, she awaits its arrival with the assurance that Sears has promised to meet her expectations of quality, price and value.

By any standard, the Sears catalogue fills a remarkable variety of shopping needs and offers an invaluable service to people all across Canada. Customers, of course, may order by telephone, by mail or in person at the catalogue desk in all Sears department stores, as well as through the more than 1,600 catalogue sales offices nationwide. In many smaller Canadian communities, the Sears catalogue and the Sears catalogue store provide a vital link to the necessities – and the recreations – of life that are more easily found in larger cities.



Mary Shum enters customer catalogue orders in our Toronto, Ontario service centre.



Debbie Greaves is Manager of our Dryden, Ontario catalogue sales office



Senior textile technician
Debra Middleton of our
Warden Avenue laboratory

Sears passes the test.

Product quality and safety are so important to the Sears promise of value that we conduct much of our own textile testing before approving an item or line. Sears testing laboratories in Toronto and Montreal analyse the performance of hundreds of textile items – wearing apparel, upholstery fabrics, urethane foam, yarns, trims, zippers and countless other product components.

We were particularly proud that, in 1987, the Standards Council of Canada awarded the Certificate of Accreditation to the Sears Textile Testing Laboratories at the Warden Avenue Service Centre in Toronto and the Montreal Fashion Centre. The Standards Council approval brings Sears into the global network of laboratories that have been approved by the affiliated International Standards Organization, allowing us to associate with and run tests for other labs in Canada and throughout the world.

With full accreditation to run more than 140 textile testing methods, not only is the Toronto laboratory able to perform the largest number of textile tests in Canada, but it is also one of the largest textile labs in the country, second only to the Ontario Research Foundation.

A legacy of excellence

Excellence in product quality, excellence in service, the highest standards of reliability and performance – these are the objectives we focused on in 1987 to help us achieve our goal of total customer satisfaction. As with any successful self-improvement effort, they become part of the legacy of quality and performance that will define Sears in the future – a legacy that will help ensure our leadership position in the Canadian retail marketplace, and keep us first in the minds of our customers.



Courtesy Award Winner
Monique Tardy works in
our store in Laval, Québec

SEARS



your money's worth...and more

Consolidated Statement of Financial Position

As at December 31,
stated in thousands

	1987	1986 restated
Assets		
Current Assets		
Cash	\$ 8,482	\$ 6,972
Accounts receivable (Note 3)	1,270,408	1,167,074
Inventories	740,047	713,813
Prepaid advertising and other charges	72,067	80,178
	2,091,004	1,968,037
Investments and Other Assets (Note 4)	78,476	75,491
Fixed Assets (Note 5)		
Land	22,310	29,446
Buildings and improvements	338,462	379,683
Equipment and fixtures	340,084	323,813
	700,856	732,942
Less accumulated depreciation	340,348	321,410
	360,508	411,532
Deferred Charges	92,464	72,369
	\$2,622,452	\$2,527,429
Liabilities		
Current Liabilities		
Bank advances and short-term notes	\$ 383,101	\$ 335,885
Accounts payable	184,817	207,102
Accrued liabilities	201,806	180,312
Income and other taxes	94,050	55,606
Principal payments on long-term obligations due within one year (Note 7)	79,121	148,513
	942,895	927,418
Long-Term Obligations (Note 7)	808,202	810,431
Deferred Income Taxes	46,819	50,629
	1,797,916	1,788,478
Shareholders' Equity		
Capital Stock (Note 8)	272,624	272,430
Retained Earnings	551,912	466,521
	824,536	738,951
	\$2,622,452	\$2,527,429

Approved by the Board:



C.R. Sharpe
DirectorJ.M. Tory
Director

Consolidated Statement of Earnings

	Year ended December 31, stated in thousands	
	1987	1986 restated
Total revenues	\$4,035,098	\$3,889,114
Deduct:		
Cost of merchandise sold, operating, administrative and selling expenses	3,665,674	3,530,292
Depreciation	44,028	39,979
Interest on long-term obligations	116,384	116,418
Other interest	27,151	23,440
Municipal realty and business taxes	42,668	41,146
	3,895,905	3,751,275
Earnings from operations before income taxes	139,193	137,839
Income taxes (Note 9):		
Current	64,117	41,325
Deferred	3,887	27,232
	68,004	68,557
Earnings from operations	71,189	69,282
Equity in earnings of associated companies	10,885	9,065
Earnings before extraordinary items	82,074	78,347
Extraordinary items (Note 10)	24,786	350
Net earnings	\$ 106,860	\$ 78,697
Earnings per share:		
Before extraordinary items	\$.94	\$.90
Net earnings	\$1.22	\$.90

