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Hudson's Bay Company

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Annual Report
1979

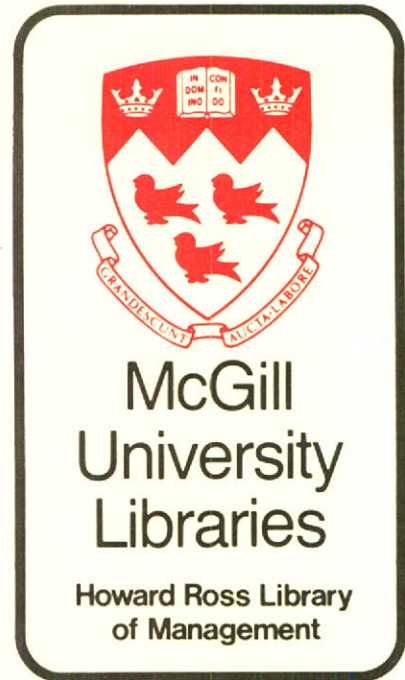
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The 31st Annual Meeting of Shareholders will be held at the Winnipeg Inn, Winnipeg, Manitoba, on May 16, 1980, at 12 noon.

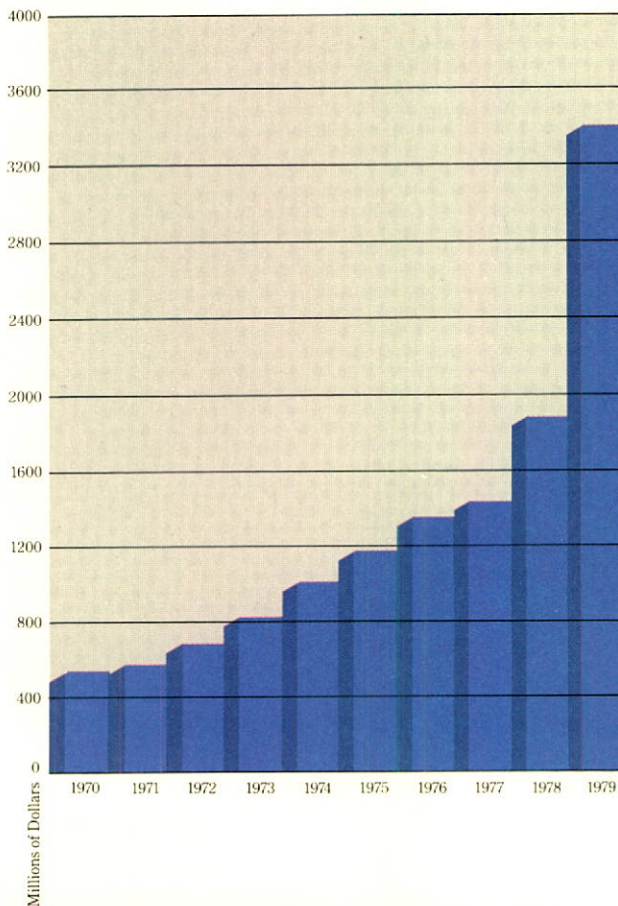
Shareholders wishing to receive annual reports of Markborough Properties Limited and/or Zeller's Limited are invited to write to The Secretary, Hudson's Bay Company, 2 Bloor Street East, Toronto, Ontario M4W 3H7.

On peut obtenir ce rapport annuel en français sur demande.

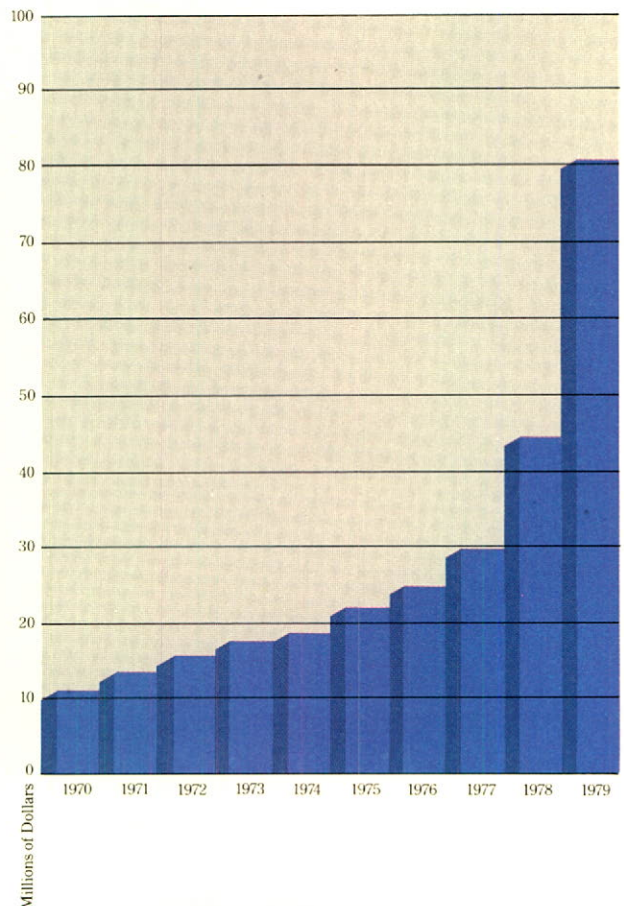
The photographs in this report emphasize the diversity of our interests and the fashion leadership role we are assuming in Canada.



Revenue



Earnings (before extraordinary items)



Financial Highlights

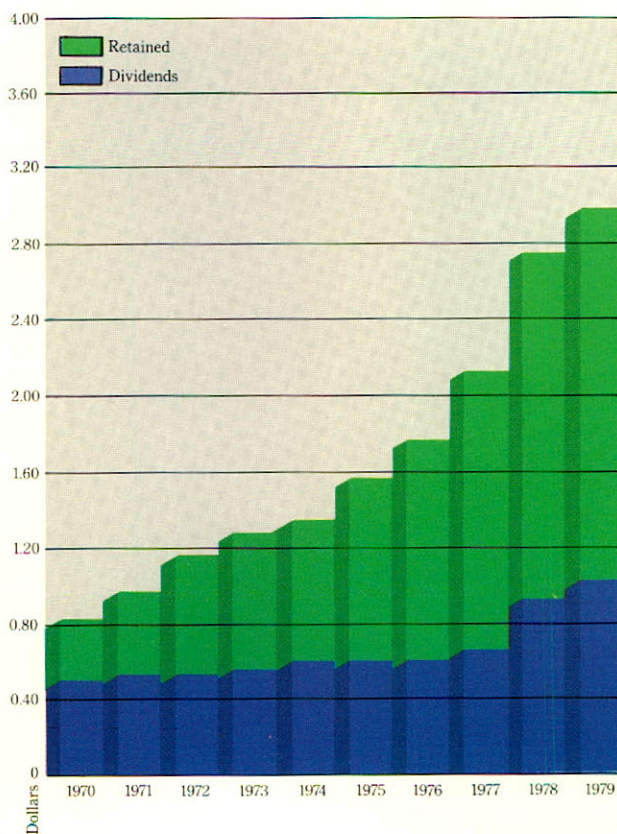
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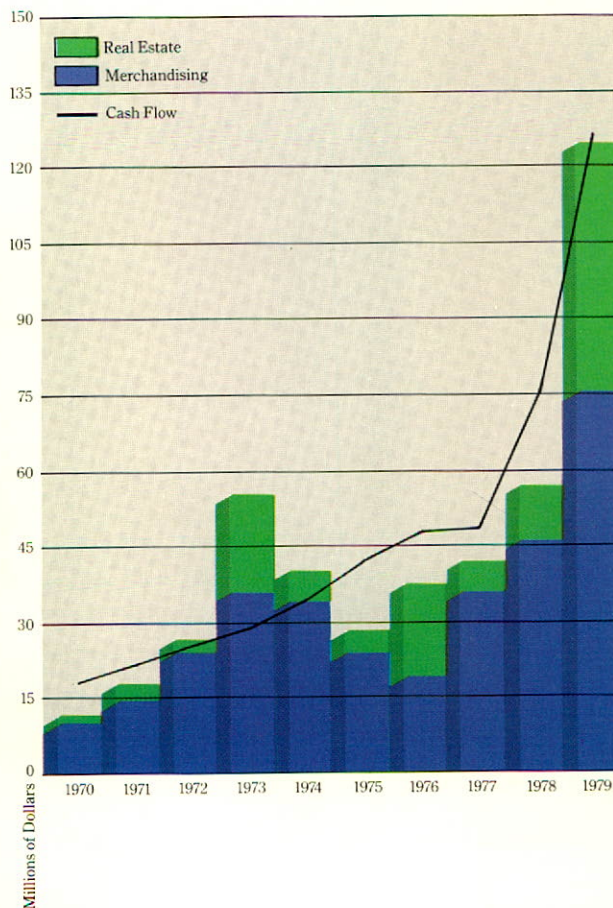
	1979 \$ 000's	1978 \$ 000's	Increase %
Sales and revenue	3,435,209	1,896,302	81.2
Earnings before extraordinary items	80,346	44,645	80.0
Extraordinary items	23,175	98,367	
Net earnings	103,521	143,012	
Cash flow	127,260	75,312	69.0
Capital expenditures	124,977	58,915	112.1
Shareholders' equity	832,665	732,124	13.7

Per Ordinary Share:	\$	\$	
Earnings before extraordinary items	2.98	2.74	8.8
Net earnings	3.98	8.79	
Dividends	1.10	.91	20.9
Equity	28.59	25.80	10.8

Earnings per ordinary Share (before extraordinary items)



Capital Expenditure and Cash Flow



Directors' Report to Shareholders

Your Company achieved a satisfactory increase in earnings per share in 1979 despite sharply higher energy costs and interest rates. Strong sales performance and improved profitability in The Bay department stores and Zeller's, together with higher fur sales and prices, and a better than expected contribution from the Company's 35.7% interest in Simpsons-Sears, were principally responsible for the Company's improved results.

During the year Hudson's Bay Company continued its vigorous expansion program in merchandising and real estate and made progress toward rationalization of the major acquisitions of the previous year.

Your Company's first full year of operations since its acquisition of Simpsons and Zeller's has confirmed the advantages which your directors anticipated. The increased resources and merchandising facilities now available to your Company, as shown by the highly successful launch of the new Beaumark line of major home appliances, have established a strong base for further growth and development.

1979 Results

Earnings per ordinary share, before extraordinary items and after providing for preferred dividends, were \$2.98 in 1979, as against \$2.74 a year ago.

Earnings in 1979 were \$80.3 million, up from \$44.6 million the year before. Sales and revenue were \$3.4 billion in 1979, compared with \$1.9 billion in 1978. The 1978 results did not include Simpsons or Simpsons-Sears, and included Zeller's results for only four months.

With Simpsons and Zeller's included for both years, retail sales were ahead by 11.4%.

In addition to the earnings reported above, the Company recorded extraordinary gains in 1979 of \$23.2 million, arising from the exchange of 6% exchangeable debentures for shares of Hudson's Bay Oil and Gas Company Limited. In 1978 the Company had non-recurring gains of \$98.4 million, arising principally from disposition of its investment in Siebens Oil & Gas Ltd.

Merchandising profits were well ahead of last year, not only because of the inclusion of Simpsons, Zeller's and equity earnings of Simpsons-Sears, but also owing to strong performances by The Bay department stores and Zeller's, and good results from fur. Real estate

earnings were substantially higher because of improved results from Markborough and inclusion of Simpsons real estate earnings. Natural resources earnings were up marginally. Finance costs were greater than anticipated because of sharply increased short term interest rates and the cost of carrying higher than planned retail inventories. Further information on each segment of operations will be found on pages 5 to 19.

