



Hudson's Bay Company

Annual Report



1984

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Hudson's Bay Company

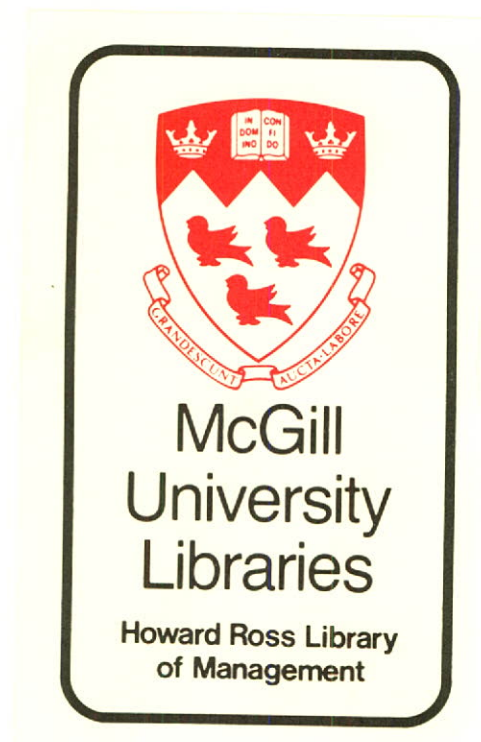
Hudson's Bay Company is Canada's oldest and one of its largest enterprises, with holdings in merchandising, real estate and natural resources. It owns, among other assets, three major retail companies, The Bay, Simpsons and Zellers; a large real estate subsidiary, Markborough Properties Limited; and a 53.8% interest in Roxy Petroleum Ltd.

The Company aims to develop its human and material resources and capitalize on its experience in merchandising, real estate and natural resources, to anticipate and satisfy the needs of Canadians for the goods and services of these three industries at fair prices, and thereby earn a satisfactory return for its shareholders.



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Financial Highlights

	This Year 1984	Last Year 1983
	\$ millions	\$ millions
Sales and Revenue	4,829.3	4,370.5
Operating Profit	111.9	125.2
Loss Before Extraordinary Items	(107.4)	(17.9)
Extraordinary Gains	—	82.8
Net Earnings (Loss)	(107.4)	64.9
Capital Expenditures	153.0	94.7
Shareholders' Equity	1,035.1	1,178.7
Per Ordinary Share:		
	\$	\$
Loss Before Extraordinary Items	(5.40)	(1.63)
Net Earnings (Loss)	(5.40)	1.86
Dividends	.60	.60
Equity	33.29	39.36



Summary of Operations

	Results <i>in thousands of dollars</i>	This Year	Last Year
Hudson's Bay Company	Sales and revenue	4,829,325	4,370,528
	Operating profit	111,883	125,160
	Interest	(199,275)	(173,696)
	Income taxes	(19,292)	30,142
	Loss	(107,434)	(17,906)
The Bay	Sales and revenue	1,698,606	1,659,503
	Operating profit	18,791	36,451
Simpsons	Sales and revenue	737,254	726,456
	Operating loss	(52,466)	(30,248)
Zellers	Sales and revenue	1,414,837	1,184,388
	Operating profit	43,292	52,079
Hudson's Bay Wholesale	Sales and revenue	581,813	522,857
	Operating profit	5,319	10,102
Fur Sales	Consignments	357,139	355,813
	Operating profit (loss)	8,029	(4,019)
Real estate - principally Markborough	Sales and revenue	243,452	176,946
	Operating profit	87,844	52,681
Natural resources - principally Roxy Petroleum	Operating profit	6,912	12,535

1984 Principal Operating Factors**1985 Action Plan**

- Intense competition cut merchandising margins and profits
- Increased land sales contributed to real estate profit
- Additional borrowing and higher rates raised interest costs
- Higher real estate profits and lower tax credits increased taxes

- Turn Simpsons around and increase profitability of other retail operations
- Focus management attention on financial objectives
- Disengage from marginal activities
- Maintain momentum of real estate operations

- Weak sales in the West offset gains in the East and North
- Shift in blend of sales from soft to hard goods cut margins
- New credit system improved customer service

- Place emphasis on higher gross profit merchandise
- Maintain larger inventories of regular items
- Revitalize sales promotion activities
- Improve customer services and selling productivity

- Inadequate sales led to decline in market share
- Staff reductions created high termination costs
- Inventory revaluations resulted in heavy markdowns

- Launch aggressive advertising and promotion campaign
- Retain expense reductions arising from 1984 staff layoffs
- Create store profiles more appropriate to individual markets
- Refurbish main floor of Toronto flagship store

- New merchandising strategy for key departments stimulated sales
- Two new prototype stores were opened successfully
- Incurred costs in acquisition of 17 Bay stores
- Labour strikes closed three stores
- Excessive inventory increased handling costs

- Increase sales productivity
- Improve inventory control
- Refine marketing strategy
- Open six further prototype stores

- Volume and margins declined in tobacco products
- Sales increased significantly in non-tobacco lines
- Computer systems were installed in 25 branches

- Increase proportion of non-tobacco business
- Expand full-line and Red Carpet vending operations
- Install computerized inventory control

- Higher wild fur prices and firm ranch prices stimulated profit
- Reorganization reduced expenses and strengthened market impact

- Relocate New York operation in more efficient premises
- Further develop North American wild fur business
- Strengthen marketing effort in Far East

- Strong United States land sales improved earnings
- Income properties produced higher profits

- Maintain momentum of United States land sales
- Expand income-producing portfolio
- Replenish land inventory

- Higher production raised earnings
- Exploration spending in western Canada increased substantially
- Oil reserves significantly increased
- 1983 included \$8.3 million revenue from Dome Resources

- Concentrate on exploration in western Canada
- Achieve significant production increase
- Increase cash flow

Your Company experienced a disappointing year in 1984. Contrary to the expectations of management, the Company failed to sustain its recovery from the loss position of 1982/83, and it became apparent that nothing less than fundamental change could return it to profitability.

The first step in this change was announced at the year end. It involved a restructuring of the Company's operations and management, designed to rationalize retail operations and improve their profitability and to reduce administrative expenses.

The loss in 1984 was \$5.40 per share, compared with a loss of \$1.63 per share before extraordinary items in 1983.

The principal factors in the deterioration were a sharp decline in retail results, a substantial increase in interest costs, and a large negative swing in income taxes. Real estate results, on the other hand, improved impressively.

Your Company is determined to achieve a meaningful turnaround in 1985, given a reasonably stable Canadian economy.

1984 Results

The Company incurred a loss of \$107.4 million in 1984, compared with a loss of \$17.9 million, before extraordinary items, the year before. After deducting preferred share dividends of approximately \$21 million in both years, there was a loss of \$5.40 per ordinary share in 1984, compared with a loss of \$1.63 per ordinary share the year before.

Your Company is determined to achieve a meaningful turnaround in 1985, given a reasonably stable Canadian economy.

Sales and revenue were \$4.83 billion in 1984, an increase of 10.5% over the previous year. Retail sales were ahead by 7.8%.

Total operating profit was \$111.9 million in 1984, a decline from \$125.2 million the year before. Retail operating profit was down sharply from \$53.9 million to \$3.8 million as margins at all three retail companies were reduced by intense competition throughout the year. In addition, Zellers was adversely affected by the cost of carrying excessive inventories, by strikes in three stores, and by one-time costs of the transfer of 17 stores from The Bay. The Bay itself felt the impact of poor economic conditions in western Canada, while Simpsons was affected by one-time costs of staff reductions and inventory write-downs.

Wholesale operating profit dropped to \$5.3 million from \$10.1 million in 1983, principally because of lower margins in tobacco products.

In contrast, fur results improved to an operating profit of \$8.0 million from a loss of \$4.0 million because of a recovery in fur prices, an integrated marketing thrust for the Company's three auction houses and the non-recurrence of 1983 writeoffs of bad debts.

Real estate operating profit increased substantially from \$52.7 million in 1983 to \$87.8 million in 1984, principally because of higher land sales in the United States.

Natural resources operating profit, at \$6.9 million, was higher on a comparable basis after adjusting for the disposition in early 1983 of an investment in Dome Resources preferred shares.

Interest costs rose substantially to \$199.3 million from \$173.7 million the year before because of increased borrowings and higher rates. Borrowings were up by over \$500 million to finance higher investments in working capital and fixed assets. The average cost of borrowings increased to 12.1% in 1984 from 11.2% the year before.

The Company's income tax position changed from a credit of \$30.1 million in 1983 to an expense of \$19.3 million in 1984. This was due to increased profit in real estate, fur and natural resource operations and to a reduced tax credit for operating losses. In 1983, a larger credit was available owing to an offset against taxes on gains from the disposition of investments.

Financial

The Company's financial position deteriorated somewhat during the year. Total debt increased from \$1.7 billion to \$2.2 billion. In addition, the percentage of debt to assets employed increased from 57.8% to 67.1%. The Company was successful, however, in raising \$356 million of new long-term debt. Variable rate debt increased to \$640 million, compared with \$353 million a year ago and now represents 28% of total debt compared with 21% the previous year. The Company's exposure to U.S. dollar borrowings amounted to \$125.9 million at the year end, compared to \$138.0 million a year ago.

Reorganization

The 1980's have been characterized by the deepest recession in the western world since the 1930's and a slow, irregular recovery. The effects of these developments have been profound and have drastically altered both the basic conditions in which your Company must operate and its view of the future.

Inflation has slowed significantly, real interest rates are extremely high and debt burdens are heavy. Recession-generated unemployment continues at near-record levels

and the buoyant consumer confidence of the 1970's has been replaced with caution and apprehension. The anticipated consumer-led recovery did not materialize with the hoped-for strength and there are few signs of broad increases in consumer spending.

In the Company's view, these conditions will continue for the foreseeable future. This year, when retail earnings failed to respond to the traditional levers of management control - expense reduction and sales promotion stimulation - the Board of Directors concluded that the Company's operation and management must be fundamentally altered. To that end, the Board established the following objectives:

- to re-examine the strategy and aims of the Company's retail business;
- to resolve balance sheet and cash flow problems;
- to disengage from marginal activities and to dispose of under-productive assets; and
- to focus the attention of management at all levels on financial objectives.

Specifically, the Board has divided the Company into two major operating groups, each headed by a newly-appointed Executive Vice-President, and one support group.

