CANADIAN TIRE

annual report 1974

CANADIAN TIRE CORPORATION LIMITED

BOARD OF DIRECTORS

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A. D. BILLES, *President,* Bilco Tire Limited, Toronto, Canada—*A Canadian Tire Associate Store Owner*

A. J. BILLES, *Past-President,* Canadian Tire Corporation, Limited, Toronto, Canada

A. W. BILLES, *President,* 839 Yonge Main Store Limited, Toronto, Canada—*A Canadian Tire Associate Store Owner*

D. G. BILLES, *President,* Performance Engineering Limited, Thornhill, Canada

R. J. HOBBS, *Vice-President,* Canadian Tire Corporation, Limited, Toronto, Canada

R. LAW, Q.C., *Secretary,* Canadian Tire Corporation, Limited, Toronto, Canada *Partner,* Blackwell, Law, Treadgold & Armstrong, *Barristers and Solicitors*

J. D. MUNCASTER, *President and Chief Executive Officer,* Canadian Tire Corporation, Limited, Toronto, Canada

A. L. SHERRING, C.A., *Executive,* National Trust Company, Limited, Toronto, Canada

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J. W. KRON, *Vice-President, Distribution*
R. LAW, *Secretary*
F. Y. SASAKI, *Treasurer*

REGISTRAR & TRANSFER AGENT

National Trust Company, Limited, Toronto, Montreal and Calgary

SOLICITORS

Blackwell, Law, Treadgold & Armstrong

BANKERS

Canadian Imperial Bank of Commerce
The Toronto-Dominion Bank
Chicago City Bank and Trust Company

AUDITORS

Deloitte, Haskins & Sells, *Chartered Accountants*

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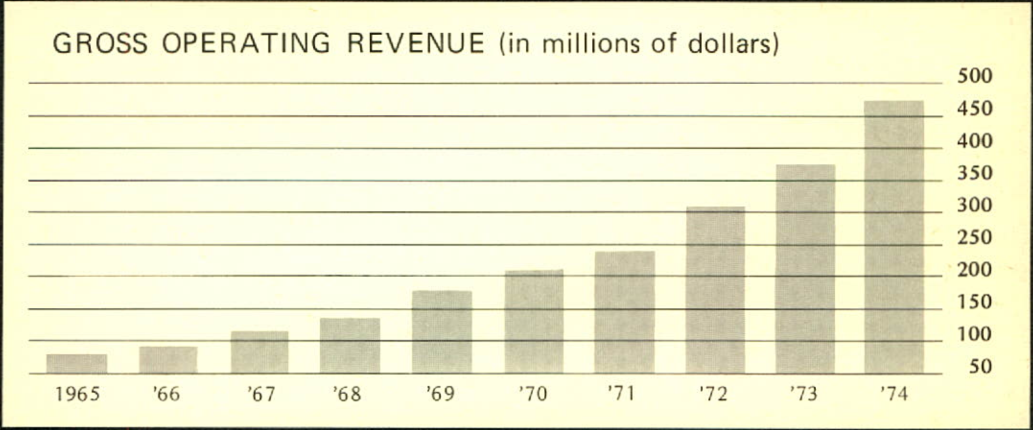
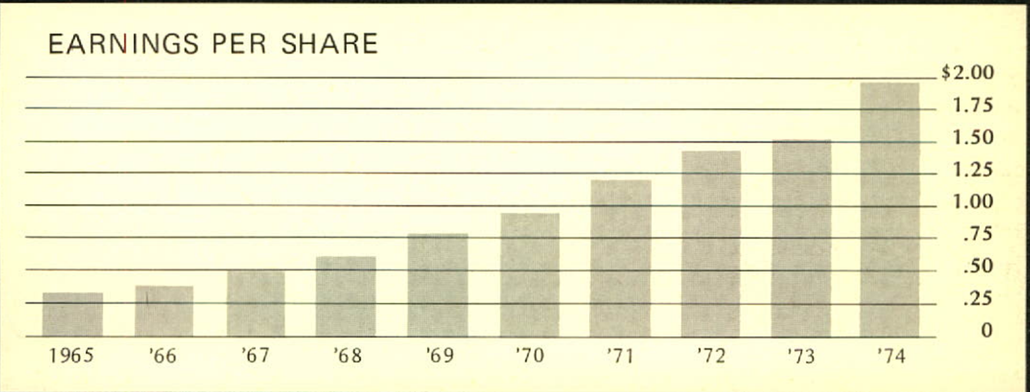
FRONT COVER: A company is the sum of its parts, as depicted overleaf. Shown are construction workers at our Mississauga Distribution Centre; Burlington, Ontario, store completed in 1974; interior of the new Quebec City store (see page 20), and one of the Company's self-serve gasoline outlets.

	1974	1973	Per cent Annual Increase
Gross operating revenue . .	$472,323,224	$378,587,233	24.8%
Net income	$ 21,481,470	$ 16,410,204	30.9%
*Per share**	$ 1.96	$ 1.51	29.8%
Cash flow	$ 28,143,300	$ 21,126,982	33.2%
*Per share**	$ 2.56	$ 1.94	32.0%
Dividends paid	$ 3,292,076	$ 2,943,586	11.8%
Per share	30 cents	27 cents	11.1%
Shareholders' equity . . .	$136,418,364	$114,466,164	19.2%
*Per share**	$ 12.43	$ 10.49	18.5%
Working capital	$ 56,876,903	$ 33,706,903	68.7%
Capital expenditures . . .	$ 35,007,911	$ 27,332,316	28.1%
Number of stores at year-end	287	283	1.4%
Number of shareholders . .	11,995	11,764	2.0%

**Combined Class A and common – based on weighted average number of shares outstanding during the year.*

99.1% of our 11,995 shareholders reside in Canada and own 99.7% of the total shares outstanding.





