



SEP 1 1987

COMPANY PROFILE



Hudson's Bay Company is Canada's oldest and one of its largest enterprises, with holdings in merchandising and real estate. It owns and operates four major retail companies, The Bay, Simpsons, Zellers and Fields, and a large real estate development subsidiary, Markborough Properties Inc.

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

A BRIEF HISTORY

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," to trade for furs. During its first century, the Company established forts on the Bay and traded with the Indians.

As competition from the North West Company increased in the 1780's the Company moved into the interior. The two rival companies amalgamated in 1821 under the Hudson's Bay Company name.

In 1870, the Company's chartered territory, Rupertsland, was 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.

Early in this century, the Company turned its attention to retailing which became its most important activity.

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 (1926). It acquired Morgans (1960), Freimans (1971), Markborough (1973), Simpsons (1978) and Zellers (1978). It disposed of its Hudson's Bay Oil and Gas investment (1982) and of other "non-strategic" businesses (1985-87). Hudson's Bay Company was continued as a Canadian corporation in 1970.



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FINANCIAL HIGHLIGHTS

	This Year 1987	Last Year 1986
	\$ millions	\$ millions
Ongoing Operations		
Merchandising		
Sales and Revenue	4,344.8	4,294.1
Operating Profit	168.6	148.7
Real Estate		
Operating Profit (Before Asset Write Downs)	60.2	132.1
Asset Write Downs	(196.6)	-
Cash Flow from Earnings	148.5	132.5
Capital Expenditures	88.6	74.4
Total Company		
Earnings (Loss)		
Before Asset Write Downs and Extraordinary Items	23.2	33.0
Before Extraordinary Items	(78.5)	33.0
Extraordinary Items	(18.0)	(40.4)
Loss After Extraordinary Items	(96.5)	(7.4)
Ordinary Shareholders' Equity	714.4	838.6
Per Ordinary Share		
	\$	\$
Earnings (Loss)		
Before Asset Write Downs and Extraordinary Items	(0.17)	0.32
Before Extraordinary Items	(3.58)	0.32
Loss After Extraordinary Items	(4.18)	(1.07)
Cash Flow from Earnings - Ongoing Operations	4.03	3.70
Dividends	.60	.60
Equity	23.67	28.40

DIRECTORS' REPORT TO SHAREHOLDERS

Summary

An improvement in merchandising performance in 1987 was more than offset by a substantial decline in real estate performance arising principally from a write-down of U.S. real estate assets amounting to \$3.41 per share. As a result, your Company incurred a loss before extraordinary items of \$3.58 per share for the year compared with a profit of \$0.32 per share in 1986.

The program of disposing of non-core businesses was largely completed in 1987 with the sale of Northern Stores, Hudson's Bay Wholesale and Roxy Petroleum for an aggregate price of \$404 million. These sales were the principal factor in substantially reducing debt levels and interest expense.

The Company also completed the reorganization of its management and operating structure during the year.

Overall, your Company achieved many of its objectives for 1987. The real estate write-down, while a setback, will nevertheless provide a realistic base for future profit growth from our real estate development and investment business.

Based on forecasts that the Canadian economy will continue to grow in 1988 but at a slower rate than last year, we expect to achieve improvements in operating profits from both our merchandising and real estate businesses.

Real Estate Write-Down

As a result of depressed real estate markets in Texas, particularly in Houston, Markborough Properties undertook, during the third quarter of 1987, an evaluation of its entire U.S. land portfolio. Consequently, a decision was taken to write down U.S. land assets by \$196.6 million pre-tax. While the majority of the write-down relates to Texas holdings, certain land assets in Florida, Arizona, California and Colorado were also impacted. Canadian holdings were not affected.

Although the write-down is distressing, shareholders should be aware that the market value of Markborough's assets, overall, substantially exceeds their written-down book value.

Land development involves higher risks as well as higher rewards than the development and ownership of income properties. Until recent years, Markborough, which began as a land developer in Mississauga in the 1960's, maintained a lower ratio of income property to land development assets than most publicly owned real estate companies. Recognizing the volatility of land development, Markborough is continuing to implement progressively its policy of increasing the ratio of its income property assets to its land development assets. The effect of the write-down and of other recent investing activities has been to increase this ratio to approximately 2.4:1.

Business Disposals

In 1985 the Company began a program to dispose of non-strategic businesses. The objectives were to concentrate financial and management resources on the core retail and real estate businesses and to reduce debt. During the first two years of the program nine businesses or investments were sold for approximately \$150 million. The sale of three large operations in 1987 for a further \$404 million has substantially completed the disposal program.

The Northern Stores division, comprising about 170 stores in native and resource communities, was sold for approximately \$189 million in April to a group which included management of the division. The Company's 54% controlling interest in Canadian Roxy Petroleum was sold for \$82 million in May. Finally, the sale of Hudson's Bay Wholesale, a major distributor of tobacco and confectionery products, for approximately \$133 million was completed in July.

We extend to all employees of these operations our best wishes for future success under their new owners.

Management Reorganization

The reorganization of the Company's management and operating structure, which began in 1985, was completed in 1987.

George Kosich, President and
Donald McGiverin, Governor



George Kosich was appointed in June as President and Chief Operating Officer responsible for all merchandising activities. On completion of the business disposal program for which he was responsible, Iain Ronald, Executive Vice-President, left the company in July with our grateful appreciation for his accomplishments. Neil Wood, President of Markborough, and Gary Lukassen, Senior Vice-President, Finance and Administration, joined the Board and the Management Committee of the Board at that time. Subsequently, additional service functions relating to the three major retail companies, including Personnel, Information Services, Building Maintenance, Security, Distribution, Store Planning and Real Estate were integrated to reduce costs and improve performance.

C.W. (Wally) Evans, who had served with distinction as President of the Bay since 1979, retired at year end, precipitating a series of changes in senior retail management. N.R. (Bob) Peter was appointed President of the Bay, David Thomson, President of Simpsons and Hani Zayadi, President of Zellers. Ron Hughes had assumed the Presidency at Fields earlier in the year.

During the year, operating management at Markborough was reorganized along product lines and further steps were taken to strengthen senior management. David Burstow was appointed Senior Vice-President, Urban Development, George Schott was appointed Senior Vice-President, Shopping Centres and John Temple was appointed Senior Vice-President, Community Development. In addition, John Brough was appointed Senior Vice-President and Chief Financial Officer.

1987 Results

A deterioration in real estate results, including the major third quarter write-down of U.S. land assets, caused a 1987 loss for the Company, despite improved retail performance.

After providing for the after-tax write-down of \$101.7 million (\$3.41 per share) the company incurred a loss before extraordinary items of \$78.5 million for the year ended January 31, 1988 compared with a profit before extraordinary items of \$33.0 million the year before. After payment of preferred dividends the loss per share was \$3.58 in 1987 compared with a profit of \$0.32 per share in 1986.

Sales from ongoing merchandising operations were up only 1.2% in 1987 at \$4,344.8 million. It should be noted however, that because the company's retail units end their accounting years on the Saturday closest to January 31, every sixth year contains an extra week's retail sales and 1986 was such a 53 week year. On a comparative basis, 1987 retail sales were ahead by 2.2%.

Operating profit from ongoing merchandising operations improved to \$168.6 million from \$148.7 million.

Zellers led the way with a \$29.4 million gain in operating profit achieved because of higher sales and improvements in both gross profit and expense rates. Simpsons continued its recovery with an \$11.3 million improvement in operating profit caused principally by an increased gross profit rate.

Unfortunately, operating profit at the Bay deteriorated by \$18.7 million as a result of a sales decrease, high markdowns and heavy promotion expense. Fields, smallest of the four retail divisions, also suffered a decline in operating profit of \$1.1 million as a weak regional economy affected this western based operation.

In real estate, operating performance of Markborough declined by \$257.2 million to a loss of \$148.7 million. The write-down of U.S. assets of \$196.6 million comprised most of the decline. In addition, profit from the sale of income properties fell by \$59.9 million to a more normal level of \$7.4 million. Apart from these unusual items, operating profit of Markborough was virtually unchanged from 1986 as income properties and the Canadian land development business performed well.

Operating profit from other real estate activities also declined in 1987 to \$12.3 million from \$23.5 million the year before. Profit in both years arose mainly from the disposition of surplus merchandising properties.

Operating profit from discontinued operations, Northern Stores, Wholesale, London and Canadian Fur Sales and Roxy Petroleum, was \$3.0 million in 1987 compared with \$48.5 million the previous year.

Interest expense declined by \$66.6 million reflecting reduced debt levels resulting from the disposal program and a decline in the average cost of borrowing.

Financial

As the major negative factor in earnings, the real estate write-down, was a non-cash item, it did not affect cash flow from earnings of ongoing operations which increased to \$148.5 million from \$132.5 million in 1986.