Mr. George J. Kosich is Executive Vice-President of the Company and Chief Executive Officer for The Bay and Simpsons' department stores. Mr. Kosich will also be in charge of a number of service functions that were formerly part of the Company's head office.

Mr. T. Iain Ronald is Executive Vice-President of the Company and Chief Executive Officer of Zellers. He is also responsible for The Bay National Stores, wholesale and fur sales activities and the Company's investments in real estate and natural resources.

Mr. Douglas W. Mahaffy is Senior Vice-President, Finance and Administration with responsibility for the Company's finance, treasury, corporate control and legal functions.

The Board has appointed a Management Committee comprising Mr. John A. Tory, Chairman, and Messrs. Marcel Bélanger, Kenneth R. Thomson, George J. Kosich and T. Iain Ronald. The principal function of the Committee is to co-ordinate the responsibilities and actions of the two Executive Vice-Presidents and the Senior Vice-President.

Mr. Donald S. McGiverin has retired as President and Chief Executive Officer, but will continue as Governor and Chairman of the Board of the Company.

The Company is confident that this reorganization constitutes the first stage of the fundamental change required to improve the Company's operating results substantially.

The following actions have already been taken:

- The complement of the Information Services division has been reduced by 110 people; those laid off were mainly in the systems development area;
- Staffs in retail service functions such as credit, distribution and store planning have been reduced by a total of 190;
- The Bay has centralized merchandising and sales promotion, further decentralized sales and service responsibility, and eliminated about 300 staff positions;
- Simpsons has implemented a similar reorganization and reduced staff by approximately 230 people; this follows earlier staff reductions of 2,200 in late 1984;
- Delivery and trucking operations of The Bay and Simpsons will, for the most part, be contracted out with effect from April 1985;
- The Company is negotiating to dispose of a number of operations which are not considered necessary to its ongoing business.

Management is reviewing all the Company's activities and its future direction with a view to taking as quickly as possible those steps that are feasible toward restored profitability.

Economic Conditions

The level of economic activity in Canada (as measured by Gross National Expenditure) increased by 4.7% in 1984, thus consolidating the economic recovery that started in 1983. The distribution of growth among the provinces, however, still left some losers, in particular Alberta and British Columbia, which recorded either negative or negligible gains. At the other extreme, Ontario's economy grew somewhat faster than 5.0% and provided the main engine of Canada's growth.

This disparity had a major impact on the nature of GNE growth. Exceptional United States consumer demand for new automobiles, particularly models made in Canada, built strong merchandise exports. Thus, the swing in the trade balance accounted for about 40% of total 1984 growth. The basic domestic economy, grew by only 2.7%.

Growth of 3.4% in consumer spending in 1984 about equalled 1983. The key driving force was durable goods spending, reflecting the typical post-recession replacement cycle. Unlike 1983, however, when consumers concentrated their purchases on appliances,

lasting for a number of years. Durable goods expenditure in 1984 was centred on the replacement of autos. Housing starts fell to 135,000 units in 1984 compared with the government grant-stimulated 163,000 total in 1983, and this was a major factor in the demand for household appliances.

Consumer preference in 1984 for autos, however, resulted in weak demand for department store merchandise. When adjusted for inflation, Canadian department store sales in 1984 remained at 1983 levels. Regionally, department store sales declined in British Columbia and Alberta while the Atlantic Provinces and Quebec recorded the largest gains.

The year 1985 will mark the third year of economic recovery and will also be notable for a significant degree of economic growth 'rotation'. Business capital spending is beginning to pick up. Consumers should begin to switch expenditures from durables into such semi-durable goods as clothing and furniture, and this will favour the department store business.

The forces affecting consumer expenditure decisions are mixed. On the positive side, real income per household is rising because of modest increases in employment and healthy gains in investment income. The personal savings rate is high (averaging 12.8% in 1984) but trending slightly downward, thus freeing up slightly more spending power. Wages, however, are not rising as quickly as prices, so gains in total real spending power originate entirely from the incomes of new workers and non-wage incomes. Consumers, therefore, continue to be cautious, reflecting the weak growth in real income, high unemployment levels, uneasiness that federal moves to reduce the deficit will reduce spending power either through increased taxes or cuts in transfer payments, and concern over rising interest rates in the opening months of 1985.

Board

We regret that five long-service members of the Board have decided to retire this year. They are George T. Richardson, a director since 1968 and the 32nd Governor of the Company from 1970 to 1982; G. Richard Hunter, a director since 1963; Josette D. Leman, a director since 1973; John H. Moore, a director since 1971; and Peter W. Wood, a director since 1973 and recently-retired Executive Vice-President of the Company. We wish to record our sincere appreciation to each of them for their dedicated services to the Company over a long period of years.

In particular, your Company expresses its profound appreciation to Donald S. McGiverin, who has retired as President and Chief Executive Officer but will continue as Governor and Chairman of the Board. Mr. McGiverin

joined the Company in 1969 and was the principal architect of the Company's growth from its regional western Canada base to its present position as Canada's largest department store complex. Under Mr. McGiverin's leadership, your Company saw its sales and revenues grow from less than \$500 million annually to more than \$4.8 billion and shareholders' equity from some \$13 per share to over \$33 per share. Mr. McGiverin's continuing participation as Governor will be invaluable as your Company continues the process of change and adaptation to contemporary needs and opportunities.

We are pleased to announce that seven new directors will be joining the Board on May 28, 1985, subject to the approval of shareholders at the annual meeting to be held on that date. They are:

- J. W. (Bud) Bird of Fredericton, President and General Manager, J. W. Bird and Company Limited
- W. Michael Brown of New York, President, International Thomson Organisation Limited
- Graham R. Dawson of Vancouver, President, G. R. Dawson Holdings Limited
- Thomas S. Dobson of Calgary, Chairman, Easton United Securities Limited
- Pierre Laurin of Montreal, Vice-President and Director, Corporate Planning and Administration, Aluminum Company of Canada Ltd.
- Peter W. Mills of Toronto, Vice-President and General Counsel, The Woodbridge Company Limited
- J. Michael G. Scott of Toronto, Vice-Chairman, McLeod Young Weir Limited.

Five of these new directors have been associated with the Company for some time as members of the boards of subsidiary companies.

Appreciation

It is a source of great regret to the Board that so many hard working, loyal employees have had to be laid off during the past year: there is no question that this, together with the disappointing results, caused staff morale in many areas of the Company to suffer. We believe, however, that recent management actions are now reflecting a sense of optimism amongst our personnel, and we are confident that this will be further enhanced as the anticipated turnaround in results becomes apparent. In the meantime, we extend sincere appreciation to them for their support and dedication through this difficult period.

On behalf of the Board

D. S. MCGIVERIN, Governor
G. J. KOSICH, Executive Vice-President
T. I. RONALD, Executive Vice-President
March 22, 1985



The Heritage Shop at The Bay in downtown Ottawa has an outstanding collection of Inuit carving.

Merchandising

Operating profit from merchandising (before interest and taxes) declined substantially to \$17.1 million in 1984 from \$59.9 million the year before.

The Bay

Operating profit of The Bay declined to \$18.8 million in 1984 from \$36.5 million the previous year, principally as a result of weak sales in western Canada and competitive pressure on margins. Sales and revenue, at \$1.70 billion, were up by 2.4%. Strong sales gains in Ontario, Quebec and northern Canada were offset by weak performance in the major cities of western Canada, an area where the agricultural and resource-based economy continued to slump.

There was a shift in the blend of sales in 1984. Lower-margin hard goods, such as electronics, appliances and furniture, were

ahead more strongly than higher-margin ready-to-wear. This resulted in a reduction in the rate of gross profit. Expenses and inventories were well controlled.

Significant progress was made in modernizing the downtown Vancouver store, with completion of three merchandising floors. Direct access will be provided from the store to the Granville station of Vancouver's new Advanced Light Rapid Transit system, which is scheduled to open early in 1986.

The final stages of modernizing the downtown Ottawa store were completed in 1984 and sales results indicate strong consumer approval.

A store of 65,000 square feet was re-opened at Val d'Or, Quebec, and three small stores were closed at Fort St. John, B.C., Gagnon, Quebec and Grand Falls, Newfoundland.

The Bay will open a store of 140,000 square feet in the new Woodbine Centre in northwest Toronto this August.

The Bay transferred 17 stores to Zellers during the year. These were in communities where management of both companies agreed that Zellers' merchandise would better meet the shopping requirements of most customers.

A new credit system was implemented in 1984 and resulted in improved customer service from faster credit authorization and more informative monthly statements.

The Bay completed centralization of merchandising and sales promotion activities in Toronto and decentralization of sales and service responsibilities into seven regions in March 1985. The changes will improve the quality and timeliness of merchandise assortments and the efficiency of customer service. The reorganization also reduced the workforce by approximately 300 people and will result in a substantial saving in expenses. The Bay plans an aggressive sales development programme in 1985, with particular emphasis on western markets.

Simpsons

Sales in 1984 rose 1.5% from 1983 to \$737.3 million.

However, lack of sales momentum, declining margins and several significant non-recurring expenses, increased the Company's operating loss for the year to \$52.5 million from \$30.2 million in 1983.

Sales in the home division were weak, with the major exception of home entertainment. Sales in men's and women's fashions were stronger. Upgrading in fashion accessory



Designer boutiques are featured at Simpsons in downtown Montreal.

departments and improved inventory assortments, led to a marked increase in the division, particularly in Quebec.

The principal physical changes during the year included upgrading the Scarborough, Sherway, Anjou and Pointe Claire stores, departmental relocations and creation of selling space from non-productive stockroom areas.

A major re-organization and rationalization of the Company was implemented in early

functions were eliminated in 1984. This will result in operating cost savings in 1985.

Simpsons is also examining opportunities for combining services with The Bay where feasible. Examples include delivery services in Montreal, maintenance, workrooms, loss prevention and licensed department administration.

The Company announced that it will close its Lawrence Avenue service building in Toronto. Soft goods processing will be relocated to the Metropolitan Road service building in early 1986. Occupancy costs and assets employed will be reduced substantially.

The first phase of the downtown Toronto store renovation has begun. This project is

Nineteen eighty-five promises to be a year of much-improved results. Most of the actions required to reverse the pattern of recurring large losses have been taken.