Consolidated Statement of Retained Earnings

	Year ended December 31, stated in thousands	
	1987	1986 restated
Balance at beginning of the year, as previously reported	\$ 483,783	\$ 425,686
Effect of changes in accounting policies (Note 2)	(17,262)	(16,881)
Balance at beginning of the year, as restated	466,521	408,805
Net earnings for the year	106,860	78,697
	573,381	487,502
Dividends declared	20,999	20,981
Excess cost of purchasing shares over stated value (Note 8)	470	—
Balance at end of the year	\$ 551,912	\$ 466,521

Consolidated Statement of Changes in Financial Position

	Year ended December 31, stated in thousands	
	1987	1986 restated
Cash Generated from (used for) Operations		
Earnings from operations	\$ 71,189	\$ 69,282
Non-cash charges deducted in arriving at earnings from operations, principally depreciation and deferred income taxes	51,117	63,587
Funds from operations	122,306	132,869
Net decrease (increase) in operating working capital excluding current debt	6,857	(63,307)
	129,163	69,562
Cash Generated from (used for) Investment Activities		
Purchase of fixed assets	(48,282)	(76,026)
Proceeds from sale of fixed assets	4,117	2,675
Increase in customer charge accounts	(105,534)	(39,894)
Increase in deferred charges	(26,231)	(64,395)
Net increase in investments and other assets	(615)	(4,300)
Amounts received from associated companies	3,058	5,585
Net proceeds from extraordinary items	56,874	3,376
	(116,613)	(172,979)
Cash Generated from (used for) Financing Activities		
Proceeds from issue of long-term obligations	107,554	106,307
Repayment of long-term obligations	(146,045)	(44,302)
Net issue (redemption) of capital stock	(276)	1,042
	(38,767)	63,047
Cash (used for) Dividends	(20,999)	(20,981)
(Increase) in Short-Term Indebtedness	\$ (47,216)	\$ (61,351)
Short-Term Indebtedness at End of Year	\$ 383,101	\$ 335,885

Notes to Consolidated Financial Statements

1. Summary of Accounting Policies:**Principles of Consolidation:**

The consolidated financial statements include the accounts of Sears Canada Inc. and all subsidiaries.

Inventories:

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

Prepaid Advertising:

Catalogue production costs are deferred and amortized over the life of each catalogue on the basis of the estimated sales from the catalogue.

Investments:

Investments in associated companies are carried at cost plus equity in undistributed earnings since dates of acquisition. Other investments are carried at cost.

Fixed Assets:

Fixed assets are stated at cost. Depreciation and amortization provisions are generally computed by the straight-line method based on the estimated useful lives of 4 to 10 years for equipment and fixtures and of 30 to 50 years for buildings and improvements.

Deferred Charges:

The cumulative excess of contributions to the Company's pension plan over the amounts expensed is included in deferred charges.

In addition, bond and debenture discount and expense are deferred and amortized by the reducing balance method or by the straight-line method, as applicable, to the due dates of the respective bonds and debentures.

Foreign Currency Translation:

Long-term obligations payable in U.S. dollars are translated at the exchange rate in effect at the balance sheet date or at the rates fixed by forward exchange contracts.

Unrealized foreign exchange gains and losses and the cost of forward exchange contracts are deferred and amortized over the remaining terms of the obligations.

Pensions:

Current service costs under the Company's pension plan are charged to operations as they accrue. The excess of the market value of pension fund assets over the actuarial present value of the accrued pension obligations as at January 1, 1986 and any surpluses or deficits arising since that date are amortized over the expected average remaining service life of the employee group covered by the plan. Actuarial valuations are calculated using the projected benefit method pro rated on services, based on management's best estimate of the effect of future events (see Note 6).

Net Earnings per share:

Net earnings per share are calculated based on the weighted average number of shares outstanding during the fiscal year.

2. Changes in Accounting Policies:

The Company has changed, on a retroactive basis, its accounting policies with regards to returns and allowances, service charges, unshipped sales and vacation pay. This has resulted in a decrease in net income for 1987 of \$983,000 (1986 — \$381,000). The cumulative effect of the change in prior years has resulted in a \$16,881,000 reduction in retained earnings as at January 1, 1986.