In addition there was a net cash inflow from discontinued operations of \$251.0 million. After investing \$134.1 million in working capital and \$61.8 million in fixed assets and disbursing \$46.3 million in dividends, there was an overall cash inflow of \$157.3 million in 1987 compared with an inflow of \$56.5 million in 1986.

Total debt decreased during the year by \$215.1 million to \$2,062.1 million.

Extraordinary Items

There was an extraordinary loss of \$18.0 million in 1987 arising principally from costs related to the disposal program. This compares with an extraordinary loss of \$40.4 million in 1986 principally from the write-down of an investment.

Economic Conditions

The Canadian economy grew by an impressive 3.9% in 1987 led by strong performances in consumer spending, housing construction and business investment. However, this strength was spread unevenly from region to region. The increasing volatility of financial markets has clouded the outlook for 1988. It is expected that consumers will react by rebuilding depleted savings and that housing construction will decline to more normal levels, but that business capital spending will take up at least part of the slack. Overall the outlook is for slower growth but no recession.

1988 Plans

We expect to achieve an increase in merchandising operating profit in 1988 through further fine tuning of merchandising assortments to customer needs and through improved efficiency resulting from integration of service functions.

In real estate, although profit from land development will continue to be depressed from the levels of a few years ago, satisfactory growth in operating profit and asset values is expected at Markborough.

Interest expense should remain about level with that of 1987.

Overall we anticipate a return to profitability in 1988.

Appreciation

We are very grateful to our employees for their loyalty, dedication and hard work. We also thank our customers, our suppliers and our shareholders for their continuing support.

On behalf of the Board

D.S. McGIVERIN, Governor

G.J. KOSICH, President

March 18, 1988



SUMMARY OF OPERATIONS

		Results		
		in thousands of dollars		
		This Year	Last Year	
Hudson's Bay Company	Merchandising revenue*	4,344,844	4,294,069	
	Operating profit*	32,241	280,765	
	Interest	(198,737)	(265,311)	
	Income taxes	85,069	(31,007)	
	Earnings (loss) before extraordinary items	(78,474)	32,978	
	Assets employed*	3,093,072	3,085,118	
	The Bay	Sales and revenue	1,738,339	1,765,790
Operating profit		60,912	79,599	
Assets employed		862,907	832,808	
Simpsons	Sales and revenue	660,589	643,803	
	Operating profit	17,738	6,481	
	Assets employed	433,389	419,223	
Zellers	Sales and revenue	1,844,965	1,781,984	
	Operating profit	91,075	61,696	
	Assets employed	700,217	619,387	
Fields	Sales and revenue	87,943	85,851	
	Operating profit	1,419	2,521	
	Assets employed	17,306	12,798	
Real estate - principally	Markborough	Sales and revenue	188,237	270,301
Operating profit (loss)		(136,357)	132,071	
Assets employed		767,694	972,341	

*excluding discontinued operations

1987 Principal Operating Factors

- Zellers and Simpsons contributed to increase in retail operating profits.
- Drop in Houston land values led to major asset write-down by Markborough.
- Markborough's ongoing income properties and Canadian land businesses performed well.
- Business disposal program was largely completed resulting in substantial debt reduction.
- Management reorganization was completed.
- Cash flow from earnings of ongoing operations was improved.

- Sales shortfall, high markdowns and stock shortages, heavy sales promotion spending reduced profit.
- Elimination or reduction of low gross profit commodities cut sales.
- Blend of softgoods continued to increase.
- New Fairview Store was opened successfully.
- Major renovations were undertaken in the Montreal and Winnipeg flagship stores.

- Improved stock shortage results contributed to increase in profit.
- Higher than anticipated markdowns were required to move problem and dated inventories.
- Reticketing program was completed to improve automatic replenishment of basic commodities.
- New Fairview store opened in November with high customer acceptance.
- Renovations were undertaken at Richmond Hill, Anjou, Scarborough and Downtown Toronto stores.

- Higher sales, improved gross profit rate and tight expense control program increased profit.
- Superior merchandise offerings, effective promotion and "Club Z" stimulated sales.
- Gross profit rate was improved by better buying.
- Sharply-focused market positioning strategy was developed and executed.
- Five new stores were opened and three existing stores were modernized.
- Credit card base was expanded.

- Lower margins and higher occupancy costs reduced profit.
- Sales increase was restrained by soft western regional economy.
- Administration and distribution expense rates were reduced substantially.
- Eleven new stores were opened and one unprofitable unit was closed.

- Substantial write-down of U.S. land assets caused operating loss.
- U.S. land development business suffered from little demand and considerable over-supply.
- Income properties and Canadian land development businesses performed well.
- Management was reorganized and strengthened.
- An office building in London, England was completed, three shopping centres were expanded and a major regional centre was acquired.

1988 Action Plan

- Achieve profit gains in all four retail companies.
- Increase real estate profit apart from write-down.
- Return to profitability.

- Continue the program to upgrade customer service and instore marketing.
- Enhance the assortment, environments and appeal of the large flagship stores.
- Complete phase one of a three year point-of-sale upgrade.
- Open three new stores.

- Improve customer service to provide every customer a superior shopping experience.
- Lead the consumer in fashion direction.
- Emphasize moderate and moderate better price zones with life style and quality for value promotion themes.
- Maintain in-stock position of demand items.
- Allocate capital and human resources on priority basis towards the total modernization of the Toronto Downtown store.
- Complete the major renovation of the Scarborough store.

- Re-enforce price positioning strategy in marketplace through in-store marketing and sales promotion.
- Strengthen under-performing merchandise commodity areas.
- Continue aggressive new credit account generation program.
- Continue to improve expense management and controls.
- Open four new stores and modernize five existing stores.

- Redefine merchandise assortments to customer and market profiles.
- Focus on improving margins and turnover.
- Open 15-20 new stores in western provinces.

- Strengthen marketing programs in land development.
- In shopping centres, actively pursue redevelopment schemes and acquisitions.
- Secure approvals for downtown Toronto office project.



Operating profits for the Bay Department Stores declined in 1987 to \$60.9 million, from \$79.6 million in 1986. Sales and revenues fell 1.5% to \$1,738 million but were about even after adjusting for the extra week in fiscal 1986. The Bay lost sales volume due to reduction or elimination of low gross profit commodities.

A sluggish western Canadian economy, more aggressive markdowns, particularly in Western Canada, increased sales promotion in an uncertain market and higher shrinkage adversely affected the Bay's results.

As in 1986, sales in Eastern Canada outperformed sales in the Western provinces where consumer spending, specifically in the retail sector, remains depressed by low oil and grain prices.

In October, the 160,000 sq. ft. replacement Fairview store opened successfully in Toronto. This store is located in a thriving regional mall which is undergoing a major expansion to be completed by the summer of 1988. A Zellers store in Vernon, B.C. was transferred to the Bay in the summer of 1987.

In Winnipeg, a major reset was undertaken in the downtown store to coincide with the opening of Portage Place, a large new retail and commercial development on the north side of Portage Avenue between the Bay and Eaton's. In Montreal, three floors of the downtown store were reset to increase space and exposure for the important soft goods segment. Completion of the main floor is scheduled for 1988. These renovations, together with those in Calgary in 1986 and Vancouver in 1984, reflect the Bay's commitment to its large flagship stores.

Work will continue on the upgrading of the Bay's flagship stores during 1988 and new suburban stores will be added in Edmonton (Kingsway Garden Mall); Brossard, Quebec (Champlain Mall) and Toronto (Yorkdale).

The Bay competes aggressively in the broad mid-range urban and suburban markets with a strong franchise in the Downtowns of major Canadian cities. It provides customers with superior value by offering fashionable, good quality merchandise at popular prices with a high level of service and integrity.



Downtown Winnipeg Store
(above and below)



Simpsons operating profit increased to \$17.7 million in 1987 from \$6.5 million the year before. Sales, at \$660.6 million, increased by 2.6% over sales of 1986's 53 week year.

Simpsons gross profit rate rose substantially due, principally, to a markedly better stock shortage result and to improved markup.

During the year, a number of major capital investments were completed. The 160,000 sq.ft. replacement Fairview store opened in November, 1987, and is showing excellent sales results. The ladies fashion floor in the Toronto downtown store was completed and is now a world-class fashion facility. Major resets were also undertaken at the Richmond Hill and Scarborough Town Centre stores in Ontario and the Anjou store in Montreal.

In 1988, the main focus of the Company will be on the human resource development and training in all selling and non-selling areas.

The Robert Simpson Company will differentiate itself in the marketplace by ensuring that every customer enjoys a superior shopping experience.

The downtown Toronto store will receive priority attention to create a destination store of world renown.

Simpsons aims to be the leading fashion department store in Canada's two largest markets, Toronto and Montreal. Simpsons will lead the customer in fashion direction, introducing new, exclusive and first available merchandise on a regular basis.



