



2004 Corporate Social Responsibility Report

We believe...

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Hudson's Bay Company is more than a retailer.

We are part of the fabric of this great country – proud of our long heritage and proud of our ongoing contribution to Canadian society. For Hbc, corporate and social citizenship is more than a responsibility, it is fundamental to who we are as a Company. Ensuring our actions contribute to a stronger Canada and a better world is what we believe in, and what we aspire to achieve.



Letter from George J. Heller

I believe that to be a leader in today's business environment you must consider the impact of your company on society, and seek positive change as an outcome of your operations. While every CEO is responsible for the bottom line, true leaders must also be willing to accept the social responsibilities associated with managing a corporation. At Hbc, we believe CSR is a core component of our business, not an afterthought.

Under my leadership, Hbc has answered the call for positive social change.

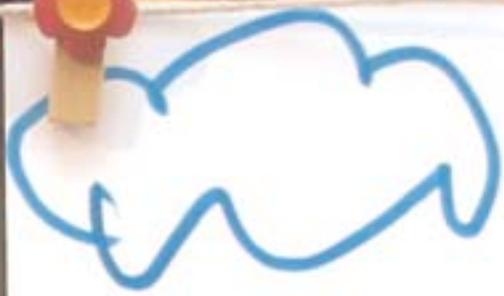
Every year, I travel across the country and around the world, meeting with government representatives, colleagues from the retail sector, the business community and community groups. Increasingly, I am struck by the efforts of corporations to contribute to the communities in which they operate, and to the people who help them to ensure their operations return profits to shareholders.

This is Hbc's third Corporate Social Responsibility Report and includes additional environmental measurements, details about issues in factories and more information on our human resources and community investment programs. This year's report is web-based and we will continue to update our progress throughout the year online at www.hbc.ca.

A handwritten signature in black ink, appearing to read "G. Heller", with a large, sweeping flourish above the name.

George J. Heller
President and Chief Executive Officer





We believe

that through our business operations
we can ensure a sustainable future
for our Company and our customers.



Environment



From the management of energy and water used in our operations to recycling programs in our network of stores, to the fleet of trucks that move merchandise across the country, we understand our responsibility to maintain and reduce the impact our operations have on the environment.

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Our commitment is fulfilled through three core principles:

- Continuous evaluation of Hbc's environmental policies and procedures;
- Improvement of our operations; and
- The education of our associates, customers and partners.

In 2004, Hbc's commitment to these principles translated into:

- An Energy Conservation Strategy and programs; and
- Partnerships to engage associates and customers in energy efficiency awareness.

Energy Conservation Strategy

Hbc has established a comprehensive national energy conservation strategy focused on reducing energy consumption and related emissions from our stores and fleet of vehicles.

Store Retrofit Program

We are committed to retrofitting all Hbc stores with energy-efficient lighting and Building Automation Systems (BAS) by 2007, and all new buildings constructed by Hbc will meet or exceed Canada's Model National Energy Code for Buildings.

The lighting retrofit program started in 2000 and is an ongoing initiative to install the most energy-efficient technology available.

Hbc Locations with Lighting Retrofits

	2003	2004	Total Complete as of 2004	2005 Target
Zellers	13	13	26	9
Bay	7	3	10	14
Home Outfitters	0	0	0	2
Designer Depot	0	0	0	0
Support Buildings	0	1	1	2
Distribution Centres	0	0	0	1
Total	20	17	37	28

BAS are central energy control and tracking systems which are connected to a web-based daily Electrical Consumption Monitoring System in 2004, improving our ability to track and correct high energy use. In 2005 alone, the lighting and BAS retrofits will result in greenhouse gas emissions being reduced by nearly 10,000 tonnes – the equivalent of removing over 2,000 cars from the road.

Hbc Locations Retrofitted with Building Automation Systems

	2001	2002	2003	2004	2005 Total Store Target
Zellers	197	242	251	262	269
Bay	32	32	32	32	48
Home Outfitters	2	4	6	10	11
Designer Depot	n/a	n/a	n/a	1	2
Distribution Centres	0	1	1	1	2
Total	231	279	290	306	342

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Recycling/Solid Waste Management

Hbc's recycling and waste management programs include materials such as plastic hangers and wraps, office paper, styrofoam chips, glass, aluminum and store fixtures. This program was initiated at Zellers stores and is currently being expanded to all Hbc stores.

	Months	Corrugated Cardboard		Waste		Recyclables	
		Tonnes	Tonnes/Store	Tonnes	Tonnes/Store	Tonnes	Total Zellers Stores
2002	11	18,641	5.49	16,371	4.82	332	315
2003	12	19,475	5.40	16,769*	4.65	304	312
2004	12	19,173	5.43	17,473*	4.93	325	298

*Note: As a result of Hbc's continuing program to renovate, close or expand Zellers stores, there was an increase in the amount of waste in 2003 and 2004.

In 2004, Hbc distribution centres purchased 130,000 plastic totes, allowing the Company to eliminate the use of 26 million cardboard boxes over the next 10 years.



One Tonne Challenge

In 2004, Hbc became a partner in the One Tonne Challenge (OTC). OTC is a Natural Resources Canada initiative designed to encourage individuals to help reduce emissions per individual by one tonne over three years. Hbc included information on OTC in two of our Zellers flyers distributed to thousands of households. Hbc will be expanding its commitment to this program with information directed to our associates, and with the promotion of energy-efficient products.

