Hudson's Bay Company

ANNUAL REPORT 1990

- Markborough spin-off
- Towers acquisition
- Earnings strong despite recession

Company Profile

Hudson's Bay Company is Canada's oldest corporation and one of its largest retailers.

◆ **Through its four operating divisions, Hudson's Bay Company covers the Canadian retail market across all price zones and from coast to coast. On a combined basis, it accounts for approximately 7% of Canadian retail sales (excluding food and autos).**

◆ **The Company aims to develop its human and material resources and capitalize on its experience in merchandising to anticipate and satisfy the needs of customers for the goods and services they seek 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 investors, a Charter incorporating them as the Governor and Company of Adventurers of England trading into Hudson's Bay (HBC). This followed the successful voyage of the ketch "Nonsuch", to trade for furs. During its first century, HBC established forts on Hudson Bay and traded with the Indians.

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

◆ In 1870, HBC'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, HBC turned its attention to retailing which became its most important activity.

◆ HBC built downtown department stores in each of the major cities of Western Canada (1913 – 1968). It moved into eastern Canada through acquisitions (1960 and 1971) and expanded to the suburbs of major Canadian cities beginning in the 1960's. It acquired Zellers in 1978 and Simpsons the following year.

◆ HBC acquired control of Markborough Properties in 1973 and real estate was an important segment of HBC's activities until Markborough was spun-off to HBC shareholders in 1990.

◆ HBC had major investments in oil and gas (Hudson's Bay Oil & Gas, Siebens and Roxy Petroleum) between 1950 and 1987.

◆ In 1979, Kenneth R. Thomson and his family interests acquired a 75% controlling interest in HBC.

◆ HBC was continued as a Canadian corporation in 1970.

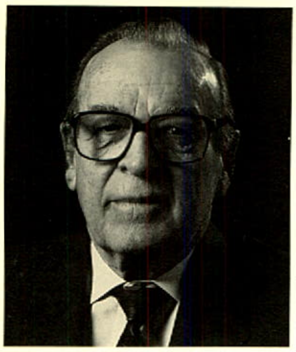
Financial Highlights – HBC Retail

(HBC Retail excludes Markborough Properties Inc., which was distributed to shareholders effective August 1, 1990)

	Year Ended January 31, 1991	1990
	$ millions	$ millions
Sales and Revenue	**4,970.0**	4,603.7
Earnings Before Interest and Income Taxes	**317.6**	315.2
Net Earnings	**158.1**	143.9
Cash Flow From Earnings	**203.2**	190.0
Capital Expenditures	**120.4**	92.3
Towers Acquisition	**181.5**	–
Debt	**1,242.7**	1,147.4
Equity	**1,172.0**	1,045.2
Debt:Equity Ratio	**1.1:1**	1.1:1

Per Common Share	**$**	$
Net Earnings	**3.34**	3.64
Dividends	**0.80**	0.60
Cash Flow From Earnings	**4.35**	5.02
Equity	**23.53**	21.09

Directors' Report to Shareholders



Donald McGiverin

Summary

With the spin-off of Markborough Properties Inc. in August 1990, Hudson's Bay Company is again and, for the first time in 120 years, in one line of business - retailing. That retail business expanded significantly in November 1990 with the acquisition of Towers Department Stores Inc., confirming Hudson's Bay Company as the largest department store organization in Canada.

During 1990 the Company performed well - among the best in the industry - although its results were affected by the first recession in Canada since 1981-82. Earnings of HBC Retail (excluding Markborough but including recovery of tax losses) were $158.1 million, up from $143.9 million the year before.

The outlook for 1991 depends to a very large degree on the timing of a general recovery in the economy. If the recession should last through the year, our earnings could be eroded. On the other hand, a recovery before the vital fourth quarter could lead to earnings growth.

Notable Events

a) Markborough Spin-Off

Following approval at a special meeting of its shareholders, Hudson's Bay Company distributed its 100% interest in Markborough Properties Inc. to Hudson's Bay common shareholders on a one-for-one basis. The spin-off was effective August 1, 1990 and the cost base of the pre-distribution Hudson's Bay Company common shares can be allocated for tax purposes 67.2% to new Hudson's Bay Company common and 32.8% to Markborough common.

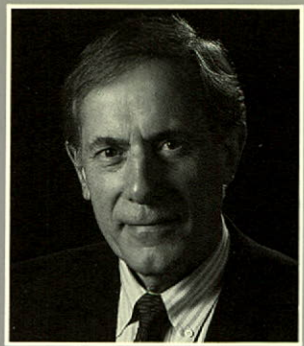
Your directors believe the spin-off is of benefit both to the Company and its shareholders; it has lowered Hudson's Bay Company's debt-to-equity ratio and, accordingly, should reduce the cost of raising funds, as Hudson's Bay Company's balance sheet will not be affected by the financing of Markborough's ongoing real estate development program.

In addition, the directors believe that the spin-off, by allowing the market to value each company against criteria related to its own industry, has created value for shareholders.

b) Towers Acquisition

Your Company purchased Towers Department Stores Inc. effective November 4, 1990, from The Oshawa Group Limited at a total cost of $181.5 million. Towers, which was merged with Zellers on February 1, 1991, operated

Newly renovated Avon Galleries, Simpsons Queen Street store, Toronto



George Kosich

STEERING THROUGH THE RECESSION

In last year's Annual Report, I noted that in the retail industry the better companies are pulling away from the pack at an increasing rate. In fiscal 1990, Hudson's Bay Company gained substantial department store market share in its existing operations.

We will continue our aggressive approach to profitable market share growth using both our proven strategies and new approaches where appropriate.

To continue "to pull away from the pack" during 1991 we will:

- **Extend our Business Development and Achievement program by adding an additional element called "Innovative and Creative Sales & Profit Development";**
- **Enhance the distinct identity of each of our Companies;**
- **Develop programs to emphasize our image of good quality and low price;**
- **Strive to improve customer service, both in quality and in understanding of customer needs;**
- **Continue to improve the quality and productivity of management;**
- **Close, re-utilize or dispose of under-performing assets;**
- **Continue to use realistic, economically-justified capital funds to build profitable new stores and to renew existing stores;**
- **Become much more flexible in our use of working capital for inventories to exploit in-season merchandise opportunities.**
- **Develop new and innovative businesses and new formats within existing franchises.**

Canada's economic outlook for this year is not encouraging and Ontario, our largest market, will probably be the most severely affected by the current recession. We anticipate that the recession will hinder sales generation.

Sales will be affected by:

- **A major drop in consumer confidence coupled with a continuing urge to save money;**
- **Cross-border shopping;**
- **Reduced consumer disposable income, largely as a result of increased municipal, provincial and federal taxes;**
- **Changed buying habits and lower personal consumption;**
- **Slower growth of credit card sales because of record consumer debt;**
- **Industrial downsizing and closings caused by the recession and the effects of free trade.**

Despite a poorer sales outlook, we expect continued growth in our earnings. Hudson's Bay Company intends to rely on the strength of its profit-model planning and the strategic directions already established in each of its operating Companies to minimize the effects of the recession.

Currently, only Zellers is achieving its profit model target. This Company's future lies in the continued expansion of its low-expense-base operation which allows it to offer more value through low prices.

Both the Bay and Fields require more spread between the gross profit rate and the expense rate and both Companies have focussed their operating strategies on this goal.

Simpsons requires the greatest effort to achieve its profit-model target. The Company is concentrating on reducing its markdowns, its stock shortages and its sales promotion expenses.

Profit models provide minimum targets for each Company. In a difficult business climate, a slight shortfall may be acceptable; but, equally, in a strong economic climate, overachievement should be expected.

George Kosich

51 discount department stores in Eastern Canada.

The purchase accelerates the expansion program of Zellers. It will also enable Zellers to reduce its expense rate by spreading its overhead, procurement and advertising costs over a broader base. (For further details on Towers, see inset.)

1990 Results

The Company recorded earnings of $163.3 million in 1990 compared with earnings of $168.2 million the year before. Earnings per common share declined to $3.34 from $3.64 but are not comparable because of a 34% increase in the average number of common shares outstanding and a decrease in outstanding preferred shares.

The 1990 earnings include $5.1 million from Markborough for the six months prior to the spin-off while Markborough contributed $24.3 million to earnings in 1989. The 1990 results also include $59.8 million in prior years' tax loss recoveries as against $46.3 million the year before.

After eliminating these two items, earnings from HBC Retail were $98.3 million in 1990, marginally ahead of the $97.6 million in 1989.

Earnings of HBC Retail before interest and taxes at $317.6 million were up by $2.5 million from the year before. Zellers, which continued to build market share with everyday low prices, Club Z, and an aggressive expansion program achieved a $21.1 million increase in operating profit to $200.6 million. Simpsons, with operations confined to the Toronto market, was hurt by the severe downturn in the Ontario economy, by higher provincial taxes and by substantial costs related to store modernization and expansion. Its operating profit declined by $11.9 million to $2.6 million. Operating profit at the Bay at $119.5 million was up $4.6 million as declines in Ontario were more than offset by gains in other regions. The recession tightened its grip as the year progressed with sales increases

TOWERS - AN EXCELLENT FIT

Towers Department Stores Inc., purchased by Zellers in November, 1990 from the Oshawa Group Limited, operated 51 discount department stores, of which one has since been closed. Of the remaining 50 stores, 34 are in Ontario, ten in Quebec and six in the Maritimes (one of which has been transferred to the Bay).

Sales of Towers in 1990 were $551 million of which $171 million were for the account of Hudson's Bay.

The Towers stores will be renovated and relaunched as Zellers stores in the spring of 1991.

The average size of a Towers store at 80,000 sq. ft. is slightly larger than the average of 65,000 sq. ft. for Zellers. The Towers merchandise mix and pricing policies were very similar to those of Zellers and that should facilitate a smooth transition to the Zellers format.

declining from quarter to quarter. Fourth quarter earnings before interest and taxes of HBC Retail at $184.6 million were down by $10.3 million from the year before.

Towers had an operating profit of $2.4 million, post-acquisition, and this amount is included in other retail earnings in the financial statements.

Interest expense of HBC Retail at $155.2 million declined by $2.9 million from the year before. Average debt was lower, principally because of the rights issue in December 1989, but this factor was partially offset by an increase in the average interest rate.

In accordance with a recent change in accounting rules, the financial statements for 1990 show, under income taxes, a recovery of $59.8 million of prior years' tax losses as well as the current year's tax provision. Last year's statements, which showed a corresponding recovery of $46.3 million as an extraordinary item, have been restated to reflect the accounting change.