Simpsons Fairview (above)
The Room, Toronto Downtown (below)



Operating profit for Zellers stores rose 47.6% to \$91.1 million during 1987 from \$61.7 million in 1986 with most of the improvement occurring in the second half of the year. Sales and revenues increased 3.5% to \$1,845 million.

Same-store sales grew 4.8%, hard line sales rose 3.9% and fashion sales, led by men's wear and shoes, increased 6.5%. The merchandise gross profit rate increased significantly during 1987 because of more effective buying.

At mid-year, Zellers introduced a sharply focussed market positioning strategy and an extensive expense reduction program. The positioning strategy will help Zellers build on the success of its 1987 operations while the expense reduction program has already resulted in a significant increase in operating profit. Club Z, the frequent buyer program launched in 1986 continues to grow and now has in excess of four million members. Zellers intends to exploit fully the competitive advantage provided by Club Z.

New Zellers credit accounts were opened in all Zellers' markets following a major credit account generation program initiated during the year. This program will be continued in 1988.

New stores were opened in Swift Current, Saskatchewan; Owen Sound, Scarborough, and Richmond Hill, Ontario; and St. John's, Newfoundland. Major renovations were completed in stores in Hanover and Guelph, Ontario and Yarmouth, Nova Scotia. In addition, Zellers distribution facilities were substantially improved by the completion of a new distribution centre in Pointe Claire, Quebec and the acquisition of a distribution centre in north-west Toronto.

Zellers agreed to sell its Just Kids division in early 1988.

Zellers is a growing national chain of discount mass merchandise department stores with a distinctive store image for the budget-minded customer. Zellers' objective is to emphasize value by offering good quality merchandise, particularly established brands, through overall price leadership, further enhanced by Zellers' sales events and Club Z.



Malvern Town Centre, Scarborough, Ontario
(above and below)



Markborough

Markborough recorded an operating loss of \$148.7 million in 1987 compared with an operating profit of \$108.6 million the year before. A write down of \$196.6 million of U.S. land assets comprised most of the decline. In addition, profit from the sale of income properties fell by \$59.9 million to a more normal level of \$7.4 million.

The write-down had a significant impact on the book equity of Markborough. However, the company remains financially strong and its ability to carry on a healthy and growing business was not impaired. Management believes that the market value of Markborough's land portfolio is greater than its written-down book value and that the market value of Markborough's total assets substantially exceeds their book value.

Community land sales and profits were below expectations in all U.S. locations, and in some locations were seriously depressed.

On the other hand, Markborough had a very good year in land development in Canada.

The portfolio of income producing properties also performed well during the past year, particularly shopping centres and industrial buildings.

During the past year, expansions were completed successfully in three regional shopping centres in which Markborough has substantial financial interests and expansions are under way in three others. A regional shopping centre in Vancouver area, Surrey Place, was purchased and will likely be expanded and remerchandised. Plans are being formulated for expansion and renovation of a number of other malls owned or jointly owned by Markborough. Plans are also being formulated for new office and industrial developments, mainly in the Toronto area, and on a site in London, England.

Markborough's largest single undertaking is the development of approximately three acres of land in downtown Toronto in the area bounded by Adelaide, Richmond, Yonge and Bay Streets. This development is a joint venture with Trizec Corporation Ltd. Conceptual plans are substantially complete and negotiations for approval of plans are in progress with the City of Toronto. Subject to this approval, construction is expected to commence late in 1988, for completion in 1991. It will be an income property of the highest quality in one of North America's premier locations.

Markborough has two broad objectives in the coming year. In the community development field, it will strengthen its marketing activity and increase its effectiveness in competitive market conditions. In both urban development and shopping centres it will be concentrating on new development opportunities. Markborough is in the process of further enhancing its management team to achieve these objectives.

At the present book value, approximately 30% of Markborough's property assets are deployed in land development and 70% in income producing properties. Markborough considers this to be a healthy balance and intends to maintain a position close to this ratio.

The Royal Bank of Canada Centre, London, England



Markborough is a diversified real estate development and investment company, concentrating on income producing commercial property, and land development for residential communities and industrial use, principally in North America.



The Hudson's Bay Centre,
Denver, Colorado



Fields Stores aggressively market family clothing, footwear and related accessories at value prices at the low end of the fashion market, principally in small towns and secondary malls in the three western provinces.



Operating profit for Fields Stores for 1987 declined to \$1.4 million from \$2.5 million in 1986. Sales increased by only 2.4% to \$87.9 million reflecting the sluggish economies in the Western Provinces, particularly in the rural communities with resource and agricultural bases.

Profits were adversely affected by increased selling expenses, occupancy costs and higher-than-anticipated markdowns.

Head Office, administration and distribution expense rates decreased substantially following a mid-year downsizing.

Fields opened eleven new stores during 1987, and closed one unprofitable unit. Fields now operates one hundred and six stores in the three Western Provinces and plans to open 15 to 20 new stores in Western Canada in 1988.



CONSOLIDATED STATEMENT OF EARNINGS

Year Ended January 31, 1988

	This Year \$ 000's	Last Year \$ 000's
Sales and Revenue (Note 2)		
Merchandising:		
The Bay	1,738,339	1,765,790
Simpsons	660,589	643,803
Zellers	1,844,965	1,781,984
Fields	87,943	85,851
Other	13,008	16,641
	4,344,844	4,294,069
Real estate	188,237	270,301
Ongoing operations	4,533,081	4,564,370
Discontinued operations	312,097	1,128,062
	4,845,178	5,692,432
Source of Earnings (Note 2)		
Merchandising:		
The Bay	60,912	79,599
Simpsons	17,738	6,481
Zellers	91,075	61,696
Fields	1,419	2,521
Other	(2,546)	(1,603)
	168,598	148,694
Real estate:		
Markborough		
Operations	47,941	108,560
Asset write downs (Note 3)	(196,600)	-
Other	12,302	23,511
	(136,357)	132,071
Ongoing operations	32,241	280,765
Discontinued operations	2,953	48,531
Operating Profit	35,194	329,296
Interest expense (Note 4)	(198,737)	(265,311)
Earnings (Loss) Before Income Taxes and Extraordinary Items	(163,543)	63,985
Income Taxes (Note 5)	85,069	(31,007)
Earnings (Loss) Before Extraordinary Items	(78,474)	32,978
Extraordinary Items (Note 6)	(17,989)	(40,373)
Loss	(96,463)	(7,395)
Earnings (Loss) Per Ordinary Share		
Earnings (loss) before extraordinary items	(\$3.58)	\$0.32
Loss	(\$4.18)	(\$1.07)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year Ended January 31, 1988

	This Year \$ 000's	Last Year \$ 000's
Retained Earnings at Beginning of Year	432,807	486,123
Loss	(96,463)	(7,395)
Dividends Paid		
Preferred shares	(28,383)	(24,572)
Ordinary shares	(17,885)	(17,521)
Cancellation of Preferred Shares (Note 11)	-	(3,828)
Retained Earnings at End of Year	290,076	432,807

CONSOLIDATED BALANCE SHEET

January 31, 1988

	This Year \$ 000's	Last Year \$ 000's
Current Assets		
Cash	5,379	9,712
Short-term deposits (Note 10)	25,261	94,474
Accounts receivable	1,027,663	1,149,612
Income taxes recoverable	71,071	19,780
Merchandise inventories	939,604	1,095,138
Prepaid expenses	37,796	35,897
	2,106,774	2,404,613
Secured Receivables (Note 7)	146,481	106,870
Property for Sale and Development	207,599	290,371
Investments (Note 8)	74,089	387,293
Fixed Assets		
Land	136,521	124,286
Buildings	560,033	612,594
Equipment and leasehold improvements	583,909	655,302
	1,208,463	1,392,182
Less accumulated depreciation	(433,024)	(479,458)
	847,439	912,724
Deferred Charges	45,177	74,907
Goodwill	96,266	98,579
Pensions (Note 9)	49,999	19,599
Deferred Income Taxes (Note 5)	40,375	-
	3,614,199	4,294,956

	This Year \$ 000's	Last Year \$ 000's
Current Liabilities		
Bank indebtedness (Note 10)	200,017	248,377
Notes payable (Note 10)	374,319	592,290
Accounts payable and accrued expenses	455,491	613,715
Long-term debt due within one year (Note 10)	240,829	172,740
	1,270,656	1,627,122
Long-Term Debt (Note 10)	1,272,207	1,358,263
Deferred Income Taxes (Note 5)	-	32,660
Minority Interest in Subsidiaries	-	62,882
Shareholders' Equity		
Capital stock (Note 11):		
Preferred shares	355,399	373,715
Ordinary shares	406,566	392,987
	761,965	766,702
Additional paid-in capital (Note 12)	13,837	10,478
Retained earnings	290,076	432,807
Cumulative translation adjustment	5,458	4,042
	1,071,336	1,214,029
	3,614,199	4,294,956

