C

Oshawa

The Oshawa Group Limited Annual Report 1987

For the fiscal year ended January 23, 1988

The Oshawa Group Limited is a Canadian company principally engaged in the marketing of food, general merchandise and pharmaceuticals through a network of distribution centres and retail stores in eight provinces.

Oshawa is Canada's largest supplier of franchised IGA markets (Independent Grocers Alliance) serving 484, as well as many other food outlets and convenience stores. It owns and operates 105 supermarkets of which 52 are Food City, 42 IGA, eight Dutch Boy and three others.

General Merchandise operations comprise 39 Towers and 10 Bonimart department stores, 50 Drug City and Metro Drugs stores, 23 pharmacies, and 49 restaurants, cafeterias and snack bars.

The Company provides food service to restaurants, hotels, hospitals, caterers and institutions. Other activities include produce wholesaling, vegetable packing, public cold storages, a dairy, a uniform rental service, 11 gas bars and revenue producing real estate.

The narrative and financial data of this annual report highlight Oshawa's eleventh consecutive year of record sales and earnings. This is a reflection of the combined efforts of the thousands of full and part time employees who are the principal asset – the heart and spirit of The Oshawa Group. A cross section of these people and their jobs is the subject of illustrations which appear on the pages of this annual report.

The Oshawa Group Limited Class A shares are listed on the Toronto Stock Exchange and the Montreal Exchange.

Cover: Marc Alarie, co-proprietor of an IGA Boniprix store in Three Rivers, Quebec, typifies today's youthful and aggressive IGA Associate.

La version française de ce rapport sera envoyée sur demande

Financial Highlights

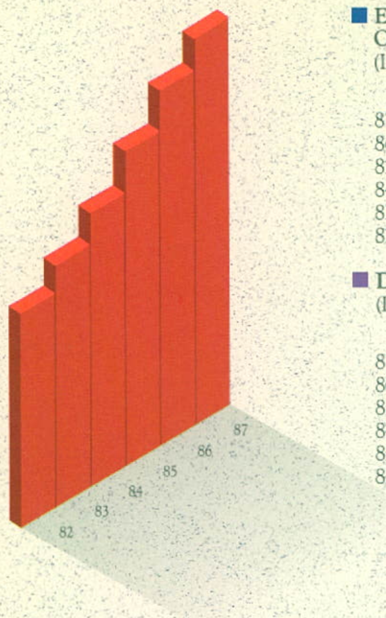
For the Year Ended January 23, 1988

(in thousands of dollars except per share)	1988 January 23	1987 January 24	% Change
Operations			
Sales and other revenue	**$3,804,015**	$3,526,098	+ 7.9
Earnings			
Before income taxes	**94,207**	82,924	+ 13.6
Before extraordinary items	**49,887**	43,228	+ 15.4
Net	**49,887**	47,251	+ 5.6
Capital Expenditures	**51,367**	47,530	+ 8.1
Financial Position			
Working capital	**147,569**	124,207	+ 18.8
Long term debt	**38,165**	43,680	− 12.6
Shareholders' equity	**341,374**	299,579	+ 14.0
Total assets	**672,934**	619,489	+ 8.6
Per Share			
Earnings			
Before extraordinary items	**1.56**	1.36	+ 14.7
Net	**1.56**	1.48	+ 5.4
Dividends	**.31**	.27¼	+ 13.8
Book value	**10.67**	9.39	+ 13.6
Key Ratios			
Return on sales	**1.31%**	1.23%	+ 6.5
Return on opening equity	**16.7%**	16.6%	+ 0.6
Current ratio	**1.54:1**	1.48:1	+ 4.1
Debt to total equity	**.11:1**	.15:1	− 26.7
Average number of shares outstanding	**31,939,915**	31,867,658	+ .23

Contents

Sales
(In Billions)

87	3.8
86	3.5
85	3.1
84	2.7
83	2.4
82	2.1

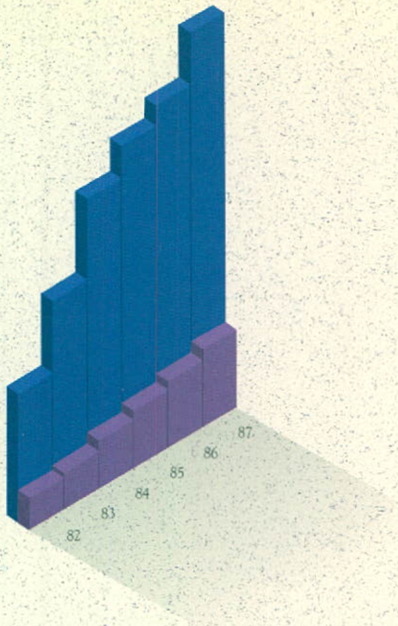


Earnings from Operations
(In Millions)

87	49.9
86	43.2
85	40.9
84	36.2
83	25.9
82	16.9

Dividends
(In Millions)

87	9.9
86	8.7
85	7.6
84	6.4
83	4.6
82	4.1

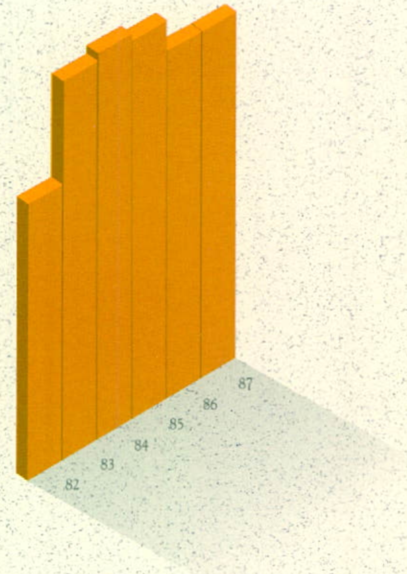


Shareholders' Equity
(In Millions)

87	341.4
86	299.6
85	260.4
84	226.1
83	195.2
82	142.8

Return on Equity

87	16.7%
86	16.6%
85	18.1%
84	18.5%
83	18.1%
82	13.2%



The 19,000 men and women at Oshawa and its divisions all played a role in producing the 11th consecutive year of record sales and earnings in 1987. The achievements outlined in these pages testify to their combined effort.

The sales improvement of 7.9% to $3.8 billion was twice the industry inflation rate and reflected a continuing increase in market share.

Earnings from operations improved 15.4% to $49.9 million ($1.56 per share compared with $1.36). As a percentage of sales, 1.31% compared with 1.23%.

The financial position improved with year-end working capital of $148 million and a debt to equity ratio of .11 to 1 after capital expenditures of $51 million.

Record results were achieved in all segments of the Company.

Wholesale and retail food and food service and produce represented 85% of Company sales. After elimination of inter-Company sales, this segment realized an 8.0% sales gain to $3.3 billion and an 8.1% increase in earnings to $73.4 million. Wholesale and retail food divisions faced intensified competition but nonetheless achieved a sales increase of 8.2% and food service and produce companies 12.3%.

The general merchandise segment which includes department stores, drug stores and restaurants, produced sales of $582.8 million, an increase of 7.7%. Record earnings of $15.6 million were up 13.4%. With fewer stores than major competitors and wide geographic dispersion, Towers/Bonimart department stores had a better than industry average sales improvement of 7.7%, there was an 8.3% rise in the drug division while restaurant revenues were level despite two fewer units.

Real estate lease revenues of $7.2 million were lower following the sale of two shopping centres – Decarie Square in Montreal and City Centre in Sudbury. Earnings improved in part due to the gain on sale of a small property.

Factors contributing to results improvement

Sales growth came from store upgrading and expansion, addition of new associates to franchise programs and increased volume in existing units. Profit improvement was substantially due to operational fine tuning and the efforts of many dedicated people.

Management development and skills training programs are provided for Oshawa staff, franchised Associates and their employees. There also has been a steady strengthening of management from internal and external sources, with a good balance of experience and youth now directing Company operations.

In addition, engineering and design teams are helping to build better stores, and new systems using the latest computer technology are increasing management efficiency at all levels.

Oshawa's policies and programs, introduced in the decade of the 1980s, have made IGA the premier voluntary group in Canada with significant year after year growth in sales and earnings. In the same time frame, Food City and Dutch Boy corporate stores have expanded and upgraded facilities and now compare more than favorably with competitive retail units.

