



Hudson's Bay Company

Annual Report 1992

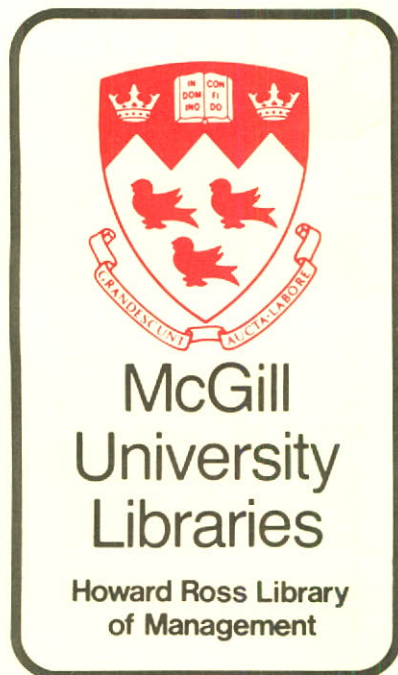




Hudson's Bay Company is Canada's oldest corporation and one of its largest retailers.

◆ **Through its three 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 7.5% 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.**



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 Native Peoples.

◆ 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. Simpsons was merged into the Bay over the period 1986-1991. Towers was acquired and merged into Zellers in 1990-1991.

◆ 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 the mid-1980's HBC disposed of a number of "non-strategic" assets including its Northern Stores, Wholesale and Fur divisions.

◆ In 1979, Kenneth R. Thomson and his family interests acquired a controlling interest in HBC. This was reduced to 25% by a secondary offering in 1992.

◆ HBC was continued as a Canadian corporation in 1970.

FINANCIAL HIGHLIGHTS

	Increase	Year Ended January 31,	
		1993	1992
	%	\$ millions	\$ millions
Sales and Revenue	2.4	5,152.2	5,032.2
Earnings Before Interest and Income Taxes	15.2	327.3	284.1
Net Earnings	41.0	116.7	82.8
Cash Flow From Earnings	35.5	229.8	169.5
Capital Expenditures	4.8	128.1	122.2
Debt	(7.2)	1,239.2	1,335.1
Equity	7.3	1,315.5	1,226.0
Debt: Equity Ratio		0.9:1	1.1:1

Per Common Share	\$	\$	\$
Net Earnings	0.71	2.32	1.61
Cash Flow From Earnings	1.21	4.57	3.36
Dividends	—	0.80	0.80
Equity	1.49	25.92	24.43

Howard Ross Library
of Management

JUN 22 1993

Annual Report
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DIRECTORS' REPORT TO SHAREHOLDERS

SUMMARY

Your Company achieved a 41.0% increase in earnings in 1992, a year that was notable for prolonged high unemployment and continued weakness in the Canadian economy. The improvement in earnings was due to a strong performance by Zellers, a recovery at the Bay and a reduction in interest expense.



Donald McGiverin

The outlook for 1993 is for moderate growth in consumer spending, albeit inhibited by continued structural unemployment. We intend to exploit our clearly defined merchandise offerings and our value-oriented pricing policies while maintaining firm controls on inventory and expenses. Overall, we anticipate a further improvement in earnings.

THE MARKETPLACE

The recovery from the recession of 1990 in Canada has been fitful and weak. With unemployment hovering around 11%, real estate values in a deep slump and disposable income squeezed by higher

taxes, the consumer has been unable to lead the recovery. Although sales of "Department Store Type Merchandise" were up by 3.4% in 1992, they have not yet recovered to the pre-recession level of 1989. In these circumstances many retailers encountered earnings problems and a few well known names in Canadian retailing were forced to seek bankruptcy protection. The achievement of a solid increase in earnings by your Company stands out as a creditable performance in the retail industry.

Industry-wide store expansion activity slowed markedly in 1992 as most retailers were not in a position to take on new commitments and as beleaguered real estate developers virtually halted new construction. However, a number of opportunities arose during the year to acquire locations previously occupied by other retailers. The Bay opened five stores in 1992, all in existing buildings, and Zellers opened six stores, four of which had previously been occupied by other tenants.

1992 RESULTS

Earnings in 1992 were up by 41.0% to \$116.7 million (\$2.32 per share) from \$82.8 million (\$1.61 per share) in 1991.

Excluding gains on sales of investments in both years, earnings were \$108.4 million (\$2.15 per share) in 1992 as against \$72.5 million (\$1.40 per share) in 1991.

Operating profit rose to \$315.0 million in 1992 from \$268.9 million the year before.

Zellers achieved an increase of \$11.1 million in operating profit to \$229.1 million principally because of an 8.3% sales gain. Zellers, with its lowest prices, value leadership and heavy promotion was correctly positioned in the 1992 Canadian retail marketplace.

A strong Christmas season boosted Zellers to a 14.2% fourth quarter sales increase. This is a store in Oshawa, Ontario.





Hudson's Bay Company acquired five stores from Robinsons in 1992. This one, in Hamilton, had previously been operated by HBC under the Morgan's and Bay names.

At the Bay, operating profit was up by \$32.1 million to \$91.5 million representing a partial recovery to the pre-recession level of \$130 million. Although sales and revenues were off by 4.8%, the gross profit rate was up and expenses were well below the level of the previous year.

Sales and revenue increased by 2.4% to \$5,152.2 million. The legalization of Sunday Shopping by the Government of Ontario in June 1992 had a positive effect on sales during the remainder of the year. Similar action by the Government of Quebec in December should stimulate sales in that province in 1993.

The Company realized a pre-tax gain of \$12.3 million during 1992 from the sale of an investment in The North West Company Inc. (successor to the former Northern Stores Division of Hudson's Bay Company). The investment had been acquired when the division was sold in 1987. In 1991 there was a gain of \$15.2 million from the sale of an interest in a shopping centre.

Interest expense declined by \$16.8 million to \$127.8 million principally because of a reduction in short term rates.

FINANCIAL

Cash flow from earnings at \$229.8 million was up substantially from \$169.5 million in 1991. Cash required for investing activities at \$107.8 million was down from \$143.8 million the previous year. The difference was primarily due to the cash outflow in 1991 related to the Towers stores acquisition. Tighter control resulted in a cash inflow of \$6.3 million from reduced working capital in 1992 in contrast to a cash outflow of \$90.9 million the year before.

After payment of dividends, there was a net cash inflow of \$87.7 million in 1992 compared with an outflow of \$109.7 million in 1991.

The debt equity ratio at year-end was 0.9 to one. This compares favourably with the ratio of 1.1 to one a year ago. It is notable that the Company now has more equity than debt for the first time since 1973.

For further discussion of the results and the financial condition of the Company, please refer to the "Management Discussion and Analysis" section of this annual report beginning on page 15.

ENVIRONMENT AND SAFETY

Retailing is not one of the more environmentally sensitive industries. Nevertheless your Company has for some years been active in energy conservation and waste reduction.

In 1992 your Board approved a formal policy under which the Company is committed to conduct its business so as to minimize risk to the environment. An updated formal policy was also adopted committing the Company to provide a safe and healthy workplace for its employees.

PRINCIPAL SHAREHOLDER

On July 10, 1992, The Woodbridge Company Limited completed the sale of 3.5 million common shares of HBC. Woodbridge sold a further 20 million common shares of HBC on November 26, 1992. Together, these transactions reduced Woodbridge's holdings from approximately 72% to approximately 25% of the outstanding common shares.

Woodbridge is the principal holding company of the family of the late Lord Thomson of Fleet and is controlled by Kenneth R. Thomson, a director of your company. Woodbridge has been a very supportive majority shareholder, especially during a period of losses and

1993 OUTLOOK

Real gross Domestic Product in Canada is expected to grow by about 3% in 1993. Positive factors include exports, which should gain from a lower dollar and a stronger U.S. economy, and low inflation and interest rates. Because of the constraints of continuing corporate restructuring which will keep unemployment high, and of heavy personal debt levels, consumer spending is expected to slightly underperform the economy as a whole. The consumer will remain cautious and value-oriented. We believe both Zellers and the Bay are positioned to perform well in this environment and we anticipate a continued improvement in results.

APPRECIATION

Our success during these difficult economic times is due in very large part to our team of talented and hardworking employees. We express our grateful appreciation to all of them.

We also thank our customers, our suppliers and our shareholders for their continuing support.

On behalf of the Board



DONALD S. MCGIVERIN,
Governor



GEORGE J. KOSICH,
President

March 11, 1993

BOARD

We were pleased to welcome Douglas J. Tigert, Professor of Marketing, Babson College in Massachusetts, to our Board in May 1992. Professor Tigert is a former Dean of the Graduate School of Business, University of Toronto, and has a broad perspective on retailing on both sides of the border.

restructuring in the mid-1980's. Woodbridge remains our largest shareholder and through its representatives will continue to participate at the Board level.



Fairview Mall in Toronto on a Sunday in February 1993. A year earlier the parking lot was empty. Sunday shopping, legalized in Ontario in June 1992, has 75% support in Toronto, according to a recent opinion poll.

Marketing in the '90's

“Before envisioning the challenging '90's, let me take this opportunity to sincerely thank our customers, our employees, our shareholders, our vendors, and our communities for their continuing support, efforts, and assistance during 1992.”



George Kosich

It is very important in any business climate, but especially in the current difficult climate, that business and government work to the mutual benefit of our enterprises, our mutual vitality, our competitiveness, and towards job creation. The granting of Sunday Shopping by the current Ontario Government has greatly assisted our Industry and has created new employment. Concurrent to this difficult but beneficial decision, the Quebec Government has also allowed Sunday Shopping. We thank both of these Governments for assisting our Industry, providing employment, and assisting our competitiveness.

We continue to believe that the overall relatively sluggish economic and consumer spending environments will remain challenging for all retailers in the '90's. Consequently, during the balance of the '90's, we will continue to approach our business practices in a totally different manner believing that the current economic situation is not a "recession". We must realistically believe that the way the economy is today is what we

can continue to expect for the balance of this decade. Retailers waiting for the traditional upturn following a recession are waiting in vain.

We are undergoing a major economic correction resulting in a depressed and totally different business condition affecting consumer consumption, discretionary income, growth, and pricing practices.

