Loblaw Companies Limited

Annual Report 1989

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Loblaw Companies Limited is Canada's largest food distributor. In 1989, 63.3% of its sales were at the retail level through its own stores and the remainder were as a wholesaler to franchised independent and independent accounts. 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 1989, 83.7% of sales were in Canada.

77% of the common shares of Loblaw Companies Limited are owned by George Weston Limited. The remaining 23% or 16,534,626 shares are actively traded on the Toronto, Montreal and Vancouver stock exchanges.

Contents

Financial Highlights

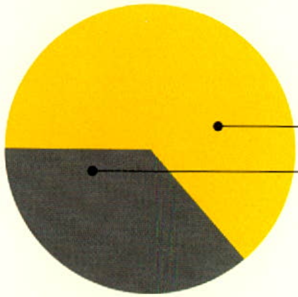
Operating Results ($ millions)	**1989**	1988	1987
Sales	**7,934**	8,308	8,631
Trading profit*	**291**	258	290
Operating income	**191**	160	190
Earnings before income taxes	**111**	65	126
Earnings before extraordinary items	**70**	41	74
Net earnings	**70**	26	74
Financial Position ($ millions)			
Total debt	**549**	623	686
Total shareholders' equity	**746**	651	690
Total assets	**2,040**	2,004	2,214
Changes in Financial Position ($ millions)			
Cash flow from operations	**259**	158	182
Purchase of fixed assets	**166**	192	248
Per Common Share (dollars)			
Earnings before extraordinary items	**.80**	.41	.87
Net earnings	**.80**	.21	.87
Cash flow	**3.59**	2.19	2.54
Book value	**7.10**	6.62	7.12
Actual dividends paid	**.20**	.20	.195
Year end dividend rate	**.20**	.20	.20
Price range — high	**15.25**	13.13	16.88
— low	**10.25**	9.88	9.00
Financial Ratios			
Return on common equity	**11.7%**	5.9%	12.5%
Return on capital employed	**13.8%**	11.2%	13.6%
Pretax return on sales	**1.4%**	.8%	1.5%
Working capital ratio	**1.05:1**	1.12:1	1.17:1
Total debt to equity	**.74:1**	.96:1	.99:1

* Trading profit is defined as operating income before depreciation.


cheese croissants .59
taste of France
french bakery
BAKE SHOP
OVEN FRESH
Sour Dough
Bread
BAKE SHOP
OVEN FRESH
Baguette

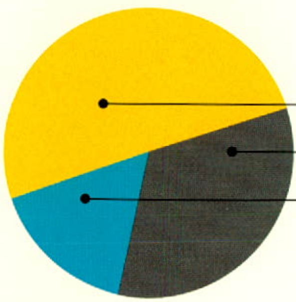
Corporate Profile

Total Sales ($ billions)



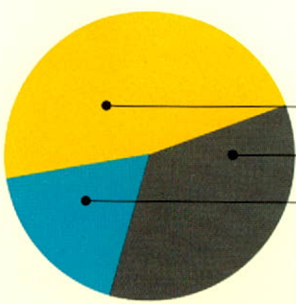
$ 5.02	Retail Operations
$ 2.91	Wholesale Operations
$7.93	**Total**

Regional Sales ($ billions)



$ 3.99	Eastern Canadian Operations
$ 2.65	Western Canadian Operations
$ 1.29	United States' Operations
$7.93	**Total**

Regional Operating Income ($ millions)



$ 90	Eastern Canadian Operations
$ 67	Western Canadian Operations
$ 34	United States' Operations
$191	**Total**

Ten Year Analysis by Operating Region

Sales ($ billions)	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980
Eastern Canadian Operations	3.99	3.71	3.60	3.07	2.78	2.69	2.54	2.41	2.25	2.07
Western Canadian Operations	2.65	2.34	2.09	2.03	1.89	1.70	1.58	1.71	1.60	1.42
United States' Operations	1.29	2.26	2.94	2.74	2.26	2.03	1.97	2.10	1.95	1.89
Total	7.93	8.31	8.63	7.84	6.93	6.42	6.09	6.22	5.80	5.38

Operating Income* ($ millions)

	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980
Eastern Canadian Operations	90	76	106	74	72	68	61	54	50	46
Western Canadian Operations	67	56	47	56	45	37	35	31	34	26
United States' Operations	34	28	37	33	35	33	32	30	29	27
Total	191	160	190	163	152	138	128	115	113	99

* Restated in 1989 to reflect full allocation of corporate expenses.

Opposite page: The strong customer appeal of the bakery department in the new Real Canadian Superstore on Marine Drive in Vancouver is typical of every department in all of these stores. The common message is—"price, quality and selection"—and customers read it loud and clear.


PERMANENT DISCOUNT
on 1 hour photofinishing
PERMANENT DISCOUNT
on 1 hour photofinishing
PERMANENT DISCOUNT
on 1 hour photo
ishing

Reports of the Chairman and President

Opposite page: W. Galen Weston, Chairman of the Board, and Richard J. Currie, President of Loblaw Companies Limited, photographed together while visiting one of the new Superstores in Vancouver. Below: Real Atlantic Superstore malls in Dartmouth and Moncton.

Loblaw Companies has had a much better year. A great deal of good work has been carried out and the new large stores put in place over the last few years are now beginning to perform. Already Canada's largest, we are once again challenging for the top spot as Canada's most profitable food merchandiser and our United States' Operations have reversed their position and are performing well.

As you will see from our President's report, improvements have been forthcoming in almost every area and the major capital expenditure program which began over five years ago is now behind us.

From a marketing perspective, the image of our various divisions is high relative to competition and our systems, controlled labels and franchise programs are all working well.

It is with great confidence that I look forward to the coming year and it is with sincere appreciation that I thank customers, executives, employees and shareholders for their continued support.

W. Galen Weston

W. Galen Weston
Chairman of the Board

The past year was another eventful one for Loblaw Companies Limited. The strategic repositioning of the business and its capital reinvestment program which was started in 1984 began to wind down with the successful Real Canadian Superstore entries into the Vancouver and Calgary markets; the sorting out of the Ontario store asset base between Loblaws, Zehrs, SuperCentre, Fortino's and the various franchise stores; the firming up of the United States investment in St. Louis and New Orleans; and the introduction of a controlled label (G•R•E•E•N™) program more sweeping in concept and influential in impact than any yet seen in the Canadian marketplace.

For the past year, trading profit (operating income before depreciation) was at the record high level of $291 million, or 3.7 percent of sales and operating income (earnings before interest and taxes) was also at the record high level of $191 million. In 1987, when the previous high in operating income was achieved ($190 million) the sales level ($8.63 billion) was $697 million higher than the 1989 sales of $7.93 billion. The outlook for the 90's is for steady improvement.

In the near term, earnings per share are expected to show good increases as trading profits continue to increase while depreciation and interest costs remain at the 1989 level. Over the longer term, trading profits should continue to increase although at a decreasing rate, while depreciation and interest begin to decline, resulting in further and sustainable increases in earnings per share.

As noted in last year's Annual Report, capital expenditures in excess of normal replacement and market growth were virtually completed in

1989. Over the period of the major investment program, the core marketing areas of Ontario, the Prairies, the Maritimes and St. Louis have been strengthened by the introduction of new stores or the targeted acquisition of corporate supermarkets or franchised units on top of an already solid base business. In addition, a relatively new asset base and a competitive cost structure has been achieved in the major urban centres of Halifax, Hamilton, Windsor, Calgary and Vancouver—markets in which the presence of Loblaw Companies was inconsequential a few years ago. While remaining Canada's largest food distributor throughout the investment program, the asset profile of your Company has changed and improved. Its market coverage at retail has now come to the point where no real voids exist for competitors to exploit. The wholesale customer base is now mainly franchised in nature, having been purged of those accounts or businesses where volume was plentiful, but profits were not acceptable.

We have reported that in 1989 satisfactory progress was made in all sectors of activity throughout the business. Nevertheless, some long term goals were not achieved. On a total company basis, the stated goal has been to provide a 15 percent return on shareholders' equity in every five year period. This year's return was 11.7 percent, giving a five year average return of 12.1 percent. Over the next five years no increase in capital employed is expected to be required on a regularly increasing sales base. Return on investment, (13.8 percent in 1989) and return on equity will improve as earnings increase on this constant capital base.

The stated goal on earnings per share has been to achieve an average annual increase in earnings per common share of 15 percent in every five year period. This goal has not been achieved since the five year period ending in 1985 which coincides with the beginning of the repositioning and investment program. From the earnings per share base of $.80 in 1989, earnings are now expected to grow at least at the 15 percent rate although it will likely be two or three years before a five year average of 15 percent will again be achieved. The third stated fiscal goal has been to maintain a debt to equity ratio of 1:1 or less. The 1989 year end ratio of .74:1 is the best since year end 1984 when the ratio was .61:1. To spend $1.18 billion over this investment period and end with virtually the same debt to equity ratio at the end as at the start confirms the strength and the cash generating capacity of the business. This ratio should continue to improve as positive cash flows evolve over time.

