Loblaw Companies Limited

1988

Annual Report

Loblaw Companies Limited is Canada's largest food distributor. In 1988, 59.2% of its sales were at the retail level and the remainder were as a wholesaler. The Company is geographically diverse, with operations in all the Canadian provinces, except Quebec, as well as in the St. Louis and New Orleans areas of the United States. In 1988, 72.8% of sales were in Canada.

77% of the common shares of Loblaw Companies Limited are owned by George Weston Limited. The remaining 23% or 16,390,324 shares are actively traded on the Toronto, Montreal and Vancouver stock exchanges.

Financial Highlights

Operating Results ($ millions)	**1988**	1987	1986
Sales	**8,308**	8,631	7,839
Trading profit*	**258**	290	249
Operating income	**160**	190	163
Earnings before income taxes	**65**	126	118
Earnings before extraordinary items	**41**	74	74
Net earnings	**26**	74	74

Financial Position ($ millions)			
Total debt	**623**	686	569
Total shareholders' equity	**651**	690	655
Total assets	**2,004**	2,214	1,978

Changes in Financial Position ($ millions)			
Cash flow from operations	**158**	182	204
Purchase of fixed assets	**186**	232	289

Per Common Share (dollars)			
Earnings before extraordinary items	**.41**	.87	.91
Net earnings	**.21**	.87	.91
Cash flow	**2.19**	2.54	2.86
Book value	**6.62**	7.12	6.68
Actual dividends paid	**.20**	.195	.175
Year end dividend rate	**.20**	.20	.18
Price range — high	**13.13**	16.88	14.00
— low	**9.88**	9.00	11.00

Financial Ratios			
Return on common equity	**5.9%**	12.5%	14.6%
Return on capital employed	**11.2%**	13.6%	14.3%
Pretax return on sales	**.8%**	1.5%	1.5%
Working capital ratio	**1.12:1**	1.17:1	1.27:1
Total debt to equity	**.96:1**	.99:1	.87:1

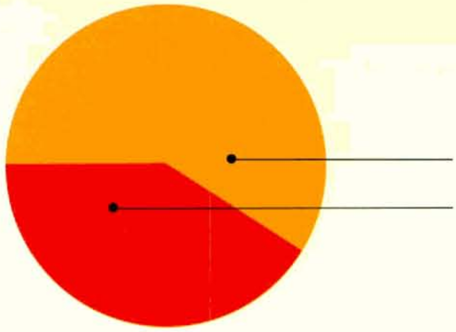
* Trading profit is defined as operating income before depreciation.

Contents


1.10
279
293
39
lettuce
49
lb.
save time
criptions

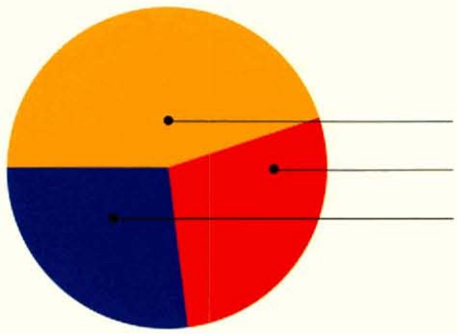
Corporate Profile

Total Sales ($ Billions)



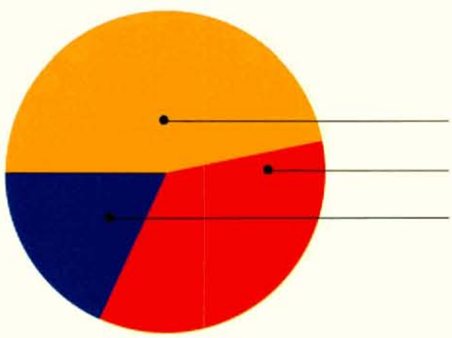
$ 4.92	Retail Operations
$ 3.39	Wholesale Operations
$8.31	**Total**

Regional Sales($ Billions)



$ 3.71	Eastern Canadian Operations
$ 2.34	Western Canadian Operations
$ 2.26	United States Operations
$8.31	**Total**

Regional Operating Income($ Millions)



$ 78	Eastern Canadian Operations
$ 61	Western Canadian Operations
$ 29	United States Operations
(8)	Corporate
$160	**Total**

Ten Year Analysis by Operating Region

Sales ($ billions)	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979
Eastern Canadian Operations	3.71	3.60	3.07	2.78	2.69	2.54	2.41	2.25	2.07	1.80
Western Canadian Operations	2.34	2.09	2.03	1.89	1.70	1.58	1.71	1.60	1.42	1.33
United States Operations	2.26	2.94	2.74	2.26	2.03	1.97	2.10	1.95	1.89	1.60
Total	8.31	8.63	7.84	6.93	6.42	6.09	6.22	5.80	5.38	4.73

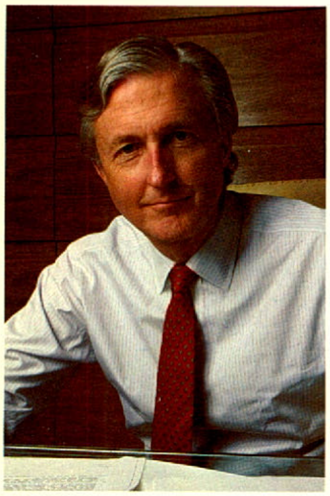
Operating Income ($ millions)										
Eastern Canadian Operations	78	107	74	72	70	62	56	53	52	29
Western Canadian Operations	61	52	61	48	38	36	33	36	29	24
United States Operations	29	37	33	35	34	32	32	31	31	26
Corporate	(8)	(6)	(5)	(3)	(4)	(2)	(6)	(7)	(13)	(7)
Total	160	190	163	152	138	128	115	113	99	72

< **Panoramic view of the new Real Canadian Superstore in Calgary. Larger than two football fields and stocked with 45,000 items, this 140,000 sq. ft. giant opened on November 15, 1988 to the acclaim of Calgary consumers and the media.**


permanent
discount
1.08


discount
78

Chairman's Report



W. Galen Weston
Chairman of the Board
Loblaw Companies Limited

The year 1988 was a challenging one for a number of retail companies in Canada. For Loblaw Companies Limited, with its strong earnings record since 1977, it will be remembered as a year of frustration and disappointment.

Frustration because the Ontario shopper responded so unenthusiastically to a one-stop shopping concept which provided real savings across a wide range of commodities and disappointment that a number of price wars were carried on for months in several very important market areas without apparent justification.

By mid-summer, the decision to significantly downsize and remerchandise the combination stores in Ontario had been taken in spite of continued success and real progress in Western Canada and other areas. Soon thereafter, in the United States, the decision was taken to reduce our exposure to the sluggish, over-stored Louisiana market.

Both these decisions will stop heavy operating losses and are strategically correct but they have resulted in large one-time charges at year end against an already depressed income statement.

It was a watershed year in terms of capital expenditures for our Company which has spent over $1.0 billion in the past four years on acquired, new and remodelled facilities. Capital expenditures at $228.1 million were higher than operating cash flow again in 1988, but total cash flow was positive when one includes the sale of the United States wholesale division. Barring acquisitions, capital expenditures will fall and cash flow from operations will improve significantly in 1989.

While earnings are disappointing, much good work was carried out by Loblaw management in the past year. Our wholesale businesses were more closely focused on customers for whom they can provide the best and most profitable service and as a result, franchise programs gained in strength. As traffic problems increased, the more traditional large corporate stores in many areas have performed at all time high rates of sales and earnings, aided by a sophisticated computerized category management program and exceptional private label products. At the same time impressive strides have been made to reduce overhead costs in a number of areas.

Perhaps the most positive statement about 1988 earnings is that the year was the second best ever for the Company in terms of earnings before depreciation, interest and taxes. While one can never be sure what the competitive marketplace will do, I believe that our 1988 results will prove to be an exception in an otherwise excellent growth story.

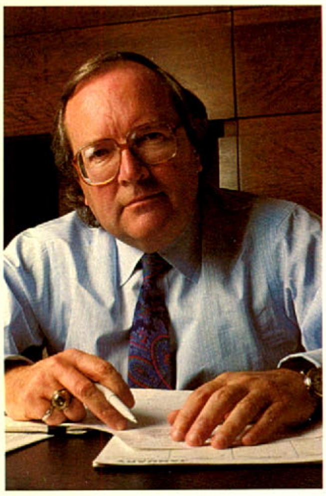
On behalf of the management and Board of Directors of this Company, I would like to thank our customers, employees and suppliers for their support in 1988 and assure shareholders that their confidence in us will in due course be rewarded.

W. Galen Weston

> **The first of a new breed of supermarkets, the 80,000 sq. ft. Garden Market, opened by Loblaws in West Toronto in 1987, is positioned as a one-stop shopping destination for consumers in established suburban markets. About 25% of the total floor space is devoted to floral and garden products. A second Garden Market was opened in October of 1988 in the city of Ottawa.**


moonrays
Low Voltage Garden Lighting Set

President's Report



Richard J. Currie
President
Loblaw Companies Limited

Since 1985, Loblaw Companies Limited has been going through a period of profound physical and organizational change in response to the emerging trends of the food distribution industry. The outlook to the year 2000 and beyond is for slow population growth, low food inflation and declining per capita expenditures on food. These trends exacerbate the characteristics of an already mature industry.

Faced with this outlook, your Company responded with an ambitious capital expenditure and acquisition program to strengthen its position in its existing markets and to enter new and promising markets by building or acquiring stores which best served the market niche to which they were directed. In the years 1985 to 1989, over $1.2 billion will have been expended to position Loblaw Companies soundly for the future. Capital costs in excess of normal replacement will be virtually complete by the end of 1989, by which time a relatively new asset base, a competitive cost structure and a diversified store profile will have been achieved in the major urban centres of Halifax, Hamilton, Windsor, Calgary and Vancouver — markets in which the market presence of Loblaw Companies was inconsequential in 1985. Filling these market gaps should stabilize regional competitive elements over the longer term. Concurrently, the core marketing areas of Ontario, the Maritimes, the Prairies and St. Louis have been strengthened by the introduction of new stores or the targetted addition of franchised or corporate supermarkets on top of a solid base business.

