

**Loblaw
Companies
Limited**

**Annual
Report
1975**

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1975

Loblaw
Companies

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Loblaw Companies is a Canadian holding company controlling major interests in food retailing and wholesaling in Canada and the United States. With annual sales of \$4 billion, the Loblaw group of companies is one of the largest food distributors in North America. In addition to its food-related operations, Loblaw, through its subsidiaries, also participates in the Canadian retail drug and general merchandise industries.



W. Galen Weston
in a newly remodelled
Loblaw store in Toronto

Report to Shareholders

1975 Results

The highlights of Loblaw Companies' activities in 1975 include:

- A number of important corporate structural changes
- A major sales increase from newly consolidated subsidiaries and sustained growth from continued operations
- A substantial increase in pre-tax profits that was more than offset by an unfavourable consolidated effective tax rate for the group
- A program that will stem future non-food losses.

Corporate Changes

Some of the more important changes include:

1. The acquisition during the year from George Weston Limited of the 81 percent controlling interest of Kelly, Douglas & Company, Limited. This transaction provides a strong source of earnings at a time of rebuilding in other group operations, notably those in the United States.
2. The purchase late in 1975 of 100 percent of the shares of Peter J. Schmitt Co., Inc., a wholesale company in Buffalo. Upon completion of the purchase of Peter J. Schmitt, Loblaw Companies owned all of the food retailing and wholesaling companies in the Weston Group.
3. The successful tender offers for minority interests in subsidiaries where further restructuring was considered essential, namely, National Tea and Loblaw Inc. in the United States, and Tamblin and Sayvette in Canada. These tender offers, with the purchase of Kelly Douglas and Peter J. Schmitt from Weston for Loblaw shares, materially strengthens your company's balance sheet and financial capabilities.

Sales

Sales of Loblaw Companies increased from \$3 billion to \$4 billion in 1975 as a result of acquisitions and the sustained growth of continuing operations. Increased sales of \$654 million were attributable to acquisitions while previously consolidated subsidiaries showed an overall increase in sales of 9 percent.

Income

While sales in 1975 increased overall by 30 percent, income from merged and continuing operations before income taxes and minority interests increased over 80 percent from \$10.4 million to \$19.0 million.

The \$19.0 million operating profit is, of course, net of operating losses from certain subsidiaries. However, due to the structure of income tax law in both Canada and the United States it was not possible to offset all such losses against income. As a result, income taxes on profitable operations increased from \$8.3 million to \$15.9 million. The net result is that, despite an 80 percent increase in pre-tax income, after-tax income showed little change on a consolidated basis.

A program of further rationalization will be carried out in 1976 which should, over time, result in a more normal tax rate for the Loblaw group of companies.

Non-Food Losses

In last year's annual report, management set out its determination to stem the losses in the 11-unit Sayvette discount store operation. As a result, six stores were closed in 1975 at a total non-recurring cost of \$9.4 million (\$2.5 operating loss and \$6.9 closure cost). This action will enable the remaining four stores to operate at close to breakeven in 1976.

Outlook for 1976

Results during the first half of 1976 will be disappointing primarily as a result of three factors:

1. Continued price competition in major market areas in the United States

2. Consolidation of the distribution and administrative functions in Peter J. Schmitt and Loblaw Inc. with all of the attendant consolidation expenses and temporary disruption of operations.
3. Increased price competition in Canada, as retailers see reduced sales increases (primarily from lower inflationary rates) at a time when expenses continue to rise.

However, it is anticipated that during the latter part of 1976 more positive trends in profitability will be evidenced as both our external and internal environment improves.

- Externally, North American food retailers are coming to the realization that it is no longer possible or advantageous to cover increased costs by buying extra volume.

Excessive price competition in 1975 did not result in significant changes in market shares because food retailers realized that they could no longer afford to let a competitor have a meaningful price advantage. In this type of environment, the only result of reduced gross margins is dangerously low earnings levels for everyone concerned.

We anticipate that excessive price competition will be less prevalent in 1976 as our competitors realize that future market share increases will have to be earned, not bought.