Loblaw Companies Limited now has a formidable asset base in all its markets and is managed day-to-day by an increasingly skilled group of people. It is people and programs which will continue to improve the earnings and cash generation of the business. We look forward to the decade of the 90's with optimism and confidence.

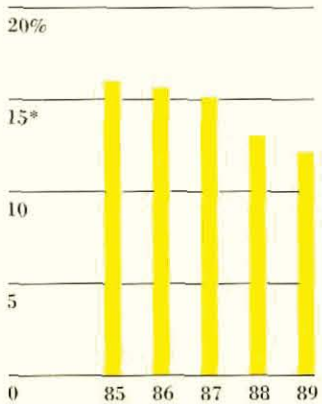
Richard J. Currie

Richard J. Currie
President

Opposite page: Customer Appreciation Day is the most visible element of Loblaws Supermarkets Limited's new customer relations program. Behind the scenes, every employee receives training and counselling on the importance of dealing effectively with customers. "You Can Count on Me" is the program's theme and it stresses key standards of good customer relations.

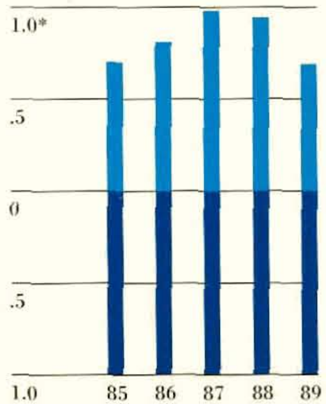
Average Return on Common Shareholders' Equity

(Five year period ended)



*Corporate objective

Ratio of Total Debt to Total Equity

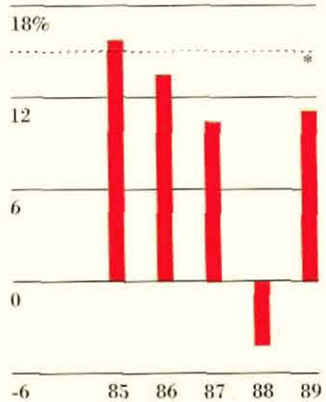


*Maximum desirable

Debt Equity

Average Annual Increase in Earnings per Common Share

(Five year period ended)



*Corporate objective (15)

SOMETHING CAN BE DONE!
President's Choice
G·R·E·E·N
ENVIRONMENT FRIENDLY PRODUCTS
100% PHOSPHATE FREE
AUTOMATIC DISHWASHING DETERGENT
NATURAL LEMON SCENT
ENDORSED BY POLLUTION PROBE
1.8 kg
HIGH PERFORMANCE MOTOR OIL
POLLUTION PROBE
1 LITRE
ULTRA
32 LARGE DIAPERS
ENDORSED BY POLLUTION PROBE
BECAUSE THEY ARE MADE WITH
100% NON-CHLORINE-BLEACHED FLUFF PULP
FOR BABIES OVER 22 LBS 10 kg
BABY WIPES
100 FILTERS NO.4
BAKING SODA
SODIUM BICARBONATE U.S.P.
ENDORSED BY "FRIENDS OF THE EARTH"
AS AN ENVIRONMENT FRIENDLY ALTERNATIVE
TO HARSH CHEMICAL PRODUCTS
USE TO CLEAN WALLS, SINKS, OVENS,
TOILET BOWLS AND DRAINS
1 kg
SAVE OUR FORESTS
EVERY YEAR IN CANADA WE DESTROY A FOREST THE SIZE OF
P.E.I. TO PRODUCE PAPER AND PAPER PRODUCTS.
BY BUYING BATHROOM TISSUE AND OTHER PRODUCTS
MADE FROM 100% RECYCLED
PAPER, YOU ARE
BATHROOM TISSUE
8 ROLL
GARBAGE BAGS
WITH DRAWSTRING
SWEDISH
100% CHLORINE FREE
COFFEE FILTERS
100 FILTERS NO. 2
100% PHOSPHATE FREE
A SUPERIOR LAUNDRY DETERGENT
UNSCENTED
Nature's
G·R·E
100% NATU
SOURCE
LAWN & GARDEN FERTILIZER 6-3-5
WORLD WILDLIFE FUND
THINK "GREEN"

President's Choice G•R•E•E•N

... It began as a plea for help from a prominent environmentalist.

... It formed in the mind of an executive, who realized something could be done.

... It evolved into G•R•E•E•N—the world's first corporate line of environment and body friendly products.

The Evolution

A concept—never before attempted, and a challenge—seemingly insurmountable, are the classic themes of great fiction. Only this time, the dramatic scene was real. Loblaw Companies Limited was about to undertake a revolutionary initiative. Its name: G•R•E•E•N.

The decision to produce a complete line of 'green' products evolved from the corporate awakening to the seriousness of the state of the planet, and an earnest desire to do something positive. In Loblaw Companies Limited's case, something could be done. The Company had the requisite size, strength, influence, network, imagination, and most importantly, courage. Like the majority of Canadians, Loblaw's executives had disquieting concerns about the environment. The daily newspapers chronicled the growing crisis—acid rain, the tattered ozone layer, the vanishing rainforests, the chemical soup of our rivers and streams. People felt vulnerable as they experienced the effects of pollution, unsafe drinking water, closed beaches, tainted fish, and the search for new garbage dumps. The situation seemed out of control.

A meeting with a prominent environmental journalist in the spring of 1988 strengthened the Company's belief that Loblaw could make a difference. The Company met with more than ten environmental groups in North America and Britain. Cynical, and suspicious of 'big business', the groups were reluctant to participate, at first. But the Company's unequivocally sincere commitment gradually prevailed. The groups were challenged to go through any of the Loblaw Companies' stores in Canada with a 'green comb', and to respond with their 'wish' lists.

In the meantime, Loblaw had already introduced several products under the Nature's Choice™ banner. A bio-degradable garbage bag and a number of other items, mostly horticultural, were launched as part of the Nature's Choice program in the spring of 1988. By that summer, Loblaw executives observed the revolution in consumer demand for green products taking place in Europe, including the Blue Angel program in Germany, the banning of phosphates in Switzerland, and recycling programs in Sweden. In particular, they noted the enormous success of 'The Green Consumer Guide' in England. This book set out the products and retailers that the authors considered 'environment friendly'. Despite its seemingly pedantic subject it became the U.K.'s bestselling book in a matter of weeks.

In Canada, the polls confirmed that the environment was the nation's number one concern. It seemed clear that Canadians would certainly welcome any opportunity to support ecologically friendly products.

The Decision

In late January 1989, the decision was made to attempt to introduce a line of 100 environmentally friendly products—G•R•E•E•N products—by June. The Loblaw people had less than five months to source existing, or develop and manufacture new products; and in addition, to test, package and ship these items into the stores. The challenge was enormous but not impossible, fuelled by a sense of the importance of this new venture.

The criteria were set: Nothing must be done cosmetically or superficially. The G•R•E•E•N line would contain products that were either friendly to the environment, or healthy for the body. Independent consumer research indicated to Loblaw that the Canadian consumer believed that the issue of healthy eating was as much an environmental issue as clean water.

The Rush to Develop

The Company began a major consultation program to make the G•R•E•E•N product line as credible as possible. Pollution Probe and Friends of the Earth were asked for a list of grocery products that disturbed them. Items the environmentalists stressed included diapers made from chlorinated paper, detergents with high phosphate levels, paper products made from non-recycled paper, and foods sprayed with pesticides.

After identifying more than one hundred potential products for the G•R•E•E•N line, the extensive research and development program began in earnest. What did not already exist, had to be developed.

Few companies in the world have the ability or resources to launch an entire corporate product line in less than six months. But the Loblaw strategy avoids time-consuming test marketing, preferring to allow the customer to directly accept or reject new products by 'voting at the cash register'. And, as the only food distributor in Canada with on-staff product developers in its Loblaw International Merchants division, Loblaw is unique. These same food experts who designed President's Choice The Decadent™ Cheesecake and The Ultimate™ muffins dedicated themselves to a new line of healthy eating products—foods having nutritional characteristics such as being either low in calories and cholesterol, high in dietary fibre, or preservative and additive-free.

The buyers for Intersave Buying and Merchandising Services, another Loblaw division, used their massive network of international suppliers to source existing products or work with manufacturers to develop new ones. Ecover's cleaning products from Belgium, and acid-reduced gourmet coffee from Germany were already established products. But the formulation of a new phosphate-free detergent to rival Tide in quality, or revolutionary baby diapers free of chlorine (which produces deadly dioxins and furans) or peanut butter without mono and diglycerides became major challenges.

In some cases, turning G•R•E•E•N was a matter of merely re-packaging existing products. Friends of the Earth suggested that to educate consumers everyday baking soda should be promoted as an excellent alternate to toxic household cleaners. The Nature's Choice bio-degradable garbage bag already qualified for the program, as did The Virtuous™ ozone-safe chloroflurocarbon (CFC)-free aerosol cooking spray.

