

Hudson's Bay Company

Annual Report 1977



CENTRE FOR NORTHERN
STUDIES AND RESEARCH

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The 309th Annual General Meeting of Shareholders will be held at the Winnipeg Inn, Winnipeg, Manitoba, on May 19, 1978 at 12:00 noon.

Shareholders wishing to receive annual reports of Hudson's Bay Oil and Gas Company Limited, Siebens Oil & Gas Ltd., and/or Markborough Properties Limited, are invited to write to The Secretary, Hudson's Bay Company, 2 Bloor Street East, Toronto, Ontario, M4W 3H7.

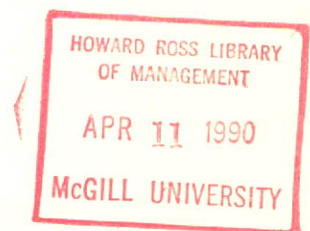
On peut obtenir ce rapport annuel en français sur demande.

Bay buyers achieve fashion leadership

The photographs in this report reflect the success of our buyers in establishing The Bay in a position of leadership in women's fashion—see page 8.

Financial Highlights

| | 1977 | 1976 | increase |
|-----------------------------|----------------------|---------------|-------------|
| | \$ | \$ | % |
| Sales and revenue | 1,427,390,000 | 1,346,448,000 | 6.0 |
| Net earnings | 29,881,000 | 24,810,000 | 20.4 |
| Cash flow | 48,209,000 | 47,645,000 | 1.2 |
| Capital expenditures | 43,075,000 | 38,163,000 | 12.9 |
| Shareholders' equity | 275,964,000 | 254,422,000 | 8.5 |
| Per share: | | | |
| Earnings | 2.12 | 1.77 | 19.8 |
| Dividends | .65 | .60 | 8.3 |
| Equity | 19.50 | 18.05 | 8.0 |



Directors' Report to Shareholders

Your directors are pleased to report that your Company achieved an increase in earnings in 1977, a year in which the rate of growth in Canadian consumer spending slowed dramatically. Earnings rose to \$29,881,000 (\$2.12 per share) from \$24,810,000 (\$1.77 per share) in 1976.

Higher earnings from merchandising and natural resources contributed to the improved results; real estate earnings were down. A reduction in the rate of income tax, arising from the inventory allowance introduced in 1977, accounted for 19¢ per share of the earnings increase.

Sales and revenue increased by 6% to \$1,427,390,000.

In merchandising, retail profits were substantially higher. Wholesale profits were also higher, but did not keep pace with gains in volume. World fur markets were strong and Company profits from this source were up, although a substantial part of the increase was due to foreign exchange gains which, after income taxes and minority interest, amounted to 2¢ per share.

Land sales of Markborough Properties Limited, 64.3% owned, follow an uneven pattern from year to year, and 1977 was an off year with land sales down 38%. Consequently, our real estate earnings declined. Higher prices for crude oil and natural gas resulted in increased earnings from natural resources. Further information on each of these areas of activity will be found on the following pages.

The Company's effective tax rate was reduced from 43.2% to 33.6% principally because of the introduction of the inventory tax allowance. The allowance is designed to alleviate the adverse impact of inflation on working capital of companies which have to replace inventories at rising prices.

Finance costs increased by 12%, owing to higher borrowings. The average borrowing rate was 8.6%, unchanged from 1976. Cash flow from operations was \$48,209,000, an increase of 1.2%, and a further \$77,062,000 was obtained from the issue of new long-term debt.

Capital expenditures increased by 12.9% to \$43,075,000 of which \$36,398,000 related to merchandising projects, principally in respect of new stores and major renovations to existing stores. Real estate projects accounted for a further \$6,676,000. Working capital increased by \$33,944,000. Other major uses of funds included dividend payments, \$9,181,000, repayment of long-term debt of \$11,678,000, and the acquisition of a 34.7% interest in Eaton/Bay Financial Services for a total consideration of \$16,042,000. This company markets life and general insurance, mutual funds and trust company services, principally to department store customers through direct mail and sales counters in retail stores. For some time we had considered the marketing of financial services as a sensible extension of our merchandising activities, and we concluded that purchase of an interest in this innovative and successful company was the best avenue of entry to the field. Eaton/Bay Financial Services will open Bay Financial Centres in eight of our department stores in 1978, with further openings planned for subsequent years.

The Board has declared a semi-annual dividend of 34.5¢ per share, payable on April 28, 1978, to shareholders of record on March 24, 1978. This is an increase of 2¢ per share over the semi-annual dividends paid last year, and is the maximum permitted under the Anti-Inflation Program.

Subsequent to the year end the Company disposed of its investment of 470,494 shares of The Glenlivet Distillers Limited, a distiller of Scotch whiskies, the Seagram Corporation having made an offer of £5.10 for each of the outstanding Glenlivet shares. The net gain of approximately £1,800,000 on the transaction will be reported as an extraordinary item for the year ending January 31, 1979.

Canada's Anti-Inflation Program is being phased out over the period April 14 to December 31, 1978. Price, profit and dividend controls will continue to apply to the Company until October 31, 1978. Compensation for the majority of employees will be controlled until December 31, 1978.

The Anti-Inflation Program, introduced in October 1975, had some measure of success in checking the inflationary spiral. Unfortunately, the annual rate of increase in the consumer price index is now running close to the level which prevailed when the Program was introduced. This is partly because of external elements, including the decline of the Canadian dollar, and higher fuel and food costs.

The controls on prices and profits have had no appreciable impact on the Company because market conditions intervened and competitive pressures have held merchandising profits to levels lower than those allowed under the Program rules.

The Canadian economy is now in a precarious position, with inflation a continuing problem, unemployment at an historically high level, and the dollar under severe pressure on foreign exchange markets. In this situation it is essential that all Canadians, including leaders of business, government and labour, exercise restraint after controls are lifted, so that the business sector may be encouraged to make new investments and thereby create the jobs so necessary for future prosperity.



Don McGiverin and George Richardson on the fashion floor in the Montreal Downtown Store.

In this respect, we are optimistic about long-term economic prospects, and plan to increase our capital expenditures this year to an amount in excess of \$60,000,000, of which about 80% will be invested in merchandising facilities, and the balance in real estate.

We do not, however, expect a strong resurgence in the Canadian economy in the current year. We look for a continuation through 1978 of most of the economic trends of the year just ended, including slow growth in consumer spending.

Real estate earnings will improve if land registrations take place as anticipated. The outlook continues to be favourable for higher earnings from natural resources. In the key merchandising area, competition will be intense, and improved results will depend mainly on the success of our efforts to increase productivity and efficiency. Our innovative merchandising programs, our stronger promotional presence, our attractive shopping surroundings, and

our keen and competent personnel give us confidence that we can meet the challenge.

J. Bartlett Morgan, who was President of Henry Morgan & Co. Ltd. when that firm was acquired by Hudson's Bay Company in 1960, and has served ably on your Board since then, has decided not to seek re-election as a director. Ronald E. Sheen, Vice-President, Department Stores since 1974, and a director since 1964, retired on January 31, 1978. One of the Company's most able and experienced merchants, he held senior retail positions in Vancouver, Calgary, Winnipeg and Toronto during a 41-year career. For the past three years he was in charge of the Company's major department stores where his vigorous and forthright leadership contributed greatly to improved results. Two other senior officers, D. H. Pitts, General Manager, Northern Stores Department, and G. A. Burrows, General Manager, Wholesale Department, retired on February 28, 1978. Both had lengthy and distinguished careers with the Company and

made important contributions to its welfare. We record our gratitude to Messrs. Morgan, Sheen, Pitts and Burrows, and extend our best wishes for the future.

To all our 20,000 employees for their concerted and dedicated efforts, and to our customers, our suppliers, and our shareholders for their continued support, we express our sincere appreciation.

On behalf of the Board

G. T. RICHARDSON
Governor

D. S. MCGIVERIN
President

March 10, 1978.

Merchandising

The principal activities of the Company are in the merchandising sector, comprising Retail, Wholesale and Fur operations. Earnings from merchandising before tax and interest were \$56,682,000 in 1977, an increase of 16.1% over the previous year.

Retail

The increase in retail sales in 1977 was only 2.7%, compared with 11.2% in 1976, and an average for the five years 1972-76 of 17.7%. This undoubtedly reflects the impact of wage controls, higher unemployment, and increased savings, all of which, combined with higher costs for fuel, food and taxes, left the consumer with reduced amounts for discretionary spending. Sales were virtually flat throughout the first half of the year, but built some momentum during the fall towards a reasonably satisfactory showing in the key month of December.

On a regional basis, sales were strongest in the North, and weakest in Quebec, where an already sluggish economy was adversely affected by political uncertainties.

Gross profit margins were improved for two reasons: increased effectiveness of the Company's central merchandising programs, and a shift in the blend of sales from low markup items such as appliances, to higher markup fashion merchandise. With wages under Government control, the upward pressure on expenses was somewhat reduced from recent years. For the second consecutive year, results were disappointing for the Shop-Rite division. Shop-Rite has sixty catalogue stores in Ontario. The fall catalogue, the key sales promotion vehicle for this division, was under-priced by a competitor's catalogue. Remedial actions, including price reductions to totally competitive levels were only partially successful in pro-

tecting sales volume. However, because of effective control of expenses and inventory, results were marginally better than those of the previous year.

