Hudson's Bay Company 2000 Annual Report

Hudson's Bay Company
Compagnie de la Baie d'Hudson

We Are HBC
We Are Canada's Merchants

2000 Highlights

(millions of dollars)	2000	1999	1998
Sales and revenue	2,791	2,594	2,485
EBIT	162	128	52
Net assets	1,207	1,155	1,287

Review of Operating Highlights

- Consolidated sales and revenue in 2000 for the Bay were 7.6% higher than last year, with comparable store retail sales up by 6.0%.
- The Bay's EBIT increased by 26.1% in 2000, on top of a 1999 increase of 146.3%.
- In year two of its strategic direction, the Bay is continuing to reinforce itself as Canada's top-of-mind fashion and style authority, offering a unique stylish point of view and generating brand passion through a merchandise-driven and customer-focused approach.
- Through newly designed communication programs, the Bay is communicating to its customer the "Shopping is Good" brand promise.
- In 2000, the Bay launched two new private brands – *Togo* and *Mantles* – offering the customer a cohesive, overall fashion direction and consistent value.
- The Bay developed and implemented a number of workforce initiatives aimed at improving customer service focused skill sets including the chain-wide Pride & Practices training.

(millions of dollars)	2000	1999	1998
Sales and revenue	4,637	4,598	4,498
EBIT	157	150	134
Net assets	1,635	1,740	1,958

Review of Operating Highlights

- Sales and revenue were 0.9% higher at Zellers than last year, with comparable store sales up by 0.4%.
- Zellers achieved earnings improvement of 4.9%.
- In 2000, Zellers' EBIT improved in every quarter, extending the trend that has continued for the last 12 quarters.
- Key customer satisfaction measurements showed significant improvement in areas of staffing and in-stock advertised items.
- Zellers continued to refine its real estate portfolio to ensure profitable quality retail space by opening 11, expanding eight, renovating 20 and closing nine stores with a net square footage increment of 878,000 square feet (3.1%).
- Zellers installed Retek, a state-of-the-art merchandising platform and Data Warehouse. Both had a significant positive impact on in-stock levels and inventory management.

Hudson's Bay Company, established in 1670, is Canada's largest department store retailer and oldest corporation. The Company provides Canadians with the widest selection of goods and services available through numerous retail channels including more than 500 stores led by the Bay and Zellers chains. Hudson's Bay Company is Canada's fifth largest employer with 70,000 associates and has operations in every province in Canada.

Profile

the Bay

The Bay will exceed customers' expectations by being Canada's best department store chain, offering style and trend leadership in private and national brands to middle and upper income Canadians. With a shared commitment and common focus held by all associates on delivering style, value and service, the Bay will make shopping effortless and choices easy in our urban and suburban stores.

- The Bay is the fashion department store retail brand of Hudson's Bay Company, operating 101 stores across the country with 17,230,000 square feet of retail space.
- The Bay employs 25,000 associates.
- The Bay also operates six Home Outfitters stores, a kitchen, bed and bath superstore chain with an average footprint of 40,000 square feet. There are plans for 2001 to add an additional 20 to the chain.

Zellers

Zellers and its 35,000 associates, in its 330 locations across the country, are committed to delivering Canadian Moms the style and quality they want with the savings they need.

- Zellers is the mass channel retail brand of Hudson's Bay Company. Its 330 locations across Canada offer Canadian families 29,165,000 square feet of retail space.
- Through its famous brands, including *Martha Stewart, Cherokee* and *Truly*, Zellers' goal is to deliver a greater share of Mom's needs by offering her a uniquely tailored shopping experience with stylish products that deliver her great savings.
- In 2000, on the strength of its people, Zellers was recognized as the second best company overall and the best retailer to work for in Canada by the *Globe and Mail*'s *Report on Business Magazine*'s Year 2000 survey of Canadian companies.
- Zellers also operates 25 Zellers Select stores, built to deliver the strength and value of the Zellers' shopping experience to underserved, smaller markets across Canada.

The Bay and Zellers Profiles and 2000 Highlights over >

(millions of dollars)	2000	1999	1998
Sales and revenue	7,518.6	7,295.8	7,075.0
Net earnings	125.3	96.0	41.5
Cash flow from operations	467.1	449.6	157.5
Capital expenditures	241.5	155.9	292.9
Debt:equity ratio	0.30:1	0.35:1	0.76:1
(dollars)			
Per share			
Net earnings	1.60	1.17	0.57
Net earnings – fully diluted	1.47	1.11	0.57
Cash flow from operations	6.50	6.03	2.18
Dividends	0.36	0.36	0.72
Equity	29.78	27.91	27.01

To Our Customers, Investors, Partners and Associates

We are pleased to report to our shareholders on behalf of the Board and Management that 2000 was a pivotal year for Hudson's Bay Company. Armed with both a strategic and tactical plan built in 1999, the team moved quickly and broadly to significantly improve and enhance our retail competencies and value to our customers. The retail environment continued to change and evolve as much of the former Eaton's real estate left fallow in the fourth quarter of 1999 came on stream throughout the year. HBC seized the opportunity and acquired 17 excellent locations, 10 as replacement and seven as incremental. Our competitors took 19 locations, seven of which were reopened under the Eatons banner. Consumer spending weakened in the last quarter of 2000, forcing retailers to be ever more adroit at meeting customers' expectations while managing the financial fundamentals.

There were many notable achievements in HBC during 2000, including continuing significant improvements in our balance sheet and a 37% improvement in earnings per share after a gratifying 105% in 1999. (This represents a 181% increase over the past two years). In previous letters to shareholders, we spoke of our continuing commitment to focus our energies, create value for our customers and shareholders, and build ever enhanced infrastructure and enterprise wide competencies. The many parts of HBC converge in a single vision:

> *HBC is a seamless retail organization built to best serve the needs of the majority of Canadian consumers through several highly focused formats, linked by customer bridges and enabled by common and integrated support services.*

We are pleased to report on our progress to date and our plans for the future based on the direction above.

A seamless retail organization built to best serve the needs of the majority of Canadian consumers...

The consumer market in Canada can generally be broken down to definitive unit and volume demand by commodity. Furthermore, there are price points, fashion and brand preferences that, when coupled with commodities carried, to a large degree create the "channels" within retail.

HBC is the only Canadian retailer that can legitimately claim to be Canada's merchant, as we have developed and continue to perfect multi-channel distribution targeted to best fulfill the defined demand of the consumer, whether we talk about commodities carried, price point, fashion or brand preference.

In effect, we are matching known customer spend patterns to merchandise assortment carried in our focused retail formats, in concert, a seamless continuum of goods and services offered to the customer in easy-to-shop, easy-to-understand formats.

That matching of customer demand to our merchandise offering has been dramatically enhanced beyond Zellers, the mass merchant channel, and the Bay, the department store channel.

L. Yves Fortier, C.C., Q.C.
Governor, Hudson's Bay Company

George J. Heller
President & Chief Executive Officer
Hudson's Bay Company

Home Outfitters

Home Outfitters, a bed, bath, kitchen and home décor superstore concept we incubated in 1999, has become six stores with 20 additional sites signed for opening in 2001. This 40,000 square foot power centre store is based on dominant assortments at everyday low price. Operated by the Bay with a separate management team, we see growing this format to 50 stores by 2003. Home Outfitters fully leverages all systems, processes, logistics and buying power. Furthermore, as a power centre format, it extends our reach in commodities where we have large market share and dominant expertise.

hbc.com

We opened in November with a carefully conceived and fully leveraged web-based offering, further extending our reach and enabling both customers who have and those who don't have access to Bay and Zellers merchandise a way to trade with us at their convenience. Situated in one of our existing Distribution Centres in Toronto, the fulfillment centre, utilizing state-of-the-art systems and leveraging all our logistic capabilities, also handles our Company loyalty program redemptions as well as the more than 30 third party loyalty programs we operate as a profit centre.

Our initial product offering was limited to some 4,000 items to ensure customer satisfaction. By Fall of 2001, the offering will expand to 15,000 and, as with our third party loyalty program, we will actively seek compatible third parties who need web-based selling capabilities. hbc.com will be the "online shopping partner" of more than the Bay and Zellers.

We are building our merchandise offering and reach to best match customer demand in Canada, seeking to extend our relationship with each customer, and to truly meet the needs of the majority of Canadian customers within HBC.

A seamless retail organization built to best serve the needs of the majority of Canadian consumers ***through several highly focused retail formats...***

Zellers

Thomas Haig and his team continue to successfully position Zellers as the mass merchant offering style and price in Canada. With 12 consecutive quarters of both profit and sales growth, Zellers has vastly improved capabilities and created value for its customers. The continuing aggressive real estate strategy of upgrading the store portfolio resulted in 11 openings, nine closings, eight expansions and 21 renovations. In three years, Zellers' average store size has gone from 77,000 to 92,000 square feet. Plans for this year are four new openings, 12 closings, 10 expansions and two renovations.

Zellers continues to refine the "Zellers Select" small store format which has proven to be successful. Plans are to convert an additional 18 small non-urban units to this format with an eye to expanding this concept to smaller communities that cannot support full size Zellers units.

A major milestone was achieved this past year as Zellers successfully installed a new merchandise platform, the largest Retek installation in the world. Though not without considerable work and difficulties, this new platform, coupled with the new Data Warehouse Decision Support System and the refined Inforem III auto-replenishment system, is fully functional and finally gives Zellers the tools and visibility they need to meet and exceed customer expectations by location. The continuing strategy to upgrade the information systems has already resulted in reduced inventory levels. In 2001, Zellers will concentrate on maximizing, instead of installing, much needed system enhancements.

Zellers continues to differentiate and improve its merchandise offering. The core strategy of developing private and captive brands reached a milestone as Zellers did fully 25% of its total volume in proprietary products, offering extraordinary style and price unique in the marketplace. This growth will continue as other private brands are introduced and current brands increase their offering and volume.

Thomas and the entire team have built a solid, experienced and committed workplace that was recognized nationally as one of the two best companies to work for in Canada. Zellers has the people, the systems, the real estate and the merchandise offering to compete successfully in a very competitive environment.

The Bay

Marc Chouinard and his team had a banner year and fully took advantage of the reduced presence of Eaton's. The Bay opened 10, expanded one and closed eight stores, for a net of two incremental stores and 348,000 incremental square feet, significantly upgrading the portfolio. The new suburban prototype with its hallmark centralized customer transaction centre proved very successful. Beyond the above noted units, the centralized cash centres were introduced in 51 other locations. Combined with increased staffing levels, staff training and the upgrading of 50% of the point-of-sale equipment which is 40% faster, the Bay has gone a long way to improve customer service, definitively noticed by customers through tracking studies.

The urban store strategy, covering downtown and regional fashion shopping centres, internally called "experience" stores, shone by the third quarter. Expanded brands, enhanced visual and merchandise presentation, increased staffing, differentiated advertising and exciting special events were noticed and applauded by our customers. Beyond national brand expansion, two significant merchandising enhancements were introduced chain-wide. The Bay introduced *Togo* and *Mantles*, private brands at the mid-price level, catering to customers with carefree and structured lifestyles, respectively. Representing both fashion and value, these two brands will grow significantly in 2001 and will be joined by two additional private brands, *Outline* and *Market Square*, increasing the fashion and value quotient at budget price levels which are important price levels for the suburban customer.

After significant system and process work, the Bay expanded its "Big Ticket" presence and merchandise offering, adding 35% more floor space in 56 stores. Electronics, major appliances, sleep shop and upholstered goods add volume as well as value to our customers. This continues to be a growth vehicle, utilizing internal floor space and favourable vendor terms.

These changes and enhanced assortments will continue and improve, with the suburban stores targeting the middle class family, offering fashion and value, and the urban stores catering to those customers requiring expanded and incremental assortments, fashion direction and, overall, a shopping "experience."

The new marketing direction is to communicate fashion and value, along with the excitement of the urban stores. In total, "Shopping is Good" communicates the brand promise and projects an image of the Bay which is fresh, spontaneous, imaginative, exciting and trusted.

*A seamless retail organization built to best serve the needs of the majority of Canadian consumers through several highly focused formats, **linked by customer bridges...***

Statistically 72% to 78% of consumers cross-shop the mass and department store channels. They do this by necessity as neither channel dominates (or carries) all commodities.

We are working on extending our relationship with both the Zellers and Bay customers so they complete their shopping within HBC. Because we have two credit card bases and two loyalty programs, we have unique insight and ability to communicate, motivate and incent shopping behaviour.

In September, we launched credit card "reciprocity"; the Bay and Zellers cards are accepted universally within HBC, creating a higher customer value card and a reason/facility to cross-shop our formats. The reciprocity not only encourages cross-shopping within HBC, but also is more cost efficient in many ways for us, not the least being the acquisition cost of new customers who get far greater utility from one credit card.

In Spring of 2001 we will launch an HBC universal loyalty program called HBC Rewards, allowing our customers to accumulate points across all our formats. The incredibly successful Club Z program is co-branded with HBC rewards and extends to the Bay, Home Outfitters and hbc.com. The rewards to the customer are the best in the industry, and, given the breadth of assortment they get points on, they accumulate faster than other programs. We will extend the accumulation of HBC points beyond our Company as we sign on complementary third parties.

We have given our customers two excellent and rewarding reasons to cross-shop within HBC. We have made it easier for them by reducing to two cards the number they need to transact with us and ultimately we will have one very high utility card that is accepted HBC-wide, combining a credit facility and the biggest reward program in Canada.

As we extend our relationship with each customer, we will ultimately be unique; able to direct our advertising in a way that best offers the merchandise each customer has shown interest in through his or her shopping history.

*A seamless retail organization built to best serve the needs of the majority of Canadian consumers through several highly focused formats, linked by customer bridges **and enabled by common and integrated support services.***

We are well underway and refining our execution of providing all our retail formats with common, integrated, effective and cost efficient "back-of-house" infrastructure and services. This allows our retail companies to concentrate on merchandising, marketing and customer service, while HBC Shared Services concentrates on providing enhanced and cheaper core and common needs.

Thomas Haig
Executive Vice-President, Hudson's Bay Company
President & Chief Operating Officer, Zellers

Information Services

Our I.S. group under Dave Poirier and Gary Davenport had a prodigious year, Retek and Data Warehouse in Zellers, Inforem III in the Bay, Catalyst at hbc.com, along with numerous smaller system enhancements. All the above merchandise tracking and decision support systems are universal within all HBC retail formats with the exception of Retek at the Bay which is scheduled for early 2002. Working with Bill Luciano and his team, I.S. is in the early stages of implementing an HBC-wide Oracle financial enterprise resource planning (ERP) system. We anticipate completion by mid-2002, giving us faster, more accurate and actionable financial information at lower cost.

Logistics

Peter Kenyon and Mike Thomas continued to reduce our logistics costs, down another 7¢ per carton after taking out 12¢ last year. The enhanced EDI capability, truck satellite tracking system, renegotiated carrier contracts, amongst other new and enhanced capabilities, improved our response time and costs to our retail companies. This and other efficiencies will lower our unit costs yet again in 2001.

Credit

Stephen Knight and his team increased credit earnings as well as encouraged customer loyalty through state-of-the-art credit management. The new personalized messages on Bay statements will be expanded, allowing us to provide focused offers to our customers based on their individual shopping habits. Beyond enhancing the current "reciprocity" and work on the future HBC credit card, we see expanding the utility of our credit card by adding more on-card features and benefits.

Our other Shared Service units, including Human Resources, Real Estate, Legal and Communications, provided our retail companies with everything from cost effective web-based e-training to advantageous real estate locations, and electronic town hall meetings.

The effects of having common and integrated infrastructure and services have been substantial. The specialization and professionalism of each unit that supports the retail companies have allowed us to move more quickly and surely, giving us maximum leverage, cost efficiencies and new

Marc Chouinard
Executive Vice-President, Hudson's Bay Company
President & Chief Operating Officer, The Bay

effectiveness in adding value to both our customers and shareholders. We see incremental benefits continuing as we find more and better ways to serve not only the HBC retail group, but also third parties who can benefit from our competencies, resources and cost structure.