In the general merchandise sphere, Towers/Bonimart department stores improved merchandising and store interiors. Sophisticated electronic information and inventory control systems were further enhanced. These factors have contributed to profit increases well ahead of industry performance.

Today a dynamic marketplace continues to challenge management's ability to adapt to changing competitive initiatives as well as legislative pressures.

The advent of large combination food/general merchandise and food/drug units in recent years has resulted in a substantial increase in retail space vying for business in limited growth markets. Moreover, mergers and acquisitions have created fewer but stronger competitors.

While some of the larger new formats are meeting consumer resistance, Oshawa is gaining increased market acceptance by concentrating on "customer-friendly" sized, well equipped supermarkets with expanded specialty departments.

Legislation also is having a profound effect on the retailing scene. A value added tax on food remains an uncertainty. Employment and pay equity laws have been enacted but it is too early to predict their full impact. Ontario pension reforms, effective at the beginning of 1988, leave unresolved the contentious basis of costly indexing.

Controversy continues to rage over Sunday closing legislation with no final resolution in sight. Whatever the final decision, Oshawa will fully support any law equitably applied.

Finally, the most important legislative issue is free trade. While it is likely to have a significant effect on the Canadian economy, any impact on Oshawa which is essentially a distributor, will relate directly to regional employment changes.

Appointments

Major management additions were made in 1987. These included Frederick MacGillivray, formerly President of an Ontario food wholesaler, as President and General Manager of Bolands Limited, Halifax; Douglas Stewart, formerly Senior Vice President of a major Canadian food retailer, as Vice President and Assistant General Manager of Oshawa Foods, and Ross Bletsoe, formerly President of an Atlantic Canada food and drug chain, as Vice President Associate Stores, Oshawa Foods.

Looking Ahead

Increased market share, sales and earnings are becoming more difficult to achieve in the highly competitive markets in which the Company operates. Oshawa continues to be committed to the development of management and marketing systems which enhance the success of franchise associates. A second major thrust involves increasing the number and size of quality supermarkets as well as promotional department stores and drug stores. Each type of store and format is sharply focused on target markets.

In support of these programs, capital expenditures of nearly $100 million are earmarked for 1988. Included are warehouses in Quebec City and London, for Hudon et Deaudelin and Elliott Marr, a Mississauga head office for Oshawa Foods, and an addition to Hickeson-Langs Supply Company's Hamilton distribution centre. Three Company-owned supermarkets will be opened, one expanded and 18 renovated. One department store is being built to replace a smaller unit, another is being expanded and seven renovated.

IGA Associates' pace of store growth continues with 17 new units scheduled. An additional nine will replace outmoded stores, 26 will be expanded and 22 remodeled.

Acknowledgments

As noted at the outset, this annual report in words and pictures endeavors to record the Company's recognition of the important role of staff, management and Directors in Oshawa's advances. Without their dedication and skills, Oshawa's progress would not be possible. To them, our customers, suppliers, shareholders and the public we serve—our sincere thanks.

R. Wolfe

Ray D. Wolfe, C.M.
Chairman and
Chief Executive Officer

A.P. Graham

Allister P. Graham
President and
Chief Operating Officer

March 25, 1988

Ray D. Wolfe, C.M., Chairman and Allister P. Graham, President

Wholesale and Retail Food

Representing 79.6% of 1987 consolidated sales, the wholesale and retail food divisions operate in four geographic regions – in Ontario, Oshawa Foods, Toronto, Dutch Boy Food Markets, Kitchener and Elliott Marr and Company Limited, London; in Quebec, Hudon et Deaudelin ltée, Montreal; in Western Canada, Codville Distributors, Winnipeg, Saskatoon and Regina, and in Atlantic Canada, Bolands Limited, Halifax and Moncton.

Divisional Sales/Revenue

(in millions)	1987	1986	% increase
Oshawa Foods, Dutch Boy and Elliott Marr	**$1,551.7**	$1,379.6	12.5
Hudon et Deaudelin	**935.0**	885.1	5.6
Bolands	**323.8**	304.2	6.4
Codville Distributors	**315.9**	320.8	– 1.5
	3,126.4	2,889.7	8.2
Less intra-segment sales/revenue	**64.3**	46.0	39.8
	$3,062.1	$2,843.7	7.7

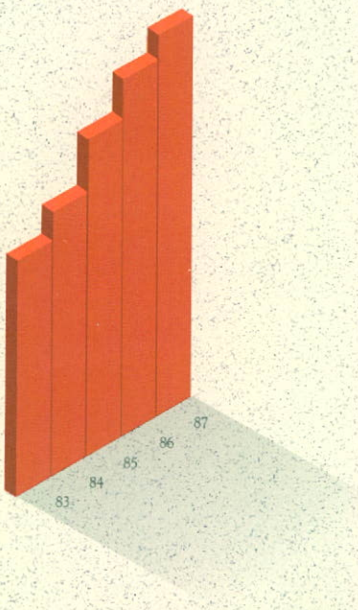
Operations

The wholesale and retail food divisions supply a full line of grocery, meat, produce, dairy, frozen food and non-food products to franchised food markets, convenience stores, cash & carry units, non-affiliated independents as well as Company-owned supermarkets. The following table lists the number of stores served.

	Ontario	Quebec	Western Canada	Atlantic Canada	1987	1986
IGA Food Markets						
Franchised	161	165	104	54	**484**	474
Company-owned	13	3	7	19	**42**	43
Other Food Markets						
Franchised	164	260	287	4	**715**	626
Company-owned	61	1	1	–	**63**	62
Convenience stores	89	222	63	–	**374**	459
Cash & Carry	–	15	5	2	**22**	20

Sales (In Billions)
Five year compound growth 13.8%

87 3.1
86 2.8
85 2.5
84 2.1
83 1.9



Food Service and Produce

Food service and produce companies operating in Ontario accounted for 5.4% of 1987 consolidated sales. Food service companies are Hickeson-Langs Supply Company, Toronto, Hamilton, London and Ottawa; Langs Cold Storage, Hamilton and London, and Model Uniform Rental Services Ltd., Toronto. Produce companies are The Ontario Produce Company, Toronto and Bradford, and The White and Company, Toronto.

Divisional Sales/Revenue

(in millions)	1987	1986	% increase
Food Service			
Hickeson-Langs	**$127.5**	$110.4	15.5
Langs Cold Storage	**3.8**	3.5	8.6
Model Uniform Rental Services	**3.7**	3.3	12.1
	135.0	117.2	15.2
Produce			
Ontario Produce and White and Co.	**75.4**	70.1	7.6
	$210.4	$187.3	12.3

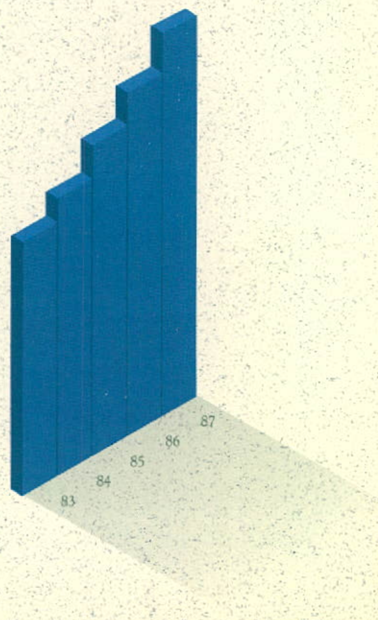
Operations

Hickeson-Langs distributes grocery, frozen food and meat products to the food service industry and also provides a juice and coffee dispenser service. Langs Cold Storage offers blast freezing and commercial frozen storage facilities to processors of fruit, vegetables, meat and juice. Model Uniform Rental Services provides uniforms and linens to retail stores and industrial plants.

Ontario Produce and White and Company are wholesalers of imported and domestic fruit and vegetables, and principal purchasing agents of produce for Oshawa Foods. Ontario Produce also operates a vegetable packing plant at Bradford, Ontario.