J. D. MUNCASTER, *President*

CANADIAN TIRE

directors' report

In 1974, the consolidated gross operating revenue of the Company and its subsidiaries increased by 24.8 per cent to $472,323,000. This new record was achieved despite the disappointing December sales of seasonal merchandise and continuing softness in our gasoline marketing activities. Revenue growth was augmented by very strong performances by the subsidiary companies, Canadian Tire Acceptance and Cantire Products Limited.

Net income after taxes was $21,481,000 or $1.96 per share for 1974, compared with $16,410,000 or $1.51 per share for 1973, an increase of 30.9 per cent in net income after taxes and an increase of 29.8 per cent in earnings per share. Included in net income for both years were extraordinary gains on the sale of property, amounting to $131,000 in 1974 (1 cent per share) and $79,000 in 1973 (1 cent per share).

Income before taxes and extraordinary gain increased by 33.8 per cent, reflecting improved gross margins which returned almost to the 1971 level, and lower operating costs as a percentage of sales in most expense categories. Provision for depreciation increased by $2.0 million, however, to $6.5 million, and interest expense, net of interest income, climbed by $3.4 million to $5.3 million. Of this increased interest expense, $1.2 million was attributable to Canadian Tire Acceptance Limited, with the remainder resulting from the financing of rapid asset growth at the very high interest rates prevailing during 1974.

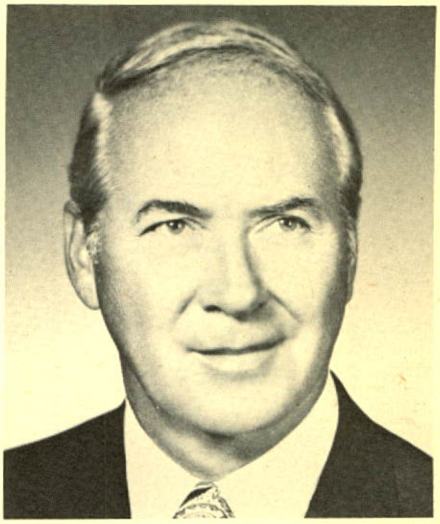
Inventories increased by $22.0 million during the year, reflecting the expanding requirements of a growing business and the impact of inflation on replacement costs. In addition, in late 1974, with the slowdown in economic activity, the shortages and extended lead times which had characterized the year changed very abruptly to surpluses and shorter lead times in many product areas. The efforts of suppliers to move portions of their inventories into our warehouses prior to year-end added to our inventory levels.

In December, 1974, our distribution centres' receipts from suppliers amounted to $32.7 million, compared with $18.0 million in 1973. With the return of a buyers' market, a significant improvement in the rate of inventory turnover is anticipated during 1975.

Higher effective tax rates reduced the pre-tax profit gain of 33.8 per cent to 30.7 per cent on an after-tax basis and before the inclusion of extraordinary gains.

In the inflationary environment experienced during 1974, the funding requirements of a growing distribution company, such as Canadian Tire, are further accentuated by the Canadian tax structure which limits reduced tax rates and accelerated write-offs of new investments to the manufacturing, processing and natural resource industries. In 1974, at a time when cash flow was being increasingly absorbed by the impact of inflation upon working capital requirements—and thus was not available for capital expansion—a 10 per cent federal tax surcharge was introduced

to the shareholders



A. E. BARRON, *Chairman of the Board*

for the period from May 1, 1974 to April 30, 1975, again payable by companies other than those in manufacturing, processing and natural resource industries. For this particular eight-month period in 1974, the tax surcharge paid by Canadian Tire amounted to $1,070,000 or 10 cents per share. Including the surcharge, the Company's effective tax rate for 1974 was 51.7 per cent, compared with 50.5 per cent the previous year, and dramatically higher than the 42 per cent rate payable by manufacturing and processing firms.

In addition, since the accelerated write-off provisions to encourage investment are also restricted to manufacturing and processing companies, less than 1 per cent of the Company's total income tax provision of $22,823,000 was of a deferred nature, with more than 99 per cent being payable on a current basis.

Capital expenditures during 1974 amounted to $35.0 million of which some $24.8 million was invested in land acquisition and store construction to provide expanded retail capacity. Twenty-eight new retail stores were opened during the year—four being additional outlets and 24 relocations into larger premises, as listed on page 15.

During the year, $4.8 million was invested in Phase II of the automated Mississauga Distribution Centre, completion of which is expected in the third quarter of 1975. This extension is designed to provide for our growth requirements for 1976 and 1977 and utilizes the technology perfected in Phase I. Following initial start-up difficulties in late 1973, the Mississauga Centre performed up to design expectations and at anticipated cost levels throughout 1974.

Substantial modifications have also been made to the Sheppard Avenue Distribution Centre to expand throughput and reduce merchandise handling costs. The remainder of the 1974 capital expenditures program was devoted to construction of three new self-service gasoline facilities, the conversion of six others to self-serve and additions to our transportation fleet and other equipment.

For the first seven months of 1974, our petroleum marketing division experienced substantial improvement in both revenues and earnings. During the remainder of the year, however, surplus supplies of gasoline were available and keen price competition ensued. Accordingly, both revenues and earnings were adversely affected—a condition which continues to prevail in the early part of 1975.

Although the gross operating revenue of Canadian Tire Acceptance Limited increased by almost 50 per cent to $7.6 million, expenses associated with rapid growth—plus high levels of short-term interest rates and the desire to provide fully for any potential credit losses—caused net income to fall to $179,000 in 1974 from $351,000 in the previous year. Lower interest levels in 1975 are expected to substantially improve the earnings of this subsidiary.

directors' report to the shareholders (continued)

Cantire Products Limited, in its first full year following the amalgamation of the predecessor companies, experienced very satisfactory performance in terms of both revenues and earnings.

Early in 1974, Canadian Tire entered into a joint venture with The Larkin Lumber Company Limited—a subsidiary of Canadian Corporate Management Company Limited —which operates specialty lumber outlets, to open on an experimental basis two lumber and building supply stores adjacent to Canadian Tire Associate Stores. As a result of extensive delays in obtaining the necessary permits and approvals, the first of these outlets was not opened until early February of 1975.