Our expansion program picked up momentum in 1977, having slowed temporarily the previous year. New stores, all in shopping centre developments, were opened as follows:

| Location of Store | Size in Sq. Ft. |
|-----------------------|-----------------|
| Chicoutimi, Quebec | 87,000 |
| Cranbrook, B.C. | 82,000 |
| Camrose, Alberta | 40,000 |
| New Liskeard, Ontario | 30,000 |
| Brooks, Alberta | 25,000 |
| Ignace, Ontario | 15,000 |

In Montreal, the Boulevard store was modernized and expanded, and the mall, in which it is located, was enclosed. At Yorkton, Saskatchewan, we moved to a new 40,000 sq. ft. store in a shopping centre location. Important modernization

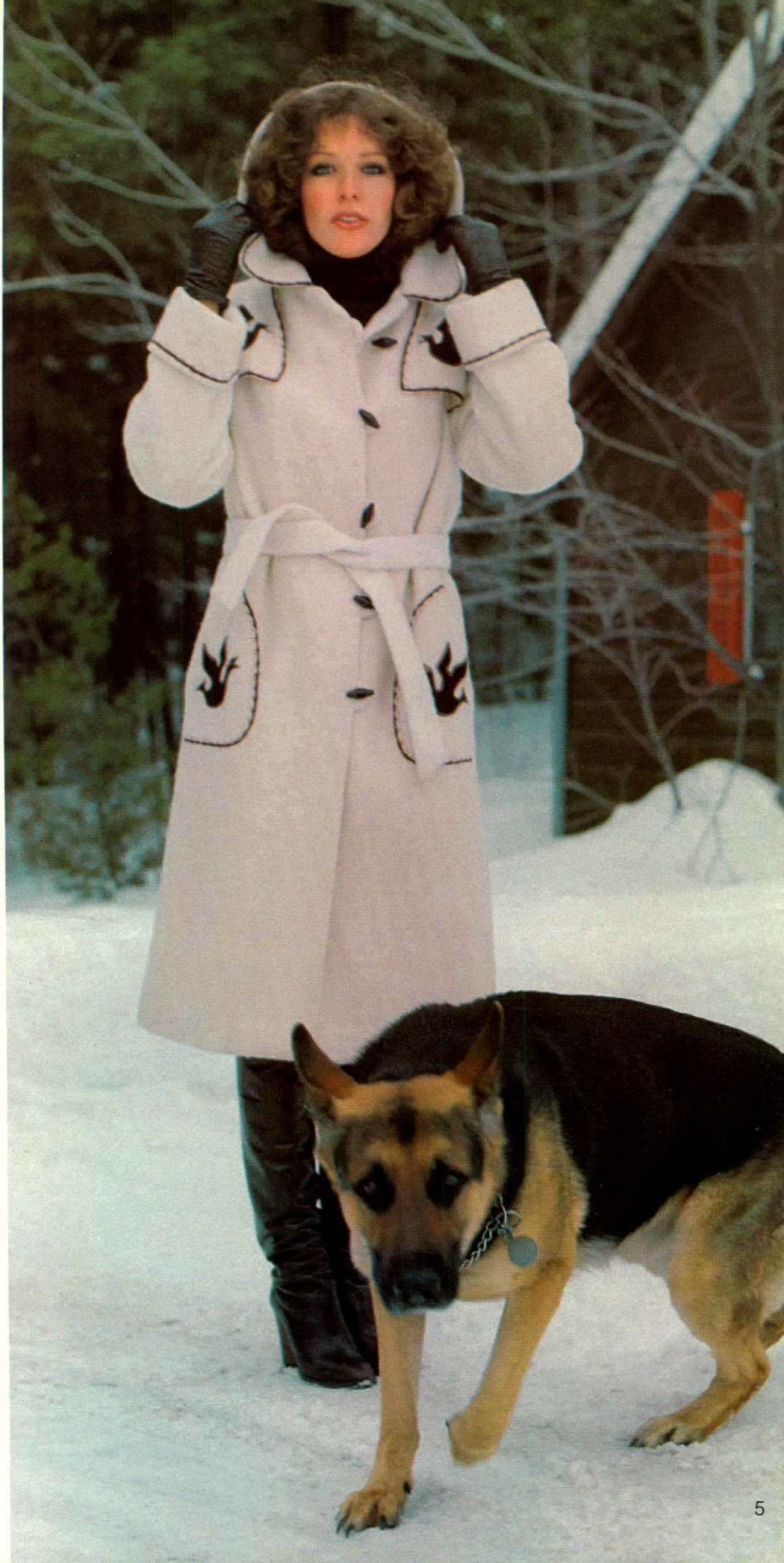


projects were completed at downtown stores in Montreal, Regina, Calgary, Edmonton and Vancouver. Stores at Mistassinni, Quebec; Pickle Lake and Red Sucker Lake in Ontario; and Beauval and Southend in Saskatchewan, were rebuilt. We purchased a store in Chevery, Quebec. In addition, seven small stores were increased in size.

Seven new stores are planned for 1978 opening, the three largest of which will be located in the new St. Bruno centre in Montreal, at the Greater Oshawa shopping centre, to the east of Toronto, and at the Park Royal centre in West Vancouver.

At the year end we sold our food business in seven Quebec communities to Proviso Inc. We believe the Company's interests in these communities will be best served by concentrating our efforts on and expanding our dry goods business.

During the current year, N.C.R. 280 point-of-sale terminals (cash registers) will be installed in our four Ottawa stores. This is part of an ongoing major investment by the Company in electronic data processing (EDP), which will see such terminals in use in all metropolitan area stores from Montreal to Victoria by 1979. Advanced credit system programs are already tied in to the terminals, and financial and merchandise systems are in the development stage. We anticipate that EDP systems will eventually assist our merchants in the control and management of the majority of items sold by the retailing divisions of the Company. We are confident that we are establishing a sound management information system vastly more advanced and versatile than manual alternatives, and one which will lead to improvements in almost every facet of our operations.



Left: Elegant ponchos from Iceland.

Right: Our exclusive Hudson's Bay Company coat.

Wholesale

Our Wholesale business continued to grow. Sales were ahead by 22.9% and earnings by 5.8%. The lower return on sales was due to inclusion of a higher proportion of low margin sales and to some temporary operating problems in the integration of a major new acquisition into the Vending Division.

The Department is now made up of two principal divisions: first there are 37 Wholesale branches, at which tobacco, confectionery, sporting goods, photographic supplies, small electricals, giftware, and associated items, are distributed to the retail trade. A new branch was opened in 1977 at Thunder Bay, Ontario. Secondly, Vending Division operations are located at 15 of the above Wholesale branches and at 13 separate Vending branches. From these locations tobacco and food are dispensed by approximately 20,000 Company-owned vending machines. The Vending Division was effectively doubled in size during the year by the purchase from Imasco Ltd. of the assets of Amco Services, a leading Canadian vending company.



Alluring Canadian-made peignoir set.

Fur

The wider popularity of fur garments which developed over the past few years continued during 1977 in most major types of fur. Prices reached a peak in the first half of the 1976-77 selling season. Then as demand levelled off, there was a moderate downward adjustment of prices in the second half of the year. The exception was Persian Lamb, which declined almost 50% in price from the all-time high for this variety reached in 1976. There were no further appreciable movements in price when the 1977-78 selling season opened last December.

Our auction houses depend on a selling commission for income. Since the commission is a percentage of selling price, the amount of commission income generated during the first half of the year was greater than in the second half. The overall result was to achieve aggregate record profits in the Company's wholly-owned auction houses in Montreal, New York, and Hudson's Bay and Annings, Ltd. (59% owned), in London.

Approximately two-thirds of the increase in fur earnings arose from currency conversions of the results of the London and New York operations into Canadian dollars at the higher rates prevailing for sterling and U.S. dollars.

Renovations to Beaver House in London were continued with the rebuilding of the Strathcona Room, which now provides fur trade buyers with modern restaurant and ancillary facilities.



Exotic kimonos from Japan.



Bay buyers achieve fashion leadership

More and more Canadian shoppers think of The Bay first for women's fashions. Our ready-to-wear and fashion accessory buyers aim to strengthen this trend. Their objective is to provide customers with fashion merchandise synonymous with quality and value—from our Baymart budget apparel right through to the famous designer lines carried in our Mirror Rooms.

The expertise of our commodity specialists enables The Bay to satisfy the increasingly sophisticated demands of the Canadian consumer.

This highly trained group of professional men and women interpret the demands of the Canadian market as much as a year in advance. By planning their purchases this far ahead, they allow themselves sufficient lead time to research the world market thoroughly for the best product to meet our criteria of fashion, quality and value. The amount of time devoted to research prior to procurement is one of the major reasons for our success. In order to maximize our strengths and minimize our risks, comprehensive buying plans are developed by the buyer—tracking future fashion trends, maintaining a high level of awareness of changing consumer demands, assessing past rates of sale, and receiving and acting on input from regional merchants.



Left: Accessories Department in the Montreal Downtown Store.

Centre: Spring-fashion designed in Montreal.

Right: Jeunesse Fashion Department in the Montreal Downtown Store.



Cloche—new romance for spring!



Left: Classic fashion imported from France.

Right: Fashionable Canadian-made separates.



The Bay carries a wide range of cosmetics and jewellery . . .



. . . and fashion accessories from around the world.

Our constant quest for quality, value and fashion leadership takes our team of buyers throughout Canada and the rest of the world. Last year our women's fashion buyers and senior merchandise managers travelled the world, bringing our customers fashion distinction and new designs in shoes and handbags from the Far East, Italy, and South America; cashmere sweaters and silk shirts from Mainland China; silk kimonos from Japan; handknit sweaters from Iceland and Italy; dufflecoats, rainwear and handbags from England; natural cottons from India and California; vivid silk scarves, and luxurious leather and cashmere gloves from Italy.

A contributing factor to the success of our international buying program is our participation in the Associated Merchandising Corporation. A.M.C. comprises approximately fifty store groups, including many of the better-known department stores from the United States and Europe, who pool their resources to develop the world markets. A.M.C. market representatives are located in most countries, and work with suppliers to ensure they understand The Bay's specific requirements and adhere to our high quality standards.

Even though buying overseas is an important part of our business, direct importing accounts for only 10% of the women's fashion and fashion accessory sales volume. Canadian designers are rapidly developing international reputations for fashionable, distinctive merchandise, and Canadian manufacturers are producing quality products throughout the entire range of women's fashions. Canadian-produced merchandise continues to represent the backbone of our assortment.