Earnings for the year were made up as follows:

	<u>This Year</u>	<u>Last Year</u>
	<u>\$000's</u>	<u>\$000's</u>
Merchandising	213,000	94,979
Real estate	26,300	17,842
Natural resources	16,283	15,343
Finance costs	(113,741)	(47,868)
Income taxes	(52,073)	(29,757)
Minority interest	(9,423)	(5,894)
Earnings before extraordinary items	<u>80,346</u>	<u>44,645</u>
Average number of ordinary shares outstanding	<u>23,174,000</u>	<u>16,273,000</u>

Financial

The Company's cost of borrowing rose significantly during the year. The average borrowing rate increased from 9.1% in 1978 to 10.7% in 1979.

Cash flow from operations amounted to \$127.3 million, an increase of 69% from the prior year. Additional sources of funds, primarily to finance the Company's large capital expenditure program, were provided from two Eurodollar long-term financings aggregating approximately \$120 million and a private placement of variable rate preferred shares of \$20 million. After the year end the Company completed a \$50 million private placement of six-year notes.

Capital expenditures amounted to \$125.0 million, of which \$75.6 million related to merchandising projects, and the balance to real estate. A further \$20.1 million of expenditure related to the acquisition of the 12% minority interest in Simpsons while the Simpsons-Sears rights issue, under which the Company acquired a further 3.9 million shares, accounted for \$27.2 million.

Dividends

Late in 1978 the Board adopted a policy of paying dividends quarterly, and declared four quarterly dividends of 27½¢ per share during 1979. The annual dividend per share of \$1.10 compares with dividends of 91¢ paid in 1978, and 65¢ in 1977. In



Donald S. McGiverin, George T. Richardson, Alexander J. MacIntosh

March 1980 the Board increased the quarterly dividend to 30¢ per share, representing an annual dividend of \$1.20 per share.

Corporate Developments

Thomson Acquisition

The most important event for shareholders during the year was the acquisition, on May 1, 1979, of a 75% holding in the Company by family interests of the late Lord Thomson of Fleet following competing bids by George Weston Limited. The final Thomson offer was endorsed by your Board and 21,033,332 shares, or 91%, of the outstanding shares, were tendered and, of these, 17,319,150 were accepted at \$37 a share.

The Thomson interests had stated that, if their offer succeeded, they planned to hold the shares as a long term investment, and planned no fundamental change in the business of the Company.

Two representatives of the majority shareholders, Kenneth R. Thomson and John A. Tory, were elected to the Board in May. Mr. Thomson is Chairman and Chief Executive Officer of Thomson Newspapers Limited and International Thomson Organisation Limited, and Mr. Tory is

President of The Thomson Corporation Limited and Thomson Equitable Corporation Limited.

Simpsons Limited

Your Company acquired on July 31, 1979 the remaining 12% of the common shares of Simpsons Limited which had not been acquired pursuant to the offer of November 1978. This was achieved by means of a merger. Simpsons shareholders received the equivalent of \$19.5 million, of which \$15.4 million was paid in cash and the balance through the issue of 145,000 Hudson's Bay Company ordinary shares. Although it is intended that Simpsons will maintain its own identity, management and market profile, the boards of the two companies concluded that the merger would benefit both companies by providing opportunities for rationalizing certain administrative activities and by avoiding conflict of interest situations.

Simpsons-Sears Limited

Your Company decided to maintain its 35.7% interest in Simpsons-Sears by subscribing \$27.2 million to a one for seven rights offer of Simpsons-Sears at \$7 per share. Shareholders will recall that Simpsons-Sears shares are being held as an investment and that the Company has given certain undertakings to the Canadian Government concerning our non-intervention in Simpsons-Sears affairs.

Personnel

During the year the Company introduced a revised Share Purchase Plan to encourage employees to acquire ordinary shares of the Company, thereby fostering a proprietary spirit. Company contributions to the Plan are related to the rate of increase in earnings per share to focus attention on the importance of profits. We are pleased to report that more than 13,000 employees of The Bay and Simpsons are now purchasing shares through regular monthly payroll deductions.

Total pension expense for the year was \$21.9 million, of which Company contributions to the Canada and Quebec pension plans amounted to \$6.9 million. The Company now has several pension plans with 20,000 members, approximately 6,000 pensioners who live from coast to coast, and assets totalling \$240 million.

Directors

In addition to the new directors mentioned above, G. Allan Burton was elected to the Board in May 1979. Mr. Burton was Chairman and Chief Executive Officer of Simpsons Limited until his retirement from that position in December 1979.

Joseph Segal, former Chairman of Zeller's Limited, resigned from the Board during 1979 in order to pursue his business interests.

The Future

Your directors look forward to the decade of the eighties with considerable confidence and optimism. The Company's size, diversity of investment interest, positioning in the marketplace and able management and staff, provide a remarkable foundation for growth and development. Our ability to shop the world for merchandise, together with our use of advanced technology, reinforces our strong competitive position.

As a major Canadian corporation, Hudson's Bay Company will play, through The Bay and Simpsons, a leadership role in the department store industry, while Zeller's is among the leaders in promotional department stores. The quality and breadth of our commodity lines are second to none. Our Company is seen as a leader in providing opportunities for individuals to grow to their maximum potential in their careers, in training, in the management of human resources, and in the provision of employee compensation and benefits.

Hudson's Bay Company has the necessary momentum for accelerated growth. However, it must be noted that, if present rates of inflation continue unabated and current financial markets do not improve, building the business in the future will become increasingly difficult.

The expansion of our retail stores across the country will not be as rapid in the coming decade as in the past one, but there are identifiable areas to be developed. Intensification in all areas of our operations will be a primary concern in order to develop the return on invested capital that is essential to continued strength and growth.

Natural resources investments have served the Company well in the past and it is expected that they will do so in the future. New opportunities will be considered as they arise in light of the economic and political conditions prevailing at the time.

Real estate continues to be a useful and profitable adjunct to our retail operations and provides a significant hedge against inflation. Developments range from office and industrial buildings to major shopping centres and land development. These activities provide a mixture of short and long range profit potentials that blend well with the Company's other operations.

Appreciation

This year marks the end of a very exciting decade for our Company. During the course of the ten-year period, significant growth took place in all sectors of our organization. In particular, the addition of Simpsons and Zeller's greatly increased the depth of individual talents available to the Company. Our achievements in 1979, as in recent years, were made possible by the continuous and dedicated efforts of our loyal employees, to whom we extend our special appreciation. We also wish to thank our customers, our suppliers, and our shareholders for their continuing trust and support.

On behalf of the Board,

G. T. RICHARDSON
Governor

D. S. McGIVERIN
President

March 18, 1980.

Merchandising

Earnings from merchandising-retail, wholesale and fur-before interest and taxes were \$213.0 million in 1979. This figure is not comparable with 1978 earnings of \$95.0 million, as it includes for the first time earnings of Simpsons and equity earnings of Simpsons-Sears. In addition, this year's figure includes results for the full year of Zeller's, whose results were included for only four months a year ago.

Comments on the Company's four principal operating groups-The Bay, Simpsons, Zeller's and fur-are on the following pages.

Total retail space occupied by the three retail groups increased during the year by 3.5%, as shown by the graph on this page.

Earnings of Eaton/Bay Financial Services (38.5% owned) were adversely affected by the narrow spread in interest rates which prevailed throughout the year, by the cost of establishing ten new financial centres and by an extremely competitive market in general insurance.

Net earnings of Simpsons-Sears for 1979 were \$679 million, an increase of 16.5% compared with

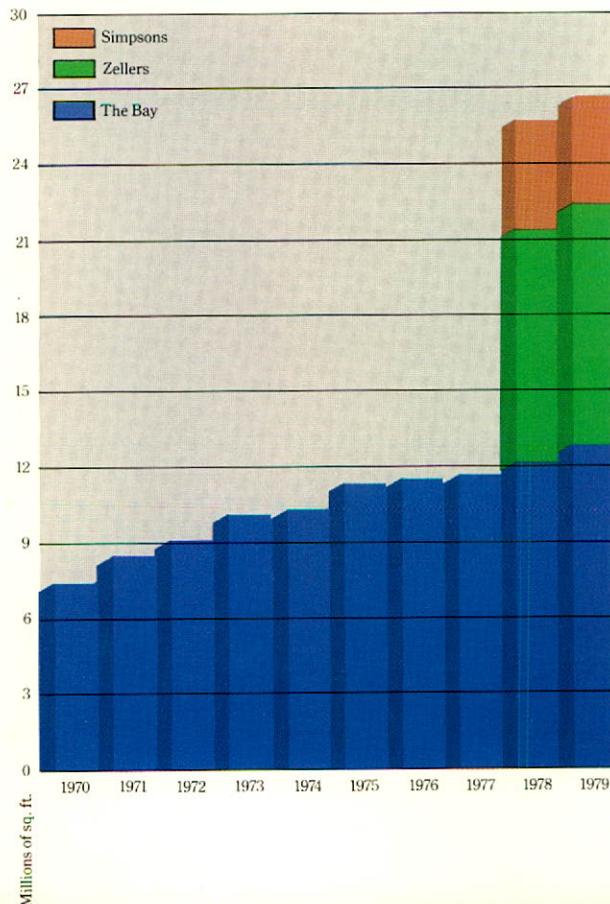
\$58.3 million in 1978. Per share earnings were 85¢ in 1979 compared with 77¢ the previous year.

Hudson's Bay Company's 35.7% equity share of the net earnings of Simpsons-Sears was \$24.3 million, and dividends received from that company amounted to \$10.1 million.

Sales of Simpsons-Sears for 1979 were \$2.6 billion, an increase of 9.5% over the previous year.

Simpsons-Sears opened two new retail stores in 1979, in Medicine Hat, Alberta and in Cornwall, Ontario. This brings the total number of full-line department stores operated by the Company to 65 from coast to coast. In addition, substantial cost and effort were devoted to the expansion and renovation of existing stores. In response to increased customer demand, catalogue operations continued to expand with the opening of 97 new Catalogue Sales Offices throughout the country, bringing the total to 1,020. Retail Store and Catalogue Sales Office expansion will continue in 1980.

Retail Facilities



Simpsons

Simpsons retail sales increased 4.9% in 1979 to \$738.2 million. No new stores were added during the year. The separation of shared services with Simpsons-Sears involves extensive reorganization. While these changes are being made with minimal disruption to customers, Simpsons lost some sales to customers previously served through Sears order offices and account cards.

Gross profit margins were slightly lower because of an extremely competitive market and the disappointing sales of winter goods in November and December, resulting in markdowns and clearance activities. Inventories, which were high in the middle months of the year, were brought into satisfactory balance by year end.

Expenses were well controlled. There were, however, substantial one-time costs relating to the reorganization of operations which formerly served Sears.

During the year important renovation projects were continued in the downtown Toronto and Yorkdale stores. On August 8, 1979 the bridge over Queen Street from the Toronto Eaton Centre which generated strong new traffic flow opened to our redesigned second floor, featuring a new youth and action world. In September, The Room reopened, with emphasis on shoes, fine accessories and designer clothes from the world's fashion capitals, making an important contribution to sales.

The main floor of the Yorkdale store was completely rebuilt by November and adds to the impact of this important store. Youth departments, the Store for Men, and much improved fashion accessories are featured, and are developing substantial new traffic.

Contemporary fashion shops under the name Expression were opened in most Simpsons stores during the past two years, and are contributing to sales growth.

