Annual Report 1975

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Hudson's Bay Company

INCORPORATED 2ND MAY 1670

Contents

COVER... The strength of a department store is closely related to the competence of its personnel. The photos in this report depict some of the people who contributed to the success of the Company over the past year. Featured on the cover are the staff of the new store at Unicity Fashion Square in Winnipeg together with some of the merchandise they sell. The photos throughout the report show senior management in every day working situations and graphically illustrate the diversity of the Company's operations.

The 307th Annual General Meeting of Shareholders will be held at the Winnipeg Inn, Winnipeg, Manitoba, on May 21, 1976 at 12:00 noon.

On peut obtenir ce rapport annuel en français sur demande.

Financial Highlights

	1975	1974	INCREASE (Decrease)
	$	$	%
SALES AND REVENUE	1,189,330,000	1,022,040,000	16.4
NET EARNINGS	22,004,000	18,420,000	19.5
CASH FLOW	43,084,000	34,275,000	25.7
CAPITAL EXPENDITURES	32,834,000	43,665,000	(24.8)
SHAREHOLDERS' EQUITY	236,342,000	221,950,000	6.5
PER SHARE:			
Earnings	1.58	1.33	18.8
Dividends	.60	.60	—
Equity	16.90	15.93	6.1

Directors' Report to Shareholders

SUMMARY

During the past year there were many problems for the Canadian economy. It was a year which included continuation of a high level of inflation, widespread strikes, greater unemployment and the imposition of wage and price controls.

The Directors are, therefore, pleased to report that in these difficult circumstances your Company achieved increases in both sales and earnings during the year ended January 31, 1976. Earnings were $1.58 per share, up from $1.33 per share in the prior year.

All three sectors of the Company's activities contributed to the improved results. In merchandising, the improvement was due to the continued impact of the Company's programs to increase productivity and market penetration. In real estate, revenues from both land operations and income properties were ahead of the previous year. In natural resources, provincial and federal governments in Canada moved to improve the exploration climate through tax and royalty revisions which modestly increased the industry's share of recent price increases. Both Hudson's Bay Oil and Gas Company Limited and Siebens Oil & Gas Ltd. reported higher earnings and accelerated development programs.

ALEX MacINTOSH, Deputy Governor, and GEORGE RICHARDSON, Governor, examine a string of ranched mink on display at the Company's new Fur Sales Centre in Montreal.

MIKE HEYDON, Manager, Systems and Data Processing; GARRY HUGGINS, Systems Analyst, and IAIN RONALD, Controller, Department Stores, check a computer print-out in the Company's Toronto office.

FINANCIAL

Earnings... Net earnings were \$22,004,000 (\$1.58 per share), compared with \$18,420,000 (\$1.33 per share) in 1974.

Sales and Revenue... Revenue increased by 16.4% to \$1,189,000,000. Retail sales were up 14.3%

Dividends... Two semi-annual dividends of 30¢ per share were paid in 1975, unchanged from the prior year. A dividend of 30¢ per share has been declared payable on April 21, 1976, to shareholders of record on March 19, 1976.

Share Capital... The Company issued 48,395 shares in September, 1975, at \$15.50 per share under the Employee Share Purchase Plan, bringing the total number of shares outstanding to 13,984,893.

Finance Costs... Finance costs were \$27,600,000, up from \$25,400,000 in 1974. The average rate of interest on all borrowings was 7.9%, compared to 7.3% in the prior year.

Source and Use of Funds... Cash flow from operations increased by 26% to \$43,100,000 from \$34,300,000 last year. In addition, the Company raised \$35,000,000 in Canadian funds from the sale of 6-year 10¼% Notes in the Euro-dollar market.

Capital expenditures decreased by 25% to \$32,800,000 with most of the reduction in investment being in merchandising assets. Additional working capital requirements were \$24,800,000, with receivables and inventories increasing by \$11,200,000 and \$10,000,000 respectively. Other major uses of funds included dividend payments of \$8,400,000, debt repayments of \$3,400,000, increased secured receivables and additional investments totaling \$5,900,000.

EVAN CHURCH, General Merchandise Manager, Department Stores, and HOWARD LEMMON, Brand Marketing Manager, are pleased with a new Baycrest dress shirt, one of over 570 items carrying the Company's principal private brand label.

Examining plans for an extension of the Men's Wear department in The Bay's Toronto flagship store at Bloor and Yonge are RON SHEEN, Vice President, Department Stores; AL GUGLIELMIN, General Manager, Toronto Region and TOM FALVO, Divisional Merchandise Manager.

Merchandising

RETAIL... Growth in retail sales was uneven across the country and throughout the year. Labour disputes in the pulp and paper industry affected business in British Columbia and certain communities in other parts of the country dependent on that industry. The rate of growth in retail sales slowed in the third quarter but sales during the important Christmas selling period were gratifyingly buoyant.

In contrast to 1974, there were no shortages of consumer goods in 1975 and, as a result, it was possible to control more effectively merchandise inventories. A 41-day national postal strike created many problems for our merchandising operations. During the strike, special arrangements were made for delivery and payment of customer accounts and an encouraging number of customers kept their accounts current despite the personal inconvenience. Although dollar profits from our retail operations were up, margins as a percentage of sales narrowed slightly.

The Company opened a very successful first suburban store in Winnipeg in August at the new Unicity Fashion Square (33⅓% owned). The new store has 120,000 sq. ft. on two bright, attractive shopping floors, and is part of a centre containing 70 other retail stores and parking facilities for 2,500 cars. In the same month, a store of the same size was opened in the new Place Vertu Shopping Centre in the northwestern section of Montreal. It is our seventh store in that important metropolitan area. In Vernon, B.C., a new 82,000 sq. ft. store was opened in the Village Green Mall and an older, smaller store in the downtown business district was closed. Also in British Columbia, the Company opened a 48,000 sq. ft. store in a new shopping centre at Prince Rupert. Public reaction to all these new stores has been excellent. Five smaller stores were rebuilt, six were extended in size and five were closed. Seven new Shop-Rite Catalogue Stores were opened, bringing the total number of these stores to 60.

Two large new distribution centres were opened in Winnipeg (270,000 sq. ft.) and Calgary (278,000 sq. ft.). Both replaced a number of older and smaller service buildings. In Montreal a 94,000 sq. ft. extension was added to the distribution centre serving the Company's Northern Stores. The Company now has modern distribution facilities supporting all retail operations. In addition to merchandise storage, these centres provide relatively low-cost space for many

The verdict is favourable on the Company's four-colour Christmas catalogue. The jury is composed of HAL SPELLISCY, General Manager, Edmonton Region (centre); ED WILD, Manager, Southgate Store, and DONNA GIVENS of the Southgate staff; their judgement was later confirmed by thousands of customers.

Twenty-four foot shelving looms high overhead as GEORGE KOSICH, General Manager, Calgary Region, discusses new features of the Calgary Distribution Centre with ED HAWKINS, Operations Manager.

services supporting the stores such as receiving, marking, delivery and food commissaries.

For the first time since 1967, there is no major store opening scheduled for the current year. This is a result of an increasing shortage of prime retail sites and delays in securing government approvals for certain projects which were earlier anticipated to go forward in 1976. The Company continues to seek out new opportunities and expects our retail expansion program to accelerate again in 1977. At the year end, the Company's retail facilities totaled 13,880,000 sq. ft., an increase of 770,000 sq. ft. from a year ago. Of this space, 71% is owned and the remainder leased.

Wholesale... The Company is gratified with the success of its Wholesale operations which continue to expand both in sales and profits at a very satisfactory rate. In the last two years, three new wholesale branches have been added and six others have been enlarged and modernized. The department currently distributes through 33 branches from coast-to-coast, all of which handle tobacco, confectionery, sporting goods, photographic supplies, small electricals, giftwares and associated items. The department is built on the principle of fast and efficient service to the retail trade, thus allowing our customers to conserve working capital while providing a high level of service to the consumer.