The recovery of tax losses, which were incurred in the early-1980's, is now complete and, as a result, the Company's net tax expense will increase to a more normal proportion of pre-tax earnings in 1991.

Financial

Total cash outflow for operating and investing activities and dividends amounted to $111.0 million. Cash flow from earnings was $203.2 million compared with $190.0 million last year. Cash required for investing activities amounted to $286.2 million of which $142.4 million related to the purchase of Towers.

The net outflow was financed mainly by an increase in debt of $95.4 million.

The debt:equity ratio at year-end was 1.1:1 and this compares favourably with the pre-Markborough spin-off ratio of 1.5:1 at the end of the previous year.

Subsequent to the year-end, your Company completed two transactions which will further strengthen its financial condition. Three million new common shares were sold on March 5, 1991 to an underwriting group for net proceeds of approximately $72.5 million and approximately 2,045,000 Series A Preferred shares were repurchased for approximately $42.5 million. With the recent decline in interest rates, the Series A shares, which carry an 8% nominal dividend rate (after tax) have become more expensive to service than debt.

Outlook for 1991

Canadian retail sales are expected to decline in 1991 as uncertainty characterizes the consumers' mood. Domestic issues and international issues will inhibit consumer confidence in 1991. Rising unemployment, combined with low wage increases, will result in a decline in total income. Lower interest and mortgage rates may help stimulate the depressed real estate market and ease other consumer debt servicing. Ontario is the key to a national recovery in retail sales. A worsening of unemployment there would result in sluggish retail sales for the year in Canada. The Company continues to refine its operating stance to protect earnings and take advantage of opportunities in a recessionary environment.

Appreciation

We have a talented and hardworking team of employees who are dedicated to the continued success of the Company. To them we express our grateful appreciation. We also extend a warm welcome into the Hudson's Bay family to approximately 5,800 Towers employees. And, finally, our thanks for the continued support of our customers, suppliers and shareholders.

On behalf of the Board

DONALD S. McGIVERIN,
Governor

GEORGE J. KOSICH,
President

March 21, 1991

Summary of Operations

By Division

Division	Results (in thousands of dollars)	This Year	Last Year
the Bay	Sales and revenue	**1,887,202**	1,859,096
	Operating Profit	**119,517**	114,926
	Assets employed	**948,796**	942,499
Simpsons	Sales and revenue	**434,875**	436,868
	Operating Profit	**2,569**	14,483
	Assets employed	**344,857**	327,163
Zellers	Sales and revenue	**2,329,872**	2,149,563
	Operating Profit	**200,583**	179,497
	Assets employed	**814,437**	756,638
FIELDS	Sales and revenue	**91,129**	89,754
	Operating Profit	**2,670**	3,444
	Assets employed	**21,408**	18,267

Division Profiles

The Bay operates 79 department stores from coast to coast in Canada. It competes aggressively in the broad mid range urban and suburban markets, with a strong franchise in the downtowns of major cities. It provides its customers with superior value by offering fashionable good quality merchandise at popular prices backed by traditional department store guarantees and services. The Bay promotes its own credit card and accepts the cards of the major banks and Simpsons.

Merchandise selection and procurement and sales promotion are centralized and combined with Simpsons. A number of service functions are integrated on a corporate basis to reduce costs and improve performance.

Bay stores are tailored by price level and fashion appeal to fit the communities in which they are located. They vary in size from 22,000 sq.ft. in Banff, Alberta to 668,000 sq. ft. in downtown Winnipeg with most suburban branches in the 120,000 to 160,000 sq. ft. range.

Retail Stores

(February 1, 1991)

	Stores	Square Feet (000's)
Nova Scotia	**3**	410
Quebec	**17**	2,655
Ontario	**25**	3,807
Manitoba	**4**	1,037
Saskatchewan	**3**	454
Alberta	**15**	1,977
British Columbia	**12**	2,040
	79	12,380

Simpsons aims to be the leading fashion department store in Canada's largest market, Toronto. Simpsons leads the customer in fashion direction, introducing new and exclusive merchandise on a regular basis. Simpsons targets principally the middle to high income consumer and attempts to provide its customers with a superior shopping experience. Simpsons markets its own credit card and accepts cards of the major banks and of the Bay. There are 14 Simpson stores in the Toronto market area. They are profiled by price level and fashion appeal to match their communities. The Toronto downtown store has 890,000 sq. ft. and the suburban branches average 153,000 sq. ft.

	Stores	Square Feet (000's)
Ontario	**14**	2,881

Zellers is the leading national chain of discount department stores. It targets the budget minded customer with the assurance of the lowest price. Excellent values are offered in both national and private brand merchandise and these are communicated aggressively with frequent advertising in both print and electronic media. Zellers is further distinguished by Club Z, its frequent buyer program. Zellers is able to compete successfully in its competitive retail segment by operating with a very low expense rate.

Zellers' stores are characterized by self service and central checkout. Zellers markets its own credit card and accepts those of the major banks. Merchandising and sales promotion are centrally directed. Zellers operates 265 stores across Canada mainly in shopping malls. The typical store is 65,000 sq. ft. in size.

	Stores	Square Feet (000's)
Newfoundland	**5**	258
Prince Edward Island	**4**	255
Nova Scotia	**16**	1,139
New Brunswick	**13**	785
Quebec	**53**	3,872
Ontario	**107**	7,580
Manitoba	**8**	561
Saskatchewan	**12**	672
Alberta	**23**	1,433
British Columbia	**24**	1,533
	265	18,088

Fields operates 132 discount family clothing stores in Western Canada, 123 under its own name and nine under the name PSS (Plus Sizes Plus Savings). Merchandise procurement, distribution and all support services are centralized in Vancouver, British Columbia. Stores range from 700 to 25,400 sq. ft., with a typical store in a freestanding unit or in a strip mall, averaging 7,300 sq. ft.

Fields provides its customers with outstanding values and the lowest prices in family clothing, footwear and household linens. The stores operate in a convenient, friendly, "no frills" environment in rural and urban neighbourhood markets.

	Stores	Square Feet (000's)
Saskatchewan	**3**	16
Alberta	**46**	313
British Columbia	**83**	640
	132	969

THE BAY

Bob Peter

"Our purpose is to create top-of-mind awareness of the Bay as the destination store for the broadest merchandise assortments, marketed through contemporary, fashionable environments, ease of shopping and backed by a 321 year-old performance guarantee."

Bob Peter

Operating profit in 1990 was $119.5 million, an increase of 4.0%, or $4.6 million over 1989.

Firm expense control was the major factor contributing to the improved results.

Sales and revenue rose 1.5% to $1.9 billion for the year. Sales growth slowed throughout the year as the recession deepened, particularly in Ontario and, to a lesser extent, in Quebec.

Three new stores opened during the year; in Langley, British Columbia and in Burlington and Markham, Ontario. The Bay continued its program of upgrading its downtown stores with major renovations in Vancouver, Ottawa and Victoria.

Renovation projects were also completed in several suburban locations. These projects included an expansion of the Surrey (Vancouver) store to provide additional space for fashion merchandise; renovations in our Southcentre (Calgary), Cloverdale (Toronto), Windsor and Pte. Claire (Montreal) stores. Customers continue to respond favourably to the contemporary environments we have created in the stores in recent years.

New stores are scheduled to open during 1991 in Burnaby (Vancouver), Rosemere (Montreal) and Bedford (Halifax) along with replacement stores in Edmonton Downtown and St. Laurent (Ottawa).

Langley (Vancouver)

Vancouver, downtown

Vancouver, downtown

SIMPSONS

Operating profit was $2.6 million, down from $14.5 million in 1989.

Results in 1990 were adversely affected by the recession in Ontario and increased operating costs, principally due to new provincial taxes.

Sales and revenue declined 0.5% to $434.9 million.

"We will combine the elements of assortment breadth, quality, fashionability, advanced store design and quality customer service to establish Simpsons as Toronto's premier department store."

Bob Peter

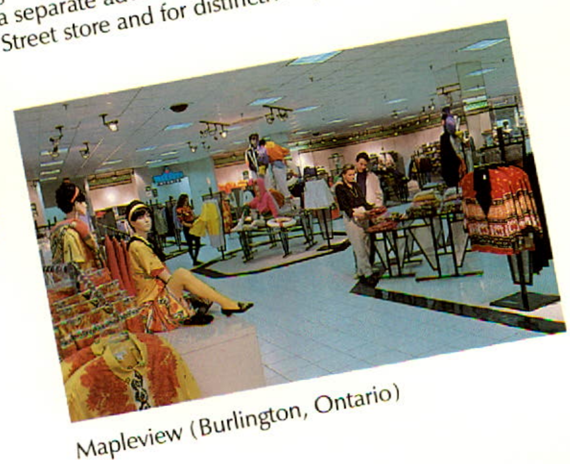
New stores were opened during the year in Burlington and Markham. In addition, major renovations continued in the downtown Queen Street store. We opened a fashionable new furniture floor on six, an expanded china, crystal and silver complex and television and electronic area on the fifth floor and refurbished a major portion of the second floor, housing men's clothing. Phase one of the Sherway store renovation project was completed, creating a contemporary environment for fashion merchandise.

In 1991, renovations will be completed in the Queen Street store with the opening of new premises for sporting goods and children's clothing and accessories. Phase two of the Sherway renovation project is also scheduled for completion.

Markville (Markham, Ontario)

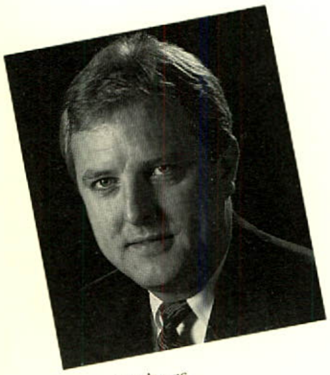
Introductory ad announcing the merger of promotional advertising of the Bay and Simpsons in the Toronto market. The program will give Simpsons greater exposure at lower cost. Simpsons will retain a separate advertising program for the Queen Street store and for distinctive upscale merchandise.

Markville (Markham, Ontario)



Mapleview (Burlington, Ontario)

ZELLERS



Paul Walters

"Our objective is to be the premier discount department store in Canada, as measured by market share and return on investment, and to consistently provide the customer with assurance of value through quality and lowest price."

Paul Walters

Operating profit increased 11.7% to $200.6 million in 1990, from $179.5 million in 1989.