- Internally, we expect that during the latter part of 1976 more positive trends in profitability will be evidenced as the benefits of the consolidations which took place in 1975 and early 1976 become evident.

W. Galen Weston
President and Chief Executive Officer



Meat department in one of Kelly Douglas' Super-Valu stores located in Prince

Canadian Operations

In 1975 Loblaw Companies' sales in Canada were \$2,000 million as compared to \$1,208 million in 1974. While there was substantial internal growth, the greater part of the increase resulted from the purchase of Kelly, Douglas & Company, Limited in April 1975 from George Weston Limited.

Canadian operations now comprise:

- Kelly Douglas in Western Canada with food and drug wholesale and retail operations plus food manufacturing and sales facilities.
- A retail distribution group in Eastern Canada, namely
 - The supermarket operations of Loblaw's Limited and Zehr's in Ontario and Dionne in Quebec
 - The food wholesaling operations of National Grocers in Ontario and Atlantic Wholesalers in the Maritimes
 - The non-food retailing operations of Tamblin (drug) and Sayvette (four remaining discount stores).

Kelly Douglas and its subsidiaries, with operations extending across Western Canada, enjoyed a highly successful year in 1975 as sales and earnings improved in all divisions. The acquisition of this company was a major element in the overall strengthening of Loblaw Companies and in the rationalization of its activities throughout Canada.

Consolidated net 1975 sales for Kelly Douglas (including \$260 million from Westfair Foods acquired from George Weston Limited in April 1975) amounted to \$814 million for the full year (\$632 million for the period in which results were consolidated in Loblaw's), as compared to \$486 million in 1974. This sales increase was achieved notwithstanding the severely adverse effect of a 5-week strike which closed retail food outlets in Vancouver during September and October. In addition, the company also had to cope with a 3-month price freeze imposed by the British Columbia government in October.

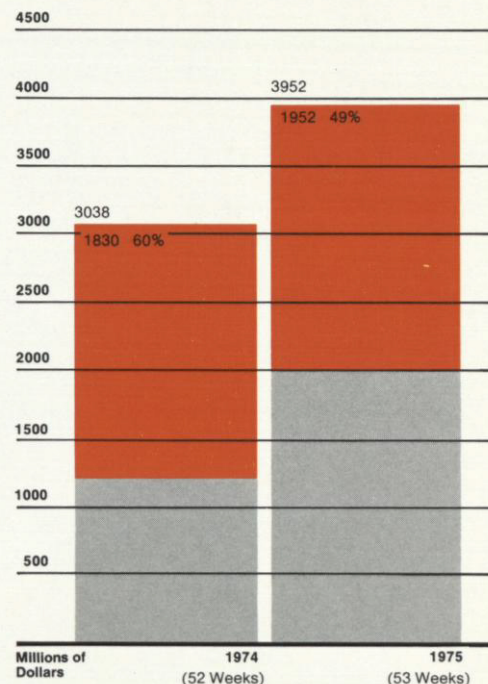
In 1975 Kelly Douglas acquired the 18 Little John Discount drug stores in British Columbia and disposed of its Campco catering operations in Alaska and the Cloverdale paint operations in British Columbia and Alberta. In March of 1976, Kelly Douglas announced its intention to enter the food distribution field in the United States through the acquisition

from National Tea Co. of its wholesale distribution facilities in Denver, Colorado, and the operation of National's retail stores in Colorado pending sale to franchisees or ultimate purchase. Also, in March 1976 Kelly, Douglas agreed to sell, subject to approval of the Canadian Foreign Investment Review Agency, the Nabob Foods operation to Jacobs A.G. of Zurich, Switzerland. Jacobs is a leading company in the field of roasted and instant coffees in Europe. These moves will enable Kelly Douglas to concentrate more fully on its major interest — the distribution of food and drug products — and to begin further expansion in food wholesaling and retail distribution in the important Western markets (including Western areas of the United States) served by your company.