The year 2001 will be challenging, as there is noticeable weakening consumer demand in North America. However, HBC is tighter, leaner and has built incremental competencies and infrastructure designed to improve our effectiveness. We have built a strong, experienced team in every business unit.

We are driven by our determination to consistently improve the value proposition for our customers and our shareholders, to improve and broaden our relationship with each of them. We are HBC; we are Canada's merchants.

HBC's CFO, Gary Lukassen, is retiring after 25 years of outstanding service to the Company. Gary joined the Company in September 1975 as a controller in the real estate division; he held various finance positions within the Company, becoming Chief Financial Officer in 1989, and has been a Director of the Company since 1987. We want to publicly thank him for his stewardship, his impact and his guidance. Michael Rousseau, his successor, is at the helm and we look forward to benefiting from his contribution.

In closing, we would like to thank our loyal and hard-working colleagues that number more than 70,000 and our shareholders who give us their confidence and encouragement.

George J. Heller
President & Chief Executive Officer

L. Yves Fortier, C.C., Q.C.
Governor

Everything Everybody Wants.

with as many Canadian con
offers as many of the items
No company has the depth
a retail support network that
acts everyday. We have been
of the people of this country
better at it every year. We are
Canada's merchants.

No retailer has a relationship
sumers. No single retailer
that Canadians use everyday.
of expertise and capability in
buys, ships, locates and trans-
meeting the shopping needs
for 332 years – and we get
Hudson's Bay Company – we are

What You Want

$91 billion

Canadians spend $91 billion annually on merchandise available at HBC stores – this represents $0.65 of every dollar of Canadians' disposable income.

HBC offers the widest and deepest range of products and services in the Canadian retail market. Through our seamless continuum of stores, fulfillment channels, private brands and leading product lines, we can truly meet the majority of the shopping needs of Canadian consumers each and every day. From Tide to Armani, we've got everything you need and want in easy-to-understand, easy-to-shop multiple formats, each targeted and focused.

Where You Want It

90%

90% of Canadians live within 20 minutes of an HBC store. Over 80% of Canadians visited an HBC store in 2000.

Wherever Canadians live and shop, HBC is close by to meet their needs. With 542 stores and over 47 million square feet of retail space from coast to coast, we have a broader reach than any other retailer in the country. And now, through hbc.com, we are as close as our customer's den or living room, twenty-four hours a day, seven days a week. Visit us – we're in your neighbourhood.

When You Want It

52 million

Last year HBC delivered 52 million cartons to our stores, covered 24 million kilometres with our vehicle fleet and processed over 250 million customer transactions.

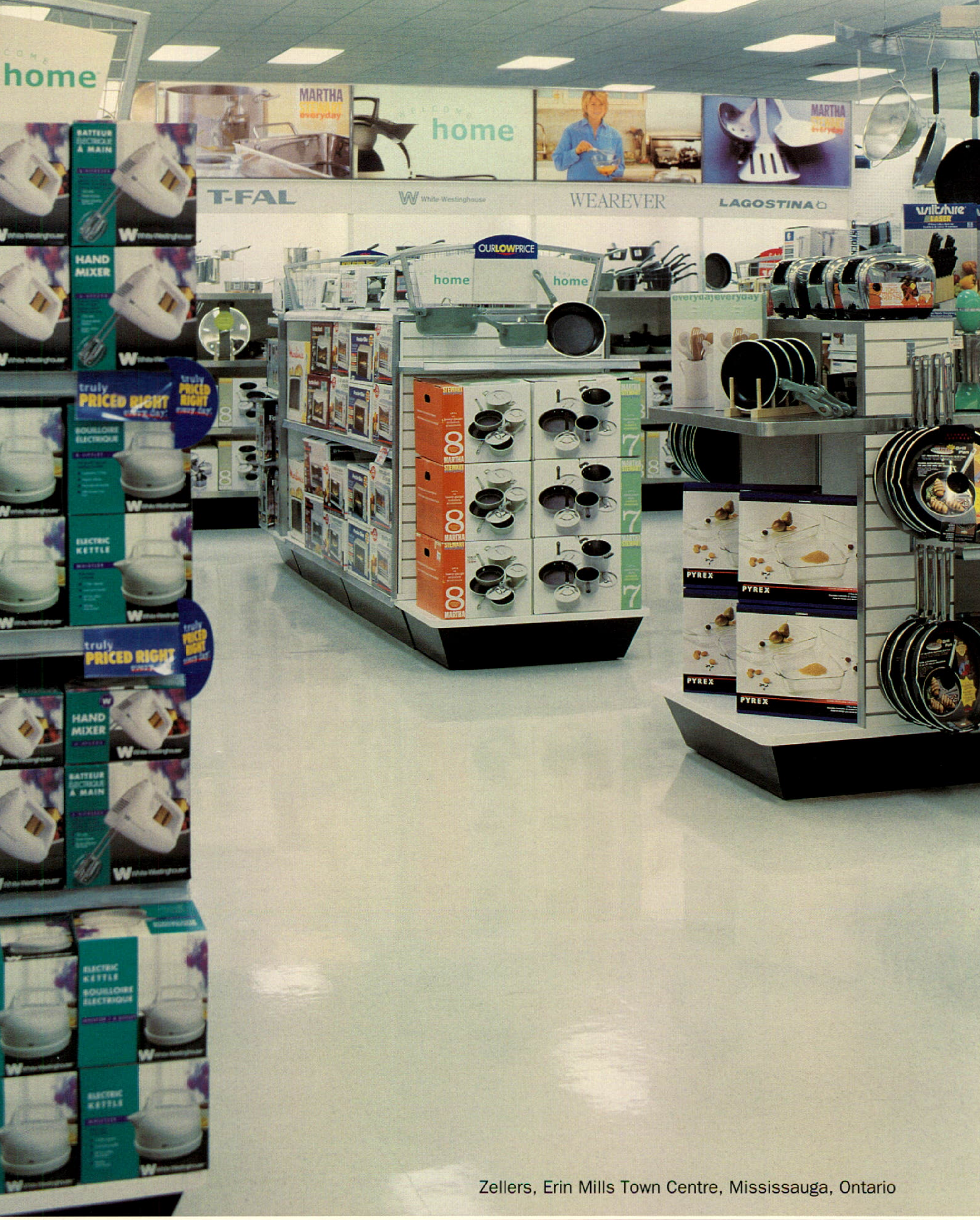
At HBC, our retail formats are powered by a common and integrated support structure that has been built to provide the stores with the fundamental building blocks of a retail operation – the right product, in the right place, at the right time, at the right price. Over the past two years we have invested almost $100 million in industry leading technologies, logistics and delivery systems to ensure Canada's widest breadth of products and services are available whenever and wherever you shop.

How You Want It

The Bay, Erin Mills Town Centre, Mississauga, Ontario

50%

Over the past three years, over 50% of HBC stores have been renovated to the latest prototype in both the Bay and Zellers.



Zellers, Erin Mills Town Centre, Mississauga, Ontario

Through our extensive research, our more than 70,000 associates and a heritage of serving Canadians over five centuries, we know the Canadian consumer better than anyone else. Our store formats are designed and aligned to provide the channels of distribution that meet the needs of Canadians wherever, whenever and however they live and shop. We are constantly responding to the changing patterns of Canadian shoppers, and we have the common retail infrastructure to support the development of new and different retail formats.

We've Got It

80%

Close to 80% of Canadians cross-shop between the mass and department store channels. HBC is building customer bridges to incent Canadians to shop all of the HBC retail formats.

With the widest breadth of products, the most extensive reach, an unparalleled common retail support network, formats that mirror the demands of our customers and over 330 years of experience serving the Canadian consumer – at HBC we've got what it takes to deliver value to our customers, our communities and our shareholders now, and well into the future.

What We Do

Hudson's Bay Company (HBC), established in 1670, is Canada's largest department store retailer and oldest corporation. The Company provides Canadians with the widest selection of goods and services through its retail channels that include more than 500 stores, led by its two major retail divisions, the Bay and Zellers. The Company also operates a Financial Services division, and is engaged in several other smaller operating activities. There were 542 retail stores located across the country at January 31, 2001.

The Bay has 101 department stores across Canada. The Bay emphasizes fashionable soft goods and gives its customers traditional department store services and guarantees. During 2001 the Bay will strengthen its private brands initiative by adding new products. The Bay will also enhance service levels by installing new layouts at additional smaller suburban stores to provide faster, easier shopping with emphasis on casual lifestyle. During 2000 the Bay opened three Home Outfitters stores, bringing the total number to six. Depending on availability of suitable locations, up to 20 new Home Outfitters stores may be opened in 2001.

Zellers, operating 330 stores, offers national and private brand merchandise at prices that provide value to its customers. Zellers will continue the process of converting its stores to new prototype format featuring wider aisles and improved presentation and selections of merchandise. As of January 31, 2001 Zellers had converted 136 of its stores to this new format, representing over 50% of total store space. During 2001, more stores will be converted to prototype specifications. Zellers operates 25 of its smaller stores under the banner "Zellers Select."

The Financial Services division manages the credit card portfolios for the Bay and Zellers. Processing and servicing of both portfolios is handled by a single system, managed in Toronto. The division operates three regional call centres, in Vancouver, Toronto and Montreal. At January 31, 2001, there were over 3.3 million active accounts in the combined portfolios, approximately 1.5 million Bay cardholders and 1.8 million Zellers cardholders. During 2000, systems were installed to permit all Bay and Zellers cards to be used in any of the HBC banners.

In other retailing activities, HBC operates Fields, a chain of 105 small value-priced general merchandise stores situated in western Canada. During the year HBC launched hbc.com, the online store offering selected Bay and Zellers merchandise.

Consolidated Results

After deducting net dividends for equity subordinated debentures, earnings per share in 2000 were $1.60, an increase of 37% over 1999's earnings of $1.17. Earnings per share (EPS) in 1999 increased $0.60 or 105% over 1998's earnings of $0.57.

Net earnings in 2000 were $125 million, compared with $96 million in 1999 and $41 million in 1998. An analysis of earnings for the last three years is shown in the following table:

(millions of dollars)	2000	1999	1998
Sales and revenue	7,519	7,296	7,075
Earnings before interest expense and income taxes (EBIT):			
Major retail divisions (including Financial Services)	319	278	186
Other	(19)	(7)	1
	300	271	187
Interest expense	(62)	(79)	(97)
Earnings before income taxes	238	192	90
Income taxes	(113)	(96)	(49)
Net earnings	125	96	41
Less dividends – equity subordinated debentures	(11)	(9)	–
Earnings available for common shareholders	114	87	41
Earnings per share	$ 1.60	$ 1.17	$ 0.57
Weighted average number of shares (millions)	71.9	74.6	72.2

Results for the major retail divisions and Financial Services are discussed under the heading "Review of Operations" following this section.

The "Other" category of earnings represents items that are not directly attributable to either of the two major retail divisions. This category includes unallocated corporate expenses and miscellaneous profits and losses from various ongoing and non-recurring secondary retail and other activities. It also includes the operations of Fields, the division operating small general merchandise stores in western Canada, earnings from real estate activities, pension credits and hbc.com. There was a loss from these items of $19 million in 2000, $7 million in 1999, and a net profit of $1 million in 1998. 1999's loss was reduced by non-recurring gains, while, in 2000, expenses related to hbc.com increased the loss.

Total interest expense was $62 million in 2000, a decrease of $17 million from 1999. Although HBC's average interest rates moved slightly higher, debt levels continued to decrease substantially during the year, as described in "Financing Activities" under the heading "Overview of Financial Condition." In 1999 HBC experienced lower average debt levels compared with 1998, contributing to the decrease in that year. During 2000, HBC's average interest rate on floating rate borrowings increased to 7.5% from 6.3% in 1999 and the average interest rate on fixed and swapped debt decreased to 7.5% from 7.6%. In total, HBC's average interest rate for 2000 increased to 7.5% from 7.4%.

Sales by quarter for the last three years are as follows:

(millions of dollars)	2000	1999	1998
Sales:			
First quarter	1,554	1,488	1,466
Second quarter	1,744	1,663	1,585
Third quarter	1,801	1,743	1,716
Fourth quarter	2,421	2,402	2,308
Year	7,519	7,296	7,075

Earnings per share by quarter for the last three years are as follows:

(dollars)	2000	1999	1998
Earnings (loss) per share:			
First quarter	(0.12)	(0.29)	(0.34)
Second quarter	0.19	0.12	0.12
Third quarter	0.24	0.16	0.16
Fourth quarter	1.29	1.18	0.63
Year	1.60	1.17	0.57

HBC Executive Committee

Harold Chmara
Vice-President
Financial Reporting & Tax
Hudson's Bay Company

David Crisp
Senior Vice-President
Human Resources
Hudson's Bay Company

Thomas Haig
Executive Vice-President
Hudson's Bay Company
President & COO, Zellers

James Ingram
Vice-President, Secretary &
General Counsel
Hudson's Bay Company

Marc Chouinard
Executive Vice-President
Hudson's Bay Company
President & COO, The Bay

Gary Davenport
Vice-President
Information Services
Hudson's Bay Company

George Heller
President &
Chief Executive Officer
Hudson's Bay Company

Peter Kenyon
Executive Vice-President
Logistics, Distribution &
Transportation
Hudson's Bay Company

Stephen Knight
Vice-President, Credit
Hudson's Bay Company

Bill Luciano
Senior Vice-President
Shared Services Finance
Hudson's Bay Company

Gary Lukassen*
Executive Vice-President &
Chief Financial Officer
Hudson's Bay Company

Rob Moore
Vice-President
Corporate Communications
Hudson's Bay Company

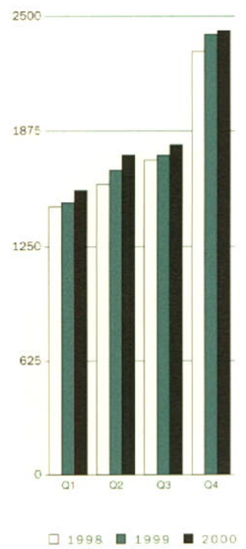
Dave Poirier
Executive Vice-President &
Chief Information Officer
Hudson's Bay Company

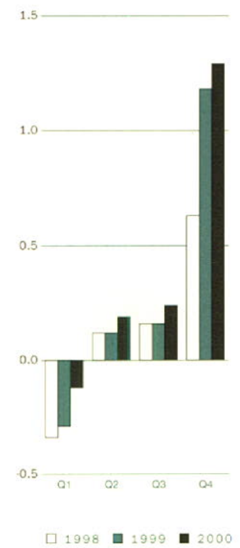
Donald Rogers
Vice-President, Real Estate &
Development
Hudson's Bay Company

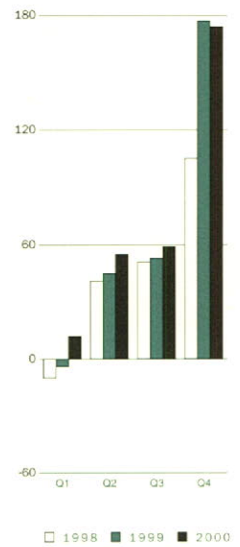
Rob Shields
Vice-President
Customer Relationship
Management & Loyalty
Hudson's Bay Company

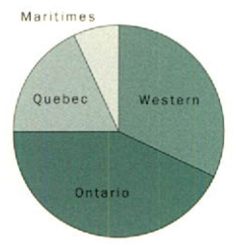
Mike Thomas
Vice-President, Logistics
Hudson's Bay Company

* Retired as of March 2001; succeeded by Michael Rousseau









Earnings before interest expense and income taxes (EBIT) by quarter for the last three years are as follows:

(millions of dollars)	2000	1999	1998
EBIT:			
First quarter	12	(4)	(10)
Second quarter	55	45	41
Third quarter	59	53	51
Fourth quarter	174	177	105
Year	300	271	187

The percentage of retail sales of HBC derived from each of the four geographical regions of Canada for the last three years has been very stable. The following table and the above pie chart illustrate this:

	Average	2000	1999	1998
Geographical region:				
Western	32%	32%	32%	33%
Ontario	43%	44%	43%	42%
Quebec	18%	17%	18%	18%
Maritimes	7%	7%	7%	7%
Total	100%	100%	100%	100%

Review of Operations

Retail Environment

Department store sales growth was sluggish in 2000, reflecting the many store closures following the bankruptcy of Eaton's in 1999. However by Fall 2000 many of these locations had reopened under Bay or Sears formats, as well as the seven under the new Eatons banner. The challenge of constant renewal and new retail formats means that the retail environment will continue to be very competitive.