Sales (In Millions)
Five year compound growth 10.5%

87 210
86 187
85 170
84 154
83 143



General Merchandise

The general merchandise group which contributed 14.8% of 1987 consolidated sales, consists of Towers Department Stores Inc. (Bonimart in the Province of Quebec), Kent Drugs Limited and the Restaurant Division, all with head offices in Toronto, Ontario.

Divisional Sales/Revenue

(in millions)	1987	1986	% increase
Towers Department Stores	$478.5	$444.3	7.7
Kent Drugs	95.6	88.3	8.3
Restaurants	8.7	8.7	–
	$582.8	$541.3	7.7

Operations

Towers Department Stores operates 49 units in Ontario, *Quebec, Nova Scotia, New Brunswick and Prince Edward Island. The two stores in Prince Edward Island are combination food and general merchandise units.

* Ten Quebec department stores operate under the name of Bonimart.

Kent Drugs Limited operates 50 drug stores under the Drug City and Metro Drugs banners in Ontario, Manitoba, New Brunswick and Nova Scotia as well as pharmacies in 18 Towers units, four supermarkets and one free-standing location. The Restaurant Division consists of 49 restaurants, cafeterias and snack bars within or adjacent to Towers Department Stores.

Real Estate

Oshawa's real estate division negotiates construction and/or leasing of locations for franchised and corporate retail stores, office facilities and distribution centres. Site research, planning, engineering, construction supervision, legal and financial services are provided. These assist IGA Associates and other independents in expanding and upgrading their premises.

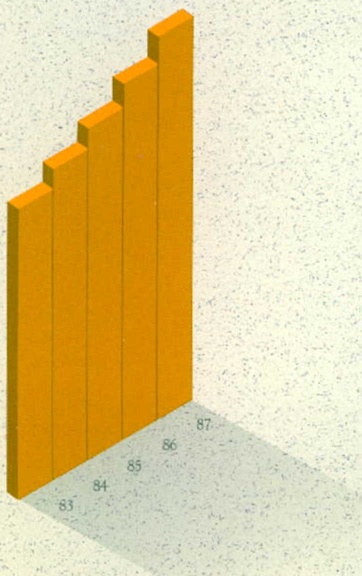
The division manages the Company's real estate holdings and administers a large number of third-party leases.

Real estate holdings include shopping centres, and a number of owned and leased plazas which are sublet to the food and general merchandise divisions and third parties, as well as land for future development or sale.

(in millions)	1987	1986
Revenue	$7.2	$9.7

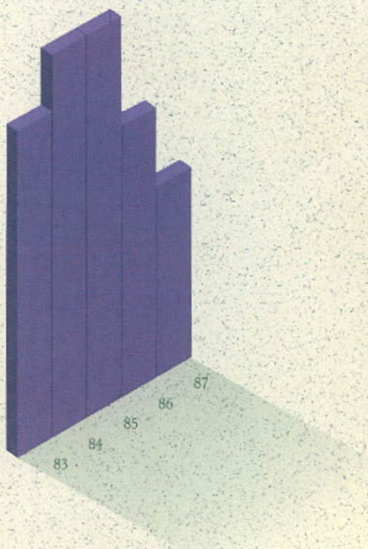
Sales (In Millions)
Five year compound growth 6.9%

87	583
86	541
85	504
84	471
83	443



Revenue (In Millions)
Five year compound growth 0%

87	7
86	10
85	14
84	14
83	12



Wholesale, retail food volume exceeds $3 billion

Food Segment

Sales rose 8.0% to $3.3 billion in the food segment which consists of wholesale and retail food as well as food service and produce divisions. Earnings were up 8.1% to $73.4 million.

Wholesale and Retail Food

Wholesale and retail divisions passed another milestone with sales of $3.1 billion, an increase of 8.2%. Market share gains were achieved in all areas except Western Canada. The largest improvements occurred in Ontario and Quebec. Earnings before interest and income taxes were higher.

Ontario

Oshawa Foods, Dutch Boy Food Markets, Elliott Marr and Company Limited, Fieldfresh Farms Inc. and the gas bars produced combined sales of $1.6 billion, up 12.5%. Earnings increased at a greater rate with all components making a positive contribution. Profit on the sales dollar also improved.

Superstores and the proliferation of discount drug stores with extensive food departments heightened competition in the Ontario market. This resulted in expanded retailing facilities serving a limited growth market in food for home consumption.

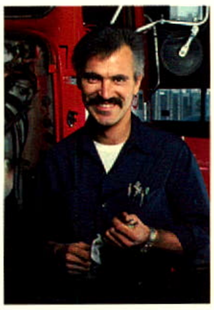
Nonetheless, Oshawa's Ontario food operations produced a double digit sales increase. This reflected continuing gains in franchise volume, ongoing growth in corporate units and further improvement in the performance of the stores acquired in 1985.

Investment by IGA Associates in new or enlarged stores resulted in the addition of nine units, five expansions, 11 renovations and the conversion of one corporate store. In the EMA franchise program provided by Elliott Marr and Company Limited for independent grocers in Southwestern Ontario, three new associates were recruited. Food Town, an alternate franchise program, was launched in June with 16 units open at year end.

Nicole Fournier, computer specialist, Hudon et Deaudelin ltée

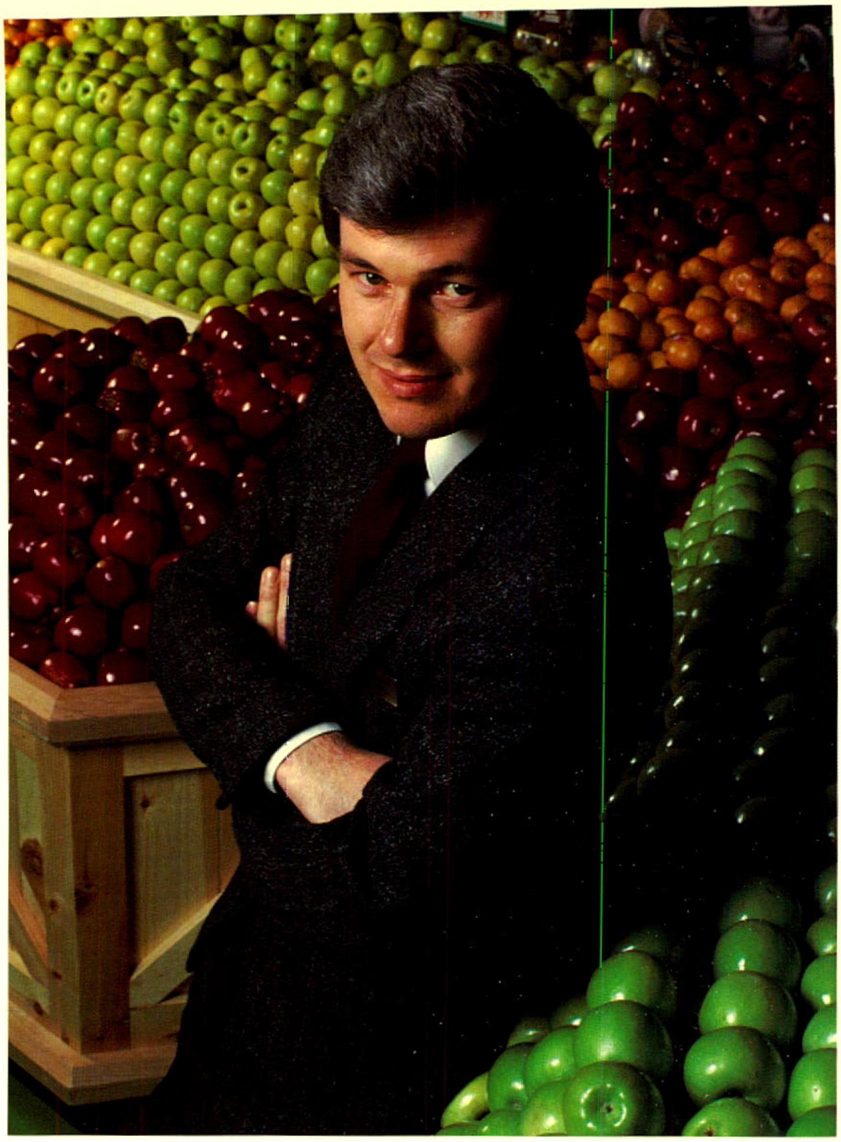
Brenda Slade, bakery manager, Oshawa Foods

Pierre Croteau, President and General Manager, Hudon et Deaudelin ltée



François Lettre, truck mechanic, Hudon et Deaudelin ltée

Mark Swiderski, pouch machine operator, Fieldfresh Dairy



Jim Dores, store manager, Oshawa Foods

Eva Kabat, computer aided design co-ordinator, Oshawa Foods

Ted Macdonald, Retail Counsellor, Elliott Marr and Company Limited

Gerry Kraehling, grocery clerk, Dutch Boy Food Markets

New facilities

to support

further growth

Corporate store development continued to flourish with two Dutch Boy and two Food City supermarkets opened, one of which replaced a smaller corporate IGA. Five Food City units were renovated.