The food retailing operations in Eastern Canada showed a very marked increase in sales — from \$686 million to \$796 million, and a proportionate improvement in earnings. Food wholesaling operations in Eastern Canada continued their strong growth pattern in sales and maintained a satisfactory level of earnings.

During the year the minority interests of both Tamblin and Sayvette were acquired, in order to facilitate further group restructuring, and to eliminate unprofitable segments in those companies. While the Tamblin drug operations for the year were disappointing, management is making continuing efforts to restore acceptable gross profit margins and regain normal profitability. Despite the problems encountered in 1975, we consider the long run potential for the Tamblin operation very favourable for your company.

During the third quarter the major part of the Sayvette operations was discontinued. Although substantial closing costs were incurred, management believes that the action taken was in the best interests of your company. The now substantially reduced operation (four stores operated as a division without duplication of central overhead) will not materially detract from future earnings and should allow the company to benefit from continuity and experience in the related development of new approaches to retailing on a broader basis, specifically where this can be done in relationship to retail food distribution.



Division & Consolidated Sales

Principal Subsidiaries

- Loblaw's Limited
- Atlantic Wholesalers Limited
- National Grocers Company, Limited
- Zehrmart Limited
- Sayvette Division
- Zehrs Markets Division
- G. Tamblin, Limited
- Dionne Limited
- Kelly, Douglas & Company, Limited
- Nabob Foods Limited
- Super Valu Stores (B.C.) Division
- Cal-Van, Canus Catering Services Ltd.
- Isaacs Pharmacy Ltd.
- Dickson's Food Services Ltd.
- Foremost Foods Ltd.
- W. H. Malkin Ltd.
- Westfair Foods Ltd.
- Western Grocers
- Dominion Fruit
- O.K. Economy Stores
- Shelly Brothers
- Econo-Mart
- Loblaw West

Facilities

Warehouses in strategic centres with about 400 supermarkets and 165 retail drug stores across Canada and 4 department stores in Ontario. Food manufacturing plants in Burnaby, British Columbia and Ajax, Ontario.

Products & Services

Wholesale and retail marketing of food, drug and other products throughout Canada, catering and restaurant servicing in Western Canada, department store operations in Ontario and food manufacturing for distribution in Canada and United States.



Wholesale grocery warehouse
operated by Atlantic Wholesalers



Faces, a new cosmetics merchandising program being tested in a Tamblyn



A new National Tea supermarket
located in St. Louis, Missouri

United States Operations

In 1975 Loblaw's moved to consolidate its position as a major food distributor in the United States, and to establish this market, which now contributes roughly half of the company's total sales, as the prime area for our future growth. Net sales of U.S. operations in 1975 were \$1,953 million as compared to \$1,830 million in 1974 — an increase of 6.7 percent.

During the year the company acquired 100 percent of its Loblaw Inc. retailing subsidiary operating primarily in upper New York State, through a tender offer for the outstanding minority interest; and in the last quarter, Loblaw's acquired 100 percent of the Peter J. Schmitt wholesaling business in the same market area. A tender offer earlier in the year resulted in an increase in the percentage ownership of National Tea to just under 80 percent, while a further share subscription at year-end brought this holding to 84 percent.

In association with these changes, efforts were intensified during the year to re-establish our U.S. operations on a sound and profitable basis.

At National Tea, the major factor contributing to the adverse results is the depressed gross margins in the Chicago area which has persisted since early 1975 while costs have continued to rise. The New Orleans, Minneapolis, St. Louis and Indianapolis divisions, however, performed well during the year with rates of earnings consistent with industry levels.