There will continue to be strong competition from Sears, Wal-Mart and the warehouse clubs, as well as from DSTM stores (stores selling Department Store Type Merchandise). Wal-Mart has announced plans to open 12 to 16 new stores, net of relocations in 2001. U.S. retailers will continue to be interested in expanding into major Canadian cities. Best Buy, Old Navy and Williams-Sonoma all announced plans for store openings here, though the scheduled opening dates may be delayed by the general slowdown in sales in the U.S.

Retail sales ended 2000 about as expected. For calendar 2000 DSS (Department Store Sales) were up 2.0%, and DSTM sales were up 5.1%. HBC expects that DSTM sales growth will moderate in 2001, with low single-digit growth. Reported DSS growth will bounce back, with incremental sales from the stores reopened in many of the old Eaton's locations.

Retail spending should be supported by the continued increase in consumers' disposable income. It is predicted that the personal income tax cuts announced by the federal and many provincial governments will likely contribute to this rebound in disposable income and help sustain consumer confidence in 2001.

The Bay

Operating Results

As a result of operational improvements realized through the execution of its new strategic plan, and with the advantage of Eaton's departure from the market as a national chain, the Bay achieved significant improvements in sales and revenue and earnings. Selected financial information for the Bay and Home Outfitters for the last three years is shown in the following table:

(millions of dollars)	2000	1999	1998
Sales and revenue	2,791	2,594	2,485
EBIT	162	128	52
Net assets	1,207	1,155	1,287

Consolidated sales and revenue in 2000 were 7.6% higher than last year, with comparable store retail sales up by 6.0%. The biggest increases were achieved in hardlines, cosmetics and intimate apparel. In 1999, sales and revenue were 4.4% higher than 1998, with comparable store retail sales up by 4.7%. The Bay's DSS market share increased to 14.5% in calendar 2000 from 13.8% in 1999. Quarterly DSS market share changes (in percentage points) were 1.4, 1.1, 2.2 and (1.0), in part a reflection of Eaton's being out of the marketplace and additional competitive square footage coming on stream in late 2000. The Bay's average sales of $188 per square foot of retail selling space in 2000 represented an $11 increase from $177 in 1999, which had increased by $6 from 1998.

Sales and revenue in 2000 showed strong increases over 1999 in the first three quarters (11%, 13% and 9%), with a 0.8% increase in the fourth quarter. The fourth quarter sales results parallel the DSS market share trends described above. In 1999, the pattern was the opposite, with accelerating sales increases in each quarter, driven by the Bay's strategic initiatives – again a reflection of the Bay benefiting from Eaton's absence in the marketplace.

Consolidated EBIT increased by 26.1% in 2000, on top of a 1999 increase of 146.3%. EBIT margin improved to 5.8% in 2000, up from 4.9% in 1999. Gross margins contributed most of the improvement as the expense rate increased marginally due to store closure costs and pre-opening costs of new stores. The quarterly EBIT dollar increases followed the pattern established by sales: $11.8 million, $12.0 million, $9.3 million and $0.3 million in each of the four quarters respectively.

The Bay Executive Committee

Bruce Burrows
Vice-President
Supply Chain, The Bay

Marc Chouinard
President &
Chief Operating Officer
The Bay

Gary D'Andrea*
Vice-President
Finance, The Bay

Louise Drouin*
Senior Vice-President
Fashion, The Bay

Neil Fedun*
Senior Vice-President
Marketing, The Bay

Kamy Scarlett
Vice-President
Human Resources, The Bay

George Smith
General Manager
Private Brands, The Bay

Gord Sonnenberg*
Senior Vice-President
Stores, The Bay

* Associates of the HBC Executive Committee

The number of stores and aggregate gross areas in square feet by province at the last three year-ends were as follows:

	Number			Square Feet (thousands)		
	2000	1999	1998	2000	1999	1998
British Columbia	18	19	19	3,061	3,193	3,170
Alberta	16	16	16	2,496	2,447	2,441
Saskatchewan	3	3	3	467	457	457
Manitoba	2	3	4	797	920	1,044
Ontario	38	36	36	6,685	6,503	6,497
Quebec	20	19	19	3,220	2,978	3,035
New Brunswick	1	0	0	120	0	0
Nova Scotia	3	3	3	384	384	384
	101	99	100	17,230	16,882	17,028

Operating Highlights

The new strategic direction initiated at the Bay in 1999 continued to be successfully implemented and embodied within the business. During 2000, a significant number of initiatives generated by a six-point strategic plan were put into motion. While the benefits of these initiatives began to impact results in 2000, a significant amount of work remains to be done, with the fuller benefits still to be realized.

The Bay brand continues to be repositioned as Canada's top-of-mind fashion and style authority, offering a unique stylish point of view that generates brand passion through a merchandise-driven and customer-focused approach. Using breakthrough communication programs, the Bay will communicate "Shopping is Good," and present itself both in-store and externally as the style and fashion leader that provides ideas and great value. Over time, this positioning will allow a reduction in the depth of promotional discounting. Fashion and style leadership will be further enhanced by continuing to merchandise and solidify market position in areas such as men's sportswear, cosmetics, intimate apparel and men's basics, and by building share in ladies' sportswear. Further developing national brand strength will create a position that can be marketed as a point of differentiation. During the year, two private brands were launched: *Togo* and *Mantles*. These brands, coupled with the development of opening price point brands in 2001, will offer the customer a cohesive, overall fashion direction and consistent value. The focus in private brands will now be on refining product development, pricing and quantification so that they become consistent lifestyle brands.

The segmentation of Bay stores into two distinct groups has been well received by customers. The two store formats are now better focused around different customer needs. Suburban stores offer quick service, ease of shopping and more casual clothing assortments. Urban stores, as destination locations, are larger and geared to customers seeking enhanced national brand assortments and high service levels. Productivity and return on investment have been improved by closing three stores and opening 10 new stores, five of these being relocations. A significant relaunch of the furniture and appliance business, with a home fashion perspective, has also led to productivity enhancement and effective use of space in the stores. To improve customer service, centralized cash register/customer service locations have been implemented in 50 stores. This, coupled with the investment in new, high speed point-of-sale equipment, replacing approximately half the point-of-sale registers in the chain, has significantly improved service to the customer.

Significant progress has also been made in re-engineering several key operational processes. The Bay has and will continue to become a more efficient and effective operation through both business process and systems improvements. Inventory flow processes have been improved due to enhanced supply chain visibility tools and merchandise tracking systems, to result in better weekly product distribution and season end positions. Business planning, including assortment, merchandising and financial planning, are being better coordinated. Sales promotion plans will be better tied to merchandise planning. Other key areas of focus include advertising effectiveness and private brand product and planning development. Further, vendor management practices are also being improved. Leveraging the total HBC vendor relationship will be a key focus. Systems are being leveraged to maximize in-stock position and minimize inventory investment. Following Retek's successful implementation at Zellers, this world-class merchandise system will be implemented at the Bay using a cross-functional team of dedicated executives. This will also facilitate the standardization of process and systems across HBC, leading to greater synergies.

The cultural evolution of the workforce will continue through development of leadership and customer service focused skill sets. Initiatives such as the chain-wide Pride & Practices training, completed in 2000, will continue to raise the service standard to our customers. Additionally, increased investment will continue to be made in full service areas of the store, supported by measurement and feedback mechanisms that highlight achievement of associate productivity and sales target accomplishments. This focus will result in associates becoming increasingly more productive sellers and marketers of the product, thus supporting the Bay's product differentiation strategy.

Finally, as part of the Bay's focus on improving productivity and return on investment, funds generated through reductions in inventory and unproductive fixed assets at the Bay will be reinvested in assets that will earn a higher return. Home Outfitters will be used as the vehicle for this reinvestment.

Thinking Ahead

The focus during 2001 will be on improving the return on investment and productivity of the strategies and initiatives implemented during 2000. Senior Executive focus will shift from driving strategic change to managing and leading the effective and efficient operations of the Company with particular attention to management and business process improvement and more focused execution of strategy at all levels of the organization.

Zellers

Operating Results

Despite modest sales growth in a highly competitive market segment, Zellers delivered a profit improvement in 2000 while continuing with repositioning strategies, investing in new technology and processes, achieving store format conversions, reducing inventories and improving customer acceptance. Selected financial information for Zellers for the last three years is shown in the following table:

(millions of dollars)	2000	1999	1998
Sales and revenue	4,637	4,598	4,498
EBIT	157	150	134
Net assets	1,635	1,740	1,958

Zellers' 2000 sales and revenue were 0.9% higher than last year, with comparable store sales up by 0.4%. Sales were up in most categories, with the most notable increases in consumables, home décor and ladies' wear. DSS market share for Zellers was 24.3% in calendar 2000, down slightly from 24.6% in 1999. Zellers' average sales of $199 per square foot of retail selling space in 2000 was $2 higher than 1999 and $3 higher than 1998.

Zellers achieved an earnings improvement of 5.0% in 2000 compared with an increase of 11.8% in 1999. The expense rate improved, while the gross profit rate was lower, reflecting increased price competitiveness within the industry. Zellers' EBIT in 2000 included store closure costs and pre-opening costs of new stores of $19 million compared with $28 million in 1999 and $10 million in 1998. In 2000, Zellers saw improvements in EBIT in every quarter, extending the trend that has continued for the last 12 quarters.

The number of stores and aggregate gross areas in square feet by province at the last three year-ends were as follows:

	Number			Square Feet (thousands)		
	2000	1999	1998	2000	1999	1998
British Columbia	41	41	43	3,685	3,538	3,518
Alberta	30	30	31	2,672	2,607	2,657
Saskatchewan	12	12	12	912	912	899
Manitoba	8	9	10	779	777	810
Ontario	142	139	143	12,807	12,242	11,987
Quebec	62	61	65	5,402	5,266	5,501
New Brunswick	12	12	12	961	960	934
Nova Scotia	14	15	16	1,267	1,309	1,257
Prince Edward Island	2	2	3	173	173	240
Newfoundland	7	7	7	507	503	481
	330	328	342	29,165	28,287	28,284

Operating Highlights

In 2000, Zellers continued to grow the loyalty of its core customer, "Mom," by focusing on the improvement of key operations and pursuing its brand-driven corporate strategy. As a result, both profitability and customer satisfaction have continued to increase. According to an annual survey conducted by Lapidus + Associates, Zellers' overall customer service rating increased again in 2000, marking the fourth consecutive year of consistent rating improvements. Customer perception improved most significantly in the key areas of staffing and being in-stock on advertised items. The higher ratings from consumers for store employees confirm that focused efforts by Management during the past three years to enhance the work environment and corporate culture are now being seen by "Mom." Further validation of these efforts was provided in December 2000, when Zellers was named the number two best place to work in Canada (and the number one retailer) by *Report on Business Magazine*, a significant achievement in an industry that traditionally operates with a high number of part-time and seasonal associates.

Zellers continued to improve its value proposition to shoppers this year by increasing store efficiency, making them easier to shop and by providing clarity of offer. By closing underperforming stores and retrofitting more stores to the successful new prototype format, customers are being offered a better shopping experience and shareholders saw an improved bottom line. Zellers continued to refine its store portfolio by market with 11 new stores, eight store expansions, 21 renovations and nine closings. Zellers' prototype format continues to outperform the chain and now comprises more than 50% of total store space.

In 2000, Zellers further developed its aggressive brand merchandising strategy, providing "Mom" with value-added, fashion-right apparel, accessories and home products. Zellers continued to build on the strength of its successful lineup of private and exclusive brands, including *Martha Stewart*, *Cherokee*, *Sportek* and *Request*, with the introduction of *Wabasso*, a moderately priced line of bed, bath and household products. *Truly*, Zellers' own private brand first launched in 1999, has quickly gained national acceptance and market share. Sales of all Zellers private and exclusive brands exceeded $1 billion for the first time.

In 2000, Zellers implemented Retek, a new merchandising platform. While this major systems initiative presented numerous transitional challenges to the organization, Zellers is now positioned to compete effectively using state-of-the-art merchandising systems. Retek, in conjunction with other systems such as Data Warehouse and ongoing internal process improvements, promises to generate more sales with less inventory while achieving higher in-stock levels.

Thinking Ahead

Zellers will continue to deliver great style and savings, consistently focused on the needs and wants of "Mom," supported by renewed pricing and marketing strategies and an expanded product assortment. HBC believes that the continuum of assortment found at Zellers, the Bay suburban and urban stores, Home Outfitters and hbc.com represents the widest merchandise offering in the country. Building customer bridges between Zellers and the Bay through cross-promotion and electronic cross-selling remains a key objective for the new century. With solid strategies in place and operations improving, Zellers will hold to its current plan while continuing to refine and build its brand.

Financial Services

Revenues and earnings of HBC's Financial Services division are included with the results of the major retail divisions, the Bay and Zellers. Financial Services revenues in 2000 were $295 million, compared with $309 million in 1999 and $306 million in 1998.

Earnings from Financial Services in 2000, before interest expense, were $132 million, $8 million above 1999's $124 million, which was $1 million above 1998. This positive trend was achieved by the improved credit quality of the portfolio as evidenced by reduced net bad debt expense.