Sales and revenue increased 8.4% to $2.3 billion, reflecting continued strong momentum and customer loyalty. Market share gains were substantial across Canada and in all merchandise groupings, particularly hardlines. In softlines, Zellers continues to be Canada's largest children's wear retailer in many areas.

In 1990, Zellers successfully opened seven new stores and plans to open another seven stores in 1991. In addition, 45 stores were renovated and modernized in 1990.

A major event in 1990 was the acquisition of the 51-store Towers/Bonimart chain which operated primarily in Ontario and Quebec. Strategically, Towers locations are a good fit for Zellers. They advance our expansion strategy significantly and strengthen our market position in the important Toronto area marketplace. Most stores are being re-fixtured and renovated to Zellers' standards. One store has been transferred to the Bay and four others may be sold or closed.

We expect further profit improvement in 1991. CLUB Z and Zellers credit card network will be extended and aggressively promoted in the new markets. The added volume and leverage provided by the Towers purchase should assist as Zellers strives to reinforce its position as the premier discount department store in Canada.

Greenfield Park (Montreal)

Greenfield Park (Montreal)

Janis Ostling

**"We offer basic and casual family clothing, footwear and selected home needs, at the lowest prices and best values.
We operate friendly, convenient, no frills stores in rural and neighbourhood urban markets."**

Janis Ostling

Operating profit in 1990 was $2.7 million, a decrease of $800,000 from 1989.

Sales increased 1.5% to $91.1 million in 1990. Strong sales growth in linens and household convenience items was offset by sales shortfalls in children's and boys' wear.

The gross profit rate declined as a result of increased markdowns and strong competitive pressures during the Fall of 1990. Expenses increased slightly, largely due to costs associated with operating additional stores.

The 1991 retail environment will be extremely competitive and exceptionally challenging. To meet this challenge, Fields will aggressively promote low prices and the Frequent Buyer's Club. This Club was introduced in the Fall of 1990 and provides a discount to frequent shoppers. Customer response has been very favourable.

During 1990, 10 Fields and four PSS (Plus Sizes Plus Savings) stores were opened and five Fields stores were closed. In addition, three stores were renovated and expanded during the year. Fields now operates 123 family clothing stores and nine PSS stores in the three Western Provinces, for a total of 132 stores.

During 1991, we plan to open a further four to eight Fields stores.

Aldergrove, B.C.

Management Discussion and Analysis

I. SIGNIFICANT EVENTS

a) Markborough Distribution

After nearly 17 years as a subsidiary of Hudson's Bay Company, Markborough Properties Inc. was spun off to shareholders in August, 1990. Shareholders received, at no cost, one common share of Markborough for each common share of Hudson's Bay Company.

Consequently, Hudson's Bay Company's operations were focused exclusively on retailing during the second half of 1990 and real estate activities ceased to be significant.

Information relating to Markborough has been segregated as far as is possible and detailed presentation and analysis of this information has been reduced to a minimum. Because 1990 contains only six months of Markborough operations, comparisons of overall Hudson's Bay Company 1990 results with those of 1989 are not meaningful and are, in any event, of no use in assessing the future prospects of Hudson's Bay Company.

b) Towers Acquisition

On November 4, 1990 the Company purchased all the outstanding shares of Towers Department Stores Inc., a discount department store chain operating 51 stores in Ontario, Quebec and the Maritimes. The intention is to convert these stores to Zellers units in time for a grand re-opening in April, 1991. Since acquisition, the emphasis has been on preparing for the conversion and Zellers' management has taken full responsibility for the operation of Towers effective February 1991. For these reasons Towers Department Stores Inc. and Zellers Inc. were amalgamated on February 1, 1991 and results of the former Towers stores will be included with those of Zellers from that date. It is anticipated that a few of these stores, where there is duplication with existing Zellers stores, will be closed or disposed of early in 1991.

Results of Towers Department Stores Inc. from date of acquisition have been included in the 1990 financial statements in Other Sales and Revenue in the amount of $170.8 million and in Other Earnings in the amount of $2.4 million. In the Company's opinion, these results do not indicate anticipated performance during 1991 and are therefore not included in this analysis. Incremental interest expense resulting from the acquisition amounting to approximately $3.7 million has not been segregated.

II. OPERATIONS

a) Retail Environment - 1990

Total Department Store Type Merchandise (DSTM) spending in Canada increased 2.0% in 1990 over 1989. This was the weakest annual growth since 1982. Department store sales were reported to be ahead by 2.3%, although more than half this increase was the result of a reclassification of stores.

DSTM growth fluctuated widely in 1990. The year began strongly as consumers increased spending by 6.4% in the first quarter. However, as the summer and fall progressed, consumer confidence was eroded by deteriorating economic conditions combined with such factors as employment uncertainty, weak real estate markets, failure of Meech Lake, and the worsening Middle East situation. As a result, the rate of increase of DSTM spending declined consistently from April onwards as the country slipped into a recession.

The year ended with a strong December as pre-Goods and Services Tax (GST) buying helped to stimulate retail activity in the last two weeks of the calendar year but January spending, influenced by the introduction of the GST, was down sharply.

Sales performance was inconsistent between merchandise categories. Basic fashion and home needs outperformed both big ticket items and discretionary fashions. A severely weakened housing market resulted in poor sales of furniture, appliances and floor coverings. In a lacklustre personal fashion year, women's and juvenile apparel outperformed menswear.

British Columbia, Alberta and the Maritimes outpaced retail growth in the rest of Canada. Rising unemployment reduced consumer purchasing power, notably in Ontario and Quebec.

In 1989, DSTM spending increased by 5.9% and department store sales were ahead by 3.7%. However, spending in the second half of the year was weak, especially in big ticket durables.

b) Retail Risk Factors

The four elements which combine to produce retail profits are sales, gross margins, operating expenses and interest expense. The following table shows the principal external and internal risk factors which affect these elements.

Retail Risk Factors

	External	Internal
Sales	Recession Competition Inflation	Store Openings and Closings Development & Execution of Marketing Strategies
Margins	Competition	Buying/Pricing Control of Inventories Stock Shortages
Operating Expenses	Inflation Bad Debts Taxes and Levies	Occupancy Costs Payroll Promotion
Interest	Rates	Amount of Debt

These elements interact and an action taken to stimulate one element often results in an unwanted effect on other elements. For example, store openings will stimulate sales but will also increase occupancy and interest expense. Additional advertising may increase sales but will certainly raise promotion costs. Cutting selling staff will reduce payroll expense but may also reduce sales and increase stock shortages. Management's responsiblity is to achieve an appropriate balance among the factors of risk.

c) Earnings

Earnings, including Markborough, were $163 million in 1990 compared with $168 million and $22 million for the previous two years. These figures require analysis before they can be used to assess the year's performance.

Earnings Analysis (in millions of dollars)

	1990	1989	1988
Comparable Operations:			
Operating profits of major retail divisions (see below)	**325**	312	233
Other net revenues (expenses)	**(8)**	3	(5)
	317	315	228
Interest expense	**(155)**	(158)	(171)
	162	157	57
Income tax on current earnings	**(64)**	(59)	(20)
Comparable Net Earnings	**98**	98	37
Major Non-comparable Items:			
Recovery of prior years' tax losses	**60**	46	–
Loss on bankruptcy of secured debtor	**–**	–	(27)
Total HBC Retail – net earnings	**158**	144	10
Markborough earnings after interest and taxes	**5**	24	12
Total net earnings	**163**	168	22
Total Net Earnings per Common Share	**$3.46**	$4.37	$0.16

As shown, after non-comparable amounts are excluded, net earnings were $98 million in 1990, unchanged from 1989 and $61 million ahead of 1988.

Earnings per common share figures are not comparable because of a 34% increase in the average number of common shares outstanding and a decrease in outstanding preferred shares in the fall of 1989.

Significant losses were incurred by the Company in the years 1982 to 1985 for which corresponding tax credits could not be recorded in those years because, at the time, it was not certain that the losses could be recovered before their expiry dates. With the return to profitability, credit for these prior year losses has now been recorded, $60 million in 1990 and $46 million in 1989. There are no remaining losses to be credited in future years.

The Company completed its strategy of disposing of non-core businesses with the disposal in mid-1989 of its fur sales operation in the United States at a loss which is still not fully determined. Management believes that the $27 million after tax provision for losses set up in 1988 as a result of the bankruptcy of Red Carpet Distribution Inc. will be sufficient to cover ultimate losses relating to both Red Carpet and the sale of the U.S. fur operation.

d) Operating Profits

Operating profits, in millions of dollars, of the four major retail divisions for the past ten years are:

Operating Profits by Division (in millions of dollars)

	The Bay	Simpsons	Zellers	Fields	Combined
1990	**119**	**3**	**200**	**3**	**325**
1989	115	14	180	3	312
1988	70	19	142	2	233
1987	64	17	93	1	175
1986	83	6	64	3	156
1985	26	13	51	1	91
1984	10	(51)	40	3	2
1983	29	(29)	47	5	52
1982	10	(34)	31	3	10
1981	38	(11)	43	2	72

In 1989 we reported a five-year trend of recovery. We are pleased to report that this trend continued through 1990, with a 4.2% improvement over 1989, despite a downturn in the economy in which the retail industry generally was adversely affected.

Factors that determine operating profits are:
i) sales and revenue
ii) gross profit rate
iii) expense rate

i) Sales and Revenue

Total sales and revenue increased 8.0% in 1990 to $5.0 billion, including $170.8 million from Towers in the last quarter. Excluding Towers, sales and revenue were up 4.2%. Zellers, propelled by vigorous promotion of everyday low prices and Club Z, rose 8.4%. The Bay achieved a 1.5% increase. Simpsons, hurt by the economic downturn in Ontario and major renovations in two stores, slipped 0.5%. Overall same-store sales were up 1.6%. Inflation in the general merchandise sector was estimated at 4.8%.

The table below shows how sales momentum for the four major divisions slowed during the year as the recession worsened. The table also demonstrates the importance of the fourth quarter to a retail company. Fourth quarter sales for these divisions comprised 33% of annual sales in 1990. As expenses are spread more evenly through the year, the effect is that a disproportionate share of operating profit is earned in the fourth quarter (average 63% for the past three years for the four divisions).