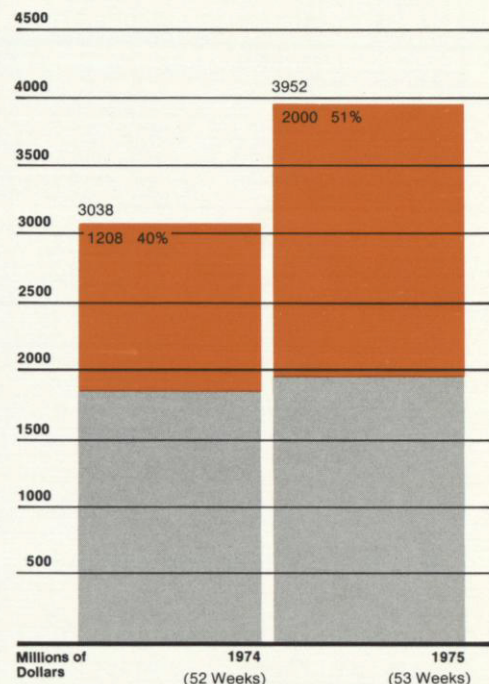
The modernization and construction program continued during 1975 with eight new stores added, four enlarged and many others remodelled. This process of rebuilding and restructuring will continue in 1976 so that National Tea will emerge in 1977 and 1978 with larger, more efficient and well-positioned stores producing a much greater volume and profit contribution per unit.

National Tea's equity base was improved at the end of the year by the subscription of an additional \$15 million in share capital by Loblaw's. This amount plus inter-company loan financing enabled National Tea to pre-pay its major bank term loan, reduce its total term debt by \$15 million and defer the maturities of some \$27 million of long term debt which had been scheduled for repayment in the next three years. (Long term debt maturities for Loblaw's on a consolidated basis were extended correspondingly by new debt financing obtained during the year.)

In March, 1976, National Tea agreed to sell its distribution facility and real estate in Denver, Colorado, to Kelly, Douglas & Company, Limited, which also agreed to operate the 33 National stores in Denver area until arrangements can be made over a period of time to franchise the stores. The sale will enable National to further concentrate its efforts and capital in its major marketing areas in central United States and, as noted elsewhere, will provide Kelly, Douglas with a base for future expansion of wholesale operations into the Western U.S. market.

A program was begun in the latter part of the year to consolidate the Western New York operations of Loblaw Inc. and Peter J. Schmitt, following acquisition of the latter from Westons. This program will continue in 1976 as we build a solid base for future profitability in our wholesale/retail operations in the important New York State market. In addition, during 1976 a major program will be completed to reduce our exposure in the relatively small California market.

A return to overall profitability for Loblaw Companies' U.S. operations depends in the short term upon a return to gross margin stability in the Chicago market, as well as the speed at which the consolidation of Peter J. Schmitt and Loblaw Inc. can be fully implemented. Although the above two divisions are experiencing short-term profit disruptions, our other U.S. divisions continued to show steady profit growth in 1975. As a result, we remain confident about the long-term outlook for our U.S. operations.



Division & Consolidated Sales

Principal Subsidiaries

National Tea Co.
Loblaw Inc.
Old State Foods, Inc.
Peter J. Schmitt Co., Inc.

Facilities

Approximately 600 supermarkets located primarily in central United States with warehouses in major centres.

Products & Services

Wholesale and retail distribution of food, drug and other products in central United States and California.

Consolidated Financial Statements

Consolidated Statement of Income

Consolidated Balance Sheet

Consolidated Statement of Retained Earnings

Consolidated Statement of Changes in Financial Position

Notes to Consolidated Financial Statements

Auditors' Report

Consolidated Statement of Income

Loblaw Companies Limited
53 weeks ended January 3, 1976
and 52 weeks ended December 28, 1974
(in thousands of dollars)

	1975	1974
Sales and other income		
Sales	\$3,952,268	\$3,038,026
Investment income	2,854	2,189
	3,955,122	3,040,215
Costs and expenses		
Cost of sales, selling and administrative expenses before the following items	3,818,665	2,937,619
Rentals on long-term leases net of deferred real estate income amortization	65,349	47,016
Depreciation	32,354	25,293
Interest on long-term debt	11,445	11,864
Other interest	8,315	8,067
	3,936,128	3,029,859
Income from continuing operations before income taxes and minority interest	18,994	10,356
Income taxes (note 2)	15,865	8,297
	3,129	2,059
Minority interest	482	(748)
Income from continuing operations	2,647	2,807
Loss from discontinued operations (note 3)	2,485	1,757
Income before extraordinary items	162	1,050
Extraordinary items (note 4)	(6,120)	2,979
Net income (loss) for the period	\$ (5,958)	\$ 4,029
Per class A and class B share		
Income from continuing operations	\$.08	\$.16
Loss from discontinued operations	\$.13	\$.16
Extraordinary items	\$ (.31)	\$.26
Net income (loss) for the period	\$ (.36)	\$.26