Opening sales of the initial "Timberline" unit—located adjacent to a new Canadian Tire Associate Store in Stratford, Ontario—are exceeding expectations. The second lumber and building supply outlet is expected to open later in 1975 and the results of both will be appraised to determine the desirability of opening additional Timberline stores.

Profit sharing awards, and the Company's contribution to the employee share purchase plan, amounted to $3.4 million for the year. This increase of some $1.3 million has permitted a return to the level of profit sharing awards relative to employees' earnings provided in the years prior to 1973. For that year, a reduced award was made because of the minimal increase in net income. The resumption of the previous award pattern will serve to strengthen the attitude of participation and involvement fostered by the profit-sharing and share-ownership philosophy of the Company.

On March 14, 1975, the employees' profit sharing plans owned 1,226,541 Class A shares, representing 16.0 per cent of the total Class A shares outstanding, and 419,280 common shares, or 12.2 per cent of such shares outstanding.

In addition to the profit sharing plans within the Company, we have been actively promoting the concept of profit sharing by our dealers with their employees. The dedication and commitment of our employee shareholders, and our Associates and their employees, has been the cornerstone of Canadian Tire's growth in the past and a vital factor in our success this past year in dealing with the difficulties inherent in the prevailing economic climate.

A year ago, the major challenges confronting the Company were those associated with product shortages, lengthening lead times and rising prices. In recent months, these conditions have changed dramatically and the sellers' market has again become a buyers' market in most product areas. Consequently, improvement is expected in 1975 in our rate of inventory and asset turnover—the main area of our concern in our 1974 results. The combination of improved asset turnover, lower interest rates and the profits associated with continuing growth is expected to yield highly satisfactory earnings in 1975.

Contrary to the situation in the United States, real disposable income is expected to continue to increase in Canada during 1975, despite our current economic difficulties. Because of Canadian Tire's product mix, which is concentrated in lower dollar value items and products of a do-it-yourself nature—and the Company's reputation for value—we expect to experience strong sales performance in this consumer environment. As an indication, sales of Canadian Tire dealers to the public increased by 22.9 per cent in January and 27.1 per cent in February.

On behalf of the Board,

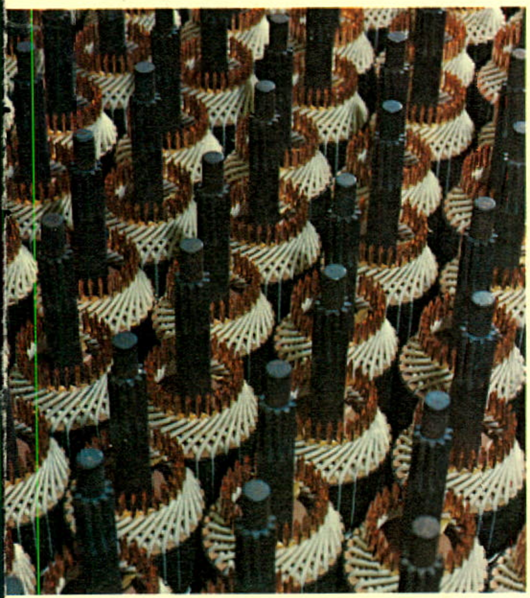
Dated March 24, 1975.

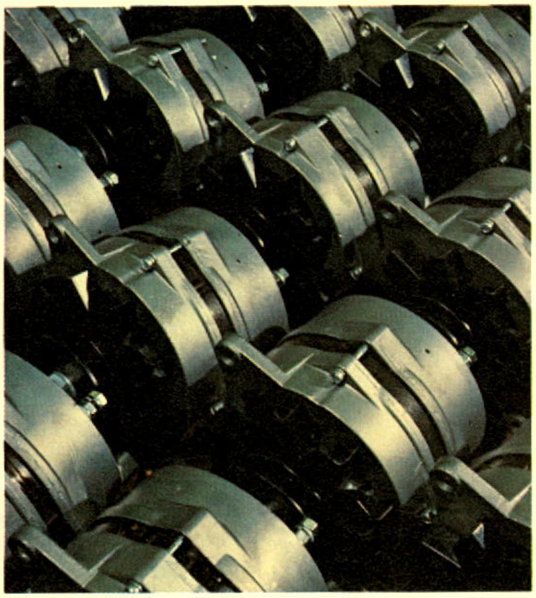
Alex E. Barron

Alex E. Barron
Chairman of the Board

J D Muncaster

J. D. Muncaster
President and Chief Executive Officer





ABOVE: The new Sheppard Avenue replacement store is adjacent to our Distribution Centre in Toronto. The vacated building was converted into offices, an auto parts depot for rush orders and a truck service centre for our hauling fleet.

LEFT: Remanufactured starter armatures and alternators, shown coming off the production line at Cantire Products Limited—a manufacturing subsidiary of Canadian Tire since 1973. These recycled units are supplied on a trade-in basis to our associate stores and service centres by Cantire.

consolidated statement of income and retained earnings

for the year ended December 31, 1974 *(with 1973 figures for comparison)*

	1974	1973
GROSS OPERATING REVENUE	$472,323,224	$378,587,233
OPERATING EXPENSES:		
Cost of merchandise sold and all expenses except for the undernoted items	412,977,177	337,090,692
Depreciation and amortization	6,494,328	4,514,058
Employee deferred profit sharing and share purchase plans	3,382,577	2,088,635
Interest:		
Long-term debt	3,404,552	1,416,968
Other	3,620,493	1,644,709
Total operating expenses	429,879,127	346,755,062
	42,444,097	31,832,171
Interest income [Note 5]	1,729,440	1,188,122
INCOME BEFORE INCOME TAXES	44,173,537	33,020,293
Provision for income taxes	22,822,886	16,688,911
Income before extraordinary gain	21,350,651	16,331,382
Gain on sale of property (less applicable income taxes: 1974 – $21,878; 1973 – nil)	130,819	78,822
NET INCOME FOR THE YEAR	21,481,470	16,410,204
RETAINED EARNINGS AT BEGINNING OF THE YEAR	86,375,095	72,908,477
	107,856,565	89,318,681
DEDUCT:		
Dividends paid:		
Class A shares	2,257,076	2,012,086
Common shares	1,035,000	931,500
	3,292,076	2,943,586
RETAINED EARNINGS AT END OF THE YEAR	$104,564,489	$ 86,375,095
Earnings per share before extraordinary gain	$ 1.95	$ 1.50
Earnings per share relating to gain on sale of property	0.01	0.01
EARNINGS PER SHARE	$ 1.96	$ 1.51