1985 to eliminate structural redundancies and increase operating efficiency. More than 2,200 positions in selling and sales supporting

designed to support Simpsons' repositioning in the marketplace by providing the finest possible facility for shopping in Toronto. The main floor and a portion of the second floor are scheduled for completion by October 1985.

Simpsons will open a store of 135,000 square feet in the new Woodbine Centre in northwest Toronto in August 1985.

Additional funds and effort are being invested in management and employee training. A new manpower plan will ensure a continuing influx of younger, better-educated members of the Company's developing management team.

Nineteen eighty-five promises to be a year of much-improved results. Most of the actions required to reverse the pattern of recurring large losses have been taken.

Zellers

Consolidated sales, including Fields and Just Kids, increased by 19.5% to \$1.41 billion during 1984. Operating profit, however, declined to \$43.3 million from \$52.1 million in 1983.

Zellers' sales rose 20.5% to \$1.32 billion, including sales of five new stores and 17 stores transferred during the year from The Bay's National Stores Division. One store was closed during the year. Sales for Zellers stores increased 16.1% on a comparable basis with significant gains in several key departments related to new merchandise strategies. Continuing competitive pressure on margins in a generally soft retail environment, higher-than-planned inventories and related costs, prolonged strikes in three Quebec stores, and one-time costs associated with the transfer of The Bay National Stores reduced operating profit.

A highlight of the year was the opening of two new prototype stores in suburban Montreal and Quebec City. The results of these prototypes, designed to enhance consumer perception of Zellers, were very satisfying. Three new stores and three renovated and expanded stores employing the same concepts will open in 1985.

Fields Stores' performance was quite satisfactory despite soft economic conditions in Alberta and British Columbia and the disruption and costs associated with moving to a new head office and distribution centre. Fields sales increased 2.8% including the results of ten stores opened and four stores closed during the year. Sales on a comparable basis were down 1.4%.

Just Kids, which caters to infants as well as boys and girls to age 14, made further progress in its second year. Five new stores in the enlarged concept were opened in southern



(Right) The apparel content has been strengthened at Zellers' prototype stores.

Ontario, bringing the total to ten, and two existing stores were enlarged. Towards the end of the year the division implemented a new integrated merchandising and distribution system.

Zellers anticipates that all divisions will increase their sales and profit in 1985 despite the outlook for a somewhat slower growth in retail sales.

Hudson's Bay Wholesale

Sales of Hudson's Bay Wholesale, excluding inter-company sales, increased by 11.3% in 1984 to \$581.8 million. Sales increased in every region, with the largest gains in British Columbia, Saskatchewan and Manitoba. Operating profit for the year, however, declined to \$5.3 million from \$10.1 million the year before.

Cigarette distribution, which is a large component of the Wholesale business, continues to decline in volume. In addition, margins declined as major food chains across Canada used cigarettes as loss leaders.

Confectionery and food sales rose encouragingly, reflecting expansion into new product lines, including the direct importation of candy.

Installation of branch computer systems continued and the year concluded with 80% of the business having basic computer capabilities. This broad coverage provides the base for development of marketing information systems in response to customer needs. The implementation of new computer systems has been costly, with inevitable disruption of normal operations. These expenditures are, however, essential for greater productivity and a higher level of customer service.

The department will proceed in 1985 with the second phase of computerization, which includes inventory control.

Vending

The Wholesale Department expanded its Customer Controlled Vending, its Red Carpet Office Coffee Service and its full-line Vending during the year. It sold its music and games business.

Red Carpet Coffee Service provides coffee services to approximately 15,000 customers in 29 cities across Canada, with a professional sales force of 75 employees.

Hudson's Bay Wholesale expects 1985 to be another year of growth and diversification.

Fur Sales

Fur consignment sales for 1984 totalled \$357.1 million compared with \$355.8 million for 1983. Operating results rose to a profit of \$8.0 million from a loss of \$4.0 million the year before. (The 1983 results, however, had included write-offs of \$7.5 million of bad debts.)

The improvement resulted partly from higher wild fur prices in 1984. Although they did not reach the high levels of some years ago, the sharp decline in 1983 was reversed. Prices for ranched furs were firm throughout 1984.

Another factor contributing to improved performance was the reorganization of the division. The auction companies in London, New York and Toronto continue to operate as separate units but under the control of a holding company, Hudson's Bay Company Fur Sales International Limited. This has led to a reduction in shared expenses and to a greater impact for the fur division as a whole in world markets, particularly in the developing countries in the Far East. Market share and margins were maintained in all three locations despite sharp increases in competitive pressures.

The fur selling season does not coincide with the Company's fiscal year. Consequently, the early months of 1985 account for a significant part of the fur division's turnover for the year. At present, prices are holding up well and retail demand is strong, particularly in North America and the Far East. Retail business in Europe, however, has been hampered by the relative weakness of European currencies against the United States dollar. This means that European buyers are being forced to compete for raw material at levels which, for them, are historically very high. This has had no immediate effect on the willingness of European buyers to participate at auctions but, if the dollar continues at its present levels throughout 1985, it will have an effect later.

At present, fur prices are holding up well and retail demand is strong, particularly in North America and the Far East.



Fur continues to be a popular fashion item.

Other Merchandising

Merchandising results include losses from HBC Travel Limited and Marshall Wells Limited, both of which are wholly owned, and earnings/losses (based on the Company's share of ownership) of Eaton Bay Financial Services Limited, Toronto Credits Limited, Hudson's Bay Distillers Limited, and Computer Innovations Distribution Inc., together with dividend income from Sears Canada Inc.

HBC Travel incurred a substantial loss in 1984. Improved results from regular retail travel operations were more than offset by poor results of a partially-owned travel wholesale subsidiary, a loss on the Los Angeles Olympics, and heavy development costs of a new computer system.

Marshall Wells' programme of supplying hardware departments of The Bay and Simpsons was extended to all stores in 1984. In addition, Marshall Wells has introduced a new programme called Help 'n Hand to supply retail products to plumbing, heating and electrical contractors. Marshall Wells recorded a major increase in sales in 1984 but earnings suffered because of the initial investment in the new programmes and a significant build-up of inventory to service the new accounts.

Eaton Bay Financial Services' results were adversely affected by a reduced spread on investment income and a deterioration in property values in Alberta and British Columbia, which necessitated an additional provision in respect of mortgage losses. These negative factors were partially offset by favourable results in life insurance and mutual funds operations well in excess of previous years. Assets under administration increased.

Profits of Hudson's Bay Distillers were down marginally in 1984. Volume of distilled products was off for the industry as a whole, and some Hudson's Bay brands in lower price categories were further affected by the move of national brands into those categories.

Profits of Toronto Credits Limited continued at a very satisfactory level because of higher demand for credit reports.

As part of a restructuring of Computer Innovations Distribution Inc., Hudson's Bay Company invested a further \$7.0 million in that company during 1984, resulting in a 22% equity position. Computer Innovations is a leading distributor of microcomputer products in Canada, and operates 24 retail units in The Bay and Simpsons department stores. For the nine months ended December 29, 1984, Computer Innovations had revenue of \$69.9 million and net income of \$2.8 million.



The Woodbine Centre, 40%-owned by Markborough, in northwest Toronto, will open in August 1985.

Real Estate

Markborough Properties Limited

Operating profit (before interest and taxes) increased to \$87.8 million in 1984 from \$52.7 million the year before, owing primarily to increased land sales in the United States.

Profit from land sales rose by 136%.

Markborough, which has become the dominant land developer in the north Scottsdale market in Arizona, sold considerable acreage at both the Scottsdale Ranch and Gainey Ranch projects in 1984. Lexington Development Company, in which Markborough is an 80% general partner, is a major land developer in Houston and Austin, Texas. Lexington achieved significant sales during the year, mainly in the Austin market. Land development activities in other areas were also improved in 1984.

Profit from income property operations increased by 18.5%. During 1984, construction was either begun or was continuing on major office complexes in the business, government and finance centres of Ottawa, Ontario, Washington, D.C. and London, England. On completion of these projects in 1985, 1986 and 1987, respectively, over 600,000 square feet of prime office space will be added to the



Active drilling programmes were undertaken on Roxy acreage in Alberta.

Company's income portfolio. Additions of 360,000 square feet of leasable area were made to four shopping centres in which Markborough has either an equity interest (Place Vertu and Fairview Pointe Claire in Montreal) or owns outright (Richmond Centre in Vancouver and Cloverdale Mall in Toronto). In addition, construction of a regional shopping centre in Toronto, the 618,000 square foot Woodbine Centre in which the Company has a 40% equity interest, was started in early 1984 and the centre is scheduled to open in August 1985.

Markborough's current priority will be the expansion of its income-producing portfolio. It will also continue to look for new land development opportunities in the United States where it has established an enviable reputation for quality development.

Natural Resources

Roxy Petroleum Ltd.

Roxy achieved its stated corporate objectives in 1984. These objectives, which will also govern 1985 strategy, were to improve cash flow by maximizing efficiency and productivity in the development and production of crude oil and natural gas, to increase investment in enhanced crude oil recovery, to increase crude oil and natural gas sales, and to improve the company's asset base through acquisition and rationalization.

Oil and gas revenue, less royalties, amounted to \$22.5 million, an increase of 19% over 1983. Cash flow from Canadian operations was \$14.4 million, an increase of 26%. Net earnings for 1984 were \$1.6 million, compared with a loss of \$3.1 million in 1983.

Total daily crude oil and natural gas liquids production increased 14% to an average of 1,590 barrels per day, owing primarily to production growth at Sawn Lake. Natural gas production amounted to 11.4 million cubic feet per day in 1984, up 10% from 1983.

Roxy continued to explore for crude oil in western Canada, with particular emphasis on north-central Alberta. The company participated in drilling 82 gross exploration and development wells resulting in 34 oil and 29 natural gas wells. Exploration expenditures off the east coast of Canada in 1984 were confined to geophysical activity. The company continues to be optimistic about the Vikor CO₂ miscible injection scheme in the Joffre field of Alberta and increased its investment in this project to 55% in February 1985. Roxy's programme of asset rationalization in 1984 resulted in the sale of a number of properties in Manitoba and Saskatchewan for a total of \$2.7 million.