The successful retailers in this kind of business environment will be those who redesign their marketing mix and service mix to capture improved market share. We must strategize each of our Companies to fill a very specific marketing niche.

The key, then, for our Companies in the '90's, is to visualize, define, position, and then execute to become the preferred shopping destination. We must be focused and present a clear, compelling, and competitive marketing and service position to an identified audience so that we become the preferred store location.

In order to meet the other challenges facing our Companies:

1. we will continue to strive for revenue or market share productivity in excess of our space share of total Department Store Sales in Canada;
2. we will remain committed to continuous improvement and not be satisfied with current performance or revel in past successes;

“We must fix what is not broken while we still have time!”

3. we must develop and adjust our marketing formats to insure a balance between customer satisfaction and production of our return on assets objectives;
4. we must continue to understand the ramifications and connect with the globalizing marketplace;
5. we must attract, develop, and train to achieve a very talented workforce;
6. we must prepare for, and understand, the current and future competitive arenas;
7. we must continue to organize our Companies and functions to tasks, objectives, and processes versus past practices of organizational and functional structures.

In summary, by learning how to operate in this difficult and changing business climate, and with effective strategies coupled with the continued support of all Company constituents, we do believe we can continue to improve our results during the challenging '90's.

George Kosich

Results

	(in millions of dollars)	
	This Year	Last Year
Sales and revenue	2,017.2	2,118.4
Operating profit	91.5	59.4
Assets employed	1,219.8	1,237.2

“Our mission is to be Canada’s best fashion department store by offering broad, dominant assortments, quality and value, fashion and trend leadership, a high level of customer service and an unremitting guarantee of performance.”

Bob Peter



Operating profit for the Bay increased to \$91.5 million, up 54% or \$32.1 million from 1991, with all regions contributing to the increase. The improvement was due to a higher gross profit rate, lower expenses and better credit results.

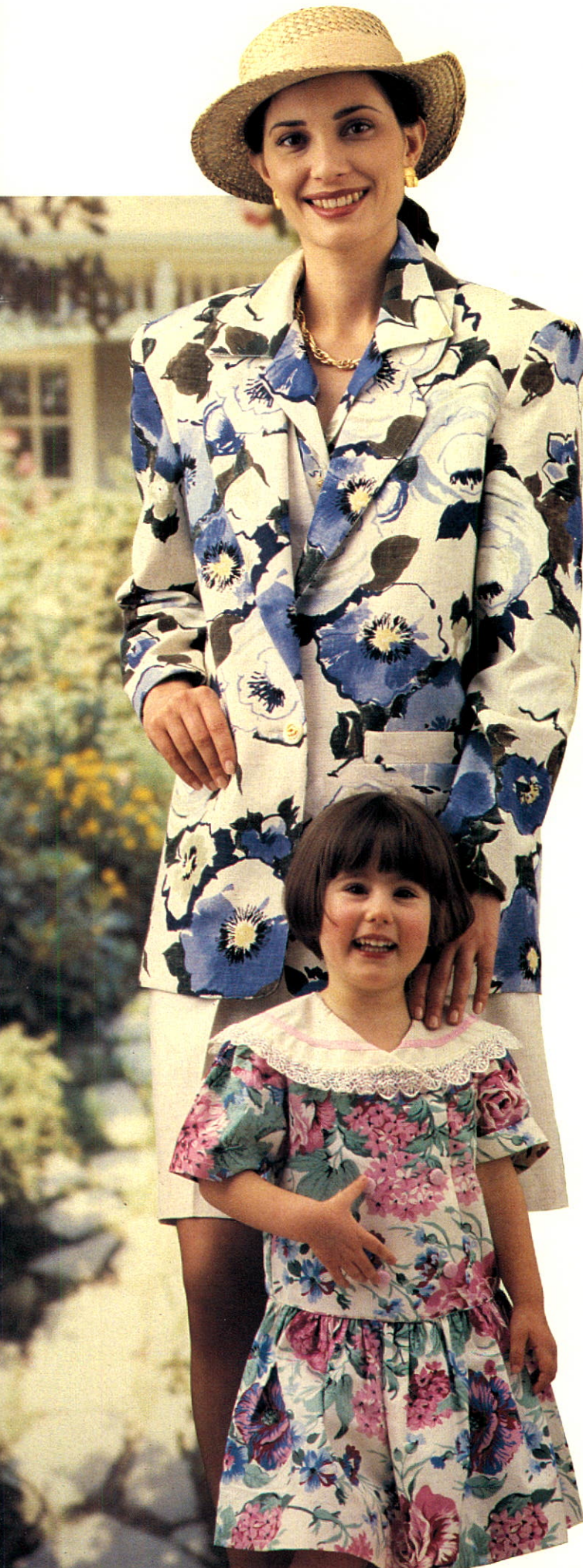
Sales and revenue declined 4.8% to \$2.0 billion from \$2.1 billion. The results for 1991 include sales related to the former Simpsons stores until they were sold in mid-year. The recession in Canada continued to restrict sales in every region.

During the year, five new stores were opened; in Quebec City, Ottawa, St. Catharines and two stores in Hamilton. All but the Quebec City store were former Robinsons locations. The opening of the St. Catharines and Hamilton stores expands the Bay into new markets. Early in 1992, the Champlain (Vancouver) store was transferred to Zellers and the Lawrence Plaza (Toronto) store was converted to an Outlet Store.

The Brossard (Montreal) store was expanded by 20,000 square feet to 137,000 square feet and a major renovation program was completed in the Dorval (Montreal) store, creating new, contemporary environments. As part of the Bay’s systems strategy, new or upgraded point-of-sale terminals were installed in British Columbia, Alberta, Saskatchewan and Quebec stores while equipment to facilitate price and product bar code scanning at point-of-sale was installed in all stores.

The Bay intends to continue upgrading existing stores in 1993 with renovations currently planned for five locations.

Although modest economic recovery is forecast for 1993, growth prospects will be limited. Accordingly, the Bay will continue with its strategy of improving operational efficiency and maintaining tight expense control.



Destination South East Asia, a major promotional event in 20 Bay stores in April 1992, showcased merchandise from Indonesia, Thailand and the Philippines and featured artisans and performers from those countries.



Store Profile

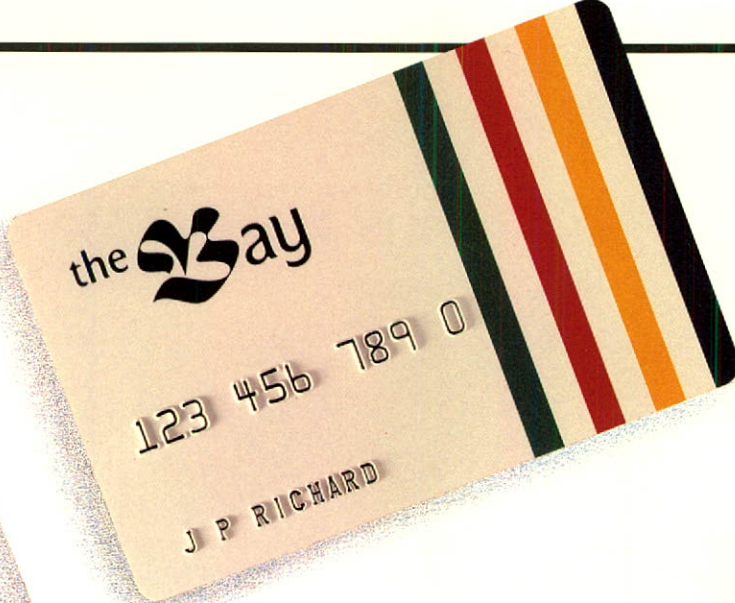
The Bay operates 92 department stores from coast to coast in Canada. It competes aggressively in the mid range urban and suburban markets, with a strong franchise in the downtowns of major cities. It provides its customers with superior value by offering fashionable good quality merchandise at popular prices backed by traditional department store guarantees and services. The Bay promotes its own credit card and accepts major bank cards.

Merchandise selection and procurement and sales promotion are centralized. 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 21,000 sq. ft. in Banff, Alberta to 890,000 sq. ft. in downtown Toronto with most suburban branches in the 120,000 to 165,000 sq. ft. range.

Store Statistics

(January 31, 1993)	Stores	Square Feet (000's)
Nova Scotia	4	463
Quebec	19	2,932
Ontario	35	6,031
Manitoba	4	1,044
Saskatchewan	3	457
Alberta	15	2,125
British Columbia	12	2,098
	92	15,150



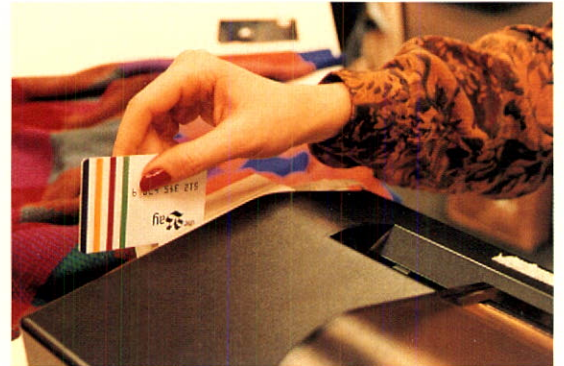
At the Bay...

The customer was becoming impatient and the checkout line was lengthening. The cashier needed to know whether the sweater was eligible for the special price discount. The supervisor was busy with an inventory problem. The customer gave up. The store lost the sale. That customer didn't come back. The others, irritated, wondered about the store.

**A familiar story?
Not at the Bay. Not anymore.**



Hand-held wands at point-of-sale read bar code information and speed customer service.



Credit card readers at point-of-sale eliminate manual entry of card numbers.

During 1992, the Bay replaced or upgraded all of its 4,500 cash registers to harmonize with its sophisticated management information systems. The new and upgraded "cash registers" – a combination of laser scanner and computer – now are electronically integrated into the Bay's credit, pricing, sales and inventory management systems. The benefits are faster customer service and reduced costs.