New facilities are being added to support further growth. A head office for Oshawa Foods is under construction with completion scheduled for autumn 1988. Planning is well advanced for an 85,000 square foot dry grocery and perishables distribution centre in London for Elliott Marr.

Management changes at Oshawa Foods included the addition of Douglas Stewart as Vice President and Assistant General Manager and Ross Bletsoe as Vice President Associate Stores. Both are executives with broad experience in Canadian retail and wholesale food operations. Ben Terry, Vice President Communications, retired after a long and distinguished career with the Company.

Quebec

Intensified competition at both wholesale and retail levels slowed the sales growth rate of Hudon et Deaudelin ltée. Sales of $935.0 million were up 5.6%. Earnings improved at a greater rate.

In Quebec four strong food wholesalers compete for the business of independent retailers. This has resulted in aggressive recruitment activity in the industry. At year end Hudon et Deaudelin supplied 168 IGA Boniprix units, a net gain of two.

Plans were finalized for the construction of a 166,000 square foot grocery and perishables distribution centre in Quebec City. Completion is scheduled for late in 1988. This will increase Hudon et Deaudelin's market presence and ability to serve the Quebec City region. In addition the new warehouse will relieve overextended Montreal facilities, permitting continued expansion of business in that market.

Mabelle Jaques,
Executive Secretary,
Codville Distributors

Double digit sales increases in Atlantic Canada

Western Canada

Codville Distributors' sales of $315.9 million were down 1.5% reflecting strong competition of two major chains in urban centres and loss of a large wholesale customer.

Addition of 300,000 square feet of competitive retail space in Manitoba and Saskatchewan in 1986 resulted in the most competitive grocery pricing in Canada.

Relatively static volume coupled with the cost of financial support to Associates reduced Codville's earnings.

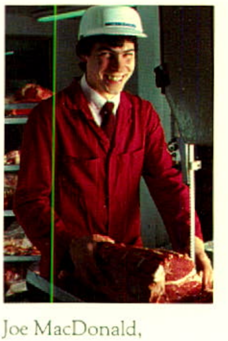
Atlantic Canada

Bolands Limited grew at a rate in excess of inflation in the four Atlantic provinces where competitors have added substantial retail footage, particularly in the form of superstores. Sales increased 6.4% to $323.8 million and earnings improved materially.

Sales to franchisees and of corporate units experienced double digit growth. These were moderated by the deletion of some unprofitable wholesale and food service accounts.

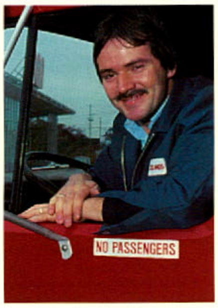
The IGA program continued to expand with the addition of three Associates, bringing to 73 the number of IGA stores in this region. Introduction of the Food Town franchise program to Atlantic Canada saw four units opened in Cape Breton.

Senior management changes included the appointment as President and General Manager of Fred MacGillivray, a native Nova Scotian and an experienced executive in Canadian food wholesaling and retailing. Robert Sartor was appointed Controller. Recognizing the growing importance of food service, Gordon Rands was named Vice President Institutional and Produce Operations after having served as Vice President Distribution.



Joe MacDonald,
meat manager,
Bolands Limited

Maryann Kehoe, cashier, Bolands Limited



Nick Kelly, truck driver,
Bolands Limited

Grant Walchuk,
forklift operator,
Codville Distributors

Ray McBride,
produce manager,
Codville Distributors

Joe Furfaro, plant and flower specialist, The White and Company

Rosalind Yeo, packer, The Ontario Produce Company

Tim Lane, salesman, Hickeson-Langs Supply Company

Mohinder Brar, shipper, Model Uniform Rental Services

Records set in food service and produce companies

Food Service and Produce Companies

New records were achieved with sales of $210.4 million, ahead 12.3% and earnings by an even greater amount. Improvements were realized in all operations.

Hickeson-Langs Supply Company

Sales of Ontario's largest food service supplier rose 15.5% to $127.5 million. The increase was the result of broadened product lines which enhanced Hickeson-Langs' "one stop" customer service. Special promotional programs were also a factor. Profit improvement equalled the sales gain.

Attention was directed towards cost reductions with particular emphasis on computerized order and information processing.

Langs Cold Storage

Revenues and earnings continued a four year upward trend. Storage service fees of $3.8 million increased 8.6%. These results were accomplished by full utilization of storage capacity.

Model Uniform Rental Services

A larger customer base contributed to a 12.1% sales increase to $3.7 million. Earnings continued at a satisfactory level.

Ontario Produce and White and Company

Sales of Ontario Produce and White and Company rose 7.6% to a record $75.4 million while earnings improved even more substantially. Ontario Produce Food Terminal operation attained new sales levels partly due to a 4% increase in physical tonnage. The Bradford packing plant's strong performance was aided early in the year by imports to cope with short domestic supply. White and Company broadened product lines of specialty produce and floral products.

Alex Zammit, order selector, The Ontario Produce Company

General Merchandise Segment

The general merchandise segment comprising Towers Department Stores Inc., Kent Drugs Limited and the Restaurant Division achieved sales of $582.8 million, an increase of 7.7% and earnings of $15.6 million, up 13.4%.

Towers is a leader in department store technology

Towers/Bonimart Department Stores

Towers/Bonimart surpassed sales and earnings records for the fifth consecutive year.

Total store sales (including sales of concessionaires) reached the half-billion dollar mark for the first time, and at $503.3 million were up 7.8% over the preceding year. Sales of company-operated departments rose 7.7% to $478.5 million.

This increase was due to the full year effect of one new unit in Atlantic Canada and strong performance in children's wear, home electronics and hardware, partially offset by a slower growth in ladies' wear, common to the industry. Sales in South-Central Ontario and Montreal benefitted from the economic growth in these regions.

Gross profit margins were slightly lower than in 1986 due to a shift in sales mix to lower-margin hardlines, sharp promotional pricing and an increase in inventory shrinkage. Expenses as a percentage of sales continued to decline reflecting tight controls and improved productivity. Earnings before interest and taxes were materially higher.

No new stores were opened during the year and the unprofitable Decarie Square unit in Montreal was closed at year-end. Three stores – Bedford, N.S. and Sudbury and Waterloo in Ontario – were renovated in the "Store-of-the-Future" format described in last year's report.

One of Towers' strategic objectives is to be a leader in the application of advanced technology to general merchandise retailing. The Company's information and inventory management systems are considered among the best in the industry. To maintain leadership, it is planned to install replacement electronic point-of-sale systems, including scanning, over the next four years. A pilot installation, Canada's first full scanning department store, went on-line in October, 1987.