Reserves of crude oil and natural gas liquids at year end were 5.0 million barrels, compared with 4.6 million barrels last year. Natural gas reserves decreased to 158 billion cubic feet from 189 billion cubic feet.

Industry plans call for increased investment in 1985, based on expectations of positive changes to the current fiscal and regulatory environment.

Hudson's Bay Company

Board

Ian A. Barclay Vancouver Vice-Chairman of the Board British Columbia Forest Products Limited	Dawn R. McKeag Winnipeg President Walford Investments Ltd.
Marcel Bélanger Quebec President Gagnon et Bélanger Inc.	David E. Mitchell Calgary President Alberta Energy Company Ltd.
Gurth C. Hoyer Millar London, England Director J. Sainsbury PLC	John H. Moore London, Ontario Chairman, Executive Committee of the Board of Directors London Life Insurance Company
G. Richard Hunter Winnipeg Partner Pitblado & Hoskin	George T. Richardson Winnipeg President James Richardson & Sons, Limited
Martin W. Jacomb London, England Vice-Chairman Kleinwort, Benson Limited	T. Iain Ronald Toronto Executive Vice-President Hudson's Bay Company
George J. Kosich Toronto Executive Vice-President Hudson's Bay Company	Kenneth R. Thomson Toronto Chairman of the Board and President Thomson Newspapers Limited
Josette D. Leman Montreal Travel Consultant Les Entreprises Hainault Voyages Ltée	John A. Tory Toronto President The Thomson Corporation Limited
Alexander J. MacIntosh Toronto Partner Blake, Cassels & Graydon	Peter W. Wood Toronto Company Director
Donald S. McGiverin Toronto Governor Hudson's Bay Company	

Principal Subsidiaries/ Divisions

The Bay

C. W. (Wally) Evans
President

Simpsons Limited

Allan W. Brent
President

Zellers Inc.

T. Iain Ronald
President

Hudson's Bay Wholesale

J. Lorne Klapp
Vice-President

Hudson's Bay Company Fur Sales International Limited

Hugh M. Dwan
President

Markborough Properties Limited

H. Peter Langer
Chairman of the Board

Peter A. Anker
President

Roxy Petroleum Ltd.

Peter W. Wood
Chairman of the Board

Joseph R. Dundas
President

Officers

Donald S. McGiverin Governor	Stuart W. Fraser Vice-President, Planning
George J. Kosich Executive Vice-President	Brian C. Grose Vice-President and Controller
T. Iain Ronald Executive Vice-President	A. Rolph Huband Vice-President and Secretary
Douglas W. Mahaffy Senior Vice-President Finance and Administration	Peter F. S. Nobbs Vice-President and Treasurer
William H. Evans Vice-President	

Corporate Data

Registered Office

Hudson's Bay House, 77 Main Street
Winnipeg, Manitoba R3C 2R1

Corporate Office

401 Bay Street
Toronto, Ontario M5H 2Y4

Principal Bankers

The Royal Bank of Canada
The Toronto-Dominion Bank
Canadian Imperial Bank of Commerce
Bank of Montreal

Registrars and Transfer Agents

The Royal Trust Company, Calgary, Montreal
Toronto, Vancouver and Winnipeg
Williams & Glyn's Registrars Limited, London

Stock Exchange Listings

Ordinary shares – London, Montreal, Toronto
and Winnipeg

Preferred shares:

Series A – Montreal, Toronto and Winnipeg
Series F – Montreal and Toronto

Auditors

Peat, Marwick, Mitchell & Co.

Principal Subsidiary Companies

(wholly-owned unless otherwise indicated)

Hudson's Bay Company Fur Sales International Limited

Fur brokers

Markborough Properties Limited

Property development company

Roxy Petroleum Ltd. (53.8%)

Petroleum company

Simpsons Limited

Department store company

Zellers Inc.

Department store company

Principal Investments

Eaton Bay Financial Services Limited

Markets financial services
614,550 common shares (39.3%)
406,999 preferred shares

Sears Canada Inc.

Operates department stores and catalogue
offices
13,440,798 common shares (15.4%) held in
escrow for exchange of HBC preferred shares
series F

Retail Space

The Bay	13,687,000 sq. ft.
Zellers (including Fields)	12,825,000 sq. ft.
Simpsons	4,750,000 sq. ft.

Real Estate Holdings

Markborough Properties Limited	<i>Net Interest</i>
46 shopping centres	7,370,000 sq. ft.
13 office/commercial buildings	1,380,000 sq. ft.
22 industrial buildings	762,000 sq. ft.
Construction in progress	735,000 sq. ft.
1 hotel	192 rooms
2 apartment buildings	340 suites
and land for future development	

Petroleum Reserves

at December 31, 1984 (working interest before royalty)	
Roxy Petroleum Ltd.	<i>HBC Net Interest</i>
Crude oil	2,390,000 bbls
Natural gas liquids	331,000 bbls
Natural gas	85,000 mmcf



Hudson's Bay Company

Retail and Wholesale Locations
January 31, 1985

- The Bay (261)
- ▲ Simpsons (23)
- Zellers (201)
- Wholesale Branches (57)

Excludes Fields stores in Western Canada (91), and Just Kids in Ontario (10).





Hudson's Bay store,
Calgary, built 1884.

Incorporation

King Charles II granted on May 2, 1670 to 18 Adventurers, a Charter incorporating them as The Governor and Company of Adventurers of England trading into Hudson's Bay. This followed the successful voyage of the ketch "Nonsuch", with des Groseilliers aboard, to Hudson Bay to trade for furs.

In 1970, three hundred years after its incorporation, the Company was continued as a Canadian corporation and the headquarters were transferred from the United Kingdom to Canada.

The Fur Trade

During the first century of the Company's existence, the men on the Bay established forts and traded with the Indians.

As competition from the Montreal-based North West Company increased in the 1770's, the Company moved into the interior and gradually built a network of routes and forts spread out over the North and West. The two rival companies amalgamated under the Hudson's Bay Company name in 1821.

Deed of Surrender

In 1870, by Deed of Surrender, the Company's chartered territory was formally transferred to the Government of Canada in return for farm lands in the prairie provinces which were sold to settlers during the next 85 years.

Following the Deed of Surrender, the Company turned its attention to the retail trade, which is now its most important activity.

Twentieth Century

The Company built downtown department stores in each of the major cities of western Canada (1913-1968). It co-founded Hudson's Bay Oil and Gas Company Limited (1926). It acquired Henry Morgan & Co. Limited (1960), A. J. Freiman Limited (1971) and 35% of Siebens Oil & Gas Ltd. (1973). It acquired control of Markborough Properties Limited (1973), Simpsons Limited (1978) and Zellers Inc. (1978). It disposed of its Siebens investment (1979), acquired control of Roxy Petroleum (1980) and disposed of its HBOG investment (1982).

Hudson's Bay Company
Consolidated Statement of Earnings
 Year Ended January 31, 1985

	This Year	Last Year
	\$ 000's	\$ 000's
Sales and Revenue (Note 2)		
Merchandising:		
Retail	3,958,422	3,618,145
Wholesale	581,813	522,857
Fur	38,338	39,763
	4,578,573	4,180,765
Real estate	243,452	176,946
Natural resources	7,300	12,817
	4,829,325	4,370,528
Source of Earnings (Note 2)		
Merchandising:		
Retail	3,779	53,861
Wholesale	5,319	10,102
Fur	8,029	(4,019)
	17,127	59,944
Real estate	87,844	52,681
Natural resources	6,912	12,535
Operating Profit	111,883	125,160
Interest on long-term debt	(163,372)	(140,890)
Net short-term interest	(35,903)	(32,806)
Loss Before Income Taxes, Minority Interest and Extraordinary Items	(87,392)	(48,536)
Income Taxes (Note 3)	(19,292)	30,142
Loss Before Minority Interest and Extraordinary Items	(106,684)	(18,394)
Minority Interest	(750)	488
Loss Before Extraordinary Items	(107,434)	(17,906)
Extraordinary Items (Note 4)	—	82,806
Net Earnings (Loss)	(107,434)	64,900
Earnings (Loss) Per Ordinary Share		
Loss before extraordinary items	(\$5.40)	(\$1.63)
Net earnings (loss)	(\$5.40)	\$1.86

Consolidated Statement of Retained Earnings
 Year Ended January 31, 1985

	This Year	Last Year
	\$ 000's	\$ 000's
Retained Earnings at Beginning of Year	668,926	640,352
Net Earnings (Loss)	(107,434)	64,900
Dividends Paid		
Preferred shares	(20,645)	(19,918)
Ordinary shares	(14,237)	(14,234)
Cancellation of Ordinary Shares (Note 11)	—	(2,174)
Retained Earnings at End of Year	526,610	668,926

Hudson's Bay Company
Consolidated Balance Sheet
 January 31, 1985

	This Year	Last Year
	\$ 000's	\$ 000's
Current Assets		
Cash	8,724	12,648
Short-term securities (Note 5)	20,223	149,774
Accounts receivable	923,347	759,259
Income taxes recoverable	—	14,460
Merchandise inventories	886,799	767,010
Prepaid expenses	24,722	19,878
	1,863,815	1,723,029
Secured Receivables (Note 6)	58,065	57,622
Property For Sale and Future Development	312,843	309,107
Investments (Note 7)	504,190	476,275
Fixed Assets		
Land	144,576	127,793
Buildings	659,087	580,570
Equipment and leasehold improvements	648,815	598,751
	1,452,478	1,307,114
Less accumulated depreciation	431,997	379,049
	1,020,481	928,065
Deferred Charges	77,994	68,062
Goodwill	106,423	108,186
Deferred Income Taxes (Note 3)	7,001	1,300
	3,950,812	3,671,646

	This Year	Last Year
	\$ 000's	\$ 000's
Current Liabilities		
Bank indebtedness (Note 8)	288,912	320,642
Notes payable	465,224	146,236
Accounts payable and accrued expenses	483,662	466,456
Income taxes payable	6,434	—
Long-term debt due within one year	173,082	48,898
	1,417,314	982,232
Long-Term Debt (Note 9)	1,403,731	1,412,889
Pensions (Note 10)	19,993	22,765
Minority Interest in Subsidiaries	74,690	75,046
Shareholders' Equity		
Capital stock (Note 11):		
Preferred shares	240,486	243,382
Ordinary shares	259,489	258,424
	499,975	501,806
Additional paid-in capital (Note 12)	9,574	8,934
Retained earnings	526,610	668,926
Cumulative translation adjustment (Note 1(b))	(1,075)	(952)
	1,035,084	1,178,714
	3,950,812	3,671,646