Sales and Revenue by Quarter, 1990 (in millions of dollars)

	1st Quarter	% inc.	2nd Quarter	% inc.	3rd Quarter	% inc.	4th Quarter	% inc.	Total	% inc.
The Bay	383.6	4.2	423.7	2.1	457.6	2.0	622.3	(0.8)	1,887.2	1.5
Simpsons	91.8	3.3	97.1	(0.3)	101.9	–	144.1	(3.1)	434.9	(0.5)
Zellers	483.4	14.2	532.1	9.9	559.5	8.6	754.9	3.9	2,329.9	8.4
Fields	19.6	8.3	20.9	4.2	23.0	–	27.6	(3.5)	91.1	1.5

Economic conditions usually vary by regions across Canada. In 1990, the provinces of Ontario and Quebec were hardest hit by the recession. The table on the following page shows the percentage of sales of the four retail divisions derived from each of the four regions of Canada for the last three years.

% of Sales	1990	1989	1988
Maritimes	**7.4**	7.5	7.5
Quebec	**20.1**	20.0	21.1
Ontario	**40.2**	40.4	39.1
Western Canada	**32.3**	32.1	32.3
	100.0	100.0	100.0

In 1989 sales and revenue were up 2.1%. However, in the important fourth quarter, sales were ahead 4.6%. Zellers achieved a 6.9% increase. The Bay and Simpsons combined had a 1.6% sales decline, the main factors being the closing of Simpsons Montreal downtown store and the elimination of a number of low-margin sales events.

ii) Gross Profit Rate

The overall gross profit rate for HBC Retail (excluding Towers) deteriorated slightly in 1990: both the Bay and Zellers were down and Simpsons was unchanged from last year.

Both the Bay and Simpsons achieved improved initial markups. Zellers' markup was lower than last year due to its low price leadership strategy. All three divisions had higher markdowns in the fourth quarter and a worsening of stock shortages, particularly in the Toronto market area.

In 1989 the overall gross profit rate improved marginally. Actions by the Bay and Simpsons to reduce promotions of low-margin merchandise had an upward effect on the rate. Zellers' rate was unchanged.

iii) Expense Rate

The overall expense rate for HBC Retail (excluding Towers) in 1990 was virtually unchanged from the year before. Both Zellers and the Bay achieved reductions in expense rates due principally to tight control in every area. The expense rate was higher at Simpsons because of the decline in sales, higher taxes and the additional costs of operating two new stores.

The expense rate in 1989 was substantially lower than the year before principally due to the merger of the Bay and Simpsons in Montreal and to strong control in all divisions.

e) Interest Expense

Interest expense of HBC Retail at $155.2 million declined by $2.9 million from the year before. Average debt was lower by approximately $130 million principally because of the rights issue in December 1989, but this factor was partially offset by an increase in the average interest rate from 10.9% in 1989 to 11.7% in 1990.

III. RETAIL PROPERTIES

The number and aggregate gross areas of Hudson's Bay Company's retail stores, by division, at January 31, 1991 were:

	Stores	000's Sq. Ft.
The Bay	79	12,380
Simpsons	14	2,881
Zellers (including Towers)	265	18,088
Fields	132	969
	490	34,318

In addition, the Company operated 12 distribution centres totalling 3,930,000 sq. ft. and 12 clearance centres totalling 366,000 sq. ft.

The Company owns the land and buildings of nine downtown Bay stores, 12 Zellers stores and three suburban Simpsons stores. As well, the Company owns the Simpsons downtown Toronto store building and approximately 60% of the related land and the buildings (on leased land) of 11 suburban Bay stores and two suburban Simpsons stores.

The remaining stores are generally held under long-term leases.

IV. FINANCIAL CONDITION

a) Cash Flow, Funding and Capital Spending

Cash inflow from retail operating activities amounted to $219 million in 1990 compared with $234 million in 1989 and $148 million in 1988. The $142 million outflow for the Towers acquisition contributed to the large net cash outflow in 1990.

Projected capital spending over the next three years averages $145 million per annum. The Company plans continued expansion of Zellers together with the opening of two new Bay stores in 1991. The Bay, Simpsons and Zellers will also renovate existing stores to ensure they remain attractive and adequately convey the appropriate marketing message.

The Company is committed to continuing its expansion in areas where there are appropriate marketing opportunities. The Company's improved financial ratios will enable this program to be financed at reasonable cost.

The following table shows cash flow and funding in the retail business for the past three years.

Cash Flow and Funding (in millions of dollars)

	1990	1989	1988
From earnings	**203**	190	104
Working capital change	**16**	44	44
From Operating Activities	**219**	234	148
Towers acquisition	**(142)**	–	–
Capital expenditures	**(120)**	(92)	(36)
Cash flow from dispositions	**–**	36	–
Dividends	**(44)**	(43)	(45)
Other	**(24)**	(4)	17
Net Cash (Outflow) Inflow	**(111)**	131	84
Funding:			
Debt	**95**	(282)	(89)
Equity	**16**	151	5
	111	(131)	(84)

b) Assets Employed and Liquidity

The objectives of the Company with respect to financing are:
– to maintain a debt/equity ratio which allows access to capital markets at all times;
– to maintain a level of leverage appropriate to the retail industry to generate superior returns for shareholders;
– to maintain a mix of debt which will provide adequate liquidity at the lowest cost of capital.

The following summary shows the assets employed at each operating division and shareholders' equity for the last three years.

Assets Employed, Debt and Shareholders' Equity (in millions of dollars)

	1990	1989	1988
Assets Employed			
The Bay	**949**	943	970
Simpsons	**345**	327	332
Zellers	**814**	757	703
Fields	**21**	18	18
Other	**272**	153	207
HBC Retail	**2,401**	2,198	2,230
Markborough	–	1,088	741
	2,401	3,286	2,971
Provided from:			
HBC Retail			
Debt	**1,243**	1,147	1,441
Deferred tax	**(14)**	6	(2)
Equity			
Preferred	**98**	104	344
Common	**1,074**	941	447
	2,401	2,198	2,230
Markborough			
Debt	–	813	499
Equity	–	275	242
	2,401	3,286	2,971
Debt:Equity Ratio			
Excluding Markborough	**1.1:1**	1.1:1	1.8:1
Including Markborough	**n/a**	1.5:1	1.8:1

Although debt related to retail operations increased in 1990, the Markborough spin-off relieved the Company of a substantial load of debt. At 1.1:1 the Company's debt/equity ratio is well within an acceptable range for the retail industry.

c) Debt

Debt at the 1990 year-end was $1,243 million, of which $593 million was long term and $650 million was short term. Principal sources of short-term borrowing in 1990 were commercial paper, Schedule 'A' banks (by way of banker's acceptances and overdrafts) and Schedule 'B' banks. Seasonal upswings in merchandise inventory are financed by short-term debt. The Company negotiates lines of credit annually with a number of Canadian banks. Management expects to be able to negotiate lines of credit sufficient to meet its requirements in 1991. Long-term debt coming due in 1991 (including $100 million due in 1993 but redeemable at the holders' discretion in 1991) amounts to $297 million, of which $155 million has been refinanced to date. Management is confident it will be able to refinance the remainder and raise any additional long-term funds required.

After the release of the 1989 operating results for the Company, the rating by DBRS on Hudson's Bay Company and Hudson's Bay Company Acceptance Limited commercial paper improved to R1(low) from R2(mid). This improvement enabled the Company to borrow, through the commercial paper market, amounts up to an authorized limit of $525 million. Therefore, commercial paper was the primary source of short-term funding for much of 1990.

Foreign exchange and floating interest rate risks are limited by hedges, swaps and caps under guidelines established and reviewed periodically by the Board.

Debt at 1990 year-end comprised $555 million at fixed rates and $688 million at nominal floating rates. However, rates on $481 million of nominal floating rate debt have been fixed at 11.7% through various currency forward rate agreements and interest exchange transactions. The balance has been capped at 12.6% LIBOR through various U.S. dollar interest rate agreements. Debt subject to foreign exchange risk amounts to $65 million representing the Canadian dollar equivalent of unhedged U.S. dollar obligations.

Subsequent to year-end, the Company raised $72.5 million in new equity capital by the sale of 3,000,000 common shares to an underwriting group. $42.5 million of the proceeds was used to purchase for cancellation approximately 2,045,000 preferred shares, Series A, and the balance was used to reduce debt.

d) Asset Protection

The many programs which are in effect to protect the assets of the Company from loss and from liability claims from third parties are backed by insurance contracts to cover major losses.

The amount of self-insured risk assumed by the Company is reviewed periodically by the Board of Directors.

e) Dividends

The Company has been paying annual dividends at the rate of $0.80 per share on the common shares since April 30, 1990. This reflects the recent improvement in results. Historically, the annual dividend was increased from $0.60 in the mid-1970's to $1.20 in 1980/81 and then, because of poor results, was reduced to $0.60 and maintained at that level until 1990.

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Consolidated Statements Of Earnings

	Year Ended January 31, 1991	1990
	$000's	$000's
HBC Retail - Sales and Revenue		
The Bay	**1,887,202**	1,859,096
Simpsons	**434,875**	436,868
Zellers	**2,329,872**	2,149,563
Fields	**91,129**	89,754
Other (Note 3)	**226,900**	68,392
HBC Retail - Sales and Revenue	**4,969,978**	4,603,673
Markborough - revenue (Note 2)	**71,755**	167,655
Consolidated - sales and revenue	**5,041,733**	4,771,328
HBC Retail - Source of Earnings (Note 5)		
Operating profit:		
The Bay	**119,517**	114,926
Simpsons	**2,569**	14,483
Zellers	**200,583**	179,497
Fields	**2,670**	3,444
Other	**(7,701)**	2,813
Earnings Before Interest and Income Taxes	**317,638**	315,163
Interest Expense (Note 6)	**(155,246)**	(158,190)
Earnings Before Income Taxes	**162,392**	156,973
Income Taxes (Note 7)		
Current year's provision	**(64,063)**	(59,390)
Recovery of prior years' tax losses	**59,805**	46,281
HBC Retail - Net Earnings	**158,134**	143,864
Markborough - net earnings (Note 2)	**5,148**	24,325
Consolidated - net earnings	**163,282**	168,189
Earnings Per Common Share		
HBC Retail (Note 9)	**$ 3.34**	$ 3.64
Markborough	**$ 0.12**	$ 0.73
Consolidated	**$ 3.46**	$ 4.37