The accompanying notes, on pages 10 & 11, are an integral part of these financial statements.

consolidated statement of changes in financial position

for the year ended December 31, 1974 *(with 1973 figures for comparison)*

	1974	1973
FUNDS PROVIDED:		
Income before extraordinary gain	$21,350,651	$16,331,382
Add charges not involving an outlay of funds:		
Depreciation and amortization	6,494,328	4,514,058
Amortization of debenture discount and issue expense	31,730	21,245
Deferred income taxes	135,772	181,475
Funds provided from operations	28,012,481	21,048,160
Issue of 9¼% Sinking Fund Debentures, Series B [Note 2]	29,720,365	–
Issue of Class A shares	3,762,806	2,517,567
Increase in mortgages payable	515,099	405,049
Disposals of property and equipment	1,267,467	388,270
Total funds provided	63,278,218	24,359,046
FUNDS APPLIED:		
Additions to property and equipment:		
Land	7,047,156	5,569,347
Buildings	21,524,372	16,284,863
Fixtures and equipment	3,850,823	3,858,574
Automotive equipment	1,281,925	993,389
Leasehold improvements	1,303,635	626,143
	35,007,911	27,332,316
Increase in long-term portion of income debentures	1,379,998	315,993
Increase in mortgages receivable	418,233	142,783
Investment in shares of 50%-owned company	10,000	–
Dividends paid:		
Class A shares	2,257,076	2,012,086
Common shares	1,035,000	931,500
Total funds applied	40,108,218	30,734,678
Increase (Decrease) in working capital for the year	23,170,000	(6,375,632)
Working capital at beginning of the year	33,706,903	40,082,535
WORKING CAPITAL AT END OF THE YEAR	$56,876,903	$33,706,903

The accompanying notes, on pages 10 & 11, are an integral part of these financial statements.

consolidated balance sheet

ASSETS

	1974	1973
CURRENT ASSETS:		
Cash and bank deposit receipts	$ 5,364,787	$ 791,825
Accounts and loans receivable	47,235,304	37,243,061
Merchandise inventories	73,454,149	51,479,901
Income debentures of Canadian Tire dealers – amounts due within one year	1,585,454	1,020,993
	127,639,694	90,535,780
Acceptance company:		
Charge account receivables	31,179,960	22,867,160
Other	153,363	99,553
Total current assets	158,973,017	113,502,493
INVESTMENTS:		
Income debentures of Canadian Tire dealers – less amounts due within one year – at cost	5,094,817	3,714,819
Shares of 50%-owned company	10,000	–
Total investments	5,104,817	3,714,819
PROPERTY AND EQUIPMENT – at cost:		
Land	32,321,218	25,907,728
Buildings	92,882,395	71,945,295
Fixtures and equipment	16,781,110	12,910,597
Automotive equipment	4,524,038	3,340,533
Leasehold improvements	3,356,275	2,051,373
	149,865,036	116,155,526
Less accumulated depreciation and amortization	30,085,948	23,753,373
Net property and equipment	119,779,088	92,402,153
OTHER ASSETS:		
Mortgages receivable	710,884	292,651
Deferred income tax charge	205,056	340,828
Debenture discount and issue expense – less accumulated amortization of $86,613	617,914	370,009
Total other assets	1,533,854	1,003,488
TOTAL	$285,390,776	$210,622,953

The accompanying notes, on pages 10 & 11, are an integral part of these financial statements.

Incorporated under the Laws of the Province of Ontario

AS AT DECEMBER 31, 1974 *(with 1973 figures for comparison)*

CANADIAN TIRE

LIABILITIES AND SHAREHOLDERS' EQUITY

	1974	1973
CURRENT LIABILITIES:		
Accounts payable	$ 37,554,291	$ 31,609,471
Accrued liabilities and coupons outstanding	29,267,461	22,626,974
Income taxes payable	6,772,739	2,183,809
Short-term promissory notes	–	2,228,500
Loans payable to directors and shareholders	1,333,253	1,159,892
Mortgages payable – amounts due within one year	386,829	330,986
	75,314,573	60,139,632
Acceptance company:		
Bank indebtedness	519,000	1,019,000
Short-term promissory notes	22,881,000	15,280,000
Accounts payable	3,381,541	3,356,958
Total current liabilities	102,096,114	79,795,590
LONG-TERM DEBT [Note 2] :		
Mortgages payable – less amounts due within one year	1,876,298	1,361,199
8½% Sinking Fund Debentures, Series A	15,000,000	15,000,000
9¼% Sinking Fund Debentures, Series B	30,000,000	–
Total long-term debt	46,876,298	16,361,199
SHAREHOLDERS' EQUITY:		
Capital stock [Notes 3 and 4] :		
Authorized:		
15,000,000 Class A non-voting shares without par value		
3,450,300 common shares without par value		
Issued and fully paid:		
7,549,417 Class A shares (1973 – 7,462,202 shares)	30,961,687	27,198,881
3,450,000 common shares	892,188	892,188
	31,853,875	28,091,069
Retained earnings	104,564,489	86,375,095
Total shareholders' equity	136,418,364	114,466,164
TOTAL	$285,390,776	$210,622,953

Approved by the Board: J. D. MUNCASTER, Director; ALEX E. BARRON, Director.

notes to the consolidated financial statements

1 Significant Accounting Policies

Principles of Consolidation:

The consolidated financial statements include the accounts of Canadian Tire Corporation, Limited and its subsidiaries, all of which are wholly owned.