Total fixed asset additions and acquisitions in the years 1985 to 1988 have been $1.08 billion, of which $367 million relate to combination stores (with attendant real estate developments), $139 million to acquired supermarkets, $42 million to acquired franchise businesses, $295 million to new supermarkets and $237 million to wholesaling and service elements. In 1989, $75 million will be added to combination stores and $49 million to new supermarkets. Capital investments are planned to be approximately $175 million in each of 1989 and 1990, far below the average of $270 million from 1985 to 1988.

Such a program is massive in scope and demands a steady hand to see it through. Over an investment period of five years, some bumps can be expected and some tough decisions were made in 1988. Early in the year, the decision was made to sell our wholesaling operations in the United States. While the business was solid and made a reasonable profit, it was clear that its asset base was not equal to its major competitors and that major capital expenditures with uncertain returns would have been required in any attempt to secure its future. In the third quarter, a strategic repositioning of the combination stores in Ontario and to a much lesser degree in the Maritimes, was begun. And in the fourth quarter, the business acknowledged that a significant reduction of the New Orleans division was required in order to recognize the expected continuation of the present depressed nature of that market into the future. The decisions on Eastern Canada and New Orleans have entailed some significant one-time costs. These costs could have been amortized over time. But for 1989, there will again be substantial growth in retail square footage in Ontario and record one-year growth in the West. Significant start-up costs will again be realized. The importance of the removal of the Eastern Canada and New Orleans cost impediments is

> **A customer enjoys shopping for produce in the attractive surroundings of the Real Atlantic Superstore in Halifax. Formerly a Capitol supermarket, this 41,000 sq. ft. store was refitted and, without enlarging, converted to a smaller model Superstore in 1988.**

that the business will be able to retain its competitive strength at all times in all markets. The continuing strength of the business is demonstrated by trading profit (operating income before depreciation) of $258 million in 1988. With depreciation and interest not expected to increase, growth in earnings per share over the next few years will be directly related to trading profit growth. And to deliver trading profit growth, maintenance of competitive strength is crucial.

Eastern Canadian Operations

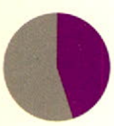
In November of 1985, your Company opened its first Ontario combination store in Pickering, at a size of 98,000 sq. ft. Following that store, eight more combination stores, ranging in size from 100,000 to 130,000 sq. ft. were opened in rapid succession, with the last being the Golden Mile store in Toronto, opened in October of 1987. These stores have achieved varying degrees of success. While continuing to believe that the combination store concept, linking a strong convenience non-food component to a powerful conventional food presentation, will be an important element in the future of food retailing, after careful analysis management concluded that without some redirection, satisfactory levels of profitability for the present group of stores would not be achieved in the near term. For the Ontario market, it was determined that some reductions in store size were required to provide a more focused approach to the general merchandise being offered for sale while retaining virtually all the food volume. Six of the original nine stores will be downsized to the 65,000 sq. ft. range. This size approximates the new Zehrs and Loblaws store designs and is compatible with their merchandising mix for 1988 and beyond. For now, it is believed that the other three stores can operate profitably at their full size. Three of the downsized stores, in Kitchener and Windsor, have been converted to our Zehrs supermarkets. Additional ancillary space created through SuperCentre size reductions is being leased, with Zellers taking three locations. All of these changes are not without cost, but the $21.5 million charge in the 1988 income statement is considered adequate to establish an acceptable cost base for these stores.

In the Maritimes, the four large combination stores (Moncton, now 77,000 sq. ft., Lower Sackville, 90,000 sq. ft., Dartmouth, now 87,000 sq. ft. and Saint John, 90,000 sq. ft.) are showing an acceptable cash flow return on the total development for the short time they have been open (one in August 1986, two in 1987, one in March 1988). While not yet profitable, the stores are showing good consumer acceptance and strong sales growth. The stores in Moncton and Dartmouth have undergone minor reductions in area and a number of ancillary shops are being added to complement the newly constructed 67,000 sq. ft. Zellers in each location. As in Ontario, general merchandise product lines are being reduced consistent with one-stop shopping for everyday household needs. Also, during the year, one Capitol store in Halifax was converted to a smaller model (41,000 sq. ft.) Real Atlantic Superstore in November, bringing the total number of combination stores in the Maritimes to five.

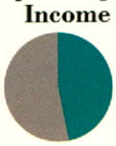
In Ontario, four former Super Carnaval Stores of approximately 65,000 sq. ft. each (including one under construction) were acquired in

Eastern Canadian Operations

Sales



Operating Income



May in Toronto and Hamilton. Also, late in the year, Fortino's Supermarkets was acquired. This locally managed chain with eight stores, primarily in the Hamilton area, now gives your Company a meaningful position in this important market. The two Hamilton stores acquired from Super Carnaval are being converted to Fortino's stores. The Toronto Super Carnavals will be Loblaws stores.

A continuing strength of the Ontario business has been its variety of retail formats, its regional management and its depth in wholesaling which was materially increased by the 58-store Mr. Grocer acquisition in February 1987. Fortino's in Hamilton and the Niagara Peninsula will now join the long standing and highly regarded Loblaws in Toronto, Ottawa, Kingston, London and many other communities and Zehrs in Kitchener, Waterloo, Cambridge, Guelph and southwestern Ontario. The powerful consumer appeal of the Zehrs chain is demonstrated in its ability to replace the SuperCentre in three locations. The steadily improving franchising progam has allowed supermarkets reaching the end of their profitable life cycle as corporate stores to be rejuvenated in the franchise mode as owner-operated stores. As a result of all these efforts, in the upcoming year the combined businesses in Ontario are expected to experience the best operating profit year in their history.

Western Canadian Operations

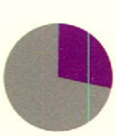
Western Canadian Operations enjoyed the best operating profit in that group's history during the past year. Only in 1986, when there was a $10.6 million gain resulting from the sale of one property, were reported earnings higher. Growing in harmony with a strong and vibrant wholesale business, the western combination store program opened the first Calgary Real Canadian Superstore in November. In 1989, three new combination stores of approximately 140,000 sq. ft. each will open in Vancouver in April, May and August as well as a second store of 140,000 sq. ft. in Calgary in November. Recognizing the westward shifting centre of gravity of the combination stores as well as the increased management requirements of this portion of the business, a new Superstore head office was opened in Calgary late in 1988. In addition to store growth, 142,000 sq. ft. of increased grocery warehouse capacity are under construction in Calgary and 341,000 sq. ft. in Vancouver. The Calgary portion will be fully operational in February of 1989, and Vancouver in March. A new Calgary general merchandise warehouse of 93,000 sq. ft. to supply all Real Canadian Superstores will also be opened in mid-1989. A 43,000 sq. ft. addition to the Regina warehouse was completed in December of last year.

The expectation is for stiff competition to meet the arrival of our combination stores in both cities in 1989, but such has been the case with every Superstore opened since the first one in March 1979. With the experience gained in the last ten years of operating combination stores in Western Canada, it is expected that profit levels have a reasonable chance to be sustained in 1989. The improvement in our market coverage, which now will be strong in all markets in the West, should also stabilize competitive elements in the longer term.

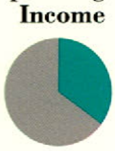
In Western Canada, the backbone of the operation has long been the

Western Canadian Operations

Sales



Operating Income



franchised independent and independent store business. At the end of 1988, there were 631 franchised independent customers and thousands of independent accounts in four provinces and two territories. As well, some parts of the business still retain a significant corporate store presence, particularly in smaller communities. At the year end, 40 such corporate stores were in operation, tailored to individual markets, with an average store size of approximately 20,000 sq. ft.

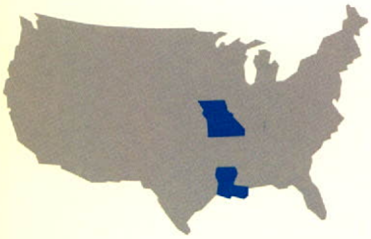
United States Operations

Early in the year your Company agreed to sell its 100% owned subsidiary, Peter J. Schmitt of Buffalo. The offer, though unsolicited, was attractive and the transaction closed in August, generating cash flow of $148.4 million including proceeds on sale of shares and concurrent repayment of inter-company debt.

In the fourth quarter, a process of rationalizing the New Orleans division of National Tea was begun. The Louisiana economy has been decimated by declines in oil prices in recent years. Many of your Company's stores are modest, conventional supermarkets struggling to compete using unionized labour in an over-stored, non-unionized, negative-growth market. Recent labour concessions have been helpful, but clearly labour rates are only part of the problem. There is a small core business of conventional stores that has the potential to operate profitably even in such an environment. The four Real Superstores — in Baton Rouge, Lafayette and New Orleans (2) — provide for any growth potential. The extraordinary provision in this year's accounts recognizes that a strategic reduction of our exposure to this market is required. This will involve sale or closure of a significant number of stores and consolidation of some administrative functions in St. Louis, enhancing the competitive position of the remaining New Orleans stores.

In St. Louis, the 26-store Kroger acquisition of December 1986 has now been successfully integrated into the 58-store St. Louis division. There has been a steady improvement in profits in the latter part of 1988 and this trend is expected to continue. With the unprofitable portion of the conventional New Orleans business written off, there is a reasonable expectation that 1989 will be National Tea's most profitable operating year in the past decade.