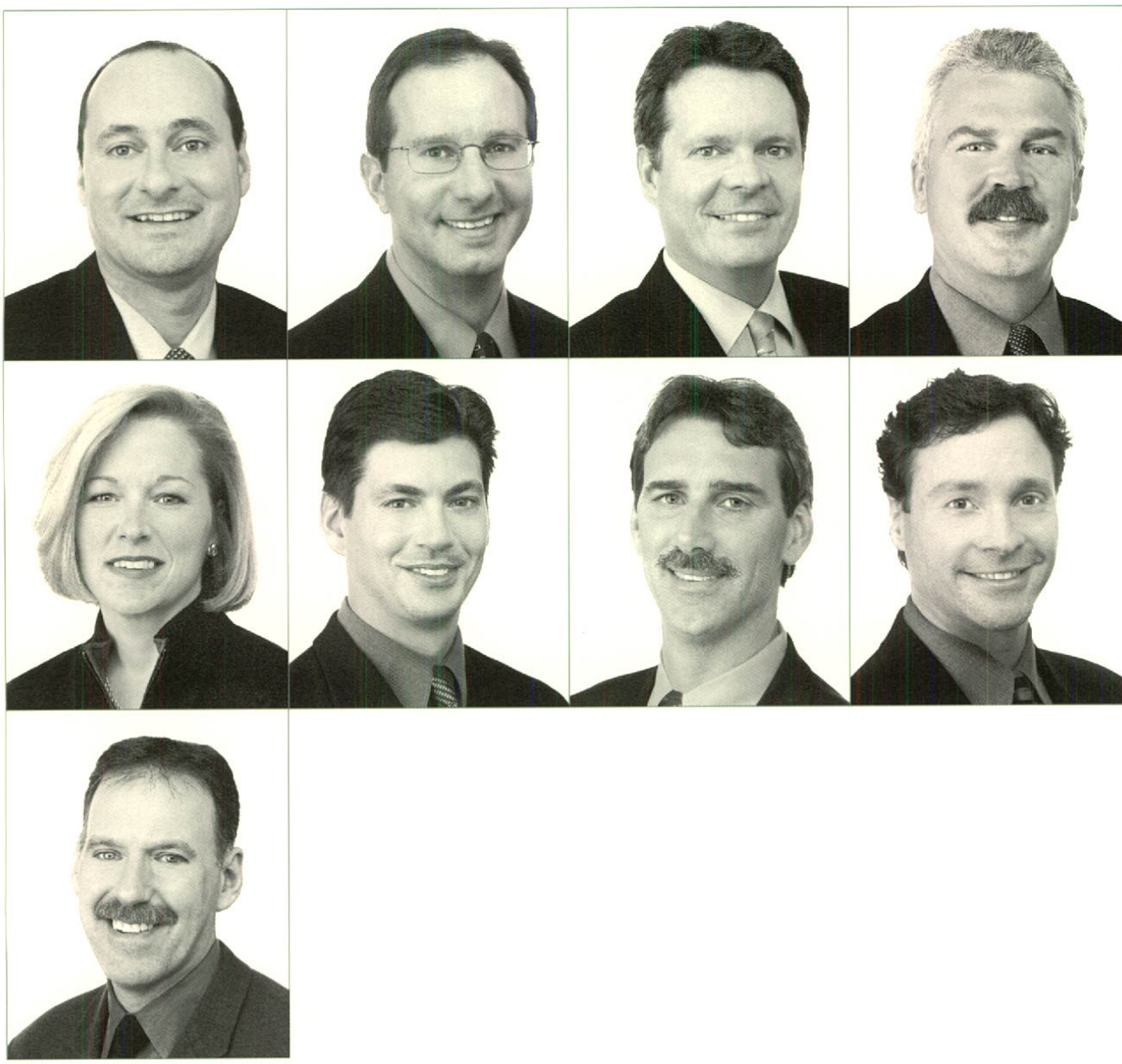
Sales on the Bay and Zellers credit cards represented 27.2% of total retail sales of the major retail divisions in 2000, 27.6% in 1999 and 28.8% in 1998. The year-end balance of credit card receivables, amounting to $500 million, was 3.3% higher than 1999's $484 million, which was 32.7% below 1998's $719 million balance; 1999's balance fell due to the of sale of $300 million of receivables for securitization.

The following table provides certain additional statistics for Financial Services for each of the last three year-ends:

	2000	1999	1998
Average balance per active customer account (dollars)	378	370	352
Average volume per active account (dollars)	700	688	686
Net bad debt expense for year (millions of dollars)	61	76	71

As seen in the above table, net bad debt expense decreased by $15 million in 2000 after an increase of $5 million in 1999. Gross write-offs as a percent to average receivables outstanding improved to 8.4% in 2000 compared to 9.5% in 1999.

Zellers Executive Committee



Bruce Dinan
Vice-President
Hardlines & Pharmacy
Zellers

Debbie Edwards*
Senior Vice-President
Logistics & Business
Process, Zellers

Thomas Haig
President & Chief Operating
Officer, Zellers

Bill King*
General Manager
Finance, Zellers

Bob Kolida
Vice-President
Human Resources, Zellers

Gary MacDonald*
Senior Vice-President
Store Operations, Zellers

Tom Sampson
Vice-President
Brand Management, Zellers

Don Smith
Vice-President
Fashion, Zellers

David Strickland
Senior Vice-President
Marketing, Zellers

* Associates of the HBC Executive Committee

hbc.com

The online shopping partner of the Bay and Zellers was launched in November 2000. The integrated website leverages the advantages and systems of HBC, with fulfillment from a dedicated centre in Toronto. Customers from around the world can order goods for delivery anywhere in Canada. Purchases can be returned to hbc.com at any Bay, Zellers or Zellers Select store, as well as by Canada Post.

Initial offerings on the site are popular product categories including home décor, toys, fragrances, baby needs, intimate apparel and gifts. Many more products will be added to the product lineup in 2001. While online sales are not expected to be large, the website provides another shopping alternative for HBC's customers.

Overview of Financial Condition

Net Assets

The following summary shows details of HBC's net assets as financed by debt and equity for the last three years:

(millions of dollars)	2000	1999	1998
Net assets:			
The Bay	1,207	1,155	1,287
Zellers	1,636	1,740	1,958
Other	231	219	297
	3,074	3,114	3,542
Financed by:			
Debt	694	794	1,523
Future income taxes	77	54	4
Equity	2,303	2,266	2,015
	3,074	3,114	3,542
Debt:equity ratio	0.30:1	0.35:1	0.76:1

In the above table, net assets for the Bay and Zellers include credit card receivables that are also included in the net assets of Financial Services, amounting to $500 million at January 31, 2001, $484 million at January 31, 2000, and $719 million at January 31, 1999.

Total net assets at the 2000 year-end were lower than last year's level by $40 million; 1999's year-end net assets were below 1998 by $428 million of which $300 million resulted from the sale of credit card receivables to an independent trust, with the proceeds of the sale used to reduce debt. This contributed to a significant improvement in HBC's debt:equity ratio.

Cash Flows

The following table shows an analysis of HBC's cash flows for the past three years:

(millions of dollars)	2000	1999	1998
Cash flow:			
From operating activities	467	450	157
Acquisition of Kmart Canada Co.	–	–	(365)
Sale of credit card receivables	–	300	–
Capital expenditures	(242)	(156)	(293)
Dispositions of fixed assets	12	7	18
Other assets	(40)	(22)	(73)
Miscellaneous	–	9	(7)
Net cash inflow (outflow) before financing activities	197	588	(563)
Financing activities:			
Debt	(59)	(711)	260
Equity	(54)	185	344
Dividends	(40)	(34)	(53)
	(153)	(560)	551
Increase (decrease) in cash	44	28	(12)

The cash inflow before financing activities amounted to $197 million in 2000, compared to an inflow of $588 million in 1999, which was impacted by the $300 million securitization of receivables. There was a cash outflow of $563 million in 1998, a large part of which related to the Kmart acquisition. It is not unusual for HBC's cash flows to change significantly from year to year.

Financing Activities

HBC obtains its financing through various avenues. The principal sources are: issuance of long-term debentures, sale of credit card receivables and a syndicated loan arrangement with a group of lenders. Other sources utilized by HBC are issuance of equity subordinated debentures and shares, operating credit facilities and commercial paper.

HBC strives to 1) maintain a targeted debt:equity ratio to help ensure ready access to capital markets and 2) incur different types of debt at the lowest cost available to the Company to provide liquidity as needed, while giving appropriate protection from adverse changes in interest and foreign exchange rates.

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

HBC's total debt at the 2000 year-end, after deducting $107 million in investments and short-term deposits, was $694 million, of which $800 million was long-term debt, including $126 million due within one year. The decline in debt levels in 2000 arose as a result of an improvement in cash flow from operations. Management is confident that it will be able to raise any additional long-term funds that may be required.

The 2000 year-end total long-term debt comprised $680 million at fixed rates and $120 million at floating rates which were fixed, through interest rate swap agreements, at an average rate of 5.80%. The Company also has in place interest rate swaps and caps on floating rate debt that may be incurred in the future: $30 million at 5.80% and $70 million at 6.25%. The combined effect of these interest rate swaps with interest rate caps is that any movements within the range of projected interest rates would not have a significant impact on HBC's interest expense.

HBC's debt is rated by Standard and Poor's Canada (S&P) and by the Dominion Bond Rating Service (DBRS). On October 31, 2000, S&P and the Canadian Bond Rating Service (CBRS) announced that they had combined operations in Canada. At that time a process was begun to harmonize all ratings assigned by CBRS with the S&P framework including the translation of all ratings onto the S&P rating scale. The S&P ratings announced on March 22, 2001, are expressed on S&P's global ratings scale. The CBRS ratings in effect during 2000 will remain in effect until May 1, 2001. A summary of the Company's ratings is provided in the following table:

	March 22, 2001		2000		1999	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
S&P:						
Unsecured debentures	BBB-	Stable	–	–	–	–
Commercial paper	A-3	Stable	–	–	–	–
CBRS:						
Unsecured debentures	BBB*	Stable	BBB*	Stable	B++	Stable
Commercial paper	A-1(low)	Stable	A-1(low)	Stable	A-1(low)	Stable
DBRS:						
Unsecured debentures	BBB (low)	Stable	BBB	Negative	BBB	Negative
Commercial paper	R-2(mid)	Stable	R-2(high)	Stable	R-2(high)	Stable

* BBB is the equivalent of B++ under the former CBRS rating scale

Risk Management

HBC has a number of integrated programs in place to mitigate the financial impact to the corporation from major property losses or third party liability claims. These programs are secured by conventional insurance contracts. The total cost of risk management, including insurance premiums, fees, legal and self-retained losses, was approximately $12 million in 2000, $14 million in 1999 and $15 million in 1998.

Total Taxes and Tariffs

Income taxes represent a relatively small proportion of the total taxes and tariffs incurred by HBC. The following table provides an analysis of the total amounts recorded as an expense in each of the last three years:

(millions of dollars)	2000	1999	1998
Corporation income taxes	113	96	49
Other taxes and tariffs:			
Realty and business taxes	121	122	118
Canada Pension Plan and other payroll taxes	88	90	88
Customs duties	58	59	68
Sales taxes	20	17	18
Provincial capital taxes	12	10	12
Total taxes and tariffs	412	394	353

As seen in the above table, of the total taxes and tariffs, income taxes incurred by HBC represent only 27.4% in 2000, 24.4% in 1999 and 13.9% in 1998. In each year charges by municipalities across the country for realty and business taxes represented the largest component.

Capital Expenditures

Capital expenditures were $242 million in 2000, $156 million in 1999 and $293 million in 1998. Of the 2000 expenditures, the Bay's portion was $84 million, Zellers' $114 million and most of the remainder was invested in information systems.

Capital expenditures are projected to be approximately $181 million in 2001. Zellers expects to open four new stores and expand 10 stores. The Bay plans to open up to 20 new Home Outfitters stores and expand one Bay store. Investment in information systems will continue to be a priority. HBC's long-term strategies for each of its major retail divisions are to add profitable stores that improve market penetration and accessibility to its customers, and to renovate, enlarge and upgrade existing stores as required. HBC remains committed to continuing its expansion in communities where there are suitable market opportunities and will close unprofitable or underperforming stores.

Retail Properties

The number and aggregate gross areas in square feet of the retail stores of each of HBC's major retail divisions and of its distribution centres at the last three year-ends were as follows:

	Number			Square Feet (thousands)		
	2000	1999	1998	2000	1999	1998
Retail stores:						
The Bay	101	99	100	17,230	16,882	17,028
Zellers	330	328	342	29,165	28,287	28,284
	431	427	442	46,395	45,169	45,312
Distribution centres	10	9	9	3,694	3,580	3,337

HBC owns the land and buildings of eight large downtown Bay stores, three other Bay stores, 17 Zellers stores and three distribution centres. As well, HBC owns the Toronto downtown Queen Street store building and approximately 60% of the related land, and the buildings (on leased land) of six suburban Bay stores. The remaining stores are generally held under long-term leases.

During 2000, the Bay opened 10 new stores in former Eaton's locations, of which five were replacement stores. The Bay also closed three other stores. Zellers opened 11 new stores and closed nine stores. HBC's principal non-retail property at the 2000 year-end is The Simpson Tower, a 32-floor office building in Toronto.

Retail Risk Factors

HBC identifies five critical elements that combine to generate its retail profits: Sales and Revenue, Gross Profit Rate, Expense Rate, Financial Services Earnings and Interest Expense. The following table shows the principal external and internal Retail Risk Factors that directly influence these elements.

	Retail Risk Factors	
Elements	External	Internal
Sales and Revenue	Competition Economy Inflation Weather Consumers' changing tastes and values	Customer service Marketing strategies Store openings and closings On-time inventory delivery
Gross Profit Rate	Competition Consumer price sensitivity	Buying/pricing Control of Inventories Sales blend Stock shortages
Expense Rate	Inflation Taxes Energy costs	Advertising Occupancy costs Payroll
Financial Services Earnings	Bad debts Card competition Government legislation	Card promotion Service charge rates
Interest Expense	Credit rating Rates Government policy	Debt levels Foreign exchange exposure Fixed/floating blend Short-/long-term blend

These Retail Risk Factors interact and action taken to stimulate one factor often results in a negative effect on other factors. For example, store openings may increase sales but will also increase occupancy costs and payroll and interest expense; additional advertising may increase sales but will usually increase expenses; reducing levels of sales staff will lower payroll expense but may also annoy customers, thereby reducing sales and increasing stock shortages. HBC works to achieve a suitable balance among these Retail Risk Factors in order to optimize profits.

Future Prospects

It is anticipated that the Canadian economy will continue to grow but at a much lower rate in 2001 and beyond. The economy obviously will not escape the impact of the U.S. slowdown. It is expected that our growth will be muted in the first half of 2001. Nonetheless, with the interest rate cuts that are in store and the tax relief that is already trickling down, there are numerous factors that should support improved economic growth in the second half of this year.

The Canadian prime bank rate should drop in 2001. The Canadian dollar is expected to remain volatile, trading in a broad range.

Many factors could work to maintain consumer spending and residential construction in 2001 and beyond. These include low inflation, low interest rates, strong labour markets, good average housing affordability, improved commodity prices and the prospect of further tax cuts by some of the provinces.

Consumer spending should be helped by a steady job market and a continuation in the increase in real wages. The prospects of real increases in disposable income in 2001 are among the factors supporting continued consumer spending, provided consumer confidence remains stable. Retailers will see sales increase, although at much lower rates than in 2000.

Real personal disposable income was up in 2000 and is expected to increase again in 2001 and 2002, even after higher fuel costs. This will encourage consumer spending.

DSTM sales should continue to increase in 2001 and 2002. DSS will see a pickup in growth in 2001 as the store-count for department stores stabilizes following the disruption from the closure of many Eaton's stores in 1999.

Forward Looking Statements

A number of matters discussed in this Management's Discussion and Analysis and elsewhere in this Annual Report that are not historical or current facts deal with potential future circumstances and developments. The discussion of such matters is qualified by the inherent risks and uncertainties surrounding future expectations generally, and also may materially differ from HBC's actual future experience involving any one or more of such matters.

Management's Statement on Financial Reporting

The Management of Hudson's Bay Company is responsible for the preparation, presentation and integrity of the consolidated financial statements contained on pages 37 to 39 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 40. Where appropriate and necessary, professional judgments and estimates have been made by Management in preparing the consolidated financial statements.

In order to meet its responsibility, Management 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, all members of which 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.

KPMG LLP, 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 is presented on this page.