Consolidated Statement of Assets Employed

January 31, 1985

	This Year	Last Year
	\$ 000's	\$ 000's
Merchandising		
Accounts receivable	867,670	716,631
Inventories	886,799	767,010
Accounts payable	(455,381)	(438,840)
Other current assets	26,388	42,323
Working capital (see below)	1,325,476	1,087,124
Investments	152,594	143,939
Fixed assets	677,655	691,398
Goodwill	75,739	77,249
Other assets	88,676	79,090
Pensions	(19,993)	(22,765)
	2,300,147	2,056,035
Real Estate		
Working capital (see below)	32,148	19,417
Secured receivables	44,783	41,424
Property for sale and future development	312,843	309,107
Investments and fixed assets:		
Shopping centres	199,926	177,491
Commercial	168,536	85,455
Residential	81,051	74,939
Goodwill	30,684	30,937
Other assets	2,600	5,170
	872,571	743,940
Natural Resources		
Working capital (see below)	(4,128)	258
Investments and fixed assets	183,251	169,460
	179,123	169,718
Assets Employed	3,351,841	2,969,693
Provided From		
Long-term debt	1,403,731	1,412,889
Net short-term debt (see below)	845,337	304,344
	2,249,068	1,717,233
Deferred income taxes	(7,001)	(1,300)
Minority interest in subsidiaries	74,690	75,046
Shareholders' equity:		
Preferred shareholders (including accrued dividends)	243,092	244,786
Ordinary shareholders	791,992	933,928
	1,035,084	1,178,714
	3,351,841	2,969,693

The following items are included in net short-term debt instead of in working capital: bank indebtedness, short-term notes payable, long-term debt due within one year and short-term securities.

Consolidated Statement of Cash Flow and Funding

Year Ended January 31, 1985

	This Year	Last Year
	\$ 000's	\$ 000's
Cash Flow From Operating Activities		
Loss before income taxes, minority interest and extraordinary items	(87,392)	(48,536)
Current income tax expense	(18,552)	(5,346)
	(105,944)	(53,882)
Add items not affecting cash flow:		
Depreciation and amortization	83,537	74,900
Cash received from affiliates and joint ventures in excess of (less than) equity earnings	15,149	(3,138)
Cash inflow (outflow) from earnings	(7,258)	17,880
Net effect of changes in non-cash working capital (Note 13)	(257,538)	12,129
Cash inflow (outflow) from operating activities	(264,796)	30,009
Cash Flow From Investing Activities		
Fixed assets:		
Acquisitions	(152,979)	(94,666)
Dispositions	7,768	21,612
Investments:		
Acquisitions	(51,840)	(53,833)
Dispositions	4,994	666,690
Property for sale and future development	(11,213)	(3,519)
Deferred charges	(28,239)	(51,001)
Other	1,169	6,931
Cash inflow (outflow) from investing activities	(230,340)	492,214
Cash Flow For Dividends		
Preferred shareholders	(20,645)	(19,918)
Ordinary shareholders	(14,237)	(14,234)
Minority shareholders	(226)	(173)
Cash outflow for dividends	(35,108)	(34,325)
Net Cash Inflow (Outflow) From Activities and For Dividends		
	(530,244)	487,898
Funding		
Equity:		
Preferred shares	(2,242)	103,114
Ordinary shares	1,051	(3,212)
Minority interest	(400)	1,041
	(1,591)	100,943
Debt:		
Long-term:		
Increase	356,197	246,017
Reduction	(365,355)	(158,221)
Increase (reduction) in net short-term debt (see below)	540,993	(676,637)
	531,835	(588,841)
Net Cash Inflow (Outflow) From Funding	530,244	(487,898)

Net short-term debt comprises bank indebtedness, short-term notes payable and long-term debt due within one year, less short-term securities.

Notes to the Consolidated Financial Statements

Year Ended January 31, 1985

1. Significant Accounting Policies

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and conform in all material respects with the historical cost accounting standards of the International Accounting Standards Committee. The significant policies are summarized below:

a) Consolidation

These consolidated financial statements include the accounts of Hudson's Bay Company and of all its subsidiary companies.

b) Foreign currency translation

Assets and liabilities denominated in foreign currencies and the assets and liabilities of subsidiaries operating in the United Kingdom and in the United States are translated into Canadian dollars at the exchange rates prevailing at the balance sheet dates with the exception of hedged long-term debt repayable in U.S. dollars, which is translated at the rate at which it was hedged.

Earnings denominated in foreign currencies and the earnings of subsidiaries operating in the United Kingdom and in the United States are translated into Canadian dollars at approximately the exchange rates prevailing at the time they are earned.

Accumulated exchange gains and losses arising from the translation of the financial statements of subsidiaries operating in the United Kingdom and in the United States are classified as "cumulative translation adjustment" under the heading of Shareholders' Equity on the Consolidated Balance Sheet.

c) Leases

All leases, including those relating to store premises, have been classified as operating leases under which rentals are included in determining earnings of the period in which they accrue.

d) Earnings (loss) per ordinary share

Earnings (loss) per ordinary share reflect the accrual of preferred dividends and are based on the weighted average number of ordinary shares outstanding during the year.

e) Accounts receivable

In accordance with recognized retail industry practice, accounts receivable classified as current assets include customer instalment accounts of which a portion will not become due within one year.

f) Merchandise inventories

Merchandise inventories are valued at the lower of cost and net realizable value less normal profit margins. The cost of retail inventories is determined principally on an average basis by the use of the retail inventory method and the cost of other inventories is determined on a first-in, first-out basis.

g) Capitalization of interest

Interest is capitalized to the extent that it relates to properties which either are held for sale or development or are under construction. The amount so capitalized during the year is \$29,504,000 (last year \$22,870,000).

h) Property for sale and future development

Property for sale and future development is carried at the lower of cost and net realizable value at the estimated time of development or sale.

i) Investments

The Company follows the equity method in accounting for its investments in joint ventures and in companies in which the Company's ownership interest exceeds 20% and the Company is able to elect a significant proportion of the board of directors of the investee company.

Roxy Petroleum Ltd., a subsidiary of the Company, applies the full cost method of accounting for its investments in oil and gas property joint ventures whereby all costs relating to the exploration for and development of oil and gas reserves are capitalized. Separate cost centres have been established for Continental Canada and Offshore East Coast Canada. Costs incurred in the Continental Canada cost centre are depleted on the unit-of-production method based on estimated proven oil and gas reserves as determined by independent engineers. Activities in the Offshore East Coast Canada cost centre are in the exploratory stage and accordingly all costs related to the exploration for and development of petroleum and natural gas reserves have been capitalized pending determination of whether proven reserves in commercial quantities will be established. If commercial quantities are established, these costs will be depleted on the unit-of-production method. Otherwise, these costs will be expensed.

The unamortized costs in each cost centre are reviewed annually to ensure these costs do not exceed a ceiling value which consists of the aggregate of the estimated future undiscounted cash flows from proven reserves, using unescalated costs and current prices, and the appraised value of unproved properties. If the unamortized costs exceed the ceiling value, the excess is expensed in the current year.

Investments in other companies are carried at cost, with dividends being reflected in earnings when received.

j) Fixed assets

Fixed assets are carried at cost.

Buildings (other than income properties), equipment and leasehold improvements are depreciated on the straight-line method at rates which will fully depreciate the assets over their estimated useful lives. The depreciation rates applicable to the various classes of assets are as follows:

Buildings	2- 5%
Equipment	7-20%
Leasehold improvements	3-10%

Buildings held for the purpose of producing rental income (income properties) are generally depreciated on the sinking fund method at rates ranging between 3% and 5% over terms of 35 to 50 years.

k) Deferred charges

Deferred charges include debt discount and expense, costs associated with currency and interest exchange agreements and unamortized exchange gains and losses on long-term debt denominated in foreign currencies which are amortized on the straight-line method over the terms of the issues to which they relate. The amortization is included with interest on long-term debt in the Consolidated Statement of Earnings.

l) Goodwill

Goodwill comprises the unamortized balance of the excess of the cost to the Company over the fair value of its interest in the identifiable net assets of subsidiaries, principally Markborough Properties Limited and Zellers Inc., at their respective dates of acquisition.

The goodwill which relates to acquisitions subsequent to 1973, \$84,206,000 (last year \$85,969,000) after deducting accumulated amortization of \$11,494,000 (last year \$9,106,000), is being amortized on the straight-line method over 40 year periods.

m) Pension costs

Current pension costs, substantially all of which arise under trusteed pension plans, are charged to operations. The costs of plan improvements are charged to operations over appropriate periods as they are funded.

n) Comparative figures

Certain of last year's comparative figures have been reclassified to conform with this year's presentation.

2. Supplementary Segmented Information

The Company is engaged in merchandising through retail stores, including investments in other companies, through wholesale distribution of tobacco and other products and through fur auction operations. The retail stores include full-line and promotional department stores and stores located in smaller communities. The Company has interests in the real estate industry, principally through its subsidiary, Markborough Properties Limited, and also has interests in natural resources through its subsidiary, Roxy Petroleum Ltd.

Reported industry segments are merchandising, real estate and natural resources with merchandising further divided, where significant, into retail, wholesale and fur. Information pertaining to these segments is included in these consolidated financial statements and is supplemented by the following additional information.

Sales and revenue include the Company's equity in the pre-tax earnings of companies and joint ventures accounted for under the equity method, as follows:

	This Year	Last Year
	\$ 000's	\$ 000's
Pre-tax equity earnings (loss):		
Merchandising	969	(2,397)
Real estate	56,838	34,113
Natural resources	6,352	1,640
	64,159	33,356
Less income taxes thereon	(29,385)	(17,492)
Equity earnings	34,774	15,864

Other supplementary segmented information related to the Consolidated Statement of Earnings is as follows:

	This Year	Last Year
	\$ 000's	\$ 000's
Dividends received in respect of investments carried at cost included in revenue and earnings from:		
Merchandising	2,688	2,900
Natural resources	—	6,339
	2,688	9,239

Depreciation and amortization:
Deducted in arriving at operating profit:

Merchandising	69,980	65,537
Real estate	5,137	4,728
Natural resources	330	299
	75,447	70,564
Included in interest expense (amortization of debt discount and expense)	8,090	6,204
Included in natural resource earnings	—	(1,868)
	83,537	74,900

Investments in joint ventures and other companies accounted for by the equity method which are included by segment in the Consolidated Statement of Assets Employed are as follows:

	This Year	Last Year
	\$ 000's	\$ 000's
Merchandising	40,708	31,918
Real estate	107,764	101,667
Natural resources	182,174	169,010
	330,646	302,595

Merchandising assets employed predominantly relate to retail operations.