CONSOLIDATED STATEMENT OF ASSETS EMPLOYED

January 31, 1988

	This Year \$ 000's	Last Year \$ 000's
Merchandising – Ongoing Operations		
Accounts receivable	965,765	967,218
Inventories	939,604	898,365
Accounts payable	(412,394)	(467,582)
Other current assets	93,965	46,977
Working capital	1,586,940	1,444,978
Secured receivables	94,362	25,487
Investments	5,642	8,514
Fixed assets	481,571	476,304
Goodwill	66,342	68,402
Pensions	49,138	14,584
Deferred charges	41,383	74,508
	2,325,378	2,112,777
Real Estate		
Working capital	39,082	46,545
Secured receivables	52,119	81,383
Property for sale and development	207,599	290,371
Investments and fixed assets:		
Shopping centres	208,720	137,976
Commercial and industrial	186,204	267,331
Residential	39,391	118,558
Goodwill	29,924	30,177
Other assets	4,655	-
	767,694	972,341
Assets Employed – Ongoing Operations	3,093,072	3,085,118
Discontinued Operations		
Working capital	-	204,901
Investments and fixed assets	-	291,334
Other assets	-	5,414
Minority interest in subsidiaries	-	(62,882)
	-	438,767
Assets Employed	3,093,072	3,523,885
Provided From		
Debt (Note 10):		
Long-term	1,272,207	1,358,263
Net short-term	789,904	918,933
	2,062,111	2,277,196
Deferred income taxes	(40,375)	32,660
Shareholders' equity:		
Preferred shareholders (including accrued dividends)	356,932	375,391
Ordinary shareholders	714,404	838,638
	1,071,336	1,214,029
	3,093,072	3,523,885

CONSOLIDATED STATEMENT OF CASH FLOW AND FUNDING

Year Ended January 31, 1988

	This Year \$ 000's	Last Year \$ 000's
Cash Flow from Ongoing Operating Activities		
Operating profit	32,241	280,765
Interest	(188,811)	(217,245)
Current income tax recovery	63,564	20,983
	(93,006)	84,503
Items not affecting cash flow:		
Asset write downs - Markborough	196,600	-
Depreciation and amortization	78,400	79,414
Equity earnings from affiliates and joint ventures in excess of cash received	(3,507)	(3,287)
Pension credits	(29,961)	(28,110)
Cash inflow from earnings	148,526	132,520
Net effect of changes in operating working capital (Note 13)	(134,083)	(211,712)
Net cash inflow (outflow) from ongoing operating activities	14,443	(79,192)
Cash Flow from Ongoing Investing Activities		
Fixed assets:		
Acquisitions	(88,649)	(74,449)
Dispositions	21,274	106,969
Investments:		
Acquisitions and net advances	(12,049)	(39,856)
Dispositions	1,894	23,181
Property for sale and development	(6,991)	25,498
Secured receivables	30,834	2,685
Deferred charges	(2,348)	(12,717)
Other	(5,807)	(440)
Net cash inflow (outflow) from ongoing investing activities	(61,842)	30,871
Cash Outflow for Dividends		
Preferred shareholders	(28,383)	(24,572)
Ordinary shareholders	(17,885)	(17,521)
Cash outflow for dividends	(46,268)	(42,093)
Net Cash Outflow from Ongoing Activities and Dividends	(93,667)	(90,414)
Cash Flow from Discontinued Operations		
Operating activities - earnings	(5,811)	10,297
- working capital	(16,207)	41,025
Investing activities	273,038	95,627
	251,020	146,949
Net Cash Inflow from Activities and Dividends	157,353	56,535
Funding		
Debt (Note 10):		
Long-term:		
Increase	167,740	363,473
Reduction	(227,003)	(425,668)
Reduction in net short-term debt	(96,712)	(149,623)
	(155,975)	(211,818)
Equity:		
Preferred shares	(14,956)	139,277
Ordinary shares	13,578	16,006
	(1,378)	155,283
Net Cash Outflow to Reduce Funding	(157,353)	(56,535)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended January 31, 1988

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. Accounting policies of the real estate segment of the Company's business are substantially in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies. The significant policies are as follows:

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 is 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

The earnings (loss) per ordinary share reflects the accrual of preferred dividends and is 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.

g) Capitalization of interest

Interest that relates to properties which either are held for sale or development or are under construction is capitalized to such assets when their carrying value is lower than net realizable value.

h) Property for sale and development

Property for sale and development is carried at the lower of cost and net realizable value at the estimated time of development or sale. Cost includes pre-development expenses, interest, realty taxes and other directly related expenses.

i) Investments

The Company follows the equity method in accounting for its investments in joint ventures.

Canadian Roxy Petroleum Ltd., a consolidated subsidiary of the Company until the investment was disposed of on May 21, 1987, followed the full cost method of accounting for its investments in natural resource joint ventures. Depreciation of petroleum and natural gas production equipment and related facilities was provided on the unit of production method. All costs of exploring for and developing oil and gas reserves were capitalized and the costs accumulated were depleted using the unit of production method based upon estimated proven oil and gas reserves.

Investments in other companies are carried at the lower of cost and estimated realizable value, with dividends being reflected in earnings when received.

j) Fixed assets

Fixed assets are carried at cost which, in the case of properties held for the purpose of producing rental income (income properties), includes interest, realty taxes and other carrying charges incurred in the pre-development and construction periods and initial leasing costs.

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	8 - 20%
Leasehold improvements	2½ - 10%

Buildings which constitute 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 hedging transactions 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 expense" 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 two subsidiaries, Zellers Inc. and Markborough Properties Inc., at their respective dates of acquisition.

The goodwill which relates to acquisitions subsequent to 1973, \$74,049,000 (last year \$76,362,000) after deducting accumulated amortization of \$18,253,000 (last year \$15,940,000), is being amortized on the straight-line method over 40 year periods.

m) Pension costs

Current pension costs, substantially all of which arise under trustee pension plans, are charged to operations. The accrued benefit method has been used to calculate the costs of pension plans. Adjustments arising from plan amendments, experience gains and losses, changes in actuarial assumptions, and the difference between the actuarial present value of accrued pension obligations and the value of pension plan assets as of February 1, 1986 are amortized over the expected average remaining service lives of the respective employee groups.

n) Comparative figures

Certain of last year's comparative figures have been reclassified to conform with this year's presentation. In particular, sales and revenue, earnings and cash flow of former operating divisions and other interests which have now been disposed of (see note 2) have been reclassified as "discontinued operations."

2. SUPPLEMENTARY SEGMENTED INFORMATION

The Company is engaged in merchandising through retail stores and fur auction operations. The retail stores include full-line and promotional department stores and, until the disposal of the Northern Stores Division effective April 4, 1987, stores located in smaller communities. The Company also was engaged in the wholesale distribution of tobacco and other products until the disposal of its Wholesale business effective May 31, 1987. Fur auction operations have been conducted solely in the United States since the disposal of the United Kingdom and Canadian operations on January 31, 1987.

The Company participates in two areas of the real estate industry, principally through its subsidiary, Markborough Properties Inc.: the development, ownership and management of income-producing properties and the development of land for future residential, retail, office or industrial uses.

The Company had interests in natural resources through a subsidiary, Canadian Roxy Petroleum Ltd., until the subsidiary was disposed of on May 21, 1987, and through an investment in preferred shares of Dome Petroleum Limited until October 1987.

Reported industry segments are merchandising and real estate. Information pertaining to ongoing operations in these segments and to discontinued operations as described above 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 pretax earnings of companies and joint ventures accounted for under the equity method, as follows:

	This Year	Last Year
	\$000's	\$000's
Pretax equity earnings (loss):		
Merchandising - ongoing operations	3	(1,275)
Real estate	20,710	22,821
Discontinued operations	672	3,303
	21,385	24,849

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

	This Year	Last Year
	\$000's	\$000's
Dividends received from Sears Canada Inc. included in revenue and earnings from discontinued operations (see note 6c)	-	869
Depreciation and amortization:		
Deducted in arriving at operating profit:		
Merchandising - ongoing operations	56,689	58,173
Real estate	7,246	6,292
Discontinued operations	3,100	14,709
	67,035	79,174
Included in interest expense (amortization of deferred charges (see note 1k))	14,465	14,949
	81,500	94,123

Merchandising assets employed predominantly relate to retail operations. 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 - ongoing operations	452	489
Real estate	68,447	173,647
Discontinued operations - natural resources	-	186,632
	68,899	360,768

The Company has operations outside Canada, including fur operations in the United States and, until their disposal on January 31, 1987 (see note 6a), fur operations in the United Kingdom. The Company also has real estate operations through its subsidiary, Markborough Properties Inc., in the United States and in the United Kingdom. None of these operations generates 10% or more of the Company's revenue or employs 10% or more of its assets.