Loblaw's in-house art department designed and produced more than 100 brand new packages within an astonishing twelve weeks. All paper packaging used 100% recycled paper. During this time, all products, even the established European lines, were vigorously tested. Access to George Weston Limited's testing laboratories helped the Company to meet the turbo-charged deadlines.

The Launch

The Insider's Report™, the largest circulation food magazine in the world, heralded the new products in its June, 1989 issue. The magazine, produced by Dave Nichol, President of Loblaw International Merchants, had made the public aware of unique, high quality food items since 1984.

The report introduced about 60 of the new G•R•E•E•N products, ("the first wave", as Dave Nichol called it) outlining their importance to the environment, or the body. Ten million Insider's Report publications, printed on recycled newsprint carefully explained, for example, why consumers should prefer a brown, non-chlorine bleached, coffee filter, or why 'less than white' is 'purer than white'.

The bright green cover page clearly outlined Loblaw's position. "We acknowledge that we are not environmental experts and we readily admit that we do not have all the answers", it said. "However, we feel strongly that these products are a step in the long journey toward the solution of our enormous environmental problems. If G•R•E•E•N products do nothing more than help raise awareness of the need to address environmental issues NOW, and give Canadians hope that SOMETHING CAN BE DONE™, then in the end, they will have made a positive contribution."

The products did even more. They allowed consumers the opportunity to make their own positive contribution, and feel good in the process. The public fervently embraced the line. In Ontario alone, $5 million of G•R•E•E•N products were sold within four weeks of the launch—double projected sales. And, ironically, a flutter of controversy immediately after the launch served to heighten consumer awareness of the environmental problems and Loblaw's G•R•E•E•N solutions.

The Controversy

A number of G•R•E•E•N products were endorsed by environmental groups, for which they were paid royalties. Friends of the Earth received one cent for each box of baking soda sold, and Pollution Probe would generate up to $75,000 for its endorsement of seven products, a needed contribution to its $60,000 annual deficit.

President's Choice™

G•R•E•E•N™

Pollution Probe's executive director, Colin Isaacs appeared on television with Dave Nichol in precedent-setting commercials. These were not sugary testimonials. Isaacs bluntly advised consumers to use cloth diapers, not disposables. Conceding to practicality, Isaacs suggested that whenever absolutely necessary, Loblaw's G•R•E•E•N non-chlorine bleached disposable baby diapers were preferable to the rest.

However, the decision to accept money to endorse products—no matter how environmentally friendly—triggered a crisis within Pollution Probe. The controversy raged for weeks, generating a flood of media attention. Lines were drawn between the purists, who believed collaborating with business undermined the group's integrity, and the more pragmatic environmentalists, who supported communication, consultation and cooperation with committed business leaders. Discouraged by the dissension and his board's lack of support, Colin Isaacs resigned, and Pollution Probe withdrew its name from the diaper packaging, while continuing to endorse the six other products.

In early July, 1989, members of the environmental group Greenpeace expressed concern about Loblaw's G•R•E•E•N organic fertilizer. The group was unaware Loblaw had spent $50,000 on independent tests confirming the product free of toxic chemicals and sharing this information with Agriculture Canada. Proven unfounded, the criticism and publicity gave Loblaw a welcome opportunity to substantiate the fertilizer's credibility.

Paradoxically, these controversies proved extremely advantageous. They focussed attention on the need for environmentally friendly products. By highlighting Loblaw as the only retailer in North America to offer a complete line of these products, they recognized Loblaw's leadership and underscored the competition's lack of innovation.

The publicity also galvanized the consumer behind the products and Loblaw's commitment. Letters urged the Company to continue with the program. A survey prepared for Loblaw only four weeks after the G•R•E•E•N launch showed product awareness at an amazing 82%. With 27% of the population actually having purchased G•R•E•E•N products, Loblaw was riding the crest of a green tidal wave.

The Conclusion

Throughout the process of introducing the G•R•E•E•N line, Loblaw never claimed to be an environmental expert, nor a radical activist. The Company does not intend to be a screening agency, and its stores still carry products considered by some to be harmful to the environment. What Loblaw <u>has</u> done, is to demonstrate leadership by offering consumers new options. Loblaw Companies Limited addressed the two critical issues of the 1990's—health and the environment. It created awareness and sustained criticism in the process.

The most significant effect of the introduction of Loblaw's G•R•E•E•N product line may be the politicization of the consumer process. It enabled shoppers, for the first time, to comprehend the real extent of the power of their purchasing dollar. By 'voting at the cash register' to demonstrate support for the environment, they began to realize their potential to change today's markets. By embracing the program, they forced manufacturing and retailing competitors to play catch-up. For example, the proven success of the G•R•E•E•N detergent prompted Canada's two best selling soap and laundry detergent manufacturers to develop a phosphate-free Sunlight and Tide.

The G•R•E•E•N program brought nutritionally and environmentally safe products to a large group of enlightened shoppers, and helped to educate thousands more. It provided consumers with a choice. Before G•R•E•E•N they had none. Loblaw's innovation and energy is an international model and example. Not only has it enhanced Canada's reputation as a world leader in environmental concerns, but our planet will benefit from the other companies which have been prodded into action by the success of the G•R•E•E•N products. Loblaw Companies Limited proved that with courage and commitment, something <u>can</u> be done. Perhaps the greatest environmental contribution of the G•R•E•E•N products was that they proved to the world's largest industry, food distribution, that helping the environment is not only socially responsible, it is also <u>good business</u>.

AIR POPPED
WHITE POPCORN
LIGHTLY SALTED
CRUNCHY/CROQUANT
JUST PEANUTS
500 g
SOMETHING CAN BE DONE!
G·R·E·E·N
UNSWEETENED
COX'S ORANGE PIPPIN APPLE JUICE FROM CONCENTRATE
SNACK
AIR-POPPED INDIANA POPCORN WITH REAL WHITE CHEDDAR CHEESE
LIGHTLY SALTED
ALL-NATURAL
DOG BISCUITS
HULL-LESS
AIR POPPED
WHITE POPCORN
MAIS BLANC DECORTIQUE ECLATE A L'AIR
LIGHTLY SALTED
12 g
'JUST PEANUTS'
CREAMY/CREMEUX
'JUST PEANUTS'
CRUNCHY/CROQUANT
GREEN
NATURE'S PERFECT FRUIT SNACK
LEMON
6 PACKS (1 OZ EACH)
NO SUGAR ADDED · NO ARTIFICIAL FLAVORS OR COLORS
NATURALLY FLAVORED RAISINS
NET WT. 6 OZ 170 g
UNSALTED
RAINFOREST MIX
400 g
FRUIT SNACK
LEMON
NET WT. 6 OZ 170 g
ACID REDUCED COFFEE
FINE GRIND
SOMETHING CAN BE DONE!
President's Choice
G·R·E·E·N
BODY FRIENDLY PRODUCTS
HIGH FIBRE
CORN FLAKES CEREAL
LOW ASH
EXTRA MEATY CAT FOOD
BEEF AND SALMON
14 OZ 397 g
LOW ASH
BEEF
WATER PROCESSED GOURMET
ACID REDUCED COFFEE
FINE GRIND
NET WT. 8.8 OZ 250 g
THE SMART SNACK
AIR-POPPED INDIANA POPCORN WITH REAL WHITE CHEDDAR CHEESE
LIGHTLY SALTED
FRUIT SNACK
STRAWBERRY
NET WT. 6 OZ 170 g
THE REVOLUTIONARY BEAN CHIP
70% LESS SODIUM THAN REGULAR SALTED POTATO CHIPS
PRODUCT OF U.S.A.
200 g 7 OZ
NATURE'S PERFECT FRUIT
900 g
6 PACKS (1 OZ EACH)


coffee
clover salmon
3.49
meat
NACHOS
NACHOS
NACHOS
GREEN
ULTRA
VERT
RSVP
RAISIN
BRAN
7up

Review of Operations

Opposite page: John Johnson's brand new, 18,000 sq. ft. store in Bradford, Ontario is one of the latest additions to the Mr. Grocer franchise group. Innovative design concepts employed in this store allow a powerful perishables presentation in a smaller, more economical, store format.

For Loblaw Companies Limited, the period from 1985 to 1988 was a tumultuous one. It was a period in which over $1.0 billion was spent to strengthen and expand the asset base. It culminated in 1988 with the sale of the under- performing U.S. wholesale business, a major rationalization of the retail business in the faltering New Orleans market and a strategic repositioning of the combination store program in Eastern Canada.

By contrast 1989 has been relatively tranquil. It was forecast to be a year of quality earnings growth, characterised by emphasis on market-by-market tactical, operating and merchandising skills. It has lived up to this expectation. In 1989 operating income reached a record $190.5 million, not materially different from $189.7 million in 1987, but achieved on $696.8 million less sales. Operating income increased from 2.2 percent of sales in 1987 to 2.4 percent of sales in 1989. Earnings before extraordinary items were $70.2 million, an increase of 72 percent over last year's result, which included a $21.5 million unusual provision related to the combination store repositioning. Net earnings were $70.2 million, a $44.0 million improvement over last year's result which also included a $14.6 million extraordinary loss, primarily related to the rationalization in New Orleans.