During the year, the company acquired a 50% interest in Timberline Home Centres Limited, which is accounted for on the equity method. The company had not commenced commercial operations prior to December 31, 1974.

Inventories:

Merchandise inventories have been valued at the lower of cost or estimated net realizable value less normal profit margin, with cost being determined substantially on a first-in, first-out basis.

Property and Equipment:

It is the companies' policy to provide for depreciation under the declining-balance method at various annual rates (buildings—5% and 10%, fixtures and equipment—20%, and automotive equipment—30%) and to provide for amortization of leasehold improvements on a straight-line basis over the terms of the respective leases. A full year's depreciation is provided on all retail stores opened during the year, or under construction at the year end. Internal development costs, interest and realty taxes pertaining to construction in progress and land held for development are expensed as incurred.

Debenture Discount and Issue Expense:

Debenture discount and issue expense is amortized on a straight-line basis over the terms of the debentures.

Income Taxes:

The companies account for income taxes using the deferral method of tax allocation, under which income taxes are provided in the year transactions affect net income, regardless of when such transactions are recognized for tax purposes.

Earnings per Share:

The earnings per share figures are calculated using the weighted average number of shares outstanding during the year.

2 Long-term Debt

Mortgages Payable:

Mortgages have been assumed on the acquisition of 20 properties. These mortgages mature at various times between 1975 and 1999, and bear interest at various rates up to 9½%.

Sinking Fund Debentures—Series A:

The 8½% Sinking Fund Debentures, Series A (unsecured) mature on June 1, 1991, and are redeemable, in whole or in part, at a premium of 7½% to January 14, 1975, decreasing ½% annually thereafter. Under the Trust Indenture, a sinking fund must be provided to redeem $500,000 of Series A Debentures at par in each of the years 1977 to 1991 inclusive.

Sinking Fund Debentures — Series B:

During the year, the company issued $30,000,000 principal amount of 9¼% Sinking Fund Debentures, Series B (unsecured) due July 15, 1994 for $30,000,000 less commission and other issue expenses.

The Series B Debentures are redeemable, in whole or in part, at a premium of 9¼% to January 14, 1976, decreasing ½% annually thereafter. Under the Trust Indenture, a sinking fund must be provided to redeem $1,500,000 of Series B Debentures at par in each of the years 1979 to 1993 inclusive.

The Series A and Series B Trust Indentures impose certain restrictions on the company. To December 31, 1974, all of the conditions of the Trust Indentures have been met.

3 Capital Stock

Issue of Class A Shares:

During 1974, the company issued 87,215 Class A shares for cash in the total amount of $3,762,806. All of these shares were issued to, or for the benefit of, the employees and officers of the company, the employees of the subsidiaries, and the employees of authorized dealers.

Conditions of Class A Shares:

The conditions attached to the Class A shares prohibit the issue of Class A shares unless either:

(a) such shares are being issued to, or for the benefit of, employees of the company, or employees of any subsidiary, or authorized dealers, or the employees of authorized dealers, pursuant to a scheme or plan in existence at such time; or

(b) the authorization of the holders of Class A shares shall first have been obtained.

The holders of Class A shares are entitled to receive a preferential cumulative dividend at the rate of 4 cents per share per annum and, after payment of a dividend on each of the common shares at a similar rate, are entitled to participate, pro rata, in further dividends declared and paid in each year.

Share Options:

Under the share option arrangement (see Note 4), certain senior officers, engaged directly in the management of the company, have been granted options to purchase Class A shares of the company. The options are exercisable at any time during a ten-year period from the date granted as follows:

Date Granted	*Expiry Date*	*Price*	*Number of Shares*
February 27, 1970	February 28, 1980	$20.287	17,259
February 26, 1971	February 26, 1981	24.975	25,695
February 29, 1972	February 28, 1982	35.325	23,677
February 28, 1973	February 28, 1983	54.900	17,656
February 28, 1974	February 28, 1984	40.950	20,050
January 2, 1975	January 2, 1985	34.537	46,479
			150,816

The exercise of these share options would have no material effect on the reported earnings per share.

4 Remuneration (Directors and Senior Officers)

The aggregate direct remuneration paid, or payable, by the company to the directors and senior officers of the company, as a group, during the fiscal year ended December 31, 1974 was $496,300 (1973 – $350,900). In addition, with respect to the fiscal year ended December 31, 1974, pursuant to a share purchase arrangement and a share option arrangement authorized by resolution of the directors, the company:

(a) paid to certain senior officers, engaged directly in the management of the company, amounts calculated by reference to the earnings of the company for such fiscal year which, after provision for personal income tax, provided sums sufficient in the aggregate to pay the subscription price ($175,949) of 4,585 Class A shares of the company required by this arrangement to be subscribed for by such senior officers, at the market value thereof as at January 2, 1975, namely $38.375 per share, and

(b) granted to certain senior officers, engaged directly in the management of the company, options to purchase 46,479 Class A shares of the company at a price of $34.537 per share, being 90% of the market value thereof as at January 2, 1975, such options to be exercisable at any time up to January 2, 1985, at which time they expire.

It is presently proposed that the share purchase arrangement and share option arrangement will be continued in the future, and may be extended to certain other senior officers of the company from time to time, engaged or to be engaged, directly in the management of the company. Also with respect to the fiscal year ended December 31, 1974, the company paid to the Trustees of the Canadian Tire Deferred Profit Sharing Plan for the benefit of senior officers, amounts determined on the same basis as for other employees of the company.

5 Interest Income

Interest income is comprised of the following:

	1974	1973
Inventory advances to dealers	$1,128,673	$ 724,463
Income debentures	368,089	212,744
Short-term investments and bank deposit receipts	101,740	186,447
Other	130,938	64,468
	$1,729,440	$1,188,122

Interest earned on charge account receivables of Canadian Tire Acceptance Limited is included in gross operating revenue in the consolidated statement of income and retained earnings.