The Company disposed of certain non-strategic real estate which had been used in merchandising operations for an aggregate consideration of \$11,000,000 (last year \$33,300,000), resulting in pretax gains of \$9,200,000 (last year \$24,600,000). These gains were included in earnings from other real estate operations in the Consolidated Statement of Earnings.

3. WRITE DOWNS OF REAL ESTATE ASSETS

During the year Markborough Properties Inc. undertook an in-depth evaluation of its entire United States land portfolio and related secured receivables arising from sales thereof. Depressed market conditions, which management believes will not recover in the short-term, have necessitated write downs of the undernoted assets to reduce their carrying values to estimated net realizable values. Most of the United States properties represent large land assemblies to be developed over a number of years. The evaluation was performed using a discounted cash flow approach, which considers the expected timing of either the development and sale of lots and the resulting revenues and other costs or the orderly disposition in the short-term of major portions of certain properties.

	\$000's
Secured receivables	7,000
Property for sale and development	73,100
Investment in real estate joint ventures	116,500
	196,600

The after tax amount of the above write downs is \$101,700,000.

4. INTEREST EXPENSE

Interest expense may be analyzed as follows:

	This Year	Last Year
	\$000's	\$000's
On long-term debt	153,569	163,096
Net short-term	65,862	134,982
	219,431	298,078
Less amount capitalized (see note 1g)	(20,694)	(32,767)
Interest expense	198,737	265,311

5. INCOME TAXES

The average statutory Canadian income tax rate for the Company this year was 50.3% (last year 51.0%). The following schedule reconciles a nominal credit (provision) at these rates with the amount actually credited (provided) in the Consolidated Statement of Earnings.

	This Year	Last Year
	\$000's	\$000's
Earnings (loss) before income taxes	(163,543)	63,985
Nominal income tax credit (provision) at statutory Canadian income tax rates	82,262	(32,632)
Increase (decrease) resulting from:		
Tax rates in other jurisdictions	7,408	4,175
Capital gains and losses	(3,202)	4,472
Recovery of current losses at prior years' rates	2,186	(4,870)
Non-deductible costs	(3,585)	(3,368)
Inventory allowance	-	1,206
Other	-	10
Credit (provision) for income taxes per Consolidated Statement of Earnings	85,069	(31,007)

Cumulative tax losses for accounting purposes at January 31, 1988 amounted to approximately \$380,000,000. Of this total, the Company has taken credit for the potential future income tax recovery from the carry forward of approximately \$102,000,000 of losses in respect of depreciation recorded in the consolidated financial statements but not yet claimed for income tax purposes. The amount not recognized in the consolidated financial statements is approximately \$278,000,000 of which \$166,000,000 is also in respect of unclaimed depreciation. The remaining losses may be carried forward until the following years ending January 31:

1990 - \$26,000,000; 1991 - \$28,000,000; 1992 - \$58,000,000.

6. EXTRAORDINARY ITEMS

Extraordinary items comprise the following:

	This Year	Last Year
	\$000's	\$000's
Gains (losses) on disposition of operations	(57,490)	3,961
Recovery on disposition (loss on write down) of investment in Dome Petroleum Limited	5,706	(43,158)
Gains on disposition of merchandising investments	-	3,062
	(51,784)	(36,135)
Deferred income tax credits (expense)	33,795	(4,238)
	(17,989)	(40,373)

a) Gains (losses) on disposition of operations

During the year ended January 31, 1988 the Company incurred net pre-tax losses totalling \$57,490,000 in respect of transactions, including the cancellation of interest swap arrangements no longer required, related to the disposal of certain of its operating divisions and interests in other entities. These entities include the Northern Stores Division, the Wholesale Division, Canadian Roxy Petroleum Ltd. and Marshall Wells Limited. Although Marshall Wells Limited was sold in the year ended January 31, 1986, a loss has been provided for against the amount due from the acquiring company, which declared bankruptcy in June 1987. Total net proceeds relating to these disposals amounted to \$345,700,000, comprising net cash received of \$250,700,000 and vendor take-back notes of \$95,000,000. Income tax credits related to these net losses amounted to \$26,974,000.

On January 31, 1987 the Company sold its U.K. fur operations for proceeds comprising cash and the assumption of debt totalling \$37,500,000 and its Canadian fur operations for cash of \$45,500,000. As a consequence of these disposals the Company incurred costs related to the cancellation of interest swap arrangements no longer required and other costs, resulting in an aggregate net gain of \$3,961,000 before deferred income taxes of \$1,764,000.

b) Recovery on disposition (loss on write down) of investment in Dome Petroleum Limited ("Dome")

At January 31, 1987 the Company wrote down its investment in preferred shares of Dome by \$43,158,000 to a carrying value of \$18,500,000, which represented the approximate quoted market value at that date on The Toronto Stock Exchange of the common shares into which they were convertible. On the disposition of the investment this year, \$5,706,000 of the amount of the write down was recovered (see note 8c). Deferred tax credits of \$6,821,000 were recorded this year in respect of the disposition.

c) Gains on disposition of merchandising investments

During the year ended January 31, 1987 the Company disposed of its holding of 12,764,448 common shares of Sears Canada Inc.. Of this total, 12,735,945 shares were exchanged for series F preferred shares of the Company and 28,503 shares were sold for cash. The proceeds of approximately \$107,000,000 resulted in a gain of \$4,014,000 before provision for deferred income taxes of \$2,955,000. Additional costs related to investments disposed of in the previous year amounting to \$952,000 before credit for deferred income taxes of \$481,000, reduced the total pretax gain for the year ended January 31, 1987 to \$3,062,000.

7. SECURED RECEIVABLES

Secured receivables include mortgages which arise principally from sales of real property, vendor take back notes arising from the disposition of operations (see note 6a) and loans outstanding under the employee share ownership plan.

	This Year	Last Year
	\$000's	\$000's
Total secured receivables	199,170	158,166
Less amounts due within one year classified as accounts receivable	(52,689)	(51,296)
	146,481	106,870

Maturities during the five years ending January 31, 1993 are as follows:

1989 - \$52,689,000;	1990 - \$50,191,000;	1991 - \$16,698,000;
1992 - \$14,190,000;	1993 - \$13,801,000.	

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

8. INVESTMENTS

Investments comprise the following:

	This Year	Last Year
	\$000's	\$000's
Real estate joint ventures	68,447	173,647
Natural resource joint ventures	-	186,632
Dome Petroleum Limited	-	18,500
Other	5,642	8,514
	74,089	387,293

a) Real estate joint ventures

The investment by Markborough Properties Inc. 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		
Cash	13,674	4,957
Accounts receivable	61,774	83,086
Property for sale and development	168,659	316,831
Fixed assets, net	479,743	360,083
	723,850	764,957
Liabilities		
Accounts payable and accrued expenses	43,593	49,421
Long-term debt	611,810	541,889
	655,403	591,310
Investment in real estate joint ventures	68,447	173,647
Revenue	105,339	113,118
Expenses		
Interest	40,430	34,689
Depreciation	5,787	4,735
Other	38,412	50,873
	84,629	90,297
Write down of assets	116,500	-
	201,129	90,297
Pretax earnings (loss) of real estate joint ventures	(95,790)	22,821

The Company is contingently liable at January 31, 1988 for \$105,800,000, representing certain liabilities of its co-owners and partners in unincorporated joint ventures but against such liabilities the Company would have a claim upon the joint venture assets of its co-owners and partners. The value of the assets of each of these joint ventures exceeds the contingent liability.

b) Natural resource joint ventures

On May 21, 1987 the Company sold its investment in its subsidiary, Canadian Roxy Petroleum Ltd., which participated in all the Company's natural resource joint ventures. The Company's share of natural resource joint ventures, included in discontinued operations, is summarized as follows:

	This Year	Last Year
	\$000's	\$000's
Oil and gas properties	-	162,666
Accounts receivable	-	9,058
Other assets	-	20,390
Accounts payable and accrued expenses	-	(5,482)
Investment in natural resource joint ventures	-	186,632
Revenue to date of sale	5,402	19,997
Expenses to date of sale		
Depletion and depreciation	2,588	9,119
Production and operating costs	1,037	4,563
Interest	630	2,651
Other	475	1,321
	4,730	17,654
Pretax earnings of natural resource joint ventures to date of sale	672	2,343

c) Dome Petroleum Limited ("Dome")

At January 31, 1987 the investment in Dome consisted of 4,110,517 10% series 1 subordinated cumulative convertible preferred shares. On that date the carrying value was reduced from cost to the approximate quoted value on The Toronto Stock Exchange of the common shares into which the preferred shares were convertible. The series 1 preferred shares had been received on March 12, 1986 in exchange for an equal number of series D preferred shares. On March 13, 1986 Dome announced the suspension of the payment of dividends on all its preferred shares, including the series 1 preferred shares. To the date of exchange of the series D preferred shares, on March 12, 1986, Dome was obligated to pay interest to the Company, in lieu of dividends otherwise accruing on the series D preferred shares, at a variable rate per annum equal to 2% plus the domestic prime rate of a Canadian chartered bank. The Company offset the interest received against "interest expense" in the Consolidated Statement of Earnings.