Natural Resources

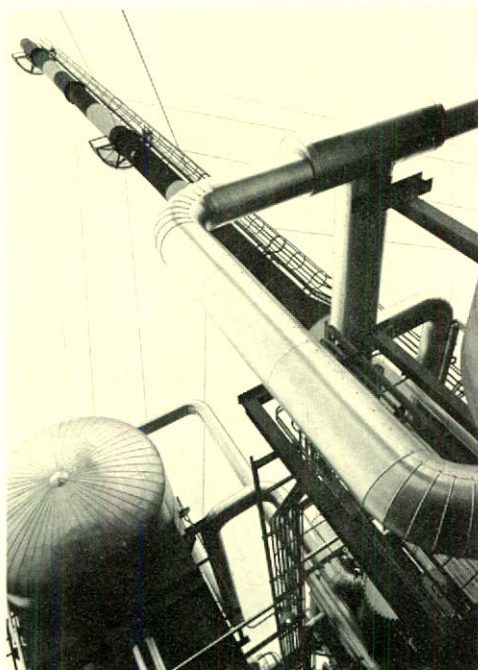
The Canadian petroleum industry operated at record levels in 1977 under the impetus of rising prices and the attendant improvement in cash flows, and the discovery of new reserves of oil and gas. Your Company has major investments in two Canadian petroleum companies, Hudson's Bay Oil and Gas Company Limited (H.B.O.G.), 21.1% owned, and Siebens Oil & Gas Ltd. (Siebens), 34.8% owned. Earnings from natural resources were \$13,686,000 in 1977, an increase of 30.6%. These earnings comprise dividends received from H.B.O.G., and a 34.8% share of Siebens' earnings, accounted for on an equity basis.

Dividends received from H.B.O.G. were \$6,173,000, up from \$5,732,000 the year before. Our share of undistributed H.B.O.G. earnings for the year (which is not included in the reported earnings of H B C) increased to \$14,691,000 from \$10,891,000 in the previous year.

Our share of net earnings of Siebens was \$5,605,000 for the year ended January 31, 1978, an increase of 52.8% over the previous year.

Hudson's Bay Oil and Gas Company Limited

In 1977 H.B.O.G. again recorded substantial gains in financial results with higher levels of revenues, funds generated from operations and net earnings. These financial gains were mainly due to increases in Canadian crude oil and natural gas prices, together with a major addition to crude oil production from properties in Indonesia purchased at year end 1976. Additions to reserves more than offset natural gas produced during the year but fell short of replacing the production of crude oil and natural gas liquids.



Net earnings of H.B.O.G. for 1977 were \$98,940,000 or \$5.22 per common share, an increase of 25.8% over 1976 earnings of \$4.15 per common share. Funds generated from operations advanced by 34.9% to \$188,960,000 or \$9.97 per common share.

Total net revenues increased by 29.7% to \$369,433,000. This substantial advance in revenues is chiefly the result of government controlled price increments in Canada and H.B.O.G.'s first year of crude oil production from Indonesia.

Production of crude oil and natural gas liquids rose by 15.5% to average 80,888 barrels per day. The major element in the increase came from operations in Indonesia where crude oil production averaged 9,841 barrels per day. Sales of natural gas of 408.7 million cubic feet per day were 2.2% below the previous year, with a substantial reduction in demand for deliveries from established fields largely offset by sales from new sources of production that were brought on stream during the year.

At the year end reserves were crude oil 208 million barrels, natural gas liquids 76 million barrels, and natural gas 3,380 billion cubic feet.

In 1977, capital expenditures and exploration expenses totalled \$138,100,000 before deducting \$7,500,000 in exploration incentives reimbursed by the Alberta government. These total outlays were \$27,400,000 greater than the comparable expenditures in 1976.

H.B.O.G. is continuing an aggressive exploration and development program in 1978, with expenditures expected to be in excess of \$150,000,000.

Siebens Oil & Gas Ltd.

Siebens reported significant growth in cash flow and net earnings, mainly due to increased sales of natural gas, but also because of escalating oil and gas prices. Net earnings for the year ended October 31, 1977, amounted to \$14,379,000 (\$1.56 per share) compared to \$1.16 per share the year before. There was a 41% increase in cash flow to \$22,766,000 (\$2.47 per share). Siebens spent \$26,325,000 in 1977 in the search for new supplies of oil and gas, an increase of 46% over 1976 expenditures. Approximately 97% of these expenditures were spent to explore energy resources in Canada.

Siebens had an interest in a total of 334 wells drilled in Western Canada last year, and it expects to equal or exceed these drilling figures during the current year as the industry continues to explore for and develop new petroleum reserves at record levels.

Expenditures for oil and gas exploration in 1978 will be the largest in Siebens' history, totalling \$35,000,000, with 85% of these funds expected to be spent in Canada. Siebens has predicted, based on information currently available, that cash flow and net earnings will increase in 1978 by 36% and 39% respectively.

Real Estate

Decreased revenue from land sales was the principal reason for a reduction in earnings from real estate before interest and taxes to \$14,856,000, as against \$23,207,000 in 1976. The Company's real estate interests (apart from land and buildings used in merchandising operations) consist principally of a 64.3% interest in Markborough Properties Limited (Markborough) and of whole or partial ownership in 15 shopping centres in Canada.

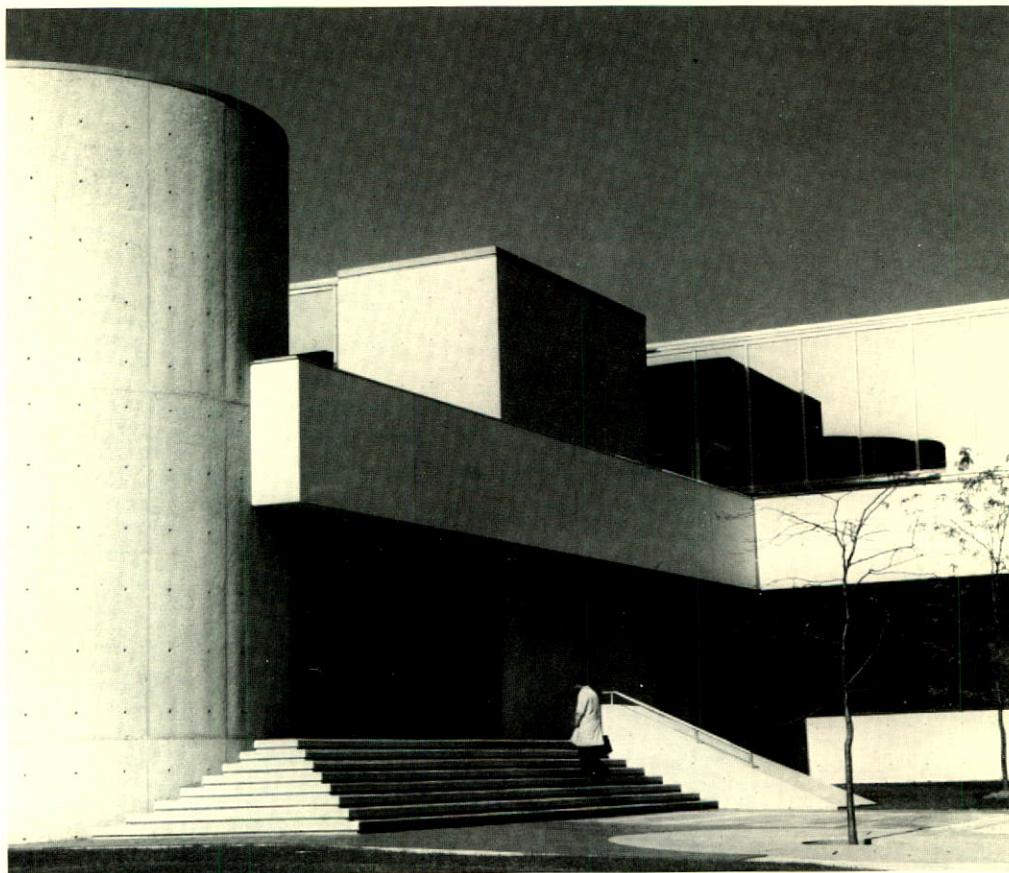
Markborough Properties Limited

Earnings of Markborough for the year ended October 31, 1977, declined to \$3,786,000 (\$1.07 per share) from \$9,489,000 (\$3.54 per share) the year before. Revenue from land sales was \$23,078,000, compared with a record \$40,933,000 in 1976. Two factors affecting land sales and related earnings were delays in obtaining registrations of subdivisions in Ontario, and a write-down of \$2,100,000 to its estimated market value, of the first phase of the Villages of Homestead project in Florida. The early stages of such major developments are typically less profitable than those brought to market when the project has matured.

Revenue from income properties increased by 22.4% to \$10,677,000.

Markborough's first enclosed shopping mall, Woodside Square, opened in May in the Scarborough area of Metropolitan Toronto. During the year Markborough entered the land development and home construction business in Phoenix, Arizona. Good results were achieved, with one tract of land having been brought into production within six months of acquisition. Further expansion in the United States is being pursued.

With the steps taken to expand and diversify its operations, Markborough expects that 1978 should be a reasonably good year.