Simpsons, which has traditionally held a strong share of the major appliances market, participated in the development of Beaumark, a new national brand designed to satisfy our quality and service standards and to contribute new growth in this important home goods classification.

Simpsons delivery operation separated from that of Sears, and assumed the parcel delivery load of The Bay stores and Shop-Rite in the Toronto area. Telephone order service and other operating services were also expanded to serve Bay customers in Toronto and Montreal.

Construction began in 1979 on a new 185,000 sq. ft. distribution centre in Dartmouth, Nova Scotia, which will service our growing operations in the Atlantic Provinces.

Major research focused on the development of new technology in point-of-sale terminals for all stores, in order to capitalize on their profit potential through sales data capture, improved merchandise information systems, faster credit authorization service, and manpower scheduling. Implementation is scheduled for 1980 and 1981 and will be a strong tool for better management of our resources and improved service to customers.

With fourteen branches from Vancouver to Halifax, Simpsons Contract Division enjoyed a year of profitable growth in 1979. This business allows Simpsons to participate in the growth of all regions of Canada through the sale of design services, carpet and furnishings to the hospitality and food services industry, and to professional, institutional, and other corporate clients.

Right: Quality fashion merchandise continues to be the focus of Simpsons stores.



Zeller's achieved record sales and earnings in 1979. Consolidated earnings from operations amounted to \$19.1 million, an increase of 14.4% to \$1.45 per share. Sales amounted to \$735.2 million, up 13.3% over 1978.

Fields Stores Limited, a wholly-owned subsidiary, contributed \$103.5 million to consolidated sales and \$1.9 million to consolidated net earnings for the year. The sales contribution represents an increase of 9.0%. Net earnings were slightly less than those of last year because of start-up costs associated with the new distribution centre in Edmonton of Marshall Wells, a hardware subsidiary, and a difficult fall and winter selling season for outerwear by the importing subsidiary Diamond and Company.

Sales of Zeller's, exclusive of Fields, represented a significant 14.3% gain. The growth in sales resulted from aggressive promotional efforts employing weekly circulars, weekly national television spots and local radio in selected markets.

Zeller's net earnings for 1979, excluding Fields' contribution, amounted to \$17.4 million, an increase of 19.9% over 1978. The improvement was derived both from higher sales volume and from more cost-efficient operating procedures. Gross margins were under pressure throughout most of the year as the result of significantly higher markdowns taken to reduce inventory levels. However, operating expenses were well controlled, reflecting economies of centralization.

Four new Zeller's stores were opened during the year: in the Tecumseh Mall in Windsor, Ontario; in Lloydmall, Lloydminster, Alberta; in Les Promenades Deux Montagnes, just northwest of Montreal; and in the Fiesta Mall in Stoney Creek, Ontario.

Fields opened five new family clothing stores in B.C. and Alberta. In addition, ten Zeller's stores were modernized. Expansion plans for 1980 call for the opening of ten stores by Zeller's and seven by Fields. The Zeller's program also includes the redevelopment of seven existing successful stores, the expansion of another, and the enlargement of fourteen of the Company's in-store restaurants.

Store redevelopment involves the installation of high density fixturing, fashion first layout techniques, and a new interior decor featuring a distinctive colour co-ordination and departmental identification. Redevelopments are scheduled for those stores with a high current profit performance or high profit potential. Prime candidates

for redevelopment are those successful suburban department stores which have been open for approximately fifteen years.

Restaurants are operated in 144 Zeller's stores. Zeller's also operates a number of snack bar kiosks in enclosed shopping centre malls, and is looking to expand this segment of the food service operation, along with experimentation in the operation of free-standing restaurants and catering on a take-home basis.

Progress was achieved during the year on systems, distribution and credit programs. By year end 66 Zeller's stores were equipped with electronic point-of-sale cash registers and 34 additional installations are scheduled during the current year. This equipment will provide data on merchandise replenishment, credit sales, payroll, sales promotion, control and audit.

The use of a contracted fleet of tractor trailer trucks operating out of the Montreal North Distribution Centre has enabled the Company to service 119 of its stores in Ontario, Quebec and the Maritimes on a weekly basis and at the same time achieve a substantial reduction in transportation costs.

Sales on Zeller's credit card increased during the period as the result of successful new account solicitation and the centralized promotion of inactive accounts.

Right: Zeller's Limited continued its expansion program with the addition of new stores such as this one at Deux Montagnes in Quebec.

Zellers



The Bay-Retail

The Bay retail stores ended the decade in an increasingly strong position. Eight new stores were opened. Modernization of existing stores resulted in increased productivity.

Retail sales were up 14.4%, to \$1,331.5 million, continuing the previous year's similar upward movement. Generally mild weather during the late fall and early winter reduced sales of winter apparel. The public's increasing concern over the high cost of energy and money resulted in a softening of sales in the fall season, compared with the rate of sales increase achieved earlier in the year.

Strong sales performances were recorded across the country, except in Manitoba and Saskatchewan. In the Toronto Region intensified merchandising for underproductive branch stores, increased credit solicitation, heavier sales promotion, and the opening of a new store in Scarborough, resulted in a significant increase in sales.

The rate of gross profit changed very little from 1978, and expenses were well controlled. Increased sales volume was the principal reason for higher earnings in The Bay retail operations.

Aggressive merchandising resulted in substantial gains in the sales of children's and men's apparel and women's accessories, with moderate increases in women's apparel.

The Shop-Rite Catalogue Stores division sales increased over the previous year, although intensified competition in the catalogue business resulted in lower than budgeted gains.

During 1979 eight new Bay stores were opened:

	Square feet
Toronto, Ontario-Scarborough	167,000
Winnipeg, Manitoba-St. Vital	125,000
Vancouver, B.C.-Coquitlam	120,000
Medicine Hat, Alberta	93,000
La Tuque, Quebec	43,000
Douglastown, New Brunswick	43,000
Marystown, Newfoundland	43,000
Lac Megantic, Quebec	28,000

The Scarborough store is part of an expansion of a successful regional centre while the seven others opened in new shopping centres.

At Fort McMurray, Alberta, The Bay moved into a new 82,000 sq. ft. store, four times as large as the previous store in this booming tar sands

community. In the resort community of Banff, Alberta, our store was doubled in size to 21,000 sq. ft. At La Ronge, Saskatchewan we moved into a new 27,000 sq. ft. store, which replaces premises destroyed by fire in 1978. Stores at Holman Island and Pond Inlet, N.W.T., were rebuilt, five small stores were expanded, and three closed.

Extensive renovations were completed in our downtown stores in Victoria, Calgary, and Montreal, with additional modernization planned during 1980 in the Edmonton downtown store.

The Bay will have another active year in 1980, with the opening of twelve new stores. The four largest will be at Rutherford Mall in Nanaimo, B.C.; at Kildonan Place in Winnipeg; at St. Albert in the Edmonton Region, and at Sydney, our first full-line store in Nova Scotia.

The Bay launched a new restaurant undertaking when it opened its first free-standing Crepes and Greens in Fairview Mall, Toronto, in February 1980. This restaurant, with a seating capacity of 160, is geared to fresh-food conscious clientele. Future plans include the opening of more Crepes and Greens restaurants as market opportunities arise.

Right: Our new, 167,000 square foot, Bay store at Scarborough Town Centre was the largest store our Company built this year.



The Bay-Wholesale

Hudson's Bay Wholesale had a successful year, with both sales and profits ahead strongly. Sales were up 14.5% to \$408.4 million.

Further progress was achieved towards the strategic goal of lessening dependence on tobacco sales, which now account for approximately 65% of Wholesale volume.

Earnings before interest and taxes were \$8.7 million, an increase of 18.2%. Gross margins and expenses were little changed from the year before. The increase in earnings was principally due to the shift in sales from tobacco, where margins in some areas were under severe competitive pressure, into sundries, sporting goods, confectionery, and food.

The Wholesale branches, which serve the retail industry, and the Vending Division, which distributes food, beverages, tobacco, and entertainment through over 20,000 machines, both participated in the sales and profit improvement.

Hudson's Bay Wholesale broadened its market by opening new branches at Moncton, New Brunswick and Trois Rivières, Quebec, and by enlarging the existing branch at Saskatoon, Saskatchewan. New Vending branches were opened at Moncton and Halifax.

A computerized automatic billing system was installed during the year at the Calgary and Winnipeg branches for the convenience of customers and management. This system will be extended to other Wholesale branches.

Typical of recent large vending installations was one opened during the past year at Red River College in Winnipeg. It comprises sixty machines which dispense hot and cold food and beverages, cigarettes, and health and beauty aids. The machines are serviced daily by Vending Division staff. Such major installations are finding increasing favour with business and educational institutions which are relieved of the problems of investing in and servicing food facilities.

Right: Modern, dynamic business executives, both male and female, were turning to The Bay for the latest in fashion during 1979.



Fur

As a result of the high price levels sustained during most of 1979, all the Company's fur units showed substantial profit increases, again resulting in a record year. Consignment sales were up from \$329.8 million last year to \$511.6 million, and earnings before interest and taxes were \$26.5 million, up from \$11.1 million last year.

The popularity of fur garments as a fashion item continues to be strong, although recently there seems to be a shifting in interest from long haired furs, such as foxes, raccoons and coyotes, to flatter furs, such as mink, beaver, muskrat and Persian lamb.

Aside from fashion considerations, the change in emphasis is attributed principally to consumer resistance to the record prices commanded by long haired furs last season and the consequent high retail prices of the finished garments.

As a result, the current raw fur selling season which opened in December 1979 is showing a decline in prices for all long haired furs. This decline is partially offset by more modest price increases in the short haired category.

The Company's fur consignment sales activities are carried out at four locations. In London, England, Hudson's Bay and Annings Limited (59% owned) handles many varieties of fur from all over the world, the largest volume being in European ranched mink and fox, and in lambskins from Asia and Africa. In New York our U.S. subsidiary specializes in North American ranched mink. In Montreal Canadian ranched mink and wild furs are the largest sellers. The Company also owns Dominion-Soudack Fur Auction of Winnipeg, which sells North American wild furs.

The relocation of the Company's auction facilities in London is scheduled to be completed in 1981, when we shall be able to house our European outlet in modern facilities under one roof, thereby providing better services to buyers and shippers.

In addition to selling furs on consignment for others, the Company also buys raw furs at many of its stores in the North and at raw fur offices across Canada. These furs are marketed through the Montreal or London auction houses.

In the retail fur business, both The Bay and Simpsons purchase finished garments from a variety of manufacturers for resale to retail customers.

Right: Fur fashion reached new heights in 1979 with the introduction of Leo Chevalier's new fur fashion line. The Chevalier show was a tremendous success all across Canada.



Real Estate

Earnings from real estate before interest and taxes were \$26.3 million, an increase of 47.4% over 1978. The Company's real estate interests (apart from land and buildings used in merchandising operations) consist principally of a 99.9% interest in Markborough Properties Limited (Markborough), and whole or partial ownership in shopping centres in Canada.

Markborough

Gross revenue of Markborough in 1979 was \$86 million, compared with \$475 million last year. Land sales increased to \$574 million from \$29.6 million and include the first phase of the Woodbine development in Calgary, the first commercial site in a Houston joint venture project, and a large tract of land in San Diego. Housing revenue was also higher, with sales in Phoenix increasing to \$13.3 million from \$5.6 million.