Time-consuming cashier functions such as manually entering the customer's credit card number, price calculations and the inventory stock number are eliminated. Instead, the cashier simply passes the credit card through the terminal reader and scans the universal pricing bar code with a wand. The applicable price registers immediately, credit approval is received and the details of the sale are printed out on the customer receipt within seconds.

The same information is transmitted to Hudson's Bay Company's Computing Centre for use by the Bay's credit, financial and merchandising departments. One immediate benefit for both the Bay and its customers is that with a more timely and accurate account of what is selling in which stores, merchandise can be restocked in smaller amounts more frequently, when and where it is needed.

Technology Improves Service! Cuts Costs!

While the point-of-sale application is the most visible, the Bay, in partnership with its vendors, is exploiting state-of-the-art technology for faster response throughout the merchandising cycle; ordering, receiving, distribution, sales and replenishment.

For example, the Bay receives merchandise from suppliers premarked and bar-coded so that it can move quickly to the selling floor. This greatly reduces its warehousing needs. The Bay's Toronto and Montreal distribution centres last year installed technology which permits employees to verify product bar codes and prices on incoming merchandise before it is distributed to individual stores.

The increased efficiency and faster turnaround has allowed the Bay to close both its Winnipeg and Calgary distribution centres and to reduce operations at its Vancouver distribution centre. As a result distribution costs have been substantially reduced.

Within the distribution centre, new technology greatly enhances the control of merchandise through the building. Hand-held scanners, communicating on radio frequency, acknowledge and record the receipt of shipments, eliminating the manual, paper-bound process.

This year, the Bay plans to produce bar-code store carton labels at its distribution centres containing information specific to the needs of individual stores. The carton labels will be scanned as they move through the distribution centre on the conveyor system and automatically sorted by store destination. The system will also automatically create manifests of all orders being loaded and verify that all cartons are directed to the proper store.

The Bay's goal is "same-day" turnaround for merchandise received at its distribution centres. Combined with "same-day" inventory reporting



New computer-controlled conveyor system in the Bay's Toronto distribution centre.

and advanced checkout technology, the Bay's customer service moves to the forefront of Canadian retailing.

Customer satisfaction is the Bay's top priority. In an increasingly competitive market, the Bay will continue to seek and apply the best technology to improve service and value for its customers.



Improvements in technology have allowed the Bay to downsize its distribution space. This building in Calgary is now for sale.



Results

(in millions of dollars)

	This Year	Last Year
Sales and revenue	3,021.2	2,788.8
Operating profit	229.1	217.9
Assets employed	1,229.0	1,169.8

“At Zellers – our goal is to lower the cost of living for ordinary Canadians by dedicating ourselves to providing our customers with exceptional value – everyday.”

Paul Walters



Operating profit for Zellers rose 5.1% to \$229.1 million in 1992 from \$217.9 million the year before. Sales and revenue rose 8.3% to \$3.0 billion from \$2.8 billion in 1991.

Despite a continuing sluggish Canadian economy, Zellers customers again responded enthusiastically to its strategic market positioning in 1992. Zellers continues to offer outstanding value at low prices supported by aggressive marketing and advertising, enhanced by Club Z and a strong credit card network.

Substantial market share gains were achieved throughout Canada with all merchandise groupings reporting increases. The largest market share gains were recorded in Quebec and Ontario with British Columbia and Alberta also achieving significant increases.

Zellers opened six stores and closed four stores for a net increase of two to end the year with 274 stores. Two new stores were opened in each of Quebec, Ontario and British Columbia. The Company continued its ongoing review of every major market with the objective of maximizing the return on assets employed. The result in 1992 was the closing of four stores, one in Alberta and three in the Maritimes, at a net cost to the Company of \$2.2 million.

In 1992, Zellers initiated a \$40 million program to replace all point-of-sale systems over a three year period with completion forecast for early 1994. Initial results greatly exceeded expectations and, accordingly, the program has been advanced and will be completed in every store by June 1993. The upgraded technology has been very well received by customers and associates, moving customers through the checkouts much more quickly and capturing and delivering expanded and improved marketing information.

We expect 1993 to be another intensely competitive year presenting many challenges. Zellers will continue to be proactive with stronger value-added marketing, price leadership, optimal merchandise flow and significant improvements in customer service. An aggressive expansion and store refurbishment program will be supported by tight control of all operating expenses. Management is focussed on the achievement of a superior return on assets.



This store at South Hamilton Square is one of six opened by Zellers in 1992.



Store Profile

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 274 stores across Canada mainly in shopping malls. The typical store is 65,000 sq. ft. in size.

Store Statistics

(January 31, 1993)	Stores	Square Feet (000's)
Newfoundland	5	258
Prince Edward Island	3	217
Nova Scotia	15	1,054
New Brunswick	12	738
Quebec	55	4,001
Ontario	114	8,157
Manitoba	8	562
Saskatchewan	12	672
Alberta	24	1,541
British Columbia	26	1,727
	274	18,928



At Zellers...

If success is measured in numbers, Club Z can be considered an unqualified winner.

With an original target of one million members in 1986 when it was launched, Club Z now boasts 6.6 million members or half the households in Canada. And about 300,000 new members are added each year.

Club Z is similar to an airline frequent flyer program. It rewards frequent Zellers shoppers with points that can be applied towards the purchase of hundreds of luxury items in a Club Z catalogue that aren't sold in any Zellers stores. Club Z was launched to differentiate Zellers from competitors such as Woolco and K-Mart and to offer Zellers customers discretionary merchandise that their limited budgets normally wouldn't allow.

For every \$1 spent at Zellers, Club Z members are awarded 100 points. An extra 500 points are awarded if members use a Zellers credit card to pay for purchases. Once a Club Z member decides what they want from the catalogue, they simply fill out an order form at one of the Club Z service

centres at Zellers. Within four to six weeks, the merchandise will be delivered to a specified Zellers store or to the member's home.

The program was launched with a television advertising campaign that proclaimed "The best things in life are free." Like Club Z itself, the campaign was a success and won the Retail Advertising Conference Award in 1987 for the best North American retail ad.

In addition to the regular Club Z members, there is the Gold Card for members who have accumulated over 500,000 points, Advantage 60, for seniors and, for the kids, there's the Zeddy Club where members get to celebrate their birthday with Zeddy Bear, the Zellers mascot.

The director of Club Z is Doug Ajram who does all the buying and decides what items go into the catalogue which has grown from less than 100 items three years ago to over 500 today. Rewards start at 40,000 points, the equivalent of \$400 in purchases at Zellers.

According to Ajram, the quality of the items offered has improved over the years with the addition of more brand name products such as Braun, JVC, Samsung, Pioneer and Sony. He said the catalogue is filled with quality items for the whole family.

In order to stay ahead of the competition, Zellers continues to improve the advantages of belonging to Club Z. For example, members can receive 20,000 Club Z points for having their car serviced at participating Midas dealers or 10,000 points by joining the North American Automobile Association. Or fill up with gas at an ESSO service station and receive Club Z points. There are also special movie passes from Famous Players theatres and members can trade points for flowers from their local FTD florist.

"We also haven't raised the number of points required to purchase an item in three years. In fact, we've dropped the point requirement on over 80 items," said Ajram. And in response to demands from their customers who want items sooner, Club Z members can now purchase items by combining points with cash.



The first Club Z catalogue and the larger, more exciting 1993 edition.

“The best things in life are free”

Club Z members walked away with over \$1 million worth of free merchandise in 1992. In fact, Ajram estimates that over 75 per cent of all transactions that go through Zellers cash registers are made by Club Z cardholders.

How important is Club Z to Zellers? So important that the name appears in all Zellers marketing and advertising, including the seven million weekly circulars it distributes and in Zellers radio and television campaigns.



Club Z membership cards for kids, seniors and folks like you and me are valued by over six million Canadians.

In terms of numbers, Zellers had its biggest year-to-date sales increase per store in 1987, the year after Club Z was launched.

But the success of Club Z has caused a few **minor headaches for Zellers, notably longer lineups at the cash register.** To alleviate the problem, Zellers is investing several million dollars on scanning equipment which is being installed at checkout counters. Over 150 stores have been installed with scanning equipment since last October and the remaining 120 stores will be completed by June of 1993.



Although the success of Club Z is unquestioned, it is not the main reason people shop at Zellers, according to company president Paul Walters. On a scale of one to 10, he would rank it near the bottom. He said people shop at Zellers for a combination of price, value, store location and, finally, for Club Z points.

“Our advantage in some markets is simply location. When everything else is in place and we add Club Z, it may put us over the top. But if we didn't have superior value to begin with, we would be just wasting money on a frequent buyer program.”

Walters says most retailers have a program to build customer loyalty. But surveys show none have as high a perceived value as Club Z. One of the reasons is because Zellers is constantly conducting research to determine what their customers want. The research becomes the basis for changes to the following year's catalogue.

And Club Z has tremendous potential beyond points such as direct marketing based on the membership database, says Walters.

“The next decade will be so competitive that we must ensure that more of our marketing dollars are targeted directly at our best customers. Club Z helps us better understand exactly who these customers are.”

And so the possibilities really do seem endless. Our challenge is to ensure that we exploit the full potential of Club Z without impacting our mainstream business, says Walters.

Results

(in millions of dollars)
This Year **Last Year**

Sales and revenue	83.6	86.4
Operating profit	(1.3)	0.7
Assets employed	22.0	19.1

“Fields’ mission is to be the dominant discount retailer of general merchandise in small markets across Canada.”

Janis Ostling



Fields recorded an operating loss of \$1.3 million in 1992, compared to a profit of \$724,000 in 1991.

Sales, down by 3.3% to \$83.6 million, were adversely affected by the continuing slump in consumer spending and increased competition. In the fourth quarter, the merchandise mix was expanded to include more seasonal, high-demand hardgoods in all stores. This change, driven by a frequent and aggressive advertising program, generated a fourth quarter sales increase.

Gross profit declined because of high markdowns, increased promotional blend, and the lower sales base. Expenses were tightly controlled and decreased from 1991.

During 1992, one Fields store was opened, thirteen stores were renovated and six unprofitable stores were closed.