Fur... As reported in last year's annual report, fur prices dropped significantly in the spring of 1974. Prices remained at these lower levels for approximately 15 months, until early fall 1975. At that time it became apparent that demand for furs at the retail level was higher than manufacturers and dealers had forecast, and many found themselves short of inventory. Consequently, the current season's opening auction prices were sharply higher in all varieties. Subsequent auctions followed a similar pattern. Higher prices combined with higher physical volume reflected beneficially on the results of the Company's auction houses in Montreal, New York and London. The Company opened a new 70,000 sq. ft. Fur Sales Centre in Pointe Clare, a suburb of Montreal, replacing older, smaller premises in the downtown area. It includes extensive cold storage facilities, a larger and more convenient viewing area for buyers and a contemporary, acoustically-controlled auction room.

ART ADAMIC, General Manager, Western Region, reviews a new line of merchandise with MARIANNE CALAMO, Divisional Merchandise Manager, in the downtown Vancouver store.

BLAIR BUSTARD, General Manager, Ottawa Region and WALLY EVANS, General Manager, Department Store Operations, check advertised merchandise in The Bay's newly modernized Home Store in Ottawa.

Natural Resources

THE COMPANY owns a 21.2% interest in Hudson's Bay Oil and Gas Company Limited and a 34.8% interest in Siebens Oil & Gas Ltd.

Dividends received from Hudson's Bay Oil and Gas Company Limited were $5,000,000, up from $3,800,000 the year before, while Hudson's Bay Company's share of undistributed earnings (which is not included in reported earnings of Hudson's Bay Company) rose to $9,700,000, compared with $8,500,000 in the previous year.

The Company's share of net earnings of Siebens Oil & Gas Ltd., accounted for on an equity basis, was $2,400,000 for the 12 months ending January 31, 1976, an increase of 62% over the previous year.

HUGH DWAN, Managing Director, Hudson's Bay & Annings Limited, and LOU HENRY, President, Hudson's Bay Company Fur Sales Incorporated, converse with ARTHUR FRAYLING, Chairman of the Board of Hudson's Bay & Annings Limited, outside Beaver House, scene of the Company's fur auctions in London, England.

Two prospective buyers inspect furs prior to an auction at the new Fur Sales Centre in Montreal as ALF CLEVEN, Manager, Fur Sales Department, looks on.

A customer follows the advice of the slogan of The Bay in Montreal, "Ask us for anything . . . almost," and PETE BUCKLEY, General Manager, Montreal Region, responds.

Hudson's Bay Oil and Gas Company Limited... The 1975 financial results for Hudson's Bay Oil and Gas Company Limited show substantially higher levels of revenues, funds generated from operations and net earnings. These improvements were almost entirely attributable to increases in prices for oil and natural gas. Production and sales volumes were down from the prior year due to restrictions on crude oil exports and declining productivity in some oil and gas fields. Additions to reserves from drilling and development programs fell short of offsetting the volumes produced during the year.

Net earnings for 1975 were $69,749,000, or $3.68 per common share, an increase of 19.5% over 1974 earnings of $3.07 per common share. Funds generated from operations were up 31% to $120,168,000, or $6.34 per common share, compared with $4.83 per share in the prior year.

Production of crude oil and natural gas liquids declined by 12.2% to 77,963 barrels per day, primarily a result of reduced exports to the United States. Sales of natural gas declined by 4% to 419,000,000 cubic feet per day, due mainly to lower deliverability from a number of gas fields. On December 15, 1975, Hudson's Bay Oil and Gas Company Limited purchased for $98,300,000 the average 36% interest owned by Sulpetro of Canada Limited in 1,200,000 acres of petroleum and natural gas rights in Alberta. Including this purchase, proved and probable reserves of natural gas increased slightly to 3,670 billion cubic feet, while reserves of crude oil and natural gas liquids were down 9.4% to 340,000,000 barrels.

Exclusive of the Sulpetro purchase, capital expenditures and exploration expenses totaled $83,800,000, 40% higher than in 1974.

Exploration and development activities will be expanded during 1976 and current plans contemplate spending in excess of $100,000,000.

Siebens Oil & Gas Ltd. (Siebens)... Siebens reported growth in earnings and cash flow. Net earnings increased 40% to $5,553,000, 60¢ per share, for the year ended October 31, 1975, compared with 43¢ per share for the previous year. Cash flow was up 24% to $9,582,000, or $1.04 per share. Exploratory and development expenditures amounted to $9,230,000 as Siebens continued with an accelerated exploration and development program in western Canada.

In the North Sea, exploration continues on two blocks in which Siebens has net interests of 30.1% and 2.5%. Encouraging results have been obtained although commercial production viability has not been proven to date.

The current fiscal year is expected to be one of continued progress for Siebens.

DON McGIVERIN, President, discusses the world-wide exploration program of Hudson's Bay Oil and Gas Company Limited with CARL JONES, President of that associated company.

PETER WOOD, Vice President, Finance, examines an annual report with BILL SIEBENS, President, Siebens Oil & Gas Ltd., in the office of the latter in Calgary.

Real Estate

YOUR COMPANY'S real estate interests (apart from land and buildings used in merchandising operations) consist principally of whole or partial ownership in a number of shopping centres in Canada and of a 64.3% interest in Markborough Properties Limited.

Markborough Properties Limited... Earnings of Markborough for the year ended October 31, 1975, improved to $4,283,000 ($1.07 per share) from $3,529,000 (88¢ per share) in 1974. Cash flow was $1.70 per share, up from 98¢ per share. Land sales increased to $16,925,000 from $12,915,000 the year before as demand for serviced land in the Company's major development, Meadowvale, in Mississauga, Ontario, was strong. Revenues from income properties increased by 10% to $7,741,000. In line with the general trend, the costs of doing business — salaries, administrative overhead and interest expense — also increased. Registration of an additional three neighbourhoods in Meadowvale West appears imminent and Markborough management is optimistic about prospects for the current year.

Markborough's principal land holdings are located at Mississauga, Whitby and Oakville in Ontario; at Homestead Lakes, Florida and Cleveland, Ohio. The book value of lands held for sale and future development by Markborough is in excess of $70,000,000. The principal income properties of Markborough consist of 10 apartment buildings containing 1,785 suites; four office buildings comprising 605,000 sq. ft.; 17 industrial buildings with 750,000 sq. ft., and interests in two hotels — the Regina Inn and the new Chelsea Inn in Toronto.

ALF MURRAY is on hand (on a winter day in Winnipeg) to seek out customer reaction to the new store at Unicity Fashion Square. Mr. Murray retired as General Manager, Central Region, in March 1976.

The new Chelsea Inn, 16% owned by Markborough Properties Limited, furnishes the background as BRIAN MAGEE, Chairman of Markborough and JOHN McINTYRE, Vice President, Retail Development, exchange views on the property development business.

Other Holdings...In 1975 three shopping centres were opened in which the Company, in addition to leasing stores, has a minority equity interest. They are Unicity Fashion Square in Winnipeg (33⅓%), Place Vertu in Montreal (25%) and Village Green Mall in Vernon (25%). In addition, we acquired a 108,000 sq. ft. centre in Lloydminster, Alberta, in which the Company leases a store.

Construction is now underway on two commercial buildings, in which the Company has interests, adjacent to our downtown stores. In Montreal we have a 50% interest in five floors of office space being built over our existing parkade. In Winnipeg, the Company has a 33⅓% interest in Rupertsland Square, which will include a 17-floor office tower, a parking garage and retail area. A summary of the Company's principal real estate holdings (excluding Markborough and land and buildings used in merchandising operations) is as follows:

SHOPPING CENTRES

City	Name	Area (sq. ft.)	Interest
Vancouver	Champlain Mall	217,000	100%
Vancouver	Richmond Centre	182,000	100%
Vernon	Village Green Mall	282,000	25%
Calgary	Market Mall	689,000	25%
Calgary	Southcentre	640,000	80%
Edmonton	Southgate	684,000	40%
Lloydminster	Lloydmall	108,000	100%
Winnipeg	Unicity Fashion Square	490,000	33⅓%
Toronto	Cloverdale Mall	335,000	100%
Toronto	Fairview Shopping Centre	700,000	25%
Montreal	Place Vertu	652,000	25%

OFFICE/COMMERCIAL BUILDINGS

Winnipeg	Hudson's Bay House	112,000	100%
Winnipeg	Rupertsland Square (under construction)	241,000	33⅓%
Montreal	Parkade Tower (under construction)	154,000	50%
London, England	Beaver House	145,000	100%

ANNE WATSON, Manager Sales Training, shows MALCOLM MacKENZIE, Vice President, Personnel, one of the new audio-visual packages for the training of sales personnel.