Consolidated Statements Of Retained Earnings

	Year Ended January 31, 1991	1990
	$000's	$000's
Retained Earnings at Beginning of Year	**365,793**	266,956
HBC Retail - Net Earnings	**158,134**	143,864
Markborough - net earnings	**5,148**	24,325
Dividends Paid		
Preferred shareholders - cash	**(7,855)**	(22,029)
Common shareholders:		
Cash	**(35,987)**	(20,792)
Markborough distribution (Note 2)	**(287,623)**	-
Reduction of Stated Capital of Special Shares (Note 16)	**152,534**	-
Redemption and Cancellation of Preferred Shares (Note 16)	**-**	(26,531)
Retained Earnings at End of Year	**350,144**	365,793

Consolidated Balance Sheets

	1991	January 31, 1990
	$000's	$000's
Current Assets		
Cash	**7,128**	5,017
Short-term deposits (Note 15)	**12,201**	18,259
Customer accounts receivable	**891,678**	873,753
Other accounts receivable	**218,528**	129,905
Merchandise inventories	**955,095**	942,259
Prepaid expenses	**32,469**	23,736
	2,117,099	1,992,929
Secured Receivables (Note 10)	**13,879**	25,050
Investments (Note 11)	**53,615**	37,387
Fixed Assets (Note 12)	**624,904**	537,600
Deferred Charges	**57,408**	6,722
Goodwill (Note 13)	**96,073**	62,222
Pensions (Note 14)	**123,277**	97,984
Deferred Income Taxes	**14,034**	-
	3,100,289	2,759,894
Current Liabilities		
Short-term borrowings (Note 15)	**405,151**	257,749
Trade accounts payable	**309,231**	281,506
Other accounts payable and accrued expenses	**323,817**	238,103
Income taxes payable	**785**	49
Long-term debt due within one year (Note 15)	**296,597**	38,652
	1,335,581	816,059
Long-Term Debt (Note 15)	**592,661**	893,080
Deferred Income Taxes	**-**	5,531
Shareholders' Equity		
Capital (Note 16)	**821,903**	958,813
Retained earnings	**350,144**	365,793
Equity investment in Markborough (Note 2)	**-**	(279,382)
	1,172,047	1,045,224
	3,100,289	2,759,894

On behalf of the Board:

Director

Marcel Bélanger

Director

Consolidated Statements Of Cash Flow And Funding

	Year Ended January 31, 1991	1990
	$000's	$000's
HBC Retail - Operating Activities		
Earnings before income taxes	**162,392**	156,973
Current income tax expense	**(5,274)**	(3,662)
Items not affecting cash flow:		
Amortization	**69,679**	62,824
Pension credits	**(23,570)**	(26,130)
Cash inflow from earnings	**203,227**	190,005
Net effect of changes in operating working capital (Note 17)	**15,772**	44,076
Net cash inflow from operating activities	**218,999**	234,081
HBC Retail - Investing Activities		
Capital expenditures	**(120,409)**	(92,305)
Acquisition of Towers Department Stores Inc. (Note 3)	**(142,432)**	-
Disposition of non-core businesses	**-**	35,784
Other	**(23,369)**	(4,235)
Net cash outflow for investing activities	**(286,210)**	(60,756)
HBC Retail - Dividends		
Preferred shareholders	**(7,855)**	(22,029)
Common shareholders	**(35,987)**	(20,792)
Cash outflow for dividends	**(43,842)**	(42,821)
HBC Retail - Net Cash Inflow from (Outflow for) Activities and Dividends	**(111,053)**	130,504
Markborough - net cash outflow	**(187,107)**	(313,710)
Consolidated - net cash outflow for activities and dividends	**(298,160)**	(183,206)
HBC Retail - Funding		
Debt:		
Long-term:		
Increase	**97,500**	114,507
Reduction	**(387,536)**	(211,929)
Increase (reduction) in net short-term debt	**385,483**	(184,229)
	95,447	(281,651)
Equity:		
Preferred shares	**(4,642)**	(268,805)
Common shares	**20,248**	419,952
	15,606	151,147
HBC Retail - Net Cash Inflow from (Outflow to Reduce) Funding	**111,053**	(130,504)
Markborough debt	**187,107**	313,710
Consolidated - net cash inflow from funding	**298,160**	183,206

Notes to the Consolidated Financial Statements

Years Ended January 31, 1991 and January 31, 1990

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 as follows:

a) Consolidation

These consolidated financial statements include the accounts of Hudson's Bay Company and of all its subsidiary companies. 'HBC Retail' denotes Hudson's Bay Company and its consolidated subsidiaries, excluding Markborough Properties Inc. ('Markborough'), which was a wholly owned subsidiary of the Company prior to its distribution effective August 1, 1990 (see note 2).

In order to provide meaningful comparative information in view of the distribution of Markborough, individual consolidated financial statements include HBC Retail figures on a line-by-line basis, with pre-distribution Markborough figures shown by the equity accounting method (see note 2) supplemented by summaries and analyses in note 20.

b) Foreign currency translation

Foreign currency assets and liabilities are translated into Canadian dollars at the exchange rates prevailing at the balance sheet dates and foreign currency earnings are translated into Canadian dollars at approximately the exchange rates in effect at the time they are earned.

c) Earnings per common share

Earnings per common share are determined after deducting preferred dividends paid and accrued during the year and are based on the weighted average number of common shares outstanding during the year (see note 9).

d) Customer accounts receivable

In accordance with recognized retail industry practice, customer accounts receivable included in current assets in the Consolidated Balance Sheets include instalment accounts of which a portion will not become due within one year.

e) Merchandise inventories

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

f) Capitalization of interest

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

g) Investments

Portfolio investments comprising fixed term securities are carried at cost with discounts or premiums arising on purchase amortized to maturity. Other investments are carried at the lower of cost and estimated realizable value with dividends being reflected in earnings when received.

h) Fixed assets

Fixed assets are carried at cost. The cost of buildings (excluding the office tower noted below), equipment and leasehold improvements in service is amortized on the straight-line method over their estimated useful lives. The amortization periods applicable to the various classes of assets are as follows:

Buildings	20 - 50	years
Equipment	5 - 12½	years
Leasehold improvements	10 - 40	years

Buildings include an office tower which is being amortized on the sinking fund method at a rate of 3% over a 40 year period.

i) Deferred charges

Deferred charges include debt discount and expense, costs associated with certain currency and interest hedging transactions and unamortized exchange gains and losses on foreign currency long-term debt 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 Statements of Earnings.

Deferred charges also include long-term prepaid rent, which is amortized on the straight-line method over periods of up to 15 years.

j) 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 Towers Department Stores Inc. (see note 3), at their respective dates of acquisition, and is amortized on the straight-line method over periods of 40 years and 20 years, respectively.

k) Pension costs

The costs of pension plans are calculated under the accrued benefit method and are charged to earnings as incurred. The excess of the value of pension plan assets over the actuarial present value of accrued pension plan obligations as of February 1, 1986, together with adjustments arising from plan amendments, experience gains and losses and changes in actuarial assumptions since that date, are amortized to earnings over the expected average remaining service lives of the respective employee groups (see note 14).

l) Comparative figures

Last year's comparative figures have been reclassified where appropriate to conform with this year's presentation (see notes 2 and 7).

2. MARKBOROUGH DISTRIBUTION

On August 1, 1990, in accordance with an Arrangement approved by ordinary shareholders of the Company at a special meeting held on July 26, 1990, the Company distributed its investment in Markborough, which until that date had been a wholly owned subsidiary, to the holders of its ordinary shares. The Arrangement resulted in holders of ordinary shares receiving, at no cost to themselves, one Markborough common share for each of the Company's ordinary shares, now redesignated "common shares" (see note 16), held by them.

Markborough's revenue and earnings to July 31, 1990 have been shown separately in the Consolidated Statements of Earnings. Markborough's assets and liabilities have been included in the Consolidated Balance Sheet at January 31, 1990 by applying the equity method and, in order to provide a meaningful year to year comparison of Shareholders' Equity for HBC Retail, the carrying value of Markborough's net assets has been shown as a deduction in the equity section.

The amount of $287,623,000, appearing in the Consolidated Statement of Retained Earnings as the amount distributed, represents the net carrying cost of the Company's investment in Markborough immediately preceding the distribution plus costs of approximately $2,500,000 incurred in implementing the Arrangement.

Supplementary information relating to Markborough is disclosed in note 20.

3. ACQUISITION OF TOWERS DEPARTMENT STORES INC. ("TOWERS")

Effective November 4, 1990, under the terms of an agreement dated October 21, 1990, the Company acquired 1,000 common shares of Towers, representing all of the outstanding shares. At the time of the acquisition Towers operated 51 promotional department stores, of which 46 are in the process of being converted to Zellers stores, four may be closed or disposed of and one is being converted to a Bay store. The total cost of acquisition, including cash payments to the former owners, professional fees, employee terminations and disposal costs of stores, offices, contracts, assets and computer systems, amounts to $181,524,000. Of this amount, $39,092,000 had not been paid as of January 31, 1991, resulting in a cash outflow of $142,432,000 for the acquisition in the three month period then ended.

This transaction has been accounted for by the purchase method. The assets, liabilities and operating results of Towers have been consolidated from November 4, 1990. Sales and operating profit of Towers since acquisition amounting to $170,788,000 and $2,378,000, respectively, are included in 'other' in the Consolidated Statement of Earnings.

The cost of acquisition has been allocated as follows:

	$000's
Merchandise inventories	133,026
Other current assets	18,810
Current liabilities	(87,416)
Fixed assets	24,232
Deferred charges (prepaid rent)	39,363
Goodwill	36,366
Deferred income taxes	17,143
	181,524

Goodwill is being amortized on the straight-line method over a period of 20 years.

4. SEGMENTED INFORMATION

With the distribution of Markborough as of August 1, 1990 (see note 2), retailing became the dominant industry segment. Retailing comprises Canadian retail stores, which include full-line and promotional department stores, and until their disposal as of June 30, 1989, United States fur auction operations (see note 8). Prior to its distribution, Markborough represented substantially all of the real estate industry segment. This segment participated in two areas of the real estate industry: the development, ownership and management of income properties and the development of land for future residential, retail, office and industrial uses.

