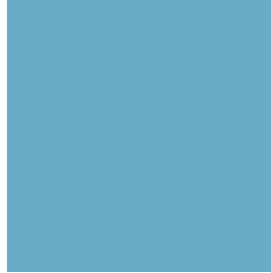


corporate social responsibility



Hudson's Bay Company is a modern retailer built to compete in the 21st century, but we're also a Company that is proud of our long heritage and our ongoing responsibilities to this great nation. We are more than a retailer; we are part of the fabric of Canada. The responsibilities we feel toward Canadian society are part of our corporate DNA. It is in this spirit and with pride that we present this, the second annual Hbc Corporate Social Responsibility report.

The foundation of this 334-year-old Company rests on three core principles. First, for more than five centuries we have taken on all those who have entered our market – no matter what the origin or form of competition – and our customers and shareholders have benefited from our competitive spirit. Second, we have and always will contribute to the communities in which we live and work. Third, we recognize that citizenship means living up to responsibilities beyond the return of a profit. Just as our Annual Report reviewed our competitive and financial results, this report deals with the second and third principles.

My career with Hbc began in a northern post close to 40 years ago and my role in the community extended well beyond that of merchant. I was also postmaster, chief electoral officer and provider of basic medical treatment. To work in this great Company is to realize that you have a responsibility beyond merely returning profits to shareholders.

We recognize that 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 nation, our customers, our associates and the communities in which we live and work. To that end, we will continue to work closely with organizations such as the United Nations Global Compact and Canadian Business for Social Responsibility to achieve our goals. We applaud the ongoing efforts of both organizations to create greater awareness of the importance of corporate social responsibility, both here at home and around the world.

For 334 years, we have been part of this country's identity, and while we may have shifted our business model to remain competitive, we are still guided by our relationship with the community and engaged as citizens. We have always been, and will continue to be, an agent for positive social change.

Sincerely,

(Signed)

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

This second annual Corporate Social Responsibility report reviews year-over-year progress and reaffirms the Company's commitment to the ideals of corporate responsibility. The report covers four critical areas: ethical sourcing, whereby we ensure products are supplied by vendors that respect fundamental labour and human rights; energy conservation; the health and well-being of our 70,000 associates; and support for communities across Canada in which Hbc operates.

Environmental Responsibility

Hbc is committed to limiting the impact of our operations on the environment. This commitment is realized through a concerted effort to reduce our use of non-renewable natural resources. The Company has established a comprehensive national energy strategy that focuses on reducing energy consumption and emissions from our over 500 stores and one of Canada's largest private fleet of vehicles.

The actions employed in pursuit of our strategic goals in our stores include retrofitting lighting systems, implementing sensitive energy-demand controls and the installation of high-efficiency motors in heating, ventilation and air-conditioning plants, which began in 2000 and continue. To date, retrofits and renovations have been completed in more than 300 stores, representing some 65 per cent of the Company's total floor area. We expect to have all the remaining stores retrofitted within three years. We are also going beyond building-code standards in construction of new stores, with each designed to consume at least 25 per cent less energy than required by law.

Hbc has reduced electricity use in its stores by more than 100 gigawatts and natural gas consumption by almost 10 million cubic metres. Combined savings of this size represent reductions in annual greenhouse-gas emissions of approximately 50 megatonnes – the equivalent of removing 10,000 cars from Canada's roads each year.

Corporate Emissions by Source

		2003	2002	2001	2000
Natural Gas	TCO ₂ e	62,258	56,569	67,133	74,855
Propane	TCO ₂ e	1,552	2,544	2,049	2,024
Electricity	TCO ₂ e	243,912	269,841	279,457	295,717
Steam	TCO ₂ e	2,044	1,223	1,504	3,688
Oil	TCO ₂ e	957	905	802	936
Transport	TCO ₂ e	24,376	25,231	24,311	25,431
Total Actual Emissions	TCO₂e	335,099	356,313	375,256	402,651
Emissions Intensity	TCO ₂ e/1,000 sq.ft.	6.47801	7.06402	7.15219	7.64035

TCO₂e = tonnes of CO₂ equivalent.

The Company's action plan to reduce greenhouse-gas emissions in our fleet includes the requirement that all vehicles meet or exceed new environmental protection standards for engines; eliminating the movement of empty trailers; using rail transportation whenever possible; and using technologies such as the Global Positioning System (GPS) to monitor vehicles everywhere in North America to better control speeding and idling.