The Company has operations outside Canada, including fur operations in the United Kingdom and in the United States and real estate operations in the United States. None of these operations generates 10% of the Company's revenue or employs 10% of its assets.

3. Income Taxes

The average statutory Canadian income tax rate for the Company this year was 48.1% (last year 49.4%). The following schedule reconciles a nominal tax credit at these rates with the amount actually charged (credited) in the Consolidated Statement of Earnings.

	This Year	Last Year
	\$ 000's	\$ 000's
Loss before income taxes	(87,392)	(48,536)
Nominal income tax credit at statutory Canadian income tax rates	(42,074)	(23,977)
Decrease (increase) resulting from:		
Inventory allowance	(13,196)	(12,053)
Tax-free dividends	(1,399)	(4,281)
Equity in net earnings of affiliates and joint ventures	2,491	1,750
Tax effect of losses not recognized	74,417	10,676
Other	(947)	(2,257)
Provision (credit) for income taxes per Consolidated Statement of Earnings	19,292	(30,142)

The tax liabilities arising in a subsidiary company from the extraordinary gains on disposition of investments and fixed assets last year were sufficient to enable that company to take a tax credit to earnings of \$25,915,000 in respect of last year's operating losses and also a tax credit of \$28,097,000 as an extraordinary item (see note 4(b)) in respect of operating losses incurred during the prior year.

	This Year	Last Year
	\$ 000's	\$ 000's
Deferred income taxes comprise tax benefits relating to:		
Losses incurred prior to 1982	43,450	43,450
Depreciation	76,050	50,350
	119,500	93,800
Less deferred income tax credits	(112,499)	(92,500)
	7,001	1,300

Cumulative income tax losses at January 31, 1985 amounted to approximately \$567,000,000. Of this total, the Company has taken credit for the potential future income tax recovery from the carry forward of approximately \$237,000,000, consisting of \$87,000,000 of losses the benefit of which may be carried forward until 1987 and \$150,000,000 in respect of depreciation recorded in the consolidated financial statements but not yet claimed for income tax purposes.

Cumulative income tax losses at January 31, 1985 which have not been recognized in the consolidated financial statements amounted to approximately \$330,000,000, of which \$82,000,000 may be carried forward until 1987, \$76,000,000 until 1990, \$84,000,000 until 1991 and \$88,000,000 until 1992.

4. Extraordinary Items

Extraordinary items are as follows:

	This Year	Last Year
	\$ 000's	\$ 000's
Gains on disposition of investments	—	92,701
Less income taxes thereon	—	(33,654)
	—	59,047
Tax recovery on prior year's losses	—	28,097
Loss on disposition of foreign operations	—	(4,338)
	—	82,806

a) Gains on disposition of investments

Of last year's gains, \$48,028,000 after income taxes of \$21,794,000 resulted from the sale for cash of shares in Sears Canada Inc., and \$11,019,000 after income taxes of \$11,860,000 resulted from the redemption for cash of the interest in preferred shares of Dome Resources Limited.

b) Tax recovery on prior year's losses

The tax recovery last year on the prior year's losses was accounted for as an extraordinary item as credit for those losses had not been taken in the prior year.

c) Loss on disposition of foreign operations

Last year the Company's subsidiary, Roxy Petroleum Ltd., disposed of its shares in its U.S. subsidiary in exchange for cash. The loss to the Company arising out of this transaction, after deducting the amount attributable to minority shareholders, was \$4,338,000. This loss did not give rise to any recovery of income taxes.

5. Short-Term Securities

Short-term securities at January 31, 1985 include interest bearing deposits of \$19,900,000 with various financial institutions. These deposits, the amount of which increases or decreases depending on the movement in floating interest rates, were made under the terms of various currency and interest exchange agreements.

6. Secured Receivables

Secured receivables include mortgages which arise principally from sales of real property and loans outstanding under the employee share purchase plan.

	This Year	Last Year
	\$ 000's	\$ 000's
Total secured receivables	89,809	73,642
Less amounts due within one year classified as accounts receivable	(31,744)	(16,020)
	58,065	57,622
Average rate of interest	9.4%	10.0%

Maturities during the five years ending January 31, 1990 are as follows:

1986 — \$31,744,000; 1987 — \$12,436,000; 1988 — \$19,376,000; 1989 — \$6,610,000; 1990 — \$8,444,000.

Under certain conditions, the amounts due may be paid prior to maturity.

7. Investments

Investments comprise the following:

	This Year	Last Year
	\$ 000's	\$ 000's
Sears Canada Inc.	107,956	107,956
Real estate joint ventures	107,764	101,667
Dome Petroleum Limited	61,658	61,658
Natural resource joint ventures	182,174	169,010
Other	44,638	35,984
	504,190	476,275

a) Sears Canada Inc. ("Sears")

The investment in Sears consists of 13,440,798 common shares, representing 15.4% of all of the outstanding shares of Sears, and is accounted for by the cost method.

The Company's holding of common shares of Sears is held in escrow by The Royal Trust Company pursuant to the provisions of the Company's \$2.25 cumulative redeemable exchangeable preferred shares series F (see note 11).

b) Real estate joint ventures

The investment in real estate joint ventures, consisting of shopping centre, commercial, industrial and residential interests, is carried at cost plus the Company's equity in undistributed earnings since acquisition. The Company's share of real estate joint ventures is summarized as follows:

	This Year	Last Year
	\$ 000's	\$ 000's
Assets		
Accounts receivable	127,060	51,393
Property for sale and future development	121,997	95,423
Fixed assets, net	279,169	260,901
	528,226	407,717
Liabilities		
Bank indebtedness	1,114	6,107
Accounts payable and accrued expenses	80,707	29,142
Long-term debt	338,641	270,801
	420,462	306,050
Investment in real estate joint ventures	107,764	101,667
Revenue	219,706	115,376
Expenses		
Interest	30,532	24,182
Depreciation	4,451	4,144
Other	127,885	52,937
	162,868	81,263
Pre-tax earnings of real estate joint ventures	56,838	34,113

The Company is contingently liable at January 31, 1985 for \$405,000,000, representing the liabilities of its co-owners in unincorporated joint ventures but against such contingent liability the Company would have a claim upon the joint venture assets of its co-owners. The value of the assets of each of these joint ventures exceeds the contingent liability.

c) Dome Petroleum Limited ("Dome")

The investment in Dome, carried at cost, consists of 4,110,517 series D preferred shares. These shares have an original stated retraction date of January 3, 1984. In order to permit Dome to effect its rescheduling plan with its creditors and with the Company, the Company has relinquished its right to present the shares for payment prior to December 31, 1986.

Should Dome be successful on or before December 31, 1986 in raising new common equity in the amount of \$100 million at an average price in excess of \$2.22 per share and in selling fixed assets in the amount of \$150 million, Dome would have the right to cause the Company to exchange each of its series D shares for one 10% series 1 subordinated convertible share. Should this exchange occur the Company would have the right to convert the series 1 shares to Dome common shares at \$3.33 and Dome would have the right to force conversion if the price of Dome common shares reached \$3.885.

Should Dome fail to issue the required new equity and realize on the sale of assets by December 31, 1986, the Company would regain its right to demand payment for the series D shares. In the meantime, Dome will continue to pay interest to the Company in lieu of dividends otherwise accruing in the series D shares, at a variable rate per annum equal to 2% plus the domestic prime rate of a Canadian chartered bank. The Company offsets the interest received against short-term interest expense.

The Dome rescheduling plan was accepted and implemented on February 5, 1985.

d) Natural resource joint ventures

The Company's share of natural resource joint ventures is summarized as follows:

	This Year	Last Year
	\$ 000's	\$ 000's
Oil and gas properties	170,908	157,533
Accounts receivable	10,762	15,634
Other assets	10,665	12,132
Accounts payable and accrued expenses	(10,161)	(16,289)
Investment in natural resource joint ventures	182,174	169,010
Revenue	22,501	18,928
Expenses		
Depletion and depreciation	8,931	7,199
Production and operating costs	4,440	3,640
Interest	1,523	2,340
Other	1,880	4,109
	16,774	17,288
Pre-tax earnings of natural resource joint ventures	5,727	1,640

e) Other

Other investments include interests in merchandising companies carried at cost plus the Company's equity in undistributed earnings since acquisition.