5. AMORTIZATION

In the Consolidated Statements of Earnings, amortization of HBC Retail fixed assets, deferred charges and goodwill is included as follows:

	Year Ended January 31, 1991	1990
	$000's	$000's
Deducted in arriving at earnings before interest and income taxes	**62,927**	56,988
Included in interest expense (amortization of deferred charges (see note 1 i))	**6,752**	5,836
	69,679	62,824

6. INTEREST EXPENSE

HBC Retail interest expense may be analyzed as follows:

	Year Ended January 31, 1991	1990
	$000's	$000's
On long-term debt	**104,670**	114,297
On net short-term debt (see note 15)	**54,938**	49,343
	159,608	163,640
Less amount capitalized (see note 1 f)	**(4,362)**	(5,450)
HBC Retail interest expense	**155,246**	158,190

7. INCOME TAXES

The HBC Retail average statutory Canadian income tax rate for both of the years ended January 31, 1991 and 1990 was 42.2%. The following schedule reconciles nominal tax provisions for HBC Retail at this rate with the amounts provided in the Consolidated Statements of Earnings.

	Year Ended January 31, 1991	1990
	$000's	$000's
HBC Retail earnings before income taxes	**162,392**	156,973
HBC Retail nominal income tax provisions at statutory Canadian income tax rates	**68,529**	66,243
Increase (decrease) in HBC Retail income taxes resulting from:		
Large corporations tax	**4,127**	2,153
Tax rates in other jurisdictions	**(4,697)**	(6,362)
Capital gains and losses	**(5,952)**	(638)
Adjustments to prior years' taxes	**(1,603)**	(912)
Non deductible costs (non taxable credits)	**3,659**	(1,094)
Provisions for HBC Retail income taxes per Consolidated Statements of Earnings	**64,063**	59,390

Since July 1, 1989 the Company has been subject to large corporations tax, which for HBC Retail for the years ended January 31, 1991 and 1990 amounted to 2.5% and 1.4%, respectively, of earnings before income taxes.

In the year ended January 31, 1991 the Company realized previously unrecorded tax benefits relating to losses incurred in prior years in the amount of $59,805,000. The corresponding amount in the year ended January 31, 1990 was $46,281,000 which was classified as an extraordinary item under generally accepted accounting principles at that time. This amount has been reclassified to conform with revised accounting standards recently issued by the Canadian Institute of Chartered Accountants. At January 31, 1991 there are no remaining unrecorded tax loss benefits.

8. DISPOSITION OF NON-CORE BUSINESSES

Effective June 30, 1989 the Company completed its strategy of disposing of non-core businesses with the disposal of its fur auction operations in the United States. This disposal will result in a loss to the Company. However, as certain receivables were not included in the disposal but are being collected by the purchaser on behalf of the Company and in view of the present depressed conditions in the industry, it will still be some time before the precise loss on disposal can be determined.

A provision was made in the year ended January 31, 1989 on the bankruptcy of Red Carpet Distribution Inc. ('Red Carpet') for an estimated loss of $27,000,000, after deducting deferred income tax credits of $18,000,000, against the amount due from Red Carpet in the form of vendor take-back notes. This provision was accounted for as an extraordinary item under generally accepted accounting principles at that time. The liquidation of assets and the settlement of preferential debts of Red Carpet, which had acquired the Company's wholesale division in 1987, continue to progress slowly and prospects for recovery on the notes continue to improve.

Considering the current status of both the fur disposal and the Red Carpet liquidation, management continues to believe that no change is required in the amount of the provision recorded in 1988.

9. EARNINGS PER SHARE

During the year ended January 31, 1990 the number of ordinary shares outstanding was increased by 43.9%, primarily as a result of a Rights Offer which was conditional upon the redemption of preferred shares series H (see note 16). Earnings per share figures are generally calculated on average numbers of shares outstanding (see note 1 c). However, if an adjusted earnings per share figure for the year ended January 31, 1990 is calculated as though these share transactions had taken place at the beginning of that fiscal year, the earnings per share from HBC Retail of $3.64 would have been $3.29.

In the year ended January 31, 1991 the Company realized tax benefits from prior years' losses amounting to $59,805,000 (1990 $46,281,000) (see note 7), resulting in an improvement in earnings per share from HBC Retail of $1.33 (1990 adjusted as above $1.05).

10. SECURED RECEIVABLES

HBC Retail secured receivables include vendor take-back notes arising from the disposition of operations and loans outstanding under the employee share ownership plan.

		January 31,
	1991	1990
	$000's	$000's
Total HBC Retail secured receivables	**14,586**	39,318
Less amounts due within one year classified as other accounts receivable	**(707)**	(14,268)
	13,879	25,050

Maturities during the five years ending January 31, 1996 are as follows:
1992 - $707,000; 1993 - $1,818,000; 1994 - $2,662,000;
1995 - $733,000; 1996 - $803,000.
Under certain conditions, the amounts due may be paid prior to maturity.

11. INVESTMENTS

HBC Retail investments comprise the following:

		January 31,
	1991	1990
	$000's	$000's
Portfolio investments (see note 15)	**39,526**	23,823
The North West Company Inc.	**8,050**	8,050
Other	**6,039**	5,514
	53,615	37,387

Portfolio investments are held to support funding obligations and generally will be held until, and replaced upon, maturity. The investment in The North West Company Inc. (formerly Northern Stores Inc.) consists of 1,442,000 common shares which represent 10.9% of all the common and class A voting shares outstanding at January 31, 1991. At January 31, 1991 the closing price of one common share on The Toronto Stock Exchange was $7.00.

12. FIXED ASSETS

HBC Retail fixed assets comprise the following:

		January 31,
	1991	1990
	$000's	$000's
Cost:		
Land	**72,954**	72,954
Buildings	**242,037**	230,461
Equipment	**686,692**	584,108
Leasehold improvements	**70,066**	61,062
Property for sale or development	**37,056**	36,393
	1,108,805	984,978
Accumulated amortization:		
Buildings	**(107,044)**	(99,947)
Equipment	**(362,149)**	(325,695)
Leasehold improvements	**(14,708)**	(21,736)
	(483,901)	(447,378)
	624,904	537,600

13. GOODWILL

HBC Retail goodwill comprises the following:

		January 31,
	1991	1990
	$000's	$000's
Cost	**118,624**	82,258
Accumulated amortization	**(22,551)**	(20,036)
	96,073	62,222

14. PENSIONS

As of January 31, 1991 the aggregate actuarial present value of accrued pension plan benefits is $373,000,000 and the aggregate market value of pension plan assets is $587,000,000.

The amount described as 'pensions' in the Consolidated Balance Sheets represents the recorded portion of the excess of pension plan assets over accrued pension plan benefits net of other obligations to retired employees.

15. DEBT

HBC Retail total debt may be analyzed as follows:

		January 31,
	1991	1990
	$000's	$000's
Short-term borrowings (a)	**405,151**	257,749
Long-term debt due within one year (b)	**296,597**	38,652
Less short-term deposits	**(12,201)**	(18,259)
Less portfolio investments (see note 11)	**(39,526)**	(23,823)
Net short-term debt	**650,021**	254,319
Long-term debt (b)	**592,661**	893,080
	1,242,682	1,147,399
HBC Retail long-term debt comprises the following:		
Secured on property:		
Hudson's Bay Company Properties Limited		
5 3/4% first mortgage bonds series A due 1990	**-**	7,484
7 1/2% first mortgage bonds series B due 1991	**4,954**	4,954
11 1/2% first mortgage bonds series C due 1995	**15,832**	21,518
9 7/8% first mortgage bonds series D due 1997	**28,826**	29,626
10% first mortgage bonds series E due 1998	**23,410**	25,479
	73,022	89,061

	1991	January 31, 1990
	$000's	$000's
Secured on accounts receivable:		
Hudson's Bay Company Acceptance Limited		
8 3/4% debentures series D due 1991	**20,000**	20,000
8 1/4% debentures series E due 1993	**20,000**	20,000
10 1/2% debentures series F due 1996	**19,028**	20,348
13 3/4% debentures series G due 2001	**44,544**	44,544
Floating rate debt: (b)		
Term loan due 1993	**-**	50,000
Term loan due 1994	**25,000**	25,000
Term loan due 1995	**50,000**	50,000
Simpsons Acceptance Company Limited		
8 3/8% debentures series F due 1992	**10,000**	10,000
8 3/8% debentures series G due 1992	**15,000**	15,000
9 7/8% debentures series H due 1997	**12,308**	14,325
	215,880	269,217
Secured by floating charge on assets of subsidiary:		
Zellers Inc.		
10 1/4% sinking fund debentures series 1974 due 1994	**4,967**	6,706
	293,869	364,984
Unsecured:		
Hudson's Bay Company		
13.85% note due 1990	**-**	25,000
10% notes due 1991 (U.S. $74,800,000)	**86,768**	88,638
10 3/4% notes due 1991	**80,000**	80,000
Dual currency bonds due in either 1991 or 1993 (U.S. $86,208,000 and U.S. $92,022,000, respectively) (c)	**100,001**	109,046
11% notes due 1993	**25,000**	25,000
10% debentures due 1994 (U.S. $19,738,000 and U.S. $22,491,000, respectively)	**22,896**	26,652
15.36% term loan due 1995-1997 (£5,592,000)	**12,806**	11,128
Floating rate debt (b)(d)	**259,990**	189,900
Simpsons Limited		
8 3/8% debentures series H due 1993	**2,750**	3,546
9 1/8% debentures series I due 1994	**1,868**	2,980
11 3/4% debentures series J due 1995	**2,864**	4,364
	594,943	566,254
Subordinated:		
Zellers Inc.		
5 1/2% convertible subordinated debentures series 1971 due 1991 (e)	**446**	494
	889,258	931,732
Less amounts due within one year	**(296,597)**	(38,652)
	592,661	893,080

(a) Short-term floating rate debt at January 31, 1991 was $353,424,000. Of this amount, $164,648,000 has been fixed at 11.0% through various currency, forward rate agreements and interest exchange transactions. The balance has been capped at 12.6% LIBOR through various U.S. dollar interest rate cap agreements.
(b) Long-term debt (including amounts due within one year) at January 31, 1991 includes floating rate debt amounting to $334,990,000. Of this amount, $315,950,000 has been fixed at 12.0% through various currency and interest exchange agreements. The balance has been capped at 12.6% LIBOR through various U.S. dollar interest rate cap agreements.
(c) The dual currency bonds bear interest at 8.0% based on a notional principal amount of 143,680,000 Swiss Francs at January 31, 1991. The effective hedged Canadian interest rate on these bonds is 12.8%.
(d) The Company's floating rate debt comprises term loans and notes with several financial institutions.
(e) The holders of Zellers Inc. 5 1/2% convertible subordinated debentures series 1971 have the right to exchange those debentures until their due date of September 15, 1991 for common shares of Hudson's Bay Company at the rate of 45.82 common shares per $1,000 of debenture principal. Prior to the Markborough distribution, the exchange rate was 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 would require the payment of redemption premiums.