The new, mini-discount, highly promotional department store concept tested during 1992 in ten Fields stores generated good sales growth, but did not provide the required profit. The merchandise and marketing successes of the test stores will be extended to all Fields stores in 1993.

In 1993, Fields will continue to adjust its merchandise mix with an increased blend of hardgoods and seasonal items. Frequent, hard-sell advertising will increase customer traffic, sales and gross profit. This sales growth, coupled with continued cost containment is expected to return Fields to a profit position.



Fields newest store format, Cedar Hills Plaza, Surrey, B.C.

Store Profile

Fields operates 119 discount stores in Western Canada, 113 as Fields and six as PSS (Plus Sizes Plus Savings). Merchandise procurement, distribution and support services are centralized in Vancouver, B.C.

Fields provides the lowest prices and best values in basic and casual clothing, footwear, linens and home needs. Fields' customer is the low to moderate income Canadian. Frequent aggressive flyers communicate the price and value image, focusing on name brands and recognizable value on high demand items. This price/value image is further emphasized by the “cheap and cheerful” look of the stores.

Stores range from 1,100 to 25,400 sq. ft. The typical store is a freestanding unit or in a strip mall, averaging 7,300 sq. ft. The stores are located in small markets and operate in a convenient, friendly, “no frills” atmosphere.

Store Statistics

(January 31, 1993)	Stores	Square Feet (000's)
British Columbia	72	547
Alberta	45	314
Northwest Territories	1	9
Saskatchewan	1	5
	119	875

MANAGEMENT DISCUSSION AND ANALYSIS

I. OPERATIONS

a) Retail Environment — 1992

Spending on department store type merchandise (DSTM), which is total retail sales net of food and automotive sales, improved by 3.4% in 1992. Sales of department stores, constrained by store closings, were ahead only 0.8% in 1992.

DSTM sales began the year with a first quarter increase of 4.7% over the previous year's very soft (a 15.5% decline) level. However, high unemployment continued through 1992 due to weak economic growth and ongoing corporate restructuring. As a result, DSTM growth in the second quarter was limited to an increase of 1.5%. Sales improved in each of the third and fourth quarters by 3.7%. A number of factors contributed to this spending increase, including reduced levels of cross-border shopping because of a weaker Canadian dollar and strong levels of Sunday shopping in Ontario. Following Provincial approval of Sunday shopping in June, DSTM sales in Ontario outperformed the national average each month for the remainder of the year. However, over the entire year, retail sales increases in Western provinces exceeded those in the rest of the country.

Sales of big ticket durables recovered somewhat from depressed 1991 levels. While soft goods and apparel sales were weak in the first half of the year, the last quarter saw some improvement in both men's and women's clothing.

The financial and marketing challenges facing the few remaining regional department store chains continued in 1992. M-Stores ceased operation in Quebec, Western-based Woodward's sought court protection under the Companies' Creditors Arrangement Act and Robinsons sold five of its eleven stores to Hudson's Bay Company.

In 1991 DSTM spending declined by 10.7%. The termination of the Federal Sales Tax which was included in 1990 sales represented about 4.0 percentage points of the decline. The introduction of the GST, the uncertainty following the Gulf War, record levels of cross-border shopping, and large increases in the number of unemployed resulted in a very weak consumer marketplace.

b) Retail Risk Factors

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

Retail Risk Factors

	External	Internal
Sales	The Economy Competition Inflation	Store Openings and Closings Marketing Strategies Customer Service
Margins	Competition Consumer Resistance	Buying/Pricing Control of Inventories Stock Shortages Sales Blend
Operating Expenses	Inflation Taxes and Levies	Occupancy Costs Payroll Advertising

Retail Risk Factors (continued)

	External	Internal
Credit Earnings	Bad Debts Card Competition	Card Promotion Service Charge Rates
Interest	Rates Credit Rating	Amount and Blend 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 expenses. Cutting selling staff will reduce payroll expense but may also reduce sales and increase stock shortages. Management's responsibility is to achieve an appropriate balance among the factors of risk.

Management believes that the most important risk factor with respect to 1993 results is the performance of the economy, particularly with respect to employment, and its impact on consumer spending. For further comments on this subject, please refer to the paragraph entitled "1993 Outlook" in the Directors' Report on page 4 of this report.

c) Earnings

Total net earnings were \$117 million in 1992 compared with \$83 million and \$163 million for the previous two years. These figures require analysis before they can be used to assess the years' performance.

Earnings Analysis

(in millions of dollars)

	1992	1991	1990
Comparable Operations:			
Operating profits of major retail divisions (see below)	319	278	325
Other net operating expenses	(4)	(9)	(8)
	315	269	317
Gain on sale of investments	12	15	—
	327	284	317
Interest expense	(128)	(144)	(155)
	199	140	162
Income tax on current earnings	(82)	(57)	(64)
Comparable net earnings	117	83	98
Major Non-comparable Items:			
Recovery of prior years' tax losses	—	—	60
Markborough earnings after interest and taxes	—	—	5
Total net earnings	117	83	163
Total Net Earnings per Common Share	\$2.32	\$1.61	\$3.46

After major non-comparable items are excluded from 1990 earnings, it can be seen that comparable net earnings declined from a level of \$98 million in 1990 to \$83 million in 1991 before rebounding to \$117 million in 1992.

"Other net operating expenses" includes items that are not directly attributable to any one of the three operating entities. In

each of the three years it includes unallocated corporate expenses offset by miscellaneous net earnings from investments and ancillary activities, including the operation of The Simpson Tower building. In 1992 it included a gain on the sale of distribution centres of \$5.3 million and in 1990 it included \$2.3 million of operating profit from Towers Department Stores Inc. between its acquisition on November 4, 1990 and its merger with Zellers on February 1, 1991.

The "Gain on sale of investments" in 1992 represents a non-recurring gain arising from the sale of an investment in The North West Company (successor to the Company's former Northern Stores Division). The corresponding non-recurring gain in 1991 resulted from the sale of a participating debenture in the Scarborough Town Centre shopping mall. These non-recurring gains contributed \$0.17 and \$0.21 per share, respectively. No similar gains will arise in the future as investments currently on hand are predominantly portfolio investments which are intended to be held to maturity, at which point they will be redeemed at carrying value.

Interest expense at \$128 million in 1992 declined by \$16 million from the year before entirely because of lower interest rates. Higher debt levels in the first nine months partially offset the favourable impact of a drop in the average interest rate from 10.6% in 1991 to 9.2% in 1992.

In 1991 interest expense declined by \$11 million. An average debt increase of \$76 million was offset by an average interest rate reduction from 12.1% in 1990 to 10.6%.

Earnings per common share figures are not comparable due to significant increases in the number of common shares outstanding, particularly in 1991 during which three million common shares were issued to a Canadian underwriting group, and also to the redemption over the periods of all remaining outstanding preferred shares.

The recovery of prior years' tax losses, which was recorded in 1990, absorbed the residual benefit of all such losses which had been carried forward since the 1982 to 1985 period. Projected recoveries had not been recorded in the years in which the losses were incurred as the Company could not, at the time, be certain that they would be realized before their respective expiry dates. As all past losses were recovered by the end of 1990 no similar credits will arise in the future.

After nearly 17 years as a subsidiary of Hudson's Bay Company, Markborough Properties Inc. was spun off to shareholders in August 1990. Detailed information concerning, or including, Markborough is not given as it is irrelevant in assessing the future prospects of Hudson's Bay Company.

d) Operating Profits

Operating profits of the retail divisions for the past six years were as follows:

	The Bay*	Zellers	Fields	Total
1992	91	229	(1)	319
1991	59	218	1	278
1990	122	200	3	325
1989	129	180	3	312
1988	89	142	2	233
1987	81	93	1	175

*The Bay figures include Simpsons which was a separate division prior to August 1991

Operating profits improved by \$41 million in 1992 following a \$47 million decline in 1991. Zellers showed steady improvement over the two year period. The Bay improved by \$32 million in 1992, thereby recovering approximately one half of the decline in the previous year.

Because sales in the fourth quarter, which includes the Christmas season, are higher than in other quarters while expenses are spread more evenly throughout the year, a disproportionate share of operating profit is earned in the fourth quarter as shown by the following table.

	1st	2nd	3rd	4th	Total
1992	13	48	70	188	319
1991	(1)	60	64	155	278
1990	22	57	61	185	325

1992 suffered from a relatively poor first half but profitability picked up in the third quarter. The improvement was well maintained over the very important fourth quarter during which the Zellers momentum was generated principally from increased sales while The Bay showed significant improvements in both gross profit and expense rates.

In 1991 first quarter operating profits were adversely affected by introduction of the GST and by severance costs relating to a restructuring at The Bay; the fourth quarter reduction was the result of lower same store sales and increased mark-downs in both Zellers and The Bay.

Factors that determine operating profits are:

- i) sales and revenue
- ii) gross profit rate
- iii) expense rate
- iv) credit earnings

i) Sales and Revenue

Sales and revenue of the retail divisions for the past three years were as follows:

	The Bay*	Zellers	Fields	Total
1992	2,017	3,021	84	5,122
1991	2,118	2,789	86	4,993
1990	2,322	2,330	91	4,743

*The Bay figures include Simpsons which was a separate division prior to August 1991.

Because of the nature of the retail business it is necessary that the accounting year closes at the end of a week. Consequently most years contain 52 weeks but every fifth or sixth year has to contain an extra week in order to close at the weekend preceding January 31st. 1992 was such a year; the last time this occurred was 1986.

Total sales and revenues at \$5,152 million were up by 2.4% with the extra week accounting for 1.1 percentage points. Same store sales adjusted to a 52 week basis were virtually unchanged. Inflation in the general merchandise sector in 1992 was estimated at 1.5%.

Sales and Revenue at Zellers were ahead by 8.3% for the year. Fourth quarter sales were stronger than the trend earlier in the year, reflecting a very positive Christmas selling season. Zellers achieved market share gains in every region of the country in 1992.

Sales and Revenue at the Bay were down by 4.8%. Sales of five stores opened in 1992 only partially offset the loss of sales at seven stores sold to Sears in mid 1991 and two other stores closed in 1992. Sales for the fashion divisions outperformed the home divisions partly due to strategic initiatives aimed at increasing the soft goods blend. The home divisions were also affected by weak consumer demand.