"Companies and institutions across Canada have found that investing in efficiency measures in their buildings can lead to lower costs and reduce greenhouse gas emissions that contribute to climate change. By joining my department's Energy Innovators Initiative, commercial businesses and public institutions can benefit from our helpful tools, services and financial incentives. This initiative has helped reduce emissions by 700,000 tonnes every year – proving that successful partnerships can help address climate change and improve Canadians' quality of life."

The Honourable R. John Efford
Minister of Natural Resources Canada



Water Consumption

2003 was our baseline year for measuring water consumption, with 2004 serving as our first year for comparative analysis. We will work to determine the factors that effect water usage and explore new technology and systems to minimize our use of this valuable resource.

Water Usage

	2003	2004	% change
Water m ³	2,086,744	1,866,381	-10.6

Fleet

Hbc is committed to meeting or exceeding new environmental protection standards for vehicles; eliminating the movement of empty trailers; using rail transportation whenever possible; and applying technologies such as Global Positioning System (GPS), which helps to monitor idling time and speed, and to determine the shortest routes everywhere in North America. This information helps us set policies to improve our fuel efficiency.

As of October 1, 2003, in order to meet new environmental standards all newly manufactured trucks used by Hbc have Exhaust Gas Recirculation engines which, while reducing airborne particulate emissions, are less fuel efficient. This is just one of the factors that reduced our fuel efficiency in 2004. Hbc will continue to test new products that come on the market which could lead to increased fuel economy.

In the last two years, Hbc has maintained our rail use levels at 75 million kilometres annually, approximately 70 percent of total kilometres. We are constantly reviewing our shipping logistics to find more efficient routes.

Vehicle Fuel Efficiency

	2003	2004
Km/litre	2.66	2.61

2004 Environmental Awards

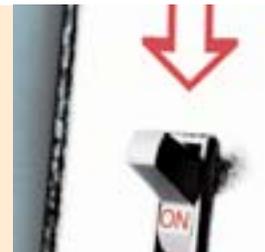
The success of our environmental programs has been acknowledged by numerous government and industry programs, including the following awards in 2004:

- **Association of Energy Engineers – “Corporate Energy Management Award”** – for developing best practices in both our corporate offices and stores, resulting in lowering energy consumption and further reducing our environmental footprint.
- **Natural Resources Canada – “Energy Retrofit, Renovation Category for the Commercial and Industrial Buildings Award”** – for Hbc’s campaign to retrofit lighting systems, implement sensitive energy-demand controls and install high-efficiency motors in heating, ventilation and air-conditioning plants in Hbc stores.
- **Canada’s Climate Change Voluntary Challenge & Registry Inc. – “Leadership Award for the Commercial Sector Category Award” 2003 (received in March 2004)** – for Hbc’s extraordinary commitment, action and leadership in the voluntary reduction of greenhouse gas emissions.

IS Initiatives

Hbc’s Information Services Division has embraced Hbc’s Energy Conservation Strategy. Starting in 2002, the IS group implemented the following initiatives:

- An associate awareness campaign to turn off lights and all office equipment when not in use and at the end of the day;
- Installing light switches in management offices;
- Replacing 48 windows on the main floor with double glaze and Argon gas windows;
- Applying caulking to the exterior walls to prevent air and heat loss; and
- Making improvements to chillers, which saved approximately 5 percent of cooling capacity daily throughout the summer months.



Measuring Our Results

Hbc measures the following emissions to ensure the success of our Energy Conservation Strategy and to determine other areas that require attention:

Corporate Emissions by Source

(in TCO ₂ e/1,000 sq. ft)	2000	2001	2002	2003	2004	% Reduction from 2000
Natural Gas	60,499	55,236	54,811	60,942	55,621	-8%
Propane	2,036	2,128	1,747	1,509	1,440	-29%
Transportation	25,431	24,311	25,231	26,422	30,857	21%
Oil	858	809	847	698	604	-30%
Electricity	278,755	280,385	244,605	257,127	234,587	-16%
Steam	1,064*	1,064*	1,064*	1,064	1,023	-4%
Total Emissions	367,643	363,933	328,305	347,762	324,132	-12%
Emissions Intensity	6.62	6.43	5.67	6.05	5.58	-16%

TCO₂e = tonnes of CO₂ equivalent. *Estimates only – based on information available.

Overall, the emissions intensity indicates that Hbc stores are becoming more efficient. The cumulative amount of emissions reduced from the baseline is close to 109,000 tonnes, the equivalent of the emissions from more than 23,500 cars.

The jump in total emissions in 2003 was caused by a number of factors, including high summer temperatures, the addition of refrigeration units to Zellers stores and the inclusion of data that was previously unavailable.

Due to further analysis of historical data and changes to provincial electricity emissions factors, all information in this chart has been updated from the chart provided in the 2003 CSR report. 2000 was the base year for measuring energy and natural gas emissions at Zellers, and all stores are now measured against it.

Awareness & Partnerships

The success of our programs is a result of the commitment of our associates, customers and partners.