Continued focus on cash and balance sheet management has resulted in the investment in inventory and receivables, net of payables and accrued liabilities, decreasing by $69.3 million during the year. In addition, the net short term borrowings of 1988 has improved (by $56.1 million) to a net cash position. No new long term debt has been issued. Interest coverage has improved (from 2.16 times to 2.39 times) and the debt to equity ratio has improved (from .96:1 to .74:1).

More subtle balance sheet improvements have also taken place. Loblaw Companies bought out the minority interest in Kelly, Douglas (previously an 85 percent owned subsidiary) for $76.8 million, $60 million of which was effectively covered by an issue of perpetual preferred shares. Over $40 million in minority interest was thereby eliminated from the Company's balance sheet. Also, the equity base was strengthened when $55 million in preferred shares which were subject to retraction in 1990 and 1991 were replaced with perpetual preferred shares.

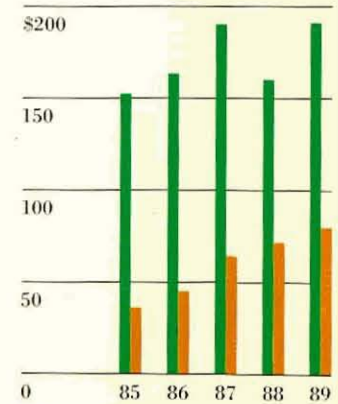
Real estate continues to be a source of strength not readily apparent on the balance sheet. Management estimates a current excess of market value over book value of approximately $191 million. As well, the Company is taking the first steps toward realizing the potential that exists

Eastern Canadian Operations

Sales *Operating Income*

Loblaw Companies Limited Operating Income and Interest Expense

(in millions)



■ Operating income
■ Interest expense

for profitable redevelopment of some unique properties that it owns or controls in southern Ontario.

In 1989 the Company's popular no name™ and President's Choice™ corporate labels were strengthened with the timely introduction of G•R•E•E•N™ environment friendly products. About 60 of these new products were launched in an Insider's Report™ in June amidst a swirl of consumer and media interest and not without some controversy. Consumer support has remained strong and new G•R•E•E•N products continue to be developed, further strengthening the corporate brand franchise of the business.

Eastern Canadian Operations

Last year the decision was taken to downsize six of the original nine combination stores in Ontario and reduce the non-food product range. Additional ancillary space thus created was leased out to tenants whose businesses were considered complementary to our own. One more of these stores is currently being downsized. At their new size of approximately 65,000 sq.ft., these stores are comparable to new supermarkets being built by Zehrs and Loblaws. While these stores were a major contributor to profit improvement in the current year, some are not yet profitable. Nevertheless, the situation is manageable and store-by-store profitability will be achieved.

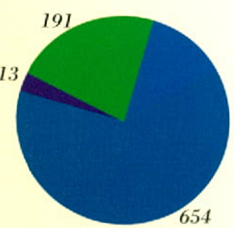
Last year less dramatic changes were also made to two of the combination stores in the Maritimes and in both locations ancillary space was constructed to accommodate additional retail tenants. These stores were also a major contributor to this year's earnings improvement and the value of their shopping centres has also been increased in the process.

In Ontario, distribution and administration expenses were reduced. The Bramalea and Islington warehouses were closed, eliminating over 350,000 sq.ft. of food storage capacity and the attendant overhead costs. As a result of this and a program of cost reduction procedures the overall distribution cost per ton fell in the year by 7 percent in real dollar terms. Similar results were achieved in the administration area where annualized cost savings in excess of $10 million were achieved through improved methods.

The business in Eastern Canada continues to add new corporately owned and franchised stores. In 1989 over $40 million was spent building new corporate stores and about 380,000 new sq.ft. were added and this level of commitment will continue. 1989 was also a significant year for the wholesaling side of this business, particularly in Ontario. The total number of franchise stores operating under the

Opposite page: The first of the Real Canadian Superstores to open in the greater Vancouver area is located at the heart of the new town centre of Burnaby, in the Eaton Centre at Metrotown. In addition to above-ground parking, the store has underground parking which customers can access by using moving ramps which also carry their shopping carts.

Loblaw Companies Limited
Land and Buildings
(in millions)



Estimated market value $845

Increment of market value over book value $191

Net book value $654

Mortgages $13

Western Canadian Operations

Sales *Operating Income*


the real Canadian
Superstore
LOTTERY TICKET CENTRE
HERE ONLY
toys
pick-up toys
die cast vehicles


national
You're Important to Us!
national
You're Important to Us!
BUCKET BRIGADE
BUCKET BRIGADE
baby food
seasonal cards

Patience had its reward this year in St. Louis as profits from the Kroger store acquisition of 1986 began to be realized. Shown at left, a newly remodeled, 56,000 sq. ft., former Kroger store serves the growing suburb of Twin Oaks. It features elaborate perishables presentations, a state-of-the-art video store and a full line floral shop to further enhance the shopping experience.

names Mr. Grocer, no frills, Fortino's, Your Independent Grocer, valumart, freshmart and Hasty Market grew by 100 to a total of 299 stores, as a result of the Hasty Market acquisition, the transfer of stores from the corporate groups and other franchising opportunities. The franchised business in Ontario passed the $1 billion mark in sales (at wholesale) for the first time.

Western Canadian Operations

Western Canadian Operations enjoyed another year of record operating income. The momentum of continued earnings growth was maintained in spite of opening five Real Canadian Superstores in two cities in the space of a year. The first of these stores, which range in size from 130,000 to 140,000 sq. ft., was opened in Calgary in November 1988. In 1989, three stores were opened in the greater Vancouver area. These were in Burnaby in March, South Vancouver in June and Coquitlam in August. In 1990 two more Real Canadian Superstore openings are planned, one in Vancouver and the other in Surrey.

In addition to store growth, during the year 142,000 and 341,000 sq.ft. of grocery warehouse capacity were added in Calgary and Vancouver respectively and a 93,000 sq.ft. general merchandise warehouse was opened in Calgary.

As expected, competitive reaction to this expansion has been strong, but the new stores themselves have performed well and in addition the more established portions of the business, including the 11 other Superstores, the conventional stores and the wholesale business have been a sustaining force. At the end of 1989, there were 622 franchised independent customers and thousands of independent accounts in four provinces and in the two territories.

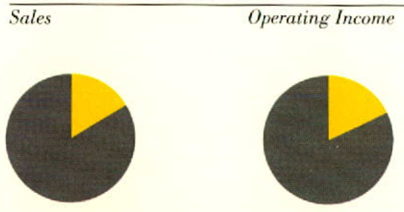
United States' Operations

In August of 1988 your Company sold its major wholesaling operation, Peter J. Schmitt and late in the same year an extraordinary provision was taken for planned disposition of the substantial portion of the New Orleans retail division of National Tea. Prior to these events, in late 1986 the St. Louis division of National Tea had acquired 26 stores from the Kroger Company. By late in 1988 some of the anticipated benefits of this acquisition were beginning to be realized.

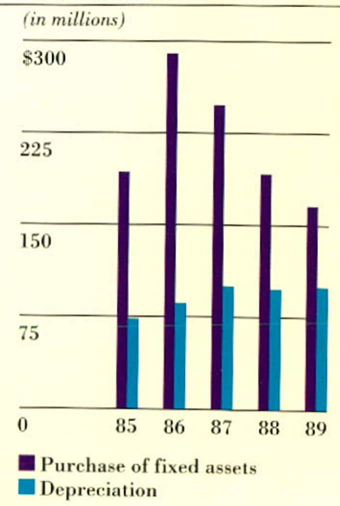
As a result of continuing improvements in St. Louis and the decisive action taken last year in New Orleans, National Tea's operating income growth almost made up for the lost income from Schmitt.

In 1990 no new stores are expected to be added, but extensive remodelling and refurbishment will be carried out.

United States' Operations



Loblaw Companies Limited Capital Expenditures and Depreciation




President's Choice™
FINE PRODUCTS DISTRIBUTED EXCLUSIVELY BY NATIONAL GROCERS
6807
THERMO KING
NATIONAL GROCERS CO. LTD.
NG
692
LOBLAWS INC.

In 1989, a major focus on the distribution operations in Ontario resulted in a consolidation of the network through closure of the Islington and Bramalea warehouses which reduced square footage in use by over 350,000. Through this and other measures, distribution cost per ton was reduced by 7% in real dollar terms and major improvements were made in accuracy of orders, on-time arrivals and inventory control.

Financial Report

Financial Review

1989 was a year of steady financial improvement for Loblaw Companies Limited, following a year in which significant provisions were made for downsizing and remerchandising some of the Eastern Canadian combination stores and rationalizing retail operations in New Orleans.