In 1991 sales and revenue increased by 1.3% to \$5,032 million. Same store sales adjusted for FST were estimated to be down by approximately 3.4%. Sales of all divisions in 1991 were affected by the general decline in consumer spending caused by the recession, introduction of the Goods and Services tax and the popularity of cross-border shopping.

The following table shows the percentage of sales of the Company derived from each of the four regions of Canada for the last three years.

Sales by Region

% of Sales	1992	1991	1990
Maritimes	7.3	7.5	7.4
Quebec	20.3	20.0	20.1
Ontario	43.2	42.9	40.2
Western Canada	29.2	29.6	32.3
	100.0	100.0	100.0

The growth in the Ontario share of sales in 1991 reflects the Towers purchase offset to some extent by the Simpsons merger.

ii. Gross Profit Rate

The overall gross profit rate deteriorated marginally in 1992.

At the Bay the rate was improved over last year, principally due to higher markups, but this improvement was partially offset by higher markdowns and stock shortages.

At Zellers the decline in the gross profit rate was in keeping with its strategic market positioning; to provide the Canadian consumer with the lowest prices possible in a very competitive marketplace.

In 1991 the overall gross profit rate deteriorated; Zellers was up marginally, the Bay down substantially because of markdowns. The stock shortage situation improved in both divisions.

iii. Expense Rate

The overall expense rate was down in 1992 reflecting effective control in both divisions.

At the Bay, expenses declined both in dollars and in rate as against last year despite property tax increases significantly above inflation levels which continued to put upward pressure on occupancy costs.

At Zellers the expense rate declined in 1992 due to tight control and to the fact that sales increased at a faster rate than expenses.

In 1991 the expense rate was up despite effective controls. At the Bay expenses were reduced but the sales decline was greater than the expense decline. Higher occupancy costs at former Towers stores pushed up the rate at Zellers.

iv. Credit Earnings

Credit earnings before interest were up in 1992 as the cards issued to former Towers customers had their first full year of operation.

Bad debt expense continued to decline as a result of intensified collection activities and tighter control of credit granting.

In 1991 earnings were up slightly as new accounts at former Towers stores contributed to growth while bad debt expenses dropped marginally.

II. RETAIL PROPERTIES

The number and aggregate gross areas of Hudson's Bay Company's retail stores, by division, and distribution centres at January 31, 1993 and 1992 were:

	Number		Sq. Ft. (000's)	
	1993	1992	1993	1992
Stores				
The Bay	92	89	15,150	14,785
Zellers	274	272	18,928	18,620
Fields	119	124	875	943
	485	485	34,953	34,348
Distribution Centres	10	12	3,540	3,990

The Company owns the land and buildings of eight large downtown Bay stores, eight other Bay stores, 12 Zellers stores and four distribution centres. As well, the Company owns the Toronto Queen Street store building and approximately 60% of the related land, and the buildings (on leased land) of seven suburban Bay stores.

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

The Company's important non-retail properties are The Simpson Tower, a 32 floor office building in Toronto, and the former Simpsons downtown store in Montreal which is being held for sale or development.

III. FINANCIAL CONDITION

a) Cash Flow, Funding and Capital Spending

Cash inflow from operating activities amounted to \$236 million in 1992, compared with \$79 million in 1991 and \$219 million in 1990. The improvement of \$157 million in 1992 resulted from an increase of \$60 million from improved earnings together with positive cash flow of \$6 million from reduced working capital, a swing of \$97 million from the outflow of \$91 million last year. The small working capital reduction in 1992 included an inflow of \$42 million from reduced inventories, offset by a similar outflow from reduced trade payables.

In 1991 the decline in cash flow from operating activities resulted from an increase in working capital of \$91 million whereas 1990 had resulted in a reduction of \$16 million.

Net cash inflow for 1992 was \$88 million compared with an outflow of \$110 million the year before. The change of \$198 million was primarily due to the improved inflow from operating activities. Also, there were no cash requirements in 1992 related to the Towers Department Stores acquisition; in 1991 these amounted to \$36 million.

The 1991 net outflow was \$1 million less than in 1990 but that was the year that \$142 million was expended on the acquisition of Towers.

Capital expenditures were \$128 million in 1992 and, excluding the Towers acquisition, \$122 million in 1991 and \$120 million in 1990. Projected capital spending over the next three years averages \$100 million per annum. Continued expansion of Zellers is planned to take advantage of opportunities to add stores in locations that fit the long term strategy of the franchise. No new Bay stores are

committed during this period but both divisions will be renovating and upgrading existing stores where appropriate to maintain or enhance the desired marketing image.

The Company remains committed to continuing its expansion in communities where there are appropriate marketing opportunities.

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)		
	1992	1991	1990
From earnings	230	170	203
Working capital change	6	(91)	16
Inflow from Operating Activities	236	79	219
Capital expenditures	(128)	(122)	(120)
Towers acquisition	—	(36)	(142)
Fixed asset & investment dispositions	38	37	—
Dividends	(41)	(45)	(44)
Other	(17)	(23)	(24)
Net Cash Inflow (Outflow)	88	(110)	(111)
Funding:			
Debt	(101)	94	95
Equity	13	16	16
	(88)	110	111

b) Assets Employed and Liquidity

The objectives of the Company with regard 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 while providing reasonable protection from adverse movements in interest and foreign exchange rates; and
- to diversify sources of financing.

The following summary shows the assets employed at each operating division as financed by debt and equity for the last three years.

Assets Employed, Debt and Shareholders' Equity	(in millions of dollars)		
	1992	1991	1990
Assets Employed			
The Bay	1,220	1,237	1,294
Zellers	1,229	1,170	934
Fields	22	19	21
Other	166	162	152
	2,637	2,588	2,401
Provided from:			
Debt	1,239	1,335	1,243
Deferred taxes	82	27	(14)
Equity:			
Preferred	—	9	98
Common	1,316	1,217	1,074
	2,637	2,588	2,401
Debt:Equity Ratio	0.9:1	1.1:1	1.1:1

For the first time since 1978 there were no preferred shares outstanding at year end, the last remaining Series C shares having been redeemed in March 1992, and for the first time since 1973 shareholders' equity exceeds debt.

At 0.9:1 the Company's debt/equity ratio is well within an acceptable range for the retail industry.

c) Debt

Debt at the 1992 year end after deducting \$53 million of portfolio investments was \$1,239 million, of which \$875 million was long term and \$364 million was short term. The principal source of short term borrowing is commercial paper with some borrowings from banks (by way of banker's acceptances and overdrafts). Seasonal upswings in inventory are financed by short term debt.

The Company negotiates lines of credit annually with a number of Canadian banks to provide for short term financial needs. These credit lines are unsecured and uncommitted facilities. Management expects to be able to negotiate lines of credit sufficient to meet its requirements in 1993.

Long term debt coming due in 1993 amounts to \$106 million. Management is confident that it will be able to refinance this amount and raise any additional long-term funds required.

The rating by DBRS on Hudson's Bay Company debentures and those of Hudson's Bay Company Acceptance Limited and bonds of Hudson's Bay Company Properties Limited is "A low", having been increased from "BBB high" after release of the 1990 operating results. This followed an improvement in commercial paper rating from "R2(mid)" to "R1(low)" the year before.

Debt at 1992 year-end comprised \$235 million at fixed rates and \$1,004 million at nominal floating rates. However, rates on \$216 million of nominal floating rate debt have been fixed at an average rate of 11.9% through various currency agreements and interest exchange transactions.

Foreign exchange and floating rate interest rate risks are limited by hedges, swaps and caps under guidelines established and reviewed periodically by the Board. Debt subject to foreign exchange rate risk amounts to \$24.8 million, representing the Canadian dollar equivalent of unhedged U.S. dollar and sterling obligations.

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 contracts of insurance 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 dividends on the common shares at an annual rate of \$0.80 per share since April 30, 1990 at which time it was increased from \$0.60 per share.

CONSOLIDATED STATEMENTS OF EARNINGS

	Year Ended January 31,	
	1993	1992
	\$000's	\$000's
Sales and Revenue		
The Bay (Note 2)	2,017,189	2,118,398
Zellers	3,021,171	2,788,756
Fields	83,570	86,408
Other	30,286	38,681
	5,152,216	5,032,243
Operating Profit (Note 3)		
The Bay (Note 2)	91,473	59,409
Zellers	229,053	217,920
Fields	(1,291)	724
Other	(4,186)	(9,145)
	315,049	268,908
Gain on Sale of Investments (Note 8)	12,266	15,207
Earnings Before Interest and Income Taxes	327,315	284,115
Interest Expense (Note 4)	(127,842)	(144,599)
Earnings Before Income Taxes	199,473	139,516
Income Taxes (Note 5)	(82,750)	(56,736)
Net Earnings	116,723	82,780
Earnings Per Common Share (Note 6)	\$2.32	\$1.61

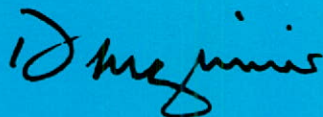
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	Year Ended January 31,	
	1993	1992
	\$000's	\$000's
Retained Earnings at Beginning of Year	388,459	350,144
Net Earnings	116,723	82,780
Dividends Paid		
Preferred shares	(310)	(5,031)
Common shares	(40,242)	(39,434)
Retained Earnings at End of Year	464,630	388,459

CONSOLIDATED BALANCE SHEETS

	1993	January 31, 1992
	\$000's	\$000's
Current Assets		
Cash	5,304	5,937
Short-term deposits (Note 13)	9,316	6,015
Customer accounts receivable	946,490	945,195
Other accounts receivable	133,325	146,581
Merchandise inventories	1,033,212	1,074,880
Prepaid expenses	42,946	41,583
	2,170,593	2,220,191
Secured Receivables (Note 7)	30,345	28,087
Investments (Note 8)	53,498	55,992
Fixed Assets (Note 9)	705,571	665,400
Deferred Charges (Note 10)	60,687	62,198
Goodwill (Note 11)	91,642	95,708
Pensions (Note 12)	167,343	146,542
	3,279,679	3,274,118
Current Liabilities		
Short-term borrowings (Note 13)	320,686	416,110
Trade accounts payable	271,067	313,954
Other accounts payable and accrued expenses	309,588	318,002
Income taxes payable	293	875
Long-term debt due within one year (Note 13)	105,828	67,909
	1,007,462	1,116,850
Long-Term Debt (Note 13)	874,792	904,533
Deferred Income Taxes	81,972	26,710
Contingencies (Note 18)		
Shareholders' Equity		
Capital (Note 14)	850,823	837,566
Retained earnings	464,630	388,459
	1,315,453	1,226,025
	3,279,679	3,274,118