Aggregate maturities and sinking fund requirements during the five years ending January 31, 1996 are as follows:

1992 - $ 296,597,000; 1993 - $ 37,994,000; 1994 - $66,148,000;
1995 - $ 238,844,000; 1996 - $154,531,000.

Dual currency bonds in the amount of $100,001,000 are due at the holders' option in either October 1991 or October 1993. For the purpose of the above table it is assumed that the total issue will be redeemed in 1991.

Subsequent to January 31, 1991 $50,000,000 of new long-term debt of five years' duration has been issued and commitments have been received from four banks for additional long-term debt funding of $105,000,000.

16. CAPITAL

The authorized classes of shares of the Company consist of unlimited numbers of preferred shares and common shares (designated ordinary shares prior to August 1, 1990), all without nominal or par value. Of the preferred shares, 11,750,000 are designated as '$1.80 cumulative redeemable preferred shares series A' with a stated capital of $22.50 each, 800,000 are designated as 'variable rate, cumulative redeemable preferred shares series C' with a stated capital of $25.00 each and 10,000,000 are designated as '$1.875 cumulative redeemable convertible preferred shares series H' with a stated capital of $25.00 each.

During the year ended January 31, 1991, in connection with the Arrangement for the distribution of Markborough (see note 2), all issued and outstanding ordinary shares were converted into special shares and common shares on the basis of one special share and one common share for each ordinary share. The paid-up capital allocated to the special shares was $152,534,000 and this was subsequently reduced to $1. On August 1, 1990 all issued and outstanding special shares were purchased for cash and cancelled.

During the year ended January 31, 1990 all remaining outstanding series H shares were either redeemed or converted into ordinary shares of the Company and the designation of preferred shares as series B, D, E, F, G and I was cancelled.

Capital comprises issued and outstanding shares and additional paid-in capital as follows:

		1991		**January 31,** 1990
	Number of shares	**$000's**	Number of shares	$000's
Capital stock:				
Preferred shares				
Series A	**3,675,418**	**82,697**	3,859,618	86,841
Series C	**608,868**	**15,222**	648,867	16,222
		97,919		103,063
Common shares	**45,597,995**	**710,137**	-	-
Ordinary shares	**-**	**-**	44,608,986	842,405
		808,056		945,468
Additional paid-in capital		**13,847**		13,345
		821,903		958,813

The changes in shares issued and outstanding during the two years ended January 31, 1991 are as follows (see note 21):

	Number of shares	$000's
Preferred shares series A:		
Issued and outstanding at January 31, 1989	4,058,518	91,317
Purchased for cash and cancelled	(198,900)	(4,476)
Issued and outstanding at January 31, 1990	3,859,618	86,841
Purchased for cash and cancelled	(184,200)	(4,144)
Issued and outstanding at January 31, 1991	3,675,418	82,697
Preferred shares series C:		
Issued and outstanding at January 31, 1989	673,910	16,848
Redeemed	(25,043)	(626)
Issued and outstanding at January 31, 1990	648,867	16,222
Redeemed	(39,999)	(1,000)
Issued and outstanding at January 31, 1991	608,868	15,222
Preferred shares series H:		
Issued and outstanding at January 31, 1989	9,516,000	234,681
Converted into ordinary shares	(2,109)	(52)
Redeemed	(9,513,891)	(234,629)
Issued and outstanding at January 31, 1990 and January 31, 1991	-	-
Common shares:		
Converted from ordinary shares on August 1, 1990	45,013,026	700,176
Issued:		
Under the executive stock option plan	143,909	1,864
Under the dividend reinvestment plan	442,207	8,117
On conversion of Zellers Inc. 5 1/2% convertible subordinated debentures series 1971	162	5
Purchased for cash and cancelled	(1,309)	(25)
Issued and outstanding at January 31, 1991	45,597,995	710,137

Ordinary shares:		
Issued and outstanding at January 31, 1989	30,992,635	422,452
Issued:		
Under the employee share ownership plan	109,518	2,834
Under the executive stock option plan	342,675	6,606
Under the dividend reinvestment plan	451,852	12,936
Under the rights issue	12,701,928	397,249
On conversion of series H shares	1,462	52
On conversion of Zellers Inc. 5 1/2% convertible subordinated debentures series 1971	8,980	277
Purchased for cash and cancelled	(64)	(1)
Issued and outstanding at January 31, 1990	44,608,986	842,405
Issued:		
Under the executive stock option plan	131,275	2,410
Under the dividend reinvestment plan	271,372	7,852
On conversion of Zellers Inc. 5 1/2% convertible subordinated debentures series 1971	1,393	43
Converted on August 1, 1990:		
Into common shares	(45,013,026)	(700,176)
Into special shares		(152,534)
Issued and outstanding at August 1, 1990	-	-
Special shares:		
Converted from ordinary shares on August 1, 1990	45,013,026	152,534
Reduction of stated capital to $1	-	(152,534)
Purchased for cash of $1 and cancelled	(45,013,026)	-
Issued and outstanding at August 1, 1990	-	-

The series A shares may be redeemed at the Company's option at a price of $22.50 per share (see note 21).

The holders of the series C shares are entitled to receive dividends at the rate of 7.12% until September 15, 1994. On that date the rate will be adjusted to 52% of the average of the five year guaranteed investment certificate rate of designated trust companies plus 2%. Prior to September 15, 1989 the dividend rate was 8.53%. The shares may be redeemed at the Company's option at a price of $25.00 per share until September 15, 2004, at which time any shares still outstanding are to be redeemed at that price.

At a special meeting held on October 26, 1989 the holders of series H shares and the holders of ordinary shares approved a resolution providing for the redemption of all outstanding series H shares on October 31, 1989 at $27.75 per share. Until October 31, 1989, each series H share had been convertible into 0.6944 ordinary shares at the holder's option.

During the year ended January 31, 1990 the Board approved a Rights Offer whereby holders of ordinary shares on November 9, 1989 were entitled to subscribe for two additional ordinary shares at a price of $31.25 each for every five shares held. In total, 12,701,928 shares were subscribed for under the terms of the Rights Offer.

At January 31, 1991 3,630,391 common shares are reserved for issuance under the Executive Stock Option Plan and the Senior Executive Share Purchase Plan and options are outstanding with a number of employees to purchase, in aggregate, up to 3,127,402 common shares at an exercise price equivalent to their market price per share immediately preceding the respective dates on which the options were granted. The outstanding options expire at various dates between January 1992 and November 2000 and have an average issue price of $16.43 per share. Both the number of options outstanding and the exercise prices have been adjusted as a result of amendments to the plan necessitated by and incorporated in the Arrangement for the distribution of Markborough (see note 2). At January 31, 1991 502,989 options were unallocated.

At January 31, 1991 the holders of approximately 45.5% of the common shares were participating in the Dividend Reinvestment Plan which provides a means for eligible holders of common shares to reinvest dividend proceeds in common shares at 95% of their weighted average market price per share for a three day period immediately preceding the dividend payment date.

The cost of shares redeemed or reacquired at amounts other than book value in each of the two years ended January 31, 1991 has been allocated as follows:

	Cost	Allocated to		
		Capital stock	Additional paid-in capital	Retained earnings
	$000's	$000's	$000's	$000's
In the year ended January 31, 1991: Preferred shares:				
Series A	3,642	4,144	(502)	-
In the year ended January 31, 1990: Preferred shares:				
Series A	3,913	4,476	(563)	-
Series H	264,215	234,629	3,055	26,531
	268,128	239,105	2,492	26,531

17. CONSOLIDATED STATEMENTS OF CASH FLOW AND FUNDING
The 'net effect of changes in operating working capital' appearing in the HBC Retail operating activities section of the Consolidated Statements of Cash Flow and Funding comprises the following:

	Year Ended January 31, 1991	1990
	$000's	$000's
Decrease (increase) in:		
Cash	**743**	26
Customer accounts receivable	**(17,925)**	(50,949)
Other accounts receivable	**(77,017)**	9,272
Income taxes recoverable - net	**767**	71
Merchandise inventories	**120,190**	3,426
Prepaid expenses	**(2,536)**	(812)
Increase (decrease) in:		
Trade accounts payable	**27,593**	58,976
Other accounts payable and accrued expenses	**(36,043)**	24,066
	15,772	44,076

18. LEASES

a) As lessee
HBC Retail conducts a substantial part of its operations from leased stores in shopping centres. All leases involving the Company as lessee have been accounted for as operating leases.

HBC Retail rental expenses charged to earnings in the years ended January 31, 1991 and 1990 were $127,000,000 and $122,200,000, 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,	1992	127,000
	1993	123,200
	1994	115,600
	1995	107,500
	1996	103,800
Thereafter		1,313,600
Total minimum lease payments		1,890,700

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

b) As lessor
Fixed assets in the Consolidated Balance Sheets at January 31, 1991 and 1990 include an office tower, leased to others under operating leases, with a cost of $21,800,000 at both dates and accumulated amortization of $6,200,000 and $6,000,000, respectively. HBC Retail sales and revenue for the years ended January 31, 1991 and 1990 include rentals from this property of $8,400,000 and $6,800,000, respectively.

19. 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.

20. SUPPLEMENTARY MARKBOROUGH INFORMATION

a) Markborough accounting policies
Accounting policies of Markborough were substantially in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies.

b) Markborough earnings

	Six Months Ended July 31, 1990	Year Ended January 31, 1990
	$000's	$000's
Operating profit including equity in earnings of joint ventures	23,764	73,756
Interest expense (note 20 d)	(12,070)	(27,897)
Earnings before income taxes	11,694	45,859
Income taxes	(6,546)	(21,534)
Net earnings	5,148	24,325
Amortization deducted in arriving at operating profit above	3,011	6,042

c) Equity investment in Markborough

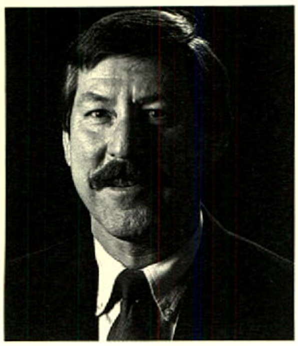
	January 31, 1991	1990
	$000's	$000's
Accounts receivable	-	69,479
Prepaid expenses	-	22,360
Mortgages receivable	-	13,160
Property for sale and development	-	249,408
Investment in joint ventures	-	181,561
Real estate leased to others under operating leases	-	571,004
Unamortized goodwill	-	29,418
Pensions	-	1,548
Bank indebtedness	-	(348,342)
Accounts payable and accrued expenses	-	(49,638)
Mortgages payable	-	(464,421)
Cumulative translation adjustment	-	3,845
Equity investment in Markborough	-	279,382

d) Markborough interest expense

	Six Months Ended July 31, 1990	Year Ended January 31, 1990
	$000's	$000's
On mortgages payable	10,353	20,452
Net short-term interest	28,538	33,359
Less amount capitalized	(26,821)	(25,914)
Interest expense	12,070	27,897

21. SUBSEQUENT EVENTS
Between February 19, 1991 and March 15, 1991, pursuant to an offer dated February 19, 1991 to the holders thereof, the Company purchased for cancellation approximately 2,045,000 $1.80 cumulative redeemable preferred shares series A at $20.75 per share for an aggregate cost, including expenses, of approximately $42,475,000. The funds borrowed to purchase series A preferred shares were repaid from the net proceeds of approximately $72,500,000 from the sale on March 5, 1991 to a Canadian underwriting group of 3,000,000 common shares issued at a price of $25.15 per share, less commission.