“It is the recognition of the need for social harmony and understanding that puts the Hudson's Bay Company in the forefront of good corporate citizenship.”

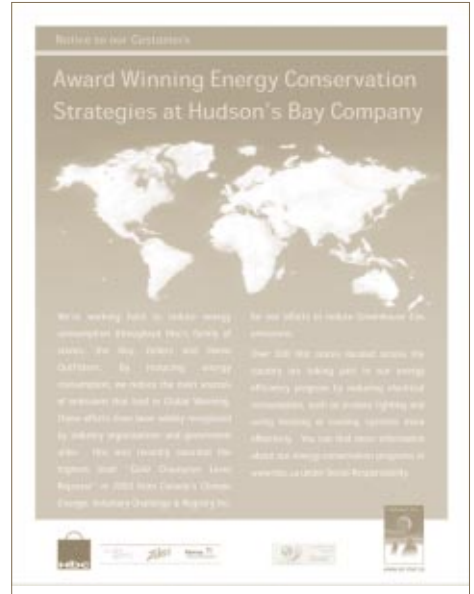
Toni Silberman, Chair, League for Human Rights, B'nai Brith Canada (Ontario Region)

corporate social responsibility

The latest component in Hbc's national energy strategy is an Energy Management Awareness Program for our 70,000 associates and customers at the Bay, Zellers and Home Outfitters. We hope to educate all our stakeholders that doing the little things to conserve energy can add up to big improvements.

Through brochures our associates are reminded to reduce lighting by 50 per cent during stocking and cleaning times and to turn off lights at night when stores are empty. Thermostats are also important. Each degree too high in winter or too low in summer represents \$1,000 a year in wasted electricity. As with any program, awareness is the key to success and we're proud of the response from every associate to safely reduce everyday energy consumption.

We're also proud of the recognition we have received for our environmental work. Among the recent awards presented to Hbc are the Gold Champion Level Reporter Award and Leadership Award for the Commercial Sector Category from Canada's Climate Change Voluntary Challenge and Registry Inc.; and BC Hydro's Power Smart Award of Excellence.

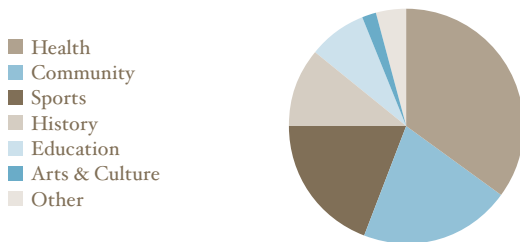


Community Investment

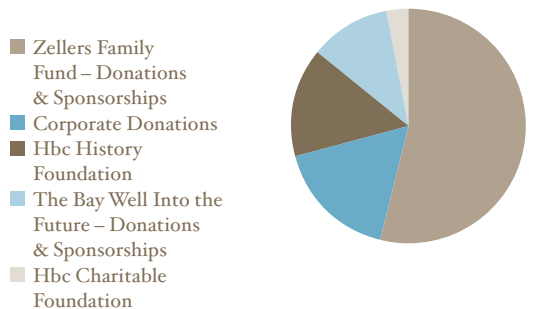
As part of the fabric of Canada, Hbc is committed to making a difference in the lives of Canadian families – from health and wellness to sport and education. In 2004, we will officially launch the Hbc Foundation, which consolidates all our charitable funds into one, reducing administrative costs and putting even more money where it's needed most.

The charts below indicate the areas of giving in 2003 and where the charitable funding originated.

Areas of Giving for 2003



Distribution of Charitable Funds



It is the Company's expectation and requirement that all associates (which includes all those employed by or under contract for the Hudson's Bay Company or any of its divisions, subsidiaries or affiliates) will conduct themselves in an honest, ethical manner in all of their dealings with the Company and when acting as a representative of the Company.

Excerpt from Hbc's Code of Business Conduct, which all managers are required to sign annually.

A Commitment to Health

The largest portion of our giving, some 35 per cent, goes to health initiatives. For example, the 18th annual Zellers Family Walk for Cystic Fibrosis raised more than \$1.7 million. Zellers has contributed more than \$25 million since the Walk started. This money supports research, which has helped to increase the life expectancy for people with CF from childhood to their mid 30s.