U.S. Operations



Sales **Operating Income**

Outlook and Goals

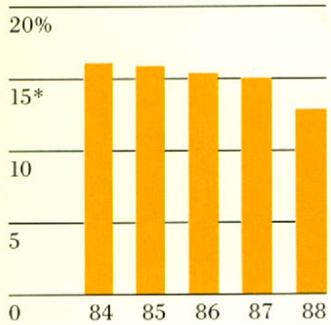
Reference has been made to the likelihood that several areas of the business will experience record levels of profitability in 1989. This profit growth will, however, be tempered by continuing store start-up and market development costs. Many of the Company's assets, including acquisitions, are still very new. Even in those portions of the business attaining record profits, return on investment may still not be up to the desired level, partly a function of the age of the asset base. On a total Company basis, the stated goal has been to provide a 15 percent return on shareholders' equity. This year's return, after the unusual write-down, was 5.9 percent, giving a five-year average return of 13.0 percent. It is reasonable to expect a return in 1989 in excess of 13 percent. Much of your Company's asset base is in relatively new real estate developments which provides security and appreciation

>**Fortino's, a chain of eight corporate supermarkets, was purchased in late 1988. Fortino's is a well-managed company with strength in meat, produce and customer service. Pictured is the meat and deli department of the Stoney Creek, flagship store. Plans are underway to expand the chain.**


fresh meat
YUMMY
Unico

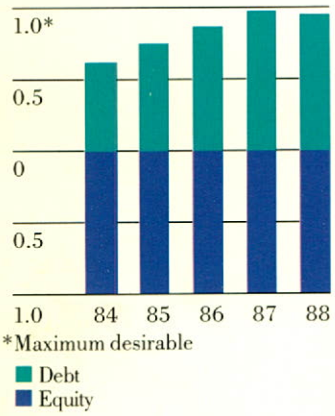
Average Return on Common Shareholders' Equity

(Five-year period ended)



*Corporate Objective

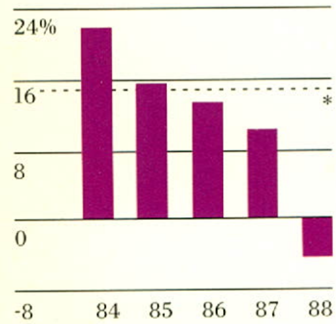
Ratio of Total Debt to Total Equity



*Maximum desirable

Average Annual Increase in Earnings per Common Share

(Five-year period ended)



*Corporate Objective(15)

potential, but restricts short term accounting returns on this portion of the asset base. Within the confines of a desired 1 to 1 debt-to-equity ratio, a 15 percent return on equity will develop only over time and will depend almost entirely on the success rate of recent and new stores.

A second stated fiscal goal has been to maintain the debt-to-equity ratio at 1 to 1 or less. The sale of P. J. Schmitt during the year has allowed the investment and acquisition program of 1988 to be completed within this targetted position. For the future, it appears as if the cash generating ability of the present business will exceed its cash needs by a considerable amount over time, beginning with a marginal excess in 1989. As a result, the debt-to-equity ratio will continue to improve and the business will possess an increasingly formidable asset base with an increasingly conservative balance sheet.

A third goal has been to achieve an average annual increase in earnings per common share of 15 percent over any five-year period. This level was achieved for the five-year periods ending in 1983, 1984, 1985. It has not been achieved since the beginning of the investment program in 1985. In 1987 and 1988, earnings per share experienced a decline from the previous year, made more dramatic this year by unusual write-downs. Earnings growth in 1989 over 1988 should get earnings per share back up to approximately 1987 levels. Growth in subsequent years is expected to return to the targetted level.

The winding down of the capital investment and acquisition program during the year 1989 will bring to an end a tumultuous period in your Company's history. As a result of this massive program, Loblaw Companies Limited will have market presence, modern assets, effective systems and innovative product programs in each of its operating regions. The Company is in transition from a period of strategic management with emphasis on planning, finance and real estate skills to a period of tactical management with emphasis on market-by-market operating and merchandising skills. It is the effective use of these latter skills which will allow returns on recent investments to be realized in the future.

The past few years have been arduous and the outlook is for more of the same as the transition begins from strategy to tactics, from investment to merchandising, but rewards await in terms of both profit and personal satisfaction. To those who have made the present possible and to those who will realize the future, my thanks and best wishes.

Richard J. Currie

The following section of this year's Annual Report deals with some of the 'stories behind the stories' that serve to differentiate Loblaw Companies Limited from its competitors. Only five stories were selected from among the many possibilities, but these provide a good representation of the Company's innovative thinking and its ability to manage the business strategically and for the long term.

The accounts include the evolution of 'no frills', the successful entry of Atlantic Wholesalers into the Halifax market, the solution to a positioning problem in the Kitchener market, a long term strategy for growth in the West and the Corporate Brands story.

How Loblaws Extended The Profitable Life Of Its Supermarkets For The Benefit Of Shareholders And Employees

On a scorching summer day in July 1978, workmen erected a massive black and yellow sign that heralded the conversion of an older Loblaws store in east Toronto to a bold new concept. The 'no frills' phenomenon had begun.

This store was like no other in Canada. Consumers were guaranteed the lowest prices on every product in the store. The store featured fresh produce, but no meat, an austere decor and restricted variety, displayed in cardboard packing cases, slit open at the side. It wasn't glamorous, but it was inexpensive. And opportune, for at a time of high inflation and widespread unemployment, shoppers were feeling the pinch. Not surprisingly, customers swarmed from all over Toronto and sales volumes soared. Loblaws responded quickly by converting two dozen more unproductive locations to 'no frills' stores. Although the operation was constantly fine tuned, the fundamental concept remained the same and as fast as the walls were painted yellow, the balance sheets turned black.

By the mid 1980's, the economic crisis had been replaced by a vibrant economy, and Loblaws was responding to the changing trends and widening tastes of the more affluent consumer. However, there was still a need for the 'no frills' niche — stores which attracted the price conscious customer. But with fierce competition in the discounting market, these outlets required a revitalized concept, new enthusiasm and lower overhead to survive.

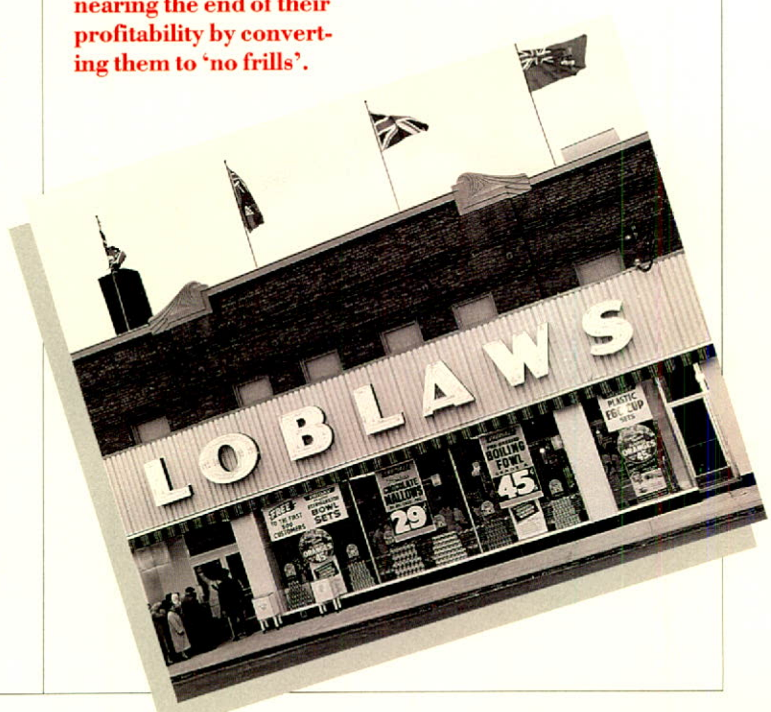
Capitalizing on the flexibility of having both wholesale and retail operations, the 'no frills' retail chain began conversion in March of 1987 to a franchise operation. Recognizing this new economic reality, the unions and management worked cooperatively to forge a new labour contract, which, by extending the life of the stores, has preserved jobs.

The reductions in other costs, mainly overhead, has allowed 'no frills' to drop its prices significantly, restoring its position as the discount price leader. Stores at the end of their supermarket cycle have been regenerated. The franchising concept combines the entrepreneurial drive of its franchisees with the retail marketing expertise of Loblaws and the wholesale distribution systems of National Grocers.

By blending union cooperation, entrepreneurial enthusiasm and retail and wholesale ingenuity, the 'no frills' stores are once again Ontario's leading discount operation.

'no frills' franchise stores are distinguished by massive, case-cut merchandise displays, bright, simple signage, a good range of quality produce and new counter-ready meat departments.

Loblaws was able to give new life to older conventional supermarkets nearing the end of their profitability by converting them to 'no frills'.



All advertising and promotional material for the franchise stores is managed centrally to clearly and consistently communicate the 'no frills' low price strategy.

The price board at the front of Lou's 'no frills' in east-end Toronto provides shoppers with proof of the low price benefits of shopping at 'no frills'.

David Stewart was responsible for developing the original 'no frills' concept. With him is Mike Lewis, who is driving the second phase of the program, along with a small, energetic marketing team.