Results of Operations

(in millions)

	Eastern Canadian Operations		Western Canadian Operations		United States' Operations	
	1989	1988	1989	1988	1989	1988
Sales						
Retail	$2,570	$2,429	$1,197	$ 982	$1,258	$1,510
Wholesale	1,418	1,276	1,453	1,358	38	753
Total	$3,988	$3,705	$2,650	$2,340	$1,296	$2,263
Operating income	$ 90	$ 76	$ 67	$ 56	$ 34	$ 28

(Note: 1988 operating income numbers have been restated to reflect full allocation of corporate expenses.)

Sales decreased by 4.5 percent in 1989 and 3.7 percent in 1988. After adjusting previous years to exclude the divested operations of P.J. Schmitt and in New Orleans and fluctuations in exchange rates, sales increased 9.2 percent in 1989 and 5.3 percent in 1988.

In Eastern Canada, sales increased by 7.6 percent in 1989 and by 2.8 percent in 1988. Sales growth was constrained in 1988 by the discontinuance of wholesale supply to a number of food service and convenience store customers. The acquisition of Fortino's Supermarkets late in 1988 was a major factor in 1989 retail sales growth. However, retail sales growth was limited to 5.7 percent by conversion of corporate stores to franchise customers. The wholesale side of the business accordingly had a high rate of sales increase (11.2 percent).

In Western Canada, sales increased in 1989 by 13.2 percent, compared to a 12.1 percent increase in 1988. In 1989, the increase was driven mainly by five Real Canadian Superstore openings since the fall of 1988. The previous year's high rate of increase was partially due to store openings but was also a result of lower sales in 1987 as a result of a strike.

In the United States, sales adjusted for divested operations increased by 6.3 percent in 1989 and by less than 1 percent in 1988 (after adjusting for exchange differences). Intense price competition, which restricted sales growth in 1988, eased somewhat in 1989. Food price inflation, as measured by the 'food at home' component of the U.S. Consumer Price Index (C.P.I.) was 6.5 percent in 1989 and 4.2 percent in 1988.

In Canada, the C.P.I. for 'food purchased at stores' rose 2.3 percent in 1989 and 2.7 percent in 1988.

Operating income increased by 18.9 percent to $190.5 million from $160.2 million in 1988.

In 1989 operating income in Eastern Canada improved 18.4 percent. During 1988, less than acceptable results prompted the downsizing and remerchandising of some of the combination stores. This situation has now stabilized and these stores have contributed materially to the profit improvement of the current year. The acquisition of Fortino's and continuing work to reduce total operating costs have also increased operating income in Eastern Canada. Operating income is expected to increase further in 1990, although at a reduced pace.

In 1989 operating income in Western Canada improved 19.6 percent. In achieving this result the western business has absorbed the start-up costs of four Real Canadian Superstores, averaging 135,000 sq.ft. each, as well as the impact of stiff competitive reaction to them in Calgary and Vancouver. Strengthened performance in recently opened stores should continue to improve operating income in 1990, although at a reduced rate.

Operating income in the United States improved from $28 million in 1988 to $34 million in 1989. However, the 1988 result included income from the wholesaling operation which was sold last year as well as losses from stores in New Orleans which were eliminated as part of last year's rationalization of that business. If the impact of these divested operations is removed from 1988, the year-over-year improvement in the operating income from continuing operations is 54.5 percent. Most of this increase is attributable to improved operating margins in St. Louis. Operating income is expected to show modest improvement in 1990.

Income from the sale of capital assets was $4.6 million less in 1989 than in 1988. Inflation was not considered to be a significant factor in operating income increases during the year.

Interest expense increased from $74.2 million in 1988 to $79.6 million in 1989. The major contributor to this increase was the interest attributable to financing the June 18, 1989 purchase of the minority interest in Kelly, Douglas & Company, Limited. On an after-tax basis this increase in interest expense is substantially offset by a $2.1 million reduction in the charge for *minority interest.* Interest expense is expected to remain at approximately the same level in 1990.

Earnings before income taxes increased from $64.5 million last year to $110.9 million in the current year. Last year's results included a $21.5 million *unusual item* recorded as a charge against income. This charge provided for the costs of downsizing and remerchandising a number of combination stores in Eastern Canada. If earnings before the unusual item are compared, the year-over-year increase is 29.0 percent.

The *effective income tax rate* for the year increased from 30.1 percent last year to 34.7 percent this year. Last year the benefit of foreign tax rate advantages was magnified by relatively low pretax earnings in Canada. In the future, as the proportion of earnings subject to higher Canadian rates rises, the tax rate will also increase, although annual increases are not expected to be as large as in the past year.

Earnings before extraordinary items was $70.2 million in 1989 versus $40.8 million in 1988 and *earnings per share* rose from $.41 to $.80. In 1988 *net earnings* were affected by two *extraordinary items.* A $2.1 million after-tax gain on disposition of the U.S. wholesaling business and a $16.7 million after-tax provision for loss on planned disposition of the substantial portion of the New Orleans division, resulted in a net charge to earnings of $14.6 million.

Financial Condition

The Company attempts to maintain its net investment in the non-cash elements of working capital (the principal components of which are accounts receivable, inventories and accounts payable) at the minimum necessary for effective operation. During the year the amount so invested declined by $72.8 million. This *cash provided from working capital* in 1989 compares with $2.4 million provided from working capital in the normal course of operations last year. This improvement reflects intensified efforts to reduce this investment and these efforts are continuing. In 1988, net non-cash working capital was reduced a further $85.0 million as a result of acquisitions and dispositions. The major capital investments in 1989 were fixed asset purchases of $165.7 million and the acquisition of the minority interest in Kelly, Douglas & Company, Limited for $76.8 million. During the major capital investment program of the previous five years, fixed asset additions totalled $1.073 billion and exceeded cash flow from operations for the same period by $337 million. This year's *cash flow from operations* of $259.3 million exceeded fixed asset purchases, a pattern which should be characteristic of operations over the next few years. The major capital investments of the previous year were fixed asset purchases of $192.0 million and acquisitions of $42.2 million, offset by cash proceeds of $148.4 million on disposition of the U.S. wholesaling business.

At year end, *cash* (cash and short term investments net of bank advances and notes payable) was $16.2 million, a $56.1 million increase from last year. Short term *liquidity* requirements during the year are facilitated through the Company's commercial paper program with an internally authorized maximum of $500 million.

There were no new *long term debt* issues during the year and *total debt* decreased by $73.4 million from last year's level of $622.8 million. In 1988 there was a decrease in the total debt from $686.3 million at the end of 1987, primarily as a result of the sale of the U.S. wholesaling business. Fixed rate debt as a percentage of total debt was 95.7 percent in 1989 compared with 87.2 percent in 1988. With no new long term debt issues during the year, the weighted average interest rate of fixed rate long term debt (excluding capital lease obligations) remained unchanged from last year at 10.6 percent and the weighted average term to maturity (measured both on the basis of maturity date and on the earlier of maturity and first retraction date) declined slightly from 10.7 and 6.6 years respectively in 1988 to 9.8 and 5.6 years respectively in 1989.

Shareholders' equity increased by $94.9 million from $651.1 million in 1988 to $746.0 million in 1989. This improvement follows a year in which shareholders' equity declined by $39.2 million. Last year's decline was attributable to lower than normal net earnings and a $33.2 million decrease in equity from foreign currency translation resulting from the declining value of the U.S. dollar. This year, net earnings have increased by $44 million and $60 million in perpetual preferred shares were issued, resulting in the substantial equity increase. In addition to this new equity, the existing equity position was strengthened late in the year when $55 million in preferred shares held by George Weston Limited and retractable at the option of the holder in amounts of $30 million in 1990 and $25 million in 1991 were replaced with an equivalent amount of perpetual preferred shares. The Company's dividend policy on common shares is to pay out *dividends* amounting to approximately 20 percent of the prior year's net earnings per common share. Strict adherence to this policy would have resulted in common dividend reductions in 1989, however, because the earnings decline in 1988 was deemed temporary, dividends were not reduced.

Reduced debt levels and an increase in shareholders' equity has resulted in an improvement in the debt to equity ratio from .96:1 in 1988 to .74:1 in 1989. Both these ratios are better than the Company's self imposed guideline of maintaining a *debt to equity ratio* of less than 1:1.

Future Prospects

Fixed asset expenditures next year are expected to be at approximately the same level as in 1989 and the cash required is expected to be generated through operations. As in 1989, Western Canadian Operations will consume about one third of this capital, with a substantial portion going to new superstores. United States' Operations will spend about one fifth of the total budgeted amount, an increase from the previous year. Projects already begun, and which the Company is effectively committed to complete, total approximately $55 million of the anticipated 1990 expenditure.

The Company is an aggressive competitor in the food distribution business. Its strategies often involve penetration of new markets, such as effectively took place this year in Vancouver and last year in Calgary. It is willing to experiment with new store formats and expand its operations through focused acquisitions when opportunities arise, such as the Fortino's Supermarkets Ltd. acquisition last year. While these strategies increase short term *risk*, management believes they are essential to long term security and growth. Management also follows certain strategies to dampen these risks.

