Loblaw Companies Limited

Annual Report 1987

"Providing our customers with the best possible service is a goal which unites employees at all levels. If we serve our customers well, they will reward us with their patronage and loyalty, the cornerstone upon which we can build and maintain a profitable company."

Contents

"Providing our customers with the best possible service is a goal which unites employees at all levels. Our executives may make decisions on new products and store formats to serve our customers better but the cashier with a friendly smile and a helping hand or the warehouseman who won't ship damaged products are also important to maintaining our customers.

Perhaps the most fundamental test of the success of a food distributor is not in the current year's financial ratios and stock prices, but in the minds of its customers. If we serve our customers well, they will reward us with their patronage and loyalty, the cornerstone upon which we can build and maintain a profitable company."

Richard J. Currie
President
Loblaw Companies Limited

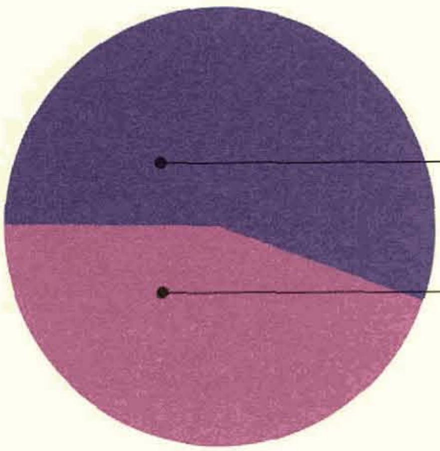
Financial Highlights

Operating Results ($ millions)		1987	1986	1985
	Sales	8,631	7,839	6,931
	Trading profit*	290	249	225
	Operating income	190	163	152
	Earnings before income taxes	126	118	115
	Net earnings	74	74	67
Financial Position ($ millions)				
	Total debt	686	569	390
	Total shareholders' equity	690	655	521
	Total assets	2,214	1,978	1,530
Changes in Financial Position ($ millions)				
	Cash flow from operations	182	204	132
	Purchase of owned fixed assets	232	289	192
Per Common Share (dollars)				
	Net earnings	.87	.91	.85
	Cash flow	2.54	2.86	1.85
	Book value	7.12	6.68	5.85
	Actual dividends paid	.195	.175	.155
	Year end dividend rate	.20	.18	.16
	Price range — high	16.88	14.00	12.13
	— low	9.00	11.00	8.00
Financial Ratios				
	Return on common equity	12.5%	14.6%	15.6%
	Return on capital employed	13.6%	14.3%	17.0%
	Pretax return on sales	1.5%	1.5%	1.7%
	Working capital ratio	1.17:1	1.27:1	1.20:1
	Total debt to equity	.99:1	.87:1	.75:1

* Trading profit is defined as earnings before depreciation, interest and income taxes.

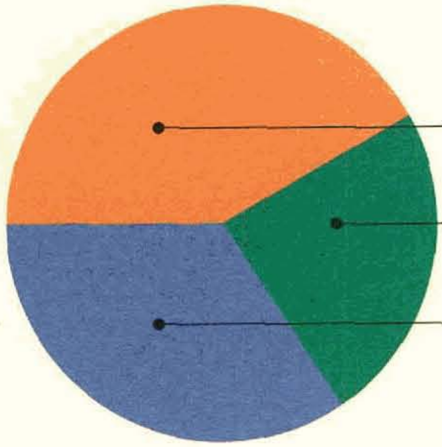
Corporate Profile

Total Operating Sales ($ millions)



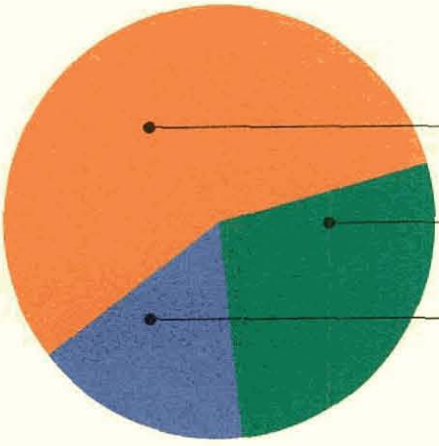
$4,777	Retail Operations
3,854	Wholesale Operations
$8,631	**Total**

Regional Operating Sales ($ millions)



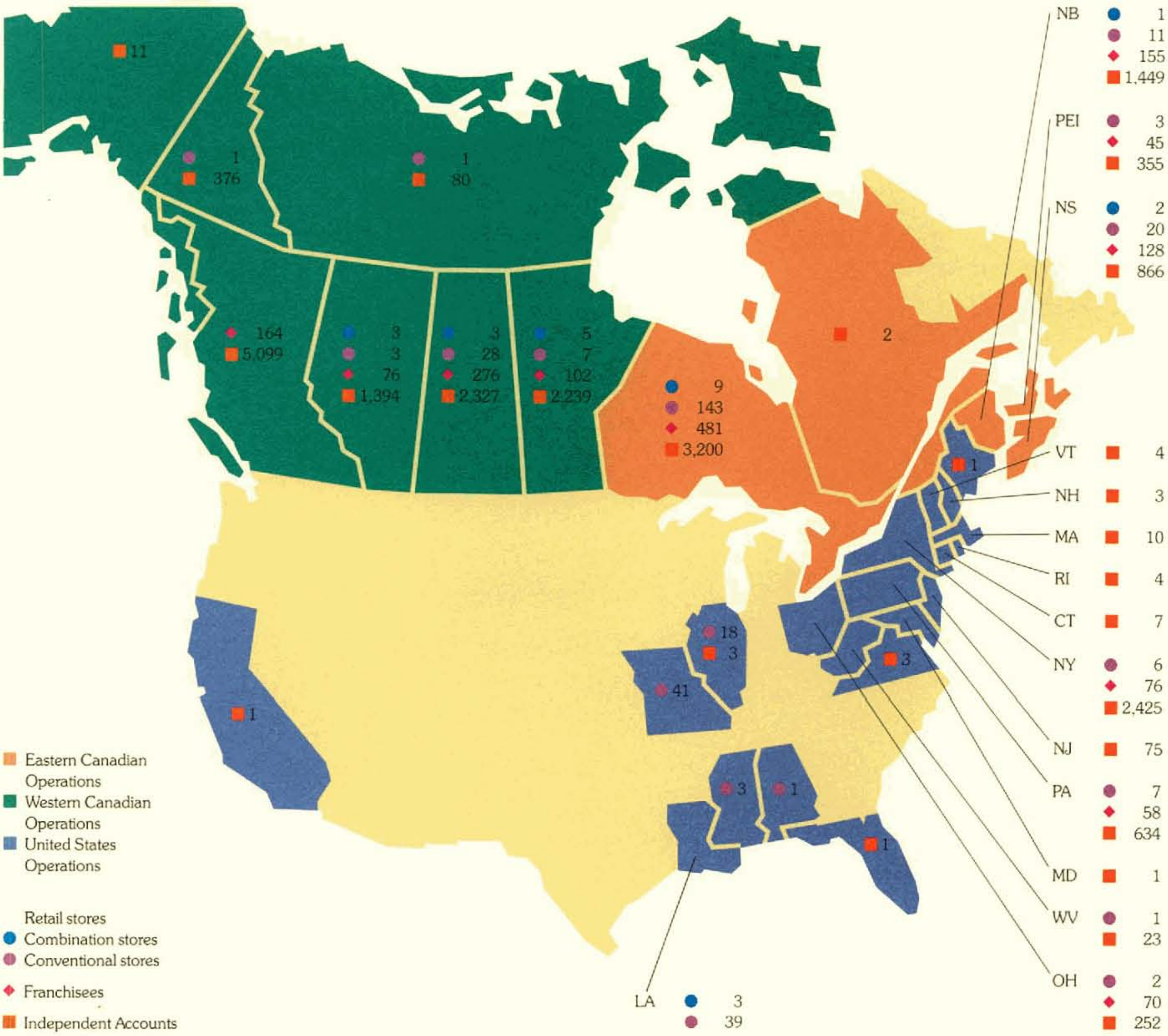
$3,601	Eastern Canadian Operations
2,088	Western Canadian Operations
2,942	United States Operations
$8,631	**Total**

Regional Operating Income ($ millions)



$107	Eastern Canadian Operations
52	Western Canadian Operations
37	United States Operations
(6)	Corporate
$ 190	**Total**

Retail and Wholesale Operations



Ten Year Analysis by Operating Region ($ millions)

Sales	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978
Eastern Canadian Operations	3,601	3,067	2,780	2,692	2,538	2,407	2,245	2,070	1,798	1,646
Western Canadian Operations	2,088	2,031	1,888	1,702	1,583	1,714	1,598	1,424	1,324	1,171
United States Operations	2,942	2,741	2,263	2,025	1,970	2,100	1,952	1,881	1,603	1,430
Total	8,631	7,839	6,931	6,419	6,091	6,221	5,795	5,375	4,725	4,247

Operating income										
Eastern Canadian Operations	107	74	72	70	62	56	53	52	29	24
Western Canadian Operations	52	61	48	38	36	33	36	29	24	23
United States Operations	37	33	35	34	32	32	31	31	26	17
Corporate	(6)	(5)	(3)	(4)	(2)	(6)	(7)	(13)	(7)	(4)
Total	190	163	152	138	128	115	113	99	72	60

Corporate Philosophy and Objectives

To maintain a reputation of being a good company, worthy of the trust placed in us by our shareholders, our employees, our customers, our creditors, our suppliers and our communities.

> To develop excellence through a blend of operating consistency and marketing innovation.

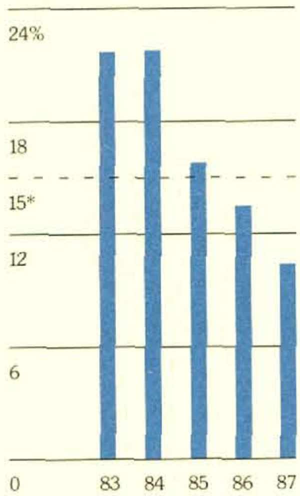
> To keep growth rates and risk levels balanced by operating in retail and wholesale businesses and in several geographic markets.

> To increase earnings per common share at an average rate of 15 percent per year over any five year period.

> To provide an average return on common shareholders' equity of 15 percent per year over any five year period.

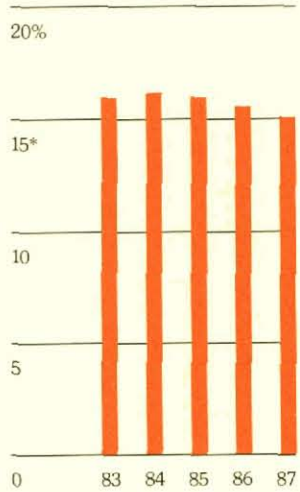
> To have less total debt than total equity in the business.