In 2004, every associate received an Hbc Energy Management Awareness handbook – a guide to reducing everyday energy consumption with tips for the home and office. And leading up to Earth Day, weekly conservation tips were posted on Hbc's associate intranet. Through our Associate Buying Club, associates took advantage of a discount on energy-efficient compact fluorescent light bulbs offered by General Electric.

On a provincial level, Hbc has partnered with:

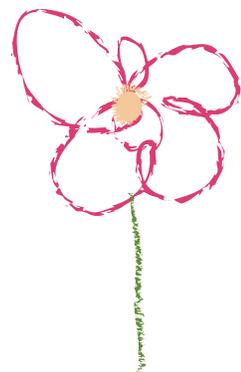
- BC Hydro on programs that encourage energy conservation; and
- Ontario Power Generation (OPG) on the purchase of 1,000 Mega Watt hours of Green Power – electricity produced from renewable sources such as wind, low-impact hydroelectric, biomass and solar – from OPG for use at Hbc's facilities.

Hbc is a member of the following industry associations:

- **AEE** – Association of Energy Engineers
- **RCC** – Retail Council of Canada – Energy, Environment Committee
- **BOMA** – Building Owners and Managers Association – Strategic Energy, Environment Committee
- **PRSM** – Professional Retail Store Maintenance – Board Level

Initiatives for 2005

- Working with Enwave to use deep-lake chilled water from Lake Ontario in building cooling systems in downtown Toronto;
- The use of biodiesel in our fleet to further reduce harmful emissions;
- Analyzing skylight and light dimming systems to use natural light more effectively in our facilities; and
- Developing a partnership with the Ontario government's Energy Demand Response incentive program to reduce energy use when the provincial energy supply is low.





We Believe

our associates deserve programs
and resources that enable them
to reach their full potential.

Our Associates

At Hbc, our ability to provide consumers with a great shopping experience relies on the efforts of our associates. In turn, the future success of our organization demands an ongoing investment in our people.

Our commitment is fulfilled through three core principles:

- Foster an environment of career development;
- Encourage open communication throughout all levels of the Company; and
- Provide a safe and healthy workplace.

In 2004, Hbc's commitment to these principles translated into various programs and opportunities, including:

- An investment of over \$9 million into career development programs, including online learning and our Management Trainee Program;
- Extensive internal communications programs such as the launch of Company-wide surveys and an external website for associates; and
- Health and safety programs.

Overview of Human Resources

Hbc operates stores in all provinces of Canada, supported by 70,000 associates.

In addition to comprehensive benefits programs, Hbc offers its associates:

- Store discounts and special offers;
- A share ownership plan;

- Deals from the Associate Buying Club with discounts on auto and home insurance, travel, entertainment and many other opportunities;
- Access to the Community Resource Referral Program;
- Associate recognition programs;
- A bonus plan; and
- A scholarship program.

Number of Stores by Province

Province	Bay	Zellers	Home Outfitters	Designer Depot	Total Hbc	Associates
British Columbia	18	37	7	0	62	13%
Alberta	15	29	8	0	52	10%
Saskatchewan	3	10	2	0	15	2%
Manitoba	3	8	2	0	13	3%
Ontario	37	123	20	1	181	49%
PEI	0	2	0	0	2	.3%
Quebec	18	58	7	0	83	17%
Nova Scotia	3	14	1	0	18	3%
Newfoundland	0	5	0	0	5	.7%
New Brunswick	1	12	0	0	13	2%
Total	98	298	47	1	444	

Career Development

Hbc provides numerous opportunities for career development through in-house programs and innovative partnerships, as well as scholarship programs for associates and their dependents.

Hbc University

Hbc provides associates with educational reimbursements, e-learning programs, in-class workshops and customized learning to help develop their careers.

Online Courses Completed

	2003	2004
Courses completed	89,734	141,587

E-learning programs provide online access to over 300 self-study courses that help associates achieve both business and personal learning goals, such as PC skills, interpersonal communication, change management, decision-making and mentoring. In 2004, six new programs with 11 new courses were introduced covering topics such as product knowledge, loss prevention, and credit and loyalty seminars.

Management Trainee Program

Launched in 2004, the Hbc Management Trainee Program (MTP) provides associates and external recruits with a unique opportunity to develop their careers in retail. This intense, hands-on program has two streams: Store Operations and Merchandising. Participants train over a 12-to-18-month period before graduating into an appropriate leadership role within a store environment, or into a planning or buying function for Hbc Merchandising Group.

Over 100 people participated in this program in 2004, of whom 62 percent were externally recruited and 38 percent were sourced internally. Our goal for 2005 is to increase participation by 20 percent.

"Hbc has been a major part of my career growth. The Hbc Management Training program is a great opportunity to gain the work experience that I needed to build on the knowledge that I gained through school. The best advantage of the program is the coaches. Each coach that I had was extremely supportive; not just of the program, but of myself and my success in the company. Each coach had a major part in shaping the leader that I will eventually become at Hbc. I am thankful for the opportunity to work and train with a company that will allow me to discover the many facets of retail. With at least 5,000 different job titles within the company, the opportunities are endless."