By operating in geographically diverse areas, exposure to regional economies and demographics is minimized. By operating in both the wholesale and retail sectors of the food distribution industry, exposure to shifts in the balance of economic power between these two major components of the industry is minimized. By following a policy of owning its real estate, operating flexibility is preserved and the Company is positioned to benefit from any real estate appreciation. And by developing powerful corporate brands (no name™, President's Choice™, G•R•E•E•N™) customer loyalty is enhanced and some insulation from undifferentiated national brands pricing is provided. All these strategies dampen risk.

The Company is continuing to expand its operations, but at a decreased pace compared to recent years. No major new markets will be entered next year although there will be continued expansion in the lower British Columbia mainland. Last year's rationalization in New Orleans significantly reduced exposure to the weak economic conditions in Louisiana. Management is aware of no specific risks or uncertainties that are likely to cause the information reported in the financial statements or in the analysis above, not to be indicative of future operating results.

Quarterly Earnings Per Share (dollars)

	'89	'88	'87	'86	'85	'84	'83	'82	'81	'80
First quarter	.14	.13	.15	.14	.13	.11	.10	.09	.07	.06
Second quarter	.18	.17	.24	.23	.20	.18	.14	.12	.11	.08
Third quarter	.22	.13	.25	.27	.26	.24	.20	.16	.15	.12
Fourth quarter	.26	(.02)	.23	.27	.26	.24	.22	.17	.16	.15
Total earnings before extraordinary items per share	.80	.41	.87	.91	.85	.77	.66	.54	.49	.41

Retail and Wholesale Operations

Loblaw Companies Limited

Retail sales consist of sales to consumers through corporate stores operated by Loblaw Companies Limited. Wholesale sales consist of sales and service fees to franchised independent accounts and independent accounts but exclude sales to corporate stores or other inter-company sales.

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

Retail Operations	1989		1988		1987	
	Stores	Sq. Ft. (in millions)	Stores	Sq. Ft. (in millions)	Stores	Sq. Ft. (in millions)
Stores						
Beginning of year	311	10.6	361	11.3	380	10.8
Opened	55	1.2	21	1.2	20	1.2
Closed	(18)	(.2)	(58)	(1.7)	(23)	(.4)
Franchised						
Transfer to:	(22)	(.4)	(18)	(.3)	(18)	(.4)
Transfer from:	8	.1	5	.1	2	.1
End of year	334	11.3	311	10.6	361	11.3
Average store size (in thousands)		33.9 sq. ft.		34.1 sq. ft.		31.4 sq. ft.
Analysis by size						
More than 60,000 sq. ft.		40		33		26
40,000 - 60,000 sq. ft.		48		44		47
20,000 - 39,999 sq. ft.		148		154		176
10,000 - 19,999 sq. ft.		64		68		93
Less than 10,000 sq. ft.		34		12		19
		334		311		361
Sales						
Annual sales (in millions)		$5,025		$4,921		$4,777
Annual average sales per gross sq. ft.		$458		$440		$440
Wholesale Operations						
End of year						
Warehouses		54		52		63
Cash & carry units		54		53		61
Franchised independent accounts		1,289		1,183		1,354
Independent accounts		12,337		10, 114		20,845
Annual sales (in millions)		$2,909		$3,387		$3,854

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.

Peat Marwick Thorne, 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 sheets of Loblaw Companies Limited as at December 30, 1989 and December 31, 1988 and the consolidated statements of earnings, retained earnings and cash flow for the 52 week periods 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 30, 1989 and December 31, 1988 and the results of its operations and cash flow for the periods then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Peat Marwick Thorne.

Chartered Accountants
March 1, 1990
Toronto, Canada

KPMG Peat Marwick Thorne

Consolidated Statement of Earnings

52 Weeks Ended December 30, 1989

Loblaw Companies Limited

(in millions of dollars)

	1989	1988	1987
Sales — Canada	$6,638.2	$6,044.3	$5,688.6
— United States	1,295.7	2,263.3	2,942.1
	7,933.9	8,307.6	8,630.7
Operating expenses			
Cost of sales, selling and administrative expenses	7,643.3	8,049.8	8,340.9
Depreciation of fixed assets	100.1	97.6	100.1
	7,743.4	8,147.4	8,441.0
Operating income	190.5	160.2	189.7
Interest — Long term debt	59.2	62.8	59.6
— Short term debt	20.4	11.4	4.5
	79.6	74.2	64.1
Unusual item (note 2)		21.5	
Earnings before income taxes	110.9	64.5	125.6
Income taxes (note 3)	38.5	19.4	48.4
Earnings before minority interest	72.4	45.1	77.2
Minority interest	2.2	4.3	3.6
Earnings before extraordinary items	70.2	40.8	73.6
Extraordinary items (note 4)		(14.6)	
Net earnings for the period	$ 70.2	$ 26.2	$ 73.6
Per common share			
Earnings before extraordinary items	$.80	$.41	$.87
Extraordinary items		(.20)	
Net earnings	$.80	$.21	$.87

36%

Consolidated Statement of Retained Earnings

52 Weeks Ended December 30, 1989

(in millions of dollars)

	1989	1988	1987
Retained earnings, beginning of period	$ 390.4	$ 395.7	$ 347.5
Net earnings for the period	70.2	26.2	73.6
	460.6	421.9	421.1
Dividends declared			
Preferred shares	12.2	11.3	11.4
Common shares, per share — 20.0¢ (1988—20.0¢, 1987—19.5¢)	14.5	14.4	14.0
Premium on redemption of common shares		5.8	
	26.7	31.5	25.4
Retained earnings, end of period	$ 433.9	$ 390.4	$ 395.7

Consolidated Balance Sheet

As at December 30, 1989

Loblaw Companies Limited

(in millions of dollars)

Assets	1989	1988	1987
Current assets			
Cash and short term investments	$ 24.5	$ 23.5	$ 30.1
Accounts receivable	139.6	168.6	251.5
Inventories	579.6	555.0	658.0
Prepaid expenses and other assets	16.8	18.1	43.6
	760.5	765.2	983.2
Investments (note 5)	131.6	117.5	143.6
Fixed assets (note 6)	1,044.4	1,052.4	1,057.3
Goodwill	69.7	35.7	7.0
Other assets	33.4	33.1	22.4
	$2,039.6	$2,003.9	$2,213.5
Liabilities			
Current liabilities			
Bank advances and notes payable	$ 8.3	$ 63.4	$ 98.8
Accounts payable	490.6	412.1	517.4
Accrued liabilities	177.5	191.1	181.3
Taxes payable	2.9	13.0	36.5
Long term debt payable within one year (note 7)	47.1	4.7	8.8
	726.4	684.3	842.8
Long term debt (note 7)	494.0	554.7	578.7
Other liabilities	26.8	34.9	18.3
Deferred income taxes	46.4	37.2	45.0
Minority interest in subsidiaries		41.7	38.4
	1,293.6	1,352.8	1,523.2
Shareholders' equity			
Capital stock (note 8)			
Preferred shares	224.3	164.8	165.4
Common shares	108.9	108.2	108.1
	333.2	273.0	273.5
Contributed surplus	9.0	9.0	9.2
Retained earnings	433.9	390.4	395.7
Equity from foreign currency translation	(30.1)	(21.3)	11.9
	746.0	651.1	690.3
	$2,039.6	$2,003.9	$2,213.5

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 30, 1989

Loblaw Companies Limited

(in millions of dollars)

	1989	1988	1987
Operations			
Earnings before minority interest	$ 72.4	$ 45.1	$ 77.2
Depreciation	100.1	97.6	100.1
Income taxes not requiring cash	9.6	(1.6)	17.5
Other	4.4	14.9	(4.3)
	186.5	156.0	190.5
Provided from (used for) working capital	72.8	2.4	(8.6)
Cash flow from operations	259.3	158.4	181.9
Investment			
Disposition of subsidiary company		148.4	
Purchase of fixed assets	(165.7)	(192.0)	(247.8)
Proceeds from sale of fixed assets	47.1	36.3	73.4
Gain on sale of fixed assets included in operations	(8.9)	(13.5)	(26.4)
Acquisition of subsidiary companies (note 9)		(42.2)	(36.5)
Purchase of minority interest in subsidiary companies (note 9)	(76.8)		(3.1)
Increase in capital lease receivables	(.3)	(5.5)	(31.0)
Increase in investments in franchisees	(11.7)	(2.8)	(30.9)
Net increase in other items	(11.3)	(19.1)	(4.3)
	(227.6)	(90.4)	(306.6)
Financing			
Long term debt — Borrowings	3.0	8.0	92.4
— Repayments	(11.7)	(14.2)	(35.3)
Capital stock — Issued	115.7	1.2	3.6
— Redeemed	(55.6)	(1.6)	(3.3)
Other		(6.0)	
	51.4	(12.6)	57.4
Dividends			
To shareholders	(26.5)	(25.7)	(25.4)
To minority shareholders in subsidiary companies	(.5)	(.9)	(.9)
	(27.0)	(26.6)	(26.3)
Increase (decrease) in cash	56.1	28.8	(93.6)
Cash at beginning of period	(39.9)	(68.7)	24.9
Cash at end of period	$ 16.2	$ (39.9)	$ (68.7)

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

Notes to Consolidated Financial Statements

52 Weeks Ended December 30, 1989
(Narrative and tabular amounts in millions of dollars except Capital Stock note)

Loblaw Companies Limited

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%. Kelly, Douglas & Company, Limited formerly an 85% owned subsidiary, became a 100% owned subsidiary June 18, 1989.

b) Cash offsetting
Cash balances for which the Company has a right of offset are used to reduce reported short term borrowings. In addition, $157.1 (1988 - $135.6) in short term investments held by the Company's United States subsidiaries is used to offset short term borrowings in Canada. The $12.9 (1988 - $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 $4.1 (1988 - $5.2). 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.

f) Goodwill
Goodwill reflects the excess of the cost of investments in subsidiaries over the fair value of the underlying net tangible assets acquired at the dates of acquisition. Goodwill is being amortized on a straight line basis determined for each acquisition over the estimated life of the benefit, to a maximum period of 40 years. The weighted average amortization period is 24.7 years.