Average Annual Increase in Earnings per Common Share
(Five year period ended)



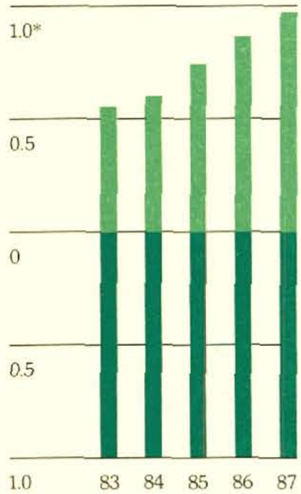
*Corporate objective

Average Return on Common Shareholders' Equity
(Five year period ended)



*Corporate objective

Ratio of Total Debt to Total Equity



*Maximum desirable

Debt
Equity

The SuperCentre at the Golden Mile in Toronto provides one-stop shopping for the entire family.

Chairman's Report

The year 1987 was another tough and challenging one for Loblaw Companies Limited. It was a year of growth by acquisition as well as through our new store development program. Sales expanded dramatically as did earnings from operations.

1987 was the third year of a major capital program in which a further $269 million was spent on land, buildings and new facilities. Increased interest and depreciation associated with this program and the operating dislocations which it created have constrained earnings growth, resulting in pre-tax profits improving by 6.3 percent. After allowing for increased tax rates and new preferred share dividends, earnings per share decreased by 4.4 percent.

In the 1984 Annual Report I wrote "after 8 years of financial consolidation and ever improving operating results, your Company is now uniquely positioned to reach out in support of a number of internally proven and developed concepts... it takes time and capital to convert new facilities into consistently high return investments in a slow growth environment and in an overstored industry". Your management has made remarkable progress in the past three years, not only in the development of stores, but also in the development of products unique to Loblaw Companies Limited, in programs coast to coast in data processing, human resources, distribution and procurement and indeed every functional area. The recent

W. Galen Weston
Chairman of the Board
Loblaw Companies Limited

"Success in this industry is dependent on the retailer offering something that will differentiate it from its competitors. Loblaw has achieved this by offering unique quality products which can be found only in its stores."

William J. Chisholm, C.F.A.
Senior Merchandising Analyst
Loewen, Ondaatje, McCutcheon & Company Ltd.

"The challenge to be constantly renewing our bond with our customers is what makes this business so exciting and rewarding and it continues to be our most important task."

W. Galen Weston
Chairman of the Board
Loblaw Companies Limited

A selection of some of the over 400 *President's Choice* products now available to Loblaw customers throughout North America.

"THE" DIET COLA
President's Choice
"THE" DIET COLA
FOR THE CONNOISSEUR
POUR LE CONNAISSEUR
750 mL
JUS DE POMME DE CONCENTRÉ
100% (COX'S ORANGE PIPPIN)
CANADA FANTAISIE
MAGIC
President's Choice
DE FRUITS ET DE NOIX
MUESLI
CÉRÉALES
IMPORTÉE DE SUÈDE
President's Choice
WILD SWEDISH LINGONBERRIES
STIRRED WITH SUGAR
14oz 340ml
AN EXCEPTIONAL PRODUCT CHOSEN AS OUR
President's Choice
LUCULLAN DELIGHTS
CHOCOLATE VANILLA CREME SANDWICH COOKIES
450g
President's Choice
TOMATO KETCHUP AUX TOMATES
President's Choice
PC
PERSONAL CARE
GLYCERINE SHAMPOO
250 mL
CORN FLAKES
President's Choice
UN PRODUIT EXCEPTIONNEL
DETERGENT
OUR GUARANTEE
AN EXCEPTIONAL PRODUCT CHOSEN AS OUR
President's Choice
FANCY GRADE
WHOLE TOMATOES
GROWN AND PACKED IN SUN-DRENCHED PROVENCE
19 FL OZ 540 mL
PRODUCT OF FRANCE
IMPORTED FROM SWEDEN
president's blend
swiss water process
decaffeinated gourmet coffee
extra fine grind
97% caffeine removed
250 g
President's Choice
SHAMPOOING THÉRAPEUTIQUE DE LUXE
UN COMPLET SOIN DE BEAUTÉ POUR LES CHEVEUX QUI CONTIENT: ÉCORCE DE PANAMA, ALLANTOINE, CAMOMILLE, ROMARIN, ORTIE, ET MIEL.
NET 8 U.S. OZ LIQ (225mL)
President's Choice
DEVON CUSTARD
MADE WITH FRESH WHOLE MILK IN DEVON, ENGLAND
President's Choice
VERY SPECIAL RICE CAKES
MADE WITH BROWN RICE, WHITE RICE AND GENUINE BASMATI RICE
SUPERIOR DOG FOOD
NOT ONLY IS THIS FORMULA SUPERIOR TO THE TYP
OF REGULAR COMMERCIALLY AVAILABLE DOG FOODS
OR EXCEEDS THE ANALYSIS OF TYPICAL PREMIUM-PRICED
BEEN DEVELOPED ESPECIALLY FOR PROFESSIONAL BREEDE
PRESIDENT'S CHOICE
PREMIUM PRICED
BRAND A


deli
deli
build your own
sandwich bar
3.99
national

and massive commitment of funds to the business to differentiate ourselves structurally from traditional competitors will put us in a pre-eminent strategic position for the 90's and should provide us with the opportunity to continue to pay top wages and benefits to all employees and at the same time deliver good earnings growth for investors.

The past decade has seen a dramatic improvement in the economic health of this Company. Underlying this economic turnaround has been a steady and equally dramatic improvement in how our stores are viewed by our customers. A customer's loyalty cannot be gained overnight and once it has been won, we must work hard to hold it week by week. The challenge to be constantly renewing our bond with our customers is what makes this business so exciting and rewarding and it continues to be our most important task.

To our employees who continue to meet this challenge with imagination and enthusiasm, making Loblaw Companies Limited a leader in the industry, on behalf of the Board I say thank you for a job well done.

W. Galen Weston

A St. Louis shopper enjoys selecting an assortment of delicatessen products from the deli section of our National Super Market at Sarah & Lindell.

"Shoppers believe *President's Choice* offers them both quality and value. That is, they feel they are getting a superior product for a better price than the national brands."

Excerpt from a Research Report prepared by Goldfarb Consultants April 1987

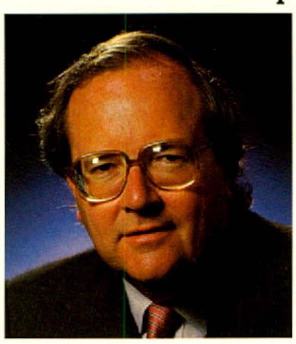
"The *President's Choice* products show a sense of being in tune with what the public might like. It's a classy line. I like to experiment with the international flavours."

Eric Donkin
Toronto
Customer

President's Report

For some time, food distribution has been recognized as a mature industry. By 1984, however, it was apparent that the industry's maturity was being exacerbated by trends that were likely to continue to the year 2000 and beyond — slow population growth, low food inflation and declining per capita expenditures on food, particularly in traditional outlets. Accordingly, an ambitious and extensive investment program was begun, the basic thrust of which was to overcome, with higher technology, more efficient stores and unique products, these declining industry trends, as well as to nullify the cost advantage enjoyed by many of our competitors. Such a program is costly and time consuming and requires the commitment of the total Company. In the past three years, over $850 million has been spent on capital improvements and acquisitions throughout the business. The effect of these expenditures, as measured by trading profit (earnings before interest, taxes and depreciation) has been positive to date (see chart below).

The earnings cost of such a program is considerable in the near term. Interest has increased from $29.2 million in 1984, to $36.3 million in 1985, to $45.2 million in 1986, to $64.1 million in 1987. Depreciation has also increased — $67.4 million in 1984, $73.0 million in 1985, $85.5 million in 1986, $100.1 million in 1987. Taxes have increased as pre-tax profits have increased.



Richard J. Currie
President
Loblaw Companies Limited

Trading Profit Trends

($ millions)

	Trading Profits	Increase
1984	205.1	
1985	224.5	19.4
1986	248.9	24.4
1987	289.8	40.9

"Our orientation programs begin the process of generating an appreciation of our customers, keeping in mind that our jobs depend on their continued patronage. The customer is the heart and soul of our business."

Carol Schone
Training Manager, St. Louis
National Tea Co.

Maritime customers shop in our newest combination store in Eastern Canada — the Real Atlantic Superstore in Dartmouth, Nova Scotia.


cookware
President's Choice
CORN FLAKES
CEREAL
soda crackers
SUPREME

1

Sales in the last three years have been strong in a low-growth/low-inflation environment, increasing by over $2.20 billion in that time. No markets give up volume easily and, as one might expect, competitive reaction to our investment program has been intense. That your Company can effectively handle itself in the marketplace is demonstrated by the trend in trading profits. Over time, as this investment phase diminishes, increments in trading profits should exceed increments in interest and depreciation and pre-tax earnings will be even more positively affected. More importantly, perhaps, your Company will have positioned itself for long term strength and security despite the long term industry outlook. Although in an intensive investment phase, one goal of your Company was, nevertheless, to maintain its yearly increases in earnings per share. From that perspective, 1987 was disappointing, but the slowdown in earnings from planned levels was more a function of integrating acquisitions than the cost of new capital programs. The integration of Kroger in St. Louis and the food service business in Buffalo were slower and more costly than originally planned. Further, a 16-week strike was taken in Manitoba, affecting

2

3

"The *Insider's Report* is creative, informative and interesting. Really fun to read. It represents a successful combination of eccentricity, sophistication and practical information for the shopper."

E. Bell
Willowdale, Ontario
Customer

"People laugh at my yellow and black kitchen, full of *no name* products. I know I can trust the quality of *no name* and it helps us, as a family of four on one pay cheque, to get more for our food dollars."

D. Banouage
Toronto
Customer

1. *President's Choice* frozen microwave meals meet the needs of today's consumers.
2. More and more of our stores now feature a range of full service departments.
3. Personal service is a key factor in building strong customer loyalty.
4. Richard Tingley, a frequent award winner of the Canadian Federation of Independent Grocers.
5. The bright, pleasant shopping environment of a National Super Market in St. Louis.
6. Keith Hudson, a Zehrs store manager, maintains high visibility with his customers.

all our powerful combination stores in Winnipeg.

1987 was a year of highs and lows in labour relations. The high note was a solution to a complex labour situation which was one of the keys to the successful Mr. Grocer acquisition. Threatened unionized jobs were preserved in a solution which could not have been reached without the cooperation of the union involved. Also, through another union's understanding and cooperative effort, arrangements were completed to allow the transfer of corporate supermarkets to franchised independents, thereby preserving assets and jobs. Further, employees in the New Orleans division accepted a tough contract which was necessary to make our stores there more competitive, operating as they do as the only unionized stores in an otherwise non-union environment.

Unreasonable union demands in Manitoba, however, which threatened the long term viability of our western operations resulted in a long and costly strike. It would have been wrong to bow to pressure which would ultimately have rendered your Company's unionized operations in the region uncompetitive.

Late in 1987, the decision was taken to discontinue serving a number of food service and convenience store customers in southern Ontario. Although the Company would have preferred to continue serving these wholesale customers, it

4

5


6

"Atlantic Wholesalers has provided us with a consistent supply of good quality merchandise and a service level normally greater than 90%. This enables us to look after our customers with the same consistency."

Richard Tingley
Owner
Tingley's Save-Easy, Fredericton, N.B.
Atlantic Wholesalers
Wholesale customer

"My family particularly enjoys *President's Choice* Hofbrau Sausage. Since one member of the family is allergic to monosodium glutamate, it is important to us that the product does not contain any chemicals."