Notwithstanding this 80% increase in revenue, net income was only slightly higher than last year, \$5 million, compared with \$4.5 million. In part, this reflected the impact of providing \$4.8 million to write down certain land inventories, which it seemed prudent to revalue. The Company also provided \$2.2 million for the loss on builders' accounts which may not be collectible.

Overhead, salary and interest expense increased by over \$2 million. Apart from the additional cost of administering a larger and more diversified company, the 1979 overhead figure reflected the significant increase in interest expense resulting from higher working capital requirements and rates.

Markborough's flagship development, Meadowvale, has continued to show excellent acceptance. The Meadowvale Business Park is developing into a major hub of business activity in the City of Mississauga. The Markborough office building is nearing completion, and Meadowvale Inn, a first class hotel to be managed by Delta Hotels, will open in October 1980.

The development of the Woodbine community in the City of Calgary has been most successful, with lots selling as fast as they are developed.

During the year the Company purchased for future development 1,019 acres of land in Boca Raton, Florida, a 50% interest in 760 acres in Houston, 191 acres in Cleveland, and an additional 86 acre parcel adjacent to our existing holdings in Calgary.

Five new income properties were taken on stream, including two industrial buildings in Phoenix and Phase I of the College Park project in Toronto, in which the Company has a 16.7% interest. At the year end nine additional buildings were under construction, including the office building and hotel in Meadowvale, and extensions to shopping centres at Meadowvale and at Woodside Square in Toronto. With the buildings now being constructed, Markborough owns, or has an interest in, 51 income producing properties.

Despite the current high cost of borrowing, Markborough intends to proceed, albeit cautiously, with plans to expand its operations in 1980.

Other Real Estate

Earnings from real estate holdings other than Markborough were \$12.2 million (before interest and taxes) for 1979, up from \$5.9 million the year before. The main source of these earnings is 22 shopping centres, four wholly-owned and 18 in which the Company has an equity interest.

The substantial increase in earnings was due to the addition of five shopping centres and one office building owned by Simpsons which more than offset a reduction in revenue arising from the sale in 1979 of a half-interest in Southcentre in Calgary.

Two new centres in which the Company has an equity interest opened during the year. They are St. Vital shopping centre in Winnipeg, 25% owned, comprising 630,000 sq. ft., and including The Bay and Eaton's department stores, and Centre Commercial in La Tuque, 50% owned, comprising 116,000 sq. ft., including a Bay department store. In addition, the wholly-owned Lloyd-mall in Lloydminster, Alberta, was expanded in size from 96,000 sq. ft. to 215,000 sq. ft., including the addition of a new Zeller's store.

During 1979 the Company acquired full ownership of the St. Albert Shopping Centre near Edmonton, now under construction, by purchase of a 50% interest from Abacus Cities Limited. In 1980 in addition to St. Albert, the Company will open a wholly-owned centre at Nanaimo, B.C., and will have equity participation in five other new centres. Principal Plaza, a 25% owned major office complex located near The Bay downtown store in Edmonton, is also scheduled to open in 1980.

Right: Markborough Properties Limited has become synonymous with quality property development.



Natural Resources

Earnings from natural resources before interest and taxes were \$16.3 million in 1979, an increase of 6.1% over the previous year. Our two principal natural resources holdings are an 18.4% interest in the common shares of Hudson's Bay Oil and Gas Company Limited (H.B.O.G.) and \$123 million in preferred shares of Dome Petroleum Limited, the latter having been acquired in January 1979 in exchange for your Company's former investment in Siebens Oil & Gas Limited.

Our interest in H.B.O.G. declined from 21.1% to 18.4% as 523,000 shares were disposed of in exchange for the Company's 6% exchangeable debentures. When all these debentures, originally issued in 1973, are exchanged, our interest in H.B.O.G. will be 10.1%.

Dividends received from H.B.O.G. amounted to \$78 million, up 15.0% from the year before.

Hudson's Bay Oil and Gas

During 1979 H.B.O.G. again showed improved financial results and posted record levels of revenues, funds generated from operations and net earnings. These advances were attributable to higher prices and larger sales volumes for crude oil and natural gas. Capital spending was substantially higher than in any prior year and was well in excess of funds generated from operations. Reflecting this high level of expenditures, the Company added significantly to its reserves of petroleum liquids, but net additions to natural gas reserves fell short of replacing the volumes produced during the year.

Net earnings were \$132 million, a gain of \$25 million or 24% from the previous year. Net earnings per common share increased from \$5.61 in 1978 to \$6.94 in 1979. Funds generated from operations reached \$274 million, or \$14.43 per common share, up 35% from the \$204 million or \$10.72 per common share attained in 1978. Dividends totalling \$2.075 per common share were declared during the year, an increase of 22% from 1978.

Net revenues amounted to \$483 million, a gain of 23%, owing to higher prices and greater sales volumes. Total expenses, exclusive of income taxes, increased by 25% from 1978 to reach \$239 million in 1979, reflecting sharply increasing costs of exploration, operating costs related to the Syncrude project and the effect of inflation on Company operations.

Production of crude oil and natural gas liquids averaged 78,706 barrels per day in 1979, an increase of 3,832 barrels per day from 1978. Most of this gain was attributable to increased demand for western Canadian crude oil. Sales of natural gas averaged 422 million cubic feet per day, a gain of 45 million cubic feet per day from the previous year as a result of sales from new fields and increased nominations from existing sources.

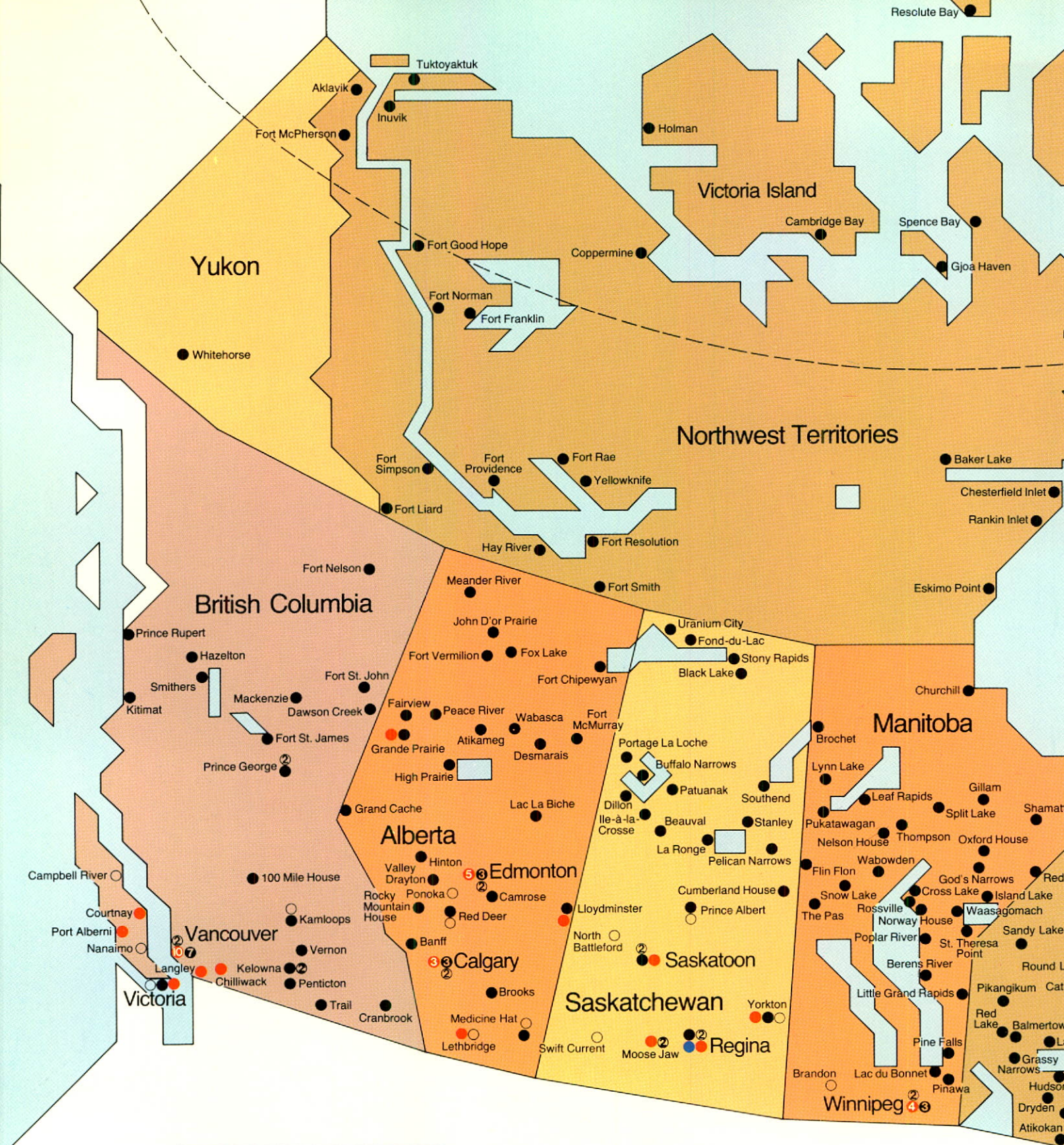
Capital expenditures and exploration expenses rose sharply in 1979 to a total of \$389 million, an increase of \$230 million over expenditures in 1978.

Petroleum exploration accounted for \$119 million of total outlays, petroleum development for \$72 million, and \$180 million was paid by the Company for a 5% interest in the Syncrude project. In addition, H.B.O.G. granted the seller a 6% overriding royalty on the Company's share of future gross revenues from the plant. The Syncrude plant currently is capable of producing about 100,000 barrels per day of synthetic crude oil from the Athabasca oil sands, but with planned modification, is projected to reach a capacity of approximately 130,000 barrels per day in 1984.

H.B.O.G. plans to spend \$365 million for exploration and development of hydrocarbons and other resources in 1980.

Right: Hudson's Bay Oil and Gas continued in its strong financial position throughout 1979.





Hudson's Bay Company

Retail and Wholesale Locations
January 31, 1980

- The Bay (274)
- Simpsons (21)
- Zellers (157)
- Wholesale Branches (56)

Excludes Shop Rite stores in Ontario (64)
and Fields stores in Western Canada (76)



Hudson's Bay Company Directors and Officers

Board

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

Marcel Bélanger
Quebec
President, Gagnon et Bélanger Inc.

G. Allan Burton
Toronto
Company Director

Sir Eric Drake
London, England
Company Director

C. W. (Wally) Evans
Toronto
President, The Bay

Gurth C. Hoyer Millar
London, England
Director, J. Sainsbury Ltd.

G. Richard Hunter ♦
Winnipeg
Partner, Pitblado & Hoskin

Martin W. Jacomb★
London, England
Vice-Chairman, Kleinwort, Benson Limited

Josette D. Leman
Montreal
Travel Consultant, McGregor Travel Co. Ltd.

Alexander J. MacIntosh★
Toronto
Partner, Blake, Cassels & Graydon

W. Donald C. Mackenzie ♦
Calgary
President, W. D. C. Mackenzie Consultants Ltd.

Allan M. McGavin♦
Vancouver
Chairman of the Board, McGavin Foods Limited

Donald S. McGiverin★♦
Toronto
President, Hudson's Bay Company

Dawn R. McKeag
Winnipeg
Company Director

John H. Moore★
London, Ontario
Chairman of the Board, John Labatt Limited

George T. Richardson★♦
Winnipeg
President, James Richardson & Sons, Limited

Kenneth R. Thomson
Toronto
Chairman of the Board and Chief Executive Officer,
Thomson Newspapers Limited

John A. Tory
Toronto
President, The Thomson Corporation Limited

The Rt. Hon. Lord Trend
Oxford, England
Rector, Lincoln College

Donald O. Wood
Toronto
Corporate Vice-President, Systems and Distribution
Services, Hudson's Bay Company

Peter W. Wood★
Toronto
Executive Vice-President, Hudson's Bay Company

★Member of Executive Committee
♦Member of Audit Committee

Operating Groups and Principal Subsidiaries

THE BAY

Board

Marcel Bélanger
President, Gagnon et Bélanger Inc.