In support of the Canadian Cancer Society, Bay associates across Canada participated in a 12-hour overnight relay called "Relay for Life".



This event took place in 139 communities across Canada and raised more than \$16 million for cancer research, information, support programs and advocacy.

During the 2003 holiday season, Hbc organized two special fund-raising programs. The Zellers charity gift box program raised almost \$1 million for Canadian charities through the sale of \$1 holiday gift boxes in all its stores. And sales of the Bay's charity bear raised \$300,000 in support of cancer wellness programs, including the Canadian Cancer Society, Wellspring, Look Good Feel Better and the Childhood Cancer Foundation – Candlelighters Canada.

The fifth annual Zellers charity golf tournament raised more than \$325,000 for local and national Canadian charities in the areas of health, wellness and education. And, for the ninth year, the Bay was a title sponsor of the 2003 Fashion Cares event, helping to raise \$800,000 for ACT (AIDS Committee of Toronto).

Helping Neighbours in Canada and Around the World

During a six-week campaign, customers from coast-to-coast donated their Hbc Rewards Points to the Canadian Red Cross B.C. Western Forest Fire Relief Fund. More than \$100,000 was donated to help families whose lives were affected by the ravaging fires.

We donated in excess of \$200,000 in support of women's shelters across Canada. These funds have helped provide women with the means to build new lives for themselves and their children.

The Bay and Zellers pharmacies across Canada continue to collect eyeglasses that are refurbished and donated to needy people around the world. Since 1999, our stores have helped more than 20,000 people to receive much-needed glasses with total donations at more than \$5 million.

corporate social responsibility

Education, Sport and Fitness

In 2003, Hbc's History Foundation supported the promotion and preservation of our Canadian heritage with a \$1.8 million investment in the Provincial Archives of Manitoba, the Manitoba Museum and Canada's National History Society.

Last year was the fourth of a five-year, \$1 million commitment to Ryerson University's School of Retail Management. This commitment supports the development of future Canadian retail leaders.

Hbc supports amateur sport in Canada at both the local and national levels. We call it the "from the playground to platform" program. In 2003, Hbc was honoured by the Retail Council of Canada with an Excellence in Retailing Award for Community Outreach for our sponsorship of Team Canada in the 2002 Commonwealth Games. The third annual Hbc golf tournament raised approximately \$320,000 for the Canadian team heading to the 2006 Commonwealth Games in Melbourne, Australia. And in celebration of the opening of the new Bay store in Victoria, B.C., Hbc gave the local community a \$100,000 donation to the Pacific Sport Centre, an elite athlete training centre. We also recognize how sport instills self-esteem in youngsters and encourages fitness. That's why Zellers sponsors 320 hockey teams and 640 soccer teams with 15,000 kids aged 12 and under.



Our Associates

Fundamental to Hbc's culture of loyalty, trust and respect is our commitment to our associates. We believe every associate deserves to be treated with fairness and respect at all times. Hbc's Associate Charter of Rights and Responsibilities outlines our commitment to this philosophy.

The Charter of Rights and Responsibilities highlights the following values:

- Communication
- Career Opportunities and Succession Planning
- Performance Management
- Scheduling
- Health and Safety Programs and Policies
- Harassment Protection

The following programs and practices ensure the Company's commitment to these principles is realized.

Communication

We require associates and their managers to maintain open dialogue at all times through formal and informal communication mechanisms, such as an open door policy, yearly associate surveys, regular performance reviews and coaching, Company update meetings, Hbc.net, the Company's Intranet, and much more.

Opportunity

We encourage personal growth and development through educational reimbursements, e-learning, in-class workshops and customized learning in support of our strategic growth plans.

Performance

Our current focus and commitment extends to competitive benefits and performance-based compensation plans, talent management, succession planning and leadership development programs designed to attract and retain the best people in the industry. This approach creates an environment for associates to contribute to our business success and their personal development.

Scheduling

The Company has a scheduling policy that ensures a fair allocation of working hours available to all classifications of associates.

Health and Safety

Based on the principle that all accidents are preventable, Hbc is committed to providing a safe work environment. Through regular communications and active associate involvement through Health and Safety committees (consisting of both management and associates), we strive to create a safe and secure workplace for everyone.