C. Jefferson
Toronto
Customer

"Zehrs is a big store but they deal with me like they were a friendly corner store."

John Bennett
Waterloo, Ontario
Customer


no frills
won't be beat
on
• milk
• butter
• lettuce
• eggs
• sugar
• bread
• potatoes
• tomatoes
• bananas
here's how we keep prices lower
no
• free bags
• item price marking
• bagging personnel
• carry out – just automated buggies
• costly meat cutting – just factory packed
• expensive fixtures
• games or gimmicks
• costly displays
• costly overhead –
Now independently owned and operated

will not allow unprofitable operations to be subsidized by its profitable customer base over the longer term. We continue to seek out less productive assets which may be removed to improve returns.

1988 is expected to be a year of implementation and consolidation following the recent rapid developments and growth. As a result, strong earnings growth is not expected until late in the year and into 1989.

Your Company continues to follow a policy of owning its own real estate, both for the operating flexibility and the investment potential this affords. At year end, the estimated market value was $809 million, $183 million in excess of book value, with only $21 million in total debt against real estate. Clearly your Company has become a substantial real estate developer, while maintaining a conservative debt/equity ratio of less than 1 : 1. Cash flow from operations has now reached $182 million or $2.54 per share.

In this year's Annual Report we look with pride at our achievements in providing customers with good service. To shareholders and other investors, I suggest that this is one of the continuing strengths of our organization. To customers, I say thank you for your patronage and pledge continued dedication to the never ending task of improving service. To employees, I offer congratulations on their accomplishments to date and encouragement to do even better. If we serve our customers better, we can maintain and build an ever more profitable and secure business.

Richard J. Currie

"no frills", an innovative concept developed by Loblaws Supermarkets Limited for its corporate stores, has now been extended to a highly successful franchise operation. Pictured opposite is Lucky's "no frills", owned and operated by Lucky Raso in downtown Toronto.

"I try to serve my customers by properly packing their groceries. But I also find time to talk with them, so they know I care. Often, I help disabled people by placing groceries on their wheelchairs. I can see how much it means to them."

Katharina Valicek
Cashier, Toronto
Ziggy's

"Our employees work at Zehrs but they work for our customers."

Grant Heimpel
President
Zehrmart Limited

Eastern Canadian Operations

1

Eastern Canadian Operations take place in Ontario and in the Maritime Provinces. All of the Ontario operations are grouped under Central Canada Grocers Inc. The retail components are Loblaws Supermarkets Limited, Zehrmart Limited and Combined Merchandisers Inc. and the wholesale component is National Grocers Co. Ltd.
In the Maritimes, Eastern Canadian Operations are represented in both retail and wholesale by Atlantic Wholesalers Ltd.
Total sales of Eastern Canadian Operations in 1987 were $3.60 billion, an increase of 17.4 percent over 1986.
Retail operations consist of 29 "Loblaws", 40 "Loblaws Warehouse Superstores", 19 "no frills", and 1 "Ziggys" gourmet shop in Loblaws Supermarkets Limited; 48 "Zehrs" stores in Zehrmart Limited; 9 "SuperCentres" in Combined Merchandisers Inc.; and 5 corporate stores in National Grocers. In the Maritimes, Atlantic Wholesalers has 14 "Save-Easy", 8 "Save-Easy Warehouse Foods", 3 "Real Atlantic Superstores", 6 "Capitol" stores and 5 stores operating under various other names in its corporate group.
During 1987, 5 new combination stores were opened in Ontario and 2 in the Maritimes. One opening is

2

3

"I shop at the Real Atlantic Superstore for the prices. Compared to the competition, it's worth the drive."

Ross Mason
Rawdon, Nova Scotia
Customer

"For customers in Atlantic Canada, the Real Atlantic Superstore means convenient one-stop shopping for every-day household needs at the lowest overall prices in the area."

Albert F. Rose
President
Atlantic Wholesalers Ltd.

1. *President's Choice* platter retails in our stores at about one-third its selling price in a New York boutique.
2. A National Grocers truck servicing customers in the Ontario market.
3. Distinctive, contemporary signage of the Real Atlantic Superstore in Dartmouth, Nova Scotia.
4. Lucky's "no frills" in Toronto features highly competitive pricing on grocery staples.
5. *President's Choice* A Superior Dog Food was developed in conjunction with top dog care experts.
6. *President's Choice* de-alcoholized wine recently won a Gold Medal competing against wines with alcohol.

planned in Saint John in 1988. Wholesale operations consist of 24 warehouses and 40 cash & carry units in Ontario and the Maritimes.

Operating income in 1987 was $106.8 million and represents a 44.1 percent increase from 1986. Results were good in the retail supermarket businesses, both corporate and franchised, with generally stable market conditions prevailing throughout the year in most parts of Ontario. In the combination stores, sales growth has been good. The 5 combination stores open prior to 1987 averaged sales growth of approximately 12 percent during the year. The 12 combination stores open at year end had total annualized sales in excess of $500 million. The competitive reaction to this volume being redistributed in the market has been as strong as anticipated, restricting profit growth in this segment of the business. We believe, however, that the economics of these stores, longer term, are better than our competitors' and that, in due course, combination stores will be a highly profitable segment of the business in Eastern Canada.

The acquisition of 58 franchised Mr. Grocer stores completed early in 1987 has been a profitable addition to the wholesale base in Ontario. A joint venture formed with Baine, Johnston & Co., a major food wholesaler and retailer in Newfoundland, will facilitate mutually beneficial development of food distribution there.

4


6

5

"Imported *President's Choice* products are reasonably priced. In a gourmet shop, which is where you'd usually buy them, they would be a lot more expensive. They stimulate your imagination and make grocery shopping fun."

Brian Chaput
Toronto
Customer

"The Floral Department at Loblaws Yonge & Yonge store were most helpful with my flower order. They filled a request for a specific order - which was far more than I expected from a busy supermarket."

Mary Kelly
Toronto
Customer

"I tend to be a cook who uses different and unusual ingredients. I am able to find everything I need at Loblaws."

Judy Goss
Toronto
Customer

Shoppers at Loblaws Yonge and Yonge Superstore sample some of the hundreds of unique products that make shopping at Loblaws an adventure for those who love food.


UN PRODUIT EXCEPTIONNELLE CHOISI COMME
President's Choice
LES CLASSIQUES
BISCUITS AUX BRISURES
NOUVEAU!

Western Canadian Operations

1

Western Canadian Operations take place in the Provinces of Manitoba, Saskatchewan, Alberta and British Columbia as well as the Yukon and Northwest Territories.

These operations are grouped under Kelly, Douglas & Company, Limited of Vancouver, in which this Company has an 85 percent interest. Western Canadian Operations take place under two divisions: the Prairie Division of Winnipeg, Manitoba and the British Columbia and Yukon Division of Vancouver, British Columbia.

Sales of Western Canadian Operations were $2.09 billion in 1987, an increase of 2.8 percent over 1986. At year end, 52 corporate stores were operated and 12,150 franchised and independent accounts served.

Retail operations consist of 29 "OK Economy", 11 "Real Canadian Superstores", and 12 stores operating under various other names. There are no corporate stores in British Columbia. Wholesale operations consist of 27 wholesale warehouses and 20 cash & carry warehouses. Sales in the Prairie Division increased 2.1 percent to $1.43 billion and sales in the British Columbia and Yukon Division increased 4.9

2

3

"All merchandise must be handled carefully to avoid case damage. I always check for hidden damaged products. I take a look at items before shipping to make sure the customer will receive all the right items in good condition. You have to be alert."

Louis G. Carolei
Forklift Operator, Kelowna, B.C.
Kelly, Douglas & Co., Ltd.

"Not only is it great to have a Real Canadian Superstore within blocks of my residence, but to discover the best (and I mean excellent) selection at the best price anywhere in the city."

P. Allen
Edmonton
Customer

"In my opinion, the ultimate service to customers is to ensure the widest selection of everyday household needs at a consistently low price. We believe our Superstores are unsurpassed in these areas."

Serge Darkazanli
Senior Vice President,
Corporate Development
Kelly, Douglas & Co., Ltd.

percent to $655 million in 1987 from $624 million in 1986.

In 1987, 11 stores in Manitoba, including the 5 combination stores in Winnipeg, were struck by the United Food and Commercial Workers Union. The union position was one which, on a longer term basis, threatened the economic viability of our operation in Western Canada. Most stores, including all combination stores, operated throughout the strike which lasted 16 weeks, or the entire third quarter. As evidence of the market appeal of the stores, subsequent to the strike sales volume rebounded quickly. The final settlement did not jeopardize the future of these stores.

Western Canadian Operations operating income in 1987 was $51.9 million as compared with $60.7 million in 1986. Western Canadian Operations now represents 24.2 percent of sales and 27.4 percent of the operating income of the Company as compared with 25.9 percent and 27.2 percent of sales in 1986 and 1985; and 37.4 percent and 31.6 percent of operating income in those years. Considering the loss generated by the strike and also the fact that 1986 income included a $10.6 million net gain on the sale of one property, it may be seen that 1987 was a year of strong operating performance. This should continue through 1988 when the first of several combination stores in Calgary is scheduled to open.

4

5

6

1. *Teddy's Choice* brings the high quality of *President's Choice* to children's products.
2. A forklift operator in a Kelly, Douglas & Co. warehouse attends to a customer order.
3. The Real Canadian Superstore in Regina provides a Permanent Discount guarantee.
4. *President's Choice* Extra and regular Chocolate Chip Cookies rank as top two in their category in the Company.
5. *President's Choice* Extra Virgin Olive Oil now has a 33% share of the Company market.
6. A family shops for clothing in the Regina Superstore.

"With the buying power of Loblaw Companies, we are able to dramatically decrease the prices of unique offshore products. For example, we are able to sell Extra Virgin Olive Oil at a fraction of the price charged by gourmet food stores."

David A. Nichol
President, Loblaw International Merchants

"Stores carrying *no name* products are recognized and acknowledged by both customers and non-customers as being the stores with the best quality generics and the widest selection of generics."

Excerpt from a Research Report prepared by Goldfarb Consultants April 1987


permanent discount
cookies
2.19
flour
4.78
dill pickles
5.59
28
27
57
58

Panoramic view of the 130,000 square foot Real Canadian Superstore in Regina.

United States Operations

1

United States Operations take place in twenty states—cen- tred in Illinois, Louisiana, Mis- souri, New York, Ohio and Pennsylvania and operate in both the wholesale and retail seg- ments of food distribution.

Wholesale operations are centred in Peter J. Schmitt Co., Inc. of Buffalo, New York. Its total franchised stores at year end were 204, compared with 171 in 1986. Independent accounts numbered 3,447 compared with 3,433 last year. At year end Peter J. Schmitt operated 16 corporate stores, compared with 21 a year ago. Total wholesale sales for 1987 were $1.30 billion, an increase of 7.8 percent from 1986.