Consolidated Balance Sheet

Loblaw Companies Limited
(Incorporated under the laws of Canada)
as at January 3, 1976 and December 28, 1974
(in thousands of dollars)

Assets	1975	1974
Current assets		
Cash and short-term investments	\$ 21,619	\$ 43,205
Accounts receivable (note 5)	80,514	44,075
Income taxes recoverable		3,243
Properties held for sale, at the lower of cost and net realizable value	8,007	4,006
Inventories	320,529	254,203
Prepaid expenses	13,085	10,026
	443,754	358,758
Investments (note 6)	14,441	9,576
Fixed assets (note 7)	244,057	196,958
Deferred items and intangibles		
Goodwill arising on consolidation of subsidiaries, less amortization	21,255	26,286
Deferred foreign exchange adjustment	4,571	3,980
Other deferred charges	2,630	2,041
	28,456	32,307
	\$730,708	\$597,599

Approved by the Board

W. Galen Weston, Director

George C. Metcalf, Director

Liabilities	1975	1974
Current liabilities		
Bank advances and notes payable (note 8)	\$ 73,641	\$ 53,404
Demand loans from affiliated companies	18,442	18,494
Accounts payable and accrued liabilities (note 9)	257,010	203,309
Taxes payable	15,227	15,621
Dividends payable		1,072
Long-term debt payable within one year (note 10)	7,560	12,247
	371,880	304,147
Long-term debt (note 10)	135,392	108,156
Other liabilities (note 11)	6,494	5,870
Deferred income taxes	8,288	7,027
Deferred real estate income	19,799	19,192
	541,853	444,392
Minority interest in subsidiaries	62,963	77,454
Shareholders' Equity		
Capital stock (note 12)	117,427	52,884
Retained earnings	8,465	22,869
	125,892	75,753
	\$730,708	\$597,599

Consolidated Statement of Retained Earnings

Loblaw Companies Limited
53 weeks ended January 3, 1976
and 52 weeks ended December 28, 1974
(in thousands of dollars)

	1975	1974
Retained earnings at beginning of period	\$22,869	\$24,185
Net income (loss) for the period	(5,958)	4,029
	16,911	28,214
Dividends declared		
Preferred shares (\$2.40 per share)	1,055	1,055
Class A shares (\$.38 per share)	3,166	1,263
Class B shares (\$.38 per share)	4,225	3,027
	8,446	5,345
Retained earnings at end of period	\$ 8,465	\$22,869

Consolidated Statement of Changes in Financial Position

Loblaw Companies Limited
53 weeks ended January 3, 1976
and 52 weeks ended December 28, 1974
(in thousands of dollars)

	1975	1974
Working capital derived from		
Operations		
Income before extraordinary items	\$ 162	\$ 1,050
Add (deduct)		
Depreciation	32,486	25,533
Gain on sale of fixed assets	(3,299)	(1,514)
Deferred income taxes	145	4,425
Tax effect of loss carry forward	934	374
Amortization of deferred real estate income and capitalized lease obligations	(981)	(726)
Minority interest	463	(1,619)
Other	229	105
	30,139	27,628
Class A and Class B shares issued and to be issued	64,543	
Increase in long-term debt and other liabilities	51,228	4,389
Proceeds from sale of fixed assets	21,340	15,660
Net reduction in investments	2,367	1,566
Other items	159	441
	169,776	49,684
Working capital applied to		
Purchase of fixed assets	46,763	48,001
Reduction in long-term debt and other liabilities	45,674	17,428
Purchase of minority interest	25,343	1,340
Acquisition of subsidiary companies (net of working capital acquired of \$47,943,000) (note 1b)	18,944	
Dividends	8,446	5,345
Dividends to minority shareholders in subsidiary companies	1,842	1,944
Sayvette leasehold termination, store operations and other related costs during close-down periods	5,501	
	152,513	74,058
Increase (decrease) in working capital	17,263	(24,374)
Working capital at beginning of period	54,611	78,985
Working capital at end of period	\$ 71,874	\$ 54,611