JOHN KADYNUIK, Manager, Winnipeg Wholesale Branch, and AL BURROWS, General Manager, Wholesale Department, in the showroom of the Winnipeg Wholesale Branch where a number of the sundry items carried by the Wholesale Department are on display.

MANAGEMENT

Hugh W. Sutherland, Senior Vice President since 1971, retired on January 31, 1976. He contributed enormously to the welfare of the Company in the course of a remarkable 36-year career during which he was involved in almost all aspects of the Company's operations. Mr. Sutherland was General Manager of the Northern Stores Department from 1959 to 1964. As Deputy Managing Director he was responsible for the Company's downtown expansion program in Montreal in the 1960's. Most recently, as Senior Vice President, he had responsibility for the Fur, Wholesale, Shop-Rite and Northern Stores operations. We extend to him our gratitude and best wishes for the future.

We were pleased to welcome two new Directors in January 1976. They are Sir Eric Drake C.B.E., former Chairman of British Petroleum and G. C. Hoyer Millar, a Director of J. Sainsbury Ltd., both of London, England.

PERSONNEL

The Company's employee benefit programs were improved in two important ways during the year. A dental care plan covering full-time employees and their dependents was introduced on January 1, 1976. Benefits under the Company's pension plan were improved during the year for both active and retired employees. The resulting increase in past service pension costs of $6,000,000 will be funded over the next 15 years.

Once again the Board would like to record its appreciation to the over 20,000 men and women who work for the Company at more than 300 locations. Their efforts on behalf of the Company are the single, most important factor in our continuing expansion and success. Their dedication will be a vital factor in our progress in the years ahead.

OUTLOOK

It is anticipated that capital spending for merchandising will continue at approximately the same level as 1975, while real estate expenditures are expected to show a substantial increase.

The outlook is favourable for increased earnings in 1976 from both real estate and natural resources.

The outlook for merchandising operations is profoundly affected by the Anti-Inflation Program announced by the Government of Canada on October 13, 1975. The program, which is extremely complex, is designed to control wages, profits and prices. Unless extended or cancelled, it will be in effect until the end of 1978. The main features affecting the Company are:

1. A year-end test (to be applied to the results of the year just ended and each subsequent year of the program) to determine whether "apparent excess revenue" existed. If so, the Company would have to file a plan for eliminating such excess revenue in subsequent fiscal periods.
2. Interim tests designed to monitor gross profit and inhibit the formation of "apparent excess revenue."
3. A restriction to 8%, 6% and 4% for the first, second and third years of the program in the annual increases in direct and indirect compensation for most groups of Company employees.
4. A freeze on dividends until October 13, 1976.

The full effects of the program on the Company and on the Canadian economy are not known at this time.

Shareholders are aware that large investments have been made in new retail facilities in the past few years in an effort to improve the Company's market pene-

JOCK TOOLEY, General Manager, Shop-Rite Catalogue Stores, assists a customer to select merchandise from the catalogue at one of the Toronto Shop-Rite stores.

BILL THOMPSON, Senior Vice President, Hudson's Bay Wine & Spirits Limited, discusses the merits of his favourite brand with the bartender at a large downtown Toronto hotel.

tration, particularly in eastern Canada. These new investments totaling almost $200,000,000 were made at considerable sacrifice in terms of return on investment in their early years because of the time it takes for retail investments to mature. The Anti-Inflation rules are not clear on whether the Company will be allowed to earn a normal return on these new assets. We believe it is essential that the rules be clarified to recognize the fundamental need of business to earn a satisfactory return not just on new capital but on all capital employed. Without this ingredient and a reasonable dividend payout, the private sector will be unable to raise the capital it needs to play its proper role in the economy and to create the new jobs so vital to the future of the country.

Provided we are permitted to earn a reasonable return on our recent investments and assuming a healthy economy, the Company's merchandising earnings should improve in 1976.

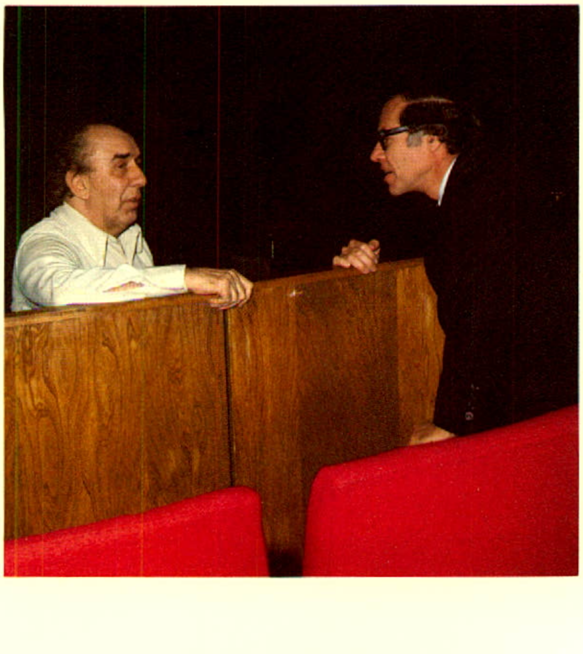
On behalf of the Board
G. T. RICHARDSON
Governor

D. S. McGIVERIN
President

March 12, 1976

Members of the Board in the auction room at the Company's new Fur Sales Centre in Montreal. Standing are PETER WOOD, ALEX MacINTOSH, IAN BARCLAY, DAWN McKEAG, ALLAN McGAVIN, BARTLETT MORGAN, HUGH SUTHERLAND, JOSETTE LEMAN, JAKE MOORE, RON SHEEN, MARTIN JACOMB. Seated are GEORGE RICHARDSON and DON McGIVERIN. In the background on the auction stand is ALF CLEVEN, General Manager, Fur Sales Department, Montreal.

ROLPH HUBAND, Secretary, is one of many Company executives engaged in community activities. He is President of the Manitoba Opera Association and is seen here in discussion with Maestro ERNESTO BARBINI during a rehearsal of Aida.



DONALD WOOD, Senior General Manager, and DES PITTS, General Manager, Northern Stores Department, join HUGH SUTHERLAND in admiring a polar bear rug, a gift to Mr. Sutherland on the occasion of his retirement as Senior Vice President of the Company.

Corporate Information

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

PRINCIPAL BANKERS
Canadian Imperial Bank of Commerce
Bank of Montreal

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

STOCK EXCHANGE LISTINGS
London, Montreal, Toronto and Winnipeg

AUDITORS
Peat, Marwick, Mitchell & Co.

Principal Subsidiary Companies

(wholly-owned unless otherwise indicated)

INCORPORATED IN CANADA

HUDSON'S BAY COMPANY ACCEPTANCE LIMITED
Purchases accounts receivable

HUDSON'S BAY COMPANY DEVELOPMENTS LIMITED
Property owning company

HUDSON'S BAY COMPANY INVESTMENTS LIMITED
Investment holding company

HUDSON'S BAY COMPANY PROPERTIES LIMITED
Property owning company

HUDSON'S BAY COMPANY PROPERTIES (QUEBEC) LIMITED
Property owning company

HUDSON'S BAY COMPANY (QUEBEC) LIMITED
Operating subsidiary in Quebec

HUDSON'S BAY COMPANY REALTY LIMITED
Property owning company.