Retail operations are centred in National Tea Co., with divisions in St. Louis (59 stores) and New Orleans (46 stores). Late in 1986, following a sustained price war in St. Louis, your Company acquired 24 operating supermarkets, 2 stores under construction and a warehouse from The Kroger Company. In the rationaliza- tion which followed, 8 stores and a warehouse were closed. Operationally, the acquired business has now been fully integrated. Price competition however, has continued to be intense in that market. Partially due to the costs of the rationalization

2

3

"**Our *Insider's Report* introduces our customers to a variety of high quality products that are not available else- where. It discusses quality and value, and ingredients which are important to today's customer who is so nutrition conscious."**

Al Cross
Senior Vice-President, Division Manager
St. Louis
National Tea Co.

"**The *Insider's Report* sometimes gives me ideas for different meal plans. Some of us get in a rut fixing the same old thing week after week. The ads give me some fresh ideas on meal preparation and menu selection."**

Patricia D. Williams
St. Louis
Customer

1. Al Cross' *Insider's Report* with one of the unique products being introduced.
2. The National logo, the sign of supermarket quality and service in St. Louis.
3. National provides electric shopping carts for elderly or handicapped shoppers.
4. We stand behind our pro- mise of customer service at National Super Markets.
5. *President's Choice* Chicory Coffee was chosen by noted New Orleans chefs as better than the leading coffee in the market.
6. 'That Stanley', a new store format bringing lower prices to Louisiana.

(now complete) and partially due to the continuing low margin environment, near term profit growth has not been as high as anticipated.

In New Orleans, profit growth has been modest. Sales growth was limited in a market place where retail food tonnage declined in total in 1987. Although profitability was aided by a new labour agreement, because some one-time costs were required to put the contract in place, the full economic benefit of the new agreement was not achieved in 1987. A new store format was successfully introduced in this market during the year and the division's fourth combination store was opened in New Orleans just following the year end.

Operating income in 1987 was $37.1 million as compared to $32.5 million in 1986 and $35.0 million in 1985, on sales of $2.94 billion, $1.42 billion in Peter J. Schmitt and $1.52 billion in National Tea. United States Operations now represent 34.1 percent of sales and 19.5 percent of the operating income of Loblaw Companies Limited as compared with 35.0 percent of sales and 20.4 percent of operating income in 1986.

Management believes that the business has not reached full profit potential in any of the areas of United States Operations. From the combination of steady rationalization and business unit growth real improvement is anticipated in 1988.

4


6

5

"P.J. Schmitt's communication level, timely advice and 'can do' attitude inspire loyalty and confidence."

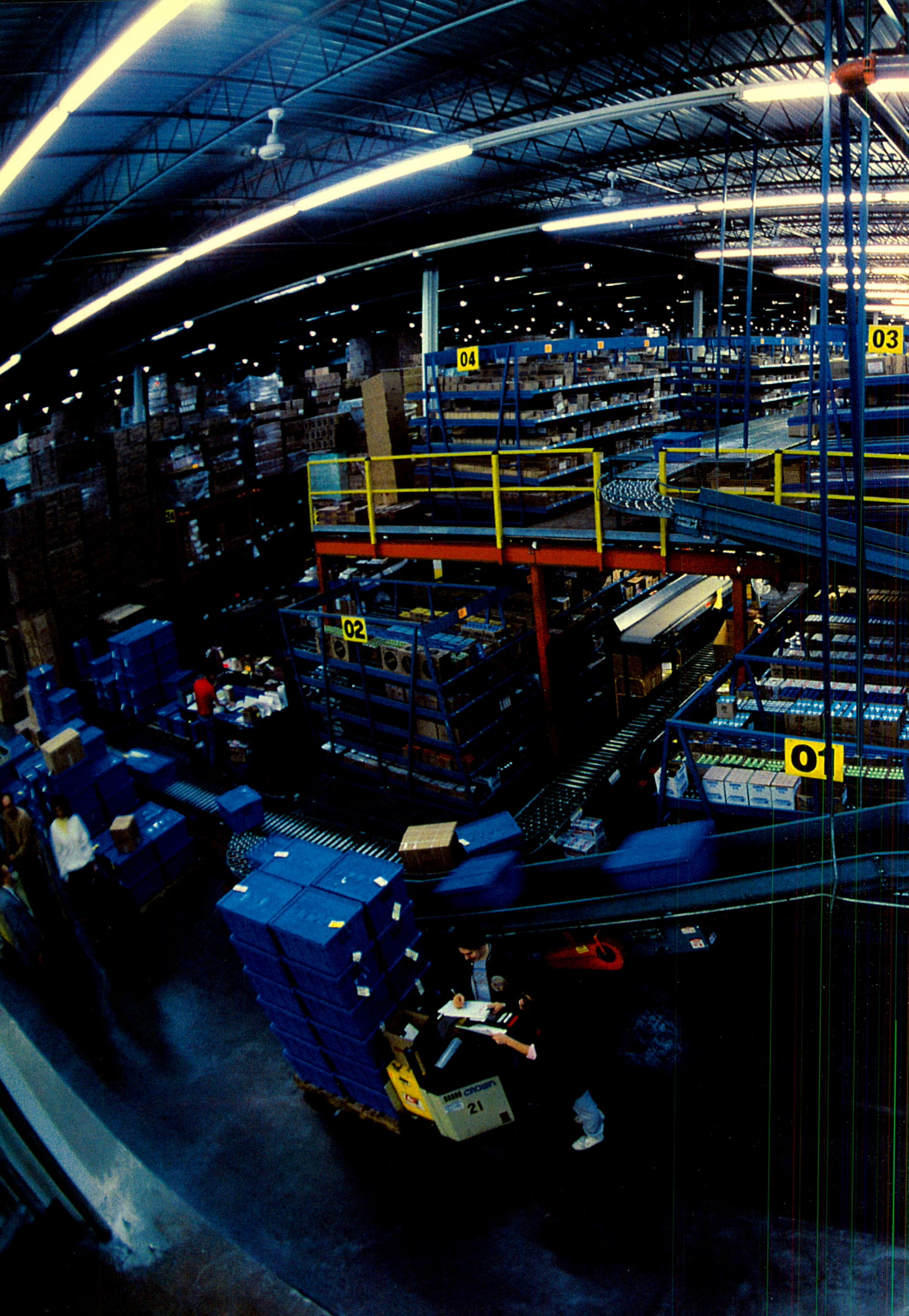
Raymond A. Fabiniak
Owner
Bells Market, Buffalo
P.J. Schmitt wholesale customer

"The wholesale business must be retail driven to be successful. Take care of your customers' customers, and your customers will take care of you."

Charles Barcelona
President
P.J. Schmitt Co., Inc.

"As a store manager, I keep myself accessible to the customers and listen to their needs."

Ken Fortner
Store Manager, St. Louis
National Tea Co.


04
03
02
01
CROWN
21

Flow racking system recently added to the P.J. Schmitt warehouse in West Seneca, N.Y. has significantly increased the handling and service capability of the warehouse.


CORN FLAKES
huile

Financial Report

Contents

The new Your Independent Grocer program, developed by National Grocers, focuses on top quality perishables and personal service. Shown is Cayen's Your Independent Grocer in Ottawa, one of 9 new stores in the program.

Financial Review

In 1987, Loblaw Companies experienced growth in pre-tax earnings for the eleventh consecutive year, although performance was constrained by several factors and earnings per share decreased from the previous year. Having come through a 3 year period in which $853 million was spent on fixed asset additions and acquisitions, the primary focus of your Company's management in 1988 will shift from asset growth to managing the significant asset base for profit improvement.

Results of Operations

Sales increased 10.1 percent to $8,630.7 million in 1987 from $7,838.9 million in 1986. Real volume gains accounted for virtually all of this increase with inflation, estimated at 4.5 percent, offsetting the decline in the value of the U.S. dollar and the loss of 1986's 53rd week of sales. New stores as well as the acquisition of 26 former Kroger stores in St. Louis late in 1986 and 58 Mr. Grocer franchised stores in Ontario early in 1987 all contributed to this growth.

Operating income increased 16.1 percent to $189.7 million from $163.4 million in 1986. While this is substantial growth, it is less than planned for 1987. Several unanticipated factors had a significant impact on operating earnings. A 16 week strike in Manitoba, some one-time labour costs absorbed in New Orleans and intense price competition continuing in St. Louis in spite of the recent market rationalization there, have all contributed to reduced operating income. In addition, some one-time write-offs were required in the food service business in Buffalo. As anticipated, the new combination stores in Eastern Canada have not yet reached profitable operation as a group. During the year operating earnings did benefit from gains of $26.4 million on the sale of capital assets, comparable to the $18.7 million reported last year. Two major sources of these gains were the sale of some peripheral food processing assets and the transfer to franchisees of capital lease rights acquired at prices substantially below market value.

Interest expense increased from $45.2 million in 1986 to $64.1 million in 1987. This increase was due to higher borrowing levels and decreased interest capitalization, partially offset by lower average interest rates.

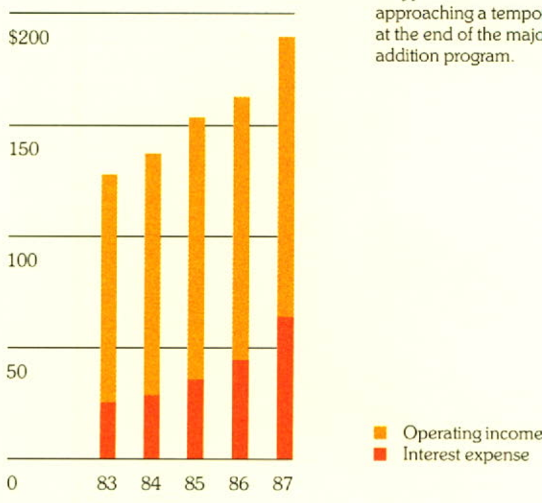
Earnings before income taxes increased from $118.2 million in 1986 to $125.6 million in 1987.

The effective income tax rate for the year increased from 33.2 percent in 1986 to 38.5 percent. The tax rate in 1986 had been reduced approximately 6.5 percentage points by favourable settlements on prior years' issues.

Net earnings were $73.6 million, virtually the same level as in 1986. Earnings per share were $.87 compared to $.91 last year. Without growth in net earnings the decline in earnings per share fully reflects the dilution caused by the issue of $75.0 million in preferred shares in mid-1986. The decline in earnings per share in 1987 results in a five year compound growth rate in earnings per common share of 10.4 percent, down from 13.2 percent in 1986 and below the long term objective of 15 percent. Although substantial improvements in earnings

Operating Income and Interest Expense

($ millions)



An important measure of financial strength is operating income relative to interest expense (interest coverage). This year's coverage of 3.0 times is acceptable and not untypical of the industry, but is approaching a temporary low at the end of the major capital addition program.

per share are foreseen, it is unlikely that the five year compound growth rate objective will be achieved for several years.

Return on common shareholders' equity was at 12.5 percent for the year. Although this is below your Company's longer term objective of 15 percent, the five year average was a satisfactory 15.1 percent. Return on common equity is likely to be below 15 percent for at least one more year, however the levels achieved will be reasonable given the current low inflation environment.

Changes in Financial Position

Cash flow from operations in 1987 was $181.9 million, which compares with $204.2 million last year. During the year $8.6 million was invested in working capital, which is low considering the level of new capital invested in the business.