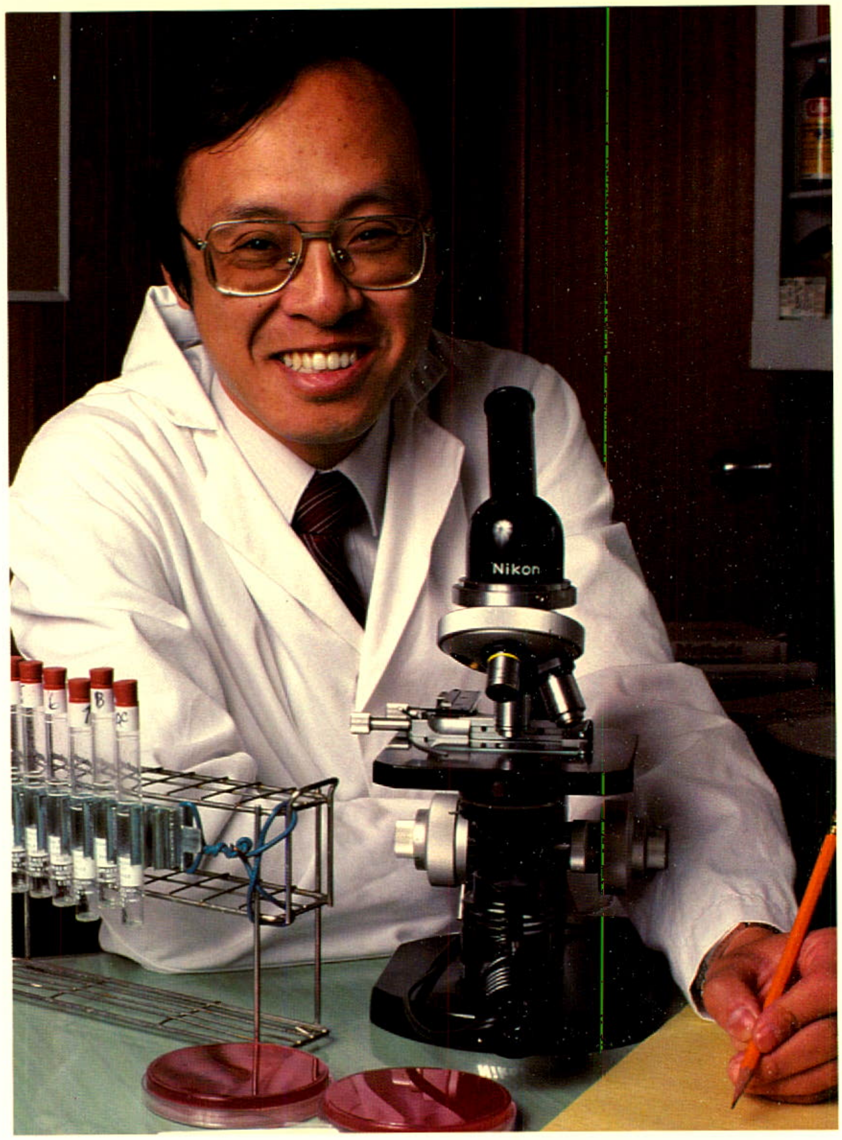
Okhwa Yi, pharmacist, Kent Drugs Limited


France Savoie, children's wear buyer, Towers Department Stores Inc.


Heidi Steinmetz, energy system operator, Towers Department Stores Inc.


Sally Garland, assistant store manager, Towers Department Stores Inc.


Rita Parker, restaurant manager, Restaurant Division



Patrick Kwan, quality control, Oshawa Foods


Margaret Ricketts, compensation analyst, The Oshawa Group Limited


Sue Hanel, occupational health and safety specialist, The Oshawa Group Limited


June Alikhan, corporate accounting manager, The Oshawa Group Limited

Strong pharmacy sales reflect prescription count growth

Kent Drugs Limited

1987 was a better year for Kent Drugs and Metro Drugs. Sales of $95.6 million were 8.3% higher while earnings showed marked improvement.

Sales and gross margins of general merchandise continued to be affected by intense competition from drug, food and mass merchandise chains. On the other hand, pharmacy sales were strong, reflecting both growth in prescription counts and higher average values. Gross profit margins remained under pressure due to the pricing structure of prescriptions dispensed under government plans in Ontario and Manitoba.

During the year, two Drug City and one medical pharmacy unit were opened and three small Metro Drug stores closed.

Restaurant Division

Sales of $8.7 million for the Restaurant Division were virtually unchanged after closing two units. Volume of continuing units rose 8.0%. Operating profit was higher due primarily to effective control of food costs and expenses.

Real Estate Segment

Real estate revenues of $7.2 million were lower principally due to the sale of the Decarie Shopping Centre. Earnings of $7.0 million were up partly the result of a gain on the sale of a small retail location.

The Decarie Shopping Centre sale resulted in no profit or loss because of previous years' provisions. The purchase of four shopping centres and 50 percent of two others referred to in last year's annual report was completed during the year.

Graeme Box, audio visual production co-ordinator, Oshawa Foods

Sales

Record consolidated sales and other revenue was $3.8 billion for the year ended January 23, 1988, an increase of 7.9%. Food accounted for $241 million and general merchandise $42 million of the $278 million improvement (after elimination of inter-Company sales). Sales have increased at an annual compound rate of 12.4% over the last five years.

Earnings

Earnings of $49.9 million ($1.56 per share) were up 15.4% from $43.2 million ($1.36 per share) last year. There were no extraordinary gains in the current year.

All segments shared in the profit improvement. Food income before interest and income taxes was up 8.1% to $73.4 million, general merchandise 13.4% to $15.6 million and real estate 72.3% to $7.0 million.

Corporate investment income improved by $587,000 and interest expense was down by $463,000. Income taxes of $44.3 million represented 47.0% of income before taxes compared with 47.9% in the previous year.

Dividends

Quarterly dividends have been paid continuously for more than 25 years. In 1987, 31 cents per share was paid compared with 27¼ cents in 1986. Of $9.9 million in dividends, $1.8 million was paid by the issuance of 93,983 Class A shares under the Dividend Reinvestment Plan which values the shares at 95% of market value when determining the number of shares to be issued in lieu of cash.

Effective with the payment of June 10, 1988 to shareholders of record May 18, 1988, the quarterly dividend was increased from eight cents to nine cents per share.

Financial Position

The following summarizes key factors of the balance sheet.

(in millions)	1987	1986	Increase (decrease)
Current assets	$420	$382	$38
Current liabilities	272	258	14
Working capital	148	124	24
Fixed and other assets	252	237	15
Assets employed	$400	$361	$39
Financed by			
Long term debt	$ 38	$ 44	$(6)
Deferred income taxes	21	18	3
Shareholders' equity	341	299	42
	$400	$361	$39

Working capital of $148 million increased $24 million.

Cash and short term investments of $47 million were $12 million higher while short term bank indebtedness of $34 million rose $3 million.

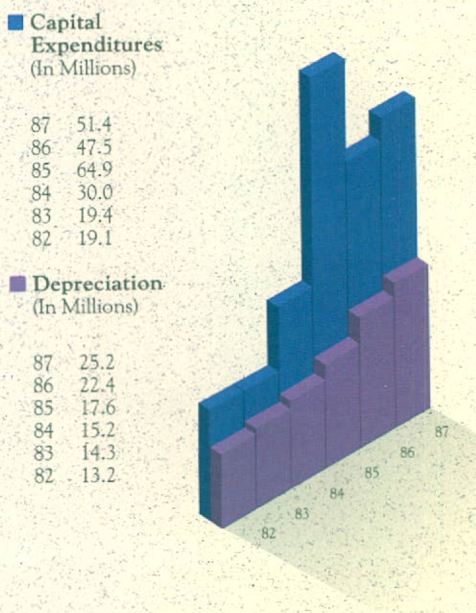
There was a reduction of $6 million in long term debt to $38 million bringing the debt to equity ratio down to .11 to 1. The average interest rate for all long term debt was 10.2%.

Capital expenditures of $51 million compared with $48 million in 1986 and were double the $25 million charged to operations for depreciation and amortization. They included the usual expansion and upgrading of food and department stores, replacements for transportation fleets, warehouse equipment and electronic data processing equipment and software. Planned expenditures on a new office and warehouse did not get started until 1988 and these will result in a larger than usual program in the new year which could be as much as $100 million.

Shareholders' equity

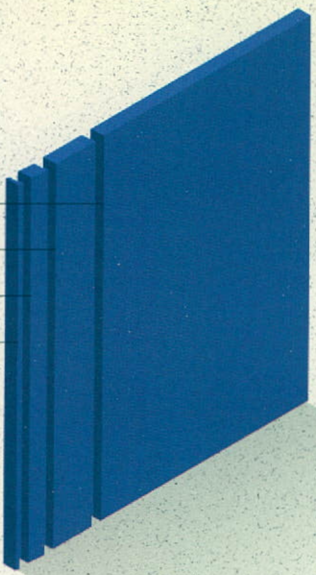
Shareholders' equity of $341 million ($10.67 per share) increased $42 million (14.0%) due to net earnings less dividends ($40 million) and $2 million through reinvestment of dividends by shareholders in Class A shares. After tax return on opening shareholders' equity ($299 million) was 16.7%.