Between February 1, 1987 and October 7, 1987 the Company exercised its right to convert the series 1 preferred shares to Dome common shares at \$3.33 per share and sold the Dome common shares acquired therefor in exchange for an aggregate consideration of \$24,206,000 (see note 6b).

9. PENSIONS

As of January 31, 1988 the aggregate actuarial present value of accrued pension benefits is \$310,000,000 and the aggregate market value of pension plan assets is \$522,000,000.

The amount of \$49,999,000 described as "pensions" on the Consolidated Balance Sheet represents the recorded portion of the excess of pension plan assets over accrued pension benefits net of other obligations to retired employees.

10. DEBT

Total debt of the Company may be analyzed as follows:

	This Year	Last Year
	\$000's	\$000's
Bank indebtedness (a)	200,017	248,377
Notes payable (a)	374,319	592,290
Long-term debt due within one year (b)	240,829	172,740
Less short-term deposits (c)	(25,261)	(94,474)
Net short-term debt	789,904	918,933
Long-term debt (b)	1,272,207	1,358,263
	2,062,111	2,277,196

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	7,659	7,684
7½% first mortgage bonds series B due 1991	4,954	5,204
11½% first mortgage bonds series C due 1995	22,665	23,259
9¾% first mortgage bonds series D due 1997	34,705	35,025
10% first mortgage bonds series E due 1998	26,254	27,406
Markborough Properties Inc. (includes floating rate debt of \$231,731,000 (last year \$184,863,000)) (b)		
Mortgages and obligations on property for sale and development at an average year end rate of 8.7% (last year 8.8%) and maturing by 1993	106,572	129,360
Mortgages on income property permanent financing at an average year end rate of 11.2% (last year 11.4%) and maturing by 2005	158,688	127,664
Mortgages on income property interim financing at an average year end rate of 8.7% (last year 7.3%) and maturing by 1990	116,576	72,931
Canadian Roxy Petroleum Ltd. Term loan, 13.875%, due 1987	-	12,000
Other	991	4,781
	479,064	445,314

	This Year	Last Year
	\$000's	\$000's
Secured on accounts receivable:		
Hudson's Bay Company Acceptance Limited		
13¼% debentures series C due 1989	3,425	3,437
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	20,780	22,158
13¾% debentures series G due 2001	44,544	44,544
Floating rate debt: (b)		
Term loan due 1989	50,000	50,000
Term loan due 1993	35,000	35,000
Term loan due 1993	50,000	-
Simpsons Acceptance Company Limited		
8¾% debentures series F due 1992	10,000	10,000
8¾% debentures series G due 1992	15,000	15,000
9¾% debentures series H due 1997	15,670	16,170
	284,419	236,309
Secured by floating charge on assets of subsidiary: Zellers Inc.		
10¼% sinking fund debentures series 1974 due 1994	7,831	8,363
	771,314	689,986
Unsecured:		
Hudson's Bay Company		
10½% debentures due 1989	21,190	31,396
12½% note due 1989	204	182
14¼% notes due 1989	46,768	48,535
13.85% note due 1990	25,000	25,000
10% notes due 1991	96,105	96,362
10¾% notes due 1991	80,000	80,000
Dual currency bonds due 1991-1993 (U.S. \$97,062,000) (d)	123,754	130,823
11% notes due 1993	25,000	25,000
10% debentures due 1994 (U.S. \$25,235,000)	32,175	42,521
15.36% term loan due 1995 - 1997 (£5,592,000)	12,581	11,351
Floating rate debt: (b)		
Syndicated bank loans due 1987	-	53,822
Series F notes due 1987	-	7,500
Term loan due 1988	57,908	57,908
Term loan due 1989	31,352	31,352
Notes due 1989 (U.S. \$50,000,000)	63,750	67,000
Bankers' acceptances due 1989	50,000	50,000
Promissory notes due 1990	30,000	30,000
Notes due 1991 (U.S. \$20,000,000)	25,500	26,800
Simpsons Limited		
6½% debentures series F due 1987	-	1,319
9½% debentures series G due 1989	1,652	2,902
8¾% debentures series H due 1993	6,064	6,870
9½% debentures series I due 1994	4,542	4,692
11¾% debentures series J due 1995	7,364	8,864
	740,909	840,199
Subordinated:		
Zellers Inc. 5½% convertible subordinated debentures series 1971 due 1991 (e)	813	818
	1,513,036	1,531,003
Less amounts due within one year	(240,829)	(172,740)
	1,272,207	1,358,263

- (a) The effective interest rate on \$382,027,000 of the short-term debt has been fixed at 12.8% by way of various currency and interest exchange transactions. Certain real estate assets have been pledged as security for \$12,201,000 of the bank indebtedness.
- (b) Long-term debt (including amounts due within one year) includes floating rate debt in the amount of \$625,241,000. Of this amount, \$393,510,000 has been fixed at 11.6% by way of various currency and interest exchange agreements. The balance has been capped at 12.6% through various interest rate cap agreements.
- (c) Short-term deposits at January 31, 1988 include interest bearing instruments of \$6,981,000 (last year \$76,800,000) held by various financial institutions to fulfill obligations of various currency and interest hedging transactions and increase or decrease depending on movements in international financial markets.
- (d) The dual currency bonds bear interest at 8% per annum on a notional principal amount of 161,770,000 Swiss Francs. The effective hedged Canadian interest rate on this borrowing is 13.0% per annum.
- (e) The holders of Zellers Inc. 5½% convertible subordinated debentures series 1971 have the right 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.

Several of the long-term debt issues are 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, 1993 are as follows:

1989 - \$240,829,000;	1990 - \$310,334,000;	1991 - \$76,244,000;
1992 - \$249,348,000;	1993 - \$127,728,000.	

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", 4,500,000 have been designated as "\$2.25 cumulative redeemable preferred shares series G" and 10,000,000 have been designated as "\$1.875 cumulative redeemable convertible preferred shares series H"

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)	4,278,959	96,277	4,776,259	107,466
Variable rate, cumulative redeemable preferred shares series C (stated capital \$25.00 each)	699,500	17,488	737,000	18,425
\$1.512 convertible redeemable preferred shares series D (stated capital \$18.00 each)	50,031	900	50,391	907
\$2.25 cumulative redeemable preferred shares series G (stated capital \$22.50 each)	11,500	282	12,250	300
\$1.875 cumulative redeemable convertible preferred shares series H (stated capital \$25.00 each)	9,750,000	240,452	10,000,000	246,617
		355,399		373,715
Ordinary shares	30,187,244	406,566	29,532,745	392,987
		761,965		766,702

The changes in shares issued and outstanding during the two years ended January 31, 1988 are as follows:

	Number of shares	\$000's
Preferred shares series A:		
Issued and outstanding at January 31, 1986	4,806,459	108,145
Less purchased for cash and cancelled	(30,200)	(679)
Issued and outstanding at January 31, 1987	4,776,259	107,466
Less purchased for cash and cancelled	(497,300)	(11,189)
Issued and outstanding at January 31, 1988	4,278,959	96,277
Preferred shares series C:		
Issued and outstanding at January 31, 1986	762,500	19,062
Less purchased for cash and cancelled	(25,500)	(637)
Issued and outstanding at January 31, 1987	737,000	18,425
Less purchased for cash and cancelled	(37,500)	(937)
Issued and outstanding at January 31, 1988	699,500	17,488
Preferred shares series D:		
Issued and outstanding at January 31, 1986	52,873	952
Less purchased for cash and cancelled	(1,600)	(29)
Less converted into ordinary shares	(882)	(16)
Issued and outstanding at January 31, 1987	50,391	907
Less purchased for cash and cancelled	(339)	(7)
Less converted into ordinary shares	(21)	-
Issued and outstanding at January 31, 1988	50,031	900
Preferred shares series F:		
Issued and outstanding at January 31, 1986	4,254,816	102,548
Less converted into series G shares	(12,150)	(292)
Less exchanged for shares of Sears Canada Inc.	(4,233,165)	(102,027)
Less purchased for cash and cancelled	(9,501)	(229)
Issued and outstanding at January 31, 1987 and January 31, 1988	-	-
Preferred shares series G:		
Issued and outstanding at January 31, 1986	100	2
Issued on conversion of series F shares	12,150	298
Issued and outstanding at January 31, 1987	12,250	300
Less purchased for cash and cancelled	(750)	(18)
Issued and outstanding at January 31, 1988	11,500	282
Preferred shares series H:		
Issued in the year ended January 31, 1987, net of issue expenses and related income taxes, and outstanding at January 31, 1987	10,000,000	246,617
Less purchased for cash and cancelled	(250,000)	(6,165)
Issued and outstanding at January 31, 1988	9,750,000	240,452

	Number of shares	\$000's
Ordinary shares:		
Issued and outstanding at January 31, 1986	28,886,002	376,981
Issued:		
Under the employee share ownership plan	89,649	2,656
Under the executive stock option plan	109,300	2,012
Under the dividend reinvestment plan	446,285	11,291
On conversion of series D shares	506	16
On conversion of Zellers Inc. 5½% convertible subordinated debentures series 1971	1,003	31
Issued and outstanding at January 31, 1987	29,532,745	392,987
Issued:		
Under the employee share ownership plan	32,220	910
Under the executive stock option plan	79,700	1,502
Under the dividend reinvestment plan	542,468	11,163
On conversion of series D shares	12	-
On conversion of Zellers Inc. 5½% convertible subordinated debentures series 1971	162	5
Less purchased for cash and cancelled	(63)	(1)
Issued and outstanding at January 31, 1988	30,187,244	406,566

The series A shares may be redeemed at the Company's option at prices declining from \$22.70 at February 1, 1988 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 certain intervals at the Company's option at \$25.00.