Christina Del Vecchio

Hbc Management Trainee

Career Bridge

Hbc is an active participant in the Career Bridge program, which provides internships for recent immigrants to Canada. The program is designed to address the dilemma of "no Canadian experience, no job; no job, no Canadian experience" that prevents many skilled immigrants from obtaining gainful employment and contributing to the economy. In 2004, Hbc's first year of participation in the program, the Company committed to providing 10 internship placements throughout the organization.

ACE (Advancing Canadian Entrepreneurship Inc.)

In 2004, Hbc became a sponsor of ACE, a national not-for-profit organization that provides university and college students with the principles and values of entrepreneurship and market economics. This program allows Hbc to build relationships with key schools in order to identify potential candidates for the Hbc Management Trainee Program. Over 20 Hbc executives participated as mentors to ACE chapters across Canada in 2004.

Retail as a Career

Hbc has taken a leadership role in the Retail Council of Canada's (RCC) Retail as a Career committee, which seeks to inform Canadians that the retail industry can provide a meaningful career, not simply a job. Marc Chouinard, Hbc President of Merchandising and Marketing, co-chairs the committee, which is made up of large and small Canadian retailers who are engaged in awareness programs aimed at high school, college and university students. Hbc is also a sponsor of RCC's annual scholarship program.

Hbc Associate Scholarship Program

The new Hbc Associate Scholarship Program has been established to provide bursaries to help finance higher education for the children and dependents of Hbc associates. A total of \$100,000 is granted annually to 40 recipients, each receiving a \$2,500 scholarship to be used toward post-secondary education. A total of 288 applications were received in 2004. Hbc intends to improve awareness of the program and increase the number of applicants by 30 percent in 2005.

Internal Communications

A talented and productive workforce needs to understand its company's business strategy, priorities and how they contribute to the success of the organization. This understanding is enabled at Hbc by a strong internal communications program.

Associate Websites (Hbcnet, Hbcassociate.com, Hbcalumni.ca)

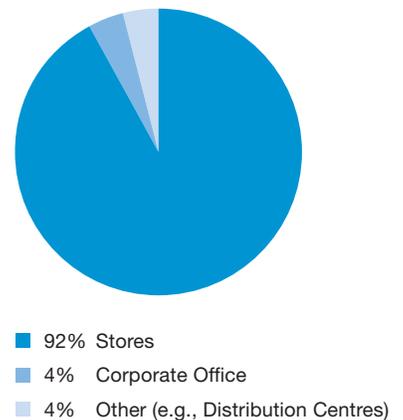
Of Hbc's 70,000 associates, the vast majority work in our stores across Canada, while the others work in support or corporate locations. Of the entire associate population, only nine percent have intranet access at work. To address this communication challenge, Hbc has two main associate websites. Our intranet site, *Hbcnet*, provides information and tools for store managers and home office associates. The other 91 percent of Hbc associates are connected to the Company through *www.hbcassociate.com*. Launched in September 2004, this extranet website allows associates to access information about career opportunities, benefits, Hbcnews updates, Hbc University, special associate programs and more.

Hbc retirees have specific information and program needs as well. To address this unique associate group, we have created a website specifically for them – *www.hbcalumni.ca*.

Hbc Associate Survey

Hbc regularly surveys a random selection of 10,000 associates to obtain feedback on how to make Hbc a better place to work. The results and actions we plan to take in response to this input are distributed to all 70,000 associates. Our 2004 survey had an 88 percent participation rate with over 6,000 written comments. Results were generally favourable, with a strong indication that associates endorse Hbc's direction and leadership. Our goal for 2005 is to maintain this level of engagement, both quantitatively and qualitatively.

Where Our Associates Work



Program	Historical Data	2004 Participation	2005 Target
Hbcassociate.com extranet website	Launched in September 2004	Hits from unique email addresses: 2,477	Goal for 2005 is to increase awareness and usage by 15%
Hbcnet	Launched in 1996	Visitors for the year to the entire site: 5,689,016	Goal for 2005 is to increase awareness and usage by 25%
Hbc Associate Survey – response rate/issues addressed	First Hbc-wide survey in 2004	88% response rate	Maintain 2004 response rate

Let's Discuss Forum

Let's Discuss is an interactive feedback mechanism on Hbc's corporate intranet (*Hbcnet*). Hosted by Hbc executives, its purpose is to raise awareness and understanding about topical corporate initiatives. As a direct, real-time vehicle it encourages open dialogue and provides associates across the organization with a forum to ask questions about their Company.

Hbc Direct Line

Hbc Direct Line is a toll-free number that provides associates with an opportunity to forward their questions and concerns about their workplace directly to the Company's senior executive team. Participants may choose either to remain anonymous or to receive a reply to the issues brought forward.

Quarterly Update

Hbc produces a printed version of the *Quarterly Update* for each associate and also posts it on our associate websites. The purpose of the *Quarterly Update* is to help associates understand Hbc's strategy and their role in serving customers and achieving our business goals.

Health and Safety

Hbc is committed to providing a safe and healthy environment for all associates and customers. Our goal is for zero injuries in all our locations. Fulfilling this commitment depends upon regular communication, initiatives such as our Community Resources Referral Program, active associate involvement, continuous improvement of systems, procedures and training and immediate reaction to incidents.