MARKBOROUGH PROPERTIES LIMITED
Property development company
2,573,002 common shares (64.3%)

INCORPORATED IN THE UNITED STATES OF AMERICA

HUDSON'S BAY COMPANY FUR SALES INCORPORATED
Fur brokers

INCORPORATED IN ENGLAND

HUDSON'S BAY AND ANNINGS LIMITED
Fur brokers
147,500 ordinary shares (59%)

BEAVER HOUSE LIMITED
Property owning company

Principal Investments

MERCHANDISING

THE G. W. ROBINSON COMPANY, LIMITED
Operates department stores in the Hamilton-St. Catherines area
108,178 common shares (27%)

NATURAL RESOURCES

HUDSON'S BAY OIL AND GAS COMPANY LIMITED
Petroleum exploration and production
4,008,656 common shares (21.2%)

SIEBENS OIL & GAS LTD.
Petroleum exploration and production
3,203,000 shares (34.8%)

REAL ESTATE

See list on Page 9.

Board

GEORGE T. RICHARDSON
Winnipeg
President, James Richardson & Sons, Limited
Governor

A. J. MacINTOSH, Q.C.
Toronto
Partner, Blake, Cassels & Graydon
Deputy Governor

D. S. McGIVERIN
Toronto
President

R. E. SHEEN
Toronto
Vice President, Department Stores

P. W. WOOD
Toronto
Vice President, Finance

I. A. BARCLAY
Vancouver
President, British Columbia Forest Products Limited

SIR ERIC DRAKE, C.B.E.
London
Company Director

G. R. HUNTER, M.B.E., Q.C.
Winnipeg
Partner, Pitblado & Hoskin

M. W. JACOMB
London
Director, Kleinwort, Benson Limited

JOSETTE D. LEMAN
Montreal
Travel Consultant

W. D. C. MACKENZIE
Calgary
President, W. D. C. Mackenzie Consultants Ltd.

A. M. McGAVIN
Vancouver
Chairman of the Board, McGavin Toastmaster Limited

DAWN R. McKEAG
Winnipeg
Company Director

G. C. HOYER MILLAR
London
Director, J. Sainsbury Ltd.

J. H. MOORE
London, Ontario
President, Brascan Limited

J. BARTLETT MORGAN
Montreal
Chairman of the Board, The Morgan Trust Company

THE RT. HON. LORD TREND, P.C., G.C.B., C.V.O.
Oxford, England
Rector, Lincoln College

Senior Management

A. ADAMIC
General Manager, Western Region

D. G. BUCKLEY
General Manager, Montreal Region

G. A. BURROWS
General Manager, Wholesale Department

J. B. BUSTARD
General Manager, Ottawa Region

J. E. CHURCH
General Merchandise Manager, Department Stores

A. CLEVEN
Manager, Fur Sales Department, Montreal

H. M. DWAN
Managing Director, Hudson's Bay and Annings Limited

C. W. EVANS
General Manager, Department Store Operations

A. A. GUGLIELMIN
General Manager, Toronto Region

L. J. HENRY
President, Hudson's Bay Company Fur Sales Incorporated

A. R. HUBAND
Secretary

G. J. KOSICH
General Manager, Calgary Region

M. H. MacKENZIE
Vice President, Personnel

D. K. McCONNELL
General Manager, Central Region

J. G. W. McINTYRE
Vice President, Retail Development

D. H. PITTS
General Manager, Northern Stores Department

T. I. RONALD
Controller, Department Stores

H. L. SPELLISCY
General Manager, Edmonton Region

W. F. THOMPSON
Senior Vice President, Hudson's Bay Wine & Spirits Ltd.

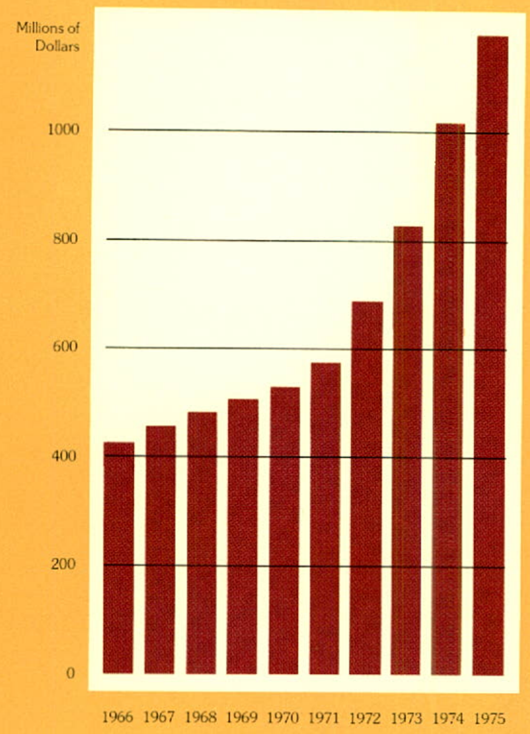
J. A. TOOLEY
General Manager, Shop-Rite Catalogue Stores

D. O. WOOD
Senior General Manager, Northern Stores,
Shop-Rite and Wholesale

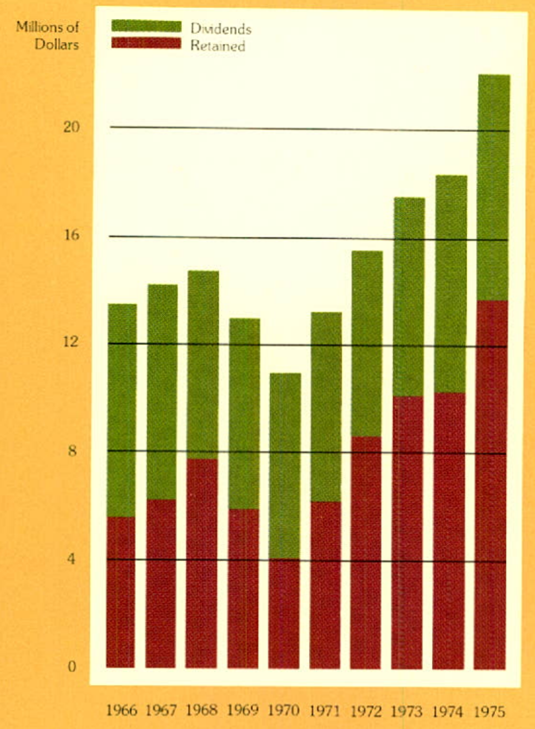
Yukon
Northwest Territories
Victoria Island
British Columbia
Alberta
Saskatchewan
Manitoba
RESOLUTE BAY
TUKTUK
AKLAVIK
INUVIK
FORT McPHERSON
ARCTIC RED RIVER
HOLMAN
FORT GOOD HOPE
CAMBRIDGE BAY
SPENCE BAY
COPPERMINE
GJOA HAVEN
FORT FRANKLIN
FORT NORMAN
WHITEHORSE
FORT WRIGLEY
FORT SIMPSON
FORT RAE
YELLOWKNIFE
BAKER LAKE
FORT PROVIDENCE
FORT LIARD
HAY RIVER
FORT RESOLUTION
CHESTERFIELD INLET
RANKIN INLET
FORT NELSON
MEANDER RIVER
FORT SMITH
ESKIMO POINT
PRINCE RUPERT
HAZELTON
KITWANGA
SMITHERS
KITIMAT
JOHN D'OR PRAIRIE
FORT VERMILION
FOX LAKE
URANIUM CITY
FOND DU LAC
STONY RAPIDS
FORT CHIPEWYAN
BLACK LAKE
FORT ST. JOHN
MACKENZIE
DAWSON CREEK
FORT ST. JAMES
FAIRVIEW
PEACE RIVER
ATIKAMEG
GRANDE PRAIRIE
WABASCA
FORT McMURRAY
DESMARAIS
CHURCHILL
BROCHET
PRINCE GEORGE
HIGH PRAIRIE
PORTAGE LA LOCHE
BUFFALO NARROWS
PATUANAK
GRANDE CACHE
LYNN LAKE
LEAF RAPIDS
DILLON
ILE A LA CROSSE
SOUTHEND
PUKATAWAGAN
GILLAM
LAC LA BICHE
BEAUVAL
STANLEY
NELSON HOUSE
SPLIT LAKE
SHAMATTAWA
LA RONGE
THOMPSON
EDMONTON
PELICAN NARROWS
100 MILE HOUSE
CAMPBELL RIVER
HINTON
DRAYTON VALLEY
PONOKA
FLIN FLON
WABOWDEN
OXFORD HOUSE
ROCKY MOUNTAIN HOUSE
SNOW LAKE
CROSS LAKE
GOD'S NARROWS
KAMLOOPS
LLOYDMINSTER
ROSSVILLE
RED DEER
PRINCE ALBERT
CUMBERLAND HOUSE
THE PAS
NORWAY HOUSE
RED SUCKER L
NANAIMO
VANCOUVER
NORTH BATTLEFORD
WAASAGOMACH
ISLAND LAKE
BANFF
VERNON
ST. THERESA POINT
VICTORIA
POPLAR RIVER
KELOWNA
CALGARY
SASKATOON
SANDY LAKE
PENTICTON
BERENS RIVER
ROUND LAKE
TRAIL
LETHBRIDGE
LITTLE GRAND RAPIDS
CAT LAKE
YORKTON
MEDICINE HAT
PIKANGIKUM
SWIFT CURRENT
PINE FALLS
RED LAKE
BALMERTOWN
MOOSE JAW
REGINA
LAC SEUL
WERNER LAKE
BRANDON
LAC DU BONNET
GRASSY NARROWS
PINAWA
WINNIPEG
MINAKI
DRYDEN
ATIKOKAN
SCALE ONE INCH TO 215 MILES
MILES 100 50 0 100 200 300 400 500 MILES