6 Leases

As at December 31, 1974, the companies are committed to minimum annual rentals (exclusive of taxes, insurance, and other occupancy charges) of properties under 47 leases with termination dates between 1975 and 2006. The minimum annual payments required in each of the next five years are as follows:

Year	*Minimum Annual Rentals*	*Year*	*Minimum Annual Rentals*
1975	$2,375,332	1978	$1,996,386
1976	2,198,769	1979	1,965,033
1977	2,175,369		

7 Commitments

As at December 31, 1974, the companies had commitments for acquisition of properties and expansion of warehouse and retail store facilities amounting to $14,450,000.

8 Subsequent Event

On February 17, 1975, Canadian Tire Acceptance Limited issued $5,000,000 principal amount of 9% promissory notes due February 17, 1980 for $5,000,000 less commission and other issue expenses.

auditors' report to the shareholders

We have examined the consolidated balance sheet of Canadian Tire Corporation, Limited as at December 31, 1974 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 14, 1975.

Deloitte, Haskins & Sells
Chartered Accountants

CANADIAN TIRE

10 - year

	Year	1974	1973
Operating Data:	Gross operating revenue	$ 472,323	378,587
	Per cent annual increase	24.8%	22.5%
	Income before taxes	$ 44,174	33,020
	Per cent of gross operating revenue	9.4%	8.7%
	Income taxes	$ 22,823	16,689
	Net income before extraordinary gain	$ 21,351	16,331
	Per cent annual increase	30.7%	2.2%
	Net income including extraordinary gain	$ 21,481	16,410
	Earnings per share before extraordinary gain*	$ 1.95	1.50
	Earnings per share including extraordinary gain*	$ 1.96	1.51
	Provision for depreciation	$ 6,494	4,514
	Cash flow	$ 28,143	21,127
	*Per share**	$ 2.56	1.94
	Dividends paid	$ 3,292	2,944
Financial Position:	Working capital	$ 56,877	33,707
	Capital expenditures	$ 35,008	27,332
	Fixed assets – net	$ 119,779	92,402
	Shareholders' equity	$ 136,418	114,466
	*Per share**	$ 12.43	10.49
	Per cent return on shareholders' equity	15.7%	14.3%
Statistics:	Number of Class A shareholders	10,467	10,250
	Number of Common shareholders	1,528	1,514
	Number of Associate Stores	287	283
	Number of gasoline stations	54	52

**Based on the weighted average number*

comparative summary

Dollar amounts are expressed in thousands
(except per share figures)

1972	1971	1970	1969	1968	1967	1966	1965
309,174	246,758	212,405	180,684	143,887	115,352	97,716	81,233
25.3%	16.2%	17.6%	25.6%	24.7%	18.0%	20.3%	12.7%
30,745	25,531	21,172	16,349	12,687	10,017	7,542	5,869
9.9%	10.3%	10.0%	9.0%	8.8%	8.7%	7.7%	7.2%
14,763	12,818	11,114	8,615	6,679	5,110	3,891	3,035
15,982	12,713	10,058	7,734	6,008	4,923	3,655	2,834
25.7%	26.4%	30.0%	28.7%	22.0%	34.7%	29.0%	13.5%
16,100	12,955	10,448	7,852	6,008	4,926	3,681	2,891
1.47	1.18	.95	.75	.60	.50	.38	.29
1.48	1.20	.98	.76	.60	.50	.38	.30
3,354	2,623	2,282	1,892	1,355	1,053	883	852
19,623	15,451	12,580	9,689	7,385	5,964	4,659	3,602
1.81	1.43	1.18	.94	.74	.60	.48	.37
2,499	2,166	1,928	1,170	899	761	584	497
40,083	35,969	14,911	11,163	12,867	7,217	6,186	7,580
18,101	10,678	12,608	10,064	6,946	4,663	3,955	1,715
69,893	55,394	47,742	37,506	29,602	24,011	20,458	17,387
98,482	83,774	71,489	53,144	45,622	34,143	28,683	24,903
9.06	7.74	6.72	5.15	4.57	3.44	2.95	2.57
16.3%	15.5%	14.6%	14.8%	13.2%	14.4%	12.8%	11.6%
8,626	7,064	5,223	4,021	3,274	2,229	1,814	1,644
1,268	1,188	1,047	947	865	782	715	662
269	260	254	245	234	226	225	224
49	45	40	32	29	27	26	26

of shares outstanding during the year and adjusted for a 5-for-1 split of July 12, 1966 and a 3-for-1 split of May 13, 1970.

Brantford (Ontario) store more than doubles the size of the building it replaces.

Burlington (Ontario) store is one of 24 retail facilities located in larger buildings in 1974.

Retail facilities open at the rate of over two per month in 1974

Canadian Tire's capital expenditures for fixed assets in 1974 totalled $35.0 million—exceeding the record $27.3 million the Company disbursed the previous year in its continuing program of retail store construction, expansion of distribution and petroleum marketing facilities and land transactions. Our net fixed assets at year-end of $119.8 million, after the allowance for depreciation and amortization on property and equipment, represented a gain of 29.6 per cent over 1973 and a gain of 588.9 per cent over a 10-year period.

A record number of 28 retail facilities opened their doors to the buying public during the year—four first-time locations and 24 replacement stores, built in areas where market analyses indicated display and sales floor limitations in the existing store buildings. This quantum growth in our market "roots"—represented by the large number of replacement stores compared to our relatively modest addition of four retail facilities for the year—has provided for greater exposure of our product lines to customers in established Canadian Tire markets.

Stratford (Ontario) replacement store.

A floor area of 20,000 square feet is currently required for a fully-representative display of our product lines—excluding the footage needed for offices, reception areas, washroom facilities, stockrooms and automotive service bays, which make up the total "functional" area of a retail location. During the 1974 year, eight stores were replaced by substantially larger buildings to bring them up to this "major store" category in terms of functional area on the site.

Of the total increase in retail footage for the year, 70 per cent was attributable either to the replacement or expansion of stores in existing Canadian Tire market areas. The remainder is accounted for by the four retail facilities built in new market areas—Alma, Asbestos and Hauterive (Quebec) and the Ottawa (Ontario) Carling Avenue* location—which brought our total of associate stores to 287 by year-end.