How A Carefully Focused Acquisition Positioned Atlantic Wholesalers In A Major Maritime Market

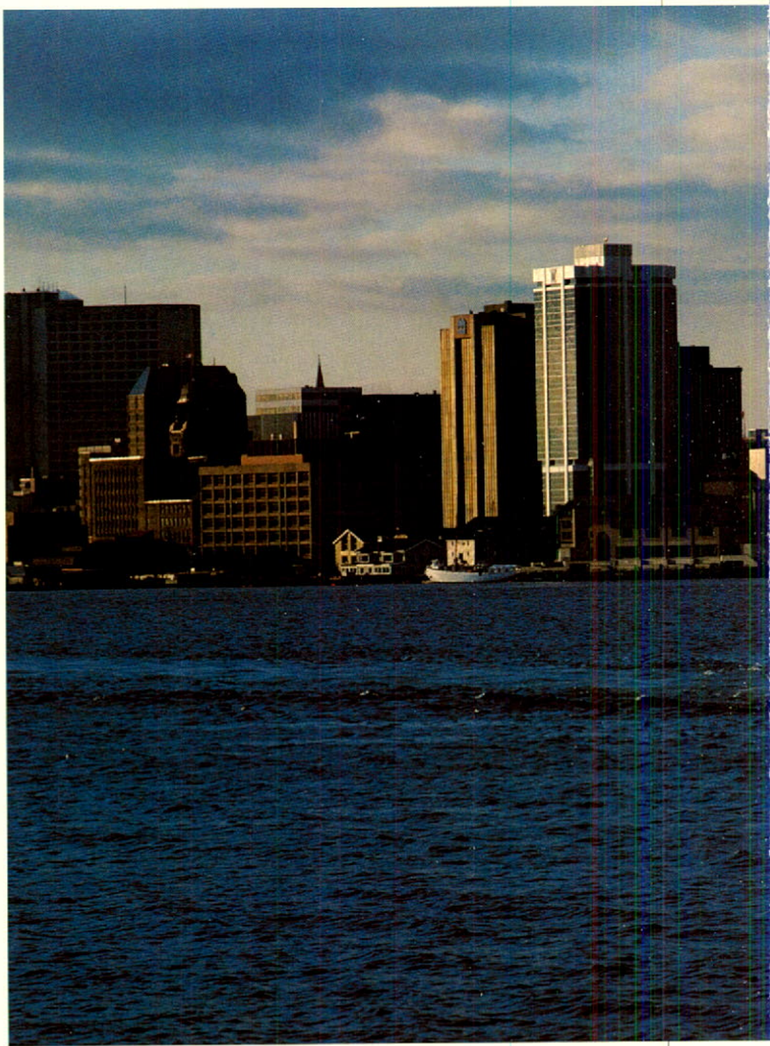
Like Kelly, Douglas in the West, Atlantic Wholesalers is predominantly a wholesaler to franchised and independent retailers in the Maritimes. Although the company was a dominant factor in the rest of Atlantic Canada, it did not have a significant market share in most urban markets, particularly Halifax/Dartmouth, the major market of the region.

One of the largest retailers in Halifax was one of Atlantic's major wholesale customers. Capitol Stores Ltd. had almost 30% of the market with six stores. With one exception, the stores were old, small and outdated. Nevertheless, no other chain had successfully challenged Capitol's low pricing policy. However, the planned introduction of two new Real Atlantic Superstores into the Halifax market would have seriously threatened Capitol Stores' competitive advantage.

The Real Atlantic Superstore format was imminent for the Maritimes, as the first Real Atlantic Superstore was preparing for its August 1986 opening in Moncton, New Brunswick. Anticipating the inevitable challenge from the Superstore concept, Capitol approached Atlantic Wholesalers in the Spring of 1986, expressing an interest in selling the chain. Capitalizing on management's experience and expertise in dealing with multi-store formats, and recognizing a flexible leasing opportunity, Atlantic arranged to purchase the Capitol group.

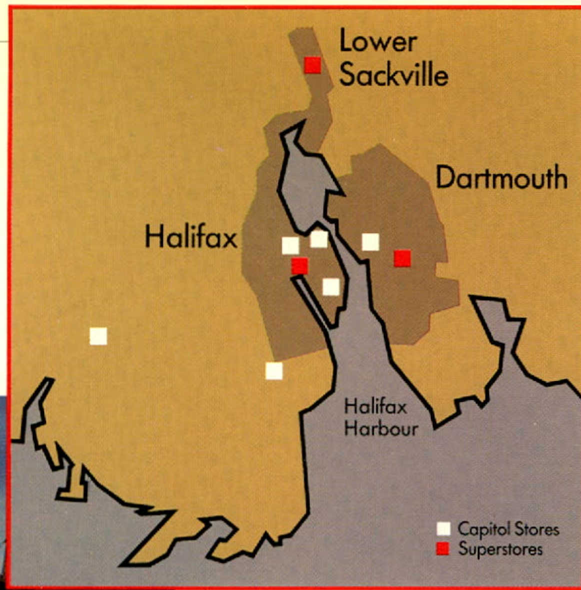
Four Capitol stores, ranging in size from 3,000 to 10,000 square feet were re-furbished and repositioned as neighbourhood markets. Due to the immense volume of the Lower Sackville and Dartmouth Superstores, established in 1987, Capitol was able to offer improved quality and increased variety, thereby strengthening its customer appeal and preserving its long term viability. To complement the two existing Real Atlantic Superstores in the Halifax/Dartmouth area, the largest Capitol grocery outlet on Young Street in Halifax was changed to the Superstore program in September of 1988.

The result of Loblaw Companies' smooth and strategic entry into the Halifax/Dartmouth market was that Atlantic Wholesalers moved into market leadership. By responding to the business opportunity of the Maritimes' largest market with a patient, creative, niche-oriented strategy, the Real Atlantic Superstores were established in harmony with the Capitol group.



Synergy with the Real Atlantic Superstore has added improved quality and increased variety to the traditional strengths of the Capitol Stores.

The rapidly developing Halifax skyline reflects the transformation that is turning this metropolitan area into a thriving cosmopolitan city. There are now three Superstores and six Capitol stores serving the 300,000 residents of greater Halifax.



Formerly a Capitol outlet, this 41,000 sq. ft. location on Young Street in Halifax was converted to a Real Atlantic Superstore in September, 1988. It was refitted throughout to mirror the larger Superstores and all product lines were upgraded.

How Real Estate Ownership And Operating Format Flexibility Allowed The Company To Solve A Problem

The strength of any company is demonstrated not in how it handles success, but in how it copes with adversity. The flexibility afforded by owning its own real estate has proven advantageous to Loblaw Companies Limited in challenging situations. The SuperCentre in Kitchener, Ontario is a prime example of Loblaw management's ability to turn a potential reversal into a profitable opportunity.

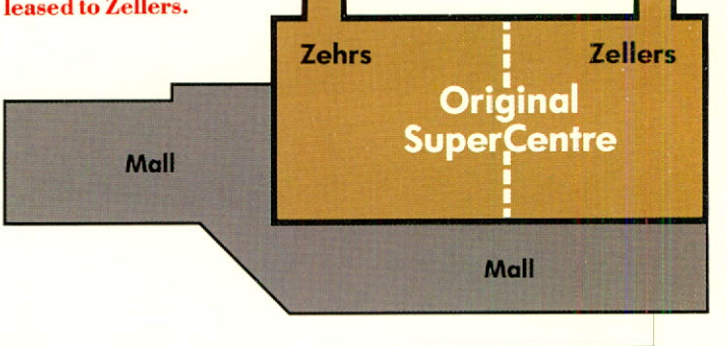
In February, 1987, a 120,000 square foot SuperCentre was opened in Kitchener, in a company-owned mall, with 90,000 square feet of ancillary, income-producing retail space. It was hoped that this store, with its discount food, vast general merchandise and convenient one-stop shopping would be able to mirror the success of the Western Real Canadian Superstores and the initial SuperCentres opened in Pickering and Burlington, Ontario.

However, the Kitchener market is unique. The market leader was, and continues to be, Zehrs Supermarkets, Loblaw Companies' wholly owned subsidiary. Zehrs has built its reputation on unparallelled customer service and quality and an unrivalled neighbourhood friendliness. Customers in the Kitchener market indicated a clear preference for this warm, endurable grocer. As a result, although SuperCentre was the highest volume single food outlet in the Kitchener market, sales were not at a high enough level for long term success.

What would have meant failure, upheaval and job dislocation in other circumstances was resolved smoothly by the strategic switching of retailers and the adjustment of space. The SuperCentre was downsized to a 65,000 square foot Zehrs supermarket, and the remaining space was rented to the locally popular Zellers chain. Had Loblaw Companies not owned the real estate, the conversion and sub-leasing penalties might have proven prohibitive. Instead, the company was able to respond quickly and decisively to shopper preference. Indeed, sales per square foot have increased significantly, and the popular Zellers store is providing rental income and adding to the overall appeal of the mall.

Loblaw's stated policy is to own its real estate, providing an investment in potentially appreciating assets and affording operating flexibility which permits management to adapt quickly and profitably to customers' changing needs.

The SuperCentre in the Kitchener, Ontario market was downsized to a 65,000 sq. ft. Zehrs supermarket and the remaining floor space leased to Zellers.



Zehrs, a wholly-owned subsidiary of Loblaw Companies Limited, has long held an enviable position in the Kitchener market because of its outstanding customer service. The loyal customer base has quickly adopted the former SuperCentre now that it has been repositioned as a Zehrs.

The conversion of the Kitchener SuperCentre to Zehrs, was oriented toward customer service. Depth and breadth of grocery products was increased to incorporate those items known to be popular with Kitchener consumers.

How Westfair Improved Its Service To Independent Customers While Securing Urban Retail Markets

The priority of Kelly, Douglas & Company, Limited, and its subsidiary, Westfair Foods Ltd., is the wholesale supply business. Although sales volumes in the late 1970's were satisfactory, management recognized that in the long term, the established retail chains could potentially overwhelm their smaller, independent clients. The resultant lack of volume could create a cost spiral that would jeopardize Westfair's ability to serve its franchised and independent accounts.

Faced with this dilemma, the company embarked on a courageous and innovative leap into the 21st century by creating The Real Canadian Superstores — giant outlets combining groceries, pharmaceuticals and general merchandise. The mandate of these behemoths was to offer the retail customer outstanding variety combined with the lowest prices available.

Superstores were conceived by simply listening to the consumer, and identifying, through intensive research, the ideal shopping experience.

The first Real Canadian Superstore was opened in Saskatoon in March, 1979, and was quickly complemented by a second outlet. The success in that city was so overwhelming that the Saskatchewan government was swamped with complaints from Regina shoppers, demanding their own Superstore.

Westfair responded, once a suitable location was found, by opening a Regina Superstore. In addition, the company built five in Winnipeg, three in Edmonton and in August, 1988, opened the first of three in Calgary. Four more Superstores are being built in Vancouver.