Hudson's Bay Company Real Estate

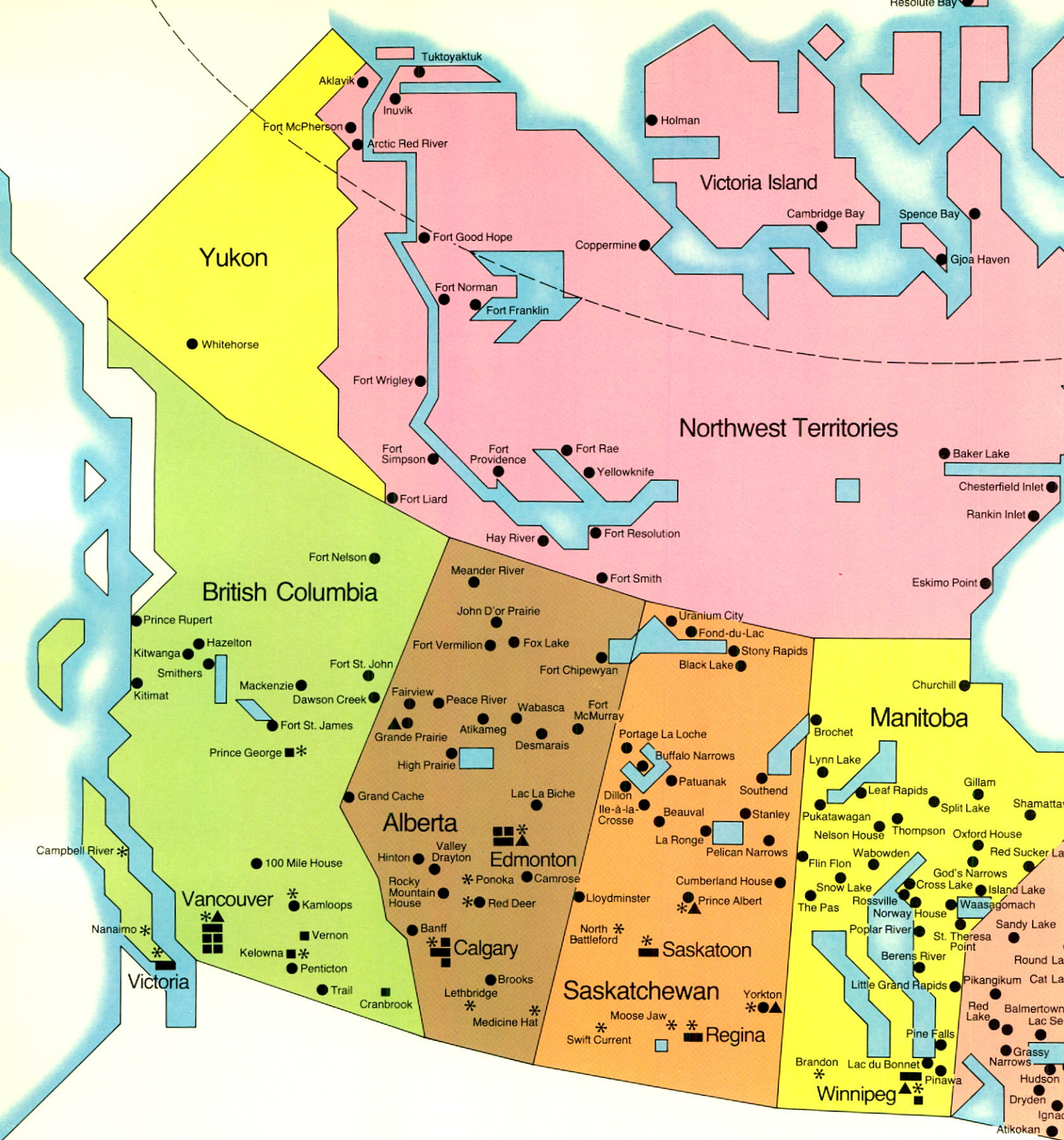
Earnings from real estate holdings other than Markborough, represented principally by investments in shopping centres, continued to improve in 1977. Construction was completed and leasing is in progress on two commercial buildings adjacent to our downtown stores in Montreal and Winnipeg.

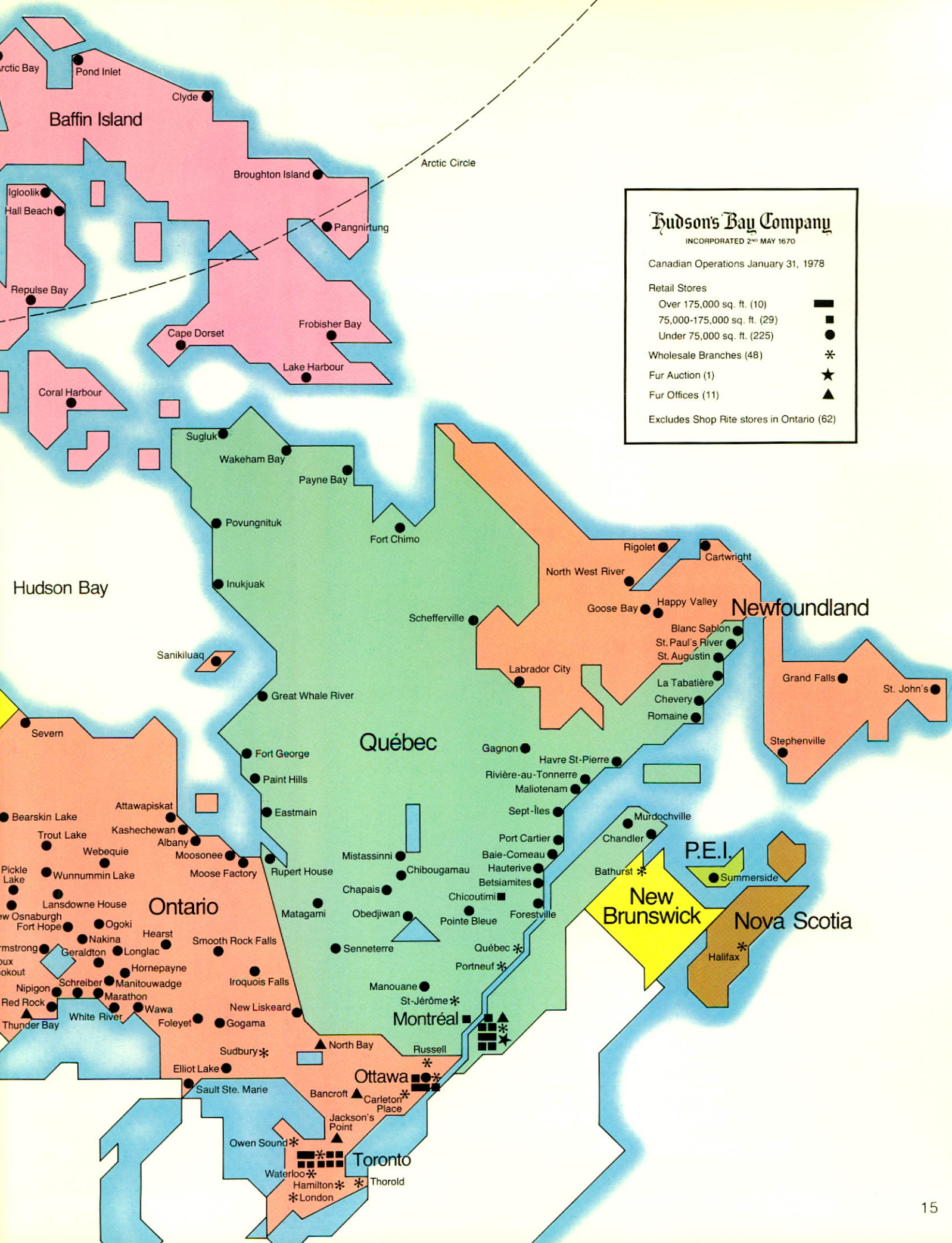
Public acceptance of the mall enclosure and modernization of Cloverdale Mall in Toronto has been excellent and sales for the mall tenants of the centre have increased substantially since the mall enclosure was completed in September, 1976.

During the year three shopping centres, in which the Company has equity interests, were opened in Cranbrook,

B.C.; Chicoutimi, Quebec; and Brooks, Alberta. We have found that equity ownership in well-located shopping centres, where the Company is a major tenant, is an attractive real estate investment. In addition, an ownership position provides us with a greater degree of input into the planning, development and management of the centres in which we are located and in which we seek excellence.

A summary of the Company's principal real estate holdings will be found on page 30 of this report.





Hudson's Bay Company

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Canadian Operations January 31, 1978

Retail Stores

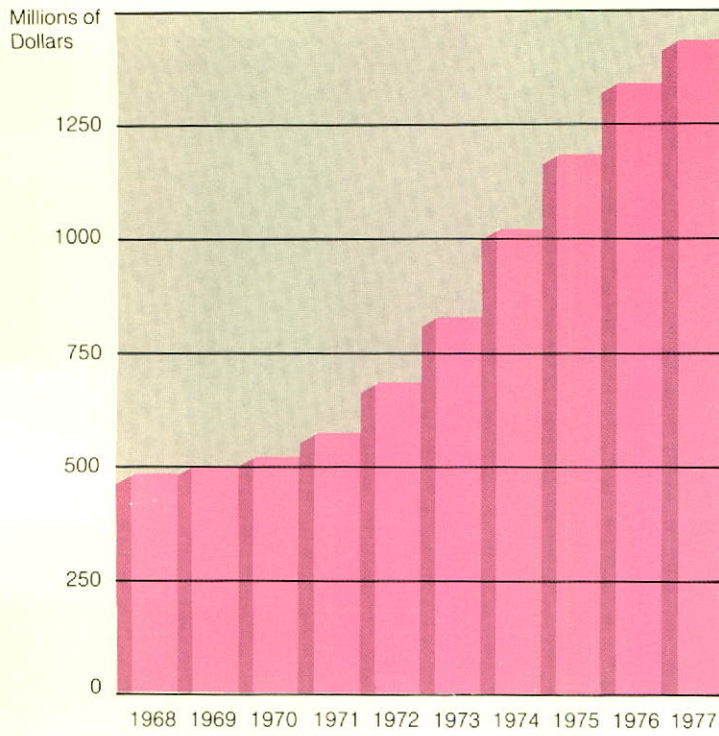
- Over 175,000 sq. ft. (10)
- 75,000-175,000 sq. ft. (29)
- Under 75,000 sq. ft. (225)

Wholesale Branches (48)