The series D shares may be redeemed at the Company's option at prices declining from \$18.54 at February 1, 1988 to \$18.00 after January 31, 1991. Each series D share is convertible into 0.5752 ordinary shares at the holder's option until January 31, 1991.

The series G shares may be redeemed at the Company's option from April 1, 1988 at prices declining from \$26.00 at that date to \$25.00 after March 31, 1992.

On June 11, 1986 the Company issued \$250,000,000 series H shares of which \$50,000,000 were purchased by a subsidiary of the controlling shareholder of the Company. Under certain conditions the series H shares may be redeemed from June 30, 1989 at the Company's option at prices declining from \$25.40 on that date to \$25.00 after June 29, 1991. Each series H share is convertible into 0.6944 ordinary shares at the holder's option until June 30, 1993.

As at January 31, 1988 1,800,000 ordinary shares are reserved for issuance under the Executive Stock Option Plan and options are outstanding with a number of employees to purchase, in aggregate, up to 1,430,400 ordinary shares at their fair market value on the respective dates on which the options were granted. The outstanding options expire at various dates between January 1991 and December 1997 and have an average issue price of \$26.00. During the years ended January 31, 1988 and January 31, 1987 options in respect of 79,700 shares and 109,300 shares, respectively, were exercised at average prices of \$18.69 and \$18.61 per share, respectively. At January 31, 1988 178,600 options were unallocated.

At January 31, 1988 the holders of approximately 61.8% of the ordinary shares were participating in the Dividend Reinvestment Plan which provides a means for eligible holders of ordinary shares to reinvest dividend proceeds in new ordinary shares at 95% of their market price.

The cost of shares reacquired at amounts other than book value in each of the two years ended January 31, 1988 has been allocated as follows:

	Cost		Allocated to	
	\$000's	\$000's	Capital stock	Retained earnings
In the year ended			Additional	
January 31, 1988:			paid-in	
Preferred shares series A	9,554	11,189	capital	
Preferred shares series H	4,441	6,165	(1,635)	-
			(1,724)	-
	13,995	17,354	(3,359)	-
In the year ended				
January 31, 1987:				
Preferred shares series A	578	679	(101)	-
Preferred shares series D	30	29	1	-
Preferred shares series F	106,376	102,548	-	3,828
	106,984	103,256	(100)	3,828

12. ADDITIONAL PAID-IN CAPITAL

The amount at January 31, 1988 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	10,478	10,378
Excess of stated value over cost of shares purchased for cash and cancelled	3,359	100
Amount at end of year	13,837	10,478

13. CONSOLIDATED STATEMENT OF CASH FLOW AND FUNDING

The "net effect of changes in operating working capital" appearing in the ongoing operating activities section of the Consolidated Statement of Cash Flow and Funding comprises the following:

	This Year	Last Year
	\$000's	\$000's
Decrease (increase) in:		
Cash	(269)	(1,002)
Accounts receivable	15,746	(56,052)
Merchandise inventories	(43,980)	(92,529)
Prepaid expenses	(3,539)	(9,758)
Income taxes recoverable	(51,499)	(15,768)
Decrease in accounts payable and accrued expenses	(50,542)	(36,603)
	(134,083)	(211,712)

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 \$108,600,000 of which \$107,300,000 relates to ongoing operations (last year \$117,400,000 and \$112,800,000, respectively).

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, 1989	103,300
1990	98,500
1991	92,200
1992	82,700
1993	76,800
Thereafter	915,500
Total minimum lease payments	1,369,000

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 \$370,600,000 (last year \$328,200,000), net of accumulated depreciation of \$41,900,000 (last year \$32,700,000).

Real estate revenues include rentals from the above properties of \$62,700,000 (last year \$61,400,000).

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 18, 1988

 Peat Marwick

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, 1988 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 the Company as at January 31, 1988 and the results of its operations and its cash flow 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 18, 1988

TEN YEAR CONSOLIDATED FINANCIAL SUMMARY

1987

Results For The Year (in thousands of dollars)

Sales and revenue:	
The Bay (see footnote)	1,738,339
Simpsons (see footnote)	660,589
Zellers	1,844,965
Fields	87,943
Other	13,008
Merchandising	4,344,844
Real estate	188,237
Ongoing operations	4,533,081
Discontinued operations	312,097
Total sales and revenue	4,845,178
Source of earnings:	
The Bay (see footnote)	60,912
Simpsons (see footnote)	17,738
Zellers	91,075
Fields	1,419
Other	(2,546)
Merchandising	168,598
Markborough	(148,659)
Other	12,302
Real estate	(136,357)
Ongoing operations	32,241
Discontinued operations	2,953
Operating profit	35,194
Interest expense	(198,737)
Earnings (loss) before income taxes	(163,543)
Income taxes	85,069
Earnings (loss) before minority interest	(78,474)
Minority interest - ongoing operations	-
Earnings (loss) before extraordinary items	(78,474)
Extraordinary items	(17,989)
Net earnings (loss)	(96,463)
Dividends paid:	
Preferred shares	28,383
Ordinary shares	17,885
Cancellation of shares	-
Increase (decrease) in retained earnings	(142,731)
Capital expenditures - ongoing operations	88,649
Depreciation - ongoing operations	57,503
Cash flow from earnings - ongoing operations	148,526
Year End Financial Position (in thousands of dollars)	
Merchandising	2,325,378
Real estate	767,694
Ongoing operations	3,093,072
Discontinued operations (net of minority interest)	-
Assets employed	3,093,072
Debt	2,062,111
Deferred income taxes	(40,375)
Minority interest - ongoing operations	-
Preferred shareholders' interest (including accrued dividends)	356,932
Ordinary shareholders' equity	714,404
Results Per Ordinary Share (in dollars)	
Earnings (loss) before extraordinary items	(3.58)
Net earnings (loss)	(4.18)
Cash flow from earnings - ongoing operations	4.03
Dividends	.60
Shareholders' equity	23.67
Shareholders	
Number of ordinary shareholders	9,300
Ordinary shares outstanding (in thousands)	30,187
Range in share price (in dollars)	29½ - 18½

Note: Where appropriate and significant, figures have been restated for the purpose of comparability. In particular, operating profits and minority