New investment in the business during the year totalled $268.3 million. Additions to fixed assets were $231.8 million. This represents a renewal period in 1987 of 4.2 years. Wherever possible, it continues to be the Company's policy to own its store real estate. This policy affords the Company greater operating flexibility as well as a significant investment in land, an asset which has historically appreciated over time. In 1987, the book value of land holdings increased by $44.1 million and $36.5 million was invested by way of acquisition of the Mr. Grocer franchise stores.

Capital Structure

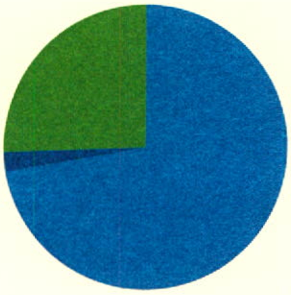
Total debt (including capitalized leases) increased $117.4 million to $686.3 million at the end of 1987 from $568.9 million at the end of 1986. This increase was significantly less than the comparable $179.0 million increase in 1986 and accordingly the $75 million 10% Series 8 Debentures due 2007 was the only major new long term debt issue undertaken in 1987. Proceeds of the Series 8 Debentures were used primarily to finance the capital investment program. Long term debt (including capitalized leases and current portion of long term debt) increased $69.5 million to $587.5 million at the end of 1987 from $518.0 million at the end of 1986 primarily due to the issue of the Series 8 Debentures. The balance of the financing requirement was borrowed short term resulting in an increase in short term debt in 1987 of $47.9 million to $98.8 million at the end of 1987 from $50.9 million at the end of 1986.

Fixed rate debt as a percentage of total debt (excluding capitalized leases) at the end of 1987 decreased slightly to 78.8 percent from 83.0 percent at the end of 1986. This change primarily reflects the timing impact of long term debt issues and it remains your Company's intent to finance the increasing real estate investment with primarily longer term fixed rate funds. The weighted average interest rate on fixed rate long term debt (excluding capitalized leases) was 10.4 percent at the end of 1987, down from 10.7 percent at the end of 1986. The weighted average term to maturity on fixed rate long term debt at the end of 1987 was 11.4 years, down slightly from 11.5 years at the end of 1986 while the weighted average term to the earlier of maturity or first retraction date increased to 7.6 years from 7.0 years at the end of 1986. The reduction in average rate and extension of term reflect the positive impact of the Series 8 Debenture issue.

Land and Buildings

($ millions)

Real estate continues to be a source of strength not readily apparent from the balance sheet. If the estimated market value increment of approximately $183 million were included in equity, the debt to equity ratio at year end would decrease from .99:1 to .79:1.



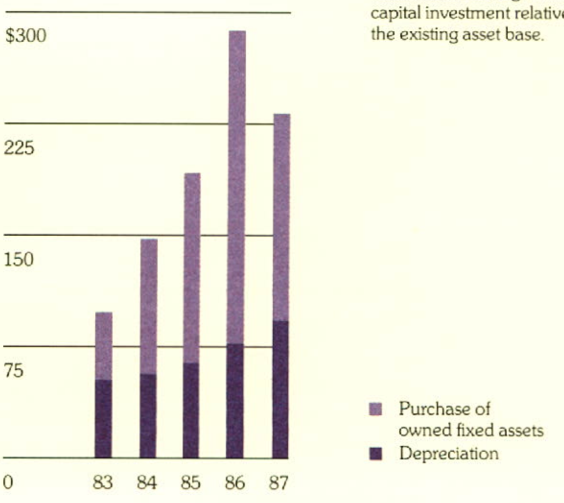
Estimated market value $809

Increment of market value over book value	$183
Net book value	$626
Mortgages	$ 21

Capital Expenditures and Depreciation

($ millions)

The fixed asset renewal rate over the last five years has averaged 3.6 i.e. complete replacement of the existing net book value every 3.6 years. In 1987 the rate is 4.2. These ratios reflect the high level of capital investment relative to the existing asset base.



Shareholders' equity increased $35.1 million to $690.3 million at the end of 1987 from $655.2 million at the end of 1986. This increase is primarily due to $48.2 million in common equity retained in the business offset by $12.2 million in lower equity from foreign currency translation as a result of the devaluation of the U.S. dollar during the year. The debt/equity ratio at the end of 1987 was .99:1 which is marginally below the 1:1 debt/equity objective and acceptable given your Company's position in the later stage of its major capital investment program. As in previous years, earnings will continue to be primarily reinvested for future growth and consequently, the Company will continue to operate with a dividend policy of paying out approximately 20 percent of previous year's earnings.

Following the stock market decline in October 1987, your Company considered that its common shares could become available at prices which would make them an attractive investment for corporate funds. The Board of Directors of the Company authorized the purchase of up to 1,000,000 of its outstanding common shares over a twelve month period commencing October 30, 1987. At the end of 1987, 32,100 common shares had been purchased at an average price of $10.76 per share.

Future Prospects

Current plans for capital expenditures in 1988 are approximately $230 million, which will likely exceed internally generated cash, requiring some external financing. Three new combination stores are planned to open in 1988.

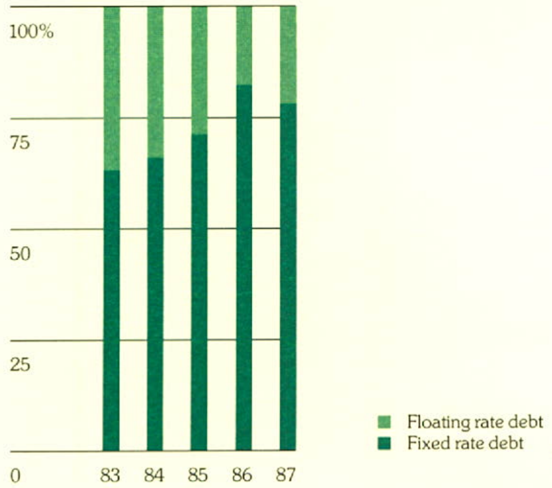
Excluding the benefit of capital gains, profit growth is anticipated to be modest in 1988. By 1989 the full benefit of the capital investment program should begin to be realized, with steady improvement in earnings per share.

Quarterly Earnings Per Share (dollars)

	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978
First quarter	.15	.14	.13	.11	.10	.09	.07	.06	.04	.03
Second quarter	.24	.23	.20	.18	.14	.12	.11	.08	.05	.04
Third quarter	.25	.27	.26	.24	.20	.16	.15	.12	.09	.08
Fourth quarter	.23	.27	.26	.24	.22	.17	.16	.15	.11	.10
Total earnings before extraordinary items per share	.87	.91	.85	.77	.66	.54	.49	.41	.29	.25

Fixed and Floating Rate Debt Levels

The level of fixed rate debt remained high in 1987 reflecting your Company's decision to finance an increasing real estate investment primarily with longer term fixed rate funds.



Retail and Wholesale Operations

Retail operations include the stores of those businesses which are exclusively retail-oriented - i.e., Combined Merchandisers, Loblaws, National Tea and Zehrmart - plus the corporately owned stores of the four wholesale businesses - i.e., Atlantic Wholesalers, Kelly, Douglas, National Grocers and Peter J. Schmitt. Wholesale operations include the sales and services of the four wholesale businesses to franchised accounts and unaffiliated accounts, exclusive of sales to corporate stores of that business or an associated business. The corporate store operations of the wholesale business are viewed as being complementary to and not competitive with the wholesale operations of those same businesses.

The following charts illustrate the makeup and trends in Loblaw Companies Limited when viewed from a retail and wholesale perspective.

Retail Operations

Stores	1987 Stores	1987 Sq. Ft. (in millions)	1986 Stores	1986 Sq. Ft. (in millions)	1985 Stores	1985 Sq. Ft. (in millions)
Beginning of year	380	10.8	363	9.2	381	9.2
Opened	20	1.2	60	2.4	18	.6
Closed	(23)	(.4)	(46)	(.9)	(26)	(.4)
Franchised						
Transfer to:	(18)	(.4)	(13)	(.2)	(19)	(.4)
Transfer from:	2	.1	16	.3	9	.2
End of year	361	11.3	380	10.8	363	9.2

	1987	1986	1985
Average store size (in thousands)	31.4 sq. ft.	28.4 sq. ft.	25.3 sq. ft.
Analysis by size			
More than 60,000 sq. ft.	26	18	10
40,000 - 60,000 sq. ft.	47	46	33
20,000 - 39,999 sq. ft.	176	179	171
10,000 - 19,999 sq. ft.	93	112	129
Less than 10,000 sq. ft.	19	25	20
	361	380	363
Sales			
Annual sales (in millions)	$4,777	$4,430	$3,940
Annual average sales per gross sq. ft.	$440	$457	$432

Wholesale Operations

	1987	1986	1985
End of year			
Warehouses	63	62	68
Cash & carry units	61	62	65
Franchised accounts	1,631	1,483	1,284
Unaffiliated accounts	20,845	19,803	14,474
Annual sales (in millions)	$3,854	$3,409	$2,991

Responsibility for Financial Reporting

The management of Loblaw Companies Limited is responsible for the preparation and integrity of the financial statements and related financial information of the Company. The financial statements and other financial information in this report have been prepared by the management of the Company in accordance with generally accepted accounting principles and, where necessary, utilizing management's judgements and best estimates.

To help fulfill its responsibility and to assure integrity of financial reporting, management maintains a system of internal controls encompassing all financial records. These controls, which include a comprehensive budgeting system and timely periodic reporting of financial information, provide reasonable assurance that assets are safeguarded and transactions and events are properly recorded. To augment the internal control systems, the Company maintains a program of internal audits coordinated with the external auditors.

Ultimate responsibility for financial statements to shareholders rests with the Board of Directors. An audit committee of non-management directors is appointed by the Board to oversee the fulfillment by management of its responsibilities in the preparation of financial statements and financial control of operations. The audit committee reviews financial statements with management and reports to the directors prior to the approval of the audited financial statements for publication.

Thorne Ernst & Whinney, independent auditors appointed by the shareholders, review the financial statements in detail and meet separately with both the audit committee and management to discuss their findings, including the fairness of financial reporting and the results of their review of internal controls. The shareholders' auditors report directly to shareholders and their report also appears on this page.