George Heller
President and Chief Executive Officer

G.J. Lukassen
Executive Vice-President and Chief Financial Officer

Toronto, Canada
March 8, 2001

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Hudson's Bay Company as at January 31, 2001, and January 31, 2000, and the consolidated statements of earnings, retained earnings and cash flows 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 Canadian 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, 2001, and January 31, 2000, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

KPMG LLP
Chartered Accountants

Toronto, Canada
March 8, 2001

Consolidated Statements of Earnings

Years ended January 31 (thousands of dollars)	Notes	2001	2000
Sales and revenue			
The Bay		2,791,363	2,594,264
Zellers		4,636,979	4,597,622
Other		90,231	103,865
		7,518,573	7,295,751
Earnings before interest expense and income taxes			
The Bay		161,653	128,226
Zellers		157,129	149,649
Other		(18,804)	(6,331)
		299,978	271,544
Interest expense	3	(61,558)	(79,140)
Earnings before income taxes		238,420	192,404
Income taxes	4	(113,162)	(96,369)
Net earnings		125,258	96,035
Earnings per share – basic	5	$ 1.60	$ 1.17
Earnings per share – fully diluted	5	$ 1.47	$ 1.11

Consolidated Statements of Retained Earnings

Years ended January 31 (thousands of dollars)	Notes	2001	2000
Retained earnings at beginning of year		544,809	484,295
Net earnings		125,258	96,035
Dividends and accretion – equity subordinated debentures	13	(10,508)	(8,679)
Dividends – common shares		(25,847)	(26,842)
Retained earnings at end of year		633,712	544,809

Consolidated Balance Sheets

January 31 (thousands of dollars)	Notes	2001	2000
Current assets			
Cash in stores		7,649	8,480
Short-term deposits		86,142	41,792
Credit card receivables	6	499,690	483,940
Other accounts receivable		103,302	127,522
Income taxes recoverable		9,682	25,445
Merchandise inventories		1,575,306	1,598,695
Prepaid expenses		56,281	44,606
Future income taxes	4	34,187	38,950
		2,372,239	2,369,430
Secured receivables	7	18,415	29,348
Investments		45,925	49,264
Fixed assets	8	1,336,348	1,256,154
Goodwill	9	180,069	191,046
Pensions	10	290,535	260,508
Other assets	11	132,519	118,462
		4,376,050	4,274,212
Current liabilities			
Short-term borrowings	12	22,000	29,597
Trade accounts payable		496,354	384,804
Other accounts payable and accrued expenses		584,114	584,644
Long-term debt due within one year	12	125,703	151,695
		1,228,171	1,150,740
Long-term debt	12	674,575	700,184
Employee future benefits other than pensions		58,621	64,445
Future income taxes	4	111,336	93,318
Contingencies	20		
Shareholders' equity			
Equity subordinated debentures	13	201,466	198,799
Capital stock	14	1,430,376	1,500,668
Contributed surplus	14	37,793	21,249
Retained earnings		633,712	544,809
		2,303,347	2,265,525
		4,376,050	4,274,212

On behalf of the Board:

L. Yves Fortier, C.C., Q.C.
Director

Peter W. Mills
Director

Consolidated Statements of Cash Flows

Years ended January 31 (thousands of dollars)	Notes	2001	2000
Operating activities			
Earnings before income taxes		238,420	192,404
Net cash income taxes		(68,459)	4,062
Items not affecting cash flows:			
Amortization	2	186,898	182,074
Pension credits		(28,231)	(18,000)
Net change in operating working capital	17	138,505	89,057
Net cash inflow from operating activities		467,133	449,597
Investing activities			
Capital expenditures		(241,498)	(155,856)
Fixed asset dispositions		11,914	7,376
Other assets		(40,474)	(21,559)
Sale of credit card receivables	6	–	300,000
Miscellaneous		68	8,717
Net cash inflow from (outflow for) investing activities		(269,990)	138,678
Net cash inflow before financing activities		197,143	588,275
Financing activities			
Long-term debt:			
Issued		605,119	266,089
Redeemed		(656,720)	(855,430)
		(51,601)	(589,341)
Decrease in short-term borrowings		(7,597)	(121,260)
Equity subordinated debentures issued		–	194,000
Capital stock:			
Common shares issued		1,202	863
Common shares purchased for cash and cancelled		(54,950)	(10,995)
Dividends paid – equity subordinated debentures	13	(14,000)	(6,827)
Dividends paid – common shares		(25,847)	(26,842)
Net cash outflow for financing activities		(152,793)	(560,402)
Increase in cash and cash equivalents		44,350	27,873
Cash and cash equivalents at beginning of year		41,792	13,919
Cash and cash equivalents at end of year	12	86,142	41,792

Notes to Consolidated Financial Statements

Years ended January 31, 2001 and January 31, 2000

Note 1. Accounting Principles and Policies

These consolidated financial statements have been prepared by Management in accordance with accounting principles generally accepted in Canada. The significant accounting policies are as follows:

a) Fiscal Year

The Company reports its year-end as January 31. Retail sales and related activities are reported on a retail calendar basis, ending on the nearest Saturday prior to January 31. Each of the years ended January 31, 2000 and 2001, contains 52 weeks.

b) Consolidation

These consolidated financial statements include Hudson's Bay Company and all of its subsidiary companies, with intercompany balances and transactions eliminated.

c) Segmentation

The Company has three reportable operating segments: the Bay, Zellers and Financial Services. The Bay operates traditional department stores and Zellers operates discount department stores. The Company's Financial Services group finances credit card receivables resulting from sales charged on credit cards of the Bay and Zellers and provides credit card insurance. Revenues and profits of Financial Services are included in the results of the Bay and Zellers.

d) Foreign Currency Translation

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

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

The net exchange gain or loss arising from the translation of foreign currency denominated debt having a fixed term to maturity is included in other assets and amortized over the remaining life of the related issue.

e) 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 leasing costs are recorded as expenses in the period in which they are incurred.

f) Income Taxes

Income taxes are determined using the asset and liability method of accounting. Under this method, future tax assets and liabilities are recognized for the future taxes arising from differences between the accounting basis of assets and liabilities and their corresponding tax basis. Future taxes are measured using tax rates expected to apply when the asset is realized or the liability settled.

g) Earnings per Share

Earnings per share are determined after deducting dividends paid and accrued net of income taxes and accretion of the conversion option on equity subordinated debentures and are based on the weighted average number of shares outstanding during the year.

h) Capitalization of Interest

Interest relating to properties that are under construction or vacant and 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.

i) Credit Card Receivables

In accordance with accepted retail industry practice, credit card receivables, of which a portion will not become due within one year, are classified as current assets. They represent open-ended revolving credit card customer accounts and are shown after deducting an allowance for doubtful accounts. Reserves for estimated losses on receivables sold with limited recourse under securitization agreements are classified as other accounts payable.

j) Cash and Cash Equivalents

Cash and cash equivalents consist of short-term deposits with maturities of less than three months. Cash in stores is considered restricted as it is required as a cash float for store operations.

k) Merchandise Inventories

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

l) Investments

Investments consist principally of portfolio investments, comprising bonds held primarily to support funding obligations, carried at cost with discounts or premiums arising on purchase amortized to maturity.

m) Fixed Assets

Fixed assets are carried at cost. The costs of buildings (excluding the office tower noted below), equipment, equipment held under capital leases and leasehold improvements are amortized on the straight-line method over their estimated useful lives. The cost of property for sale or development is not amortized, since it represents either land or vacant properties.

The amortization periods applicable to the various classes of fixed assets are as follows:

Asset	Amortization Periods
Buildings	20–40 years
Equipment	3–12½ years
Equipment held under capital leases	5–8 years
Leasehold improvements	10–40 years

Buildings acquired before February 1, 1995, are being amortized over the remainder of 50-year periods.

n) 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., Towers Department Stores Inc. and Kmart Canada Co., at their respective dates of acquisition. These balances are being amortized on the straight-line method over periods of 40 years, 20 years and 20 years, respectively.

Goodwill is regularly evaluated by reviewing the returns of the related business, taking into account the risk associated with the investment. Any permanent impairment would be written off against earnings.

o) Pensions

The Company maintains both defined contribution and defined benefit pension plans. The cost of pensions is actuarially determined using the projected benefit method prorated on services and Management's best estimate of expected investment performance, salary escalation and retirement ages of employees. For purposes of calculating the expected return on plan assets, those assets are recorded at fair market value.

p) Other Assets

Other assets include deferred and prepaid rent and systems development costs, which are amortized on the straight-line method over periods of up to 25 years and eight years, respectively.

Other assets also include debt discount and expense and costs of interest rate caps, which are amortized to interest expense on the straight-line method over the terms of the related issues or contracts.

q) Employee Future Benefits Other than Pensions

Employee future benefits other than pensions represent medical and dental care and life insurance commitments to certain employees and retirees of acquired companies, long- and short-term disability payments, severance and termination payments and compensated absences. The Company accrues its obligations under these plans net of any plan assets.

r) Stock-Based Compensation Plans

The Company has six stock-based compensation plans, and these are described in note 15. Compensation expense is recorded under the two stock ownership plans, the share appreciation rights agreement and the phantom stock plan. No compensation expense has been recorded under the stock option plans. Amounts loaned to employees under the Senior Executive share purchase plan and paid by employees on exercise of stock options are included in capital stock.

s) Off Balance Sheet Financial Instruments

To hedge its interest rate risks, the Company utilizes interest rate swaps, forward rate agreements and caps. Accrued interest receivable and payable under the interest rate swaps and forward rate agreements are included in other accounts receivable or other accounts payable. The up front fees paid under interest rate caps are amortized to interest expense on the straight-line method over the terms of the related contracts and the unamortized amounts are included in other assets.

The Company manages the risks associated with changes in foreign exchange rates affecting firm purchase commitments by use of forward contracts.

t) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

u) Employee Future Benefits

Effective February 1, 2000, the Company prospectively adopted the new CICA accounting standard, Section 3461 "Employee Future Benefits"; adopting this standard had no material impact on the consolidated financial statements for the year ended January 31, 2001.

v) Comparative Figures

Where necessary, certain of last year's figures have been reclassified to conform with this year's presentation.

Note 2. Amortization

Amortization of the cost of assets that is included in the Consolidated Statements of Earnings comprises the following:

Years ended January 31 (thousands of dollars)	2001	2000
Deducted in arriving at earnings before interest expense and income taxes:		
Fixed assets	149,304	139,586
Goodwill	10,977	10,977
Systems development costs	17,873	18,381
Other	6,723	10,641
	184,877	179,585
Included in interest expense:		
Debt discount and expense	2,021	2,489
	186,898	182,074

Note 3. Interest Expense

Interest expense arises from the following:

Years ended January 31 (thousands of dollars)	2001	2000
Long-term debt	68,379	79,649
Net short-term borrowings	(6,267)	(125)
	62,112	79,524
Less amounts capitalized	(554)	(384)
	61,558	79,140

Interest paid in cash amounted to $62,500,000 in the year ended January 31, 2001, and $71,200,000 in the year ended January 31, 2000.

Note 4. Income Taxes

The major components of income tax expense for the years ended January 31, 2001, and January 31, 2000, are as follows:

Years ended January 31 (thousands of dollars)	2001	2000
Current tax expense – Canadian	90,381	37,225
Current tax expense – Foreign	–	75
	90,381	37,300
Future income taxes	22,781	59,069
Income taxes per Consolidated Statements of Earnings	113,162	96,369

The average statutory Canadian income tax rates for the years ended January 31, 2001, and January 31, 2000, were 43.4% and 43.9% respectively. A comparison of a nominal tax provision at these rates with the amounts shown in the Consolidated Statements of Earnings is as follows:

Years ended January 31 (thousands of dollars)	2001	2000
Earnings before income taxes	238,420	192,404
Nominal tax provision at average statutory Canadian income tax rates	103,474	84,465
Change in income taxes resulting from:		
Large corporations tax	5,917	8,266
Tax rates in other jurisdictions	–	74
Net capital gains and losses	26	(2,305)
Other (primarily non-deductible items)	15,772	4,612
Subtotal	125,189	95,112
Rate adjustments on future income taxes	(12,027)	1,257
Income taxes per Consolidated Statements of Earnings	113,162	96,369

Future income taxes are the cumulative amount of tax applicable to temporary differences between the carrying amount of assets and liabilities and their values for tax purposes. The realizable amount of the future income tax asset is reviewed annually, and the valuation allowance is adjusted as required. The components of future income tax balances are as follows:

January 31 (thousands of dollars)	2001	2000
Future income taxes – current:		
Deferred items	33,318	37,083
Tax losses carried forward	8,517	11,150
	41,835	48,233
Valuation allowance	(7,648)	(9,283)
	34,187	38,950
Future income taxes – non-current:		
Tax losses carried forward	74,632	102,144
Deferred items	21,160	28,251
	95,792	130,395
Valuation allowance	(29,199)	(34,428)
Non-current future income tax assets	66,593	95,967
Pensions	(104,893)	(114,262)
Accrued expenses	(61,703)	(46,739)
Buildings and equipment	(11,333)	(28,284)
	(111,336)	(93,318)

The Company has tax losses carried forward of $212 million. Of this total, $91 million is available until January 2003, $71 million until January 2005 and $50 million until January 2006.

Note 5. Earnings per Share

Basic earnings per share are determined after deducting dividends paid and accrued net of income taxes and accretion of the conversion option on equity subordinated debentures and are based on the weighted average number of shares outstanding during the year (see note 14).

Fully diluted earnings per share are determined based on the weighted average number of common shares outstanding as recalculated under the assumption that outstanding stock options are exercised or equity subordinated debentures are converted. It assumes that all outstanding common stock options at January 31, both vested and unvested, had been exercised as of the preceding February 1, with the resulting proceeds used to reduce interest-bearing short-term borrowings. It assumes that all outstanding equity subordinated debentures had been converted to common shares for the year ended January 31, 2001, as of the preceding February 1 at the then current market price (as defined by prospectus) and for the year ended January 31, 2000, as of their date of issue on April 6, 1999, at the then current market price.

Note 6. Credit Card Receivables

Under securitization programs the Company has sold, with limited recourse, undivided co-ownership interests in certain of its credit card receivables to independent Trusts amounting to $800 million. The Company services these accounts and pays to the Trusts the portion of service charge revenues derived from the sold co-ownership interests equal to the Trusts' stipulated share thereof.

Note 7. Secured Receivables

Secured receivables comprise the following:

January 31 (thousands of dollars)	2001	2000
Mortgages	7,316	8,787
Employee share ownership plan loans	14,435	25,569
Total secured receivables	21,751	34,356
Less amounts due within one year included in other accounts receivable	(3,336)	(5,008)
	18,415	29,348

Maturities of secured receivables are summarized as follows:

Years ending January 31 (thousands of dollars)	
2002	3,336
2003	2,018
2004	1,839
2005	2,077
2006	2,188
Subsequent periods	10,293
	21,751

The mortgages are secured by property and the employee share ownership plan loans are secured by shares of Hudson's Bay Company. The average interest rate on secured receivables is 0.8% at January 31, 2001, and 0.7% at January 31, 2000. Under certain conditions, the amounts due may be received prior to maturity.

Note 8. Fixed Assets

Fixed assets comprise the following:

January 31 (thousands of dollars)	2001	2000
Cost:		
Land	99,774	98,041
Buildings	433,767	420,019
Equipment	1,483,889	1,323,530
Equipment held under capital leases	8,131	10,689
Leasehold improvements	475,678	440,643
Property for sale or development	12,957	15,995
	2,514,196	2,308,917
Accumulated amortization:		
Buildings	(195,027)	(181,395)
Equipment	(817,206)	(725,516)
Equipment held under capital leases	(6,066)	(7,628)
Leasehold improvements	(159,549)	(138,224)
	(1,177,848)	(1,052,763)
	1,336,348	1,256,154

Note 9. Goodwill

Of the unamortized balance of goodwill, $19,556,000 will be amortized over the next 10 years, $120,951,000 over the next 18 years and $39,562,000 over the next 20 years.

Note 10. Employee Future Benefits

The Company has both defined benefit and defined contribution pension plans. Certain retired employees at acquired companies also receive health benefits paid for by the Company. Both the Company and employees contribute in equal amounts to the defined contribution plans. The defined benefit plans are funded by employee contributions as a percentage of salary and by the Company to support the actuarial based pension benefits. The defined pension benefits are based on an average of employees' career earnings.

Aggregate information about the Company plans is in the table below. The information provided does not encompass all benefit plans in the Company, but only those plans for which an actuarial liability exists.