Philip F. Connell, F.C.A.
Senior Vice President and
Chief Financial Officer



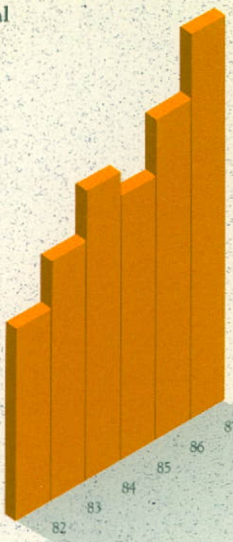
Sales and Other Revenue

1987	
79.6%	Wholesale and Retail Food
14.8%	General Merchandise
5.4%	Food Service and Produce
.2%	Real Estate



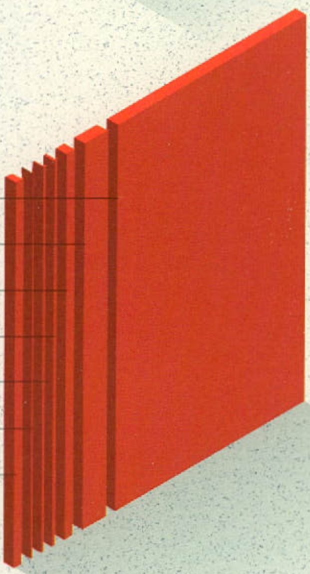
Working Capital
(In Millions)

87	147.6
86	124.2
85	102.0
84	111.0
83	92.5
82	74.8



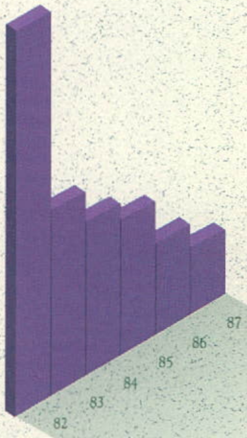
Distribution of Sales Dollar

1986	**1987**	
87.65	**87.60**	Merchandise, services and related expenses
9.08	**9.13**	Payroll and employee benefits
1.13	**1.17**	Corporation income taxes
.64	**.66**	Depreciation
.16	**.13**	Interest
.25	**.26**	Dividends paid
1.09	**1.05**	Retained for growth
100.00	**100.00**	



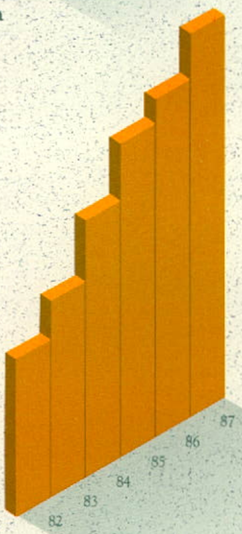
Debt to Equity Ratio

87	.11:1
86	.15:1
85	.22:1
84	.25:1
83	.30:1
82	.62:1



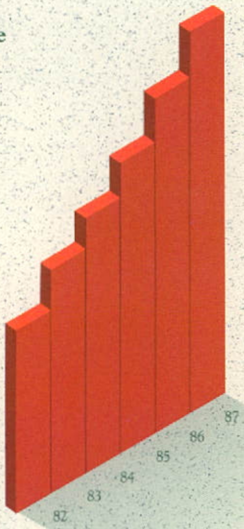
Cash Flow from Operations
(In Millions)

87	77.6
86	67.6
85	63.6
84	52.2
83	39.9
82	31.4



Shareholders' Equity per Share
(In Dollars)

87	10.67
86	9.39
85	8.17
84	7.11
83	6.16
82	5.18



Responsibility for Financial Reporting

The management of The Oshawa Group Limited is responsible to the Board of Directors for the preparation and integrity of the financial statements and related information of the Company. These have been prepared in accordance with generally accepted accounting principles consistently applied and are based on management's best information and judgments.

To provide assurance in fulfilling its responsibilities, management maintains appropriate accounting records which incorporate sound systems of internal control designed to safeguard the Company's assets and ensure proper accounting of all of its business transactions.

In support of carrying out these responsibilities management and the Directors have the assistance of the internal audit department, the external auditors and the Audit Committee of the Board all of whom review and report on such matters.

The Company's external auditors, Wm. Eisenberg & Co. conduct an independent examination of accounting records, policies, procedures and internal controls in accordance with generally accepted auditing standards and express their opinion on the financial statements.

The Audit Committee of the Board consisting of a majority of outside Directors meets with both Wm. Eisenberg & Co. and the Director of Internal Audit to review their audit findings. It then reports to the Board of Directors prior to the approval of the audited financial statements for publication.

Ray D. Wolfe, C.M.
Chairman and Chief
Executive Officer

Philip F. Connell, F.C.A.
Senior Vice President and
Chief Financial Officer

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of The Oshawa Group Limited as at January 23, 1988 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. 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.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at January 23, 1988 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.

Wm. Eisenberg & Co.
Chartered Accountants

Toronto, Canada
March 4, 1988

Consolidated Statement of Earnings

For the year ended January 23, 1988

(in thousands of dollars)	1988	1987
Sales and other revenue	**$ 3,804,015**	$ 3,526,098
Cost of sales and expenses		
Cost of sales and expenses before the undernoted items:	**3,685,267**	3,419,449
Interest (note 6)	**5,054**	5,517
Depreciation and amortization	**25,179**	22,438
	3,715,500	3,447,404
	88,515	78,694
Interest earned	**5,692**	4,230
Earnings before income taxes and extraordinary items	**94,207**	82,924
Income taxes	**44,320**	39,696
Earnings before extraordinary items	**49,887**	43,228
Extraordinary items (note 7)	**–**	4,023
Net earnings	**$ 49,887**	$ 47,251
Earnings per share before extraordinary items	**$1.56**	$1.36
Net earnings per share	**$1.56**	$1.48
Average number of shares outstanding	**31,939,915**	31,867,658

Consolidated Statement of Retained Earnings

For the year ended January 23, 1988

(in thousands of dollars)	1988	1987
Balance, beginning of year	**$ 203,658**	$ 165,089
Add: Net earnings	**49,887**	47,251
	253,545	212,340
Less: Dividends		
–Class A shares	**9,685**	8,495
–Common shares	**213**	187
	9,898	8,682
Balance, end of year	**$ 243,647**	$ 203,658

Consolidated Balance Sheet

January 23, 1988

(in thousands of dollars)	1988	1987
Assets		
Current assets		
Cash and short term investments	$ 46,879	$ 35,158
Accounts receivable	115,898	103,616
Inventories	246,818	234,454
Real estate held for sale	1,706	1,515
Prepaid expenses	8,694	7,275
	419,995	382,018
Fixed assets (note 2)	227,682	216,332
Other assets (note 3)	25,257	21,139
	$ 672,934	$ 619,489
Liabilities		
Current liabilities		
Bank indebtedness	$ 34,318	$ 30,803
Accounts payable and accrued liabilities	224,303	209,165
Income taxes payable	13,309	16,663
Current portion of long term debt	496	1,180
	272,426	257,811
Long term debt (note 4)	38,165	43,680
Deferred income taxes	20,969	18,419
Shareholders' equity		
Capital stock (note 5)		
Authorized		
Unlimited number of Class A and Common shares		
Issued		
31,297,425 Class A shares (1987 – 31,203,442)	97,683	95,877
685,504 Common shares	44	44
	97,727	95,921
Retained earnings	243,647	203,658
	341,374	299,579
	$ 672,934	$ 619,489

Approved on behalf of the Board

R. Wolfe　　P. Connell

Ray D. Wolfe, C.M.,
Director

Philip F. Connell, F.C.A.,
Director

Consolidated Statement of Changes in Financial Position

For the year ended January 23, 1988

(in thousands of dollars)	1988	1987
Cash provided from:		
Operating activities:		
Earnings before extraordinary items	$ 49,887	$ 43,228
Charges to earnings not affecting cash:		
Depreciation and amortization	25,179	22,438
Deferred income taxes	2,550	1,902
	77,616	67,568
Changes in working capital components other than cash	(14,728)	(904)
	62,888	66,664
Financing activities:		
Issue of long term debt	3,650	2,192
Issue of Class A shares	1,806	629
Reduction of long term debt	(5,386)	(1,569)
	70	1,252
Investing activities:		
Purchase of fixed assets	(51,367)	(47,530)
Disposal of shopping centres net of mortgages	6,572	18,773
Disposal of other fixed assets	1,901	1,988
Loans and mortgages receivable	(1,339)	(6,429)
Other	(621)	(2,214)
	(44,854)	(35,412)
Dividends	(9,898)	(8,682)
Change in cash position	8,206	23,822
Cash, beginning of year	4,355	(19,467)
Cash, end of year	$ 12,561	$ 4,355
Represented by:		
Cash and short term investments	$ 46,879	$ 35,158
Bank indebtedness	(34,318)	(30,803)
	$ 12,561	$ 4,355

(in thousands of dollars)

1. Summary of Significant Accounting Policies

Principles of Consolidation
The consolidated financial statements include the accounts of the Company and its subsidiaries.