3. Accounts Receivable:

	As at December 31, stated in thousands	
	1987	1986 restated
Customer charge accounts	\$1,232,918	\$1,125,512
Miscellaneous accounts	58,854	61,054
	<u>1,291,772</u>	<u>1,186,566</u>
Less allowance for doubtful accounts	21,364	19,492
	<u>\$1,270,408</u>	<u>\$1,167,074</u>

In accordance with recognized trade practices, customer charge accounts include amounts which will not become due within one year.

4. Investments and Other Assets:

	As at December 31, stated in thousands	
	1987	1986
Investments in associated companies	\$ 76,606	\$ 73,031
Other investments	1,449	1,777
Notes receivable on Common Shares of Sears Canada Inc. issued under the Employees' Stock Purchase Plan	421	683
	<u>\$ 78,476</u>	<u>\$ 75,491</u>

The investments in associated companies include a 25% share interest in Allstate Insurance Company of Canada, a 44% share interest in Photo Engravers & Electrotypers Limited, interests in several companies which supply merchandise to the Company and interests in shopping centres in which the Company's stores are located. Pursuant to a long-term agreement, Photo Engravers produces catalogues for the Company. Merchandise purchases from associated companies (including insurance purchased from Allstate) amounted to approximately \$61 million for the year ended December 31, 1987, and there were no significant amounts receivable or payable on that date.

5. Fixed Assets:

	As at December 31, stated in thousands	
	1987	1986
Fixed assets include the following capitalized leased assets:		
Buildings	\$ 26,979	\$ 26,979
Equipment	21,430	14,757
	<u>48,409</u>	<u>41,736</u>
Less accumulated depreciation	12,186	11,200
	<u>\$ 36,223</u>	<u>\$ 30,536</u>

6. Pensions:

The Company maintains a defined benefit, final average pension plan which covers substantially all of its regular full-time employees as well as certain of its part-time employees. The plan provides pensions based on length of service and final average earnings.

Selected financial information relating to the plan is as follows:

	As at December 31, stated in thousands	
	1987	1986
Pension fund assets at market value	\$573,068	\$543,826
Present value of accrued pension obligations	\$484,735	\$448,764
Company contribution to the plan during the year	\$ 28,744	\$ 66,398
Pension expense for the year .	5,674	1,986
Net increase in deferred pension expense for the year	\$ 23,070	\$ 64,412

7. Long-Term Obligations:

	As at December 31, stated in thousands	
	1987	1986
Sears Canada Inc.:		
First Mortgage Bonds:		
7¾% Series D due Feb. 15, 1991	\$ 9,458	\$ 12,286
8¼% Series E due May 1, 1993	11,750	13,250
Floating Charge Debentures:		
4¾% due Oct. 15, 1988	970	1,055
11¼% Series B due Aug. 15, 1994	20,775	21,000
11½% Series D due June 15, 1995	22,750	22,750
Unsecured Debentures:		
Series 1 due Dec. 31, 1987	—	25,000
Series 2 due Feb. 2, 1987	—	52,000
Series 3 due June 15, 1987	—	35,000
9¼% due Feb. 26, 1997	100,000	—
Term Note due June 13, 1994 (U.S.\$90,000,000)	116,397	116,397
Capital lease obligations, interest rates from 8% to 17%	40,433	35,129
	<u>322,533</u>	<u>333,867</u>

Sears Acceptance Company Inc.:

Secured Debentures:		
7¼% Series H due Aug. 15, 1987	—	12,400
8¾% Series I due June 15, 1989	8,700	8,700
9½% Series J due Feb. 1, 1990	6,670	6,670
8¾% Series K due May 15, 1992	25,000	25,000
9¼% Series L due Mar. 15, 1994	17,500	19,000
11½% Series M due Nov. 15, 1994	13,115	13,760
11½% Series N due Nov. 15, 1994	2,975	3,400
10¾% Series P due Nov. 15, 1996	21,350	25,457
10¾% Series Q due Nov. 15, 1988	2,000	4,000
10% Series S due July 15, 1998	22,080	24,064
12¾% Series T due June 15, 2000	34,800	37,400
Floating Rate		
Series U due Oct. 31, 1990	25,000	25,000
14¾% Series V due April 1, 1996	66,390	66,390
17½% Series W due Nov. 1, 1988 (U.S.\$40,000,000)	51,752	51,752
16¾% Series X due April 28, 1989	40,000	40,000
14% Series Y due Aug. 15, 1991	50,000	50,000
10¾% Series Z due Oct. 1, 1992	75,000	75,000
10% Series 1 due Oct. 3, 1993	100,000	100,000
	<u>562,332</u>	<u>587,993</u>