January 31 (thousands of dollars)	2001 Pension Plans	2001 Other Benefit Plans	2000 Pension Plans	2000 Other Benefit Plans
Plan assets				
Market value at beginning of year	1,300,343	13,285	1,254,736	12,533
Actual return on plan assets	129,973	897	83,949	752
Employer contributions	1,590	22,273	2,482	21,083
Associate contributions	16,266		15,222	
Benefits paid	(64,523)	(22,273)	(56,046)	(21,083)
Settlement payment	(27,670)			
Market value at end of year	1,355,979	14,182	1,300,343	13,285
Plan obligation				
Accrued benefit obligation at beginning of year	855,769	88,640	821,322	88,527
Total current service cost	35,805	14,508	33,302	16,035
Interest cost	69,924	5,509	57,191	5,161
Benefits paid	(64,523)	(22,273)	(56,046)	(21,083)
Actuarial (gains) losses	21,902	(2,187)		
Settlement of obligations	(25,729)			
Accrued benefit obligation at end of year	893,148	84,197	855,769	88,640
Plan surplus (deficit)				
End of year market value less accrued benefit obligation	462,831	(70,015)	444,574	(75,355)
Unamortized net actuarial (gain) loss	(14,786)	(2,187)		
Unamortized plan adjustment		2,671		
Unamortized transitional (asset) obligation	(157,510)		(184,066)	
Accrued benefit asset (liability)	290,535	(69,531)	260,508	(75,355)

Benefit Plan Expense

Years ended January 31 (thousands of dollars)	2001 Pension Plans	2001 Other Benefit Plans	2000 Pension Plans	2000 Other Benefit Plans
Company current service cost	19,539	14,508	18,080	16,035
Interest cost	69,924	5,509	57,191	5,161
Expected return on plan assets	(93,285)	(897)	(83,949)	(752)
Amortization of transitional asset (obligation)	(16,141)		(9,322)	
Net benefit plan expense before unusual items	(19,963)	19,120	(18,000)	20,444
Settlement gain	(8,268)			
Net benefit plan expense	(28,231)	19,120	(18,000)	20,444

Actuarial Assumptions

Years ended January 31 (thousands of dollars)	2001 Pension Plans	2001 Other Benefit Plans	2000 Pension Plans	2000 Other Benefit Plans
Discount rate	6.50%	6.36%	7%	6.86%
Expected long-term rate of return on plan assets	7%	6.75%	7%	6.75%
Rate of compensation increase	4%	4%	4%	4%

Note 11. Other Assets

Other assets, after deducting accumulated amortization, comprise the following:

January 31 (thousands of dollars)	2001	2000
Deferred and prepaid rent	36,960	40,397
Systems development costs	89,986	67,727
Debt discount and expense	3,370	5,391
Other	2,203	4,947
	132,519	118,462

Note 12. Debt

Total debt comprises the following:

January 31 (thousands of dollars)	2001	2000
Cash and cash equivalents – short-term deposits	(86,142)	(41,792)
Short-term borrowings	22,000	29,597
Portfolio investments	(42,554)	(45,893)
Net short-term borrowings	(106,696)	(58,088)
Long-term debt due within one year	125,703	151,695
Long-term debt	674,575	700,184
	693,582	793,791

At January 31, 2001, and January 31, 2000, short-term borrowings principally comprise notes payable which bear interest at an average rate of 5.9% and 6.5%, respectively.

Long-term debt comprises the following:

January 31 (thousands of dollars)	2001	2000
Secured:		
14% mortgage due 2009	4,547	4,801
Capital lease obligations at an average rate of 7.0% (last year 7.0%) and maturing in 2002	731	2,078
	5,278	6,879
Unsecured:		
8.00% debentures series A due 2000	–	150,000
7.95% debentures series B due 2001	125,000	125,000
6.25% debentures series C due 2002	125,000	125,000
6.25% debentures series D due 2003	150,000	150,000
6.35% debentures series E due 2003	150,000	150,000
7.10% debentures series F due 2004	125,000	125,000
Floating rate debt:		
Syndicated credit facility due 2003	120,000	20,000
Total unsecured	795,000	845,000
	800,278	851,879
Less amounts due within one year	(125,703)	(151,695)
	674,575	700,184

The interest rate on the $120,000,000 syndicated credit facility at January 31, 2001, shown above has been fixed at an average rate of 5.80% through an interest rate swap agreement. The Company also has in place a number of interest rate swap agreements at 5.80% on $30,000,000 of floating rate debt that may be incurred in the future. Under these agreements the Company agrees with a counterparty to exchange, at specified intervals and for a specified period, its floating interest rate for a fixed interest rate calculated on an agreed upon notional principal amount. The use of swaps effectively enables the Company to convert floating rate interest obligations into fixed rate obligations.

The Company also has in place interest rate caps of 6.25% on $70,000,000 of floating rate debt that may be incurred in the future. Under these interest rate cap agreements, after payment of an up front fee to a counterparty the Company is entitled to receive from the counterparty the amount by which the Company's interest payments exceed a predetermined level. These caps are used to limit the potential impact of major increases in interest rates on floating rate long-term debt while allowing the Company to participate fully in decreases in interest rates.

All of these agreements have been made with Canadian chartered banks.

Most of the long-term debt issues are subject to cancellation or redemption at the option of the issuer at various times or under certain conditions. In addition, a portion of proceeds from any new financing or securitization of accounts receivable is to be used to pay down floating rate debt.

Maturities of long-term debt are summarized as follows:

Years ending January 31 (thousands of dollars)	
2002	125,703
2003	125,637
2004	420,395
2005	125,436
2006	499
Subsequent periods	2,608
	800,278

Note 13. Equity Subordinated Debentures

On April 6, 1999, the Company received $200,000,000, before deducting $6,000,000 in issue costs, on the issuance of 7.0% equity subordinated debentures maturing on April 1, 2002. Each debenture is convertible on maturity, at the option of the holder, into the conversion number of common shares of the Company. The conversion entitlement allows holders to participate in the potential appreciation of the Company's common share price during the term of the debentures up to a maximum of $18.20 per share based on a reference price of $14.55, being a maximum of $1,251 per $1,000 principal amount of debentures. The Company has the option, in lieu of delivering common shares upon conversion of the debentures, to pay the conversion value in cash. The debentures have been classified as equity under Shareholders' Equity in the Consolidated Balance Sheet.

The value of the conversion option has been estimated to be $8,000,000 and this amount is being accreted over the 36-month period until maturity as a charge against retained earnings.

The net charges to retained earnings are as follows:

Years ended January 31 (thousands of dollars)	2001	2000
Dividends accrued	14,000	11,545
Conversion option accreted	2,667	2,199
Income taxes deductible on dividends	(6,159)	(5,065)
Net charge to retained earnings	10,508	8,679

Dividends paid amounted to $14,000,000 for the year ended January 31, 2001, and $6,827,000 for the year ended January 31, 2000.

Note 14. Capital Stock

The authorized classes of shares of the Company consist of unlimited numbers of preferred shares and common shares, all without nominal or par value.

There are no outstanding preferred shares. The changes in common shares issued and outstanding during the two years ended January 31, 2001, are as follows:

	Number of Shares	Thousands of Dollars
Issued and outstanding at January 31, 1999	74,634,400	1,512,882
Issued:		
Under the dividend reinvestment plan	26,167	439
Under the Senior Executive share purchase plan	8,300	150
Under stock option plans	24,859	424
Purchased for cash and cancelled	(652,600)	(10,995)
Excess of carrying value of shares purchased over purchase price transferred to contributed surplus	–	(2,232)
Acquisition of shares	(282,000)	(4,482)
Resale of shares	282,000	5,077
Excess of proceeds on resale of shares transferred to contributed surplus	–	(595)
Issued and outstanding at January 31, 2000	74,041,126	1,500,668
Issued:		
Under the dividend reinvestment plan	60,795	930
Under stock option plans	16,475	272
Purchased for cash and cancelled	(3,527,600)	(54,950)
Excess of carrying value of shares purchased over purchase price transferred to contributed surplus	–	(16,544)
Issued and outstanding at January 31, 2001	70,590,796	1,430,376

Weighted average numbers of common shares outstanding during each of the years ended January 31 are as follows:

2001	71,902,756
2000	74,570,287

Under a normal course issuer bid, during the year ended January 31, 2001, the Company purchased a total of 3,527,600 of its common shares at an aggregate cost of $54,950,000. All of these shares were cancelled and the excess of the carrying value over the purchase price, amounting to $16,544,000, was transferred to contributed surplus. During the year ended January 31, 2000, the Company purchased 934,600 common shares at an aggregate cost of $15,477,000 under a normal course issuer bid. Of these shares, 652,600 were cancelled and the excess of the carrying value over the purchase price, amounting to $2,232,000, was transferred to contributed surplus. The remaining 282,000 shares were resold to executives in the Senior Executive share purchase plan for $5,077,000.

At January 31, 2001, the holders of 0.1% of the common shares were participating in the dividend reinvestment plan. Under the terms of this plan, dividends are reinvested in common shares at their weighted average market price during the three business days immediately preceding the dividend payment date.

Note 15. Stock-Based Compensation Plans

The Company has six stock-based compensation plans: two stock option plans, two stock ownership plans, a share appreciation rights agreement and a phantom stock plan.

a) Stock Option Plans

Under these plans, outstanding options to purchase common shares are at exercise prices equal to the fair market value per share on the dates on which the options were granted. A percentage of the options become exercisable each year and any unexercised options expire at the latest on the 10th anniversary of the date of grant. At January 31, 2001, 5,663,413 common shares are reserved for issuance under these plans. The changes in outstanding stock options for the years ended January 31, 2001, and January 31, 2000, are as follows:

Years ended January 31	2001 Number of Options	2001 Weighted Average Price	2000 Number of Options	2000 Weighted Average Price
Outstanding options at beginning of year	4,042,994	$ 24.09	3,588,715	$ 27.58
Granted	1,025,900	17.96	1,212,400	15.38
Exercised	(16,475)	16.50	(24,859)	17.06
Cancelled or expired	(448,982)	26.72	(733,262)	27.00
Outstanding options at end of year	4,603,437	22.49	4,042,994	24.09
Reserved for future grant at year-end	1,059,976		1,636,894	
Exercisable	2,257,537	$ 25.91	1,796,544	$ 28.34

The options outstanding at January 31, 2001, range in exercise price from $12.70 to $36.625. Of these exercisable options, 277,675 had an issue price lower than the closing price of $16.70 at January 31, 2001, and consequently were "in the money" as of that date. The table below summarizes the distribution of these options within meaningful ranges and the remaining contractual life.

Range of Exercise Prices	Options Outstanding: Number of Options Outstanding	Options Outstanding: Weighted Average Remaining Contractual Life in Years	Options Outstanding: Weighted Average Exercise Price	Options Exercisable: Number of Options Exercisable	Options Exercisable: Weighted Average Exercise Price
$12.70 to $15.00	43,800	9.4	13.65		
$15.01 to $20.00	2,498,193	8.2	16.71	700,368	16.31
$20.01 to $25.00	218,725	5.4	20.94	83,875	21.08
$25.01 to $30.00	731,944	5.7	27.54	576,619	27.39
$30.01 to $36.63	1,110,775	4.1	32.83	896,675	32.91
$12.70 to $36.63	4,603,437	6.7	22.49	2,257,537	25.91

b) Employee Share Ownership Plan

Under this plan, the Company contributes $1 for each $6 contributed by employees to acquire common shares. If earnings per share increase over prescribed targets, the Company contribution may increase to a maximum of $1 for each $1 contributed. Employee and Company contributions are used to purchase common shares in the open market. The Company contribution is included as an expense in the Consolidated Statements of Earnings and amounted to $673,000 in the year ended January 31, 2001, and $667,000 in the year ended January 31, 2000.

c) Senior Executive Share Purchase Plan

Under this plan, certain employees were eligible to apply for a loan to purchase common shares at market value provided that the aggregate amount of all loans outstanding under the plan did not exceed that employee's current annual salary. Loan offers under this plan have been suspended since December 1998. Loans are repayable in monthly installments over a maximum term of 10 years and are included in secured receivables in the Consolidated Balance Sheet (see note 7). The Company pays a bonus in respect of each loan two years after the granting thereof, to be applied to the repayment of the loan. The bonus is an amount which, after adjusting for income taxes in respect of the bonus, is equal to the greater of 1) 10% of the original amount of the loan and 2) the excess, if any, of the original principal amount of the loan over the market value on the bonus date of the shares purchased with the proceeds of the loan.

An amount of $14,073,000 was included as an expense in the Consolidated Statements of Earnings for the year ended January 31, 2001. This amount relates to the unamortized bonus at January 31, 2000, and the bonus accrued in the year. The corresponding amount for the year ended January 31, 2000, was $1,600,000.

d) Share Appreciation Rights Agreement

Under this agreement, the Governor of the Board was granted 62,500 units at an issue price of $28.80 per unit. These units become exercisable as follows: 25% in 2001, 25% in 2004 and the remainder on the retirement of the Governor. Amounts payable are based upon the excess of the market value of the Company's common shares at the exercise date over the issue price of $28.80. As of January 31, 2001, there is no liability under this agreement, since the market price of the Company's common shares is below $28.80.

e) Phantom Stock Plan

Under this plan, Directors of the Company receive their annual retainers in the form of units in the plan, and the Company records a liability. The number of units issued is based upon the market value of the Company's common shares at each allocation date during the year. After retirement, Directors receive a cash payment equal to the market value of their accumulated phantom stock units. The number of units issued each year, multiplied by the market value of common shares at the Company's year-end, is recorded as an expense by the Company; the amounts included in the Consolidated Statements of Earnings were $476,000 in the year ended January 31, 2001, and $360,000 in the year ended January 31, 2000.

Details of common shares issued under the stock option plans and the Senior Executive share purchase plan during the years ended January 31, 2001, and January 31, 2000, are shown in Note 14.

Note 16. Financial Instruments

a) Fair Values of Financial Instruments

The Company has estimated the fair values of its financial instruments as of January 31, 2001, and January 31, 2000, using quoted market values where available and other relevant information. These estimates are not necessarily indicative of the amounts the Company might pay or receive in actual market transactions and do not include other transaction costs and income taxes.

A comparison of book values with related estimated fair values at January 31, 2001, and January 31, 2000, is as follows:

	2001		2000	
Years ended January 31 (thousands of dollars)	Book Value	Fair Value	Book Value	Fair Value
Financial assets				
Portfolio investments	42,554	42,889	45,893	45,300
Financial liabilities				
Fixed rate long-term debt	(680,278)	(682,371)	(831,879)	(812,373)
Off balance sheet financial instruments				
Interest rate swaps in a net payable position		(2,116)		(2,571)

The above table does not include cash, short-term deposits, credit card receivables, other accounts receivable, short-term borrowings, forward rate agreements, trade accounts payable, other accounts payable and income taxes payable because, due to the immediate or short-term maturity of these financial instruments, their book values approximate fair values. The table also excludes secured receivables and floating rate long-term debt since their book values approximate fair values.

The fair values shown in the above table, which are estimated as at January 31, 2001, and January 31, 2000, change daily as they approach maturity and as interest rates increase or decrease.

These fair values are estimated as follows:

- Portfolio investments – based upon quoted market prices
- Fixed rate long-term debt – based on quoted values which represent debt with similar terms and maturities
- Interest rate swaps in a net payable or receivable position – based on estimated net cost of terminating the agreements

The fair values of interest rate caps at January 31, 2001, and January 31, 2000, are negligible amounts and therefore are not shown in the table. At this time the Company does not intend to terminate the interest rate swap and interest rate cap agreements and therefore does not anticipate any impact on earnings arising from the differences between book value and fair value.

b) Off Balance Sheet Financial Instruments

The Company enters into various interest rate swap and cap agreements with counterparties to manage its exposure to interest rate risks (see note 12). The Company believes that its exposure to credit and market risks for these financial instruments is negligible.

Notional principal amounts on outstanding interest rate contracts are as follows:

January 31 (thousands of dollars)	2001	2000
Interest rate swaps	150,000	225,000
Interest rate caps	70,000	70,000

The credit exposure relating to interest rate swaps and caps are not shown in the above table since the amounts are insignificant. Credit exposure represents the fair value of contracts with a positive fair value. If a counterparty were to fail to meet the terms of a swap or cap agreement, the Company's exposure would be limited to the net amount that otherwise would have been received over the remaining life of the agreement. The notional principal amounts shown in the above table are those on which interest amounts to be exchanged under the contracts are based. The Company enters into these contracts to lower the net cost of financing, to diversify sources of funding and/or to reduce interest rate exposures.