J. Evan Church
Vice-President, Merchandising, The Bay

C. W. (Wally) Evans
President, The Bay,

Al A. Guglielmin
General Manager, Department Stores, The Bay

Allan M. McGavin
Chairman of the Board, McGavin Foods Limited

Donald S. McGiverin
President, Hudson's Bay Company

Dawn R. McKeag
Company Director

T. Iain Ronald
Corporate Vice-President, Finance,
Hudson's Bay Company

Marvin E. Tiller
General Manager, National Stores Department,
The Bay

John A. Tory
President, The Thomson Corporation Limited

Senior Management

C. W. (Wally) Evans
President

Al A. Guglielmin
General Manager, Department Stores

J. Evan Church
Vice-President, Merchandising

Arthur A. Adamic
General Manager, Western Region

Hal L. Spelliscy
General Manager, Calgary Region

J. Blair Bustard
General Manager, Edmonton Region

D. Keith McConnell
General Manager, Central Region

Pierre Dalpé
General Manager, Montreal Region

George J. Kosich
General Manager, Toronto Region

Al W. Brent
General Manager, Ottawa Region

Peter W. Schmidt
General Manager, Food Services

Marvin E. Tiller
General Manager, National Stores Department

J. Lorne Klapp
General Manager, Wholesale Department

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

John A. English
Director of Personnel

William H. Evans
Director of Operations Services

Douglas W. Mahaffy
Director of Budgeting and Planning

Officers and Senior Management

George T. Richardson
Governor

Alexander J. MacIntosh
Deputy Governor

Donald S. McGiverin
President

Peter W. Wood
Executive Vice-President

Malcolm H. MacKenzie
Corporate Vice-President, Personnel

John G. W. McIntyre
Corporate Vice-President,
Real Estate and Development

T. Iain Ronald
Corporate Vice-President, Finance

Donald O. Wood
Corporate Vice-President,
Systems and Distribution Services

Brian C. Grose
Vice-President and Controller

Louis J. Henry
Vice-President, Furs

A. Rolph Huband
Vice-President and Secretary

A. Ernest Wilkes
Vice-President, Pension Investments

Peter F. S. Nobbs
Treasurer

Christopher J. Desjardins
Assistant Secretary

Ian M. Gibson
Assistant Treasurer

Dwane B. Byers
Manager, Fur Sales Department, Montreal

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

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

SIMPSONS

Board

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

Thomas J. Bell
Chairman of the Board,
Abitibi Paper Company Limited

Edgar G. (Ted) Burton
President, Simpsons Limited

Raymond Lavoie
President, Crédit Foncier Franco-Canadien

Alexander J. MacIntosh
Partner, Blake, Cassels & Graydon

Donald S. McGiverin
President, Hudson's Bay Company

J. Michael G. Scott
Vice-President & Director, Wood Gundy Limited

Charles B. Stewart
Retired officer, Simpsons Limited

Kenneth R. Thomson
Chairman of the Board,
Thomson Newspapers Limited

A. Ernest Wilkes
Vice-President, Pension Investments
Hudson's Bay Company

Peter W. Wood
Executive Vice-President, Hudson's Bay Company

Officers

Donald S. McGiverin
Chairman of the Board

Edgar G. (Ted) Burton
President

Ronald J. Crichton
Vice-President, Stores

J. Richard Davidson
Vice-President, Personnel & Administration

Charles A. M. MacRae
Vice-President, Merchandising

Christopher J. Desjardins
Secretary

G. Archie L. Keown
Controller

Helen Y. Soules
Assistant Secretary

ZELLERS

Board

James G. Balfour
Chairman of the Board, Zeller's Limited

Donald N. Byers
Partner, Byers, Casgrain, McNally, Dingle,
Benn & Lefebvre

R. Ross Craig
Executive Vice-President, Commercial,
Dominion Foundries and Steel Limited

Graham R. Dawson
President, Dawson Construction Limited

C. Frederick Graves
President, Fields Stores Limited

Josette D. Leman
Travel Consultant, McGregor Travel Co. Ltd.

John M. Levy
President, Zeller's Limited

Keith H. MacDonald
Company Director

Donald S. McGiverin
President, Hudson's Bay Company

J. Robert Ouimet
President, J. Rene Ouimet Enterprises Ltd.

Peter W. Wood
Executive Vice-President, Hudson's Bay Company

Officers

James G. Balfour
Chairman of the Board

John M. Levy
President

William H. Buggs
Vice-President, Store Expansion & Food Service

Thomas H. Burdon
Vice-President, Personnel

Hans E. Busse
Vice-President, Store Management

John F. Crowley
Vice-President, Merchandise

Michael A. Montagano
Vice-President, Finance

Eric S. Paul
Vice-President, Store Development

Marc-André Fillion
Secretary and Legal Counsel

William E. Vickers
Treasurer

MARKBOROUGH PROPERTIES

Board

Tullio Cedraschi
President, CN Investment Division,
Canadian National Railways

Alex R. Grant
President, George Wimpey Canada Limited

Gordon C. Gray
Chairman of the Board, A. E. LePage Limited

Captain Joseph Jeffery
Chairman of the Board,
London Life Insurance Company

H. Peter Langer
President, Markborough Properties Limited

Alexander J. MacIntosh
Partner, Blake, Cassels & Graydon

Brian R. B. Magee
Deputy Chairman of the Board,
Markborough Properties Limited

Donald S. McGiverin
President, Hudson's Bay Company

John G. W. McIntyre
Corporate Vice-President, Real Estate and
Development, Hudson's Bay Company

Donald F. Prowse
Executive Vice-President,
Markborough Properties Limited

Peter W. Wood
Executive Vice-President, Hudson's Bay Company

Officers

Donald S. McGiverin
Chairman of the Board

Brian R. B. Magee
Deputy Chairman of the Board

H. Peter Langer
President

Donald F. Prowse
Executive Vice-President

John B. Alguire
Senior Vice-President

Donald R. Cole
Senior Vice-President

George H. Mundy
Senior Vice-President

James C. Shapland
Senior Vice-President and Secretary

John A. Brough
Treasurer

Reginald W. Munro
Assistant Secretary

Corporate Information

Registered Office
Hudson's Bay House, 77 Main Street,
Winnipeg, Manitoba R3C 2R1

Corporate Office
2 Bloor Street East,
Toronto, Ontario M4W 3H7

Principal Bankers
Bank of Montreal
Canadian Imperial Bank of Commerce
The Royal Bank of Canada
The Toronto-Dominion Bank

Registrars and Transfer Agents
The Royal Trust Company, Calgary, Montreal,
Toronto, Vancouver and Winnipeg
Williams & Glyn's Registrars Limited, London

Stock Exchange Listings
Ordinary shares—London, Montreal, Toronto
and Winnipeg
Preferred shares Series A—Montreal, Toronto
and Winnipeg

Auditors
Peat, Marwick, Mitchell & Co.

Principal Investments

Dome Petroleum Limited
\$123,316,000 preferred shares

Eaton/Bay Financial Services Limited
Markets financial services
590,427 common shares (38.5%)

Hudson's Bay Oil and Gas Company Ltd.
Petroleum exploration and production
3,485,303 common shares (18.4%)

The G. W. Robinson Company, Limited
Operates department stores in
south-western Ontario
108,178 common shares (27%)

Simpsons-Sears Limited
Operates department stores and catalogue
offices throughout Canada
31,095,825 common shares (35.7%)

Principal Subsidiary Companies

(wholly-owned unless otherwise indicated)

Hudson's Bay and Annings Limited (59%)
Fur brokers

Hudson's Bay Company Acceptance Limited
Purchases accounts receivable

Hudson's Bay Company Developments Limited
Hudson's Bay Company Properties Limited

Hudson's Bay Company Properties
(Quebec) Limited
Property owning companies

Hudson's Bay Company Fur Sales
Incorporated
Fur brokers

Markborough Properties Limited (99.9%)

Markland Properties, Inc.

Markborough California, Inc.

Markborough Texas Inc.

Markborough Holdings Inc.
Property development companies

Simpsons Limited
Holding company

The Robert Simpson Company Limited
Department store company

Simpsons Acceptance Company Limited
Purchases accounts receivable

Zeller's Limited (57.1%)
Operates department stores

Fields Stores Limited
Operates family clothing stores

Marshall Wells Limited
Distributes hardware

Real Estate Holdings

	Net Interest
Markborough Properties Limited	
13 shopping centres	755,000 sq. ft.
6 office buildings	750,300 sq. ft.
21 industrial buildings	714,500 sq. ft.
3 hotels	478 rooms
3 apartment buildings	583 suites
Markborough also owns land for residential development	
Other Real Estate	
22 shopping centres	3,951,000 sq. ft.
6 office/commercial buildings	916,000 sq. ft.

Hudson's Bay Company Consolidated Statement of Earnings

Year Ended January 31, 1980

	This Year	Last Year
	\$ 000's	\$ 000's
Sales and revenue (Note 3)		
Merchandising		
Retail	2,847,927	1,432,712
Wholesale	408,434	356,967
Fur	66,302	42,568
	<u>3,322,663</u>	<u>1,832,247</u>
Real estate	96,263	48,712
Natural resources	16,283	15,343
	<u>3,435,209</u>	<u>1,896,302</u>
Costs and expenses (Note 4)		
Merchandising	3,109,663	1,737,268
Real estate	69,963	30,870
Interest on long-term debt	82,448	42,271
Net short-term interest	31,293	5,597
	<u>3,293,367</u>	<u>1,816,006</u>
Earnings before income taxes, minority interest and extraordinary items	141,842	80,296
Income taxes (Note 3)	52,073	29,757
Earnings before minority interest and extraordinary items	89,769	50,539
Minority interest	9,423	5,894
Earnings before extraordinary items	80,346	44,645
Gain on disposal of investments (Note 5)	23,175	98,367
Net earnings	<u>103,521</u>	<u>143,012</u>
Earnings per ordinary share:		
Earnings before extraordinary items	\$2.98	\$2.74
Net earnings	<u>\$3.98</u>	<u>\$8.79</u>

Consolidated Statement of Retained Earnings

Year Ended January 31, 1980

	This Year	Last Year
	\$ 000's	\$ 000's
Retained earnings at beginning of year	358,241	231,340
Net earnings	103,521	143,012
Dividends paid:		
Preferred shares	(10,866)	—
Ordinary shares	(25,481)	(16,111)
Retained earnings at end of year	<u>425,415</u>	<u>358,241</u>

Hudson's Bay Company Consolidated Balance Sheet

January 31, 1980

	This Year	Last Year
	\$ 000's	\$ 000's
Current assets		
Cash	11,202	6,478
Short-term securities at market value	3,679	4,740
Accounts receivable	645,942	594,623
Income taxes recoverable	3,807	—
Merchandise inventories	592,241	553,231
Prepaid expenses	13,378	15,841
	<u>1,270,249</u>	<u>1,174,913</u>
Property for sale and future development, at cost	163,186	125,392
Secured receivables (Note 6)	33,005	26,001
Investments (Note 7)	443,536	396,796
Fixed assets		
Land, at cost	124,032	106,032
Buildings, at cost	431,979	372,265
Equipment and leasehold improvements, at cost	313,086	240,961
	<u>869,097</u>	<u>719,258</u>
Less accumulated depreciation	200,021	143,490
	<u>669,076</u>	<u>575,768</u>
Deferred charges	12,412	10,385
Goodwill	60,129	61,541
	<u>2,651,593</u>	<u>2,370,796</u>