On behalf of the Board:



Director



Director

CONSOLIDATED STATEMENTS OF CASH FLOW AND FUNDING

	Year Ended January 31,	
	1993	1992
	\$000's	\$000's
Operating Activities		
Earnings before income taxes	199,473	139,516
Current income tax expense	(27,488)	(11,088)
Less gain on sale of investments (Note 8)	(12,266)	(15,207)
Items not affecting cash flow;		
Amortization (Note 3)	88,752	75,525
Pension credits	(18,668)	(19,198)
Cash inflow from earnings (per share \$4.57 and \$3.36)	229,803	169,548
Net effect of changes in operating working capital (Note 15)	6,271	(90,947)
Net cash inflow from operating activities	236,074	78,601
Investing Activities		
Capital expenditures	(128,054)	(122,213)
Fixed asset dispositions	17,465	20,084
Investment dispositions (Note 8)	20,316	16,900
Acquisition of Towers Department Stores Inc.	—	(35,908)
Other	(17,577)	(22,671)
Net cash outflow for investing activities	(107,850)	(143,808)
Dividends		
Preferred shares	(310)	(5,031)
Common shares	(40,242)	(39,434)
Cash outflow for dividends	(40,552)	(44,465)
Net Cash Inflow From (Outflow For) Activities and Dividends	87,672	(109,672)
Funding		
Long-term debt:		
Issued	138,250	330,197
Redeemed	(135,131)	(245,908)
	3,119	84,289
Equity:		
Common shares issued	21,956	101,073
Preferred shares redeemed	(8,699)	(85,410)
	13,257	15,663
Net Cash Inflow From Funding	16,376	99,952
Decrease (Increase) in Net Short-Term Borrowings (Note 13)	104,048	(9,720)
Net Short-Term Borrowings at Beginning of Year	(362,619)	(352,899)
Net Short-Term Borrowings at End of Year	(258,571)	(362,619)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended January 31, 1993 and January 31, 1992

1. ACCOUNTING PRINCIPLES AND 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 accounting standards of the International Accounting Standards Committee for historical costs.

The significant accounting policies are as follows:

a) Consolidation

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

b) Segmentation

The dominant industry segment is retailing, which comprises retail stores, including both full-line and promotional department stores. Certain information within this segment has been shown separately in these consolidated financial statements for the three operating divisions, The Bay, Zellers and Fields, all of which operate solely in Canada.

c) Foreign currency translation

Foreign currency assets and liabilities, which primarily are components of debt and accounts payable, are translated into Canadian dollars at the exchange rates prevailing at the balance sheet dates.

Foreign currency costs and earnings, predominantly interest, are translated into Canadian dollars at approximately the exchange rates in effect at the time they are incurred or earned.

Exchange gains and losses arising from the translation of foreign currency denominated debt having a fixed term to maturity are deferred and amortized over the remaining life of the related issue.

d) Leases

Leases entered into by the Company as lessee that transfer substantially all the benefits and risks of ownership to the lessee are recorded as capital leases and included in fixed assets and long-term debt. All other leases are classified as operating leases under which rentals are recorded as expenses in the period in which they are incurred.

e) Earnings per common share

Earnings per common share are determined after deducting preferred dividends and are based on the weighted average number of common shares outstanding during the year.

f) Capitalization of interest

Interest relating to properties which are under construction or held for sale or development is capitalized as part of the cost of these assets when their net carrying amount is lower than their estimated net recoverable amount.

g) Customer accounts receivable

In accordance with recognized retail industry practice, customer accounts receivable, classified as current assets, comprise open-ended revolving credit card receivables, of which a portion will not become due within one year.

h) Merchandise inventories

Merchandise inventories are carried 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.

i) Portfolio investments

Portfolio investments comprising fixed term securities are carried at cost, with discounts or premiums arising on purchase amortized to maturity.

j) Fixed assets

Fixed assets are carried at cost. The cost of buildings (excluding the office tower noted below), equipment, equipment held under capital leases 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	3-12½ years
Equipment held under capital leases	5-8 years
Leasehold improvements	10-40 years

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

k) Deferred charges

Deferred charges include long-term prepaid rent, post employment benefits other than pensions and merchandise systems development costs, which are amortized on the straight-line method over periods of up to 15 years, 10 years and five years, respectively.

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

l) Goodwill

Goodwill comprises the unamortized balance of the excess of the cost to the Company over the fair value of its interest in the identifiable net assets of Zellers Inc. and the former Towers Department Stores Inc. (subsequently amalgamated with Zellers Inc.), at their respective dates of acquisition. This excess is being amortized on the straight-line method over periods of 40 years and 20 years, respectively.

m) Pensions

The Company maintains both defined benefit pension plans and defined contribution pension plans.

The costs of defined contribution pension plans, representing the Company's required contribution provided in exchange for services rendered by members, are charged to earnings as incurred.

The costs of defined benefit pension plans, calculated under the accrued benefit method, are charged to earnings as incurred but these costs are more than offset by earnings on assets representing plan surpluses.

n) Post employment benefits other than pensions

The Company's obligation to provide post employment benefits is limited to medical plan and life insurance commitments to certain former Simpsons employees and to the continuation of staff discount privileges to all employees working until retirement.

Provision has been made for the limited obligation in respect of former Simpsons employees. The impact of staff discount to retired employees is absorbed as a reduction in sales when the discount is applied.

o) Retail operating year

Because of the nature of the business it is necessary that the retail operating year closes at the end of a week. Consequently, most years contain 52 weeks, but every fifth or sixth year has to contain an extra week in order to close at the weekend preceding January 31. The year ended January 31, 1993 is such a year, containing 53 weeks.

p) Comparative figures

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

2. SIMPSONS MERGER AND SALE TO SEARS CANADA INC. ("SEARS")

Effective July 27, 1991 the Company merged its former Simpsons division with The Bay. In connection with this merger, the Company entered into agreements with Sears under which Sears acquired six Simpsons stores and two Bay stores and the Company acquired one Sears store. The Company received cash proceeds of \$37,000,000 from Sears, which marginally exceeded the book value of assets transferred and other costs related to the transfer. The excess was included in other operating profit in the Consolidated Statement of Earnings for the year ended January 31, 1992.

Sales and operating profit of Simpsons prior to the date of merger were reclassified as The Bay.

3. AMORTIZATION

Amortization of the cost of assets which is included in the Consolidated Statements of Earnings may be analyzed as follows:

	Year Ended January 31,	
	1993	1992
	\$000's	\$000's
Deducted in arriving at operating profit:		
Fixed assets	70,887	62,955
Deferred development costs	3,196	1,578
Other deferred items	8,452	9,627
Goodwill	4,066	3,878
	86,601	78,038
Included in interest expense:		
Debt discount and expense and foreign currency net gains and losses	2,151	(2,513)
	88,752	75,525

4. INTEREST EXPENSE

Interest expense may be analyzed as follows:

	Year Ended January 31,	
	1993	1992
	\$000's	\$000's
On long-term debt	96,759	106,229
On net short-term borrowings (see note 13)	31,385	39,390
	128,144	145,619
Less amount capitalized	(302)	(1,020)
	127,842	144,599

5. INCOME TAXES

The average statutory Canadian income tax rates for the years ended January 31, 1993 and January 31, 1992 were 43.2% and 42.6%, respectively. The following schedule reconciles nominal tax provisions at these rates with the amounts provided in the Consolidated Statements of Earnings.

	Year Ended January 31,	
	1993	1992
	\$000's	\$000's
Earnings before income taxes	199,473	139,516
Nominal income tax provision at average statutory Canadian income tax rates	86,172	59,434
Increase (decrease) in income taxes resulting from:		
Large corporations tax	5,612	5,048
Tax rates in other jurisdictions	(576)	(8,557)
Capital gains and losses	(2,369)	(1,917)
Adjustments to prior years' taxes	(2,196)	(843)
Non deductible costs	1,255	4,150
Transactions with affiliate (see note 17)	(5,148)	(579)
Provision for income taxes per Consolidated Statements of Earnings	82,750	56,736

6. EARNINGS PER SHARE

Fully diluted earnings per share for the year ended January 31, 1993 amount to \$2.22. Fully diluted earnings are calculated under the assumption that all outstanding stock options at January 31, 1993 (both vested and unvested) had been exercised as of February 1, 1992 with the resulting proceeds used to reduce interest-bearing debt.

7. SECURED RECEIVABLES

Secured receivables comprise the following:

	January 31,	
	1993	1992
	\$000's	\$000's
Mortgages	37,366	21,935
Employee share ownership plan loans	7,486	6,953
Total secured receivables	44,852	28,888
Less amounts due within one year classified as other accounts receivable	(14,507)	(801)
	30,345	28,087

Maturities during the five years ending January 31, 1998 are as follows:
 1994-\$14,507,000; 1995-\$12,956,000; 1996-\$1,113,000;
 1997-\$ 1,320,000; 1998-\$ 4,674,000.

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

8. INVESTMENTS

Investments comprise the following:

	January 31,	
	1993	1992
	\$000's	\$000's
Portfolio investments (see note 13)	52,799	47,476
The North West Company Inc.	-	8,050
Other	699	466
	53,498	55,992

Portfolio investments are bonds held primarily to support funding obligations and generally will be held until, and replaced upon, maturity.

During the year ended January 31, 1993 the investment in The North West Company Inc., which consisted of 1,442,000 common shares, was sold for net proceeds of \$20,316,000, resulting in a pre-tax gain of \$12,266,000.