Hudson's Bay Company
INCORPORATED 2ND MAY 1670
CANADIAN OPERATIONS JANUARY 31, 1976
RETAIL STORES
Over 175,000 sq. ft. (10)
75,000-175,000 sq. ft.(27)
Under 75,000 sq. ft.(217)
WHOLESALE BRANCHES(33)
FUR AUCTION (1)
FUR OFFICES (10
Excludes Shop Rite stores in Ontario (60)
ARCTIC CIRCLE
Baffin Island
Hudson Bay
Quebec
Newfoundland
Ontario
New Brunswick
Nova Scotia
P.E.I.
ARCTIC BAY
POND INLET
CLYDE
BROUGHTON ISLAND
IGLOOLIK
HALL BEACH
PANGNIRTUNG
FROBISHER BAY
CAPE DORSET
CORAL HARBOUR
LAKE HARBOUR
SUGLUK
WAKEHAM BAY
PAYNE BAY
POVUNGNETUK
FORT CHIMO
PORT HARRISON
RIGOLET
CARTWRIGHT
NORTH WEST RIVER
GOOSE BAY
HAPPY VALLEY
SCHEFFERVILLE
BLANC-SABLON
ST. PAUL'S RIVER
ST. AUGUSTINE
LA TABATIERE
LABRADOR CITY
BELCHER ISLANDS
GREAT WHALE RIVER
SEVERN
GRAND FALLS
ST. JOHN'S
STEPHENVILLE
ROMAINE
FORT GEORGE
GAGNON
HAVRE ST. PIERRE
PAINT HILLS
RIVIERE-AU-TONNERRE
MALIOTENAM
SEPT-ILES
PORT CARTIER
EASTMAIN
ATTAWAPISKAT
KASHECHEWAN
ALBANY
WEBEQUIE
LANSDOWNE HOUSE
OGOKI
FORT HOPE
MOOSONEE
MOOSE FACTORY
RUPERT'S HOUSE
MISTASSINNI
CHIBOUGAMAU
BAIE COMEAU
HAUTERIVE
MURDOCHVILLE
CHANDLER
BERSIMIS
FORESTVILLE
CHAPAIS
MATAGAMI
POINTE BLEUE
ARVIDA
OBEDJIWAN
NAKINA
HEARST
SMOOTH ROCK FALLS
LONGLAC
GERALDTON
HORNEPAYNE
MANITOUWADGE
MARATHON
IROQUOIS FALLS
SENNETERRE
SCHREIBER
WHITE RIVER
QUEBEC
HALIFAX
WAWA
FOLEYET
GOGAMA
MANOUANE
NORTH BAY
SUDBURY
ELLIOT LAKE
MONTREAL
RUSSELL
OTTAWA
CARLETON PLACE
BANCROFT
OWEN SOUND
JACKSON'S POINT
TORONTO
HAMILTON
LONDON
THOROLD

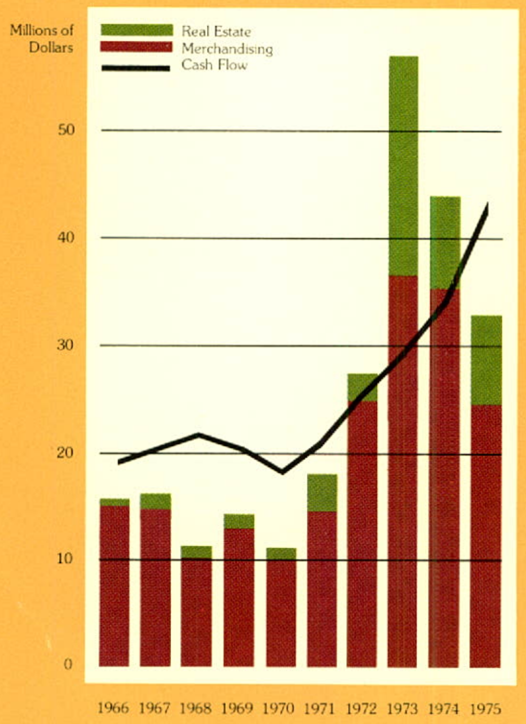
REVENUE



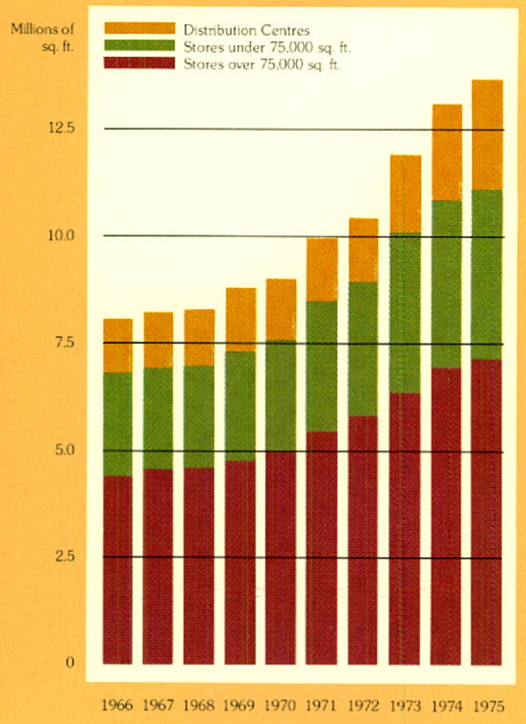
EARNINGS



CAPITAL EXPENDITURE AND CASH FLOW



RETAIL FACILITIES



HUDSON'S BAY COMPANY & SUBSIDIARIES
CONSOLIDATED STATEMENT OF EARNINGS
Year Ended January 31, 1976

	This Year $	Last Year $
SALES AND REVENUE (Note 2)		
Merchandising		
Retail	892,766,000	780,854,000
Wholesale	231,995,000	190,875,000
Fur	21,178,000	22,304,000
	1,145,939,000	994,033,000
Real estate	35,371,000	21,699,000
Natural resources	8,020,000	6,308,000
	1,189,330,000	1,022,040,000
COSTS AND EXPENSES (Note 3)		
Merchandising	1,099,637,000	951,198,000
Real estate	19,782,000	10,446,000
Interest on long-term debt	25,135,000	20,142,000
Net short-term interest	2,508,000	5,291,000
	1,147,062,000	987,077,000
EARNINGS BEFORE INCOME TAXES	42,268,000	34,963,000
INCOME TAXES (Note 2)	18,548,000	15,514,000
NET EARNINGS BEFORE MINORITY INTEREST	23,720,000	19,449,000
MINORITY INTEREST	1,716,000	1,029,000
NET EARNINGS	22,004,000	18,420,000
EARNINGS PER SHARE	$1.58	$1.33

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
Year Ended January 31, 1976