	This Year	Last Year
	\$ 000's	\$ 000's
Current liabilities		
Bank indebtedness	251,272	189,606
Notes payable	147,564	107,348
Accounts payable and accrued expenses	323,390	344,553
Income taxes payable	—	14,062
Long-term debt due within one year	29,768	39,779
	<u>751,994</u>	<u>695,348</u>
Long-term debt (Note 8)	<u>918,559</u>	<u>792,325</u>
Pensions (Note 9)	<u>34,659</u>	<u>37,557</u>
Deferred income taxes	<u>64,118</u>	<u>54,937</u>
Minority interest in subsidiaries	<u>49,598</u>	<u>58,505</u>
Shareholders' equity		
Capital stock (Note 10)		
\$1.80 Cumulative Redeemable Preferred Shares		
Series A	134,321	136,329
Variable Rate, Cumulative Redeemable Preferred Shares Series C	20,000	—
Ordinary Shares without par value	249,701	237,554
	<u>404,022</u>	<u>373,883</u>
Additional paid in capital (Note 10)	3,228	—
Retained earnings	425,415	358,241
	<u>832,665</u>	<u>732,124</u>
	<u>2,651,593</u>	<u>2,370,796</u>

Hudson's Bay Company

Consolidated Statement of Assets Employed

January 31, 1980

	This Year	Last Year
	\$ 000's	\$ 000's
Merchandising		
Inventories	592,241	553,231
Accounts receivable	620,026	579,687
Accounts payable	(303,725)	(333,042)
Other current assets, net	26,249	12,162
Working capital (see below)	934,791	812,038
Fixed assets	521,084	474,303
Investments	275,508	231,003
Other assets	21,662	12,048
Pensions	(34,659)	(37,557)
Goodwill	29,034	30,215
Deferred income taxes	(31,213)	(26,519)
	<u>1,716,207</u>	<u>1,495,531</u>
Real estate		
Working capital (deficiency) (see below)	6,921	(1,154)
Property for sale and future development	163,186	125,392
Fixed assets and investments:		
Shopping centres	94,454	61,827
Commercial	72,901	59,711
Residential	16,572	12,310
Secured receivables	22,032	22,709
Other assets	1,723	1,629
Goodwill	31,095	31,326
Deferred income taxes	(32,905)	(28,418)
	<u>375,979</u>	<u>285,332</u>
Natural resources		
Hudson's Bay Oil and Gas Company Limited	8,777	10,095
Dome Petroleum Limited	124,784	—
Provo Gas Producers Limited	—	123,989
	<u>133,561</u>	<u>134,084</u>
Assets employed	<u>2,225,747</u>	<u>1,914,947</u>
Provided from		
Long-term debt	918,559	792,325
Short-term borrowings, net (see below)	424,925	331,993
	<u>1,343,484</u>	<u>1,124,318</u>
Minority interest in subsidiaries	49,598	58,505
Shareholders' equity		
Preferred Shares	154,321	136,329
Ordinary Shares	249,701	237,554
Additional paid in capital	3,228	—
Retained earnings	425,415	358,241
	<u>832,665</u>	<u>732,124</u>
	<u>2,225,747</u>	<u>1,914,947</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, 1980

	This Year	Last Year
	\$ 000's	\$ 000's
Source of funds		
Earnings before minority interest and extraordinary items	89,769	50,539
Items not affecting working capital:		
Equity in undistributed earnings of affiliates and joint ventures	(15,068)	(7,656)
Depreciation and amortization	43,378	22,804
Deferred income taxes	9,181	9,625
Provided from operations	127,260	75,312
Issue of Preferred Shares	20,033	136,329
Issue of Ordinary Shares		
— stated value	12,147	192,930
— additional paid in capital	3,228	—
Proceeds from sale of investments	24,878	128,836
Long-term debt	217,511	157,197
Exercise of Markborough Properties Limited warrants . . .	—	4,156
	<u>405,057</u>	<u>694,760</u>
Use of funds		
Capital expenditures:		
Merchandising	75,613	46,793
Real estate	49,364	12,122
Property for sale and future development—net	37,794	25,491
Acquisitions:		
Simpsons Limited	20,107	144,322
Zeller's Limited	—	75,787
Markborough Properties Limited	—	40,532
Investments:		
Simpsons-Sears Limited	27,209	202,913
Dome Petroleum Limited/Provo Gas Producers Limited	—	123,316
Other	7,420	10,883
Reduction of long-term debt	91,277	46,682
Redemption of Preferred Shares	2,041	—
Dividends:		
Preferred shareholders	10,866	—
Ordinary shareholders	25,481	16,111
Minority shareholders	2,170	838
Increase in secured receivables	7,004	1,150
Deferred charges	4,463	2,125
Other—net	5,558	3,296
	<u>366,367</u>	<u>752,361</u>
	38,690	(57,601)
Working capital acquired on purchase of subsidiaries	<u>—</u>	<u>255,188</u>
Increase in working capital	38,690	197,587
Working capital at beginning of year	479,565	281,978
Working capital at end of year	<u>518,255</u>	<u>479,565</u>

Hudson's Bay Company

Notes to the Consolidated Financial Statements

Year Ended January 31, 1980

1. SIGNIFICANT ACCOUNTING POLICIES

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

a) Consolidation

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

b) Accounting for Investments

The Company follows the equity method in accounting for its investments in joint ventures and in companies in which the Company's ownership interest is substantial (where shares carrying more than 20% of the voting rights are held free of contractual provisions which might reduce the Company's shareholdings below such 20% interest) and the Company is able to elect a significant proportion of the Board of Directors of the investee company. Under the equity method, investments are recorded at cost plus the Company's equity in undistributed earnings since acquisition. Investments in other companies are accounted for at cost with dividends being reflected in earnings when received with respect to common shares and non-cumulative preferred shares and as accrued in the case of cumulative preferred shares.

c) Currency Translation

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) Capitalization of Interest and Taxes

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 \$14,617,000 (last year \$7,382,000).

e) Earnings Per Ordinary Share

Earnings per Ordinary Share calculations are based on the weighted average number of shares outstanding during the year.

f) Accounts Receivable

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

g) Merchandise Inventories

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

h) Depreciation

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%
Equipment	7 - 20%
Leasehold improvements	3 - 10%

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 its estimated useful life.

i) Deferred Charges

Deferred charges principally comprise debt 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

Goodwill comprises the unamortized balance of the excess of the cost to the Company over the fair value of its interest in the identifiable net assets of Markborough Properties Limited and Zeller's Limited at the respective dates of acquisition.

The goodwill which relates to acquisitions subsequent to 1973, \$37,912,000 at January 31, 1980 and \$39,324,000 at January 31, 1979, all of which arose in the year ended January 31, 1979, is being amortized on the straight-line method over a period of forty years.

k) Pension Costs

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.

l) Last Year's Figures

Certain of last year's figures have been restated for the purpose of consistency with this year's presentation.

2. ACQUISITIONS

a) Simpsons Limited ("Simpsons")

Under the terms of an offer dated November 27, 1978 and a variation to that offer dated December 15, 1978, the Company acquired approximately 41,550,000 common shares (88.3%) of Simpsons on the basis of one Ordinary Share and .2825 Preferred Shares Series A for each eight common shares of Simpsons. The total consideration, including cash paid for fractional shares and costs of acquisition was \$144,322,000.

This transaction has been accounted for by the purchase method and the assets and liabilities of Simpsons are included in the consolidated balance sheets of the Company as at January 31, 1979 and January 31, 1980. The operating results of Simpsons have been consolidated with effect from February 1, 1979.

At a special meeting of Simpsons held on July 31, 1979 the shareholders of Simpsons approved and adopted an agreement providing for the amalgamation of Simpsons with Bayhud Inc., a newly incorporated wholly-owned subsidiary of the Company. Following the amalgamation Simpsons became a wholly-owned subsidiary of the Company. Pursuant to the agreement the shareholders of Simpsons were entitled to receive either one Ordinary Share of the Company valued at \$28.50 or \$28.50 made up of \$28.40 cash and one Preferred Share Series B with a stated value of \$.10 redeemable immediately for eight shares of Simpsons. After giving effect to the amalgamation, the Company was required to issue 145,000 Ordinary Shares and to pay \$4,625,000. In addition, Simpsons paid \$10,748,000 to dissenting minority shareholders. The total consideration, including costs of acquisition, was \$20,107,000 and this cost has been allocated as follows:

	\$000's
Reduction in minority interest	15,465
Fixed assets	<u>4,642</u>
Total cost, being the fair value of consideration paid	<u>20,107</u>

b) Zeller's Limited ("Zellers")

In 1978 the Company acquired approximately 57% of the outstanding common shares of Zellers held by persons other than subsidiaries of Zellers. Costs of this acquisition aggregated \$75,787,000, comprised of 1,868,097 Ordinary Shares and cash payments of \$31,887,000. This transaction has been accounted for by the purchase method. The assets, liabilities and operating results of Zellers have been consolidated with effect from October 1, 1978.

c) Markborough Properties Limited ("Markborough")

In 1973 the Company acquired 64% of the outstanding common shares of Markborough. In 1978 the Company acquired additional Markborough shares. Costs of the 1978 acquisitions aggregated \$40,532,000, comprised of 1,854,474 Ordinary Shares and cash payments of \$1,588,000. As a result of these acquisitions, the Company now owns 99.9% of Markborough.

3. 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 \$49,261,000 (last year \$15,062,000) and the related income taxes of \$21,400,000 (last year \$4,798,000) are included within the consolidated income tax charge. Dividends received from other companies amount to \$16,625,000 (last year \$7,489,000).

4. DEPRECIATION

Expenses include depreciation charged in accordance with the policy outlined in note 1 h) as follows: on merchandising assets \$37,182,000 (last year \$19,871,000); on real estate assets \$1,703,000 (last year \$1,430,000).

5. GAIN ON DISPOSAL OF INVESTMENTS

The gain of \$23,175,000 this year is after deducting income taxes of \$243,000 and results from the exchange by debentureholders of their 6% exchangeable subordinated debentures for shares of Hudson's Bay Oil and Gas Company Limited owned by the Company (see Note 7(b)).

The gain of \$98,367,000 last year is after deducting income taxes of \$3,128,000 and results from the sale of investments in Siebens Oil and Gas Ltd. and The Glenlivet Distillers Limited.

6. SECURED RECEIVABLES

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

	This Year	Last Year
	\$ 000's	\$ 000's
Total secured receivables	48,675	30,431
Less amounts due within one year classified as accounts receivable	15,670	4,430
	<u>33,005</u>	<u>26,001</u>
Average rate of interest	<u>9.2%</u>	<u>8.4%</u>

Maturities during the five years ending January 31, 1985 are as follows: 1981—\$15,670,000; 1982—\$10,613,000; 1983—\$1,231,000; 1984—\$705,000; 1985—\$663,000.