Management's Report to the Shareholders



Gary Lukassen

The management of Hudson's Bay Company is responsible for the preparation and integrity of the consolidated financial statements contained on pages 19 to 27 of this Annual Report and of financial information, discussion and analysis presented on other pages. The accounting principles which form the basis of the consolidated financial statements and the more significant accounting policies applied are described in note 1 on page 22. Where appropriate and necessary, professional judgments and estimates have been made by management in preparing the consolidated financial statements.

In order to meet its responsibility, management maintains accounting systems and related internal controls designed to provide reasonable assurance that assets are safeguarded and that transactions and events are properly recorded and reported. An integral part of these controls is the maintenance of programs of internal audit coordinated with the programs of the external auditors.

Ultimate responsibility for financial reporting to shareholders rests with the Board of Directors. The Audit Committee of the Board, a majority of whom are outside directors, meets quarterly with management and with internal and external auditors to review audit results, internal accounting controls and accounting principles and procedures. The Audit Committee reviews consolidated financial statements with management and the external auditors and reports to the directors prior to the approval of the audited consolidated financial statements for publication.

Peat Marwick Thorne, independent auditors appointed by the shareholders, express an opinion on the fair presentation of the consolidated financial statements. They meet regularly with both the Audit Committee and management to discuss matters arising from their audit, which includes a review of accounting records and internal controls. The Auditors' Report to the Shareholders appears on the following page.

President and Chief
Executive Officer

Executive Vice-President and
Chief Financial Officer

Toronto, Canada
March 21, 1991

KPMG Peat Marwick Thorne

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Hudson's Bay Company as at January 31, 1991 and January 31, 1990 and the consolidated statements of earnings, retained earnings and cash flow and funding for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 1991 and January 31, 1990 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Peat Marwick Thorne

Chartered Accountants

Toronto, Canada
March 21, 1991

Directors

Ian A. Barclay, Vancouver†
Associate, McQuaid & Associates Consulting Ltd. Mr. Barclay is a former Chief Executive Officer of a major forest products company.
Elected 1975

Marcel Bélanger, Quebec*†
President, Gagnon et Bélanger Inc., Management Consultants. Mr. Bélanger is a former President of the Canadian Institute of Chartered Accountants.
Elected 1976

W. Michael Brown, New York
President, The Thomson Corporation, an information, publishing and leisure travel company which is associated with the controlling shareholder of Hudson's Bay Company.
Elected 1985

Gurth C. Hoyer Millar, London, England
Chairman, J. Sainsbury Properties Ltd., a subsidiary of J. Sainsbury, a major U.K. food retailer.
Elected 1976

George J. Kosich, Toronto*
President and Chief Executive Officer, Hudson's Bay Company; 31 years service with the company.
Elected 1985

Gary J. Lukassen, Toronto*
Executive Vice-President, and Chief Financial Officer, Hudson's Bay Company; 16 years service with the company.
Elected 1987

Donald S. McGiverin, Toronto†
Governor, Hudson's Bay Company; 22 years service with the company.
Elected 1969

Dawn R. McKeag, Winnipeg†
President, Walford Investments Ltd. Mrs. McKeag is a director of a number of major companies.
Elected 1975

Peter W. Mills, Toronto
Senior Vice-President and General Counsel, The Woodbridge Company Ltd. Mr. Mills is an officer and director of a number of companies associated with the controlling shareholder of Hudson's Bay Company.
Elected 1985

David E. Mitchell, Calgary
President, Alberta Energy Company Ltd., a diversified company investing in energy resources and industrial development.
Elected 1984

David K.R. Thomson, Toronto
Deputy Chairman, The Woodbridge Company Limited. Mr. Thomson is an associate of the controlling shareholder of Hudson's Bay Company.
Elected 1987

Kenneth R. Thomson, Toronto*
Chairman, The Thomson Corporation. Mr. Thomson is, beneficially, the controlling shareholder of Hudson's Bay Company.
Elected 1979

John A. Tory, Toronto*†
Deputy Chairman, The Thomson Corporation. Mr. Tory is a director and officer of a number of companies associated with the controlling shareholder of Hudson's Bay Company.
Elected 1979

Neil R. Wood
President, Markborough Properties Inc., a real estate development company which is associated with the principal shareholder of Hudson's Bay Company.
Elected 1987

* Member Executive Committee
† Member Audit Committee

Officers

Donald S. McGiverin
Governor

George J. Kosich
President and
Chief Executive Officer

Gary J. Lukassen
Executive Vice-President,
and Chief Financial Officer

N.R. (Bob) Peter
Executive Vice-President

Paul S. Walters
Executive Vice-President

David J. Crisp
Vice-President,
Human Resources

John M. Cunningham
Vice-President,
Operations

Brian C. Grose
Vice-President and
Controller

J.G. (Jerry) Hartman
Vice-President,
Research and Development

Robert N.D. Hogan
Vice-President, Credit

A. Rolph Huband
Vice-President and Secretary

R.P. (Ron) Hughes
Vice-President and
Managing Director,
Asian Operations

Raymond J. McDonald
Vice-President,
Distribution

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

Larry W. Rowe
Vice-President,
Information Services

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

Kenneth C. Wong
Assistant Treasurer

Principal Subsidiaries/Divisions

The Bay
N.R. (Bob) Peter
President

Simpsons Limited
N.R. (Bob) Peter
President

Zellers Inc.
Paul S. Walters
President

Fields Stores
Janis R. Ostling
President

Corporate Information

Auditors
Peat Marwick Thorne

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

Annual Meeting
The 322nd Annual Meeting of Shareholders will be held at the Arcadian Court, 8th Floor, 401 Bay Street (Simpsons' downtown store), Toronto, on May 30, 1991 at 3:30 p.m.

Registrars and Transfer Agents
The Royal Trust Company, Calgary, Montreal, Toronto, Vancouver, Winnipeg and London, England

Stock Exchange Listings
Common Shares and Preferred Shares, Series A, are listed on the Montreal and Toronto Exchanges

On peut obtenir ce rapport annuel en français sur demande.

Comparative Financial Summary – HBC Retail

(HBC Retail excludes Markborough Properties Inc., which was distributed to shareholders effective August 1, 1990)

	Year Ended January 31,			
	1991	1990	1989	1988
Operations (in millions of dollars)				
Sales and revenue:				
The Bay	**1,887**	1,859	1,723	1,738
Simpsons	**435**	437	611	618
Zellers	**2,330**	2,150	2,011	1,845
Fields	**91**	90	88	88
Other	**227**	68	58	56
Total sales and revenue	**4,970**	4,604	4,491	4,345
Earnings:				
Operating profit:				
The Bay	**119**	115	70	64
Simpsons	**3**	14	19	17
Zellers	**200**	180	142	93
Fields	**3**	3	2	1
Other	**(8)**	3	(5)	6
Earnings before interest and income taxes	**317**	315	228	181
Interest expense	**(155)**	(158)	(171)	(168)
Earnings before income taxes	**162**	157	57	13
Income taxes:				
Current year's provision	**(64)**	(59)	(20)	–
Recovery of prior years' tax losses	**60**	46	–	–
Earnings before extraordinary items	**158**	144	37	13
Extraordinary items	**–**	–	(27)	(18)
Net earnings (loss)	**158**	144	10	(5)
Preferred dividends paid	**(8)**	(22)	(27)	(28)
Earnings (loss) for common shareholders	**150**	122	(17)	(33)
Common dividends paid	**36**	21	18	18
Cash flow:				
From earnings	**203**	190	104	119
Changes in operating working capital	**16**	44	44	(134)
Cash flow from operations	**219**	234	148	(15)
Capital expenditures	**(120)**	(92)	(36)	(30)
Investment in Towers	**(142)**	–	–	–
Dividends	**(44)**	(43)	(45)	(46)
Other	**(24)**	32	17	71
Total cash inflow (outflow)	**(111)**	131	84	(20)
Funding of Assets Employed (in millions of dollars)				
Debt:				
Long-term	**593**	893	996	1,069
Net short-term	**650**	254	445	480
Deferred income taxes	**(14)**	6	(1)	(42)
Shareholders' equity:				
Preferred shareholders (including accrued dividends)	**98**	104	344	357
Common shareholders	**1,074**	941	447	524
Assets employed	**2,401**	2,198	2,231	2,388
Debt: Equity Ratio	**1.1:1**	1.1:1	1.8:1	1.8:1
Per Common Share (in dollars)				
Earnings (loss) before extraordinary items	**3.34**	3.64	0.32	(0.51)
Net earnings (loss)	**3.34**	3.64	(0.56)	(1.12)
Cash flow from earnings	**4.35**	5.02	2.53	3.05
Dividends	**0.80**	0.60	0.60	0.60
Equity	**23.53**	21.09	14.41	16.33
Shareholders				
Number of common shareholders	**7,400**	7,800	8,900	9,300
Common shares outstanding (in thousands)	**44,959**	44,609	30,993	30,187
Range in common share price (in dollars):				
Before Markborough distribution	**34-27⅝**	38-24¾	26¼-18½	29½-18⅛
After Markborough distribution	**24¼-16**	N/A	N/A	N/A

Note: Where appropriate and significant, figures have been restated for the purpose of comparability. Due to significant changes in the composition of the entities comprising HBC Retail, corresponding restatement for years prior to January 31, 1988 would be neither practicable nor meaningful.

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