Initiatives for 2005

- Increase participation in the Management Trainee Program by 20 percent;
- Increase communication reach through increasing the awareness and usage of our intranet and extranet sites by 25 percent and 15 percent respectively;
- Launch awareness campaign for the Community Resources Referral Program;
- Improve awareness of the Hbc Associate Scholarship Program to increase applications by 30 percent; and
- Increase the number of locations that are injury-free by 20 percent.





We Believe

Hbc can effect positive social
change with our merchandise
sourcing policies and programs.



Ethical Sourcing



Our associates, customers and stakeholders demand that our business practices, and those of our partners around the world, comply with international labour and human rights standards while achieving financial success. As Canada's oldest retailer and a company Canadians trust, Hbc is obliged to ensure our merchandise sourcing policies embrace the values found in international human and labour rights codes, reflect industry best practices and constantly improve.

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Our commitment is fulfilled through three core principles:

- Educating and training our merchants, vendors and manufacturers as a core element of our auditing and compliance program;
- Engaging with external stakeholders in greater dialogue and transparency;
- Leveraging international relationships to seek common programs that enhance the efficiency and effectiveness of social compliance within the global retail supply chain.

In 2004, Hbc's commitment to ethical sourcing translated into various programs and opportunities, including:

- Providing greater detail on audit results and vendor/auditor experiences in this report;
- Strengthening our current vendor compliance program through greater collaboration between Hbc suppliers and associates; the introduction of a three-strike policy; and a program that prioritizes vendors; and
- Continued international efforts with retailers, vendors and governments, including working with the Chinese government in the development of a code of conduct for the Chinese textile industry.

Social Compliance Program

In 1998, Hbc introduced our Code of Vendor Conduct based on International Labour Organization conventions and principles. Hbc then created a compliance and independent auditing process in 2001 to monitor the factories in our vendor pool. In 2003, Hbc's Social Compliance team developed and distributed a Vendor Starter Kit to support this program.

In 2004, Hbc's Social Compliance Program further developed in three core areas: training, three-strike policy and vendor prioritization.

Training

In 2004, Hbc moved to improve the understanding of the Company's compliance program by conducting regular training sessions with our vendors. By the end of the year, over 40 vendor training sessions had been held.

Hbc's Social Compliance team also conducted training sessions with Hbc's sourcing, buying and production teams to explain the principles of Hbc's Code of Vendor Conduct and the Company's programs. The goal of this internal training is to ensure human rights issues are a consideration in Hbc's core business decisions and processes.

Three-Strike Policy

To ensure clarity in communications with vendors, as well as to strengthen Hbc's program, suppliers are required to:

- Fully disclose factory locations;
- Pay for their audits; and
- Actively participate in the program.

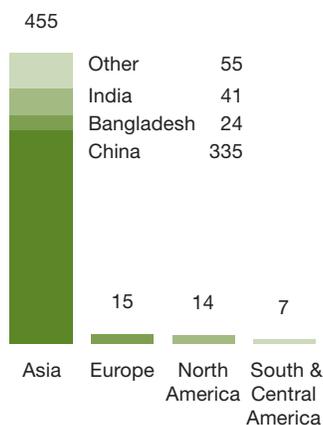
Suppliers who are in default of any parameters of the program three times in an 18 month period will be suspended and/or terminated from doing business with Hbc for a minimum of two years.

Vendor Prioritization

Hbc sources from hundreds of suppliers on a yearly basis. Due to this large volume, vendors are categorized as the following:

- **Priority A** – High Priority: Top 200 suppliers based on volume of sales, perceived risk and factory location;
- **Priority B** – New Vendors: All new vendors are carefully evaluated on social compliance criteria; and
- **Priority C** – Existing Vendors: All remaining vendors.

Number of Factories 2004



2004 Audits Completed by Priority

	Vendors	Factories
Priority A	114	199
Priority B	168	187
Priority C	87	105
Total	369	491

2004 Vendor Compliance and Monitoring Program Results

	2003 Factories	2004 Factories
Approved	395 or 90%	474 or 97%
Not Approved	46 or 10%	17 or 3%
Total Audits	441	491

Note: The 2003 numbers are restated from previous reports in order to provide a comparison to the new prioritized tracking system.

Stakeholders have asked for insight into the core challenges or recurring issues encountered by auditors when evaluating manufacturing facilities. The following represent the most common infractions of our Code of Vendor Conduct cited in audit reports:

- Excessive Overtime or non-Payment of Overtime Worked
 - Time card system not in use; discrepancies in pay and time records; employees working excessive hours without proper overtime pay.
- Health and Safety Issues
 - Improper storage of chemicals, blocked aisles and exits, inadequate first aid supplies, lack of personal protective equipment.
- Legal Documentation
 - Missing employment and medical records, lack of employment contracts.
- Minimum Wage and Benefits
 - No coverage or partial coverage of workforce under work-related accident and injury insurance; little payment of social insurance premiums; minimum wages, as prescribed by local law, are not paid.

In an effort to develop remedial programs that address the root cause of infractions, Hbc will increase efforts to work with governments, international organizations and other retailers to raise these issues and find areas of cooperation that will ultimately lead to solutions.

View from a Vendor

"With many companies introducing codes of conduct, a list of accepted factories is referenced when these companies place orders. When I'm at the factory negotiating a contract, I personally go through the factory to check for compliance issues like working conditions, fire escape routes and lighting; and technical capabilities such as machinery and quality materials. Even if the factory has been audited recently, if I have any concerns, I will send in our own auditors to fully review the factory. The biggest challenge with verifying social compliance for the many factories I deal with is the time and the cost involved in auditing."