1986	1985	1984	1983	1982	1981	1980	1979	1978
1,765,790	1,620,598	1,307,242	1,268,454	1,212,024	1,200,581	1,075,497	940,763	823,443
643,803	619,526	737,254	726,456	732,084	758,087	768,364	738,176	-
1,781,984	1,560,232	1,344,771	1,116,266	977,464	929,539	826,676	683,655	221,338
85,851	73,570	70,066	68,122	63,993	58,501	57,535	50,656	45,144
16,641	16,448	13,619	11,476	12,143	10,957	11,389	13,470	9,738
4,294,069	3,890,374	3,472,952	3,190,774	2,997,708	2,957,665	2,739,461	2,426,720	1,099,663
270,301	276,112	243,452	176,946	126,945	173,003	83,828	96,263	48,712
4,564,370	4,166,486	3,716,404	3,367,720	3,124,653	3,130,668	2,823,289	2,522,983	1,148,375
1,128,062	1,105,062	1,112,921	1,002,808	1,014,018	1,041,774	990,597	912,226	747,927
5,692,432	5,271,548	4,829,325	4,370,528	4,138,671	4,172,442	3,813,886	3,435,209	1,896,302
79,599	23,219	6,984	25,715	7,406	35,258	54,477	45,911	37,569
6,481	11,540	(53,571)	(31,415)	(36,937)	(12,886)	7,896	31,466	-
61,696	49,293	38,230	45,292	29,278	40,621	48,405	40,844	19,106
2,521	1,405	3,179	4,892	3,121	2,070	4,572	4,262	3,805
(1,603)	(848)	2,082	2,240	439	2,238	2,641	5,847	3,875
148,694	84,609	(3,096)	46,724	3,307	67,301	117,991	128,330	64,355
108,560	98,803	91,593	32,341	20,960	28,669	18,552	14,644	11,955
23,511	27,631	(3,749)	20,340	26,052	38,366	14,797	11,657	5,887
132,071	126,434	87,844	52,681	47,012	67,035	33,349	26,301	17,842
280,765	211,043	84,748	99,405	50,319	134,336	151,340	154,631	82,197
48,531	37,577	22,530	22,256	76,303	52,537	76,947	97,809	44,383
329,296	248,620	107,278	121,661	126,622	186,873	228,287	252,440	126,580
(265,311)	(250,393)	(199,275)	(173,696)	(261,307)	(244,307)	(136,533)	(113,741)	(47,868)
63,985	(1,773)	(91,997)	(52,035)	(134,685)	(57,434)	91,754	138,699	78,712
(31,007)	(7,282)	(15,437)	34,129	12,505	60,275	(27,836)	(49,953)	(28,913)
32,978	(9,055)	(107,434)	(17,906)	(122,180)	2,841	63,918	88,746	49,799
-	-	-	-	-	892	(9,368)	(8,400)	(5,154)
32,978	(9,055)	(107,434)	(17,906)	(122,180)	3,733	54,550	80,346	44,645
(40,373)	3,471	-	82,806	(5,420)	382,435	18,811	23,175	98,367
(7,395)	(5,584)	(107,434)	64,900	(127,600)	386,168	73,361	103,521	143,012
24,572	20,615	20,645	19,918	11,437	11,746	11,874	10,866	-
17,521	14,288	14,237	14,234	17,815	28,510	28,455	25,481	16,111
3,828	-	-	2,174	552	6,603	-	-	-
(53,316)	(40,487)	(142,316)	28,574	(157,404)	339,309	33,032	67,174	126,901
74,449	135,359	133,766	87,307	100,636	112,804	138,885	96,051	30,345
55,881	54,003	49,912	47,383	44,466	38,005	32,539	29,867	13,776
132,520	68,482	4,604	22,858	(84,117)	54,350	72,597	84,570	51,583
2,112,777	1,962,440	1,698,879	1,479,768	1,460,271	1,458,329	1,202,827	1,108,373	1,045,167
972,341	1,014,154	872,571	743,940	742,565	689,182	562,828	408,752	313,600
3,085,118	2,976,594	2,571,450	2,223,708	2,202,836	2,147,511	1,765,655	1,517,125	1,358,767
438,767	649,386	705,701	670,939	1,182,832	1,245,006	841,001	769,595	609,557
3,523,885	3,625,980	3,277,151	2,894,647	3,385,668	3,392,517	2,606,656	2,286,720	1,968,324
2,277,196	2,528,474	2,249,068	1,717,233	2,306,074	2,133,906	1,639,498	1,343,484	1,124,318
32,660	(16,455)	(7,001)	(1,300)	30,559	51,326	56,566	64,118	54,937
-	-	-	-	-	-	49,380	46,453	56,945
375,391	233,208	243,092	244,786	142,019	147,345	149,499	154,744	136,329
838,638	880,753	791,992	933,928	907,016	1,059,940	711,713	677,921	595,795
0.32	(1.23)	(5.40)	(1.63)	(5.63)	(.34)	1.80	2.98	2.74
(1.07)	(1.09)	(5.40)	1.86	(5.86)	15.78	2.59	3.98	8.79
3.70	1.99	(.68)	.12	(4.02)	1.80	2.56	3.18	3.17
.60	.60	.60	.60	.75	1.20	1.20	1.10	.91
28.40	30.49	33.29	39.36	38.00	44.58	30.01	28.59	25.80
10,000	14,000	15,000	16,100	18,300	19,300	20,800	22,500	30,600
29,533	28,886	23,787	23,728	23,870	23,777	23,712	23,712	23,092
33¼ - 22¼	28 - 15½	23½ - 17	25¾ - 20%	23 - 15	30% - 20¼	31¼ - 23	35 - 21¼	24½ - 17%

Interest in earnings relating to discontinued operations have been reclassified. However, no adjustment has been made prior to 1985 in respect of stores transferred from Simpsons to The Bay.

DIRECTORS AND OFFICERS

Hudson's Bay Company**Board**

Ian A. Barclay
Vancouver
Associate
McQuaid & Associates
Consulting Ltd.

Marcel Bélanger
Quebec
President
Gagnon et Bélanger Inc.

J.W. (Bud) Bird
Fredericton
President and General Manager
J.W. Bird and Company Ltd.

W. Michael Brown
New York
President
International Thomson
Organisation Limited

Gary J. Lukassen
Toronto
Senior Vice-President,
Finance and Administration
Hudson's Bay Company

Gurth C. Hoyer Millar
London, England
Chairman
J. Sainsbury Properties Ltd.

George J. Kosich
Toronto
President and Chief
Operating Officer
Hudson's Bay Company

Donald S. McGiverin
Toronto
Governor
Hudson's Bay Company

Dawn R. McKeag
Winnipeg
President
Walford Investments Ltd.

Peter W. Mills
Toronto
Vice-President and
General Counsel
The Woodbridge Company Ltd.

David E. Mitchell
Calgary
President
Alberta Energy Company Ltd.

David K.R. Thomson
Toronto
President
Simpsons Limited

Kenneth R. Thomson
Toronto
Chairman of the Board
and President
Thomson Newspapers Limited

John A. Tory
Toronto
President
The Thomson Corporation Ltd.

Neil R. Wood
Toronto
Chairman and President
Markborough Properties Inc.

**Principal
Subsidiaries/
Divisions**

The Bay
N. Robert Peter
President

Simpsons Limited
David K.R. Thomson
President

**Bay/Simpsons
Merchandise Services**
Al A. Guglielmin
President

Zellers Inc.
Hani J. Zayadi
President

Fields Stores
Ronald P. Hughes
President

**Hudson's Bay New York Inc.
(Fur Sales)**
William H. Evans
President

Markborough Properties Inc.
Neil R. Wood
Chairman and President

Officers

Donald S. McGiverin
Governor

George J. Kosich
President and Chief
Operating Officer

Gary J. Lukassen
Senior Vice-President,
Finance and Administration

John M. Cunningham
Vice-President,
Operations

Sheila K. Dunlevie
Vice-President,
Store Planning and
Construction

Brian C. Grose
Vice-President and
Controller

Robert N.D. Hogan
Vice-President, Credit

A. Rolph Huband
Vice-President and
Secretary

Raymond J. McDonald
Vice-President,
Distribution

Donald C. Rogers
Vice-President,
Real Estate and
Development

Larry W. Rowe
Vice-President,
Information Services

Paul S. Walters
Vice-President,
Human Resources

Kenneth C. Wong
Assistant Treasurer

CORPORATE INFORMATION

Corporate Data**Registered Office**

401 Bay Street,
Toronto, Ontario M5H 2Y4

Principal Bankers

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

Registrars and Transfer Agents

The Royal Trust Company, Calgary,
Montreal, Toronto, Vancouver
and Winnipeg
The Royal Bank of Scotland PLC,
London

Stock Exchange Listings

Ordinary Shares
Preferred Shares:
Series A and Series H
Montreal and Toronto

Auditors

Peat Marwick

Principal Subsidiary Companies

(wholly owned)

Markborough Properties Inc.

Property development company

Simpsons Limited

Department store company

Zellers Inc.

Department store company

Real Estate Holdings

Markborough Properties Inc.	Net Interest
32 shopping centres	7,954,000 sq.ft.
10 office/commercial buildings	762,000 sq.ft.
22 industrial buildings	760,900 sq.ft.
Construction in progress	212,750 sq.ft.
1 hotel	192 rooms
2 apartment buildings	340 suites
Land held for and under development	10,519 acres

Retail Stores

Number of Stores	The Bay	Simpsons	Zellers	Fields	Total
British Columbia	12		21	73	106
Alberta	14		23	27	64
Saskatchewan	4		12	6	22
Manitoba	4		7		11
Ontario	21	11	65		97
Quebec	13	5	40		58
New Brunswick			10		10
Prince Edward Island			2		2
Nova Scotia	3		12		15
Newfoundland			5		5
Total	71	16	197	106	390
square feet (000's)	11,661	3,726	12,658	826	28,871

The 319th Annual Meeting of Shareholders will be held at Commerce Hall, Commerce Court (King and Bay Streets), Toronto, on May 27, 1988 at 3:00 p.m.

The annual report of Markborough Properties Inc. is available from that company.

On peut obtenir ce rapport annuel en français sur demande.

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