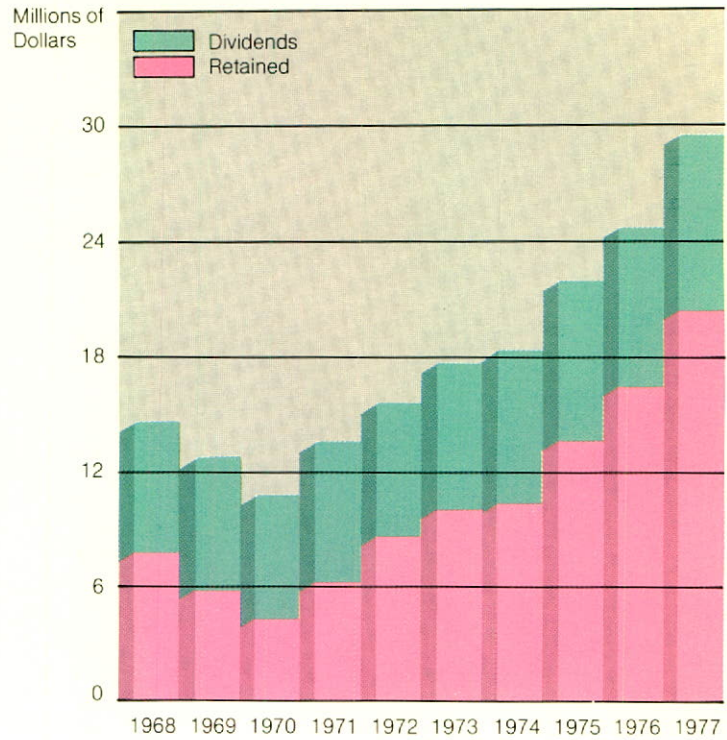
- Fur Auction (1)
- Fur Offices (11)

Excludes Shop Rite stores in Ontario (62)

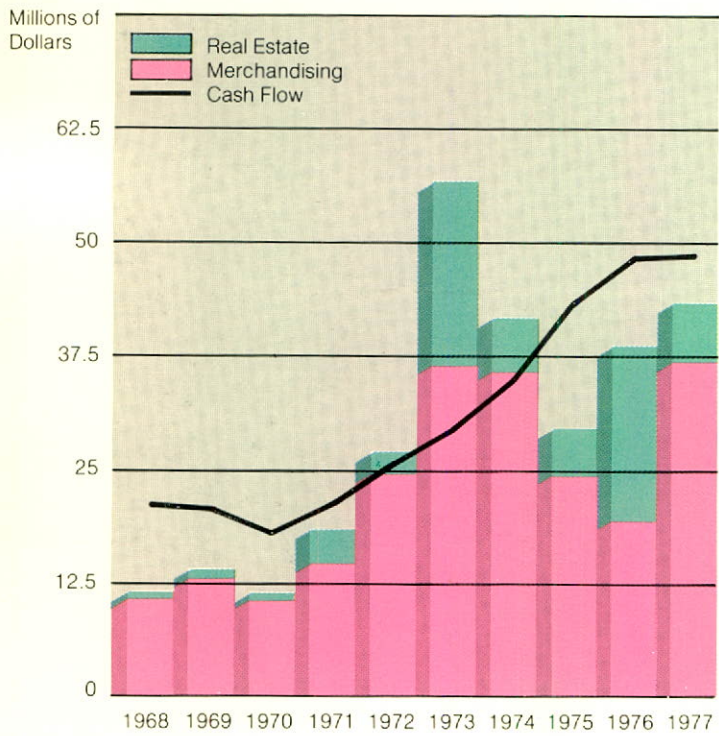
Revenue



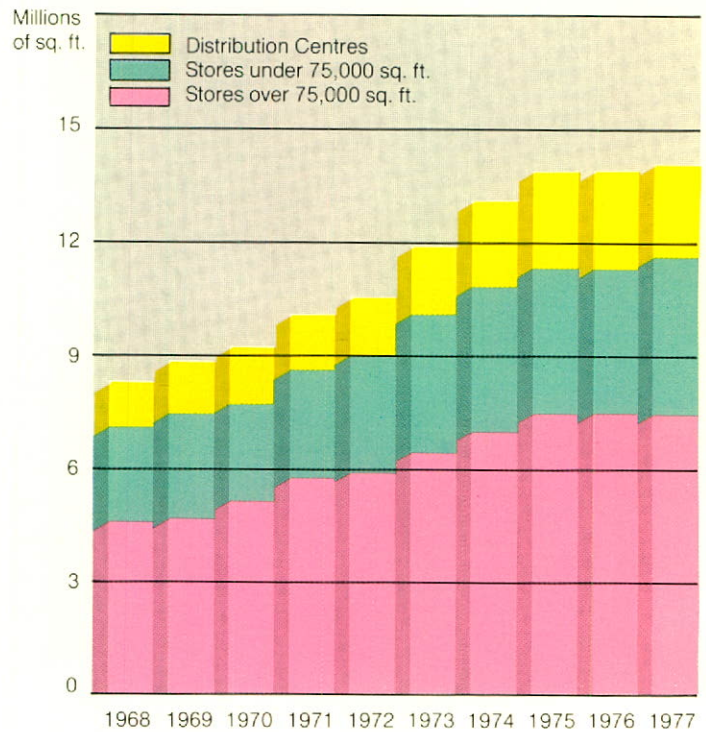
Earnings



Capital Expenditure and Cash Flow



Retail Facilities



Hudson's Bay Company

Consolidated Statement of Earnings

Year Ended January 31, 1978

| | This Year | Last Year |
|---|----------------------|----------------------|
| | \$ | \$ |
| Sales and revenue (Note 2) | | (Restated—Note 1b) |
| Merchandising | | |
| Retail | 1,019,831,000 | 992,575,000 |
| Wholesale | 323,810,000 | 263,461,000 |
| Fur | 34,059,000 | 26,987,000 |
| | <u>1,377,700,000</u> | <u>1,283,023,000</u> |
| Real estate | 36,004,000 | 52,945,000 |
| Natural resources | 13,686,000 | 10,480,000 |
| | <u>1,427,390,000</u> | <u>1,346,448,000</u> |
| Costs and expenses (Note 3) | | |
| Merchandising | 1,321,018,000 | 1,234,193,000 |
| Real estate | 21,148,000 | 29,738,000 |
| Interest on long-term debt | 34,813,000 | 28,097,000 |
| Net short-term interest | 2,538,000 | 5,346,000 |
| | <u>1,379,517,000</u> | <u>1,297,374,000</u> |
| Earnings before income taxes and minority interest | 47,873,000 | 49,074,000 |
| Income taxes (Note 2) | 16,095,000 | 21,184,000 |
| Earnings before minority interest | 31,778,000 | 27,890,000 |
| Minority interest | 1,897,000 | 3,080,000 |
| Net earnings | <u>29,881,000</u> | <u>24,810,000</u> |
| Earnings per share | <u>\$2.12</u> | <u>\$1.77</u> |

Consolidated Statement of Retained Earnings

Year Ended January 31, 1978

| | This Year | Last Year |
|---|--------------------|--------------------|
| | \$ | \$ |
| Retained earnings at beginning of year | 210,640,000 | 194,221,000 |
| Net earnings | 29,881,000 | 24,810,000 |
| Dividends paid | (9,181,000) | (8,391,000) |
| Retained earnings at end of year | <u>231,340,000</u> | <u>210,640,000</u> |

Hudson's Bay Company Consolidated Balance Sheet

January 31, 1978

| | This Year | Last Year |
|---|----------------------|--------------------|
| | | (Restated—Note 1b) |
| Current assets | \$ | \$ |
| Cash | 5,854,000 | 4,746,000 |
| Short-term securities at market value | 7,623,000 | 6,646,000 |
| Accounts receivable | 267,803,000 | 232,691,000 |
| Merchandise inventories | 215,713,000 | 192,540,000 |
| Prepaid expenses | 4,926,000 | 5,223,000 |
| | <u>501,919,000</u> | <u>441,846,000</u> |
| Property for sale and future development, at cost. | 95,675,000 | 78,017,000 |
| Secured receivables (Note 4). | 24,851,000 | 31,825,000 |
| Investments (Note 5) | 68,456,000 | 48,662,000 |
| Fixed assets | | |
| Land, at cost | 34,934,000 | 33,931,000 |
| Buildings, at cost | 257,074,000 | 245,742,000 |
| Equipment and leasehold improvements, at cost. | 148,653,000 | 123,993,000 |
| | <u>440,661,000</u> | <u>403,666,000</u> |
| Less accumulated depreciation | 127,830,000 | 117,436,000 |
| | <u>312,831,000</u> | <u>286,230,000</u> |
| Deferred charges | 7,898,000 | 6,442,000 |
| Goodwill. | 22,217,000 | 22,217,000 |
| | <u>1,033,847,000</u> | <u>915,239,000</u> |

On behalf of the Board:

George T. Richardson Director

D. Magnus Director

| | This Year | Last Year |
|--|-----------------------------|--------------------|
| | | (Restated—Note 1b) |
| Current liabilities | \$ | \$ |
| Bank indebtedness | 46,634,000 | 41,856,000 |
| Notes payable | 24,837,000 | 22,497,000 |
| Accounts payable and accrued expenses | 137,226,000 | 122,173,000 |
| Income taxes payable | 5,822,000 | 2,337,000 |
| Long-term debt due within one year | 5,422,000 | 4,950,000 |
| | <u>219,941,000</u> | <u>193,813,000</u> |
| Long-term debt (Note 6) | | |
| Mortgages | 85,664,000 | 61,045,000 |
| Bonds, notes and debentures | 380,536,000 | 339,771,000 |
| | <u>466,200,000</u> | <u>400,816,000</u> |
| Pensions (Note 7) | 2,628,000 | 2,460,000 |
| Deferred income taxes | 47,806,000 | 43,706,000 |
| Minority interest in subsidiaries | 21,308,000 | 20,022,000 |
| Shareholders' equity | | |
| Capital stock (Note 8) | | |
| Ordinary shares without par value | | |
| Authorized 20,000,000 shares | | |
| Issued 14,154,768 shares | | |
| (last year 14,095,593 shares) | 44,624,000 | 43,782,000 |
| Retained earnings | 231,340,000 | 210,640,000 |
| | <u>275,964,000</u> | <u>254,422,000</u> |
| | <u>1,033,847,000</u> | <u>915,239,000</u> |