The phenomenal popularity of the Superstores surpassed management's expectations. In less than ten years the corporate stores now account for about 60% of the total business – an almost sevenfold increase. Several stores have expanded, some as many as four times. The total retail floorspace for the twelve outlets covers more than 1.25 million square feet – or 28.7 acres.

Maintaining vibrant wholesale and retail businesses in the same cities might seem contradictory. But the massive supply requirements of the Superstores bolstered the perishables' quality, grocery variety (including Loblaw's own Corporate Brands) and service available to the thousands of franchised and independent wholesale accounts. Since the establishment of the Superstores, independent sales have almost doubled.

The remarkable success of the Real Canadian Superstores and the resultant volume increase has secured the future of the entire Western Operations business. By competing in the same markets as some of its wholesale customers, but in different niches, Westfair has ensured their continuing prosperity.

The Confederation Superstore in Saskatoon, the original Real Canadian Superstore, was opened in March of 1979. The recent refurbishing of the store more than doubled the floor space from 54,000 sq. ft. to over 110,000 sq. ft.

Ray Addington and Serge Darkazanli, who have together forged the strategy that is securing the future of the Western business, stand in front of the new Calgary Real Canadian Superstore.

Martin Bos has owned his independent Shop-Rite in Saskatoon for ten years. This successful, family-run business, a valued customer of Westfair's wholesale division, fills an important niche in the Saskatoon market.

The Shelly Western Distribution Centre, Westfair's wholesale division in Saskatoon, services the Real Canadian Superstores, three major independent chains (Shop-Rite, Red & White and Lucky Dollar) and a number of food service and independent customers.

How Loblaw Developed One Of The Most Successful Concepts In Food Retailing: The Loblaw Corporate Brands

David Nichol, the President of Loblaw International Merchants, states: "I see my job as an editor — selecting the very best of the world's food products for our consumers." His passion for quality, combined with an uncanny ability to anticipate food trends is the recipe for the remarkable success of the Corporate Brands of Loblaw Companies.

The quiet evolution began in March 1978, during a time of high inflation, high unemployment, and a pinched food dollar. Loblaw Companies introduced *no name*, 16 yellow labelled generic brands. However, unlike other generics, the company insisted on strict quality control. "Our first criterion demanded that *no name* products must be as good as, or better than, the major national brands", remembers Nichol. Television advertisements helped *no name* achieve wide consumer acceptance, and David Nichol, who personally guaranteed its quality in those commercials, developed customer loyalty and trust.

As economic times changed and the consumer began to look for unique products as well as the core *no name* quality products, innovative new products, such as low ash cat food and Russian mustard were developed which needed their own, unique identity. With dynamic red, white and blue packaging, and a new name, the *President's Choice* label was born. As with *no name*, these products helped Loblaw Companies' stores to develop and maintain a meaningful, sustainable differentiation from the stores of the competition.

New products often have difficulty communicating their special qualities. This was not a problem for Nichol, who had nurtured a solid credibility with the consumer since the first of the *no name* products was introduced. In November 1983, he capitalized on this special relationship and produced the *Insider's Report*, a sophisticated marketing tool in the guise of an entertaining, cult comic book, which introduced and explained these exclusive new products.

The *Insider's Report* and the *President's Choice* line anticipated the revolution in consumers' food buying habits as the economy improved. With more disposable income, an emphasis on the home and an explosive desire to experiment, consumers embraced the unusual, exotic and tantalizing. *President's Choice* Balsamic Vinegar and Virgin Walnut Oil became kitchen staples. 'The Decadent' Cheesecake completed elegant dinner parties for working couples. Within eight weeks of its introduction, 'The Decadent' Chocolate Chip Cookie became the best selling cookie in Ontario. Today there are 1,793 *no name* products, 760 *President's Choice* items and 56 appealing *Teddy's Choice* items for children.

Every Corporate Brand is taste-tested extensively in the Company's test kitchen before it is released for sale to the public and then monitored regularly once it is on the supermarket shelf. David Nichol is actively involved in this important aspect of Corporate Brand product development.

The over 760 ***President's Choice*** **and 1,793** ***no name*** **products currently on the market satisfy a spectrum of consumer needs. The strong sales of these products are a reflection of the Company's ability to anticipate trends and market quality products at the right price.**

President's Choice **"The Decadent" Chocolate Chip Cookie, made with fresh creamery butter and 39% chocolate chips (by weight), became the best selling cookie in Ontario within eight weeks of its introduction.**

Having won a place in the consumer's heart with *no name* and *President's Choice*, Loblaw has now begun to address what will be the major consumer issues of the 1990's — health and the environment. In tune with the times, the company is developing a line of nutritionally superior food products and environmentally low-hazard non-food items. The *Nature's Choice* line includes such products as bio-degradable garbage bags and diapers as well as CFC-free aerosol sprays. "I believe people are ready and willing to change their habits in favour of environmentally friendly products", says Nichol. "We not only have an opportunity to be a good corporate citizen, but we also anticipate that the new *Nature's Choice* product line will enjoy the same level of profitability as *no name* and *President's Choice*."

Loblaw pioneered quality, controlled label product programs in North America and the consumer has developed implicit trust in its unique brands. The outstanding success of the *no name* and *President's Choice* product lines gives promise of a strong and enduring future for the *Nature's Choice* initiative.

All packaging is designed by an in-house team of professional designers. The unique packaging has placed the Company at the forefront of the package design industry.

In tune with the times, the new *Nature's Choice* line is being developed to address today's health and environmental concerns. The line includes nutritionally superior food products and environmentally low hazard non-food items.

***Teddy's Choice* brings the premium quality of *President's Choice* to a full line of baby care and children's products at lower prices than the national brands.**

Financial Report

In 1988, Loblaw Companies Limited experienced its first significant earnings decline in over a decade. Operating results in the Eastern Canadian combination stores were partly the cause, together with provisions related to the strategic repositioning of these stores and also to the rationalization of the retail operations in the United States.

Results of Operations

Sales decreased by 3.7 percent to $8.308 billion in 1988 from $8.631 billion last year. Discontinued operations, primarily the United States wholesale business which was sold in August, accounted for a sales decrease of approximately $600 million or 7.0 percent. Inflation increases, estimated at 3.1% were substantially offset by the declining value of the American dollar. Therefore on the continuing sales base, real volume growth for the year was over 3.0 percent.

Operating income decreased 15.5 percent to $160.2 million from $189.7 million in 1987. During the year there was a deterioration in the results of some of the Eastern Canadian combination stores. Significant changes in the form of downsizing and remerchandising are taking place which should improve future earnings from this group of stores. Overall, operating income declined in the United States as well. This decline, however, was mainly due to the sale of the wholesale business there. In the retail portion of the United States business, modest profit increases in St. Louis were offset by decreases in New Orleans. Margins improved in St. Louis in the latter part of 1988, a positive indicator for 1989. Future earnings will also benefit from rationalization and consolidation in New Orleans. The only region of the business showing an improvement in 1988 was Western Canada, where operating income was up 17.3 percent. Income generated by the sale of capital assets was $12.9 million less in 1988 than in 1987.

Interest expense increased from $64.1 million in 1987 to $74.2 million in 1988. Although total debt had declined by year end, the timing of the decrease was such that average borrowing levels were higher in 1988 than in 1987 resulting in higher interest expense.

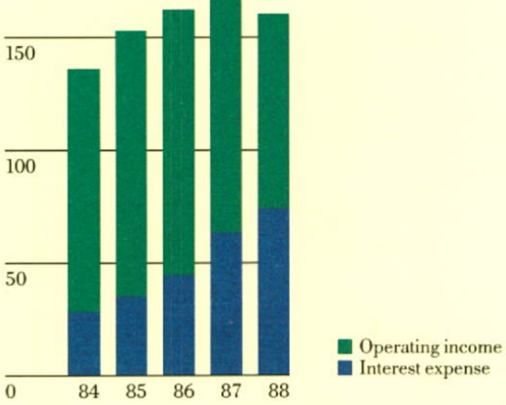
Earnings before income taxes, which declined from $125.6 million last year to $64.5 million in the current year, were significantly impacted by the $21.5 million *unusual item* recorded as a charge against income in the fourth quarter. This charge covers the costs of reducing the selling areas of six combination stores in Ontario by an average of 50,000 sq. ft. each and two combination stores in the Maritimes by an average of 20,000 sq. ft. each. It also includes inventory write-downs and other costs associated with eliminating some of the non-food products being offered for sale.

In Ontario, significant space is being vacated and in the two Maritime locations, additional space is being constructed, in both cases to accommodate leasing opportunities which will further enhance the appeal of the malls. Zellers is becoming a tenant in five of the locations. Ownership of the real estate has facilitated these improvements.

The effective income tax rate for the year decreased from 38.5% in 1987 to 30.1% in 1988. The proportionate benefit of foreign tax rate differences has been magnified in the current year by lower pre-tax earnings.

Impacted by both the decline in operating income and the unusual item, *earnings before extraordinary items* were

Operating Income and Interest Expense
($ millions)



An important measure of financial strength is operating income relative to interest expense (interest coverage). This year the coverage reached a temporary low of 2.2 times.

$40.8 million in 1988 versus $73.6 million in 1987. The decline in *earnings per share* from $.87 to $.41 reflects this reduction in earnings.

Two *extraordinary items* in 1988 resulted in a net after-tax charge to earnings of $14.6 million. A $2.1 million gain (including tax recovery) was realized on disposition of the U.S. wholesaling business, Peter J. Schmitt, in August and late in the year, a decision was taken to substantially reduce the exposure in New Orleans. Management believes that there is a core group of stores, including the four combination stores, that can operate profitably there, despite the generally weak economic conditions of the region. The extraordinary loss provision of $16.7 million (net of tax recovery) provides for closure costs and other losses on disposition, anticipated in reducing to this core business.

Changes in Financial Position

Cash flow from operations in 1988 was $158.4 million, down from 1987, because of earnings declines. $2.4 million in cash was generated through working capital reductions, a positive reflection of continued management attention to this area.