Guía Lopez, Director of Global Sourcing

The Incredible Clothing Company, Toronto

"In our Global Sourcing group, we value the collective work of governments and international organizations as they build relationships with businesses to help effect positive social change."

"Some of our business decisions have come at a steep price. We stopped conducting business with suppliers who were unwilling to participate in our Social Compliance Program. We also cut business ties with suppliers who repeatedly violated our Code of Vendor Conduct and were unwilling to improve their factory conditions."

"These decisions, although at times difficult, have to be made when suppliers do not share our ethical sourcing principles."

Kevin Luff

Vice President, Global Sourcing

International Action

In 2004, Hbc's international activities included:

- Hosting the International Association of Department Stores' bi-annual meeting in May and reaffirming member companies' commitment to a common approach on ethical sourcing;
- Ongoing participation in the Business Social Compliance Initiative (BSCI) with European retailers seeking a common social compliance code;
- Working with the Retail Council of Canada (RCC), the National Retail Federation and their partners in the United States to introduce the Fair Factory Clearinghouse, a common database of audited factories. This program will lead to greater efficiencies within individual retailers social compliance sourcing programs;
- Development of the China Code of Conduct in partnership with the China National Textile and Apparel Council, China Textile Information Centre and Linmark Group Limited in October;
- Promoting the efforts of international retailers in the area of social compliance through an address by George Heller to the UN Global Compact CEO roundtable in June; and
- Continued participation in Canadian Retailers Advancing Responsible Trade, an initiative of the RCC that provides a forum for the exploration of ethical sourcing issues and the consideration of how stakeholders can work together to continually improve programs and initiatives.

"Hbc is a recognized leader within the retail industry and has shown remarkable advocacy for global social compliance. My gratitude is extended to George Heller for his endorsement of China's initiative to modernize the textile industry."

Minister Du Yu Zhou

President of the China National Textile and Apparel Council



Addressing the CEO Summit, UN Headquarters

"Today, you also made a range of specific pledges: to implement the Compact's principles in your supply chains; to defend human rights in zones of conflict; to ensure decent working conditions; to invest in clean technologies; to implement no-bribe policies, to combat diseases such as AIDS and to grow small businesses in the least developed countries. You are showing that principles and projects are two sides of the same coin, and that normative and operational efforts can and must complement each other."

Secretary-General Kofi Annan

Addressing CEO Summit, UN Headquarters, June 24, 2004

"Although the issue (of social compliance) is complex – as manufacturing is constantly moving into new areas of the globe – our approach was simple: to seek agreement and a process for retailers to do collectively what we are doing individually, and thereby expand our auditing capability."

George Heller

Addressing CEO Summit, UN Headquarters, June 24, 2004

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Initiatives for 2005

- Investigate solutions and remedial programs for issues identified through our audit program, which may include stricter enforcement, sustainable implementation of improvements or partnering with local organizations that work within these communities;
- Integrate social compliance modules into our operations in alignment with the BSCI and FFC programs, which will assist us in creating an efficient way for Hbc and other retailers to monitor and improve conditions in factories; and
- Educate our suppliers, review sourcing processes, integrate new systems into our operations and monitor factory performance with strategic suppliers.



WE BELIEVE

the strength of our country comes
from healthy, vibrant communities.



Community Investment



Together with Hbc's customers, vendors, associates and charitable organizations at local and national levels, we are building unique partnerships and creative initiatives to strengthen and bring communities together.

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Our commitment is fulfilled through three core principles:

- Leverage relationships and develop long-term partnerships to maximize the effectiveness of community programs;
- Provide support for communities of all sizes across Canada; and
- Provide support for community partners that deliver effective programs in the areas of health, wellness and inspiration for young Canadians.

In 2004, Hbc's commitment to these principles translated into various programs and opportunities, including:

- The launch of the Hbc Foundation;
- Local community investment initiatives; and
- The development of partnerships with various organizations including Children's Hospitals across Canada, the Canadian and Quebec Breast Cancer Foundations, Commonwealth Games Canada and Historica Foundation of Canada.

Hbc Foundation

Through the Hbc Foundation, nearly \$11 million was invested in communities across Canada in 2004 to support regional and national partners.

The Hbc Foundation raises funds through a number of initiatives, including the Annual Zellers Celebrity Golf Tournament. In its sixth year, with over 700 participants golfing on five courses, this year's event raised over \$300,000 for the Hbc Foundation. The highlight of the event was a moving speech by Michael Seccaraccia, a 17-year-old cancer patient from Toronto's Hospital for Sick Children who recounted his experience with cancer. He raised an additional \$5,000 by auctioning off the opportunity to cut his newly grown hair to the highest bidder.

Imagine Canada's Corporate Citizenship Leadership Challenge

This year, Hbc extended our long-standing relationship with Imagine by signing on to the Canadian Corporate Citizenship Leadership Challenge. For many years, Hbc has been an Imagine Caring Company through an annual donation of more than one percent of our pre-tax profit.