	This Year $	Last Year $
RETAINED EARNINGS AT BEGINNING OF YEAR	180,579,000	170,445,000
NET EARNINGS	22,004,000	18,420,000
DIVIDENDS PAID	(8,362,000)	(8,286,000)
RETAINED EARNINGS AT END OF YEAR	194,221,000	180,579,000

HUDSON'S BAY COMPANY & SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
January 31, 1976

	This Year $	Last Year $
CURRENT ASSETS		
Cash	5,394,000	5,214,000
Short-term securities at market value	8,028,000	8,443,000
Accounts receivable	198,610,000	187,364,000
Merchandise inventories	172,720,000	162,708,000
Prepaid expenses	3,194,000	3,855,000
	387,946,000	367,584,000
LAND FOR SALE AND FUTURE DEVELOPMENT	78,285,000	76,359,000
SECURED RECEIVABLES (Note 4)	17,920,000	15,547,000
INVESTMENTS (Note 5)		
Hudson's Bay Oil and Gas Company Limited	10,095,000	10,095,000
Siebens Oil & Gas Ltd.	10,047,000	7,668,000
Other	11,033,000	7,206,000
	31,175,000	24,969,000
FIXED ASSETS		
Land, at cost	33,751,000	33,542,000
Buildings, at cost	238,290,000	222,638,000
Equipment and leasehold improvements, at cost	114,435,000	103,269,000
	386,476,000	359,449,000
Less accumulated depreciation	107,597,000	99,923,000
	278,879,000	259,526,000
DEFERRED CHARGES		
Unamortized debenture discount and expense	4,668,000	4,149,000
Other	805,000	827,000
	5,473,000	4,976,000
GOODWILL	22,217,000	22,217,000
	821,895,000	771,178,000

On behalf of the Board:

George T. Richardson
Director

D McGinnis
Director

	This Year $	Last Year $
CURRENT LIABILITIES		
Bank indebtedness	27,851,000	41,462,000
Notes payable	3,067,000	30,020,000
Accounts payable and accrued expenses	123,440,000	90,781,000
Income taxes payable	3,780,000	774,000
Long-term debt due within one year	5,065,000	4,618,000
	163,203,000	167,655,000
LONG-TERM DEBT (Note 8)		
Mortgages	59,851,000	60,163,000
Bonds, notes and debentures	307,671,000	275,797,000
	367,522,000	335,960,000
PENSIONS (Note 6)	2,968,000	3,202,000
DEFERRED INCOME TAXES	33,887,000	25,793,000
MINORITY INTEREST IN SUBSIDIARIES	17,973,000	16,618,000
SHAREHOLDERS' EQUITY		
Capital stock (Note 7)		
Ordinary shares without par value		
Authorized 20,000,000 shares		
Issued 13,984,893 shares		
(last year 13,936,498 shares)	42,121,000	41,371,000
Retained earnings	194,221,000	180,579,000
	236,342,000	221,950,000
	821,895,000	771,178,000

HUDSON'S BAY COMPANY & SUBSIDIARIES
CONSOLIDATED STATEMENT OF ASSETS EMPLOYED
January 31, 1976

	This Year $	Last Year $
MERCHANDISING		
Merchandise inventories	172,720,000	162,708,000
Accounts receivable	188,875,000	176,826,000
Accounts payable	(112,015,000)	(86,135,000)
Other current assets, net	5,200,000	13,200,000
Working capital, net (see below)	254,780,000	266,599,000
Fixed assets	195,232,000	189,193,000
Investments	5,628,000	4,163,000
Other assets	9,761,000	8,516,000
Pensions	(2,968,000)	(3,202,000)
Deferred income taxes	(16,869,000)	(14,068,000)
	445,564,000	451,201,000
REAL ESTATE		
Working capital, net (see below)	(2,082,000)	988,000
Land for sale and future development	78,285,000	76,359,000
Fixed assets and investments:		
Shopping centres	30,959,000	18,821,000
Commercial	40,332,000	36,573,000
Residential	17,760,000	17,982,000
Secured receivables	13,284,000	12,007,000
Other assets	349,000	–
Goodwill	22,217,000	22,217,000
Deferred income taxes	(17,018,000)	(11,725,000)
	184,086,000	173,222,000
NATURAL RESOURCES		
Hudson's Bay Oil and Gas Company Limited	10,095,000	10,095,000
Siebens Oil & Gas Ltd.	10,047,000	7,668,000
	20,142,000	17,763,000
ASSETS EMPLOYED	649,792,000	642,186,000
PROVIDED FROM:		
Bonds and debentures	307,671,000	275,797,000
Mortgages	59,851,000	60,163,000
Short-term borrowings, net (see below)	27,955,000	67,658,000
	395,477,000	403,618,000
Minority interest in subsidiaries	17,973,000	16,618,000
Shareholders' equity		
Capital stock	42,121,000	41,371,000
Retained earnings	194,221,000	180,579,000
	236,342,000	221,950,000
	649,792,000	642,186,000

Working capital is shown before deduction of short-term borrowings, net—which comprises bank borrowings, short-term notes payable and current portion of long-term debt, less short-term securities.

HUDSON'S BAY COMPANY & SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Year Ended January 31, 1976

	This Year $	Last Year $
SOURCE OF FUNDS		
Net earnings before minority interest	23,720,000	19,449,000
Items not affecting working capital		
Equity in undistributed earnings of affiliates and joint ventures	(2,712,000)	(2,473,000)
Depreciation and amortization	13,982,000	12,599,000
Deferred income taxes	8,094,000	4,700,000
Provided from operations	43,084,000	34,275,000
Long-term debt	35,000,000	79,960,000
Issue of shares	750,000	1,527,000
	78,834,000	115,762,000
USE OF FUNDS		
Capital expenditures—merchandising	24,699,000	35,190,000
Capital expenditures—real estate	8,135,000	8,475,000
Land for sale and future development—net	1,926,000	27,188,000
Repayment of long-term debt	3,438,000	8,196,000
Increase (decrease) in secured receivables	2,373,000	(14,464,000)
Dividends	8,362,000	8,286,000
Deferred charges	998,000	1,495,000
Other investments	3,494,000	1,734,000
Other—net	595,000	1,000,000
	54,020,000	77,100,000
INCREASE IN WORKING CAPITAL	24,814,000	38,662,000
WORKING CAPITAL AT BEGINNING OF YEAR	199,929,000	161,267,000
WORKING CAPITAL AT END OF YEAR	224,743,000	199,929,000
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Reduction (increase) in net short-term borrowings	39,882,000	(16,498,000)
Accounts receivable	11,246,000	31,200,000
Merchandise inventories	10,012,000	33,305,000
Accounts payable and other	(36,326,000)	(9,345,000)
	24,814,000	38,662,000

HUDSON'S BAY COMPANY & SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
Year Ended January 31, 1976

1. ACCOUNTING POLICIES

The accounting policies of the Company and its subsidiaries conform with accounting principles generally accepted in Canada. The significant policies are summarized below:

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

b) Under the equity accounting method the Company reflects in earnings its equity in the income of affiliates and joint ventures in which the Company has either effective control or significant influence over operating and financial policies. The investments in these affiliates and joint ventures are recorded at cost plus undistributed earnings since acquisition or formation. In accordance with recognized real estate industry practice the share of assets, liabilities, revenues and expenses of joint ventures of Markborough Properties Limited, a subsidiary company, are included in the consolidated financial statements on a line by line basis. Investments in other companies are accounted for at cost and dividends are reflected in earnings when received.

c) The accounts of the U.S. and U.K. subsidiaries are converted into Canadian dollars at approximately the exchange rates prevailing at balance sheet dates.

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

e) Merchandise inventories are valued at the lower of cost and net realizable value with cost determined on a first-in, first-out basis.

f) Interest and real estate taxes are capitalized to the extent that they relate to properties which are either held for sale or development or are under construction. The amount so capitalized in the current year includes interest of $4,488,000.