New investment in the business totalled $228.1 million in 1988 including $42.2 million by way of acquisition of the Fortino's Supermarkets business and four Super Carnaval stores. Additions to fixed assets were $185.9 million, representing a renewal period of 5.1 years. Wherever possible, it continues to be the Company's policy to own its store real estate. This policy affords the Company operating flexibility, which has been particularly beneficial during this period of downsizing combination stores. It also provides a significant investment in land, an asset which has historically appreciated over time. In 1988, land acquisitions totalled $26.7 million, which was offset by some dispositions during the year, including the real estate in Peter J. Schmitt. The Schmitt disposition generated cash proceeds of $148.4 million.

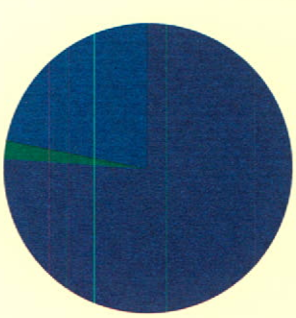
Capital Structure

Total debt (including capitalized leases) decreased $63.5 million in 1988 to $622.8 million at year end from $686.3 million at year end 1987. The most significant event contributing to this reduction of debt was the sale of Peter J. Schmitt in August 1988. Proceeds from the sale together with repaid intercompany debt have temporarily been invested in money market instruments and netted against short term debt for financial statement purposes. For the first time since 1982, there were no new major debt issues in the business.

Fixed rate debt as a percentage of total debt (excluding capital leases) at the end of 1988 increased to 85.0 percent from 78.8 percent at the end of 1987. This improvement reflects the disposition of Peter J. Schmitt, which had a relatively high percentage of floating rate debt, and the cash proceeds of the sale netted against short term floating rate borrowings. With no new major debt issues during the year, the weighted average interest rate of fixed long term debt (excluding capitalized leases) at the end of 1987 remained virtually unchanged from last year at 10.6%. Consistent with the fact that no new debt was issued, the weighted average term to maturity on fixed rate long term debt and to the earlier of maturity or first retraction date declined slightly to 10.7 years and 6.6 years respectively.

Land and Buildings
($ millions)

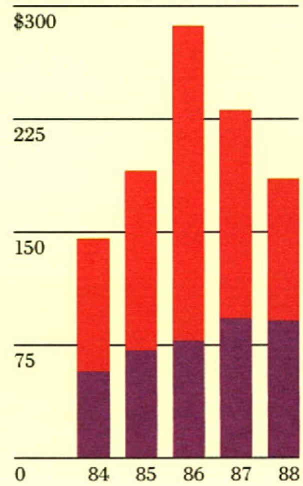
Real estate continues to be a source of strength not readily apparent from the balance sheet. If the estimated market value increment of $185 million were included in equity, the debt to equity ratio at year end would decrease from .96:1 to .75:1.



Estimated market value	$823
Increment of market value over book value	$185
Net book value	$638
Mortgages	$ 14

Capital Expenditures and Depreciation
($ millions)

The fixed asset renewal rate over the last five years has averaged 3.8, i.e. complete replacement of the existing net book value every 3.8 years. In 1988 the renewal period increased to 5.1 years, consistent with the winding down of the capital expenditure program.



Purchase of fixed assets
Depreciation

Shareholders' equity decreased $39.2 million to $651.1 million at the end of 1988 from $690.3 million at the end of 1987. Retained earnings decreased $5.3 million to $390.4 million at year end 1988 due to low net earnings, normal dividend payouts and the repurchase of some common shares. In addition, equity from foreign currency translation was reduced by $33.2 million as a result of the declining value of the U.S. dollar during the year. The reduction in shareholders' equity however was more than offset by lower total debt resulting in a slight improvement in the debt/equity ratio from .99:1 at the end of 1987 to .96:1 at the end of 1988. Both levels are below the 1:1 debt/equity level which is the maximum level considered appropriate to the business.

Common dividend policy is to pay out approximately 20 percent of the prior year's earnings. Although this would imply a reduction in the current dividend, your Company believes the 1988 write-offs against earnings should not impact dividends and therefore intends to maintain the current dividend in 1989.

In October 1987, the Board of Directors authorized a normal course issuer bid to purchase up to 1,000,000 of its outstanding common shares over a twelve month period commencing October 30, 1987. In 1988, 656,800 common shares were purchased at an average price of $10.90 bringing the total purchased over the twelve month period to 688,900 shares at an average price of $10.84. The normal course issuer bid was not renewed on its termination in October 1988.

Future Prospects

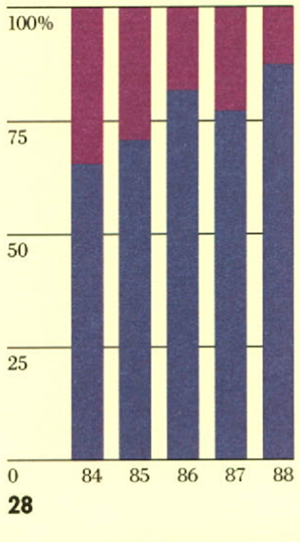
Capital expenditures next year are expected to be approximately $175 million, with significant new footage in southern Ontario and Vancouver. At this level, the total cash requirement for capital expenditures should be generated through operations.

The strategic adjustments made in 1988 in the combination stores and in New Orleans have eliminated two major impediments to earnings growth. It is anticipated that operating income will increase in virtually all areas of the business in 1989. Debt and related interest expense are expected to be at approximately the same level. Tax rates should return to a more normal level of approximately 36%. Net earnings should increase substantially.

Quarterly Earnings Per Share (dollars)

	'88	'87	'86	'85	'84	'83	'82	'81	'80	'79
First quarter	.13	.15	.14	.13	.11	.10	.09	.07	.06	.04
Second quarter	.17	.24	.23	.20	.18	.14	.12	.11	.08	.05
Third quarter	.13	.25	.27	.26	.24	.20	.16	.15	.12	.09
Fourth quarter	(.02)	.23	.27	.26	.24	.22	.17	.16	.15	.11
Total earnings before extraordinary items per share	.41	.87	.91	.85	.77	.66	.54	.49	.41	.29

Fixed and Floating Rate Debt Levels



The level of fixed rate debt remained high in 1988 reflecting your Company's decision to finance an increasing real estate investment primarily with longer term fixed rate funds.

■ Floating rate debt
■ Fixed rate debt

Retail operations include the stores of those businesses which are exclusively retail-oriented — i.e., Loblaws, National Tea and Zehrmart — plus the corporately owned stores of the three wholesale businesses — Atlantic Wholesalers, Kelly, Douglas and National Grocers. Wholesale operations include the sales and services of the three wholesale businesses to franchised independent accounts and independent 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		1988		1987		1986
	Stores	Sq. Ft.	Stores	Sq. Ft.	Stores	Sq. Ft.
Stores		(in millions)		(in millions)		(in millions)
Beginning of year	361	11.3	380	10.8	363	9.2
Opened	21	1.2	20	1.2	60	2.4
Closed	(58)	(1.7)	(23)	(.4)	(46)	(.9)
Franchised						
Transfer to:	(18)	(.3)	(18)	(.4)	(13)	(.2)
Transfer from:	5	.1	2	.1	16	.3
End of year	311	10.6	361	11.3	380	10.8
Average store size (in thousands)		34.1 sq. ft.		31.4 sq. ft.		28.4 sq. ft.
Analysis by size						
More than 60,000 sq. ft.		33		26		18
40,000 - 60,000 sq. ft.		44		47		46
20,000 - 39,999 sq. ft.		154		176		179
10,000 - 19,999 sq. ft.		68		93		112
Less than 10,000 sq. ft.		12		19		25
		311		361		380
Sales						
Annual sales (in millions)		$4,921		$4,777		$4,430
Annual average sales per gross sq. ft.		$440		$440		$457

Wholesale Operations			
End of year			
Warehouses	52	63	62
Cash & carry units	53	61	62
Franchised independent accounts	1,460	1,631	1,483
Independent accounts	10,114	20,845	19,803
Annual sales (in millions)	$3,387	$3,854	$3,409

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 December 31, 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 December 31, 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 1, 1989
Toronto, Canada

Thorne Ernst & Whinney
Chartered Accountants

Member of
Ernst & Whinney
International

Consolidated Statement of Earnings

52 Weeks Ended December 31, 1988

	1988 (52 weeks)	1987 (52 weeks)	1986 (53 weeks)
			(in millions of dollars)
Sales — Canada	$6,044.3	$5,688.6	$5,098.4
— United States	2,263.3	2,942.1	2,740.5
	8,307.6	8,630.7	7,838.9
Operating expenses			
Cost of sales, selling and administrative expenses	8,049.8	8,340.9	7,590.0
Depreciation — Fixed assets	91.3	93.1	76.7
— Property under capital leases	6.3	7.0	8.8
	8,147.4	8,441.0	7,675.5
Operating income	160.2	189.7	163.4
Interest — Long term debt	51.0	50.8	33.5
— Short term debt	11.4	4.5	1.8
— Obligations under capital leases	11.8	8.8	9.9
	74.2	64.1	45.2
Unusual item (note 2)	21.5		
Earnings before income taxes	64.5	125.6	118.2
Income taxes (note 3)	19.4	48.4	39.2
Earnings before minority interest	45.1	77.2	79.0
Minority interest	4.3	3.6	5.3
Earnings before extraordinary items	40.8	73.6	73.7
Extraordinary items (note 4(a))	(14.6)		
Net earnings for the period	$ 26.2	$ 73.6	$ 73.7
Per common share			
Earnings before extraordinary items	$ .41	$ .87	$ .91
Extraordinary items	(.20)		
Net earnings	$ .21	$ .87	$ .91