In November 2004, George Heller, President and CEO of Hudson's Bay Company, joined a group of Canada's leading executives to challenge other CEOs and Boards to develop a new agenda for community building. The goal of the group is to create a culture of innovation in the way Canadians build strong and sustainable communities, deliver social services and address systemic issues such as entrenched poverty. Overcoming these social challenges is critical to building a sustainable future for our economy. To drive this new agenda the Leadership Challenge will uphold three commitments:

- 1. Ensure that corporate citizenship and community investment are core principles of our business;**
- 2. Recognize that ultimate leadership for corporate citizenship and community investment rests with executive officers and boards; and**
- 3. Work together as well as individually to strengthen corporate citizenship across all segments of business in Canada.**

"Being corporately responsible is part of a company's strategy. Companies have begun to contemplate the business implications of leaving our future generations with the continued social and economic problems of the day. We recognize we owe more to the people of this country than simply providing quality merchandise and great value. We owe all Canadians our commitment to protect, promote and support the health and vitality of our country, our customers, our associates and the communities in which we operate."

George Heller, Hbc President and CEO

Globe and Mail Imagine article, November 10, 2004

In an effort to solicit feedback on the direction of the new Hbc Foundation, nearly 2,000 surveys were mailed to associates and 2,500 to customers across Canada in 2003. The feedback from this survey helped to determine that building healthy families, creating strong communities and inspiring young Canadians are areas of funding Hbc associates and customers consider to be high priorities.

Local Community Investment Initiatives

All funds raised by Hbc stores go back into the community where they were raised. Each Hbc store is partnered with a local women's shelter and also has the opportunity to identify other community charities that they would like to support such as local hospitals and food banks.

- On May 2, Hbc celebrated its 334th anniversary with a gift to communities across the country. Over \$1.5 million dollars was donated to hundreds of charitable organizations of all sizes across Canada. Funds were raised through the 2003 Zellers Holiday Gift Box and the Bay and Home Outfitters Charity Bear programs.
- In 2004, Hbc expanded our Holiday Charity Bear Program to a year-round Hbc-wide program. This program is based on the sale of toy animals in all Hbc stores. Major beneficiaries of this program included local Wellspring Centres that provide support programs to patients undergoing cancer treatments.
- In 2004, the Hbc Rewards Community Program was launched. This program allows charities and community groups to register with Hbc so that customers can donate their Hbc Rewards points to the organization of their choice.
- Hbc launched the Hbc Run for Canada in Ottawa on July 1, 2004. The fundraiser consisted of a 10-km run and a 3-km family walk, raising over \$100,000 for 21 community partners including the Children's Hospital of Eastern Ontario Foundation. In 2005, the Hbc Run for Canada will be expanded to seven locations including Victoria, Calgary, Winnipeg, Toronto, Algonquin Park, Ottawa and Halifax. Associates organize and run the event in their communities and allocate the funds raised to local charities.
- In 2004, the Bay celebrated its tenth year as the title sponsor for the AIDS Committee of Toronto's Fashion Cares event. Over \$300,000 in cash and in-kind support was donated to the event in support of AIDS research.

Hbc Community Investment by Province

Alberta	\$	328,705
British Columbia		370,695
Manitoba*		1,155,358
New Brunswick		65,350
Newfoundland		193,875
Nova Scotia		98,445
Ontario		3,074,529
PEI		12,030
Quebec		462,515
Saskatchewan		77,315
National Organizations		4,562,615
Total	\$	10,800,432

* Hbc provides extensive support for the Manitoba Museum and the Archives of Manitoba to assist in the preservation of our archives and artifacts.

Did you know...

That the Canadian Cystic Fibrosis Foundation (CCFF) has received over \$90,000 from the Hbc Rewards Community Program since 2002?



This money can help the CCFF fund any of the following programs:

865 sessions with a physiotherapist to teach parents of children with CF techniques for clearing mucus from their child's lungs;

or

An enhancement grant to two small regional CF clinics, which ensures that all members of the CF caregiver clinic team are available to patients on a regular basis and provides ongoing specialized training in CF care;

or

18 exceptional summer students engaged in CF research for a three-month term.

By visiting www.hbc.com/HbcRewards, you can sign up for the Hbc Rewards Program and donate a percentage (up to 100 percent) of your accumulated Hbc Rewards Points to the CCFF.

Partnerships Supporting Health, Wellness and Inspiring Young Citizens

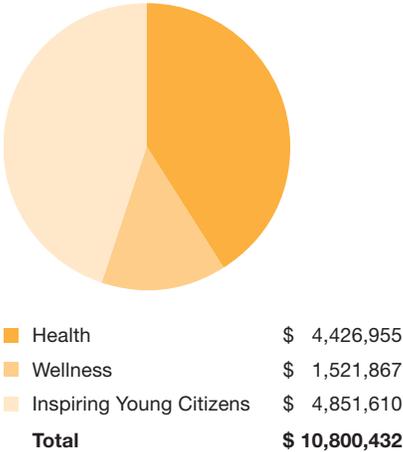
Hbc develops long-term, innovative partnerships with community members that deliver effective programs in the areas of health, wellness and inspiration for young Canadians.