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

7. INVESTMENTS

Investments comprise the following:

	This Year	Last Year
	\$ 000's	\$ 000's
Simpsons-Sears Limited	243,633	202,913
Hudson's Bay Oil and Gas Company Limited	8,777	10,095
Dome Petroleum Limited	123,316	—
Provo Gas Producers Limited	—	123,316
Other	67,810	60,472
	<u>443,536</u>	<u>396,796</u>

a) Simpsons-Sears Limited ("Sears")

Between December 27, 1978 and January 10, 1979, the Company acquired approximately 27,200,000 Class B shares of Sears at a total cost, comprising Preferred Shares Series A of Hudson's Bay Company and cash, of \$202,913,000. On September 12, 1979 the Company acquired, pursuant to a rights offering by Sears dated August 20, 1979, 3,886,979 Class B shares of Sears at a cost of \$27,209,000. This investment, which has been accounted for by the equity accounting method from February 1, 1979, represents 88.4% of the total Class B shares, 44.2% of the total voting shares and 35.7% of all outstanding shares of Sears.

Investment	This Year		Last Year	
	Per Share		Per Share	
	\$	\$ 000's	\$	\$ 000's
At average cost	7.40	230,122	7.46	202,913
At underlying Sears book value	6.31	196,216	5.72	155,700
At quoted market, The Toronto Stock Exchange	7.87	244,725	8.37	227,717

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

At January 31, 1980 and January 31, 1979 the investment in H.B.O.G., carried at cost, consisted of 3,485,303 common shares and 4,008,656 common shares, respectively, of which 1,559,981 and 2,083,334, respectively, were held in escrow by The Royal Trust Company pursuant to the Trust Indenture providing for the Company's 6% exchangeable subordinated debentures. During the year ended January 31, 1980, 523,353 of the H.B.O.G. shares were exchanged at \$48 per share for 6% exchangeable subordinated debentures.

Investment	January 31, 1980		January 31, 1979	
	Per Share		Per Share	
	\$	\$ 000's	\$	\$ 000's
At cost	2.52	8,777	2.52	10,095
At underlying H.B.O.G. book value at previous month end	30.22	105,326	25.43	101,630
At quoted market, The Toronto Stock Exchange	108.00	376,413	55.75	223,483

At January 31, 1980, the common shares of H.B.O.G. are held 52.8% by Conoco Inc., 18.4% by the Company and 28.8% by approximately 7,500 other shareholders.

c) Dome Petroleum Limited ("Dome")/Provo Gas Producers Limited ("Provo")

The investment in Dome, recorded at cost, consists of 4,110,517 preferred shares, Series D, and a further 4,110,516 preferred shares, Series E, of that company. The Series D preferred shares have a dividend rate of 7.25% per annum and are retractable in whole or in part at the Company's option on January 3, 1984 and at the end of each five-year period thereafter. The Series E preferred shares have a dividend rate of 7% per annum and are retractable in whole or in part at the Company's option on January 3, 1982 and at the end of each three-year period thereafter. The Series D and Series E shares were issued by Dome and acquired by the Company on October 4, 1979, in exchange for equivalent preferred shares of Provo, a wholly-owned subsidiary of Dome, which shares had in turn been issued by Provo and acquired by the Company on January 3, 1979.

d) Other

Other investments, primarily joint ventures, include merchandising interests and commercial, industrial and residential real estate interests accounted for by the equity accounting method and carried at \$58,665,000 (last year \$51,699,000).

8. LONG-TERM DEBT

	This Year	Last Year
	\$ 000's	\$ 000's
Secured on Property		
Hudson's Bay Company Properties Limited		
5¾% first mortgage bonds series A due 1990	9,975	10,205
7½% first mortgage bonds series B due 1991	6,870	6,870
11½% first mortgage bonds series C due 1995	30,005	31,500
9¾% first mortgage bonds series D due 1997	40,800	41,000
10 % first mortgage bonds series E due 1998	32,434	32,434
Hudson's Bay Company Developments Limited		
Mortgages 9.9% average repayable by instalments to 2002	14,820	15,113
Markborough Properties Limited		
8½% sinking fund debentures due 1983	5,500	7,000
Mortgages and obligations on property for sale and future development		
8.8% (last year 10.8%) average repayable by instalments to 1987	64,230	39,239
Mortgages on income properties 10.0% average		
repayable by instalments to 2005	53,153	46,943
Other	3,977	834
	<u>261,764</u>	<u>231,138</u>
Secured on Accounts Receivable		
Hudson's Bay Company Acceptance Limited		
6 % debentures series A due 1980	10,000	10,000
5¾% debentures series B due 1983	10,000	10,000
9¾% debentures series C due 1989	18,719	18,719
8¾% debentures series D due 1991	20,000	20,000
8¼% debentures series E due 1993	20,000	20,000
10½% debentures series F due 1996	34,945	35,000
Simpsons Acceptance Company Limited		
6 % debentures series B due 1981	15,000	15,000
5½% debentures series C due 1982	10,000	10,000
5¾% debentures series D due 1984	10,000	10,000
6¾% debentures series E due 1986	10,000	10,000
8¾% debentures series F due 1992	10,000	10,000
8¾% debentures series G due 1992	15,000	15,000
9¾% debentures series H due 1997	25,000	25,000
	<u>208,664</u>	<u>208,719</u>
Secured by Floating Charge on Assets of Subsidiaries		
Zeller's Limited		
5½% sinking fund debentures series B due 1982	2,006	2,356
7 % sinking fund debentures series C due 1986	3,488	3,524
10¼% sinking fund debentures series 1974 due 1994	13,409	13,569
Marshall Wells Limited		
7½% sinking fund debentures series A due 1982	1,210	1,531
	<u>20,113</u>	<u>20,980</u>

	This Year	Last Year
	\$ 000's	\$ 000's
Secured by Various Assets of Fields Stores Limited		
Bank loan at prevailing bank rate (January 31, 1979, 12%) plus ¾% due 1980	—	16,947
Unsecured or Guaranteed by Certain Subsidiaries		
Hudson's Bay Company		
9¾% series C notes due 1979	—	30,000
10¼% notes due 1981	35,000	35,000
10½% debentures due 1989	60,000	—
10 % debentures due 1994 (U.S. \$50,000,000)	57,500	—
Bankers' acceptances	158,000	107,000
Simpsons Limited		
5½% debentures series C due 1979	—	50
5¾% debentures series D due 1984	3,640	4,978
5¾% debentures series E due 1985	4,149	6,443
6½% debentures series F due 1987	5,078	6,537
9½% debentures series G due 1989	7,684	8,420
8¾% debentures series H due 1993	16,858	18,129
9½% debentures series I due 1994	9,944	11,459
11¾% debentures series J due 1995	19,114	20,364
	<u>376,967</u>	<u>248,380</u>
Subordinated		
Hudson's Bay Company		
6 % exchangeable debentures due 1993, sinking fund commencing 1984	74,879	100,000
Zeller's Limited		
5½% convertible subordinated debentures series 1971 due 1991	5,940	5,940
	<u>80,819</u>	<u>105,940</u>
	948,327	832,104
Amounts due within one year	<u>(29,768)</u>	<u>(39,779)</u>
	<u>918,559</u>	<u>792,325</u>

Bankers' acceptances, which are due within one year, have been classified as long-term debt as they may be converted, at the Company's option to long-term borrowing facilities, expiring November 30, 1982 and November 30, 1986, provided by the Company's bankers.

The holders of Hudson's Bay Company Acceptance Limited Series C debentures had the right to be prepaid on March 2, 1980, and, of the amount outstanding at January 31, 1980, \$13,610,000 was prepaid on that date. Effective March 2, 1980 the rate of interest was increased to 13¼% on those Series C debentures whose holders did not elect for prepayment and such holders were granted the right to elect to be prepaid on March 2, 1985.

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. During the year ended January 31, 1980 \$25,121,000 of the debentures were exchanged and further exchanges have been made subsequent to that date.

The majority of the long-term debt is subject to redemption at the option of the issuers at various times or under certain conditions. For the most part redemption earlier than within three or four years of maturity of the securities would require the payment of redemption premiums.

Aggregate maturities and sinking fund requirements during the five years ending January 31, 1985, after taking into consideration the prepayment of Hudson's Bay Company Acceptance Limited Series C debentures on March 2, 1980, are as follows: 1981—\$29,767,000; 1982—\$78,919,000; 1983—\$115,288,000; 1984—\$29,556,000; 1985—\$71,384,000.

9. PENSIONS

The amount of \$34,659,000 reflected in the consolidated balance sheet at January 31, 1980 is adequate to provide for all unfunded pension liabilities. Funding payments are expected to extinguish substantially all of the unfunded liabilities over the next eleven years.

10. CAPITAL

The authorized classes of shares of the Company consist of Ordinary Shares without nominal or par value and Preferred Shares without nominal or par value. A maximum of 11,750,000 of the Preferred Shares have been designated as \$1.80 Cumulative Redeemable Preferred Shares Series A, an unlimited number have been designated as Redeemable Preferred Shares Series B and 800,000 have been designated as Variable Rate, Cumulative Refundable Preferred Shares Series C.

	<u>Number of Shares</u>	<u>\$ 000's</u>
\$1.80 Cumulative Redeemable Preferred Shares Series A (stated capital \$22.50 each)		
Issued in the year ended January 31, 1979 in partial payment for common shares of Simpsons, Limited and Class B shares of Simpsons-Sears Limited and outstanding at January 31, 1979	6,059,067	136,329
To the holders of Simpsons Limited shares in partial payment for common shares of that company acquired in the year ended January 31, 1979	742	17
Less: Redeemed for cash in the year ended January 31, 1980	<u>(90,000)</u>	<u>(2,025)</u>
Issued and outstanding at January 31, 1980	<u>5,969,809</u>	<u>134,321</u>
Redeemable Preferred Shares Series B (stated capital \$10 each)		
Issued in the year ended January 31, 1980 to holders of Simpsons Limited shares on the amalgamation of that company with Bayhud Inc.	162,286	16
Less: Redeemed for cash in the year ended January 31, 1980	<u>(162,286)</u>	<u>(16)</u>
Issued and outstanding at January 31, 1980	<u>—</u>	<u>—</u>
Variable Rate, Cumulative Redeemable Preferred Shares Series C (stated capital \$25.00 each)		
Issued for cash in the year ended January 31, 1980 and outstanding at January 31, 1980	<u>800,000</u>	<u>20,000</u>
Ordinary Shares		
Issued and outstanding at January 31, 1978	14,154,768	44,624
Issued in the year ended January 31, 1979:		
Under employee share purchase plan	25,265	468
In payment for common shares of Markborough Properties Limited	1,854,474	38,944
In partial payment for common shares of Zeller's Limited	1,868,097	43,900
In partial payment for common shares of Simpsons, Limited	<u>5,189,004</u>	<u>109,618</u>
Issued and outstanding at January 31, 1979	23,091,608	237,554
Issued in the year ended January 31, 1980		
To the holders of Simpsons Limited shares and of Zeller's Limited shares in partial payment for common shares of those companies acquired in the year ended January 31, 1979	466	9
To the holders of Simpsons Limited shares on the amalgamation of that company with Bayhud Inc.	145,000	905
Under employee share purchase plan	<u>475,455</u>	<u>11,233</u>
Issued and outstanding at January 31, 1980	<u>23,712,529</u>	<u>249,701</u>
Additional Paid in Capital		
Excess of fair value of shares issued to the holders of Simpsons Limited shares on the amalgamation of that company with Bayhud Inc. over their stated value of \$6.24 each		<u>3,228</u>

The Company may not redeem the \$1.80 Cumulative Redeemable Preferred Shares Series A prior to December 31, 1983. Thereafter these Preferred Shares may be redeemed at the Company's option at rates varying from \$23.50 at January 1, 1984 to \$22.50 after December 31, 1988.