Harassment Protection

Every Hbc associate has a right to freedom from harassment in the workplace by any agent of the Company or by another associate on any prohibited human rights grounds. These grounds include race, ancestry, place of origin, colour, ethnic origin, citizenship, creed, age, sex, marital status, family status, handicap or sexual orientation.

Ethical Sourcing

Hbc's progress in 2003 in the area of ethical sourcing of products is represented in three areas:

- i) Pursuit of Hbc's internal ethical sourcing and procedures.
- ii) Pursuit of a global system for retailers to enhance the efficiency and effectiveness of ethical sourcing activities.
- iii) Education of the public on the commitment of Canadian retailers to the issue of ethical sourcing.

Hbc's Programs and Procedures

Full details of Hbc's Vendor Compliance and Monitoring program can be obtained on our website at www.hbc.ca. In brief, the program requires all vendors supplying Hbc with private brand merchandise to undergo an audit of their operational compliance with the Hbc Code of Vendor Conduct (CVC). The Hbc CVC is based on the International Labour Organisation (ILO) conventions and principles. The audits are conducted by third-party social compliance monitoring firms.

The chart below outlines the results of our Vendor Compliance and Monitoring program in 2003 compared to 2002.

Fiscal 2003 Vendor Compliance and Monitoring Program Results

	2003	2002
Vendors that supply private brands to Hbc ¹	875	998
Factories audited	535	581
Factories that did not pass the first audit	526 or 98%	517 or 89%
Audited factories compliant ²	469 or 88%	494 or 85%
Factories Hbc chose not to do business with due to their unwillingness or inability to meet our standards ³	66 or 12%	87 or 15%

¹ On average vendors have three to four factories

² Includes factories that took corrective action and those that passed at first audit

³ Includes zero-tolerance violations

corporate social responsibility

Hbc's Social Compliance and Monitoring program is managed within the Company's Global Sourcing operations. In 2003, the team engaged in an educational campaign with our merchant groups to ensure the importance of the program was understood and integrated into the operations that buy the products we sell in our stores. In addition, the Social Compliance team developed and distributed a "vendor starter kit" to support the execution of the program.

The kit provides details on what vendors must do to be a compliant Hbc supplier; it also reinforces with our vendors that compliance with Hbc's CVC is mandatory and a requirement prior to obtaining an Hbc vendor number. A special initiative was also launched with Hbc's top 100 vendors to ensure understanding and participation in the program.

International Action

In 2003, Hbc continued to be a catalyst among retailers from around the world in seeking a global system for retailers to share social compliance audit information while maintaining the proprietary nature of individual retailer's sourcing operations.

Working with retailers from around the world, Hbc has been instrumental in bridging the efforts of the National Retail Federation (NRF) in Washington, D.C., the Retail Council of Canada (RCC) in Toronto, Foreign Trade Association (FTA) in Brussels, International Association of Department Stores (IADS) in Paris, the Intercontinental Group of Department Stores (IGDS) in Zurich and the United Nations Global Compact in New York. We anticipate that an international agreement will be reached by the spring of 2004 that will dramatically enhance the effectiveness and efficiency of individual retailers in ensuring sourcing activities contribute to the improvement of compliance to human or labour rights in their supply chains.



Educating Canadians

Customers and members of government play an important role in the evolution of ethical sourcing. This is why Hbc has been active in the development of Canadian Retailers Advancing Responsible Trade (CRART). CRART is an initiative of the Retail Council of Canada and is led by the Honourable Barbara McDougall. The activities of CRART are focused on raising awareness of the efforts of retailers in the area of ethical sourcing, to provide a forum for the exploration of the issue and consideration of how stakeholders can work together to continually improve programs and activities.



Canadian Retailers Advancing
Responsible Trade
www.retailcouncil.org/crart

"At the heart of these initiatives is the realization that we, as retailers, understand that through our order books, we can and must be a component in creating positive change. The choices we make have the potential to improve the working conditions of hundreds of thousands of people around the world – a far greater return than simply establishing good business practices."

George Heller, Remarks to the United Nations Global Compact, New York City, June 2003

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Hudson's Bay Company provides up-to-date CSR information to the public in the social responsibility section of www.hbc.ca.

www.

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