Sears Properties Inc.:

Mortgage and bond indebtedness,		
5¼% to 6%	2,458	2,779
St. Laurent Shopping Centre Limited:		
Mortgage Bonds maturing from 1990 to 1995, 8% to 14¼%	—	34,305
	887,323	958,944
Less principal payments due within one year included in current liabilities	79,121	148,513
	<u>\$808,202</u>	<u>\$810,431</u>

The First Mortgage Bonds of Sears Canada Inc. and the mortgage and bond indebtedness of Sears Properties Inc. are primarily secured by first charges on the fixed assets of those companies. The Floating Charge Debentures of Sears Canada Inc. are secured, subject to the security given on its First Mortgage Bonds, by a floating charge on all the assets of the Company. The Secured Debentures of Sears Acceptance Company Inc. are secured by an assignment of the customer charge accounts receivable referred to in Note 3.

Through a swap transaction the Company has fixed the repayment of the Term Note at a Canadian dollar amount of \$116,397,000 and has fixed the interest rate at 14.73%.

The Series U Secured Debentures of Sears Acceptance Company Inc. bear interest at a rate equal to the average daily prime lending rates of the Company's two principal bankers for the interest period less ¼%.

Sears Acceptance Company Inc. has entered into forward exchange contracts to purchase U.S. dollars for payment of the principal of and each interest payment on the Series W Secured Debentures.

The mortgage and bond indebtedness of Sears Properties Inc., maturing at various dates from 1988 to 1998, includes \$1,098,000 (U.S.\$845,000) at December 31, 1987 and \$1,333,000 (U.S.\$966,000) at December 31, 1986 payable in U.S. funds.

The St. Laurent Shopping Centre Limited Mortgage Bonds were included in the sale of a 50% interest of the St. Laurent Shopping Centre.

Subsequent to December 31, 1987, principal payments required on long-term obligations for the fiscal years ending on the dates shown are as follows:

December 31, 1988 —	\$ 79,121,000
December 31, 1989 —	\$ 70,869,000
December 31, 1990 —	\$ 55,342,000
December 31, 1991 —	\$ 81,669,000
December 31, 1992 —	\$120,976,000

8. Capital Stock:

There is an unlimited number of common shares authorized. Changes in the number of outstanding common shares and their stated values since December 31, 1985 are as follows:

	Number of shares	Stated values (in thousands)
Outstanding as at December 31, 1985 . . .	87,327,913	\$271,388
Issued pursuant to stock option plans	130,300	1,042
Outstanding as at December 31, 1986 . . .	87,458,213	272,430
Issued pursuant to stock option plans	59,220	478
Less purchased and cancelled	(90,900)	(284)
Outstanding as at December 31, 1987 . . .	<u>87,426,533</u>	<u>\$272,624</u>

Under stock option plans the following options have been granted and exercised:

Options granted	Option price	Expiry date	Options exercised	Options outstanding
51,500	\$ 7.38	January 1990	14,000	37,500
408,550	7.77	April 1990	181,170	227,380
136,095	11.48	January 1991	9,845	126,250
143,295	10.63	February 1992	5,435	137,860

During 1987, the Company purchased and cancelled 90,900 shares for an aggregate cost of \$754,000. Of this cost, \$284,000 has been allocated to capital stock and \$470,000 to retained earnings.

9. Income Taxes:

A reconciliation of the income tax expense at the statutory tax rates with the actual income tax expense is as follows:

	Year ended December 31, stated in thousands	
	1987	1986 restated
Earnings before income taxes	<u>\$139,193</u>	<u>\$137,839</u>
Statutory tax rate	<u>50.3%</u>	<u>51.2%</u>
Income taxes at statutory tax rate	\$ 70,056	\$ 70,574
Increase (decrease) in income taxes resulting from:		
Miscellaneous non-deductible items	58	952
Inventory tax credit	—	(1,572)
Non-taxable portion of capital gains	(2,053)	(234)
Miscellaneous non-taxable items	(57)	(1,163)
Income tax expense	<u>\$ 68,004</u>	<u>\$ 68,557</u>
Effective tax rate	<u>48.9%</u>	<u>49.7%</u>