The holders of the Variable Rate, Cumulative Redeemable Preferred Shares Series C will be entitled to receive dividends at the rate of 7.35% until September 15, 1984. On that date and thereafter at five-year intervals the rate will be 52% of the average of the five-year Guaranteed Investment Certificate rate of certain trust companies plus 2.00%. The shares may be redeemed at the Company's option at their issue price at certain intervals after 1984.

11. 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
	\$ 000's	\$ 000's
Assets		
Accounts receivable	10,376	10,888
Property for sale and future development	47,248	42,498
Fixed assets	141,517	124,839
	<u>199,141</u>	<u>178,225</u>
Liabilities and Equity		
Bank indebtedness	31,269	21,549
Accounts payable	21,102	18,566
Long-term debt	118,439	109,700
	<u>170,810</u>	<u>149,815</u>
Investment in real estate joint ventures	28,331	28,410
	<u>199,141</u>	<u>178,225</u>
Revenue and Earnings		
Gross revenue	36,338	20,416
Less: Interest	13,355	6,554
Depreciation	3,131	1,402
Other expenses	13,620	7,883
Pretax earnings from real estate joint ventures	<u>6,232</u>	<u>4,577</u>

12. CONTINGENCIES

The Company has contingent commitments, along with others, relating to its investments in certain shopping centre companies and joint ventures. In the event that the Company had to meet any of these contingencies it would have a claim on the assets of the applicable development.

13. LEASES

If the Company had adopted retroactively the new accounting recommendations of The Canadian Institute of Chartered Accountants for capital leases entered into prior to February 1, 1979, the effect on the Consolidated Balance Sheets as at January 31, 1980 and 1979, and on earnings for the years then ended, would not have been material.

a) As Lessee

The Company conducts a substantial part of its merchandising operations from leased premises. No new capital leases (those which transfer substantially all of the benefits and risks of ownership to the lessee) were entered into in the year ended January 31, 1980 and all leases involving the Company as lessee have been accounted for as operating leases under which rentals are included in determining earnings of the period in which they accrue.

Rental expenses charged to earnings amounted to \$46,700,000 and \$29,000,000 for the years ended January 31, 1980 and 1979, respectively.

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

	\$ 000's
Year ending January 31, 1981	45,600
1982	44,700
1983	43,700
1984	42,500
1985	40,000
Thereafter	500,300
Total minimum lease payments	<u>716,800</u>

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

b) As Lessor

The Company leases space in a number of regional shopping centres and commercial properties. All of these leases are classified as operating leases.

The consolidated balance sheet includes real estate leased to others under operating leases totalling \$149,000,000 and \$107,700,000 at January 31, 1980 and 1979 net of accumulated depreciation of \$11,600,000 and \$9,800,000 respectively.

Real estate revenues include rentals from the above properties of \$20,700,000 and \$15,300,000 for the years ended January 31, 1980 and 1979, respectively.

14. EVENT SUBSEQUENT TO YEAR END

Under an agreement dated February 28, 1980 between Hudson's Bay Company and its fiscal agents, Hudson's Bay Company has arranged for the sale of \$50,000,000 principal amount of 13¾% Subordinated Notes Series D due April 1, 1986 to be delivered on April 1, 1980.

Approval of Financial Statements

The financial statements contained on pages 25 to 37, including the notes thereto have been reviewed by the Audit Committee of the Board of Directors, a majority of whom are outside directors, and have been approved by the Board on the recommendation of the Audit Committee.

On behalf of the Board:

George T. Richardson

Director

D. Maginnis

Director

Toronto, Canada
March 18, 1980

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, 1980 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 and Simpsons Limited which are consolidated, and for Simpsons-Sears Limited, and 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, 1980 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 18, 1980

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Hudson's Bay Company

Ten Year Consolidated Financial Summary

	1979	1978
Results for the year (\$000's)		
Sales and revenue		
Retail	2,847,927	1,432,712
Wholesale	408,434	356,967
Fur	66,302	42,568
Merchandising	3,322,663	1,832,247
Real estate	96,263	48,712
Natural resources	16,283	15,343
	<u>3,435,209</u>	<u>1,896,302</u>
Fur consignment sales	511,628	329,773
Source of earnings		
Retail	177,755	76,495
Wholesale	8,737	7,392
Fur	26,508	11,092
Merchandising	213,000	94,979
Real estate	26,300	17,842
Natural resources	16,283	15,343
Interest on long-term debt	(82,448)	(42,271)
Net short-term interest	(31,293)	(5,597)
Earnings before income taxes and minority interest ..	141,842	80,296
Income taxes	52,073	29,757
Earnings before minority interest	89,769	50,539
Minority interest	9,423	5,894
Net earnings	<u>80,346</u>	<u>44,645</u>
Dividends		
Preferred shares	10,866	—
Ordinary shares	25,481	16,111
Earnings retained	43,999	28,534
Cash flow	127,260	75,312
Capital expenditures	124,977	58,915
Depreciation	38,886	21,301
Year end financial position (\$000's)		
Merchandising	1,716,207	1,495,531
Real estate	375,979	285,332
Natural resources	133,561	134,084
Assets employed	2,225,747	1,914,947
Debt	1,343,484	1,124,318
Minority interest	49,598	58,505
Shareholders' equity	<u>832,665</u>	<u>732,124</u>
Results per ordinary share (Dollars)		
Net earnings	2.98	2.74
Dividends	1.10	.91
Shareholders' equity	28.59	25.80
Shareholders and employees		
Number of ordinary shareholders	22,500	30,600
Ordinary shares outstanding (000's)	23,712	23,092
Range in share price (Dollars)	35—21¼	24½—17½
Number of employees	42,000	42,000

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

1977	1976	1975	1974	1973	1972	1971	1970
1,019,831	992,575	892,766	780,854	641,063	538,989	440,685	406,096
323,810	263,461	231,995	190,875	153,456	126,414	111,612	102,788
34,059	26,987	21,178	22,304	21,190	15,475	13,565	10,172
<u>1,377,700</u>	<u>1,283,023</u>	<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>
36,004	52,945	32,174	17,852	4,294	862	-	-
13,686	10,480	8,020	6,308	5,853	5,485	4,927	4,410
<u>1,427,390</u>	<u>1,346,448</u>	<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>
283,000	244,344	185,252	175,661	167,250	131,666	109,238	81,723
40,912	34,922	34,868	32,308	27,666	23,738	19,225	17,929
8,064	7,622	6,897	5,808	4,051	3,316	3,137	2,668
7,706	6,286	4,537	4,719	4,968	2,993	2,541	328
<u>56,682</u>	<u>48,830</u>	<u>46,302</u>	<u>42,835</u>	<u>36,685</u>	<u>30,047</u>	<u>24,903</u>	<u>20,925</u>
14,856	23,207	14,615	10,313	2,191	715	-	-
13,686	10,480	8,020	6,308	5,852	5,485	4,927	4,410
(34,813)	(28,097)	(24,161)	(19,202)	(11,714)	(7,464)	(6,907)	(5,525)
(2,538)	(5,346)	(2,508)	(5,291)	254	(1,404)	188	(109)
<u>47,873</u>	<u>49,074</u>	<u>42,268</u>	<u>34,963</u>	<u>33,268</u>	<u>27,379</u>	<u>23,111</u>	<u>19,701</u>
16,095	21,184	18,548	15,514	15,158	11,725	9,798	8,729
31,778	27,890	23,720	19,449	18,110	15,654	13,313	10,972
1,897	3,080	1,716	1,029	446	-	-	-
<u>29,881</u>	<u>24,810</u>	<u>22,004</u>	<u>18,420</u>	<u>17,664</u>	<u>15,654</u>	<u>13,313</u>	<u>10,972</u>
-	-	-	-	-	-	-	-
9,181	8,391	8,362	8,286	7,661	7,048	7,048	6,828
20,700	16,419	13,642	10,134	10,003	8,606	6,265	4,144
48,209	47,645	42,760	34,010	29,795	25,507	21,277	18,207
43,075	38,163	29,586	41,715	56,588	27,282	17,849	11,124
16,473	14,598	13,157	11,485	9,314	7,607	6,342	5,963
580,461	505,857	445,564	451,201	378,913	308,929	272,711	246,665
222,686	208,179	163,793	156,791	137,794	7,630	5,127	2,069
29,595	23,881	20,142	17,763	16,305	10,095	10,095	10,095
<u>832,742</u>	<u>737,917</u>	<u>629,499</u>	<u>625,755</u>	<u>533,012</u>	<u>326,654</u>	<u>287,933</u>	<u>258,829</u>
535,470	463,473	375,184	387,187	306,543	130,219	100,478	78,696
21,308	20,022	17,973	16,618	16,180	754	380	-
<u>275,964</u>	<u>254,422</u>	<u>236,342</u>	<u>221,950</u>	<u>210,289</u>	<u>195,681</u>	<u>187,075</u>	<u>180,133</u>
2.12	1.77	1.58	1.33	1.29	1.16	.98	.81
.65	.60	.60	.60	.56	.52	.52	.50
19.50	18.05	16.90	15.93	15.23	14.44	13.80	13.29
20,870	21,861	22,806	24,036	24,474	24,880	25,558	28,945
14,155	14,096	13,985	13,936	13,809	13,553	13,553	13,553
19½-14½	20¾-13½	18½-14¼	20-9¾	22¾-15	21½-16½	20-14½	22-11½
20,000	20,000	20,000	20,000	18,000	17,000	16,000	15,000

The Company— A Brief Description



THE COMPANY TODAY

Merchandising. Approximately 600 stores in three retail groups, THE BAY, SIMPSONS, and ZELLERS, serve the diversified needs of Canadians from Newfoundland to the Yukon and from the Arctic Islands to the United States border. 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. Simpsons operates full-line department stores in eight major cities. Zellers operates promotional department stores and variety stores across Canada and Fields family clothing stores in the western provinces. HUDSON'S BAY WHOLESALE 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, London and Winnipeg.

Natural Resources. The Company has two principal natural resource investments. HUDSON'S BAY OIL AND GAS COMPANY LIMITED, 18.4% owned, was formed in the 1920's as a joint venture between H B C 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.

The second investment, in preferred shares of DOME PETROLEUM LIMITED, is the result of the disposition in 1979 of a 35% equity interest in Siebens Oil & Gas Ltd.

Real Estate. The Company's real estate interests consist principally of whole or partial ownership of shopping centres and commercial buildings in Canadian cities, in addition to ownership of 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, including Simpsons and Zellers, the Company employs over 40,000 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 and traded with the Indians.

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.

Twentieth Century. The Company built downtown department stores in each of the major cities of western Canada (1913-1968), co-founded Hudson's Bay Oil and Gas Company Limited (1926), acquired Henry Morgan & Co. Limited (1960), A. J. Freiman Limited (1971), 35% of Siebens Oil & Gas Ltd. (1973), acquired control of Markborough Properties Limited (1973), Simpsons, Limited (1978), Zeller's Limited (1978), and disposed of its Siebens investment (1979).

We felt it was fitting that the last page of our Annual Report introduce you to Beaumark, the appliances of the 80's.

Beaumark's arrival was stimulated by the separation of Simpsons from Simpsons-Sears. Simpsons found themselves without a name appliance line. Our company seized this opportunity to develop a new, quality home appliance line which would meet the broadest needs of Canadian consumers. Beaumark is available exclusively at Simpsons and The Bay. We believe Beaumark appliances are the best in Canada.