Hudson's Bay Company

Consolidated Statement of Assets Employed

January 31, 1978

| | This Year | Last Year |
|--|--------------------|--------------------|
| | | (Restated—Note 1b) |
| | \$ | \$ |
| Merchandising | | |
| Inventories | 215,713,000 | 192,540,000 |
| Accounts receivable | 255,160,000 | 224,729,000 |
| Accounts payable | (127,539,000) | (113,096,000) |
| Other current assets, net | 5,814,000 | 6,468,000 |
| Working capital (see below) | 349,148,000 | 310,641,000 |
| Fixed assets | 222,058,000 | 200,947,000 |
| Investments | 23,960,000 | 6,124,000 |
| Other assets | 11,572,000 | 10,708,000 |
| Pensions | (2,628,000) | (2,460,000) |
| Deferred income taxes | (23,649,000) | (20,103,000) |
| | <u>580,461,000</u> | <u>505,857,000</u> |
| Real estate | | |
| Working capital (see below) | 2,100,000 | 49,000 |
| Property for sale and future development | 95,675,000 | 78,017,000 |
| Fixed assets and investments: | | |
| Shopping centres | 55,010,000 | 41,332,000 |
| Commercial | 41,198,000 | 47,628,000 |
| Residential | 9,466,000 | 14,980,000 |
| Secured receivables | 20,044,000 | 26,924,000 |
| Other assets | 1,133,000 | 635,000 |
| Goodwill | 22,217,000 | 22,217,000 |
| Deferred income taxes | (24,157,000) | (23,603,000) |
| | <u>222,686,000</u> | <u>208,179,000</u> |
| Natural resources | | |
| Hudson's Bay Oil and Gas Company Limited | 10,095,000 | 10,095,000 |
| Siebens Oil & Gas Ltd. | 19,500,000 | 13,786,000 |
| | <u>29,595,000</u> | <u>23,881,000</u> |
| Assets employed | <u>832,742,000</u> | <u>737,917,000</u> |
| Provided from | | |
| Bonds and debentures | 380,536,000 | 339,771,000 |
| Mortgages | 85,664,000 | 61,045,000 |
| Short-term borrowings, net (see below) | 69,270,000 | 62,657,000 |
| | <u>535,470,000</u> | <u>463,473,000</u> |
| Minority interest in subsidiaries | 21,308,000 | 20,022,000 |
| Shareholders' equity | | |
| Capital stock | 44,624,000 | 43,782,000 |
| Retained earnings | 231,340,000 | 210,640,000 |
| | <u>275,964,000</u> | <u>254,422,000</u> |
| | <u>832,742,000</u> | <u>737,917,000</u> |

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
Consolidated Statement of Changes in Financial Position
Year Ended January 31, 1978

| | This Year | Last Year |
|--|---------------------|--------------------|
| | | (Restated—Note 1b) |
| Source of funds | \$ | \$ |
| Earnings before minority interest | 31,778,000 | 27,890,000 |
| Items not affecting working capital | | |
| Equity in undistributed earnings of affiliates and joint ventures | (5,035,000) | (5,346,000) |
| Depreciation and amortization | 17,366,000 | 15,282,000 |
| Deferred income taxes | 4,100,000 | 9,819,000 |
| Provided from operations | 48,209,000 | 47,645,000 |
| Other investments | 1,284,000 | 1,278,000 |
| Long-term debt | 77,062,000 | 61,464,000 |
| Issue of shares | 842,000 | 1,661,000 |
| Decrease in secured receivables | 6,974,000 | — |
| | 134,371,000 | 112,048,000 |
| Use of funds | | |
| Investment in Eaton/Bay Financial Services Limited | 16,042,000 | — |
| Capital expenditures — merchandising | 36,399,000 | 19,295,000 |
| Capital expenditures — real estate | 6,676,000 | 18,869,000 |
| Property for sale and future development — net | 17,658,000 | 20,000,000 |
| Increase in secured receivables | — | 13,905,000 |
| Repayment of long-term debt | 11,678,000 | 9,876,000 |
| Dividends | 9,181,000 | 8,391,000 |
| Deferred charges | 2,349,000 | 1,652,000 |
| Other — net | 443,000 | 1,539,000 |
| | 100,426,000 | 93,527,000 |
| Increase in working capital | 33,945,000 | 18,521,000 |
| Working capital at beginning of year | 248,033,000 | 229,512,000 |
| Working capital at end of year | 281,978,000 | 248,033,000 |
| Changes in components of working capital | | |
| Increase in net short-term borrowings | (6,613,000) | (38,815,000) |
| Accounts receivable | 35,112,000 | 34,894,000 |
| Merchandise inventories | 23,173,000 | 19,820,000 |
| Accounts payable and other | (17,727,000) | 2,622,000 |
| | 33,945,000 | 18,521,000 |

Hudson's Bay Company

Notes to the Consolidated Financial Statements

Year Ended January 31, 1978

1. Accounting policies

These consolidated financial statements are prepared in conformity with accounting principles generally accepted in Canada. The significant policies are summarized below:

- a) The consolidated financial statements include 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 Siebens Oil & Gas Ltd., Eaton/Bay Financial Services Limited and joint ventures in which the Company has significant influence over operating and financial policies. The investments in these enterprises are recorded at cost plus the Company's equity in their undistributed earnings since acquisition or formation. Investments in other companies, including Hudson's Bay Oil and Gas Company Limited, are accounted for at cost and dividends are reflected in earnings when received.

Prior to the recent pronouncement of The Canadian Institute of Chartered Accountants concerning accounting for investments in joint ventures, it was the practice to present in the consolidated financial statements the share of assets, liabilities, revenues and expenses relating to joint ventures of Markborough Properties Limited, a subsidiary company, on the proportionate line-by-line basis. Figures for last year as shown in these financial statements have, where appropriate for comparative presentation purposes, been restated to conform to the equity accounting method although this change in presentation has no effect on either shareholders' equity or net earnings.

- c) The accounts of the U.S. and U.K. subsidiaries are translated into Canadian dollars at approximately the exchange rates prevailing at balance sheet dates.
- d) 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 \$5,569,000 (last year \$5,021,000).
- e) Earnings per share calculations are based on the weighted average number of shares outstanding during the year.
- f) 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.
- g) Merchandise inventories are valued at the lower of cost and net realizable value with cost determined on a first-in, first-out basis.
- h) 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% | Transport | 12 - 20% |
| Leasehold improvements | 3 - 10% | Other equipment | 7 - 15% |

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.

- i) Deferred charges principally comprise debenture discount and expense which is amortized on the straight-line method over the terms of the issues to which it relates. The amortization is included with interest on long-term debt in the consolidated statement of earnings.
- j) 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.
- k) Current pension costs, substantially all of which arise under trustee pension plans, are charged to operations. The costs of plan improvements are charged to operations over reasonable periods as they are funded.

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 \$9,817,000 (last year \$8,647,000) and the related income taxes of \$2,837,000 (last year \$2,881,000) are included within the consolidated income tax charge. Dividends received from other companies amount to \$6,277,000 (last year \$5,804,000).

3. Depreciation

Expenses include the following depreciation charged in accordance with the policy outlined in note 1 h): on merchandising assets \$15,287,000 (last year \$13,580,000); on real estate assets \$1,186,000 (last year \$1,018,000).

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, 1978 bear interest at an average rate of 8.6% and mature as follows:

| | \$ |
|--|-------------------|
| Year ending January 31, 1979 | 10,349,000 |
| 1980 | 4,938,000 |
| 1981 | 10,054,000 |
| 1982 | 671,000 |
| 1983 | 1,397,000 |
| Subsequent to January 31, 1983 | <u>7,791,000</u> |
| | 35,200,000 |
| Less amounts due within one year classified as accounts receivable | <u>10,349,000</u> |
| | <u>24,851,000</u> |

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

5. Investments

Investments comprise the following:

| | This Year | Last Year |
|--|-------------------|-------------------|
| | \$ | \$ |
| Hudson's Bay Oil and Gas Company Limited | 10,095,000 | 10,095,000 |
| Siebens Oil & Gas Ltd. | 19,500,000 | 13,786,000 |
| Eaton/Bay Financial Services Limited | 16,237,000 | — |
| Other | <u>22,624,000</u> | <u>24,781,000</u> |
| | <u>68,456,000</u> | <u>48,662,000</u> |

- a) Hudson's Bay Oil and Gas Company Limited (H.B.O.G.)

The investment in H.B.O.G., carried at cost, consists of 4,008,656 common shares of which 2,083,334 have been placed in escrow with The Royal Trust Company pursuant to the Trust Indenture providing for the Company's \$100 million 6% exchangeable subordinated debentures.

| | Per Share | |
|---|-----------|-------------|
| | \$ | \$ |
| Investment | | |
| At cost | 2.52 | 10,095,000 |
| At underlying H.B.O.G. book value December 31, 1977 | 21.44 | 85,939,000 |
| At quoted market The Toronto Stock Exchange | | |
| January 31, 1978 | 43.00 | 172,372,000 |

The common shares of H.B.O.G. are held 52.8% by Continental Oil Company, 21.1% by the Company and 26.1% by 8,400 other shareholders.

b) Siebens Oil & Gas Ltd. (Siebens)

The investment in Siebens, accounted for under the equity accounting method, consists of 3,203,000 shares, representing 34.8% of the total issued common shares of that company. The book value of this investment at January 31, 1978 is \$19,500,000 which approximates the underlying Siebens book value. The market quotation at January 31, 1978 on The Toronto Stock Exchange was \$23.87 per share for a total of \$76,456,000.