Richard J. Currie

Richard J. Currie
President

David K. Bragg

David K. Bragg
Senior Vice President,
Planning and Control

John W. Thompson

John W. Thompson
Senior Vice President,
Finance and Administration

Auditors' Report

To the Shareholders of Loblaw Companies Limited

We have examined the consolidated balance sheet of Loblaw Companies Limited as at January 2, 1988 and the consolidated statements of earnings, retained earnings and cash flow for the 52 weeks 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 2, 1988 and the results of its operations and cash flow for the period then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Thorne Ernst & Whinney

Chartered Accountants
March 2, 1988
Toronto, Canada

Thorne Ernst & Whinney
Chartered Accountants

Member of Ernst & Whinney International

Consolidated Statement of Earnings

52 Weeks Ended January 2, 1988

(in millions of dollars)

	1987 (52 weeks)	1986 (53 weeks)	1985 (52 weeks)
Sales — Canada	$5,688.6	$5,098.4	$4,668.2
— United States	2,942.1	2,740.5	2,262.9
	8,630.7	7,838.9	6,931.1
Operating expenses			
Cost of sales, selling and administrative expenses	8,340.9	7,590.0	6,706.6
Depreciation — Owned fixed assets	93.1	76.7	64.1
— Property under capital leases	7.0	8.8	8.9
	8,441.0	7,675.5	6,779.6
Operating income	189.7	163.4	151.5
Interest — Long term debt	50.8	33.5	23.0
— Short term debt	4.5	1.8	3.2
— Obligations under capital leases	8.8	9.9	10.1
	64.1	45.2	36.3
Earnings before income taxes	125.6	118.2	115.2
Income taxes (note 2)	48.4	39.2	44.3
Earnings before minority interest	77.2	79.0	70.9
Minority interest	3.6	5.3	3.8
Net earnings for the period	$ 73.6	$ 73.7	$ 67.1
Per common share	$ .87	$ .91	$ .85

Consolidated Statement of Retained Earnings

52 Weeks Ended January 2, 1988

(in millions of dollars)

	1987 (52 weeks)	1986 (53 weeks)	1985 (52 weeks)
Retained earnings, beginning of period	$ 347.5	$ 294.8	$ 245.4
Net earnings for the period	73.6	73.7	67.1
	421.1	368.5	312.5
Dividends declared			
Preferred shares	11.4	8.5	6.6
Common shares, per share — 19.5 ¢ (1986 — 17.5 ¢, 1985 — 15.5 ¢)	14.0	12.5	11.1
	25.4	21.0	17.7
Retained earnings, end of period	$ 395.7	$ 347.5	$ 294.8

Consolidated Balance Sheet

As at January 2, 1988

(in millions of dollars)

	1987	1986	1985
Assets			
Current assets			
Cash and short term investments	$ 30.1	$ 75.8	$ 1.5
Accounts receivable	251.5	219.8	207.9
Inventories	658.0	599.3	523.5
Prepaid expenses and other	43.6	44.7	20.2
	983.2	939.6	753.1
Investments (note 3)	143.6	78.5	70.6
Fixed assets (note 4)	986.6	872.5	629.0
Property under capital leases (note 5 (a))	70.7	59.3	58.8
Other assets	29.4	28.1	18.2
	$2,213.5	$1,978.0	$1,529.7
Liabilities			
Current liabilities			
Bank advances and notes payable	$ 98.8	$ 50.9	$ 48.2
Accounts payable	517.4	450.2	363.7
Accrued liabilities	181.3	178.8	162.5
Taxes payable	36.5	40.3	26.7
Long term debt payable within one year (note 6)	4.8	12.2	15.1
Obligations under capital leases (note 5 (b))	4.0	6.3	8.1
Dividends payable			3.0
	842.8	738.7	627.3
Long term debt (note 6)	487.2	430.9	250.7
Obligations under capital leases (note 5 (b))	91.5	68.6	67.8
Other liabilities	18.3	29.1	28.3
Deferred income taxes	45.0	16.7	
Minority interest in subsidiaries	38.4	38.8	34.6
	1,523.2	1,322.8	1,008.7
Shareholders' equity			
Capital stock (note 7)			
Preferred shares	165.4	168.9	94.4
Common shares	108.1	104.5	104.1
	273.5	273.4	198.5
Contributed surplus	9.2	10.2	10.3
Retained earnings	395.7	347.5	294.8
Equity from foreign currency translation	11.9	24.1	17.4
	690.3	655.2	521.0
	$2,213.5	$1,978.0	$1,529.7

Approved by the Board

W. Galen Weston,
Director

W. Galen Weston

Richard J. Currie,
Director

Richard J. Currie

Consolidated Cash Flow Statement

52 Weeks Ended January 2, 1988

(in millions of dollars)

	1987 (52 weeks)	1986 (53 weeks)	1985 (52 weeks)
Operations			
Earnings before minority interest	$ 77.2	$ 79.0	$ 70.9
Depreciation	100.1	85.5	73.0
Income taxes not requiring cash	17.5	17.1	3.7
Other	(4.3)	(10.2)	(.3)
	190.5	171.4	147.3
Provided from (used for) working capital	(8.6)	32.8	(15.1)
Cash flow from operations	181.9	204.2	132.2
Investment			
Purchase of owned fixed assets	(231.8)	(289.4)	(192.0)
Proceeds from sale of fixed assets and capital leases	72.5	55.8	34.3
Gain on sale of fixed assets and capital leases included in operations	(26.4)	(18.7)	(9.3)
Acquisition of subsidiary companies (note 8)	(36.5)	(81.5)	(20.9)
Purchase of minority interest	(3.1)	(.2)	(.2)
Additions to leased fixed assets	(16.0)	(1.0)	(.8)
(Increase) decrease in capital lease receivables	(31.0)		
(Increase) decrease in investments in franchisees	(30.9)	7.7	(14.0)
Net (increase) decrease in other items	(3.4)	(13.7)	(9.0)
	(306.6)	(341.0)	(211.9)
Financing			
Long term debt — borrowings	76.4	207.2	123.8
— repayments	(25.2)	(36.0)	(39.7)
Capital stock — issued	3.6	75.4	.8
— redeemed	(3.3)	(.5)	(1.1)
Other sources of financing	5.9	(12.8)	(8.4)
	57.4	233.3	75.4
Dividends			
To shareholders	(25.4)	(24.0)	(17.3)
To minority shareholders in subsidiary companies	(.9)	(.9)	(.9)
	(26.3)	(24.9)	(18.2)
Increase (decrease) in cash	(93.6)	71.6	(22.5)
Cash (deficiency) at beginning of period	24.9	(46.7)	(24.2)
Cash (deficiency) at end of period	$ (68.7)	$ 24.9	$ (46.7)

Cash is defined as cash and short term investments net of bank advances and notes payable.

Notes to Consolidated Financial Statements

52 Weeks Ended January 2, 1988

(Narrative and tabular amounts in millions of dollars except Capital Stock note)

1. Summary of Significant Accounting Policies

a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries. The effective interest of Loblaw Companies Limited in the equity share capital of principal subsidiaries is 100%, except for Kelly, Douglas & Company, Limited which is 85% owned.

b) Inventories

Retail store inventories are stated at the lower of cost and net realizable value less normal profit margin. All other inventories are stated at the lower of cost and net realizable value.

c) Fixed assets

Fixed assets are stated at cost, including capitalized interest. Interest capitalized during the year amounts to $6.4 (1986 — $8.9, 1985 — $3.1). Depreciation is recorded principally on a straight line basis to amortize the cost of these assets over their estimated useful lives.

Estimated useful lives range from twenty to thirty-five years for buildings and three to eleven years for equipment and fixtures. Leasehold improvements are depreciated over the lesser of the applicable useful life and term of the lease.

d) Translation of foreign currencies

Foreign currency balances are translated at a rate approximating the current rate at each year end. The net difference on translation of the Company's equity in United States subsidiaries and that portion of debt payable in United States funds which is considered a hedge against these investments, is included in a separate category of shareholders' equity on the balance sheet, to be recognized in earnings in proportion to any reduction of the net investment.

2. Income Taxes

The Company's effective income tax rate is made up as follows:

	1987	1986	1985
Combined basic Canadian federal and provincial income tax rate	51.8%	52.1%	51.4%
Lower tax rate on capital gains	(3.4)	(6.4)	(3.5)
Impact of operating in foreign countries with lower effective tax rates	(6.4)	(2.7)	(3.0)
Inventory allowance which partially offsets increases in taxes due to inflation		(.7)	(4.2)
Other (including adjustment of prior years' estimates)	(3.5)	(9.1)	(2.2)
	38.5%	33.2%	38.5%

3. Investments (at cost)

	1987	1986	1985
Secured loans and advances	$ 28.0	$ 27.0	$ 22.3
Capital lease receivables	31.0		
Investments in franchisees	48.9	18.0	25.7
Long term receivables	30.3	24.8	15.9
Sundry investments	5.4	8.7	6.7
	$ 143.6	$ 78.5	$ 70.6

Secured loans and advances include $.7 (1986 — $2.4, 1985 — $2.4) owing by officers and employees of the Company and its subsidiaries arising from the purchase of preferred shares of the Company as part of the Company's incentive plan. These advances are secured by the shares purchased.

4. Fixed Assets (at cost)

	1987			1986	1985
	Cost	Accumulated Depreciation	Net	Net	Net
Properties held for development	$ 24.0		$ 24.0	$ 21.8	$ 32.3
Land	195.7		195.7	153.8	120.0
Buildings	451.0	$ 63.7	387.3	326.4	210.9
Equipment and fixtures	626.6	330.1	296.5	305.5	215.5
Leasehold improvements	148.2	65.1	83.1	65.0	50.3
	$1,445.5	$458.9	$986.6	$872.5	$629.0

5. Leases

The Company and its subsidiaries have entered into leases for retail outlets, warehousing facilities, equipment and store fixtures.

a) Leased assets

Property under capital leases is as follows:

	1987	1986	1985
Buildings	$ 88.9	$ 72.8	$ 64.5
Equipment and fixtures	19.9	30.7	42.7
	108.8	103.5	107.2
Accumulated depreciation	38.1	44.2	48.4
	$ 70.7	$ 59.3	$ 58.8

b) Lease obligations

Minimum lease commitments together with the present value of the obligations under capital leases are as follows:

	Capital Leases	Other Leases		
		Gross Liability	Expected Sub-lease Income	Expected Net Liability
For the year				
1988	$ 15.1	$ 80.2	$ 25.2	$ 55.0
1989	13.7	76.3	22.3	54.0
1990	22.9	69.1	20.1	49.0
1991	12.9	61.4	17.4	44.0
1992	13.4	54.2	14.9	39.3
Thereafter to 2023	136.9	282.4	60.0	222.4
Total minimum lease payments	214.9	$623.6	$159.9	$463.7
Less amounts representing executory costs and interest at 10.3%	119.4			
Total obligations	95.5			
Less current portion	4.0			
Long term obligations	$ 91.5			

6. Long Term Debt

	1987	1986	1985
Debentures			
12 1/2%, due 1990	$ 35.0	$ 35.0	$ 35.0
Series 2, 12 1/4%, due 1994	35.0	35.0	35.0
Series 3, 11 5/8%, due 1992	50.0	50.0	50.0
Series 4, 11%, due 1995	40.0	40.0	40.0
Series 5, 10%, due 2006	50.0	50.0	
Series 6, 9 3/4%, due 2001	75.0	75.0	
Series 7, 10%, due 2001	75.0	75.0	
Series 8, 10%, due 2007	65.5		
Term loans			
LIBOR plus 3/8% — 3/4%, due 1992 (U.S. $13.0)	17.3	18.1	17.3
Repaid in 1986			15.0
Mortgages at a weighted average interest rate of 9.9%, due 1988 — 2004 (including U.S. $5.0)	20.7	25.5	28.5
Other long term debt at a weighted average interest rate of 9.3%, due 1988 — 2014 (including U.S. $14.3)	28.5	39.5	45.0
	492.0	443.1	265.8
Less payable within one year	4.8	12.2	15.1
	$487.2	$430.9	$250.7

The Series 5 and Series 6 debentures are retractable annually commencing 1996 and 1993 respectively. The Series 7 debentures are retractable in 1991 and 1996. Repayments of long term debt, at the earlier of maturity or first retraction date, for the next five years are as follows:

1988 — $4.8; 1989 — $5.6; 1990 — $38.2; 1991 — $78.6; 1992 — $70.4

7. Capital Stock

	Number of shares issued			Paid-up-capital		
	1987	1986	1985	1987	1986	1985 (in millions of dollars)
First preferred shares						
First series	439,652	439,652	439,652	$ 22.0	$ 22.0	$ 22.0
Second series	335,012	343,369	352,169	11.1	11.3	11.6
	774,664	783,021	791,821			
Second preferred shares						
First series	300,000	300,000	300,000	30.0	30.0	30.0
Second series	250,000	250,000	250,000	25.0	25.0	25.0
Third series	3,000,000	3,000,000		75.0	75.0	
	3,550,000	3,550,000	550,000			
Junior preferred shares						
First series	5,830	11,500	11,600	.6	1.2	1.2
Second series	1,926	13,000	13,000	.2	1.3	1.3
Third series	7,500	22,500	22,500	.7	2.2	2.2
Fourth series	8,690	9,130	10,450	.8	.9	1.1
	23,946	56,130	57,550			
Total preferred shares				165.4	168.9	94.4
Common shares	72,427,009	71,390,384	71,305,892	108.1	104.5	104.1
Total capital stock				$273.5	$273.4	$198.5

Share Description:

First preferred shares (authorized — 1,000,000)

First series — $2.40 cumulative dividend redeemable at $50.