8. Bank Indebtedness

The effective interest rates on certain bank indebtedness have been fixed by way of various interest exchange agreements as follows:

\$50,000,000 at 12.5% per annum

U.S. \$75,000,000 at an average of 13.0% per annum

9. Long-Term Debt

Long-term debt comprises the following:

	This Year	Last Year
	\$ 000's	\$ 000's
Secured on property:		
Hudson's Bay Company Properties Limited		
5¾% first mortgage bonds series A due 1990	7,684	8,159
7½% first mortgage bonds series B due 1991	5,204	5,933
11½% first mortgage bonds series C due 1995	23,469	25,213
9% first mortgage bonds series D due 1997	35,987	37,671
10% first mortgage bonds series E due 1998	27,907	28,316
Markborough Properties Limited		
Mortgages and obligations on property for sale and future development, 11.4% average (last year 11.1%), repayable by instalments to 1993	131,842	155,269
Mortgages on income property permanent financing, 11.0% average (last year 10.7%), repayable by instalments to 2005	82,014	81,167
Mortgages on income property interim financing, 11.1% average (last year 11.0%), repayable by instalments to 1987	80,374	19,100
Roxy Petroleum Ltd.		
Term loan, 13.875%, due 1987	15,000	15,000
Other	7,666	8,218
	417,147	384,046
Secured on accounts receivable:		
Hudson's Bay Company Acceptance Limited		
13¼% debentures series C due 1989 ^(a)	4,628	4,628
8¾% debentures series D due 1991	20,000	20,000
8¼% debentures series E due 1993	20,000	20,000
10½% debentures series F due 1996	22,471	27,016
13¾% debentures series G due 2001	47,544	52,914
Simpsons Acceptance Company Limited		
5¾% debentures series D due 1984	—	10,000
6¾% debentures series E due 1986	10,000	10,000
8¾% debentures series F due 1992	10,000	10,000
8¾% debentures series G due 1992	15,000	15,000
9% debentures series H due 1997	17,370	19,770
	167,013	189,328

Secured by floating charge on assets of subsidiaries:		
Zellers Inc.		
7% sinking fund debentures series C due 1986	2,393	2,393
10¼% sinking fund debentures series 1974 due 1994	8,432	8,672
	10,825	11,065
Unsecured:		
Hudson's Bay Company		
13¾% series D notes due 1986	50,000	50,000
16½% series G notes due 1986	1,000	1,000
18% notes due 1987	56,060	60,000
10½% debentures due 1989	37,322	43,129
17% notes due 1989	33,828	40,000
12½% note due 1989	142	—
14¼% notes due 1989	50,000	—
13.85% loan due 1990	25,000	—
11½% debentures due 1990	91,550	96,362
10% debentures due 1994 (U.S.\$31,732,000 and U.S.\$39,042,000, respectively)	42,204	48,803
15.36% term loan due 1995-1997 (£5,592,000)	8,332	9,786
Dual currency bonds due 1991-1993 (U.S.\$99,000,000) ^(b)	131,670	123,750
Floating rate debt: ^(c)		
Bankers' acceptances due 1985 ^(d)	50,000	50,000
Bankers' acceptances due 1986	—	94,000
Series F notes due 1986 and 1987 ^(e)	47,500	47,500
Promissory notes due 1987 ^(f)	20,000	—
Syndicated bank loans due 1985-1987	75,561	75,561
Term loan due 1988	57,908	50,000
Term loan due 1989	31,352	—
Notes due 1989 (U.S.\$50,000,000)	66,500	—
Bankers' acceptances due 1989	50,000	50,000
Notes due 1991	25,608	—
Simpsons Limited		
5¾% debentures series D due 1984	—	26
5¾% debentures series E due 1985	188	588
6½% debentures series F due 1987	1,969	2,497
9½% debentures series G due 1989	3,764	5,322
8¾% debentures series H due 1993	6,870	8,800
9½% debentures series I due 1994	4,692	5,916
11¾% debentures series J due 1995	11,864	13,364
	980,884	876,404
Subordinated:		
Zellers Inc.		
5½% convertible subordinated debentures series 1971 due 1991 ^(g)	944	944
	1,576,813	1,461,787
Less amounts due within one year	(173,082)	(48,898)
	1,403,731	1,412,889

^(a)The holders of Hudson's Bay Company Acceptance Limited series C debentures had the right to be prepaid on March 2, 1985 and, of the amount outstanding at January 31, 1985, \$834,000 was prepaid on that date.

^(b)The dual currency bonds bear interest at 8% per annum on a notional principal amount of 165,000,000 Swiss Francs. The effective hedged Canadian interest rate on this borrowing is 12.75% per annum.

^(c)The effective interest rates on floating rate long-term debt, other than that referred to in notes (d), (e) and (f) below, have been fixed by way of various interest exchange agreements as follows:
\$240,429,000 at an average rate of 13.3% per annum
U.S.\$50,000,000 at 14.0% per annum

^(d)Bankers' acceptances which are due within one year have been classified as long-term debt as they may be converted, at the Company's option, to long-term borrowing facilities.

^(e)The floating rate series F notes bear interest at 3% above the average monthly deposit rates of two Canadian chartered banks.

^(f)Promissory notes due 1987 bear interest at the lender's cost of funds plus ¾%. This facility may be extended by one year, with the agreement of both parties, on each anniversary date of the loan.

^(g)The holders of Zellers Inc. 5½% convertible subordinated debentures series 1971 have the right until September 1991 to exchange such debentures for ordinary shares of Hudson's Bay Company at the rate of 32.43 ordinary shares per \$1,000 of debenture principal.

The majority of the long-term debt is subject to redemption at the option of the issuers at various times or under certain conditions. For the most part, redemption earlier than within three or four years of maturity of the securities would require the payment of redemption premiums.

Aggregate maturities and sinking fund requirements during the five years ending January 31, 1990 are as follows:
1986 — \$173,082,000; 1987 — \$152,102,000; 1988 — \$192,245,000;
1989 — \$132,089,000; 1990 — \$275,122,000.

10. Pensions

The amount shown in the Consolidated Balance Sheet at January 31, 1985 is adequate to provide for all unfunded pension liabilities. Funding payments are expected to extinguish substantially all of the unfunded liabilities by 1991.

11. Capital Stock

The authorized classes of shares of the Company consist of an unlimited number of ordinary shares without nominal or par value and an unlimited number of preferred shares without nominal or par value. Unlimited numbers of the preferred shares have been designated as "redeemable preferred shares series B", "\$1.512 convertible redeemable preferred shares series D" and "redeemable preferred shares series E", 11,750,000 shares have been designated as "\$1.80 cumulative redeemable preferred shares series A", 800,000 have been designated as "variable rate, cumulative redeemable preferred shares series C", 4,500,000 have been designated as "\$2.25 cumulative redeemable exchangeable preferred shares series F" and 4,500,000 have been designated as "\$2.25 cumulative redeemable preferred shares series G".

Shares issued and outstanding comprise the following:

	This Year		Last Year	
	Number of shares	\$ 000's	Number of shares	\$ 000's
Preferred shares:				
\$1.80 cumulative redeemable preferred shares series A (stated capital \$22.50 each)	4,951,259	111,403	5,076,334	114,217
Variable rate, cumulative redeemable preferred shares series C (stated capital \$25.00 each)	800,000	20,000	800,000	20,000
\$1.512 convertible redeemable preferred shares series D (stated capital \$18.00 each)	61,175	1,101	65,738	1,183
\$2.25 cumulative redeemable exchangeable preferred shares series F (stated capital \$22.50 each)	4,480,266	107,982	4,480,266	107,982
		240,486		243,382
Ordinary shares	23,787,166	259,489	23,728,311	258,424
		499,975		501,806

The changes in shares issued and outstanding during the two years ended January 31, 1985 are as follows:

	Number of shares	\$ 000's		Number of shares	\$ 000's
Preferred shares series A:			Preferred shares series F:		
Issued and outstanding at January 31, 1983	5,312,463	119,530	Issued in the year ended January 31, 1984	4,500,000	108,475
Less purchased for cash and cancelled	(236,129)	(5,313)	Less exchanged for shares of Sears Canada Inc.	(19,734)	(493)
Issued and outstanding at January 31, 1984	5,076,334	114,217	Issued and outstanding at January 31, 1984 and January 31, 1985	4,480,266	107,982
Less purchased for cash and cancelled	(125,075)	(2,814)	Ordinary shares:		
Issued and outstanding at January 31, 1985	4,951,259	111,403	Issued and outstanding at January 31, 1983	23,870,052	259,439
Preferred shares series C:			Issued:		
Issued and outstanding at January 31, 1984 and January 31, 1985	800,000	20,000	Under the employee share purchase plan	34,073	839
Preferred shares series D:			On conversion of series D shares	680	20
Issued and outstanding at January 31, 1983	106,654	1,920	On conversion of Zellers Inc. 5½% convertible subordinated debentures series 1971	2,236	69
Less purchased for cash and cancelled	(39,805)	(717)	Less purchased for cash and cancelled	(178,730)	(1,943)
Less converted into ordinary shares	(1,111)	(20)	Issued and outstanding at January 31, 1984	23,728,311	258,424
Issued and outstanding at January 31, 1984	65,738	1,183	Issued:		
Less purchased for cash and cancelled	(3,793)	(68)	Under the employee share purchase plan	58,384	1,051
Less converted into ordinary shares	(770)	(14)	On conversion of series D shares	473	14
Issued and outstanding at January 31, 1985	61,175	1,101	Less purchased for cash and cancelled	(2)	—
			Issued and outstanding at January 31, 1985	23,787,166	259,489

The series A shares may be redeemed at the Company's option at prices declining from \$23.50 at February 1, 1985 to \$22.50 after December 31, 1988.

The holders of the series C shares are entitled to receive dividends at the rate of 8.53% until September 15, 1989. On that date and thereafter at five-year intervals the rate will be 52% of the average of the five-year guaranteed investment certificate rate of certain trust companies plus 2%. The shares may be redeemed at the Company's option at their issue price at certain intervals.

Under certain circumstances, the series D shares are redeemable before January 31, 1986 at \$18.90. Thereafter, these shares may be redeemed at prices declining from \$18.90 at February 1, 1986 to \$18.00 after January 31, 1991. Each series D share is convertible into 0.6154 ordinary shares at the holder's option until January 31, 1986 and thereafter into 0.5625 ordinary shares until January 31, 1991.

Each of the series F shares entitles the holder to acquire three common shares of Sears Canada Inc. ("Sears"), owned by the Company and held in escrow by the Royal Trust Company (see note 7 a), until March 31, 1990 or until earlier redemption by the Company. The holder may exercise this right by either requiring the Company to redeem the series F share at \$25.00 and directing the proceeds to be used to pay for three common shares of Sears, or making a cash payment of \$25.00 to purchase three common shares and converting the series F share into one series G share of the Company. The Company may not otherwise redeem the series F shares prior to April 1, 1986. Thereafter, under certain circumstances, these shares may be redeemed at prices declining from \$26.00 at April 1, 1986 to \$25.00 after March 31, 1992.

No series G shares have been issued at January 31, 1985. If issued, the Company will have the right to redeem these shares after March 31, 1988 at prices declining from \$26.00 at April 1, 1988 to \$25.00 after March 31, 1992. After the expiration of the exchange privilege attached to the series F shares and before the redemption of all of such series F shares, a holder of series G shares will have the right to convert such shares on a share for share basis into series F shares.

On January 25, 1985 the Board approved an Executive Stock Option Plan (the "Plan") and allotted one million ordinary shares of the Company for issue under the terms of the Plan. On the same date, options were granted to a number of employees to purchase, in aggregate, up to 693,500 ordinary shares at a price equal to the fair market value of the shares on the date the options were granted, i.e., \$18.50 per share. The options may be exercised over a period commencing one year, and expiring six years, after the date on which they were granted. To the extent that they then have not been exercised, the options will expire on January 25, 1991. The Plan is subject to ratification by the shareholders at the 316th Annual Meeting to be held on May 28, 1985.