During the year ended January 31, 1992 the Company sold an investment in a shopping centre for net proceeds of \$16,900,000, resulting in a pre-tax gain of \$15,207,000.

9. FIXED ASSETS

Fixed assets comprise the following:

	January 31,	
	1993	1992
	\$000's	\$000's
Cost:		
Land	71,560	72,944
Buildings	269,943	267,433
Equipment	762,171	712,287
Equipment held under capital leases	7,123	-
Leasehold improvements	106,438	90,854
Property for sale or development	37,056	37,056
	1,254,291	1,180,574

January 31,

	January 31,	
	1993	1992
	\$000's	\$000's
Accumulated amortization:		
Buildings	(119,703)	(119,266)
Equipment	(401,620)	(376,118)
Equipment held under capital leases	(423)	-
Leasehold improvements	(26,974)	(19,790)
	(548,720)	(515,174)
	705,571	665,400

During the year ended January 31, 1993, in connection with an ongoing review of its facilities, the Company disposed of several distribution centres and other properties. As a result, the Company recorded pre-tax net gains of \$5,095,000. Gains on property disposals in the year ended January 31, 1992 were insignificant.

10. DEFERRED CHARGES

Unamortized deferred charges comprise the following:

	January 31,	
	1993	1992
	\$000's	\$000's
Long-term prepaid rent	35,841	37,204
Post employment benefits other than pensions	10,466	12,557
Merchandise systems development costs	14,578	8,211
Other items	2,138	9,472
Debt discount and expense	111	1,468
Foreign currency net gains	(2,447)	(6,714)
	60,687	62,198

11. GOODWILL

Of the unamortized balance of goodwill which arose on the acquisitions of Zellers Inc. and of Towers Department Stores Inc. (since amalgamated with Zellers Inc.), \$56,042,000 will be amortized over the next 28 years and \$35,600,000 will be amortized over the next 18 years.

12. PENSIONS

Pensions in the Consolidated Balance Sheets represents the recorded portion of the excess of plan assets over accrued plan benefits, in respect of defined benefit plans, net of other obligations to retired employees.

In respect of defined benefit pension plans at January 31, 1993 the aggregate actuarial present value of accrued benefits is \$370,000,000 and the aggregate market value of assets is \$592,000,000. Corresponding aggregate benefit and asset figures for defined benefit plans at January 31, 1992 were \$364,000,000 and \$595,000,000, respectively.

The excess of the value of defined benefit pension plan assets over the actuarial present value of accrued 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.

13. DEBT

Total debt may be analyzed as follows:

	January 31,	
	1993	1992
	\$000's	\$000's
Short-term borrowings	320,686	416,110
Less short-term deposits	(9,316)	(6,015)
Less portfolio investments (see note 8)	(52,799)	(47,476)
Net short-term borrowings	258,571	362,619
Long-term debt due within one year (a)	105,828	67,909
Long-term debt (a)	874,792	904,533
	1,239,191	1,335,061
Long-term debt comprises the following:		
Secured on real property:		
Hudson's Bay Company Properties Limited		
9% first mortgage bonds series D due 1997 (b)	—	28,826
10% first mortgage bonds series E due 1998	20,017	23,408
	20,017	52,234
Secured on accounts receivable:		
Hudson's Bay Company Acceptance Limited		
8¼% debentures series E due 1993 (b)	—	20,000
10¼% debentures series F due 1996 (b)	—	16,605
11.56% debentures series N due 1996	25,000	25,000
11.23% debentures series N due 1996	25,000	25,000
13¼% debentures series G due 2001	44,544	44,544
Floating rate debt: (a)(d)		
Term loan due 1994	25,000	25,000
Term loan due 1995	50,000	50,000
Term loans due 1996	55,000	55,000
Simpsons Acceptance Company Limited		
8% debentures series F due 1992	—	10,000
8% debentures series G due 1992 (b)	—	15,000
9% debentures series H due 1997 (b)	—	12,108
	224,544	298,257
Secured—other		
Hudson's Bay Company		
Capital lease obligations at an average rate of 10.46% and maturing in 2000	6,660	—
Total secured	251,221	350,491

	January 31,	
	1993	1992
	\$000's	\$000's
Unsecured:		
Hudson's Bay Company		
11% notes due 1993	25,000	25,000
Dual currency bonds due 1993 (U.S. \$61,185,000 and U.S. \$66,393,000, respectively) (c)	77,705	77,680
10% debentures due 1994 (U.S. \$18,954,000 at January 31, 1992) (b)	—	22,528
15.36% term loan due 1995–1997 (£5,592,000)	10,569	11,743
Floating rate debt: (a)(d)		
Term loans due 1994	75,000	75,000
Term loans due 1995	210,510	160,000
Term loans due 1996	300,615	250,000
Term loans due 1997	30,000	—
	729,399	621,951
	980,620	972,442
Less amounts due within one year	(105,828)	(67,909)
	874,792	904,533

(a) Long-term debt (including amounts due within one year) at January 31, 1993 includes floating rate debt amounting to \$746,125,000. Of this amount, \$216,000,000 has been fixed at 11.9% through various currency and interest exchange agreements.

(b) Debt redeemed prior to maturity amounted to \$115,067,000 in the year ended January 31, 1993 and \$26,675,000 in the year ended January 31, 1992.

(c) The dual currency bonds bear interest at 8.0% based on a notional principal amount of 101,975,000 Swiss Francs at January 31, 1993. The effective Canadian interest rate on these bonds is 9.0%.

(d) The Company's floating rate debt comprises term loans and notes with several financial institutions.

Most of the long-term debt issues are subject to redemption at the option of the issuers at various times or under certain conditions. In some cases, redemption earlier than within two or three years of maturity would require the payment of redemption premiums.

Aggregate maturities and sinking fund requirements during the five years ending January 31, 1998 are as follows:
 1994-\$105,828,000; 1995-\$104,492,000; 1996-\$268,796,000;
 1997-\$416,878,000; 1998-\$ 38,905,000.

14. CAPITAL

The authorized classes of shares of the Company consist of unlimited numbers of preferred shares and common shares, all without nominal or par value. By special resolution of the shareholders on May 21, 1992, provisions of the Company's articles designating and fixing the terms of specific numbers of preferred shares as series A, C and H were deleted.

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

	1993		January 31, 1992	
	Number of shares	\$000's	Number of shares	\$000's
Capital stock:				
Preferred shares series C	—	—	347,939	8,699
Common shares	50,756,454	833,166	49,827,961	811,210
		833,166		819,909
Additional paid-in capital		17,657		17,657
		850,823		837,566

The changes in shares issued and outstanding during the two years ended January 31, 1993 are as follows:

	Number of shares	\$000's
Preferred shares series A:		
Issued and outstanding at January 31, 1991	3,675,418	82,697
Purchased for cash and cancelled:		
Pursuant to offer (see below)	(2,045,029)	(46,013)
Open market	(150,300)	(3,382)
Redeemed	(1,480,089)	(33,302)
Issued and outstanding at January 31, 1992	—	—
Preferred shares series C:		
Issued and outstanding at January 31, 1991	608,868	15,222
Purchased for cash and cancelled	(220,931)	(5,523)
Redeemed	(39,998)	(1,000)
Issued and outstanding at January 31, 1992	347,939	8,699
Redeemed	(347,939)	(8,699)
Issued and outstanding at January 31, 1993	—	—

	Number of shares	\$000's
Common shares:		
Issued and outstanding at January 31, 1991	45,597,995	710,137
Issued:		
Under the employee share ownership plan	147,520	2,877
Under the executive stock option plan	481,421	7,603
Under the dividend reinvestment plan	583,531	17,692
On conversion of Zellers Inc. 5½% convertible subordinated debentures series 1971	17,494	382
To a Canadian underwriting group	3,000,000	72,519
Issued and outstanding at January 31, 1992	49,827,961	811,210
Issued:		
Under the employee share ownership plan	50,880	1,749
Under the executive stock option plan	288,724	4,413
Under the dividend reinvestment plan	588,889	15,794
Issued and outstanding at January 31, 1993	50,756,454	833,166
Weighted average number of common shares outstanding during the year ended January 31, 1993	50,262,685	

Between February 19, 1991 and March 15, 1991, pursuant to an offer dated February 19, 1991 to the holders of preferred shares series A, the Company purchased for cancellation 2,045,029 series A shares at \$20.75 per share for an aggregate cost, including expenses, of \$42,481,000. The funds borrowed to purchase these shares were repaid from the net proceeds of \$72,519,000 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. These shares, together with series A shares purchased on the open market for cancellation during the year ended January 31, 1992, were acquired at an aggregate cost \$3,738,000 below book value; this amount was included in "additional paid-in capital". All remaining outstanding series A shares were redeemed on January 17, 1992 at a redemption price of \$22.50 per share. Holders were entitled to receive dividends at a rate of 8.0% until redemption.

Preferred shares series C purchased for cancellation during the year ended January 31, 1992 were acquired at an aggregate cost \$72,000 below their book value; this amount was included in "additional paid-in capital". All remaining outstanding series C shares were redeemed on March 15, 1992 at a redemption price of \$25.00 per share. Holders were entitled to receive dividends at a rate of 7.12% until redemption.

At January 31, 1993 3,585,946 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 3,490,304 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 August 1993 and August 2002 and have a weighted average issue price of \$22.39 per share. At January 31, 1993 95,642 options were unallocated.

At January 31, 1993 the holders of approximately 15.4% 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.

15. CHANGES IN OPERATING WORKING CAPITAL

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

	Year Ended January 31,	
	1993	1992
	\$000's	\$000's
Decrease (increase) in:		
Cash	633	1,193
Customer accounts receivable	(1,295)	(53,517)
Other accounts receivable	13,256	72,277
Merchandise inventories	41,668	(119,785)
Prepaid expenses	(1,363)	(9,099)
Increase (decrease) in:		
Trade accounts payable	(42,887)	4,723
Other accounts payable and accrued expenses	(3,159)	13,246
Income taxes payable	(582)	15
	6,271	(90,947)

16. LEASES

a) As lessee

The Company conducts a substantial part of its operations from leased stores in shopping centres. All shopping centre leases have been accounted for as operating leases.