Second series — $3.70 cumulative dividend redeemable at $70. In each fiscal year the Company is obligated to apply $400,000 to the purchase of these shares for cancellation, provided that such shares are available at a price not exceeding $67. During 1987, the Company purchased 8,357 of these shares for cancellation at a cost of $402,532. The premium of $127,651 on these purchases has been deducted from contributed surplus.

Second preferred shares

First series — cumulative dividend with floating rate equal to one-half of bank prime rate plus 3/4% to 7/8%, redeemable at $100, retractable at the option of George Weston Limited on December 1, 1990.

Second series — cumulative dividend with floating rate equal to one-half of bank prime rate plus 1 1/4%, redeemable at $100, retractable at the option of George Weston Limited on December 1, 1991.

Third series — $1.825 cumulative dividend redeemable at $25, retractable at the option of the holder on September 1, 1993.

Junior preferred shares

First series - $9.00 cumulative dividend, redeemable after June 6, 1990 at $100, convertible into the number of common shares obtained by dividing the number of preferred shares converted by .02375.

Second series - $12.00 cumulative dividend, redeemable after October 7, 1991 at $100, convertible into the number of common shares obtained by dividing the number of preferred shares converted by .03.

Third series - cumulative dividend with floating rate equal to 2/3 of average bank prime rate plus 3/4%, redeemable after August 6, 1992 at $100, convertible into the number of common shares obtained by dividing the number of preferred shares converted by .0375.

Fourth series - cumulative dividend with floating rate equal to 2/3 of average bank prime rate plus 3/4%, redeemable after May 16, 1993 at $100, convertible into the number of common shares obtained by dividing the number of preferred shares converted by .06375.

Common shares

In 1987 the Company issued 1,014,767 common shares for a consideration of $3,218,400 on conversion of 5,670 junior preferred shares, first series, 11,074 junior preferred shares, second series, 15,000 junior preferred shares, third series and 440 junior preferred shares, fourth series.

In 1987 the Company issued 53,958 common shares for cash of $407,466 on exercise of employee stock options. The following options, which have been granted at the market price on the day preceding the grant, are outstanding at January 2, 1988:

Number of employees	Number of common shares	Exercise price per share	Option expiry date
5	120,500	$2.375	June 6, 1990
2	374,000	$ 3.00	Oct. 7, 1991
5	38,998	$6.375	May 16, 1993
37	281,200	$9.188	Jan. 17, 1995
88	871,900	$11.00	Jan. 27, 1993
19	772,725	$11.00	Dec. 9, 1994
	2,459,323		

The exercise of the conversion privileges and stock options would not materially dilute earnings per share.

The Board of Directors of the Company has authorized the purchase of up to 1,000,000 of its outstanding common shares over a twelve month period commencing October 30, 1987. As at January 2, 1988, 32,100 shares have been purchased for cancellation for cash of $345,400.

8. Acquisition

Effective February 2, 1987, the Company acquired the franchise business of Domgroup Ltd. operated under the Mr. Grocer name in Ontario at a cost of $36.5.

This transaction has been accounted for using the purchase method with the results of operations included in these financial statements since the date of acquisition. Details of the acquisition are as follows:

Net assets acquired	
Working capital	$12.7
Fixed assets	18.3
Property under capital leases	16.1
Other assets	5.5
Obligations under capital leases	(16.1)
Cash consideration	$36.5

9. Pensions

Current actuarial estimates indicate that the present value of accrued pension benefits is $256.2 and the value of pension fund assets is $276.0. In addition, a subsidiary is a participant in union-sponsored multiemployer pension plans. The share of these plans' unfunded vested liabilities allocable to the subsidiary, for which it may be contingently liable, is not determinable by the plans' administrators.

10. Other Information

a) Segmented information

The Company's only significant activity is food distribution. Geographically segmented information is as follows:

	Canada			United States		
	1987	1986	1985	1987	1986	1985
Operating income	$ 152.6	$ 130.9	$ 116.5	$ 37.1	$ 32.5	$ 35.0
Total assets	$1,494.3	$1,219.2	$1,035.9	$719.2	$758.8	$493.8

b) Contingent liabilities

Endorsements and guarantees in the normal course of business amount to $110.2. Gross rentals under leases assigned at the time of sale of United States divisions amount to $84.3.

In addition to various claims arising in the normal course of business, there is a class action lawsuit, involving a substantial amount, filed by a former employee of a United States division sold in 1982. Although the outcome of this action cannot be predicted with certainty, management believes that it will not have a material effect on the Company's financial position.

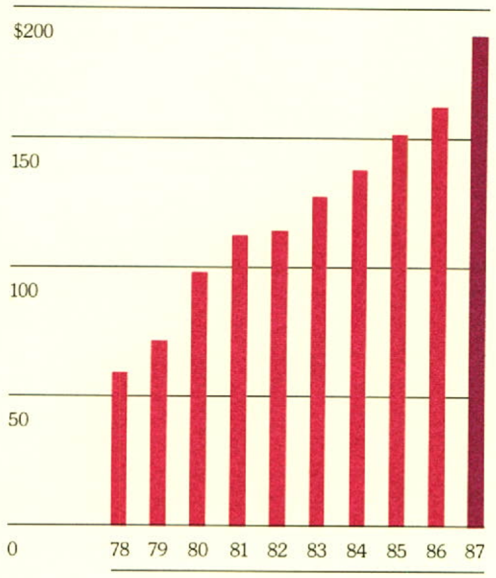
c) Related parties

The Company's majority shareholder, George Weston Limited and its subsidiaries are related parties. It is the Company's policy to conduct all transactions with related parties on normal trade terms.

Ten Year Graphic Analysis

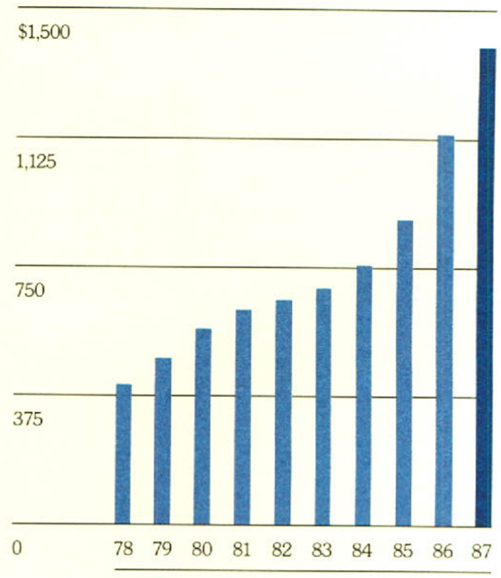
Operating Income

(in millions)

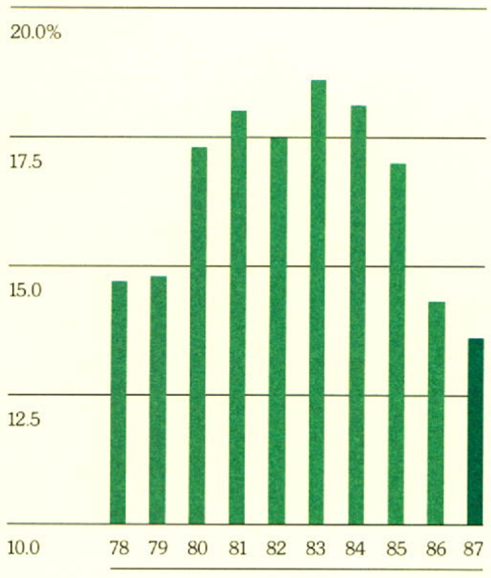


Average Capital Employed

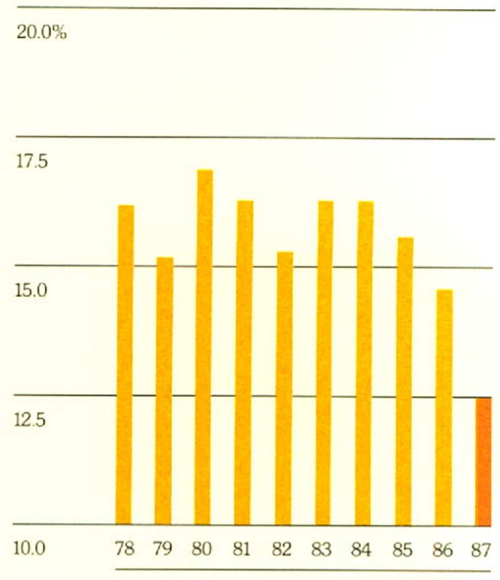
(in millions)