10. Extraordinary Items:

	Year ended December 31, stated in thousands	
	1987	1986
Gain on sale of 20% interest in Inglis Limited, net of related income taxes of \$2,900,000	\$ 7,056	\$ —
Gain on sale of 50% interest in the St. Laurent Shopping Centre, net of related income taxes of \$7,266,000	21,799	—
Gain on sale of interests in shopping centres, net of related income taxes of \$2,010,000 (1986 — \$1,480,000)	6,195	3,720
Loss on closure of the Harbour Centre store, net of related income tax recovery of \$10,410,000 (1986 — \$3,510,000)	(10,264)	(3,370)
	<u>\$ 24,786</u>	<u>\$ 350</u>

11. Commitments:

Minimum lease payments, exclusive of property taxes, insurance and other expenses payable directly by the Company, under capital leases and operating leases that have an initial term of more than one year as at December 31, 1987 are as follows:

	Capital leases (in thousands)	Operating leases (in thousands)
1988	\$ 7,665	\$ 55,749
1989	7,665	51,547
1990	7,509	37,545
1991	6,515	30,842
1992	4,496	28,353
Subsequent years	45,051	372,261
Minimum lease payments ..	\$78,901	\$576,297
Less imputed interest	38,468	
Capital lease obligations ...	<u>\$40,433</u>	

Total rentals charged to earnings under all operating leases for the year ended December 31, 1987 amounted to \$61,240,000 (\$63,839,000 for the year ended December 31, 1986).

12. Capital Expenditures:

Capital expenditures planned for the fiscal year ending December 31, 1988 are estimated at approximately \$78 million.

Statement of Management Responsibility

Management is responsible for the accuracy, integrity and objectivity of the financial information contained in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and include certain amounts that are based on best estimates and judgements. Financial information used elsewhere in the Annual Report is consistent with that in the financial statements.

Management has developed, maintains and supports an extensive program of internal audits that provides reasonable assurance that financial records are reliable and that assets are safeguarded.

The Board of Directors, through the activities of the Audit Committee, ensures that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee, the majority of whom are outside directors, meets periodically with the financial officers of the Company, the internal auditors and external auditors to discuss audit activities, internal accounting controls and financial reporting matters. The Board of Directors, on the recommendation of the Audit Committee, has approved all of the information contained in the Annual Report.

The Company's external auditors, Touche Ross & Co., have conducted an examination of the financial records of the Company in accordance with generally accepted auditing standards. Their report is shown below.

Auditors' Report

To the Shareholders of Sears Canada Inc.:

We have examined the consolidated statement of financial position of Sears Canada Inc. as at December 31, 1987 and the consolidated statement of earnings, retained earnings and changes in financial position for the 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 December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the changes in accounting policies as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Toronto, February 5, 1988

Touche Ross & Co.

Chartered Accountants

Officers

C. Richard Sharpe
Chairman of the Board and Chief Executive Officer

Laurence E. Cudmore
President and Chief Operating Officer

Maurice F. Anderson
Vice-President, Information Systems

J.J. Michael Eagan
Vice-President, Secretary and Corporate Counsel

Larry E. Ginther
Vice-President, Finance and Treasurer

Harold J. Mandel
Vice-President, Real Estate and Facilities

Richard C. McMillan
Vice-President, Credit

Walter G. Pridham
Vice-President, Public Affairs & Corporate Planning

Donald S. Shaffer
Vice-President, Field Sales Operations

William R. Turner
Vice-President, Merchandising

Leslie Visosky
Vice-President, Personnel

Neil M. Whitmore
Vice-President, Distribution

Bruce W. McLaren
Corporate Comptroller

Head Office

Sears Canada Inc.,
222 Jarvis Street,
Toronto, Ontario, Canada
M5B 2B8

Transfer Agent and Registrar

The Royal Trust Company
Toronto, Ontario
Montreal, P.Q.
Calgary, Alberta

Stock Exchange Information

Symbol: SCC
Listings:
The Montreal Exchange
The Toronto Stock Exchange

Board of Directors

Joseph H. Batogowski ●
Senior Executive Vice-President, Merchandising,
Sears, Roebuck and Co., Merchandise Group

Michel F. Bélanger ● ○
Chairman of the Board and Chief Executive Officer,
National Bank of Canada

Michael Bozic ● ○
Chairman and Chief Executive Officer,
Sears, Roebuck and Co., Merchandise Group

Harold Corrigan, C.A. ◆ ◇
Consultant

Laurence E. Cudmore ● ◇
President and Chief Operating Officer,
Sears Canada Inc.