The following table indicates the type of interest rate swaps in place during each year and their average interest rates:

Years ended January 31 (thousands of dollars)	2001	2000
Pay-fixed swaps		
Average pay rate	6.12%	6.41%
Average receive rate	5.70%	4.95%

The Company also enters into forward rate agreements, a form of swap that allows the Company to lock in interest rates on future short-term borrowings.

In addition to interest rate agreements, the Company enters into forward foreign exchange contracts to lock in prices in Canadian dollars for future contracted purchases of merchandise from foreign suppliers. At January 31, 2001, there were no outstanding foreign exchange contracts bought forward.

Note 17. Net Change in Operating Working Capital

The net change in operating working capital appearing in the operating activities section of the Consolidated Statements of Cash Flows comprises the following:

Years ended January 31 (thousands of dollars)	2001	2000
Decrease (increase) in:		
Cash in stores	831	(440)
Credit card receivables	(15,750)	(65,254)
Other accounts receivable	24,220	41,362
Merchandise inventories	23,389	56,923
Prepaid expenses	(5,205)	15,652
Increase (decrease) in:		
Trade accounts payable	111,550	64,996
Other accounts payable and accrued expenses	(530)	(24,182)
	138,505	89,057

Note 18. 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, 2001, and January 31, 2000, were $216,000,000 and $206,000,000, respectively.

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

Years ending January 31 (thousands of dollars)	Operating Leases	Capital Leases
2002	205,400	445
2003	200,800	320
2004	190,900	18
2005	181,900	
2006	173,300	
Subsequent periods	1,215,700	
	2,168,000	783

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

b) As Lessor

Fixed assets in the Consolidated Balance Sheets at January 31, 2001, and January 31, 2000, include an office tower with a cost of $22,100,000 at January 31, 2001, and January 31, 2000, and related accumulated amortization of $10,250,000 and $9,800,000, respectively. Revenue for the years ended January 31, 2001, and January 31, 2000, include third party rental revenue arising from this property of $6,500,000 and $4,700,000, respectively.

Note 19. Segmented Information

Segmented Consolidated Statements of Earnings for the years ended January 31, 2001, and January 31, 2000, and Net Assets at January 31, 2001, and January 31, 2000, are as follows:

						2001
(thousands of dollars)	The Bay	Zellers	Financial Services	All Other	Eliminations	Total
Earnings						
Sales and revenue	2,791,363	4,636,979	295,090	90,231	(295,090)	7,518,573
EBIT[1]	161,653	157,129	132,188	(18,804)	(132,188)	299,978
Interest expense						(61,558)
Income taxes						(113,162)
Net earnings						125,258
Amortization	64,993	88,280	2,733	33,625	(2,733)	186,898
Capital expenditures	83,589	113,527	441	44,382	(441)	241,498
Net assets						
Credit card receivables	258,830	240,859	499,689		(499,689)	499,689
Inventories	543,467	1,005,377		26,462		1,575,306
Other current assets[2]	36,230	85,431	7,650	47,603		176,914
Fixed assets	477,918	615,216	3,249	239,965		1,336,348
Other assets, net[3]	215,850	218,976	10,283	121,180		566,289
	1,532,295	2,165,859	520,871	435,210	(499,689)	4,154,546
Current liabilities[4]	(325,360)	(530,324)	(9,496)	(215,288)		(1,080,468)
Net assets	1,206,935	1,635,535	511,375	219,922	(499,689)	3,074,078
Financed by:						
Debt						693,582
Future income taxes						77,149
Equity						2,303,347
						3,074,078

1 Earnings before interest expense and income taxes
2 Excluding short-term deposits and current portion of future income taxes
3 Excluding portfolio investments
4 Excluding short-term borrowings and long-term debt due within one year

(thousands of dollars)	The Bay	Zellers	Financial Services	All Other	Eliminations	2000 Total
Earnings						
Sales and revenue	2,594,264	4,597,622	309,215	103,865	(309,215)	7,295,751
EBIT[1]	128,226	149,649	124,247	(6,331)	(124,247)	271,544
Interest expense						(79,140)
Income taxes						(96,369)
Net earnings						96,035
Amortization	62,338	82,773	2,754	36,963	(2,754)	182,074
Capital expenditures	30,399	94,905	1,914	30,552	(1,914)	155,856
Net assets						
Credit card receivables	216,228	267,712	483,940	–	(483,940)	483,940
Inventories	497,148	1,064,643	–	36,904	–	1,598,695
Other current assets[2]	35,302	86,848	12,612	71,291	–	206,053
Fixed assets	460,245	569,521	4,402	221,986	–	1,256,154
Other assets, net[3]	192,337	220,798	11,784	113,371	–	538,290
	1,401,260	2,209,522	512,738	443,552	(483,940)	4,083,132
Current liabilities[4]	(246,205)	(469,348)	(10,494)	(243,401)		(969,448)
Net assets	1,155,055	1,740,174	502,244	200,151	(483,940)	3,113,684
Financed by:						
Debt						793,791
Future income taxes						54,368
Equity						2,265,525
						3,113,684

1 Earnings before interest expense and income taxes

2 Excluding short-term deposits and current portion of future income taxes

3 Excluding portfolio investments

4 Excluding short-term borrowings and long-term debt due within one year

Note 20. Contingencies

As of January 31, 2001, 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.

Five-Year Financial Summary

(For the purpose of comparability, extraordinary and unusual items and related taxes have been eliminated and certain other figures have been restated or reclassified)

Years ended January 31	2001	2000	1999	1998	1997
Number of weeks	52	52	52	52	52
Operations (millions of dollars)					
Total sales and revenue	7,519	7,296	7,075	6,447	6,025
The Bay	2,791	2,594	2,485	2,533	2,385
Zellers	4,637	4,598	4,498	3,809	3,544
EBITDA for the Company	487	454	356	333	383
EBIT – The Bay	162	128	52	127	131
EBIT – Zellers	157	150	134	73	116
EBIT for the Company	300	271	187	200	251
Interest expense	(62)	(79)	(97)	(88)	(108)
Income taxes	(113)	(96)	(49)	(60)	(71)
Net earnings	125	96	41	52	72
Cash from operating activities	467	450	157	(100)	241
Capital expenditures	(241)	(156)	(293)	(230)	(121)
Financial position (millions of dollars)					
Credit receivables	500	484	719	645	831
Inventories	1,575	1,599	1,656	1,417	1,365
Total assets	4,376	4,274	4,676	3,880	3,816
Working capital	1,171	1,319	1,746	1,559	1,658
Debt	694	794	1,523	1,240	1,113
Shareholders' equity	2,303	2,266	2,015	1,665	1,750
Financial ratios					
Return on average shareholders' equity (%)	5.5	4.3	2.3	3.0	4.1
Interest coverage	4.9	3.4	1.9	2.3	2.3
Debt:equity	0.3:1	0.4:1	0.8:1	0.7:1	0.6:1
Pre-tax margin (%)	3.2	2.6	1.3	1.7	2.4
Share data					
Common shares outstanding (millions):					
Year-end	70.6	74.0	74.6	62.1	59.9
Weighted average	71.9	74.6	72.2	61.2	59.3
Range in common share price (high/low)	19–13	24–14	35–16	38–24	25–16
Price:earnings ratio (year-end)	10.4	12.7	27.6	30.3	19.8
Price:book ratio (year-end)	0.6	0.5	0.6	1.0	0.8
Per common share (dollars)					
EBITDA	6.77	6.08	4.93	5.44	6.47
Net earnings					
Basic	1.60	1.17	0.57	0.85	1.20
Fully diluted	1.47	1.11	0.57	0.85	1.20
Cash from operations	6.50	6.03	2.18	(1.63)	4.07
Shareholders' equity	29.78	27.91	27.01	26.82	29.21
Dividends	0.36	0.36	0.72	0.72	0.72
Statistics					
Gross leasable area					
The Bay	17,230	16,882	17,028	16,754	16,782
Zellers	29,165	28,287	28,284	23,785	22,947
Comparable store sales increase (%)					
The Bay	6.0	4.7	(1.5)	6.1	(0.6)
Zellers	0.4	2.3	3.1	5.3	(2.2)
Sales per selling square foot					
The Bay	188	177	171	173	159
Zellers	199	197	196	196	191
Average number of associates	71,700	69,700	71,700	61,500	63,400
Canadian economy (% change)					
Department store sales (DSS)	2.0	6.3	6.0	10.3	4.4
Department store type merchandise sales (DSTM)	5.1	5.6	5.8	7.2	2.4

Introduction

The Board of Directors and Management of Hudson's Bay Company believe that sound corporate governance practices are essential to the well-being of the Company. The Board is committed to maintaining high standards of corporate governance and reviews these practices on a regular basis with respect to their appropriateness. The Company's corporate governance practices are summarized in this statement within the guidelines for effective corporate governance as clarified recently by The Toronto Stock Exchange.

Mandate of the Board of Directors

The mandate of the Board of Directors is to supervise the management of the business and affairs of the Company and act in the Company's best interests. In fulfilling this mandate, the duties and objectives of the Board are to:

- approve long-term objectives and major Company policies and strategies;
- appoint and compensate Senior Management, plan for their succession and approve their incentive plans;
- appoint Board Committees and plan for Board succession;
- approve capital and operating budgets, financing plans and other financial matters, including a quarterly review of operations and measurement of progress against budgets;
- approve capital expenditures and asset dispositions in excess of delegated authority;
- approve entry and discontinuance of any significant part of the business into new business ventures; and
- resolve any other matters involving unusual risk or which as a matter of common sense should be referred to the Board.

The Board meets each quarter and, in addition, meets at the call of the Governor, the non-executive Chairman of the Board, when matters of Board significance require attention. During the 2000 fiscal year, the Board met six times.

Toronto Stock Exchange Corporate Governance Guidelines

The Company's approach to corporate governance is substantially in compliance with The Toronto Stock Exchange Corporate Governance Guidelines. The following specifically addresses the Company's corporate governance practices as they relate to each of the Guidelines.

1) Stewardship of the Company

The Board of Directors has assumed the responsibility for the stewardship of the Company with responsibility for the following matters.

(a) Adoption of a Strategic Planning Process

The Board approves all long-term objectives and major Company policies and strategies. Management is required to submit to the Board a detailed strategic plan annually. The Board also receives updates on the strategic planning at the quarterly meetings.

(b) Identification of the Principal Risks and Implementation of Systems to Manage Risks

As part of the strategic planning process and the annual budget approval, the Board considers the principal risks of the Company's business as identified by Management. The Audit Committee receives updates at the quarterly meetings concerning risks to the business and recommends to the Board and Management systems necessary to address those risks.

(c) Succession Planning

The Human Resources Committee is responsible for reviewing the Company's organizational structure on a regular basis, at least yearly, monitoring succession planning for Senior Management and, when necessary, making recommendations to the Board concerning potential candidates, internally and externally, to fill senior executive positions within Management. Training of Senior Executives is completed and updated by Human Resource Training Programs made available as part of the Company's education process and Senior Management performance is monitored on a regular basis.

(d) Communications Policy

Communications of major significance to the Company are reviewed by the Board or a Board Committee prior to release. Shareholder inquiries are promptly responded to by the Company. Responsibility for communications with other stakeholders, including suppliers, customers or the public, is delegated to the Corporate Communications Department who, together with those officers of the Company directly involved, create and publish timely responses.

(e) Integrity of Internal Control and Management Information Systems

The Audit Committee is responsible for reviewing the following:

- the scope of the internal audits to be performed each year by the Company's Internal Audit function. The Internal Audit function examines all of the Company's systems and control procedures to determine their adequacy.
- the annual report of the Internal Audit function and reporting to the Board.
- the scope of the audit to be performed by the External Auditors, receiving the yearly report of the External Auditors and Management's response to that report, presenting the report and response to the Board and meeting privately with the External Auditors at each meeting to review audit concerns and recommendations.
- Management's statement on financial reporting each year and all annual and quarterly financial statements and recommending these to the Board.
- the quarterly Health & Safety, Risk Management, Product Liability and Environmental Reports and recommending these reports to the Board.
- the organizational structure, programs, systems, policies and procedures as they relate to accounting and reports to the Board.

2) Composition of the Board – Unrelated and Related Directors

The Guidelines recommend that a majority of the Directors of a listed company be "unrelated." For purposes of the Guidelines, an "unrelated Director" is a Director who is independent of Management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholding. The Board currently comprises 12 Directors. Based on a vigorous application of the definition in the Guidelines the Board is of the opinion that 10 of the current Directors are unrelated.

3) Identification of Unrelated and Related Directors

George J. Heller, President and Chief Executive Officer, and Gary J. Lukassen, Chief Financial Officer, are related Directors.

L. Yves Fortier C.C., Governor, Hudson's Bay Company, serves as the non-executive Chairman of the Board. By virtue of his position as Chairman he is an officer of the Company. The Governor is not, however, involved in the day-to-day management of the Company and is therefore not in a position of conflicting interests. For that reason he is not considered related.

None of the remaining Directors is related.

4) Nominations to the Board and Continuing Assessment of Director

The Corporate Governance Committee performs the function of a nominating committee and proposes candidates as new Directors to the Board. In this capacity, the Committee, which is composed entirely of unrelated Directors, maintains a current data base of potential new Directors. Recommendations for new Directors are made to the Board as this need arises. This Committee is also responsible for assessing performance of the current Directors on a regular basis.

5) Assessment of Effectiveness of the Board, Its Committees and Individual Directors

The Corporate Governance Committee reviews the relationship between Management and the Board and makes recommendations where appropriate. This Committee annually recommends assignment of members or candidates to Board Committees and periodically reviews the mandates of the Board Committees and makes recommendations as necessary. Annually, each Director completes a questionnaire which examines the effectiveness of the Board as a whole and all of the Board Committees. The Governor regularly meets privately with each Director to discuss their role as Director of the Company and assess their individual strengths and weaknesses. Directors may discuss any concerns they may have with the effectiveness of the Board, the role and duties of the Committees and the contribution of individual Directors.

6) Orientation and Education Program for New Directors

New Directors are invited by the Governor to meet with himself, the President and Chief Executive Officer and other senior officers for discussion and review prior to attending their first Board meeting. Tours of stores and other facilities are tailored to meet individual requirements. Each Director receives a Directors' Handbook which provides much of the information Directors require. Periodic educational sessions for experienced as well as new Directors are held preceding Board meetings at which one or more of the unique aspects of the retail business is discussed in some detail.

It has been the practice for one Board meeting in each year to be held in a city other than Toronto to enable Board members to visit different Bay and Zellers stores, meet with local management, and gain an understanding of regional differences. In 2000, Montreal, Quebec, was selected.

7) Size of the Board

The size of the Board is determined annually based on contemporary needs. In 2000, the Board comprised 12 members. At the Annual Meeting in May 2001 shareholders will be asked to appoint 11 Directors. The Board believes that 11 or 12 Directors, including one executive, will be efficient and will allow for more effective decision making in the Company as a whole.

8) Compensation of Directors

The Corporate Governance Committee reviews Directors' compensation annually in reference to the compensation of Directors at other corporations of similar size and complexity and makes recommendations to the Board for adjustment when appropriate. Consideration, when reviewing Directors' compensation, is given to the responsibilities and risks involved in being an effective Director.

9) Composition of Committees of the Board

A majority of the members of each Board Committee are unrelated Directors. The President and Chief Executive Officer is a member of the Executive Committee and the Chief Financial Officer is a member of the Pension Committee. These appointments are considered of significant strategic value to the mandates and duties of these Committees.

10) Development of Approach to Governance Issues

The Corporate Governance Committee is responsible for reviewing governance issues as they relate to the Company and making recommendations to the Board as appropriate. This Committee is responsible for the Company's Annual Statement of Corporate Governance Practices and for the Company's response to these Guidelines.