c) Eaton/Bay Financial Services Limited

On October 5, 1977, the Company acquired 531,619 common shares (34.7%) of Eaton/Bay Financial Services Limited at a total cost of \$16,042,000. This investment is accounted for under the equity accounting method and the cost has been allocated as follows:

| | |
|--|---------------------|
| Company's interest in net assets at Eaton/Bay Financial Services Limited book value | \$12,802,000 |
| Adjustment to fair value of Company's interest in investment portfolio | 678,000 |
| Company's interest in insurance in force on date of acquisition and goodwill (to be amortized by the straight-line method over a period of 20 years) | 2,562,000 |
| | <u>\$16,042,000</u> |

d) Other

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

6. Long-term debt

| | This Year \$ | Last Year \$ |
|--|--------------------|--------------------|
| Secured on Property | | |
| Hudson's Bay Company Properties Limited | | |
| 5¾% first mortgage bonds series A due 1990 | 11,045,000 | 11,945,000 |
| 7½% first mortgage bonds series B due 1991 | 7,272,000 | 8,225,000 |
| 11½% first mortgage bonds series C due 1995 | 32,375,000 | 33,250,000 |
| 9% first mortgage bonds series D due 1997 | 45,000,000 | — |
| Hudson's Bay Company Developments Limited | | |
| Mortgages 9.7% average repayable by instalments to 2002 | 15,494,000 | 2,571,000 |
| Hudson's Bay Company Properties (Quebec) Limited | | |
| Mortgages 5.7% average repayable by instalments to 1986 | 1,002,000 | 2,909,000 |
| Markborough Properties Limited | | |
| 8½% sinking fund debentures due 1982 | 8,500,000 | 10,000,000 |
| Mortgages and obligations on land for future development 9.0% average repayable by instalments to 1990 | 40,469,000 | 33,402,000 |
| Mortgages on income properties 9.7% average repayable by instalments to 2004 | <u>31,746,000</u> | <u>24,738,000</u> |
| | <u>192,903,000</u> | <u>127,040,000</u> |
| 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 | 18,719,000 | 18,726,000 |
| 8¾% debentures series D due 1991 | 20,000,000 | 20,000,000 |
| 8¾% debentures series E due 1993 | 20,000,000 | 20,000,000 |
| 10½% debentures series F due 1996 | <u>35,000,000</u> | <u>35,000,000</u> |
| | <u>113,719,000</u> | <u>113,726,000</u> |

| | | |
|--|--------------------|--------------------|
| Unsecured | | |
| Hudson's Bay Company | | |
| 9¾% series C notes due 1979 | 30,000,000 | 30,000,000 |
| 10¼% notes due 1981 | 35,000,000 | 35,000,000 |
| | <u>65,000,000</u> | <u>65,000,000</u> |
| Subordinated | | |
| Hudson's Bay Company | | |
| 6% exchangeable debentures due 1993, sinking fund commencing 1984 | 100,000,000 | 100,000,000 |
| | 471,622,000 | 405,766,000 |
| Bonds and debentures due within one year | (2,375,000) | (2,375,000) |
| Mortgage principal due within one year | (3,047,000) | (2,575,000) |
| | <u>466,200,000</u> | <u>400,816,000</u> |

Maturities and sinking fund requirements during the five years ending January 31, 1983 are as follows:

| | | |
|-------------------|-------------------|-------------------|
| 1979—\$ 5,422,000 | 1980—\$38,162,000 | 1981—\$34,522,000 |
| 1982—\$42,094,000 | 1983—\$ 5,955,000 | |

The holders of the Hudson's Bay Company Acceptance Limited 9¾% debentures will have the 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.

7. Pensions

The unfunded liabilities for pension plans are estimated to aggregate approximately \$10,500,000 and they will be funded over various periods not exceeding 14 years.

The pension provision of \$2,628,000 is net of related deferred income taxes. Of the provision, approximately \$1,350,000 relates to amounts which will be required to fund the liability for pensioners originally retired under unfunded schemes and now being paid from a trustee plan. The remainder is expected to be adequate to provide for the payment of pension benefits which have accrued under various other unfunded schemes.

8. Capital stock

| | Number of Common Shares | \$ |
|---|----------------------------|-------------------|
| Balance at February 1, 1976 | 13,984,893 | 42,121,000 |
| Issued under employee share purchase plan | 110,700 | 1,661,000 |
| Balance at January 31, 1977 | 14,095,593 | 43,782,000 |
| Issued under employee share purchase plan | 59,175 | 842,000 |
| Balance at January 31, 1978 | <u>14,154,768</u> | <u>44,624,000</u> |

9. Joint venture operations

The Company's share of real estate joint venture operations accounted for by the equity method is summarized as follows:

| | This Year | Last Year |
|--|--------------------|-------------------|
| | \$ | \$ |
| Assets | | |
| Accounts receivable | 5,070,000 | 4,900,000 |
| Property for sale and future development | 26,553,000 | 22,684,000 |
| Fixed assets | 74,756,000 | 68,057,000 |
| | <u>106,379,000</u> | <u>95,641,000</u> |

| | | |
|---|--------------------|-------------------|
| Liabilities and Equity | | |
| Bank indebtedness | 16,138,000 | 5,750,000 |
| Accounts payable | 6,271,000 | 6,844,000 |
| Bonds and mortgages | 70,415,000 | 65,699,000 |
| | 92,824,000 | 78,293,000 |
| Investment in real estate joint ventures | 13,555,000 | 17,348,000 |
| | <u>106,379,000</u> | <u>95,641,000</u> |
| Revenue and Earnings | | |
| Gross revenue | 15,470,000 | 12,364,000 |
| Interest | 4,323,000 | 3,994,000 |
| Depreciation | 821,000 | 742,000 |
| Other expenses | 8,711,000 | 4,398,000 |
| Pretax income from real estate joint ventures | <u>1,615,000</u> | <u>3,230,000</u> |

10. Directors and officers

In the current year aggregate remuneration of 18 directors, in their capacity as directors, was \$106,000; aggregate remuneration of 12 officers, in their capacity as officers was \$1,134,000; five of the officers, one of whom retired, were also directors. In addition, four officers, three of whom were also directors, received aggregate remuneration of \$10,000 from Markborough Properties Limited in their capacity as directors of that subsidiary company.

Loans due from officers of the Company at January 31, 1978, principally in respect of the share purchase plan, amounted to \$829,000 (last year \$561,000).

11. Commitments and contingencies

Minimum annual rentals under major property leases amount to approximately \$12,800,000 for which the remaining average term is 22 years.

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

- The commitment to meet certain obligations of two shopping centre companies in the event of their default in payment of long-term mortgage bonds secured by the assets of these two companies.
- The guarantee, severally, of indebtedness of three real estate joint ventures.
- The contingent liability of Markborough Properties Limited for obligations of its co-owners in unincorporated joint ventures.

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

12. Federal anti-inflation legislation

The Company and its Canadian subsidiaries are subject to, and management believes they have complied with, controls on prices, profits, compensation and dividends to shareholders under the Canadian Federal Government's anti-inflation program. The Government is to begin withdrawal of these controls on April 14, 1978.

13. Events subsequent to year end

Under an agreement dated January 26, 1978 between Hudson's Bay Company Properties Limited and Dominion Securities Limited and Richardson Securities of Canada as underwriters, Hudson's Bay Company Properties Limited sold to the underwriters on March 9, 1978 \$35,000,000 principal amount of 10% First Mortgage Bonds Series E for the sum of \$34,247,000.

During the month of February 1978 a U.K. subsidiary company sold its investment in The Glenlivet Distillers Limited which resulted in an extraordinary gain of approximately £ 1,800,000.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet and the consolidated statement of assets employed of Hudson's Bay Company as at January 31, 1978 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 other companies of which we are the auditors and which are consolidated or are accounted for by the equity method in these financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For Markborough Properties Limited which is consolidated and for other companies accounted for by the equity method in these financial statements, we have relied on the reports of the auditors who have examined their financial statements 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 as at January 31, 1978 and the results of its operations and the changes in its 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.

Toronto, Canada
March 10, 1978

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Hudson's Bay Company

Ten Year Consolidated Financial Summary

| | 1977 | 1976 |
|--|--|--|
| Results for year (\$000's) | | |
| Sales and revenue | | |
| Retail | 1,019,831 | 992,575 |
| Wholesale | 323,810 | 263,461 |
| Fur | 34,059 | 26,987 |
| Merchandising | 1,377,700 | 1,283,023 |
| Real estate | 36,004 | 52,945 |
| Natural resources | 13,686 | 10,480 |
| | 1,427,390 | 1,346,448 |
| Fur consignment sales | 283,000 | 244,344 |
| Source of earnings | | |
| Retail | 40,912 | 34,922 |
| Wholesale | 8,064 | 7,622 |
| Fur | 7,706 | 6,286 |
| Merchandising | 56,682 | 48,830 |
| Real estate | 14,856 | 23,207 |
| Natural resources | 13,686 | 10,480 |
| Interest on long-term debt | (34,813) | (28,097) |
| Net short-term interest | (2,538) | (5,346) |
| Earnings before income taxes and minority interest | 47,873 | 49,074 |
| Income taxes | 16,095 | 21,184 |
| Earnings before minority interest | 31,778 | 27,890 |
| Minority interest | 1,897 | 3,080 |
| Net earnings | 29,881 | 24,810 |
| Dividends | 9,181 | 8,391 |
| Earnings retained | 20,700 | 16,419 |
| Cash flow | 48,209 | 47,645 |
| Capital expenditures | 43,075 | 38,163 |
| Depreciation | 16,473 | 14,598 |
| Year end financial position (\$000's) | | |
| Merchandising | 580,461 | 505,857 |
| Real estate | 222,686 | 208,179 |
| Natural resources | 29,595 | 23,881 |
| Assets employed | 832,742 | 737,917 |
| Debt | 535,470 | 463,473 |
| Minority interest | 21,308 | 20,022 |
| Shareholders' equity | 275,964 | 254,422 |
| Per share results (Dollars) | | |
| Net earnings | 2.12 | 1.77 |
| Dividends | .65 | .60 |
| Shareholders' equity | 19.50 | 18.05 |
| Including equity in undistributed earnings of HBOG | | |
| Net earnings | 3.16 | 2.55 |
| Shareholders' equity | 24.86 | 22.36 |
| Shareholders and employees | | |
| Number of shareholders | 20,870 | 21,861 |
| Shares outstanding (000's) | 14,155 | 14,096 |
| Range in share price (Dollars) | 19¹/₈—14¹/₈ | 20 ⁷ / ₈ —13 ¹ / ₂ |
| Number of employees | 20,000 | 20,000 |