2. Unusual Item

There are no unusual items in 1989. The unusual item of $21.5 in 1988 consists of the costs of downsizing and remerchandising combination stores in Eastern Canada.

3. Income Taxes

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

	1989	1988	1987
Combined basic Canadian federal and provincial income tax rate	44.1%	47.3%	51.8%
Lower tax rate on capital gains	(1.3)	(3.7)	(3.4)
Impact of operating in foreign countries with lower effective tax rates	(8.2)	(12.9)	(6.4)
Other (including adjustment of prior years' estimates)	.1	(.6)	(3.5)
	34.7%	30.1%	38.5%

4. Extraordinary Items

There are no extraordinary items in 1989. Extraordinary items in 1988 consist of a provision for loss on planned disposition of the substantial portion of the New Orleans division, $(16.7), net of income tax recovery of $8.6; and the gain on disposition of Peter J. Schmitt Co., Inc., $2.1, net of income tax recovery of $.2.

5. Investments (at cost)

	1989	1988	1987
Secured loans and advances	$ 30.6	$ 28.5	$ 28.0
Capital lease receivables	30.9	30.6	31.0
Investments in franchisees	43.8	32.1	48.9
Long term receivables	14.2	18.2	30.3
Sundry investments	12.1	8.1	5.4
	$131.6	$117.5	$143.6

6. Fixed Assets

	1989 Cost	1989 Accumulated Depreciation	1989 Net	1988 Cost	1988 Accumulated Depreciation	1988 Net	1987 Net
Properties held for development	$ 8.7		$ 8.7	$ 18.2		$ 18.2	$ 24.0
Land	209.5		209.5	194.0		194.0	195.7
Buildings	523.5	$ 91.7	431.8	495.0	$ 73.5	421.5	387.3
Equipment and fixtures	602.3	351.2	251.1	598.3	332.6	265.7	296.5
Leasehold improvements	144.4	64.0	80.4	138.4	60.3	78.1	83.1
	1,488.4	506.9	981.5	1,443.9	466.4	977.5	986.6
Buildings and equipment under capital leases	91.1	28.2	62.9	102.0	27.1	74.9	70.7
	$1,579.5	$535.1	$1,044.4	$1,545.9	$493.5	$1,052.4	$1,057.3

7. Long Term Debt

	1989	1988	1987
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	65.5
Term loans			
LIBOR plus 3/8% — 3/4%, due 1992 (U.S. $13.0)	15.5	15.8	17.3
Mortgages at a weighted average interest rate of 10.21%, due 1990 — 2004 (including U.S. $1.7)	13.0	14.0	20.7
Other long term debt at a weighted average interest rate of 9.73%, due 1990 — 1998	3.3	10.2	28.5
Capital lease obligations at a weighted average interest rate of 11.08%, due 1990 — 2023	83.8	93.9	95.5
	541.1	559.4	587.5
Less payable within one year	47.1	4.7	8.8
	$494.0	$554.7	$578.7

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:

1990 — $47.1; 1991 — $81.9; 1992 — $72.1;
1993 — $81.9; 1994 — $41.5.

8. Capital Stock

	Number of shares issued			Paid-up-capital (in millions of dollars)		
	1989	1988	1987	1989	1988	1987
First preferred shares						
First series	439,652	439,652	439,652	$ 22.0	$ 22.0	$ 22.0
Second series	316,660	326,010	335,012	10.4	10.8	11.1
	756,312	765,662	774,664			
Second preferred shares						
First series		300,000	300,000		30.0	30.0
Second series		250,000	250,000		25.0	25.0
Third series	3,000,000	3,000,000	3,000,000	75.0	75.0	75.0
Fourth series	120			60.0		
Fifth series	110			55.0		
	3,000,230	3,550,000	3,550,000			
Junior preferred shares	18,955	20,980	23,946	1.9	2.0	2.3
Total preferred shares				224.3	164.8	165.4
Common shares	72,255,301	72,111,000	72,427,009	108.9	108.2	108.1
Total capital stock				$333.2	$273.0	$273.5

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 1989, the Company purchased 9,350 (1988 - 9,002) of these shares for cancellation at a cost of $401,919 (1988 - $402,589). The premium of $93,369 (1988 - $105,523) on these purchases has been deducted from contributed surplus.

Second preferred shares

First series — cumulative dividend with floating rate, redeemed at $100 on December 15, 1989.

Second series — cumulative dividend with floating rate, redeemed at $100 on December 15, 1989.

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

Fourth series — cumulative dividend with a fixed rate of 7.75% to March 1, 1995 and a floating rate thereafter, redeemable at $100 on or after March 1, 1995. These shares were issued December 13, 1989 by way of a private placement.

Fifth series — cumulative dividend with a fixed rate of 7.75% to March 1, 1995 and a floating rate thereafter, redeemable at $100 on or after March 1, 1992. These shares were issued December 15, 1989 by way of a private placement.

Junior preferred shares

First series — $9.00 cumulative dividend, redeemable after June 6, 1990 at $100, 4,830 convertible into 203,368 common shares, (4,830 convertible into 203,368 common shares in 1988).

Second series — $12.00 cumulative dividend, converted into common shares in 1989 (1,500 convertible into 50,000 common shares in 1988).

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, 6,975 convertible into 186,000 common shares, (7,500 convertible into 200,000 common shares in 1988).

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, 7,150 convertible into 112,157 common shares, (7,150 convertible into 112,157 common shares in 1988).

Common shares

In 1989 the Company issued 64,000 (1988 - 80,460) common shares for a consideration of $202,500 (1988 - $296,600) on conversion of 2,025 junior preferred shares.

In 1989 the Company issued 80,301 (1988 - 231,331) common shares for cash of $484,585 (1988 - $799,600) on exercise of employee stock options.

As at December 30, 1989, there were outstanding stock options, which were granted at the market price on the day preceding the grant, to purchase 2,094,891 common shares at prices ranging from $2.375 to $11.50 with a weighted average price of $9.78. Options expire on dates ranging from June 6, 1990 to October 14, 1995, with 52,500 expiring in 1990.

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

9. Acquisitions

During 1989, the Company purchased the 15.04% minority interest of Kelly, Douglas & Company, Limited and in 1988 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:

	1989 Kelly, Douglas Minority Interest	1988 Super Carnaval and Fortino's Supermarkets
Working capital		$ (6.2)
Fixed assets	$ 7.3	34.5
Goodwill	26.6	30.2
Long term debt		(16.3)
Minority interest	42.9	
Cash consideration	$76.8	$ 42.2

10. Pensions

Current actuarial estimates indicate that the present value of accrued pension benefits is $286.4 (1988 - $258.6) and the value of pension fund assets is $295.3 (1988 - $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.

11. Other Information

a) Segmented information

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

	Canada			United States		
	1989	1988	1987	1989	1988	1987
Operating income	$ 157.0	$ 131.8	$ 152.6	$ 33.5	$ 28.4	$ 37.1
Total assets	$1,671.0	$1,605.3	$1,494.3	$368.6	$398.6	$719.2

b) Contingent liabilities and commitments

Endorsements and guarantees in the normal course of business amount to $40.1. Gross rentals under leases assigned at the time of sale of United States divisions for which the Company is contingently liable, amount to $65.1.

In addition to various claims arising in the normal course of business, there are two actions involving the rights of Class A shareholders of the Company's subsidiary, Westfair Foods Ltd. The Company initiated a petition to clarify the rights attached to the Westfair Class A and common shares and certain Westfair Class A shareholders initiated proceedings seeking dissolution of Westfair or an order requiring Westfair to purchase their shares at fair market value. The hearing has been held and a decision is pending. The eventual outcome of this litigation is not determinable. As well, 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.

Commitments for net operating lease payments total $539 ($685 gross, net of $146 of expected sub-lease income). Net payments for each of the next five years are as follows:
1990 - $62.8; 1991 - $58.2; 1992 - $54.1; 1993 - $49.7;
1994 - $40.6; thereafter to 2024 - $273.8.