Stores which were replaced with larger and more efficient buildings in 1974, on the basis of favourable sales projections for their areas, were:

Ontario:— Brantford,* Burlington,* Collingwood, Essex, Kemptville, Listowel, Sault Ste. Marie,* Seaforth, Stratford, Sutton, Toronto* (Sheppard Avenue location), Walkerton and Windsor East.

Quebec:— Chateauguay, Granby, Greenfield Park* (suburban Montreal location), Hull,* Mont Laurier, Quebec City* (Boulevard Hamel location), Shawinigan, Sorel and Val d'Or.

Manitoba:— Fort Garry (in Winnipeg South).

Nova Scotia:— Yarmouth.

*Stores above identified by an asterisk have a retail area of at least 20,000 square feet.

Five other retail facilities were in advanced stages of construction as the year came to a close, including two large units in Edmonton, Alberta—the first Canadian Tire stores in the foothills province.

statement of income and retained earnings

for the year ended December 31, 1974 *(with 1973 figures for comparison)*

	1974	1973
GROSS OPERATING REVENUE	$7,567,980	$5,092,488
OPERATING EXPENSES:		
Interest on borrowed funds	2,152,988	926,729
Provision for credit losses	1,817,713	781,109
Other	3,216,197	2,662,425
Total operating expenses	7,186,898	4,370,263
INCOME BEFORE INCOME TAXES	381,082	722,225
Provision for income taxes	202,233	371,174
NET INCOME FOR THE YEAR	178,849	351,051
Retained earnings at beginning of the year	1,106,533	755,482
RETAINED EARNINGS AT END OF THE YEAR	$1,285,382	$1,106,533

The accompanying notes on pages 18 & 19 are an integral part of these financial statements.

statement of changes in financial position

for the year ended December 31, 1974 *(with 1973 figures for comparison)*

	1974	1973
FUNDS PROVIDED:		
Net income for the year	$ 178,849	$ 351,051
Add charges not involving an outlay of funds:		
Depreciation and amortization	64,110	60,017
Funds provided from operations	242,959	411,068
Disposal of fixed assets	6,451	—
Issue of preference shares	1,000,000	1,000,000
Total funds provided	1,249,410	1,411,068
FUNDS APPLIED:		
Additions to:		
Office furniture and equipment	54,623	80,666
Leasehold improvements	16,759	16,162
Total funds applied	71,382	96,828
INCREASE IN WORKING CAPITAL FOR THE YEAR	1,178,028	1,314,240
Working capital at beginning of the year	3,212,713	1,898,473
WORKING CAPITAL AT END OF THE YEAR	$4,390,741	$3,212,713

The accompanying notes on pages 18 & 19 are an integral part of these financial statements.

auditors' report to the shareholders

We have examined the balance sheet of Canadian Tire Acceptance Limited as at December 31, 1974 and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1974 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 14, 1975.

Deloitte, Haskins & Sells
Chartered Accountants

balance

ASSETS

	1974	1973
CURRENT ASSETS:		
Cash	$ 140	$ 140
Accounts receivable	16,187	6,972
Charge account receivables (less allowance for credit losses, 1974—$1,151,555; 1973—$570,024)	31,179,960	22,867,160
Prepaid expenses	33,131	92,441
Income taxes recoverable	103,905	—
Total current assets	31,333,323	22,966,713
PROPERTY AND EQUIPMENT—at cost:		
Office furniture and equipment	263,017	229,705
Leasehold improvements	153,779	137,020
Motor vehicle	3,689	3,689
	420,485	370,414
Less accumulated depreciation and amortization	225,844	176,594
Net fixed assets	194,641	193,820
TOTAL	$31,527,964	$23,160,533

The notes below are an integral part of these financial statements.

notes to the financial statements

1 Significant Accounting Policies

Charge Account Receivables: Charge account receivables are due in terms not exceeding twenty-four months and, in accordance with recognized trade practice, are included in current assets.

Property and Equipment: It is the company's policy to provide for depreciation under the declining-balance method at annual rates of 20% for office furniture and equipment and 30% for the motor vehicle and to provide for amortization of leasehold improvements on a straight-line basis over a period of five years.

Revenue Recognition: Discounts on charge account receivables purchased from dealers are taken into revenue at the time the receivables are purchased. The accounts are maintained on a cycle-billing basis, and service charges are accrued each month on balances outstanding at the close of each cycle.

Incorporated under the Laws of the Province of Ontario

sheet

AS AT DECEMBER 31, 1974 *(with 1973 figures for comparison)*

LIABILITIES AND SHAREHOLDERS' EQUITY

	1974	1973
CURRENT LIABILITIES:		
Bank indebtedness [Note 2]	$ 519,000	$ 1,019,000
Accounts payable	3,381,541	3,234,053
Income taxes payable	—	122,905
Short-term promissory notes [Note 2]	22,881,000	15,280,000
Due to parent company	161,041	98,042
Total current liabilities	26,942,582	19,754,000
SHAREHOLDERS' EQUITY:		
Capital stock [Note 3]:		
Authorized:		
500,000 5% non-cumulative, preference shares of a par value of $10 each, redeemable at amount paid thereon		
200,000 common shares of no par value		
Issued and fully paid:		
320,000 preference shares (1973 – 220,000)	3,200,000	2,200,000
100,000 common shares	100,000	100,000
	3,300,000	2,300,000
Retained earnings	1,285,382	1,106,533
Total shareholders' equity	4,585,382	3,406,533
TOTAL	$31,527,964	$23,160,533

Approved by the Board: B. R. Wilson, *Director;* J. D. Muncaster, *Director.*

2 Short-term Promissory Notes and Bank Indebtedness
The short-term promissory notes of the company are unconditionally guaranteed by its parent company, Canadian Tire Corporation, Limited. The company has available bank standby credit to cover its obligation for the repayment of authorized notes outstanding from time to time. In addition, the parent company has guaranteed the bank indebtedness amounting to $519,000.