Inventories
Warehouse inventories are valued at the lower of cost and net realizable value with cost being determined on a first-in, first-out basis. Retail inventories are valued at the lower of cost and net realizable value less normal profit margins as determined by the retail method of inventory valuation.

Real Estate Held for Sale
Real estate held for sale is valued at the lower of cost and net realizable value. Cost includes development expenses and carrying charges including applicable interest on general borrowings.

Fixed Assets and Depreciation
Major enlargements, remodelings and improvements are charged to the appropriate fixed asset accounts. The cost of maintenance and repairs which does not extend the life of an asset is charged against earnings.

Fixed assets are recorded at cost, which in the case of land and buildings includes carrying costs incurred during development, construction and the initial leasing period, and are depreciated on a straight-line basis at rates sufficient to amortize the cost of the assets over their estimated useful lives as follows:

Classification	Estimated Useful Life
Buildings	20 to 40 years
Equipment	4 to 10 years
Leasehold improvements	term of lease plus first option to a maximum of 20 years

Development and Opening Expenses
Development and opening expenses of new stores are written off in the year of opening.

Sale of Stores and Properties
Gains and losses on the sale of stores and properties, other than major operating facilities, are considered an integral part of the Company's operations and are included in ordinary income.

Pensions
Effective January 25, 1987, the Company adopted the new accounting recommendations of the Canadian Institute of Chartered Accountants relating to pension costs and obligations. The change in policy, which has been applied prospectively, did not have a material effect on net earnings for the current year. Adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized over the estimated average remaining service lives of the members.

Fiscal Year
The fiscal year of the Company ends on the fourth Saturday in January.

2. Fixed Assets

	1988	1987
Land	$ 26,279	$ 26,293
Buildings	80,965	96,197
Equipment	214,715	190,093
Leasehold improvements	45,022	42,684
	366,981	355,267
Less accumulated depreciation	139,299	138,935
	$227,682	$ 216,332

3. Other Assets

	1988	1987
Loans and mortgages receivable	$ 21,027	$ 15,357
Deferred major expansion costs net of accumulated amortization of $3,812 (1987–$1,710)	2,915	5,017
Other	1,315	765
	$ 25,257	$ 21,139

4. Long Term Debt

	1988	1987
Bank indebtedness	$ 7,770	$ 7,770
Mortgages and loans payable	24,593	28,432
Series A Sinking Fund Debentures	6,298	8,658
	38,661	44,860
Less current portion	496	1,180
	$ 38,165	$ 43,680

Principal Repayments

Principal repayments of long term debt are as follows:

Fiscal year ending in	
1989	$ 496
1990	7,604
1991	3,251
1992	6,198
1993	5,176
After 1993	15,936
	$ 38,661

Bank Indebtedness

Bank indebtedness bears interest at rates varying from short term money market rates to prime, and provides for principal repayments in 1990 and 1993.

Mortgages and Loans Payable

These obligations bear interest at an average rate of 10.2% per annum and provide for principal repayments from 1989 to 2009.

Series A Sinking Fund Debentures

These debentures, secured by a floating charge on the undertaking and assets of the Company, bear interest at the rate of 9¼% per annum and mature June 15, 1991.

5. Capital Stock

The Class A shares are non-voting, participating and are entitled to a non-cumulative annual dividend of 10 cents per share in priority to the payment of dividends on the Common shares.

Under the Dividend Reinvestment Plan, 93,983 Class A shares were issued during the year by reinvestment of cash dividends of $1,806. During the year a further 250,000 shares were reserved for issuance under this plan. As at January 23, 1988, 281,017 Class A shares are available for future issue.

The Company has reserved 1,200,000 Class A shares for issuance under the Share Option Plan for Officers and Key Executives 1982. As at January 23, 1988, options for 686,500 Class A shares were outstanding under this plan exercisable until 1997, at prices between $7 and $22⅞ per share. The exercise of these options would have no material dilutive effect on earnings per share.

6. Interest Expense

	1988	1987
Interest on long term debt	$ 3,297	$ 4,607
Other interest	2,430	1,939
	5,727	6,546
Less interest capitalized to cost of real estate	673	1,029
	$ 5,054	$ 5,517

7. Extraordinary Items

	1988	1987
Gain on sale of Sudbury City Centre shopping centre net of reduction in carrying value of Decarie Square shopping centre to amount realized on sale subsequent to the year end less income taxes of $1,780	$ –	$ 4,147
Loss on closing Dominion Mushroom division, less income taxes recovered of $141	–	(124)
	$ –	$ 4,023

8. Effective Income Tax Rate

	1988	1987
Combined basic Canadian and Ontario income tax rate	52.0%	53.3%
Tax reductions due to lower rates in other provinces	(3.9)	(4.1)
Inventory allowance	–	(0.4)
Sundry items	(1.1)	(0.9)
	47.0%	47.9%

9. Leases

Minimum lease payments for store locations, office and warehouse facilities and equipment (exclusive of additional amounts based on percentage of sales, taxes, insurance, and other occupancy charges) are as follows:

Fiscal year ending in	
1989	$ 34,596
1990	31,912
1991	29,898
1992	27,590
1993	24,988
After 1993	187,325
Total minimum lease payments	$336,309

It is expected that rental revenue of $9,446 will be received in the fiscal year ending January 28, 1989, from locations which have been sublet.

10. Related Party Transactions

The Company leases a warehouse and five retail outlets from a company owned by certain Officers, Directors and their families. Rentals for the year ended January 23, 1988, amounted to $1,197 (1987–$1,053).

11. Pension Plans

At January 1, 1988, the moving average market value of pension fund assets of $61,196 were available to satisfy estimated pension benefits of $44,344 accrued at that date.

12. Segmented Information

	Food		General Merchandise		Real Estate		Consolidated	
	1988	1987	**1988**	1987	**1988**	1987	**1988**	1987
Sales and other revenue								
Outside	**$3,218,994**	$2,979,944	**$ 582,784**	$ 541,258	**$ 2,237**	$ 4,896	**$3,804,015**	$3,526,098
Inter-segment	**53,435**	51,046	**–**	–	**4,926**	4,782	**–**	–
	$3,272,429	$3,030,990	**$ 582,784**	$ 541,258	**$ 7,163**	$ 9,678	**$3,804,015**	$3,526,098
Segment profit	**$ 73,396**	$ 67,921	**$ 15,565**	$ 13,728	**$ 6,963**	$ 4,042	**$ 95,924**	$ 85,691
Corporate Investment Income							**3,337**	2,750
Interest							**(5,054)**	(5,517)
Income taxes							**(44,320)**	(39,696)
Earnings before extraordinary items							**49,887**	43,228
Extraordinary items							**–**	4,023
Net Earnings							**$ 49,887**	$ 47,251
Assets								
Segment	**$ 423,753**	$ 396,947	**$ 136,546**	$ 129,555	**$ 64,877**	$ 57,832	**$ 625,176**	$ 584,334
Corporate							**47,758**	35,155
Total							**$ 672,934**	$ 619,489
Capital expenditures								
Segment	**$ 30,058**	$ 28,535	**$ 9,093**	$ 7,622	**$ 11,091**	$ 10,933	**$ 50,242**	$ 47,090
Corporate							**1,125**	440
Total							**$ 51,367**	$ 47,530
Depreciation and amortization								
Segment	**$ 19,188**	$ 16,952	**$ 4,882**	$ 4,337	**$ 886**	$ 983	**$ 24,956**	$ 22,272
Corporate							**223**	166
Total							**$ 25,179**	$ 22,438