11) Development of Position Descriptions for the Board and CEO and Approval of Corporate Objectives for CEO

The responsibilities of the Board are set out above under the heading "Mandate of the Board of Directors." These mandates clearly define the responsibilities and objectives of Management and the limitations placed on Management's authority to act. Other policies and procedures created by the Board from time to time further define Management's responsibilities and the interaction of the President and Chief Executive Officer and the Board.

12) Structure and Procedure for Independent Board Function

The Governor is the non-executive Chairman of the Board and is responsible for ensuring that the Board discharges its duties. When appropriate, to ensure independence from Management, the inside Directors are requested to withdraw from meetings of the Board and similarly from any meetings of Board Committees. Private sessions are held by the unrelated Directors during each meeting of the Board and certain of the Committees.

13) Audit Committee

The Audit Committee:

- Comprises five outside and unrelated Directors.
- Has a written mandate and well-defined responsibilities providing Audit Committee members with specific duties and responsibilities.
- Meets privately with both External Auditors and Internal Company Auditors on a quarterly basis to discuss and review issues that either this Committee or the Auditors deem appropriate and timely. The Audit Committee Chairman is also available to meet with the External Auditors and the Internal Auditors between regular Committee meetings as circumstances arise.
- Reviews an annual report prepared by the Internal Auditor which discusses internal controls within the Company as designed and implemented by Management and reviews the duties and responsibilities of Internal Audit.
- Reviews all financial statements prepared by the Company and reports to the Directors of the Company.

14) Engagement of Outside Advisors by Directors

Individual Directors are entitled to appoint an outside advisor at the expense of the Company, subject to prior approval by the Board.

Committees of the Board of Directors

There are five Committees of the Board of Directors: the Audit Committee, the Corporate Governance Committee, the Executive Committee, the Human Resources Committee and the Pension Committee. The list of Directors, which appears on page 62 of this Annual Report, discloses the membership of each Board Committee. A majority of the Directors on each Board Committee are unrelated Directors. Each Committee has a written mandate as approved by the Board of Directors and is delegated specific powers and responsibilities. Meetings of all Committees are scheduled on a regular basis with the ability to call additional meetings as required.

Every member of the Board receives a copy of the minutes of each Committee meeting. Committee chairmen report as appropriate at each Board meeting and an opportunity is provided for dialogue between Committee members and the full Board.

The Audit Committee, comprising five unrelated Directors, meets at least quarterly and as otherwise called by the Chairman. It advises the Board on matters relating to External Auditors, Internal Auditors, financial reporting, accounting policies, systems and procedures and financial management. The Committee reviews principal risks and the integrity of internal control systems and of management information systems. In addition, the Committee is responsible for social responsibility matters including the review of compliance with legislation. Principal areas of concern include health and safety, environmental protection, legal and ethical compliance, and government and community relations. During the 2000 fiscal year the Committee met on four occasions.

The Corporate Governance Committee, comprising five unrelated Directors, meets at least semi-annually or at the call of the Chairman. It performs the function of a succession and nominating committee and assesses the effectiveness of the Board, its Committees and its individual Directors. It reviews the mandates of the various Board Committees amending these mandates, with the consent of the Board, where appropriate and reviews the relationship between the Board and Management. During the 2000 fiscal year the Committee met on seven occasions.

The Executive Committee, comprising five Directors, is chaired by the Governor and includes one inside Director, the President and Chief Executive Officer. The Board believes the Chief Executive Officer's participation to be both necessary and appropriate for the effective operation of this Committee and that the Chief Executive Officer be a full voting member. The Committee meets as required at the call of the Chairman. The Committee advises the Board regarding capital expenditure and financing projects and reviews and recommends to the Board policy statements regarding Donations and Political Contributions. Between Board meetings, the Committee exercises the powers of the Board except over those matters which may not be delegated or which have been reserved by the Board.

The Human Resources Committee, comprising five unrelated Directors, meets at least semi-annually or at the call of the Chairman. The Committee advises the Board generally in all matters relating to compensation for the Company and specifically relating to compensation for Senior Executives. During the 2000 fiscal year the Committee met on seven occasions.

The Pension Committee, comprising four Directors, meets at least annually or at the call of the Chairman. Membership includes one inside Director, the Chief Financial Officer, as a full voting member. The Board believes this to be both necessary and appropriate for the effective operation of this Committee. The Committee oversees pension plans, including their investment, safekeeping and procedural and administrative matters and reports to the Board quarterly. During the 2000 fiscal year the Committee met on five occasions.

Board of Directors

David W. Colcleugh
Toronto
Chairman, President & Chief Executive Officer, DuPont Canada Inc.
Elected 2000[1,4]

Dominic D'Alessandro
Toronto
President & Chief Executive Officer, Manulife Financial Corporation
Elected 1996[3,4]

L. Yves Fortier
Montreal
Chairman & Senior Partner, Oglivy Renault, Barristers & Solicitors
Elected 1993[1,2,3,4]

James K. Gray
Calgary
Chairman, Canadian Hunter Exploration Ltd.
Elected 1998[3,4]

Kerry L. Hawkins
Winnipeg
President, Cargill Limited
Elected 1998[2,4]

George J. Heller
Toronto
President & Chief Executive Officer, Hudson's Bay Company
Elected 1999[3]

Barbara R. Hislop
Vancouver
Group Vice-President Wood Products, Canfor Corporation
Elected 1993[2,5]

Donna S. Kaufman
Toronto
Lawyer & Corporate Director
Elected 2000[1]

Walter F. Loeb
New York, N.Y.
President, Loeb Associates Inc.
Elected 1998[2,5]

Gary J. Lukassen
Toronto
Executive Vice-President & Chief Financial Officer, Hudson's Bay Company
Elected 1987*

Peter W. Mills
Toronto
Business Consultant
Elected 1985[1,2]

Guy St-Germain
Montreal
President, Placements Laugerma Inc.
Elected 1994[1,5]

* Not standing for re-election
1 Audit Committee
2 Corporate Governance Committee
3 Executive Committee
4 Human Resources Committee
5 Pension Committee

Senior Officers

L. Yves Fortier
Governor
Hudson's Bay Company

George J. Heller
President & Chief Executive Officer
Hudson's Bay Company

Gary J. Lukassen*
Executive Vice-President &
Chief Financial Officer
Hudson's Bay Company

Marc Chouinard
Executive Vice-President
Hudson's Bay Company
President & Chief Operating Officer,
The Bay

Thomas Haig
Executive Vice-President
Hudson's Bay Company
President & Chief Operating Officer,
Zellers

Peter A. Kenyon
Executive Vice-President, Logistics,
Distribution & Transportation
Hudson's Bay Company

David F. Poirier
Executive Vice-President &
Chief Information Officer
Hudson's Bay Company

David J. Crisp
Senior Vice-President,
Human Resources
Hudson's Bay Company

Donald C. Rogers
Senior Vice-President,
Real Estate & Development
Hudson's Bay Company

Harold J. Chmara
Vice-President,
Financial Reporting & Tax
Hudson's Bay Company

Gary B. Davenport
Vice-President, Information Services
Hudson's Bay Company

James A. Ingram
Vice-President, Secretary &
General Counsel
Hudson's Bay Company

Stephen F. Knight
Vice-President, Credit
Hudson's Bay Company

Robert R. Moore
Vice-President,
Corporate Communications
Hudson's Bay Company

Mike J. Thomas
Vice-President,
Logistics
Hudson's Bay Company

Kenneth C. Wong
Assistant Treasurer
Hudson's Bay Company

* Retired as of March 2001; suceeded by Michael Rousseau

Corporate Information

Registered Office
401 Bay Street, Suite 500
Toronto, Ontario M5H 2Y4

Auditors
KPMG LLP

Principal Bankers
Canadian Imperial Bank of Commerce
The Royal Bank of Canada
The Bank of Nova Scotia
HSBC Bank Canada

Investor Relations
Contact:
Rob Moore
Vice-President, Corporate
Communications
Tel. (416) 861-4860
Fax (416) 216-7887

Michael Rousseau
Executive Vice-President &
Chief Financial Officer
Tel. (416) 861-4904
Fax (416) 861-4720

Stock Exchange Listings
Common shares are listed on
The Toronto Stock Exchange
under the trading symbol "HBC."

Transfer Agents and Registrar
Investors are encouraged to contact our Transfer Agent and Registrar, CIBC Mellon Trust Company, for information regarding their security holdings.

They can be reached at:

CIBC Mellon Trust Company
P.O. Box 7010, Adelaide Street
Postal Station
Toronto, Ontario M5C 2W9

AnswerLine™: (416) 643-5500
or 1-800-387-0825
(Toll-free for North America)

Fax: (416) 643-5501
Website: www.cibcmellon.ca
Email: inquiries@cibcmellon.ca

Internet
Visitors to the Hudson's Bay Company corporate website @ www.hbc.com have instant access to an extensive offering of corporate, investor and customer-focused information, customer services and secure online shopping.

Annual Meeting of Shareholders
The 332nd Annual Meeting of Shareholders will be held at the Arcadian Court, 8th Floor,
401 Bay Street, Toronto, ON
Wednesday, May 23, 2001
at 3:00 p.m.

Community Investment

As Canada's oldest company and largest department store retailer, Hudson's Bay Company is committed to the communities in which we live and work and understands the importance of being a socially responsible company. HBC has been an IMAGINE Caring Company since 1998, donating over 1% of our pre-tax profits to charitable organizations each year. In addition to funds donated from our two private foundations, The Hudson's Bay Charitable Foundation and The Hudson's Bay History Foundation (totalling $2.4 million), Hudson's Bay Company donated $1.3 million to charitable and non-profit organizations in the Year 2000.

- HBC is a Disaster Relief Services partner of the Canadian Red Cross, donating 5,000 blankets from the Bay and 6,000 comfort kits from Zellers each year.
- The Company continues its partnership with the Canadian Council for Aboriginal Business, an organization dedicated to promoting the full participation of Aboriginal communities in the Canadian economy.
- Hudson's Bay Company joined fellow retailers in supporting the Ryerson School of Retail Management, the only program of its kind in Canada, with a donation of $1 million.
- HBC partnered with CP Foundation to support the CP Holiday Train to raise awareness and funds for the Canadian Association of Food Banks.

The Bay

- Launched *Well into the Future* in October, a charitable program supporting Canadians living with cancer.
- Charitable partners of the program include the Canadian Cancer Society, Look Good Feel Better, Wellspring and The Childhood Cancer Foundation – Candlelighters Canada.
- The Bay has donated close to $1 million to support cancer wellness programs since the program's inception.

Zellers

- Launched *Friends of the Family* in September, created to help make a difference to families in need.
- Zellers Friends of the Family fund, aims to assist charitable organizations that support the health, well-being and education of Canadian families.
- Since the launch, Zellers has donated over $165,000 to women's shelters, $85,000 to the Canadian Women's Foundation and $250,000 to the Parent Help Line.
- Zellers continues its commitment to the Canadian Cystic Fibrosis Foundation through the annual Moonwalk now in its 16th year.

Ethical Sourcing

Hudson's Bay Company continues to be at the forefront of the development of industry-wide ethical sourcing standards for retail in Canada. The Company has worked with the Retail Council of Canada and others to find ways of establishing a common code to ensure fair working conditions in all facilities that manufacture goods for sale in Canadian retail formats. HBC maintains a Vendor Code of Conduct that is recognized as one of the most comprehensive in the industry and is used as a model for other retailers.

For a copy of the Company's Vendor Code and information on independent monitoring practices visit www.hbc.ca.

Employees

As Canada's fifth largest employer, Hudson's Bay Company believes that the talents and skills of individual employees within the organization determine our success. The Company has undertaken a number of initiatives to ensure we attract and retain talented people.

Hudson's Bay Company and its banners strive to create a work environment conducive to the needs of our associates through progressive staffing policies recognizing the diversity, the needs and the ideas of the Company's workforce. Initiatives to support this goal include: health promotion programs, improved internal communication vehicles and web-based training tools. Employees of the Company also share in the successes of the business through share ownership plans and profit-sharing.

Interbrand Tudhope, Toronto Printed in Canada

The history of HBC started simply in the 17th century by men motivated by ambition, driven by a need – to trade. In essence, the history of HBC, which started with a royal land grant that eventually spawned the world's largest, longest running private commercial empire, is the history of Canada – a new country founded by adventurers in trade.

C.1 1668–1700

In the late 1600s when King Charles II of England granted rights to a group of London investors to mount a new trading initiative, incorporated as "the Governor and the Company of Adventurers trading into Hudson's Bay." Word of potential new trading routes into Canada's north had come to the royal court's attention by way of Medart Chouart, Sieur des Groseilliers and Pierre-Esprit Radisson, two voyageurs whose successful expedition aboard the *Nonsuch* bore proof – a cargo of fur – that alternate trading routes were accessible. Having avoided Native conflicts in the south, HBC allied with traders in the north to establish forts where no other traders had ventured, along the shores of the waters of James Bay.

Presided over by its first governors, Prince Rupert, the Duke of York and the Duke of Marlborough, HBC held claim to all lands drained by rivers flowing into Hudson's Bay. In an area extending from what is now Quebec to Alberta and north to the Northwest Territories, HBC was authorized to build forts, raise armies, found colonies, enforce laws and drive out competitors – to build a trading empire.

C.2 1700–1800

What began as a bushwhacking venture grew into an established trading monopoly. In its second century, HBC's strength remained fur trading but further exploration was key to its future. However, there were obstacles. By the mid 1700s, France and England were engaged in a war and the stakes included control of trading routes in the new world. Threatened by the French, challenged by rival traders The North West Company, HBC endured this period, but neither expanded nor prospered.

In 1774, HBC resolved to push westward and thus began its long struggle for dominance. "Baymen" and "Nor'Westers" battled on all fronts. New posts were built at a furious pace while rival traders confronted each other at portages.

C.3 1800–1900

By the turn of the century, the world in which HBC figured so largely was changing. While the rival traders continued to battle each other, a future nation was beginning to take shape around them. In 1821, an amalgamation of HBC and The North West Company was negotiated resulting in a strong, revitalized entity under the HBC name.

Following the merger, HBC dominated the landscape not only as traders but also as governors of a vast land, having assumed the role that King Charles had conjured in his charter for HBC – as "true and absolute lords and proprietors." Changes were made during this period that profoundly altered the nature and ways of HBC. Forts closed, riverboats and ships replaced canoes, prices were cut, employees laid off and controls tightened. As a business, HBC was profitable; as a government, it was challenged by Metis land claims and disheartened Native traders. After Confederation, HBC began the metamorphosis that had been two centuries in the making. In 1869, HBC made a deal with the Canadian and British governments to divest itself of its vast land holdings and returned to its roots as commercial traders. By the end of the 19th century, HBC had been redrawn as a retail empire. Original HBC trading posts had spawned cities and now Fort Garry, which had become Winnipeg, became the site of the first HBC department store in 1881.

C.4 1900–2000

The 20th century saw the rise of a new HBC, a retail power with major department stores in cities across western Canada and, eventually, eastern Canada as well. In its fourth century, HBC's involvement in land development, and the construction of shopping centres and office complexes across Canada, was the natural development for a Company whose roots lay in exploration in the name of trade.

Throughout the century, HBC continued to expand its retail reach, acquiring Zellers department stores in 1978 and Simpson's the following year. Simpson's was merged into the Bay between 1986 and 1991. Other acquisitions included Towers, which was merged into Zellers, stores belonging to Woodward's and, eventually, Kmart in 1998. HBC also invested in Canadian resource industries and the Hudson's Bay Company Oil and Gas Company, for the better part of the century, was one of the Company's most important investments.

A defining act in the life of HBC as a 20th century company was its sale, in 1987, of its fur department and northern stores division.

C.5 2000–present

The Company of Adventurers has embarked on its fifth century of commerce with renewed vision and energy. The Company assets include: dominant formats in the mass and department store channels – Zellers and the Bay; a retail support network of businesses that are unrivaled in Canada; and the most extensive assortment of products and services that Canadians purchase every day. The Company has aligned itself to seize the opportunities associated with its rightful place as Canada's merchants.