Consolidated Statement of Retained Earnings

52 Weeks Ended December 31, 1988

	1988 (52 weeks)	1987 (52 weeks)	1986 (53 weeks)
			(in millions of dollars)
Retained earnings, beginning of period	$ 395.7	$ 347.5	$ 294.8
Net earnings for the period	26.2	73.6	73.7
	421.9	421.1	368.5
Dividends declared			
Preferred shares	11.3	11.4	8.5
Common shares, per share — 20.0 ¢ (1987 — 19.5 ¢, 1986 — 17.5 ¢)	14.4	14.0	12.5
Premium on redemption of common shares	5.8		
	31.5	25.4	21.0
Retained earnings, end of period	$ 390.4	$ 395.7	$ 347.5

Consolidated Balance Sheet

As at December 31, 1988

			(in millions of dollars)
Assets	1988	1987	1986
Current assets			
Cash and short term investments	$ 23.5	$ 30.1	$ 75.8
Accounts receivable	168.6	251.5	219.8
Inventories	555.0	658.0	599.3
Prepaid expenses and other assets	18.1	43.6	44.7
	765.2	983.2	939.6
Investments (note 5)	117.5	143.6	78.5
Fixed assets (note 6)	977.5	986.6	872.5
Property under capital leases (note 7 (a))	74.9	70.7	59.3
Goodwill and other assets	68.8	29.4	28.1
	$2,003.9	$2,213.5	$1,978.0

Liabilities			
Current liabilities			
Bank advances and notes payable	$ 63.4	$ 98.8	$ 50.9
Accounts payable	412.1	517.4	450.2
Accrued liabilities	191.1	181.3	178.8
Taxes payable	13.0	36.5	40.3
Long term debt payable within one year (note 8)	1.9	4.8	12.2
Obligations under capital leases (note 7 (b))	2.8	4.0	6.3
	684.3	842.8	738.7
Long term debt (note 8)	463.6	487.2	430.9
Obligations under capital leases (note 7 (b))	91.1	91.5	68.6
Other liabilities	34.9	18.3	29.1
Deferred income taxes	37.2	45.0	16.7
Minority interest in subsidiaries	41.7	38.4	38.8
	1,352.8	1,523.2	1,322.8

Shareholders' equity			
Capital stock (note 9)			
Preferred shares	164.8	165.4	168.9
Common shares	108.2	108.1	104.5
	273.0	273.5	273.4
Contributed surplus	9.0	9.2	10.2
Retained earnings	390.4	395.7	347.5
Equity from foreign currency translation	(21.3)	11.9	24.1
	651.1	690.3	655.2
	$2,003.9	$2,213.5	$1,978.0

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 December 31, 1988

	1988 (52 weeks)	1987 (52 weeks)	1986 (53 weeks)
			(in millions of dollars)
Operations			
Earnings before minority interest	$ 45.1	$ 77.2	$ 79.0
Depreciation	97.6	100.1	85.5
Income taxes not requiring cash	(1.6)	17.5	17.1
Other	14.9	(4.3)	(10.2)
	156.0	190.5	171.4
Provided from (used for) working capital	2.4	(8.6)	32.8
Cash flow from operations	158.4	181.9	204.2
Investment			
Disposition of subsidiary company (note 4(b))	148.4		
Purchase of fixed assets	(185.9)	(231.8)	(289.4)
Additions to capital leases	(6.1)	(16.0)	(1.0)
Proceeds from sale of fixed assets and capital leases	33.7	72.5	55.8
Gain on sale of fixed assets and capital leases included in operations	(13.5)	(26.4)	(18.7)
Acquisition of subsidiary companies (note 10)	(42.2)	(36.5)	(81.5)
Increase in capital lease receivables	(5.5)	(31.0)	
(Increase) decrease in investments in franchisees	(2.8)	(30.9)	7.7
Net increase in other items	(16.5)	(6.5)	(13.9)
	(90.4)	(306.6)	(341.0)
Financing			
Long term debt — Borrowings	1.9	76.4	207.2
— Repayments	(9.2)	(25.2)	(36.0)
Capital stock — Issued	1.2	3.6	75.4
— Redeemed	(1.6)	(3.3)	(.5)
Increase (decrease) in capital lease obligations	1.1	5.9	(12.8)
Other sources of financing	(6.0)		
	(12.6)	57.4	233.3
Dividends			
To shareholders	(25.7)	(25.4)	(24.0)
To minority shareholders in subsidiary companies	(.9)	(.9)	(.9)
	(26.6)	(26.3)	(24.9)
Increase (decrease) in cash	28.8	(93.6)	71.6
Cash at beginning of period	(68.7)	24.9	(46.7)
Cash at end of period	$ (39.9)	$ (68.7)	$ 24.9

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

(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) Cash offsetting
Cash balances for which the Company has a right of offset are used to reduce reported short term borrowings.
In addition, $135.6 in short term investments held by the Company's United States subsidiaries is used to offset short term borrowings in Canada. The $3.6 income from these investments is included as a reduction of interest expense.

c) 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.

d) Fixed assets
Fixed assets are stated at cost, including capitalized interest. Interest capitalized during the year amounts to $5.2 (1987 — $6.4, 1986 — $8.9). 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.

e) 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. Unusual Item

Costs of downsizing and remerchandising combination stores in Eastern Canada	$21.5

3. Income Taxes

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

	1988	1987	1986
Combined basic Canadian federal and provincial income tax rate	47.3%	51.8%	52.1%
Lower tax rate on capital gains	(3.7)	(3.4)	(6.4)
Impact of operating in foreign countries with lower effective tax rates	(12.9)	(6.4)	(2.7)
Other (including adjustment of prior years' estimates)	(.6)	(3.5)	(9.8)
	30.1%	38.5%	33.2%

4. Extraordinary Items

a) Net charge in Statement of Earnings:

Provision for loss on planned disposition of the substantial portion of the New Orleans division, net of income tax recovery of $8.6	$(16.7)
Gain on disposition of Peter J. Schmitt Co., Inc., including income tax recovery of $.2	2.1
	$(14.6)

b) Cash effect of P. J. Schmitt Co., Inc. disposition:

Net proceeds for the shares, trademarks and agreements	$ 81.5
Preferred shares accepted as partial consideration	(6.2)
	75.3
Repayment of intercompany debt	73.1
Net cash proceeds	$148.4

5. Investments (at cost)

	1988	1987	1986
Secured loans and advances	$ 28.5	$ 28.0	$27.0
Capital lease receivables	30.6	31.0	
Investments in franchisees	32.1	48.9	18.0
Long term receivables	18.2	30.3	24.8
Sundry investments	8.1	5.4	8.7
	$ 117.5	$143.6	$78.5

6. Fixed Assets (at cost)

	1988			1987	1986
	Cost	Accumulated Depreciation	Net	Net	Net
Properties held for development	$ 18.2		$ 18.2	$ 24.0	$ 21.8
Land	194.0		194.0	195.7	153.8
Buildings	495.0	$ 73.5	421.5	387.3	326.4
Equipment and fixtures	598.3	332.6	265.7	296.5	305.5
Leasehold improvements	138.4	60.3	78.1	83.1	65.0
	$1,443.9	$466.4	$977.5	$986.6	$872.5

7. 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:

	1988	1987	1986
Buildings	$ 96.5	$ 88.9	$ 72.8
Equipment and fixtures	5.5	19.9	30.7
	102.0	108.8	103.5
Accumulated depreciation	27.1	38.1	44.2
	$ 74.9	$ 70.7	$ 59.3

b) Lease obligations

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

	Capital Leases	Operating Leases		
		Gross Liability	Expected Sub-lease Income	Expected Net Liability
For the year				
1989	$ 13.9	$ 73.2	$ 24.6	$ 48.6
1990	22.7	67.3	20.1	47.2
1991	13.3	60.5	18.0	42.5
1992	14.1	56.5	16.5	40.0
1993	13.3	48.4	15.0	33.4
Thereafter to 2023	134.2	270.5	51.4	219.1
Total minimum lease payments	211.5	$576.4	$145.6	$430.8
Less amounts representing executory costs and interest at 12.46%	117.6			
Total obligations	93.9			
Less current portion	2.8			
Long term obligations	$ 91.1			

8. Long Term Debt

	1988	1987	1986
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	50.0
Series 6, 9 3/4%, due 2001	75.0	75.0	75.0
Series 7, 10%, due 2001	75.0	75.0	75.0
Series 8, 10%, due 2007	65.5	65.5	
Term loans			
LIBOR plus 3/8% — 3/4%, due 1992 (U.S. $13.0)	15.8	17.3	18.1
Mortgages at a weighted average interest rate of 10.25%, due 1989 — 2004 (including U.S. $1.8)	14.0	20.7	25.5
Other long term debt at a weighted average interest rate of 8.8%, due 1989 — 1998	10.2	28.5	39.5
	465.5	492.0	443.1
Less payable within one year	1.9	4.8	12.2
	$463.6	$487.2	$430.9

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: 1989 — $1.9; 1990 — $36.8; 1991 — $77.2; 1992 — $67.9; 1993 — $79.2

9. Capital Stock

	Number of shares issued			Paid-up-capital		
	1988	1987	1986	1988	1987	1986 (in millions of dollars)
First preferred shares						
First series	439,652	439,652	439,652	$ 22.0	$ 22.0	$ 22.0
Second series	326,010	335,012	343,369	10.8	11.1	11.3
	765,662	774,664	783,021			
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	3,000,000	75.0	75.0	75.0
	3,550,000	3,550,000	3,550,000			
Junior preferred shares						
First series	4,830	5,830	11,500	.5	.6	1.2
Second series	1,500	1,926	13,000	.1	.2	1.3
Third series	7,500	7,500	22,500	.7	.7	2.2
Fourth series	7,150	8,690	9,130	.7	.8	.9
	20,980	23,946	56,130			
Total preferred shares				164.8	165.4	168.9
Common shares	72,111,000	72,427,009	71,390,384	108.2	108.1	104.5
Total capital stock				$273.0	$273.5	$273.4

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 1988, the Company purchased 9,002 of these shares for cancellation at a cost of $402,589. The premium of $105,523 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 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 two-thirds 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 two-thirds 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 1988 the Company issued 80,460 common shares for a consideration of $296,600 on conversion of 1,000 junior preferred shares, first series, 426 junior preferred shares, second series and 1,540 junior preferred shares, fourth series.