6 Year Comparative Summary

(in thousands of dollars except per share)

Income Statement	Sales and other revenue
	Salaries, wages, benefits
	Depreciation and amortization
	Interest expense
	Income taxes
	Earnings before extraordinary items
	Net earnings
Balance Sheet	Total assets
	Current assets
	Current liabilities
	Working capital
Financing	Shareholders' equity
	Long term debt
Cash Flow	Cash flow from operations
	Capital expenditures
	Re-invested in business
	Dividends paid
Key Financial Ratios	Current ratio
	Return on opening equity
	Earnings before extraordinary items as a % of sales
Per Share Data	Earnings before extraordinary items**
	Net earnings**
	Dividends paid
	Shareholders' equity**
	High-low stock price
	Average number of shares*
	Number of shares at year end*
	Number of full and part time employees at year end

* Combined Class A and Common

** Earnings per share have been calculated on the average number of shares outstanding during the year. Shareholders' equity per share has been calculated on the shares outstanding at the end of the year. Figures for previous years have been adjusted for the two-for-one stock splits of June 12, 1986 and July 6, 1984.

Valuation Day stock price (December 22, 1971) was $2.84½.

1988 January 23	1987 January 24	1986 January 25	1985 January 26	1984 January 28 (53 weeks)	1983 January 22
$3,804,015	$3,526,098	$3,102,447	$2,665,774	$2,434,985	$2,118,285
347,145	320,080	277,042	241,433	226,144	201,389
25,179	22,438	17,572	15,189	14,287	13,186
5,054	5,517	6,908	7,258	11,066	16,219
44,320	39,696	30,305	27,420	19,643	11,465
49,887	43,228	40,860	36,179	25,895	16,912
49,887	47,251	40,986	36,179	25,895	18,327
672,934	619,489	567,684	483,922	435,631	393,825
419,995	382,018	335,129	300,512	263,448	226,327
272,426	257,811	233,148	189,505	170,946	151,502
147,569	124,207	101,981	111,007	92,502	74,825
341,374	299,579	260,381	226,084	195,223	142,774
38,165	43,680	56,918	56,255	58,202	88,051
77,616	67,568	63,591	52,186	39,944	31,449
51,367	47,530	64,887	30,043	19,439	19,143
39,989	38,569	33,348	29,756	21,341	14,211
9,898	8,682	7,638	6,423	4,554	4,116
1.54:1	1.48:1	1.44:1	1.59:1	1.54:1	1.49:1
16.65	16.60	18.07	18.53	18.14	13.23
1.31	1.23	1.32	1.36	1.06	0.80
1.56	1.36	1.28	1.14	.92	.62
1.56	1.48	1.29	1.14	.92	.67
.31	.27¼	.24	.20¼	.16½	.15
10.67	9.39	8.17	7.11	6.16	5.18
24-17	26-16¼	17½-11⅝	12½-7¾	8⅝-5⅜	6⅛-3¼
31,939,915	31,867,658	31,831,050	31,731,906	28,270,772	27,461,216
31,982,929	31,888,946	31,856,742	31,787,492	31,670,984	27,553,144
19,063	18,306	17,819	15,031	14,643	14,806

Directors, Officers

Directors


Ray D. Wolfe, C.M.


Allister P. Graham

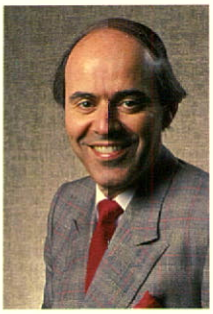

William L. Atkinson


Donald Carr, Q.C.*


Philip F. Connell, F.C.A.*


Charles Perrault, C.M., M.Eng.*


Arthur J.R. Smith, Ph.D., D.U.C., LL.D.*


Harold J. Wolfe


Harvey S. Wolfe


Jack B. Wolfe


Jonathan A. Wolfe

*Audit Committee

Officers

Ray D. Wolfe, C.M.
Chairman and Chief Executive Officer

Allister P. Graham
President and Chief Operating Officer

Philip F. Connell, F.C.A.
Senior Vice President and Chief Financial Officer

Leonard Eisen, F.C.A.
Treasurer

Harold J. Wolfe
Secretary

Corporate Management

Ray D. Wolfe, C.M.
Chairman and Chief
Executive Officer

Allister P. Graham
President and Chief
Operating Officer

Philip F. Connell, F.C.A.
Senior Vice President and
Chief Financial Officer

William L. Atkinson
Group Vice President
General Merchandise

Jack B. Wolfe
Group Vice President
Food Service and
Produce Companies

E. Leonard Besler, C.A.
Corporate Controller

Sam Crystal
Vice President
Public Affairs

Leonard Eisen, F.C.A.
Treasurer

G. Michael Moffat
Vice President
Business Planning

Paul B. Nielsen
Vice President
Industrial Relations

Sidney Pasoff
Vice President
Management Information
Services

Donald A. Smith
Vice President
Human Resources

Harold J. Wolfe
General Counsel

Operating Divisions

Food

Bolands Limited
Halifax, Nova Scotia
Fred MacGillivray
President and
General Manager

Codville Distributors
Winnipeg, Manitoba
Max J. Hatch
President and
General Manager

Dutch Boy Food Markets
Kitchener, Ontario
Barry Humphrey
General Manager

Elliott Marr and Company Limited
London, Ontario
Michael Smith
General Manager

Fieldfresh Farms Inc.
Oakville, Ontario
Hans T. Christiansen
General Manager

Hudon et Deaudelin ltée
Montreal, Quebec
Pierre Croteau
President and
General Manager

Oshawa Foods
Toronto, Ontario
Jonathan A. Wolfe
President and
General Manager

Food Service and Produce Companies

General Manager Produce
Myron J. Wolfe

The Ontario Produce Company
Toronto, Ontario
Gerald V. Tracey
Manager

The Ontario Produce Company
Bradford, Ontario
H. Glen Henderson
Manager

The White and Company
Toronto, Ontario
Vance Graham
Manager

General Manager Food Service
Gary R. Adams

Beverage Dispensers
Toronto, Ontario
Nick Sacco
Manager

Hickeson-Langs Supply Company
Toronto, Ontario
Charles J. Davies
President and
General Manager

Langs Cold Storage
Hamilton, Ontario
Kenneth R. Edworthy
General Manager

Model Uniform Rental Services Ltd.
Toronto, Ontario
Wilfred M. Dawe
General Manager

General Merchandise

Kent Drugs Limited
Toronto, Ontario
Ab Flatt
President

Restaurants
Toronto, Ontario
Larry J. Crystal
General Manager

Towers Department Stores Inc.
Toronto, Ontario
William L. Atkinson
President and Chief
Executive Officer

Corporate Data

Registrar and Transfer Agents
Class A Shares and Series A Debentures
The Canada Trust Company
Toronto, Montreal, Calgary, Regina and Vancouver

Auditors
Wm. Eisenberg & Co.,
Toronto

Bankers
Canadian Imperial Bank of Commerce
Bank of Montreal
Bank of Nova Scotia
Toronto Dominion Bank
National Bank of Canada

Listed on
Toronto Stock Exchange
Montreal Exchange
Stock Symbol: OSH.A

Investor Information
Philip F. Connell, F.C.A.

Head Office
302 The East Mall,
Etobicoke, Ontario
Canada M9B 6B8
(416) 236-1971
Fax: (416) 236-2071
Telex: 06-984631

Annual Meeting
The annual meeting of shareholders will take place at 11 a.m., Thursday, June 9th, 1988 in the British Columbia Room, Royal York Hotel, Toronto

Design: Barr Associates Photography: Frank Grant Typography: Cooper & Beatty Printing: Arthurs-Jones Lithographing Ltd. Printed in Canada

The Oshawa Group
Limited