The cost of shares redeemed or purchased for cash and cancelled in each of the two years ended January 31, 1985 has been allocated as follows:

	Cost		Allocated to	
	\$ 000's	\$ 000's	\$ 000's	\$ 000's
In the year ended January 31, 1985:				
Preferred shares series A	2,180	2,814	(634)	—
Preferred shares series D	62	68	(6)	—
	2,242	2,882	(640)	—
In the year ended January 31, 1984:				
Preferred shares series A	4,229	5,313	(1,084)	—
Preferred shares series D	638	717	(79)	—
Ordinary shares	4,140	1,943	23	2,174
	9,007	7,973	(1,140)	2,174

12. Additional Paid-in Capital

The amount at January 31, 1985 and the changes during the two years then ended are as follows:

	This Year	Last Year
	\$ 000's	\$ 000's
Amount at beginning of year	8,934	7,794
Excess of stated value over cost of shares purchased for cash and cancelled	640	1,140
Amount at end of year	9,574	8,934

13. Consolidated Statement of Cash Flow and Funding

The "net effect of changes in non-cash working capital" appearing in the Consolidated Statement of Cash Flow and Funding comprises the following:

	This Year	Last Year
	\$ 000's	\$ 000's
Decrease (increase) in accounts receivable	(170,097)	973
Increase in merchandise inventories	(119,789)	(63,921)
Increase in accounts payable and accrued expenses	16,298	66,045
Decrease (increase) in prepaid expenses	(4,844)	5,403
Decrease in income taxes recoverable — net	20,894	3,629
	(257,538)	12,129

14. Leases

a) As lessee

The Company conducts a substantial part of its merchandising operations from leased premises. All leases involving the Company as lessee have been accounted for as operating leases.

Rental expenses charged to earnings amount to \$96,500,000 (last year \$95,200,000).

The future minimum rental payments required under leases having initial or remaining noncancellable lease terms in excess of one year are summarized as follows:

	\$ 000's
Year ending January 31, 1986	90,000
1987	87,000
1988	83,000
1989	76,000
1990	73,000
Thereafter	900,000
Total minimum lease payments	1,309,000

In addition to these rental payments (and, in a few cases, relatively minor contingent rentals), the leases generally provide for the payment by the Company of real estate taxes and other related expenses.

b) As lessor

The Company leases space to others in a number of regional shopping centres and commercial properties. All of these leases are classified as operating leases.

Fixed assets in the Consolidated Balance Sheet include real estate leased to others under operating leases amounting to \$344,000,000 (last year \$198,800,000), net of accumulated depreciation of \$28,200,000 (last year \$17,500,000).

Real estate revenues include rentals from the above properties of \$52,500,000 (last year \$40,500,000).


15. Related Party Transactions

The Company is involved in numerous transactions with related parties in the ordinary course of its business. None of these transactions is significant in relation to these consolidated financial statements.

Approval of Consolidated Financial Statements

These consolidated financial statements, including the notes thereto, have been reviewed by the Audit Committee of the Board of Directors, a majority of whom are outside directors, and have been approved by the Board on the recommendation of the Audit Committee.

On behalf of the Board:



Director



Director

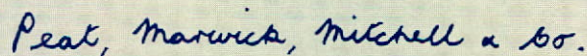
Toronto, Canada
March 22, 1985

Auditors' Report to the Shareholders



We have examined the consolidated balance sheet and the consolidated statement of assets employed of Hudson's Bay Company as at January 31, 1985 and the consolidated statements of earnings, retained earnings and cash flow and funding 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 Hudson's Bay Company as at January 31, 1985 and the results of its operations and its cash flow and funding for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Chartered Accountants

Toronto, Canada
March 22, 1985

Hudson's Bay Company
Ten Year Consolidated Financial Summary

1984

Results For The Year	
(in thousands of dollars)	
Sales and revenue:	
Retail	3,958,422
Wholesale	581,813
Fur	38,338
Merchandising	4,578,573
Real estate	243,452
Natural resources	7,300
Total sales and revenue	4,829,325
Fur consignment sales	357,139
Source of earnings:	
Retail	3,779
Wholesale	5,319
Fur	8,029
Merchandising	17,127
Real estate	87,844
Natural resources	6,912
Operating profit	111,883
Interest expense	(199,275)
Earnings (loss) before income taxes and minority interest	(87,392)
Income taxes	(19,292)
Earnings (loss) before minority interest	(106,684)
Minority interest	(750)
Earnings (loss) before extraordinary items	(107,434)
Extraordinary items	—
Net earnings (loss)	(107,434)
Dividends paid:	
Preferred shares	20,645
Ordinary shares	14,237
Cancellation of ordinary shares	—
Increase (decrease) in retained earnings	(142,316)
Capital expenditures	152,979
Depreciation	65,652
Year End Financial Position	
(in thousands of dollars)	
Merchandising	2,300,147
Real estate	872,571
Natural resources	179,123
Assets employed	3,351,841
Debt	2,249,068
Deferred income taxes	(7,001)
Minority interest	74,690
Preferred shareholders' interest (including accrued dividends)	243,092
Ordinary shareholders' equity	791,992
Results Per Ordinary Share	
(in dollars)	
Earnings (loss) before extraordinary items	(5.40)
Net earnings (loss)	(5.40)
Dividends	.60
Shareholders' equity	33.29
Shareholders and Employees	
Number of ordinary shareholders	15,000
Ordinary shares outstanding (in thousands)	23,787
Range in share price (in dollars)	23½-17
Number of employees	42,500

Note: Where appropriate, figures have been restated for the purpose of comparability.

1983	1982	1981	1980	1979	1978	1977	1976	1975
3,618,145	3,427,378	3,443,040	3,190,191	2,847,927	1,432,712	1,019,831	992,575	892,766
522,857	485,153	497,058	460,356	408,434	356,967	323,810	263,461	231,995
39,763	38,311	42,604	63,342	66,302	42,568	34,059	26,987	21,178
4,180,765	3,950,842	3,982,702	3,713,889	3,322,663	1,832,247	1,377,700	1,283,023	1,145,939
176,946	126,945	173,003	83,828	96,263	48,712	36,004	52,945	32,174
12,817	60,884	16,737	16,169	16,283	15,343	13,686	10,480	8,020
4,370,528	4,138,671	4,172,442	3,813,886	3,435,209	1,896,302	1,427,390	1,346,448	1,186,133
355,813	360,146	405,913	491,507	511,628	329,773	283,000	244,344	185,252
53,861	7,696	81,858	153,314	177,755	76,495	40,912	34,922	34,868
10,102	10,016	13,060	11,856	8,737	7,392	8,064	7,622	6,897
(4,019)	4,342	12,058	17,556	26,508	11,092	7,706	6,286	4,537
59,944	22,054	106,976	182,726	213,000	94,979	56,682	48,830	46,302
52,681	47,012	67,035	33,349	26,300	17,842	14,856	23,207	14,615
12,535	60,584	16,248	15,735	16,283	15,343	13,686	10,480	8,020
125,160	129,650	190,259	231,810	255,583	128,164	85,224	82,517	68,937
(173,696)	(261,307)	(244,307)	(136,533)	(113,741)	(47,868)	(37,351)	(33,443)	(26,669)
(48,536)	(131,657)	(54,048)	95,277	141,842	80,296	47,873	49,074	42,268
30,142	8,677	57,208	(30,541)	(52,073)	(29,757)	(16,095)	(21,184)	(18,548)
(18,394)	(122,980)	3,160	64,736	89,769	50,539	31,778	27,890	23,720
488	800	573	(10,186)	(9,423)	(5,894)	(1,897)	(3,080)	(1,716)
(17,906)	(122,180)	3,733	54,550	80,346	44,645	29,881	24,810	22,004
82,806	(5,420)	382,435	18,811	23,175	98,367	—	—	—
64,900	(127,600)	386,168	73,361	103,521	143,012	29,881	24,810	22,004
19,918	11,437	11,746	11,874	10,866	—	—	—	—
14,234	17,815	28,510	28,455	25,481	16,111	9,181	8,391	8,362
2,174	552	6,603	—	—	—	—	—	—
28,574	(157,404)	339,309	33,032	67,174	126,901	20,700	16,419	13,642
94,666	120,335	147,600	172,329	124,977	58,915	43,075	38,163	29,586
62,702	59,827	51,414	43,909	38,886	21,301	16,473	14,598	13,157
2,056,035	2,119,307	2,132,011	1,881,474	1,747,420	1,522,050	601,610	525,960	462,433
743,940	742,565	689,182	562,921	408,884	313,750	246,843	231,782	180,811
169,718	592,092	640,594	166,438	133,561	134,084	29,595	23,881	20,142
2,969,693	3,453,964	3,461,787	2,610,833	2,289,865	1,969,884	878,048	781,623	663,386
1,717,233	2,306,074	2,133,906	1,639,498	1,343,484	1,124,318	535,470	463,473	375,184
(1,300)	30,559	51,326	56,566	64,118	54,937	45,306	43,706	33,887
75,046	68,296	69,270	53,557	49,598	58,505	21,308	20,022	17,973
244,786	142,019	147,345	149,499	154,744	136,329	—	—	—
933,928	907,016	1,059,940	711,713	677,921	595,795	275,964	254,422	236,342
(1.63)	(5.63)	(.34)	1.80	2.98	2.74	2.12	1.77	1.58
1.86	(5.86)	15.78	2.59	3.98	8.79	2.12	1.77	1.58
.60	.75	1.20	1.20	1.10	.91	.65	.60	.60
39.36	38.00	44.58	30.01	28.59	25.80	19.50	18.05	16.90
16,100	18,300	19,300	20,800	22,500	30,600	20,900	21,900	22,800
23,728	23,870	23,777	23,712	23,712	23,092	14,155	14,096	13,985
25¾-20¼	23-15	30¾-20¼	31¾-23	35-21¼	24½-17¾	19¾-14¾	20¾-13½	18¾-14¼
44,000	45,000	48,000	47,000	46,000	45,000	20,000	20,000	20,000