Health

In 2004, Hbc contributed nearly \$4.5 million to charities in this area, including:

- The 19th Annual Zellers Family Walk for Cystic Fibrosis, which took place in over 60 communities across Canada. Hbc raised over \$25 million dollars for Cystic Fibrosis since 1985.
- Hbc was featured as a retail leader during Breast Cancer Awareness Month by partnering with both the Canadian Breast Cancer Foundation and the Quebec Breast Cancer Foundation. In total, over \$560,000 was raised through:
 - Bay store sales of pink t-shirts designed by Canadian designer Simon Chang and modelled by Céline Dion in a national advertising campaign;
 - Bay stores organized in-store cosmetic clinics during October and November. The Canadian and Quebec Breast Cancer Associations received 100 percent of the proceeds for research;
 - Zellers stores sold a line of pink ribbon branded merchandise; and
 - All Hbc stores prompted customers to donate their Hbc Rewards Points every time they shopped.

Key Community Investment Areas



Wellness

To help those organizations that are involved in ensuring the wellness of Canadians, Hbc donated over \$1.5 million in 2004 to charities, including:

- The Peterborough Floods Disaster Relief effort received an emergency donation of needed supplies (through the Canadian Red Cross) and a \$7,500 donation to the Trent Valley Archives to assist with flood repairs;
- Zellers presented Hilary Duff’s movie premiere *A Cinderella Story*, to 400 VIP guests. Over \$100,000 was raised for Kids with a Cause Canada, which helps to enrich the lives of children in need; and
- Hbc was the presenting sponsor of the Canadian Women’s Foundation Annual Professional Breakfast. Hbc Executive VP Debbie Edwards addressed the 1,000 attendees, reinforcing Hbc’s commitment to help stop violence against women.

Inspiring Young Citizens

From initiatives that support amateur athletes, to programs that help kids become responsible and qualified babysitters, Hbc committed over \$4.8 million in 2004. The organizations and events which received funding in 2004 included:

- Commonwealth Games Canada – the Fourth Annual Hbc Golf Tournament raised over \$400,000 by 600 vendors and Hbc to support Canadian athletes;
- The Canadian Red Cross’ Babysitting Program – as the official sponsor of the program, Zellers is helping to provide kids aged 11 to 15 with the necessary skills and knowledge to become successful babysitters. Over 100,000 kids were trained through this program in 2004;

- In 2004, Hbc and the Province of Manitoba celebrated the tenth anniversary of the Company's donation of its archives and artifacts. The Manitoba Museum houses, preserves and exhibits the Hbc artifacts and the Archives of Manitoba manages Hbc's archives, keeping our history alive for Canadians for years to come; and
- Hbc's History Foundation funded the Historica Fairs at which 200,000 children from grades 4 to 9 explored Canada's past by creating history projects. Hbc established the Explorer's Award at each regional fair, awarding an Hbc certificate and a blanket throw.

"Hbc's strong commitment and support in helping the Ottawa Chapter of the Canadian Cystic Fibrosis Foundation with its numerous fundraising and community-driven events makes it possible for children battling this fatal disease to receive the specialized life-saving healthcare and treatment they need to survive. Without Hbc's partnership in finding a cure for cystic fibrosis, children and families battling CF wouldn't have the hope they do today for the future."

"We are forever thankful to Hbc and its employees for their involvement and work with our foundation. Through organizing and sponsoring world-class community events such as the Hbc Run for Canada, our Chapter's 65 Roses Gala, 'Breath of Life' Celebrity Ski Challenge and 'Breakfast of Champions', to name a few... communities are now better educated and aware of Canada's most common fatal genetic disease, and most importantly, children and young adults with CF are living longer and healthier lives."

"Fighting a debilitating and life-threatening illness all your life is very taxing and difficult. To have a partner like Hbc by your side is like giving the children 'wind beneath their wings' to soar and reach their potential despite their illness."

"Thank you Hbc for giving the 'breath of life' through your gifts of hope!"

Nadine Imbleau-Redman

CCFF Ottawa Chapter Executive

Mother of two young boys with CF

"Hbc has made a real difference on the issue of ending violence against women and girls. Through a five-year partnership with the Canadian Women's Foundation, Hbc has helped to support over 200 violence prevention projects from coast to coast. In addition, each Bay, Zellers and Home Outfitters store supports a local shelter for abused women. Hbc's experience on the issue makes them a valuable corporate leader on the groundbreaking CWF National Philanthropic Strategy to End Violence Against Women and Girls – a national strategy on how private donors can make a difference. Hbc is indeed a model of how corporate responsibility can make a difference in the lives of some of the most vulnerable women and children."

Bev Wybrow

Executive Director of the Canadian Women's Foundation

Initiatives for 2005

Hbc will continue to build on our community investment initiatives in 2005. We will:

- Build a strategic fundraising initiative in support of Canadian athletes;
- Raise \$500,000 for local communities through Hbc Run for Canada;
- Raise \$500,000 to fund violence prevention projects for women and girls through the Canadian Women's Foundation's "Start to Stop Violence" campaign;
- Raise \$800,000 for community organizations through Hbc's Charity Plush program;
- Expand our partnership with the Canadian Breast Cancer Foundation to raise in excess of \$500,000; and
- Increase associate feedback on community fundraising initiatives by 25 percent.



Hbc.ca

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For more information about Hbc's Corporate Social Responsibility initiatives,
please visit www.hbc.ca/social responsibility report.