Rental expenses related to operating leases charged to earnings in the years ended January 31, 1993 and January 31, 1992 were \$135,000,000 and \$139,000,000, 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:

	Operating Leases	Capital Leases
	\$000's	\$000's
Year ending January 31, 1994	122,500	1,300
1995	114,700	1,300
1996	109,700	1,300
1997	105,500	1,300
1998	100,100	1,300
Thereafter	1,038,400	2,600
Total minimum lease payments	1,590,900	9,100

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, 1993 and January 31, 1992 include an office tower partially leased to others under operating leases, with a cost of \$21,800,000 at both dates and accumulated amortization of \$6,900,000 and \$6,500,000, respectively. Sales and revenue for the years ended January 31, 1993 and January 31, 1992 include third party rentals from this property of \$6,800,000 and \$7,900,000, respectively.

17. RELATED PARTY TRANSACTIONS

a) Tax benefits

During the years ended January 31, 1993 and January 31, 1992 the Company recorded net income tax benefits of \$5,148,000 and \$579,000, respectively, (see note 5) from transactions between a wholly-owned subsidiary and the Company's former ultimate holding company which had the effect of accelerating the recovery of tax losses incurred by the latter. These transactions took place between December 17, 1991 and November 19, 1992.

These benefits resulted from the issuance of taxable interest bearing debt on December 17, 1991 and the concurrent purchase of a similar amount of non-taxable dividend earning preferred shares. These transactions reduced current income taxes otherwise payable by the subsidiary for the years ended January 31, 1993 and January 31, 1992 by \$24,572,000 and \$4,043,000, respectively. As reimbursement for the tax losses transferred, \$19,424,000 and \$3,464,000, respectively, were settled in aggregate on November 25, 1992 by payment to the ultimate holding company. The net amounts were recorded as a reduction of income tax expense in the Consolidated Statements of Earnings.

Both parties had a legally enforceable right to extinguish, by set off at any time, the loan and the preferred shares and settlement was effected on November 19, 1992 by concurrent repayment of the debt and redemption of the preferred shares. Consequently, the corresponding asset and liability were offset in the Consolidated Balance Sheet at January 31, 1992 and corresponding pre-tax income and expense arising therefrom were similarly offset in the Consolidated Statements of Earnings.

b) Other

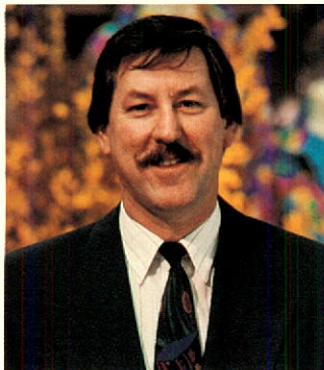
The Company is involved in numerous transactions with related parties in the ordinary course of its business. None of these transactions is significant in relation to these consolidated financial statements.

18. CONTINGENCIES

As of January 31, 1993 there are a number of claims against the Company in varying amounts and for which provisions have been made in these consolidated financial statements as appropriate. It is not possible to determine the amounts that may ultimately be assessed against the Company with respect to these claims but management believes that any such amounts would not have a material impact on the business or financial position of the Company.

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The management of Hudson's Bay Company is responsible for the preparation, presentation and integrity of the consolidated financial statements contained on pages 19 to 27 of this Annual Report and of financial information, discussion and analysis consistent therewith, 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 judgements and estimates have been made by management in preparing the consolidated financial statements.



Gary Lukassen

In order to meet its responsibility, management has established a code of business conduct and 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. Internal and external auditors have unlimited access to the Audit Committee. The Audit Committee recommends to the Board the accounting firm to be named in the resolution to appoint auditors at each annual meeting of shareholders. The Audit Committee reviews consolidated financial statements and the other contents of the Annual Report with management and the external auditors and reports to the directors prior to their approval 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

Toronto, Canada
March 11, 1993

Executive Vice-President and
Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Hudson's Bay Company as at January 31, 1993 and January 31, 1992 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, 1993 and January 31, 1992 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 11, 1993

DIRECTORS

Ian A. Barclay, Vancouver ■

Associate, McQuaid & Associates 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 largest shareholder of Hudson's Bay Company.
Elected 1985

Gurth C. Hoyer Millar, London, England

Chairman, T.T. Hughes PLC, a discount retailer in the U.K.
Elected 1976

George J. Kosich, Toronto*

President and Chief Executive Officer, Hudson's Bay Company; 33 years service with the company.
Elected 1985

Gary J. Lukassen, Toronto*

Executive Vice-President and Chief Financial Officer, Hudson's Bay Company; 18 years service with the company.
Elected 1987

Donald S. McGiverin, Toronto ■

Governor, Hudson's Bay Company; 24 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 largest 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 largest shareholder of Hudson's Bay Company.
Elected 1987

Kenneth R. Thomson, Toronto*

Chairman, The Thomson Corporation. Mr. Thomson is, beneficially, the largest shareholder of Hudson's Bay Company.
Elected 1979

Douglas J. Tigert, Babson Park, Mass.

Charles Clarke Reynolds Professor of Marketing Babson College
Elected 1992

John A. Tory, Toronto* ■

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

Neil R. Wood, Toronto

President, Markborough Properties Inc., a real estate development company which is associated with the largest 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

Robert N. D. Hogan
Senior Vice-President,
Credit & Financial Marketing
Services

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

A. Rolph Huband
Vice-President and Secretary

R.G. (Robin) Norris
Vice-President and
Managing Director,
Asian Operations

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

Zellers Inc.

Paul S. Walters
President

Fields Stores

Janis R. Ostling
President

CORPORATE INFORMATION

Registered Office

401 Bay Street
Toronto, Ontario M5H 2Y4

Auditors

Peat Marwick Thorne

Principal Bankers

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

Registrars and Transfer Agents

The R-M Trust Company,
Calgary, Montreal, Toronto, Vancouver,
Winnipeg and London, England
For assistance with your holdings,
call 1-800-387-0825.

Stock Exchange Listings

Common shares are listed on the
Montreal and Toronto Exchanges.

Annual Meeting

The 324th Annual Meeting of Shareholders will be held at
the Arcadian Court, 8th Floor, 401 Bay Street (Queen Street store),
Toronto, on May 21, 1993 at 3:00 p.m.

On peut obtenir ce rapport annuel en français sur demande.

COMPARATIVE FINANCIAL SUMMARY

(For the purpose of comparability, extraordinary items and recoveries of pre 1987 tax losses have been eliminated and certain other figures have been restated.)

	1992	1991	1990	1989	1988	1987
Operations (in millions of dollars)						
Sales and revenue:						
The Bay	2,017	2,118	2,322	2,296	2,334	2,356
Zellers	3,021	2,789	2,330	2,150	2,011	1,845
Fields	84	86	91	90	88	88
Other	30	39	227	68	58	56
Total sales and revenue	5,152	5,032	4,970	4,604	4,491	4,345
Operating profit:						
The Bay	91	59	122	129	89	81
Zellers	229	218	200	180	142	93
Fields	(1)	1	3	3	2	1
Other	(4)	(9)	(8)	3	(5)	6
Gain on sale of investments	315	269	317	315	228	181
Earnings before interest and income taxes	12	15	—	—	—	—
Interest expense	327	284	317	315	228	181
Earnings before income taxes	(128)	(144)	(155)	(158)	(171)	(168)
Income taxes	199	140	162	157	57	13
Net earnings	(82)	(57)	(64)	(59)	(20)	—
Preferred dividends	117	83	98	98	37	13
Earnings for common shareholders	—	(5)	(8)	(22)	(27)	(28)
Common dividends	117	78	90	76	10	(15)
Cash flow:						
From earnings	40	40	36	21	18	18
From changes in operating working capital	230	170	203	190	104	119
From operations	6	(91)	16	44	44	(134)
Capital expenditures	236	79	219	234	148	(15)
Investment in Towers	(128)	(122)	(120)	(92)	(36)	(30)
Dividends	—	(36)	(142)	—	—	—
Other	(41)	(45)	(44)	(43)	(45)	(46)
Net cash inflow from (outflow for) activities and dividends	21	14	(24)	32	17	71
Assets Employed (in millions of dollars)	88	(110)	(111)	131	84	(20)
The Bay	1,220	1,237	1,294	1,270	1,301	1,288
Zellers	1,229	1,170	934	757	703	700
Fields	22	19	21	18	18	17
Other	166	162	152	153	209	383
Assets employed	2,637	2,588	2,401	2,198	2,231	2,388
Funding thereof:						
Debt	1,239	1,335	1,243	1,147	1,441	1,549
Deferred income taxes	82	27	(14)	6	(1)	(42)
Shareholders' equity:						
Preferred shareholders	—	9	98	104	344	357
Common shareholders	1,316	1,217	1,074	941	447	524
	1,316	1,226	1,172	1,045	791	881
Debt:Equity Ratio	2,637	2,588	2,401	2,198	2,231	2,388
	0.9:1	1.1:1	1.1:1	1.1:1	1.8:1	1.8:1
Per Common Share (in dollars)						
Net earnings	2.32	1.61	2.01	2.26	0.32	(0.51)
Cash flow from earnings	4.57	3.36	4.35	5.02	2.53	3.05
Dividends	0.80	0.80	0.80	0.60	0.60	0.60
Equity	25.92	24.43	23.53	21.09	14.41	16.33
Shareholders						
Number of registered common shareholders	6,800	7,000	7,400	7,800	8,900	9,300
Common shares outstanding (in thousands):						
Year end	50,756	49,828	45,598	44,609	30,993	30,187
Average	50,263	48,956	44,959	33,489	30,556	29,801
Range in common share price during year (in dollars):						
After Markborough distribution	32-26	37-24	24-16	38-25	26-19	29-18
Before Markborough distribution			34-28			
The Economy (% increase)						
Gross domestic product	0.9	(1.5)	0.8	3.1	4.5	4.0
Consumer price index	1.5	5.6	4.9	5.0	4.1	4.4
Department store type merchandise sales	3.4	(7.0)	1.5	9.2	7.8	8.1



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