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. The magnitude of these transactions and balances is not considered significant to the Company.

Ten Year Summary

Loblaw Companies Limited

Earnings Statement ($ millions)	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980
Sales — Canada	6,638	6,044	5,689	5,098	4,668	4,394	4,121	3,847	3,513	3,198
— United States	1,296	2,264	2,942	2,741	2,263	2,025	1,970	2,374	2,282	2,177
Total	7,934	8,308	8,631	7,839	6,931	6,419	6,091	6,221	5,795	5,375
Trading profit*	291	258	290	249	225	205	190	173	166	147
Operating income	191	160	190	163	152	138	128	115	113	99
Depreciation	100	98	100	86	73	67	62	58	53	48
Interest	80	74	64	45	36	29	26	26	29	26
Income taxes	39	19	48	39	44	44	46	39	37	34
Minority interest	2	4	4	5	4	3	4	4	6	5
Earnings before extraordinary items	70	41	74	74	67	61	52	45	41	34
Extraordinary items		(15)				3	1	(6)	12	12
Net earnings	70	26	74	74	67	64	53	39	53	46
Per Common Share (dollars)										
Earnings before extraordinary items	.80	.41	.87	.91	.85	.77	.66	.54	.49	.41
Net earnings	.80	.21	.87	.91	.85	.81	.66	.46	.66	.60
Dividends — declared	.20	.20	.195	.175	.155	.135	.118	.105	.085	.068
— year end rate	.20	.20	.20	.18	.16	.14	.12	.11	.09	.07
Return on Sales (percent)										
Operating income	2.4	1.9	2.2	2.1	2.2	2.1	2.1	1.9	1.9	1.8
Earnings before income taxes	1.4	.8	1.5	1.5	1.7	1.7	1.7	1.4	1.4	1.4
Earnings before extraordinary items	.9	.5	.9	.9	1.0	1.0	.9	.7	.7	.6
Earnings Ratios** (percent)										
Return on common equity	11.7	5.9	12.5	14.6	15.6	16.3	16.3	15.3	16.3	16.9
Return on capital employed	13.8	11.2	13.6	14.3	17.0	18.1	18.6	17.5	18.0	17.3

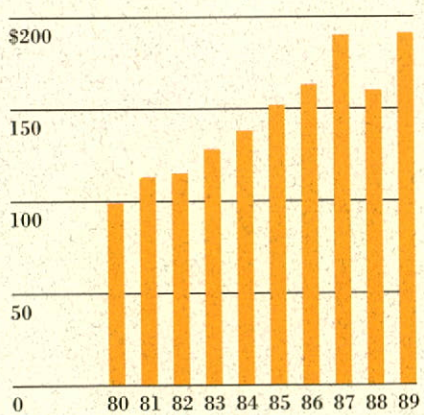
*Trading profit is defined as operating income before depreciation.

**Earnings ratios have been computed as follows:

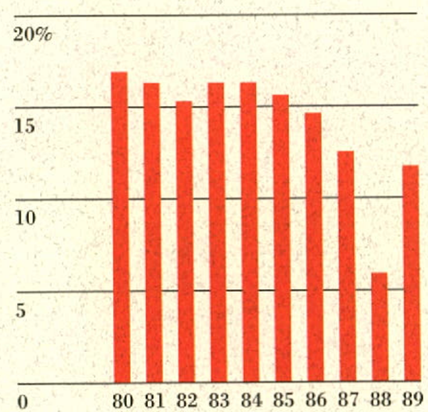
Return on common equity -
Earnings before extraordinary items less preferred dividends divided by average common share capital, retained earnings, equity from foreign currency translation and the applicable portion of contributed surplus.

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

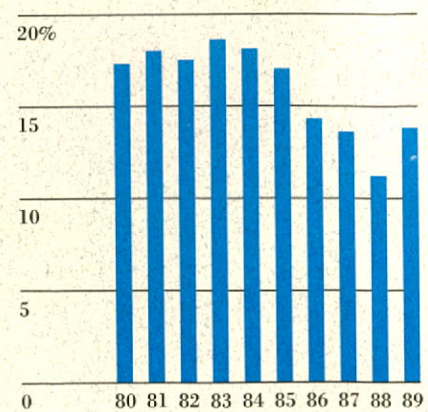
Operating Income
(in millions)



Return on Common Equity

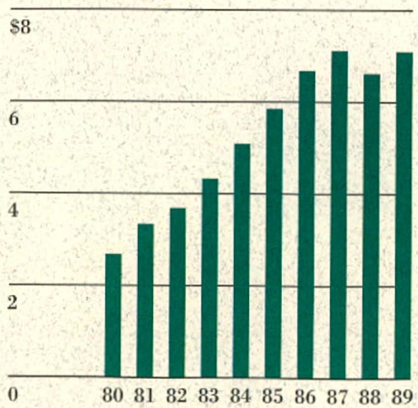


Return on Capital Employed

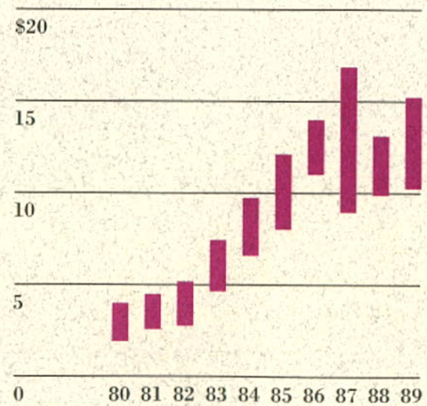


Financial Position ($ millions)	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980
Current assets	761	765	983	940	753	624	581	575	531	491
Current liabilities	727	684	843	739	627	495	470	479	433	401
Working capital	34	81	140	201	126	129	111	96	98	90
Fixed assets (net)	1,044	1,052	1,057	932	688	577	508	494	459	428
Total assets	2,040	2,004	2,214	1,978	1,530	1,264	1,151	1,111	1,034	962
Long term debt	541	559	588	518	342	251	219	226	193	191
Total debt	549	623	686	569	390	283	233	253	220	231
Retained earnings	434	390	396	348	295	245	198	159	134	95
Shareholders' equity	746	651	690	655	521	466	413	344	317	277
Average capital employed	1,379	1,433	1,393	1,141	893	761	692	657	628	572
Changes in Financial Position ($ millions)										
Cash flow from operations	259	158	182	204	132	60	117	110	123	99
Purchase of fixed assets	166	192	248	290	193	150	104	72	99	141
Per Common Share (dollars)										
Cash flow from operations	3.59	2.19	2.54	2.86	1.85	.84	1.65	1.55	1.80	1.56
Book value	7.10	6.62	7.12	6.68	5.85	5.09	4.33	3.69	3.34	2.68
Price range — high	15.25	13.13	16.88	14.00	12.13	9.75	7.44	5.19	4.50	4.00
— low	10.25	9.88	9.00	11.00	8.00	6.57	4.63	2.75	2.57	1.90
Financial Ratios (xx:1)										
Working capital	1.05	1.12	1.17	1.27	1.20	1.26	1.24	1.20	1.23	1.22
Total debt to equity	.74	.96	.99	.87	.75	.61	.56	.74	.70	.83
Cash flow from operations to long term debt	.48	.28	.31	.39	.39	.24	.53	.49	.64	.52
Interest coverage on total debt	2.39	2.16	3.00	3.62	4.17	4.72	4.86	4.35	3.80	3.83

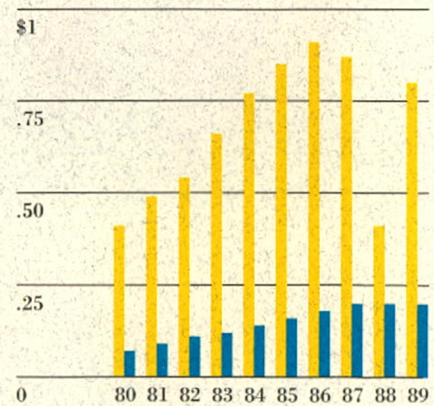
Book Value per Share
(in dollars)



Price Range per Share
(in dollars)



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



Earnings before Extraordinary Items per Share
Dividends per Share

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

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

Fortino's Supermarkets Ltd.
(Hamilton, Ontario)
John Fortino
President

Hasty Market Inc.
(Toronto, Ontario)
Neil M. Walker
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 Inc.
(Cambridge, Ontario)
Grant J. Heimpel
President

Westfair Foods Ltd.
(Calgary, Alberta)
Raymond J. Addington
Chairman

Serge K. Darkazanli
President

The average age and years of service of the Officers and operating Presidents are 47 and 16 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
Peat Marwick Thorne
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, 1990, 11:00 a.m.
Harbour Castle Westin
Metropolitan East Room
1 Harbour Square
Toronto, Ontario

Design: Arnold Saks Associates
Typesetting: AD•X Communications Inc.
Printing: Norgraphics (Canada)Ltd.