3 Capital Stock
During the year, the company issued for cash to its parent company, Canadian Tire Corporation, Limited, 100,000 preference shares at the price of $10 per share.

4 Lease
The company has a maximum commitment of $36,000 per annum (exclusive of taxes, insurance, and other occupancy charges) for the rental of office space under a lease which terminates April 30, 1976 with option to renew for a further three years.

5 Remuneration (Directors and Senior Officers)
The remuneration of directors and senior officers, as defined in The Business Corporations Act, Ontario, was $193,342 in 1974 (1973—$154,969).

6 Subsequent Event
On February 17, 1975, the company issued $5,000,000 principal amount of 9% promissory notes due February 17, 1980 for $5,000,000 less commission and other issue expenses. The notes are unconditionally guaranteed by the parent company.

Boulevard Hamel, Quebec City, replacement store opened in June to unprecedented crowds and sales figures.

largest Canadian Tire store built during the year

The scale of our 1974 retail expansion program is even more impressive from the perspective of current replacement and new store size, together with the automotive service facilities incorporated into buildings in major population centres. The 22-bay service centre at the Windsor East, Ontario, replacement store is the largest such installation to date.

The largest Canadian Tire associate store ever built—Quebec City's Boulevard Hamel location (above) with a retail area of 38,000 square feet and a 16-bay service centre—was opened in June. The building's two retail levels are connected by escalators and the main floor is encircled by 14 boutiques to feature seasonal merchandise and special product lines.

The new Sheppard Avenue store in Toronto, built to replace a retail facility attached to the distribution centre, was the second largest store completed during the year (see page 5). A service centre for 20 cars was incorporated into the building. With a retail area of 28,600 square feet, it is the second largest of our 174 Ontario locations. The vacated building was converted into offices for distribution personnel, a specialized auto parts depot (which expedites dealers' rush orders for immediate delivery outside our normal channels) and a truck service centre for our hauling fleet, based at the adjacent Sheppard Avenue Distribution Centre.

In Stratford, Ontario, our replacement store was built next to a lumber and building materials centre, owned jointly by Canadian Tire and The Larkin Lumber Company Limited of Toronto. Opened on a trial basis in 1975, this co-operative venture—under the name Timberline Home Centres Limited—has the advantage of presenting home-improvement supplies and Canadian Tire's related product lines at adjacent locations. Sales performance under this joint ownership arrangement will be analyzed with a view to extending the shopping concept to other compatible Canadian Tire locations.

Tantalus Construction Company Limited was established in March, 1974, with existing personnel as an arm of our Home Office operations. Licenced as a professional engineering and general contracting company, Tantalus has assumed these related functions on some Corporation-financed projects, including the two Edmonton stores and on-going construction to enlarge the capacity of the Mississauga Distribution Centre. To the best of our knowledge, this will make it the second largest computer-operated warehouse in the world.

A new high-bay storage wing—which will incorporate automated storage and retrieval machinery and related order-picking facilities—is scheduled for completion by mid-1975. These additional phases of construction, in modular form, will increase overall square footage from 240,000 to 681,000 and capacity from 11 million to 31 million cubic feet. The automated machinery will be integrated with the adjoining facilities. The direct control of construction details by our Tantalus group has provided appreciable time and cost-saving advantages.

Colourful decor, wide aisles, compact merchandise displays and general appointments are representative of our current standards in store interior design.

CANADIAN TIRE

Combined operations concept extended during 1974

On completion of the Mississauga Centre expansion project at a budgeted capital cost of some $12 million, 60 per cent of our distribution capacity will consist of highly-automated, low labor cost, computer-operated storage and retrieval facilities.

Six of the Company's "Pit Stop" gasoline stations in Toronto were converted to self-serve outlets during the year. Canadian Tire was one of the first gasoline retailers in Ontario to convert successfully to self-serve facilities. Extensive alteration—if not complete rebuilding—is a prerequisite in converting our existing pumping installations to self-serve facilities, due in part to provincial regulations for the protection of the consumer. Additional capital expenditures were required to make non-leaded gasoline available at eight Ontario outlets and to increase gallonage capacity at several high-volume locations.

Three new Pit Stop self-serve gasoline stations were built during 1974 in conjunction with replacement retail facilities in the Ontario market—two of which are equipped for lubrication and filter replacement services. Capital expenditures on petroleum marketing facilities were concentrated on enlarging, or modifying, existing outlets to bring them in line with altered requirements. Our total number of gasoline stations was 54 at year-end—an overall increase of two for the year.

Cantire Products Limited — a manufacturing subsidiary of the Company since 1973—experienced a productive and profitable year as a remanufacturer of auto electrical parts, carburetors, fuel pumps, water pumps and brake components. Current high prices of raw materials, combined with consumer delay in the purchase of new automobiles, created a strong after-market for replacement auto parts as a whole, including the recycled units turned out by our Toronto plants (see page 5).

Cantire remanufactured products are supplied on a trade-in basis to our associate stores and service centres, as well as other automotive sales outlets. The earnings of the subsidiary are included in the parent Company's consolidated financial statements for the year.

Canadian Tire attained "total marketing" capacity in 1967 by interconnecting our distribution and retail facilities with a long-distance hauling fleet—now consisting of 451 mobile units. More recently, we have moved toward even greater self-sufficiency by incorporating subsidiaries in the fields of consumer credit, auto parts remanufacturing and construction. Our "combined operations" concept in effect today—a natural progression from the plateau achieved earlier—is a tribute to the capabilities of the personnel available at all levels of operation.

CANADIAN TIRE

287 associate stores
. . . from the prairies to the grand banks

Canadian Tire's market area at 1974 year-end:

Ontario – 174 stores

Quebec – 60 stores

Atlantic Provinces – 39 stores

Prairie Provinces – 14 stores

Canadian Tire Corporation, Limited. Home Office: 2180 Yonge Street, Toronto, Ontario, M4V 2B9

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