William A. Dimma ◇
Deputy Chairman, Royal LePage Limited

Macleon E. Jones, Q.C. ◆
Partner, Bennett, Jones, Barristers and Solicitors

Arthur H. Mingay ● ◆
Former Chairman, The Canada Trust Company

Alfred Powis ● ○ ◆
Chairman and Chief Executive Officer, Noranda Inc.

G. Joseph Reddington ●
Senior Executive Vice-President, Field,
Sears, Roebuck and Co., Merchandise Group

C. Richard Sharpe ● ◇
Chairman of the Board and Chief Executive Officer,
Sears Canada Inc.

James M. Tory ● ◆
Partner, Tory, Tory, DesLauriers and Binnington,
Barristers and Solicitors

William P. Wilder ● ○ ◇
Former Chairman of the Board,
The Consumers' Gas Company Ltd.

John F. Wirth ◆
Vice-President and Comptroller,
Sears, Roebuck and Co., Merchandise Group

Honorary Directors

Jack C. Barrow
Former Chairman of the Board and Chief Executive Officer,
Sears Canada Inc.

James W. Button
Former Special Assistant to the Chairman,
Sears, Roebuck and Co.

Committees

- Finance
- Compensation
- ◆ Audit
- ◇ Investment

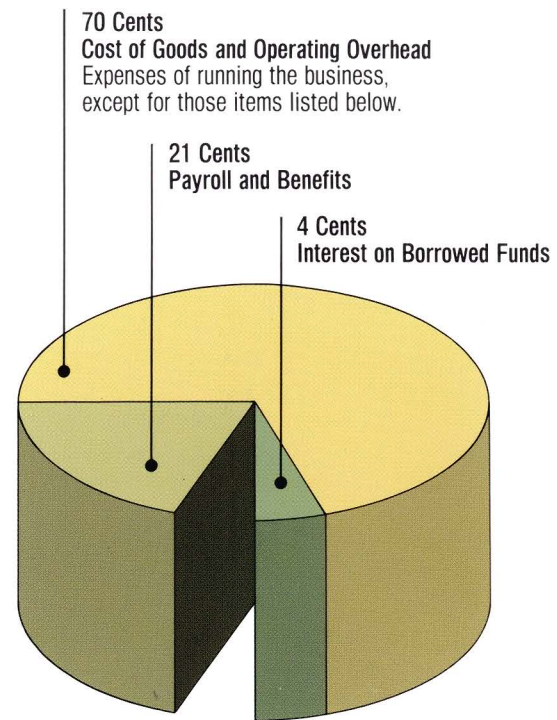
Sears Canada Inc.
Ten Year Summary*

		1987 52 weeks December 31, 1987	1986 52 weeks December 31, 1986	1985 52 weeks December 31, 1985	1984 52 weeks December 31, 1984	1983 52 weeks December 31, 1983 unaudited	1982 52 weeks December 31, 1982 unaudited	1981 52 weeks February 3, 1982	1980 53 weeks February 4, 1981	1979 52 weeks January 30, 1980	1978 52 weeks January 31, 1979 unaudited
Results for the Year (in thousands)	Total revenues**	\$4,035,098	\$3,889,114	\$3,789,214	\$3,652,320	\$3,502,068	\$3,126,186	\$3,129,625	\$2,954,606	\$2,618,213	\$2,390,651
	Depreciation	44,028	39,979	36,514	33,622	33,754	33,166	34,485	36,218	32,500	30,508
	Earnings from operations before income taxes	139,193	137,839	114,818	34,181	23,656	16,014	32,867	76,072	103,495	89,305
	Income taxes	68,004	68,557	51,391	7,963	3,609	(869)	8,675	31,380	44,187	37,403
	Earnings before extraordinary items	82,074	78,347	74,311	36,175	33,572	25,828	31,462	49,796	67,488	57,209
	Net earnings	106,860	78,697	86,056	36,175	33,572	25,828	31,462	49,796	67,488	57,209
	Dividends declared	20,999	20,981	17,463	17,461	17,461	17,461	27,938	31,430	29,416	20,526
	Fixed asset additions:										
	Owned	39,778	67,927	58,008	34,301	27,763	30,275	37,125	40,475	37,282	33,841