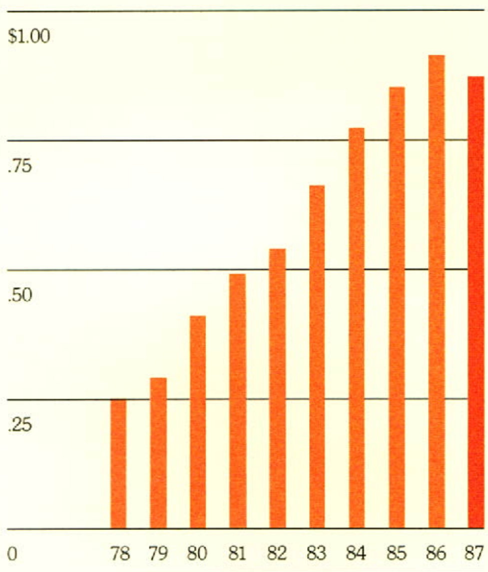
Return on Capital Employed



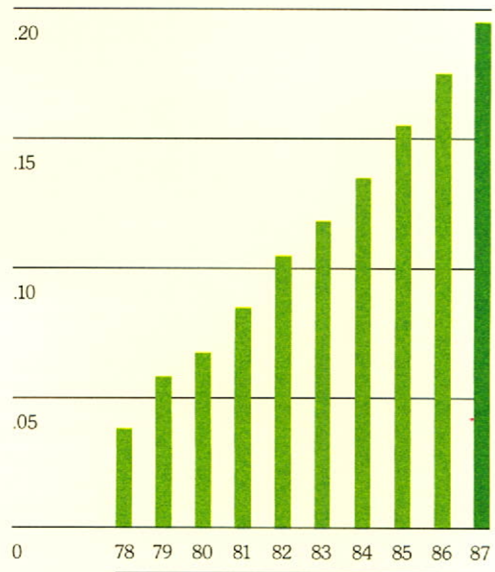
Return on Common Equity



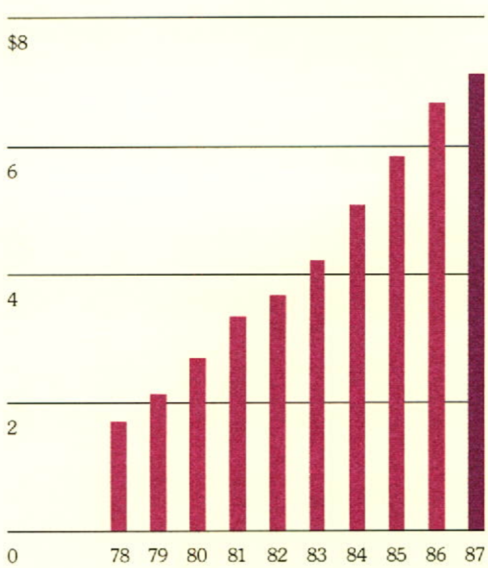
Earnings before Extraordinary Items per Share
(in dollars)



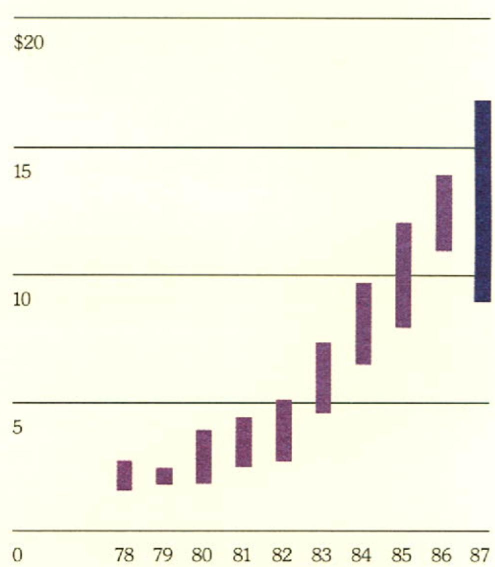
Dividends per Share
(in dollars)



Book Value per Share
(in dollars)



Price Range per Share
(in dollars)



Ten Year Summary

Earnings Statement ($ millions)	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978
Sales — Canada	5,689	5,098	4,668	4,394	4,121	3,847	3,513	3,198	2,857	2,645
— United States	2,942	2,741	2,263	2,025	1,970	2,374	2,282	2,177	1,868	1,602
Total	8,631	7,839	6,931	6,419	6,091	6,221	5,795	5,375	4,725	4,247
Trading profit*	290	249	225	205	190	173	166	147	108	91
Operating income	190	163	152	138	128	115	113	99	72	60
Depreciation	100	86	73	67	62	58	53	48	36	31
Interest	64	45	36	29	26	26	29	26	22	16
Income taxes	48	39	44	44	46	39	37	34	21	20
Minority interest	4	5	4	3	4	4	6	5	6	5
Earnings before extraordinary items	74	74	67	61	52	45	41	34	23	19
Extraordinary items				3	1	(6)	12	12	12	7
Net earnings	74	74	67	64	53	39	53	46	35	26

Per Common Share (dollars)	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978
Earnings before extraordinary items	.87	.91	.85	.77	.66	.54	.49	.41	.29	.25
Net earnings	.87	.91	.85	.81	.66	.46	.66	.60	.48	.36
Dividends — declared	.195	.175	.155	.135	.118	.105	.085	.068	.058	.038
— year end rate	.20	.18	.16	.14	.12	.11	.09	.07	.06	.038

Return on Sales (percent)	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978
Operating income	2.2	2.1	2.2	2.1	2.1	1.9	1.9	1.8	1.5	1.4
Earnings before income taxes	1.5	1.5	1.7	1.7	1.7	1.4	1.4	1.4	1.1	1.0
Earnings before extraordinary items	.9	.9	1.0	1.0	.9	.7	.7	.6	.5	.4

Earnings Ratios** (percent)	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978
Return on common equity	12.5	14.6	15.6	16.3	16.3	15.3	16.3	16.9	15.2	16.2
Return on capital employed	13.6	14.3	17.0	18.1	18.6	17.5	18.0	17.3	14.8	14.7

*Trading profit is defined as earnings before depreciation, interest and income taxes.

**Earnings ratios have been computed as follows:

Return on common equity -
Earnings before extraordinary items less preferred dividends divided by average common share capital, retained earnings, equity from foreign currency translation and the applicable portion of contributed surplus.

Return on capital employed -
Operating income divided by average total assets less non-interest bearing debt.

Financial Position ($ millions)	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978
Current assets	983	940	753	624	581	575	531	491	465	414
Current liabilities	843	739	627	495	470	479	433	401	378	336
Working capital	140	201	126	129	111	96	98	90	87	78
Owned fixed assets (net)	987	873	629	516	441	413	373	341	316	262
Property under capital leases (net)	71	59	59	61	67	81	86	87	44	
Total assets	2,214	1,978	1,530	1,264	1,151	1,111	1,034	962	868	713
Long term debt	492	443	266	174	138	133	98	99	110	102
Total debt	686	569	390	283	233	253	220	231	195	151
Retained earnings	396	348	295	245	198	159	134	95	62	35
Shareholders' equity	690	655	521	466	413	344	317	277	242	190
Average capital employed	1,393	1,141	893	761	692	657	628	572	486	408

Changes in Financial Position ($ millions)										
Cash flow from operations	182	204	132	60	117	110	123	99	78	61
Purchase of owned fixed assets	232	289	192	148	98	69	92	92	99	99

Per Common Share (dollars)										
Cash flow from operations	2.54	2.86	1.85	.84	1.65	1.55	1.80	1.56	1.22	.96
Book value	7.12	6.68	5.85	5.09	4.33	3.69	3.34	2.68	2.15	1.72
Price range — high	16.88	14.00	12.13	9.75	7.44	5.19	4.50	4.00	2.50	2.75
— low	9.00	11.00	8.00	6.57	4.63	2.75	2.57	1.90	1.83	1.63

Financial Ratios (xx:1)										
Working capital	1.17	1.27	1.20	1.26	1.24	1.20	1.23	1.22	1.23	1.23
Total debt to equity	.99	.87	.75	.61	.56	.74	.70	.83	.81	.80
Cash flow from operations to long term debt	.37	.46	.50	.34	.85	.83	1.26	1.00	.71	.60
Interest coverage on total debt	3.00	3.62	4.17	4.72	4.86	4.35	3.80	3.83	3.26	3.72

Corporate Structure

Loblaw Companies Limited

Directors

W. Galen Weston
Chairman and President
George Weston Limited

Richard J. Currie
President, Loblaw Companies Limited

Charles M. Humphrys*
Management Consultant

Robert H. Kidd*
Senior Vice President and Chief Financial Officer
George Weston Limited

Roger A. Lindsay
Executive Vice President
Wittington Investments, Limited

Arthur H. Mingay*
Former Chairman
Canada Trust

David A. Nichol
Executive Vice President
Loblaw Companies Limited

Shirley E. Robertson*
Homemaker, Professional Photographer

*member - Audit Committee

Honorary Chairman
George C. Metcalf

Honorary Director
Richard G. Meech, Q.C.

Central Canada Grocers Inc.
(Toronto, Ontario)
David M. Williams
President

National Tea Co.
(Rosemont, Illinois)
Sheldon V. Durtsche
President

Peter J. Schmitt Co., Inc.
(Buffalo, New York)
Charles B. Barcelona
President

IPCF Properties Inc.
(Toronto, Ontario)
Stanley B. Swartzman
President

Loblaws Supermarkets Limited

Combined Merchandisers Inc.
(Toronto, Ontario)
David T. Stewart
President

National Grocers Co. Ltd.
(Toronto, Ontario)
Neil M. Walker
President

Corporate Officers

W. Galen Weston
Chairman of the Board

Richard J. Currie
President

Raymond J. Addington
Executive Vice President

Brian Y. Davidson
Executive Vice President

David A. Nichol
Executive Vice President

David M. Williams
Executive Vice President

David K. Bragg
Senior Vice President,
Planning and Control

John W. Thompson
Senior Vice President,
Finance and Administration

Wayne E. East
Vice President,
Information Services

James H. Farrell
Vice President, General
Counsel and Secretary

John N. McCullough
Vice President, Assistant
General Counsel

Richard P. Mavrinac
Vice President, Taxation

Donald G. Reid
Vice President, Treasurer

Stephen A. Smith
Controller

Louise M. Lacchin
Assistant Treasurer

Glenn D. Leroux
Assistant Vice President,
Risk Management

Geoffrey H. Wilson
Assistant Vice President,
Systems and
Internal Control

Stewart E. Green
Assistant Secretary

Dorothy M. Leamen
Assistant Secretary

Loblaw International Merchants
(Toronto, Ontario)
David A. Nichol
President

Intersave Buying & Merchandising Services
(Toronto, Ontario)
Brian Y. Davidson
Chairman
Douglas N. Lunau
President, Intersave Canada
Harry DeMuth
President, Intersave U.S.A.

Kelly, Douglas & Company, Limited
(Vancouver,
British Columbia)
Raymond J. Addington
President

Atlantic Wholesalers Ltd.
(Sackville,
New Brunswick)
Albert F. Rose
President

Zehrmart Limited
(Cambridge, Ontario)
Grant J. Heimpel
President

Westfair Foods Ltd.
(Winnipeg, Manitoba)
Raymond J. Addington
President

The average age and years of service of the Officers and operating Presidents are 46 and 15 years respectively.

Shareholder Information

Corporate Directory
Loblaw Companies Limited

Transfer Agent and Registrar
National Trust Company
Toronto, Montreal, Vancouver, Winnipeg, Calgary, Regina, Halifax

Stock Listings
Toronto, Montreal and Vancouver Stock Exchanges

Executive Offices
22 St. Clair Avenue East
Toronto, Ontario
M4T 2S8

General Counsel
Borden & Elliot

Auditors
Thorne Ernst & Whinney
Toronto, Ontario

Common Dividend Payment Dates
April 1
July 1
October 1
December 30

Valuation Day Value of Common Shares
$2.875

Annual General Meeting

April 27, 1988, 11:00 a.m.
Roy Thompson Hall
60 Simcoe Street
Toronto, Ontario

Design: Arnold Saks Associates
Facility Photographs: Tom Skudra
Product Photographs: Peggy Barnett
Typesetting: AD•X Communications Inc
Printing: Norgraphics (Canada) Ltd