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

| 1975 | 1974 | 1973 | 1972 | 1971 | 1970 | 1969 | 1968 |
|------------------|------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| 892,766 | 780,854 | 641,063 | 538,989 | 440,685 | 406,096 | 393,556 | 377,732 |
| 231,995 | 190,875 | 153,456 | 126,414 | 111,612 | 102,788 | 91,312 | 84,043 |
| 21,178 | 22,304 | 21,190 | 15,475 | 13,565 | 10,172 | 12,787 | 13,887 |
| <u>1,145,939</u> | <u>994,033</u> | <u>815,709</u> | <u>680,878</u> | <u>565,862</u> | <u>519,056</u> | <u>497,655</u> | <u>475,662</u> |
| 32,174 | 17,852 | 4,294 | 862 | — | — | — | — |
| 8,020 | 6,308 | 5,853 | 5,485 | 4,927 | 4,410 | 4,193 | 4,232 |
| <u>1,186,133</u> | <u>1,018,193</u> | <u>825,856</u> | <u>687,225</u> | <u>570,789</u> | <u>523,466</u> | <u>501,848</u> | <u>479,894</u> |
| 185,252 | 175,661 | 167,250 | 131,666 | 109,238 | 81,723 | 92,258 | 110,214 |
| 34,868 | 32,308 | 27,666 | 23,738 | 19,225 | 17,929 | 20,319 | 21,666 |
| 6,897 | 5,808 | 4,051 | 3,316 | 3,137 | 2,668 | 2,361 | 2,650 |
| 4,537 | 4,719 | 4,968 | 2,993 | 2,541 | 328 | 1,033 | 2,184 |
| <u>46,302</u> | <u>42,835</u> | <u>36,685</u> | <u>30,047</u> | <u>24,903</u> | <u>20,925</u> | <u>23,713</u> | <u>26,500</u> |
| 14,615 | 10,313 | 2,191 | 715 | — | — | — | — |
| 8,020 | 6,308 | 5,852 | 5,485 | 4,927 | 4,410 | 4,193 | 4,232 |
| (24,161) | (19,202) | (11,714) | (7,464) | (6,907) | (5,525) | (3,503) | (2,873) |
| (2,508) | (5,291) | 254 | (1,404) | 188 | (109) | (614) | (424) |
| 42,268 | 34,963 | 33,268 | 27,379 | 23,111 | 19,701 | 23,789 | 27,435 |
| 18,548 | 15,514 | 15,158 | 11,725 | 9,798 | 8,729 | 10,832 | 12,732 |
| 23,720 | 19,449 | 18,110 | 15,654 | 13,313 | 10,972 | 12,957 | 14,703 |
| 1,716 | 1,029 | 446 | — | — | — | — | — |
| <u>22,004</u> | <u>18,420</u> | <u>17,664</u> | <u>15,654</u> | <u>13,313</u> | <u>10,972</u> | <u>12,957</u> | <u>14,703</u> |
| 8,362 | 8,286 | 7,661 | 7,048 | 7,048 | 6,828 | 6,980 | 6,872 |
| 13,642 | 10,134 | 10,003 | 8,606 | 6,265 | 4,144 | 5,977 | 7,831 |
| 42,760 | 34,010 | 29,795 | 25,507 | 21,277 | 18,207 | 20,419 | 21,574 |
| 29,586 | 41,715 | 56,588 | 27,282 | 17,849 | 11,124 | 14,039 | 10,995 |
| 13,157 | 11,485 | 9,314 | 7,607 | 6,342 | 5,963 | 6,966 | 6,198 |
| 445,564 | 451,201 | 378,913 | 308,929 | 272,711 | 246,665 | 235,013 | 200,430 |
| 163,793 | 156,791 | 137,794 | 7,630 | 5,127 | 2,069 | 1,635 | 1,645 |
| 20,142 | 17,763 | 16,305 | 10,095 | 10,095 | 10,095 | 10,095 | 10,095 |
| <u>629,499</u> | <u>625,755</u> | <u>533,012</u> | <u>326,654</u> | <u>287,933</u> | <u>258,829</u> | <u>246,743</u> | <u>212,170</u> |
| 375,184 | 387,187 | 306,543 | 130,219 | 100,478 | 78,696 | 69,871 | 41,613 |
| 17,973 | 16,618 | 16,180 | 754 | 380 | — | — | — |
| <u>236,342</u> | <u>221,950</u> | <u>210,289</u> | <u>195,681</u> | <u>187,075</u> | <u>180,133</u> | <u>176,872</u> | <u>170,557</u> |
| 1.58 | 1.33 | 1.29 | 1.16 | .98 | .81 | .96 | 1.08 |
| .60 | .60 | .56 | .52 | .52 | .50 | .51 | .51 |
| 16.90 | 15.93 | 15.23 | 14.44 | 13.80 | 13.29 | 13.05 | 12.58 |
| 2.28 | 1.94 | 1.67 | 1.39 | 1.17 | .96 | 1.09 | 1.19 |
| 20.46 | 18.81 | 17.51 | 16.38 | 15.13 | 14.43 | 14.04 | 13.44 |
| 22,806 | 24,036 | 24,474 | 24,880 | 25,558 | 28,945 | 32,142 | 31,066 |
| 13,985 | 13,936 | 13,809 | 13,553 | 13,553 | 13,553 | 13,553 | 13,553 |
| 18%—14¼ | 20—9¾ | 22¾—15 | 21½—16½ | 20—14½ | 22—11½ | 25¼—17 | 27¼—19¾ |
| 20,000 | 20,000 | 18,000 | 17,000 | 16,000 | 15,000 | 15,000 | 15,000 |

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

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 Ltd.
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
Hamilton-St. Catharines-Niagara area
108,178 common shares (27%)

Eaton/Bay Financial Services Limited
Markets financial services
531,619 shares (34.7%)

Natural Resources

Hudson's Bay Oil and Gas Company Ltd.
Petroleum exploration and production
4,008,656 common shares (21.1%)

Siebens Oil & Gas Ltd.
Petroleum exploration and production
3,203,000 shares (34.8%)

Real Estate (excluding Markborough Properties Limited)

| City | Name | Area (sq. ft.) | Interest (%) |
|-------------------------|---|----------------|--------------|
| Shopping Centres | | | |
| Vancouver | Champlain Mall | 208,000 | 100 |
| Vancouver | Richmond Centre | 215,000 | 100 |
| Vernon | Village Green Mall | 311,000 | 25 |
| Cranbrook | Tamarack Shopping Centre | 296,000 | 33 1/3 |
| Calgary | Market Mall | 689,000 | 25 |
| Calgary | Southcentre | 678,000 | 100 |
| Edmonton | Southgate | 684,000 | 40 |
| Brooks | Cassils Shopping Centre | 111,000 | 25 |
| Lloydminster | Lloydmall | 108,000 | 100 |
| Winnipeg | Unicity Fashion Square | 550,000 | 33 1/3 |
| Toronto | Cloverdale Mall | 452,000 | 100 |
| Toronto | Fairview Shopping Centre | 700,000 | 25 |
| Montreal | Place Vertu | 700,000 | 25 |
| Chicoutimi | Place du Royaume, Phase III | 230,000 | 25 |
| Val d'Or | Carrefour du Nord Ouest (under construction) | 210,000 | 50 |

Office/Commercial Buildings

| | | | |
|-----------------|--------------------|---------|--------|
| Winnipeg | Hudson's Bay House | 111,000 | 100 |
| Winnipeg | Rupertsland Square | 248,000 | 33 1/3 |
| Montreal | 2021 Union Avenue | 151,000 | 100 |
| London, England | Beaver House | 145,000 | 100 |

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

P. W. Wood ★
Toronto
Executive Vice-President

I. A. Barclay
Vancouver
Chairman of the Board,
British Columbia Forest Products Limited

M. Bélanger
Quebec
Partner, Bélanger, Dallaire, Gagnon & Associés

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
Vice Chairman, 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
Chairman & Chief Executive Officer,
Brascan Limited

J. Bartlett Morgan
Montreal
Honorary Chairman, The Morgan Trust Company

The Rt. Hon. Lord Trend, P.C., G.C.B., C.V.O.
Oxford, England
Rector, Lincoln College

★ Member of Executive Committee
◆ Member of Audit Committee

Senior Management

L. J. Henry
Vice-President, Furs

M. H. MacKenzie
Vice-President, Personnel

J. G. W. McIntyre
Vice-President, Retail Development

T. I. Ronald
Vice-President, Finance

D. O. Wood
Vice-President, National Stores & Wholesale

A. R. Huband
Secretary

D. W. Mahaffy
Treasurer

C. W. Evans
General Manager, Department Stores

J. E. Church
General Merchandise Manager,
Department Stores

A. A. Adamic
General Manager, Western Region

H. L. Spelliscy
General Manager, Edmonton Region

G. J. Kosich
General Manager, Calgary Region

D. K. McConnell
General Manager, Central Region

A. A. Guglielmin
General Manager, Toronto Region

J. B. Bustard
General Manager, Ottawa Region

P. Dalpé
General Manager, Montreal Region

P. W. Schmidt
General Manager, Food Services

D. G. Buckley
General Manager, Shop-Rite Catalogue Stores

J. L. Klapp
General Manager, Wholesale Department

D. B. Byers
Manager, Fur Sales Department, Montreal

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

W. F. Thompson
Senior Vice President,
Hudson's Bay Distillers Limited

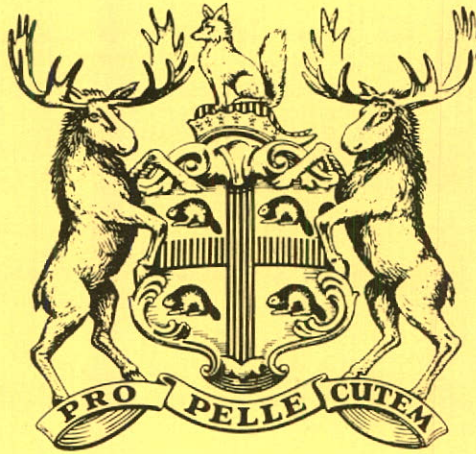
The Company — A Brief Description

The Company today

Merchandising . . . More than 300 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 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.

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, 21.1% 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 in the Toronto area and in other Canadian and United States cities.

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

History

Incorporation . . . King Charles II granted on May 2, 1670 to 18 Adventurers a Charter incorporating them as The Governor and Company of Adventurers of England trading into Hudson's Bay. This followed the successful voyage of the ketch "Nonsuch," 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.