	Leased under capital leases	8,504	8,099	3,134	—	1,159	535	—	6,064	1,548	16,255
Year-End Position (in thousands)	Accounts receivable	1,270,408	1,167,074	1,122,493	978,492	880,834	787,761	705,448	675,904	639,273	555,842
	Inventories	740,047	713,813	666,928	613,982	630,712	539,489	532,180	532,906	472,144	433,621
	Fixed assets (net)	360,508	411,532	376,636	357,372	357,668	361,328	364,796	362,923	353,234	347,156
	Total assets	2,622,452	2,527,429	2,332,112	2,125,644	2,024,153	1,826,524	1,741,258	1,700,331	1,580,814	1,433,731
	Working capital	1,148,109	1,040,619	1,117,222	1,010,401	845,914	898,950	836,165	709,941	664,301	601,789
	Long-term obligations	808,202	810,431	848,599	805,713	657,294	713,020	671,430	543,442	500,955	533,652
	Shareholders' equity	824,536	738,951	697,074	628,318	609,604	593,493	572,637	569,113	549,341	435,691
Per Share of Capital Stock (in dollars)	Earnings before extraordinary items	.94	.90	.85	.41	.38	.30	.36	.57	.85	.76
	Net earnings	1.22	.90	.99	.41	.38	.30	.36	.57	.85	.76
	Dividends declared	.24	.24	.20	.20	.20	.20	.32	.36	.36	.27
	Shareholders' equity	9.43	8.45	7.98	7.20	6.98	6.80	6.56	6.52	6.31	5.71
Financial Ratios	Return on average equity (%)	10.50	11.04	11.21	5.84	5.58	4.43	5.51	8.90	13.70	13.83
	Current ratio	2.22	2.12	2.47	2.50	2.15	2.82	2.78	2.26	2.31	2.37
	Return on total revenues (%)	2.03	2.01	1.96	0.99	0.96	0.83	1.01	1.69	2.58	2.39
	Debt/Equity ratio	61/39	64/36	63/37	64/36	63/37	60/40	61/39	59/41	56/44	63/37
	Return on capital employed (%)	13.89	14.47	14.06	10.01	8.97	9.48	10.95	12.43	14.98	14.07
	Pretax margin (%)	3.45	3.54	3.03	0.94	0.68	0.51	1.05	2.57	3.95	3.74
Number of Selling Units	Retail stores	80	77	75	74	73	72	70	68	65	63
	Catalogue sales offices	1,639	1,548	1,428	1,370	1,316	1,263	1,191	1,115	1,020	923

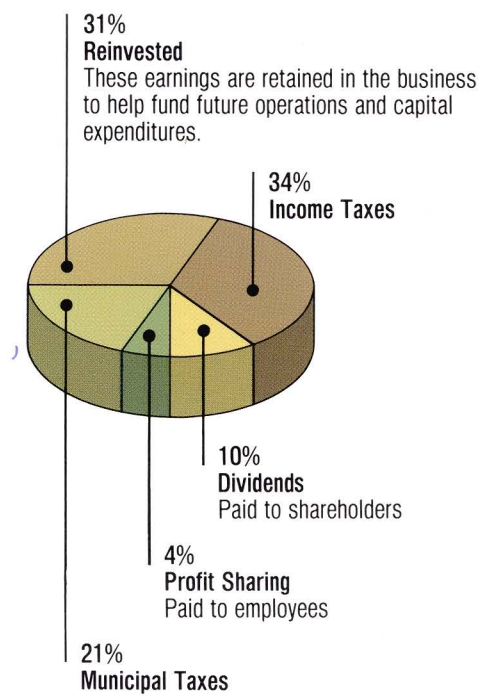
*Certain amounts have been restated to reflect accounting changes applied retroactively in 1987, 1981 and 1979 and for the prior period adjustments recorded in 1986 and 1981.

**Total revenues have been restated in 1983 and 1984 to reflect the reclassification of clearance centre sales and service department revenue from the cost of merchandise sold to revenues.

What happens to each dollar of revenues?



The remaining 5 cents is paid out or invested as shown below



*Serving the needs of Canadian Families
for 35 years*

SEARS