In 1988 the Company issued 231,331 common shares for cash of $799,600 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 December 31, 1988:

Number of employees	Number of common shares	Exercise price per share	Option expiry date
4	89,063	$2.375	June 6, 1990
1	204,000	$ 3.00	Oct. 7, 1991
3	15,704	$6.375	May 16, 1993
36	273,000	$9.188	Jan. 17, 1995
81	784,300	$11.00	Jan. 27, 1993
19	772,725	$11.00	Dec. 9, 1994
1	90,000	$11.00	May 18, 1995
1	25,000	$11.50	Oct. 14, 1995
	2,253,792		

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

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 expiration date, October 29, 1988, the Company had purchased 688,900 shares (32,100 in 1987) for cash of $7,175,000 ($345,400 in 1987). Of the shares purchased, 659,900 were cancelled and 29,000 were used for employee compensation purposes.

10. Acquisitions

During 1988, the Company acquired four former Super Carnaval stores and purchased Fortino's Supermarkets Ltd.

These transactions have been accounted for using the purchase method with the results of operations included in these financial statements since the date of acquisitions. Details of the acquisitions are as follows:

Working capital	$(6.2)
Fixed assets	21.0
Property under capital leases	13.5
Goodwill	30.2
Long term debt	(2.8)
Obligations under capital leases	(13.5)
Cash consideration	$42.2

11. Pensions

Current actuarial estimates indicate that the present value of accrued pension benefits is $258.6 and the value of pension fund assets is $267.4. 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.

12. Other Information

a) Segmented information

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

	Canada			United States		
	1988	1987	1986	1988	1987	1986
Operating income	$ 130.8	$ 152.6	$ 130.9	$ 29.4	$ 37.1	$ 32.5
Total assets	$1,605.3	$1,494.3	$1,219.2	$398.6	$719.2	$758.8

b) Contingent liabilities

Endorsements and guarantees in the normal course of business amount to $40.3. Gross rentals under leases assigned at the time of sale of United States divisions amount to $68.1.

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 Summary

Earnings Statement ($ millions)	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979
Sales — Canada	6,044	5,689	5,098	4,668	4,394	4,121	3,847	3,513	3,198	2,857
— United States	2,264	2,942	2,741	2,263	2,025	1,970	2,374	2,282	2,177	1,868
Total	8,308	8,631	7,839	6,931	6,419	6,091	6,221	5,795	5,375	4,725
Trading profit*	258	290	249	225	205	190	173	166	147	108
Operating income	160	190	163	152	138	128	115	113	99	72
Depreciation	98	100	86	73	67	62	58	53	48	36
Interest	74	64	45	36	29	26	26	29	26	22
Income taxes	19	48	39	44	44	46	39	37	34	21
Minority interest	4	4	5	4	3	4	4	6	5	6
Earnings before extraordinary items	41	74	74	67	61	52	45	41	34	23
Extraordinary items	(15)				3	1	(6)	12	12	12
Net earnings	26	74	74	67	64	53	39	53	46	35
Per Common Share (dollars)										
Earnings before extraordinary items	.41	.87	.91	.85	.77	.66	.54	.49	.41	.29
Net earnings	.21	.87	.91	.85	.81	.66	.46	.66	.60	.48
Dividends — declared	.20	.195	.175	.155	.135	.118	.105	.085	.068	.058
— year end rate	.20	.20	.18	.16	.14	.12	.11	.09	.07	.06
Return on Sales (percent)										
Operating income	1.9	2.2	2.1	2.2	2.1	2.1	1.9	1.9	1.8	1.5
Earnings before income taxes	.8	1.5	1.5	1.7	1.7	1.7	1.4	1.4	1.4	1.1
Earnings before extraordinary items	.5	.9	.9	1.0	1.0	.9	.7	.7	.6	.5
Earnings Ratios** (percent)										
Return on common equity	5.9	12.5	14.6	15.6	16.3	16.3	15.3	16.3	16.9	15.2
Return on capital employed	11.2	13.6	14.3	17.0	18.1	18.6	17.5	18.0	17.3	14.8

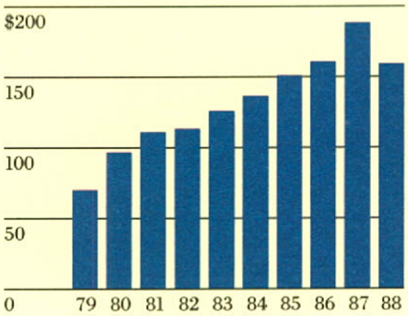
*Trading profit is defined as operating income before depreciation.

**Earnings ratios have been computed as follows:

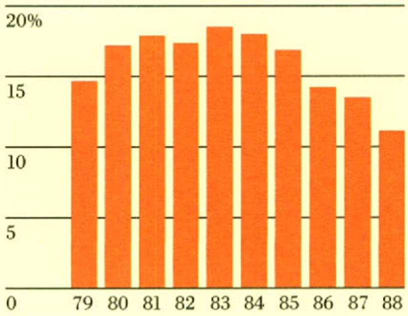
Return on common equity -
Earnings before extraordinary items less preferred dividends divided by average common share capital, retained earnings, equity from foreign currency translation and the applicable portion of contributed surplus.

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

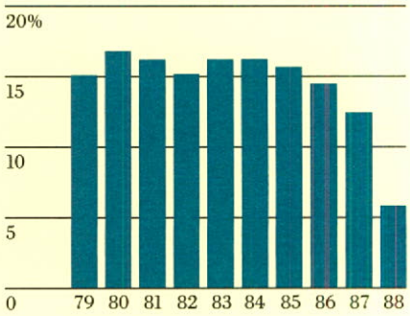
Operating Income
(in millions)



Return on Capital Employed

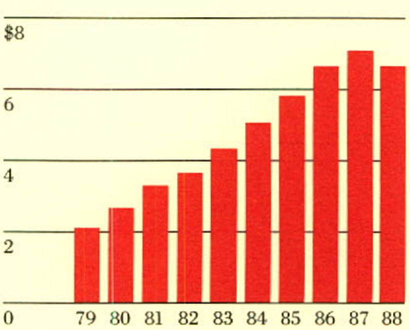


Return on Common Equity

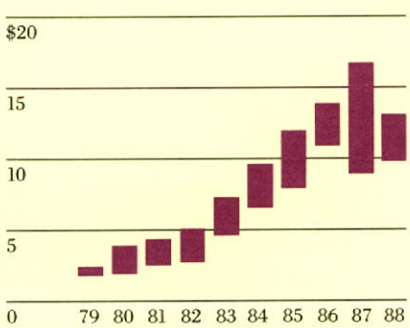


Financial Position ($ millions)	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979
Current assets	765	983	940	753	624	581	575	531	491	465
Current liabilities	684	843	739	627	495	470	479	433	401	378
Working capital	81	140	201	126	129	111	96	98	90	87
Fixed assets (net)	978	987	873	629	516	441	413	373	341	316
Property under capital leases (net)	75	71	59	59	61	67	81	86	87	44
Total assets	2,004	2,214	1,978	1,530	1,264	1,151	1,111	1,034	962	868
Long term debt	466	492	443	266	174	138	133	98	99	110
Total debt	623	686	569	390	283	233	253	220	231	195
Retained earnings	390	396	348	295	245	198	159	134	95	62
Shareholders' equity	651	690	655	521	466	413	344	317	277	242
Average capital employed	1,433	1,393	1,141	893	761	692	657	628	572	486
Changes in Financial Position ($ millions)										
Cash flow from operations	158	182	204	132	60	117	110	123	99	78
Purchase of fixed assets	186	232	289	192	148	98	69	92	92	99
Per Common Share (dollars)										
Cash flow from operations	2.19	2.54	2.86	1.85	.84	1.65	1.55	1.80	1.56	1.22
Book value	6.62	7.12	6.68	5.85	5.09	4.33	3.69	3.34	2.68	2.15
Price range — high	13.13	16.88	14.00	12.13	9.75	7.44	5.19	4.50	4.00	2.50
— low	9.88	9.00	11.00	8.00	6.57	4.63	2.75	2.57	1.90	1.83
Financial Ratios (xx:1)										
Working capital	1.12	1.17	1.27	1.20	1.26	1.24	1.20	1.23	1.22	1.23
Total debt to equity	.96	.99	.87	.75	.61	.56	.74	.70	.83	.81
Cash flow from operations to long term debt	.34	.37	.46	.50	.34	.85	.83	1.26	1.00	.71
Interest coverage on total debt	2.16	3.00	3.62	4.17	4.72	4.86	4.35	3.80	3.83	3.26

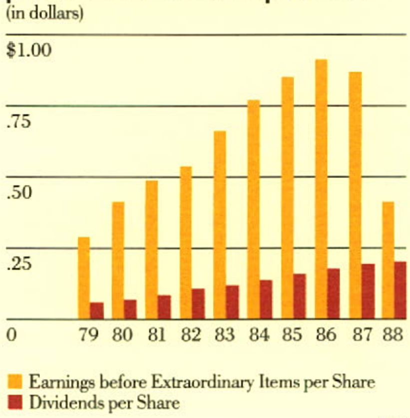
Book Value per Share
(in dollars)



Price Range per Share
(in dollars)



Earnings before Extraordinary Items per Share and Dividends per Share
(in dollars)



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.

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

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

Andrew W. Smith
Vice President,
Labour Relations

Stephen A. Smith
Vice President,
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

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

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

Harold A. Seitz
President

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

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

Loblaws Supermarkets Limited
(Toronto, Ontario)
David T. Stewart
President

National Grocers Co. Ltd.
(Toronto, Ontario)
David M. Williams
President

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

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

Serge K. Darkazanli
Executive Vice
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 26, 1989, 11:00 a.m.
Constitution Hall, Hall A
Metropolitan Toronto Convention Centre
255 Front Street West
Toronto, Ontario

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