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

Buildings	2– 5%
Leasehold improvements	3–10%
Equipment	7–15%
Transport	12–20%

Buildings held for the purpose of producing rental income are depreciated on a 3% 40-year sinking fund basis. Under this method the depreciation charged against earnings is an amount which increases annually and comprises a predetermined fixed sum and 3% compound interest, which together will fully depreciate each building over a 40-year period.

h) Goodwill is the excess of cost over the fair value of net tangible assets on the purchase of the controlling interest in Markborough Properties Limited in 1973.

i) Deferred debenture discount and expense are amortized over the terms of the issues to which they relate. The amortization is included with interest on long-term debt in the consolidated statement of earnings.

j) Earnings per share calculations are based on the weighted average number of shares outstanding during the year.

2. INVESTMENT INCOME

Investment income, accounted for under the policy set out in note 1 b), is included in revenue. The Company's equity in the pretax income of companies and joint ventures accounted for under the equity accounting method amounts to $5,409,000 (last year $4,579,000) and the related income taxes of $1,841,000 (last year $2,106,000) are included within the consolidated income tax charge. Dividends received from other companies amount to $5,090,000 (last year $3,899,000).

3. DEPRECIATION

Expenses include the following depreciation charged in accordance with the policy outlined in note 1 g): on merchandising assets $12,430,000 (last year $10,775,000); on real estate assets $1,051,000 (last year $975,000).

4. SECURED RECEIVABLES

a) Secured receivables include mortgages which arise principally from land transactions and loans outstanding under the employee share purchase plan.

b) Secured receivables at January 31, 1976 bear interest at an average rate of 8.2% and mature as follows:

		$
Year ending January 31,	1977	7,187,000
	1978	8,507,000
	1979	2,631,000
	1980	811,000
	1981	991,000
Subsequent to January 31, 1981		4,980,000
		25,107,000
Less amount due within one year classified as accounts receivable		7,187,000
		17,920,000

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

5. INVESTMENTS

a) Hudson's Bay Oil and Gas Company Limited (HBOG)

The investment in HBOG, carried at cost, consists of 4,008,656 common shares of which 2,083,334 have been deposited with The Royal Trust Company under the terms of the Trust Deed of the Company's $100 million 6% exchangeable debentures.

	Per Share $	$
Investment:		
At cost	2.52	10,095,000
At underlying HBOG book value December 31, 1975	14.93	59,880,000
At quoted market Toronto Stock Exchange January 31, 1976	37.38	149,825,000

The common shares of HBOG are held 53.1% by Continental Oil Company, 21.2% by the Company and 25.7% by 9,200 other shareholders.

b) Siebens Oil & Gas Ltd. (Siebens)

The investment in Siebens accounted for under the equity accounting method is 3,203,000 shares, representing 34.8% of the total issued common shares of that company. The market quotation at January 31, 1976 on the Toronto Stock Exchange was $10.75 per share.

c) Other

Other investments include affiliates and joint ventures accounted for under the equity accounting method.

6. PENSIONS

The unfunded actuarial liability for pensions, after taking into consideration pension benefit improvements made during the year, and net of related deferred income taxes, is $6,670,000 of which $2,968,000, principally for those who have retired, is carried as a provision on the balance sheet. The unfunded liability will be funded over the next 15 years.

7. CAPITAL STOCK

	Number of Common Shares	$
Issued and outstanding February 1, 1975	13,936,498	41,371,000
Issued under employee share purchase plan	48,395	750,000
Issued and outstanding January 31, 1976	13,984,893	42,121,000

8. LONG-TERM DEBT

	This Year $	Last Year $
Secured on Property		
Hudson's Bay Company Properties Limited		
5¾% first mortgage bonds series A due 1990	12,345,000	12,485,000
7½% first mortgage bonds series B due 1991	8,350,000	8,750,000
11½% first mortgage bonds series C due 1995	34,310,000	35,000,000
Hudson's Bay Company Developments Limited		
Mortgages 7% average repayable by instalments to 1988	2,947,000	4,322,000
Hudson's Bay Company Realty Limited		
4¾% sinking fund bonds series A due 1975	–	111,000
Markborough Properties Limited		
8½% sinking fund debentures due 1982	10,000,000	10,000,000
Mortgages and obligations on land for future development 8% average repayable by instalments to 1991	27,754,000	27,964,000
Mortgages on income properties 8% average repayable by instalments to 2004	32,718,000	31,509,000
	128,424,000	130,141,000
Secured on Accounts Receivable		
Hudson's Bay Company Acceptance Limited		
6% debentures series A due 1980	10,000,000	10,000,000
5¾% debentures series B due 1983	10,000,000	10,000,000
9¾% debentures series C due 1989	18,726,000	20,000,000
8¾% debentures series D due 1991	20,000,000	20,000,000
8¼% debentures series E due 1993	20,000,000	20,000,000
	78,726,000	80,000,000
Unsecured		
Hudson's Bay Company		
9¾% series C notes due 1979	30,000,000	30,000,000
10¼% notes due 1981	35,000,000	–
Hudson's Bay Company (Quebec) Limited		
4¾% debentures due 1976	437,000	437,000
	65,437,000	30,437,000
Subordinated		
Hudson's Bay Company		
6% exchangeable debentures due 1993, sinking fund commencing 1984	100,000,000	100,000,000
	372,587,000	340,578,000
Bonds and debentures due within one year	(1,497,000)	(986,000)
Mortgage principal due within one year	(3,568,000)	(3,632,000)
	367,522,000	335,960,000

Maturities and sinking fund requirements during the five years ending January 31, 1981 are as follows:

1977—$ 5,065,000 1978—$ 5,989,000 1979—$6,901,000
1980—$36,804,000 1981—$17,218,000

At a meeting of the holders of the Hudson's Bay Company Acceptance Limited series C debentures held on February 17, 1975, the rate of interest on the series C debentures was increased from 9½% to 9¾% effective from March 2, 1975 and the holders acquired a right to be prepaid in 1980.

The holders of Hudson's Bay Company 6% exchangeable subordinated debentures have the right to exchange such debentures for outstanding common shares of Hudson's Bay Oil and Gas Company Limited at an exchange price of $48 per share at any time prior to maturity.

9. DIRECTORS AND OFFICERS

Aggregate remuneration of 20 directors, three of whom retired in their capacity as directors, was $97,000. Aggregate remuneration of nine officers, one of whom retired, in their capacity as officers, was $753,000. Six of the officers were also directors.

In addition, four officers, three of whom were also directors, received aggregate remuneration of $9,000 from Markborough Properties Limited in their capacity as directors of that subsidiary company.

Loans due from officers of the Company at January 31, 1976, principally in respect of the share purchase plan, amounted to $479,000 (last year $447,000).

10. COMMITMENTS

Minimum annual rentals under major property leases amount to approximately $10,500,000 for which the average term is 23 years.

The Company has commitments, along with others, relating to its investments in certain shopping centre companies and joint ventures. These are:

a) A commitment to meet certain obligations of two shopping centre companies in the event of default in payment of long-term mortgage bonds secured by the assets of these two companies.
b) The guarantee, severally, of bank loans representing interim financing of the construction cost of four joint ventures.
c) Markborough Properties Limited is contingently liable for obligations of its co-owners in unincorporated joint ventures.

In the event that the Company or Markborough Properties Limited had to meet any of these commitments they would have a claim on the assets of the applicable development. The value of the assets of each development exceeds the related contingent commitment.

Under an agreement to purchase additional convertible preferred shares of The G. W. Robinson Company, Limited (formerly Owen Owen (Canada) Limited), $1,175,000 was expended February 1, 1975 and a further $1,362,000 will be due in 1978. After the purchase of these preferred shares and on their conversion by 1981 to common shares, the Company's interest in The G. W. Robinson Company, Limited will be increased to 49.9%.

11. FEDERAL ANTI-INFLATION LEGISLATION

The Company is subject to the Anti-Inflation Act effective October 14, 1975, which restrains increases in certain prices, profit margins, compensation and dividends after that date.

AUDITOR'S REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet and the consolidated statement of assets employed of Hudson's Bay Company and subsidiaries as of January 31, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. For Hudson's Bay Company and for those subsidiaries of which we are the auditors and which are consolidated in these financial statements, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. For Markborough Properties Limited which is consolidated and for investments in companies accounted for by the equity method in these financial statements, we have relied on the reports of the auditors who have examined the financial statements of these companies for their respective latest fiscal years, and have obtained such other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Hudson's Bay Company and subsidiaries as of January 31, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Winnipeg, Canada
March 5, 1976

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Ten Year Financial Summary

	1975	1974	1973	1972
RESULTS FOR YEAR ($000's)				
Sales and revenue				
Retail	892,766	780,854	641,063	538,989
Wholesale	231,995	190,875	153,456	126,414
Fur	21,178	22,304	21,190	15,475
Merchandising	1,145,939	994,033	815,709	680,878
Real estate	35,371	21,699	4,788	862
Natural resources	8,020	6,308	5,853	5,485
	1,189,330	1,022,040	826,350	687,225
Fur consignment sales	185,252	175,661	167,250	131,666
Source of earnings				
Retail	34,868	32,308	27,666	23,738
Wholesale	6,897	5,808	4,051	3,316
Fur	4,537	4,719	4,968	2,993
Merchandising	46,302	42,835	36,685	30,047
Real estate	15,589	11,253	2,261	715
Natural resources	8,020	6,308	5,852	5,485
Interest on long-term debt	(25,135)	(20,142)	(11,784)	(7,464)
Net short-term interest	(2,508)	(5,291)	254	(1,404)
Earnings before taxes	42,268	34,963	33,268	27,379
Income taxes	18,548	15,514	15,158	11,725
Net earnings before minority interest	23,720	19,449	18,110	15,654
Minority interest	1,716	1,029	446	–
Net earnings	22,004	18,420	17,664	15,654
Dividends	8,362	8,286	7,661	7,048
Earnings retained	13,642	10,134	10,003	8,606
Cash flow	43,084	34,275	29,833	25,507
Capital expenditures	32,834	43,665	56,907	27,282
Depreciation	13,481	11,750	9,352	7,607
YEAR END FINANCIAL POSITION ($000's)				
Merchandising	445,564	451,201	378,913	308,929
Real estate	184,086	173,222	146,607	7,630
Natural resources	20,142	17,763	16,305	10,095
Assets employed	649,792	642,186	541,825	326,654
Debt	395,477	403,618	315,356	130,219
Minority interest	17,973	16,618	16,180	754
Shareholders' equity	236,342	221,950	210,289	195,681
PER SHARE RESULTS (Dollars)				
Net earnings	1.58	1.33	1.29	1.16
Dividends	.60	.60	.56	.52
Shareholders' equity	16.90	15.93	15.23	14.44
Including equity in undistributed earnings of HBOG				
Net earnings	2.28	1.94	1.67	1.39
Shareholders' equity	20.46	18.81	17.51	16.38
SHAREHOLDERS AND EMPLOYEES				
Number of shareholders	22,806	24,036	24,474	24,880
Shares outstanding (000's)	13,985	13,936	13,809	13,553
Range in share price (Dollars)	18⅝–14¼	20–9¾	22¾–15	21⅛–16½
Number of employees	20,000	20,000	18,000	17,000

Note: Where appropriate, figures have been restated and non-recurring items have been excluded for the purpose of comparability.

1971	1970	1969	1968	1967	1966
440,685	406,096	393,556	377,732	355,417	339,962
111,612	102,788	91,312	84,043	78.735	71,079
13,565	10,172	12,787	13,887	11,166	14,286
565,862	519,056	497,655	475,662	445,318	425,327
–	–	–	–	–	–
4,927	4,410	4,193	4,232	4,185	3,628
570,789	523,466	501,848	479,894	449,503	428,955
109,238	81,723	92,258	110,214	90,803	108,792
19,225	17,929	20,319	21,666	20,989	19,971
3,137	2,668	2,361	2,650	2,482	2,217
2,541	328	1,033	2,184	936	1,736
24,903	20,925	23,713	26,500	24,407	23,924
–	–	–	–	–	–
4,927	4,410	4,193	4,232	4,185	3,628
(6,907)	(5,525)	(3,503)	(2,873)	(2,158)	(2,106)
188	(109)	(614)	(424)	(840)	(342)
23,111	19,701	23,789	27,435	25,594	25,104
9,798	8,729	10,832	12,732	11,486	11,640
13,313	10,972	12,957	14,703	14,108	13,464
–	–	–	–	–	–
13,313	10,972	12,957	14,703	14,108	13,464
7,048	6,828	6,980	6,872	7,929	7,929
6,265	4,144	5,977	7,831	6,179	5,535
21,277	18,207	20,419	21,574	20,527	19,077
17,849	11,124	14,039	10,995	15,814	15,549
6,342	5,963	6,966	6,198	5,907	5,613
272,711	246,665	235,013	200,430	191,819	184,807
5,127	2,069	1,635	1,645	1,520	715
10,095	10,095	10,095	10,095	10,095	10,095
287,933	258,829	246,743	212,170	203,434	195,617
100,478	78,696	69,871	41,613	41,978	41,318
380	–	–	–	–	–
187,075	180,133	176,872	170,557	161,456	154,299
.98	.81	.96	1.08	1.04	.99
.52	.50	.51	.51	.59	.59
13.80	13.29	13.05	12.58	11.91	11.38
1.17	.96	1.09	1.19	1.12	1.06
15.13	14.43	14.04	13.44	12.66	12.09
25,558	28,945	32,142	31.066	30,201	30,959
13,553	13,553	13,553	13,553	13,553	13,553
20–14½	22–11½	25¼–17	27¼–19¾	22¾–15¾	17-14⅛
16,000	15,000	15,000	15,000	14,000	14,000

The Company-A Brief Description

THE COMPANY TODAY

Merchandising... More than 250 stores, ranging from Newfoundland to the Yukon and from the Arctic Islands to the United States border, serve the diversified needs of Canadians. The Bay is strongly represented in ten of Canada's important cities and is the leading retailer throughout the Canadian North. Shop-Rite Catalogue stores are located in Southwestern Ontario. The Wholesale Department distributes giftwares, confectionery and tobacco products through a network of branches located from coast to coast. The Company's famous blankets and spirits are sold throughout Canada and the United States.

The Company maintains its traditional interest in fur with auction houses in Montreal, New York and London.

Natural Resources... The Company's natural resource interests consist of equity investments in two Canadian petroleum companies. HUDSON'S BAY OIL AND GAS COMPANY LIMITED, 21.2% owned, was formed in the 1920's as a joint venture between HBC and Continental Oil Company, and is today one of Canada's leading exploration and production companies. Most of its current production of oil and natural gas is from the province of Alberta. Exploration rights are owned in Canada and many other countries. SIEBENS OIL & GAS LTD. 34.8% owned, is a Canadian company whose emphasis at this stage of its development is on exploration. Siebens holds exploration rights in many areas of the world including western Canada, the Arctic Islands, the Atlantic Coast and the North Sea. Most of its current production is from royalty rights acquired in 1973 from HBC.

Real Estate... The Company's real estate interests consist principally of whole or partial ownership of shopping centres and commercial buildings in Canadian cities, ownership of Beaver House Limited in London, England, and of a 64.3% interest in MARKBOROUGH PROPERTIES LIMITED. Markborough is a Canadian property development company with substantial holdings of residential, commercial and industrial properties located principally in the Toronto area.

Personnel... In its various activities, the Company employs over 20,000 people.

HISTORY

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

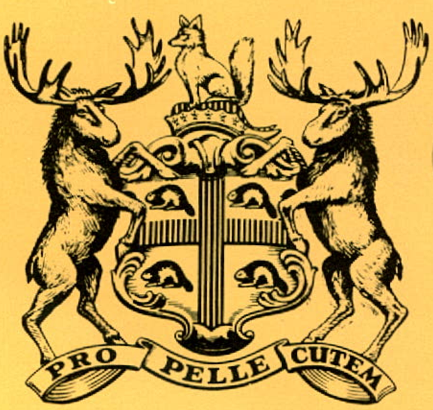
In 1970, three hundred years after its incorporation, the Company was continued as a Canadian Corporation and the headquarters were transferred from the United Kingdom to Canada.

Competition... During the first century of the Company's existence the men on the Bay established forts, traded with the Indians and were involved in wars with the French.

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

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

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



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