Notes to Consolidated Financial Statements

Loblaw Companies Limited
January 3, 1976

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 which are not substantially 100% owned by the Loblaw group is as follows:

Atlantic Wholesalers, Limited	87%
Kelly, Douglas & Company, Limited	81%
National Tea Co. (U.S.)	83%

(b) Acquisitions

During the year the Company and its subsidiaries acquired four businesses primarily in the wholesale and retail food distribution field. The principal acquisitions were the interest formerly held by George Weston Limited in Kelly, Douglas & Company, Limited (acquired April 19), and in Old State Foods, Inc. (U.S.) (acquired October 4). These transactions were accounted for as purchases, with the operating results of the acquired businesses included in the consolidated statement of income from the effective dates of acquisition.

The acquisition equation based on unaudited financial statements at dates of acquisition is set out below:

	(in thousands of dollars)
Net assets acquired at fair value	
Current assets	\$129,861
Fixed assets	52,333
Investments and deferred items	8,903
	<u>191,097</u>
Current liabilities	81,918
Long-term debt	20,428
Other liabilities	939
Deferred income taxes	3,934
Minority interest	16,991
	<u>124,210</u>
Net assets acquired	<u>\$ 66,887</u>
Consideration	
Shares issued and to be issued	
Class A and Class B	\$ 64,543
Cash	2,344
	<u>\$ 66,887</u>

In addition, the Company acquired minority interest in certain subsidiaries, primarily, some of the minority interest in National Tea Co., all of the minority interest in Loblaw Inc. (U.S.), Sayvette Limited and G. Tamblin, Limited for \$25,343,000 and acquired common shares issued by National Tea Co.

(c) Amortization of goodwill arising on consolidation of subsidiaries

In 1974 and subsequent years, the Company has adopted the policy of amortizing, over periods not exceeding twenty years, the excess of the cost of investments in subsidiaries over the estimated fair value of their net assets at the dates of acquisition.

With respect to subsidiaries acquired prior to 1974, the excess of the cost of investments in certain subsidiaries over values attributed to their net tangible assets has been written-off and charged to retained earnings. The excess cost, representing goodwill in other subsidiaries, primarily National Tea Co., is recorded as an asset and is not being amortized. The excess of values attributed to the net assets of National Tea Co. over the cost of the further investment made in 1975, has been applied to goodwill.

Total amortization for 1975 is \$164,000 and is included in "Cost of sales, selling and administrative expenses".

(d) 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.

(e) Deferred foreign exchange adjustment

All U.S. balances have been translated at a rate approximating the current rate. The net difference on the translation of the Company's equity in U.S. subsidiaries and the long-term debt payable in U.S. funds by its Canadian subsidiaries has been deferred until realized and is shown on the balance sheet as "Deferred foreign exchange adjustment".

(f) Fixed assets

Depreciation is recorded principally on a straight-line basis to amortize the cost of fixed assets over their estimated useful lives. The depreciation rates are substantially as follows:

Buildings	2½%
Automotive equipment	20% to 25%
Equipment and fixtures	6½% to 10%
Leasehold improvements	Lesser of useful life or term of lease

When fixed assets are sold or scrapped, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss on disposal is included in income, except that National Tea Co. and Loblaw Inc. apply the gain or loss on normal dispositions of equipment and fixtures to accumulated depreciation.

(g) Deferred real estate income

The profits realized on the sale and leaseback of property have been deferred and are being amortized over various periods, mainly twenty-five years, according to the term of the respective leases.

(h) Discontinued operations

These operations have been accounted for separately from continuing operations as disclosed in note 3.

2. Income Taxes

(a) Income tax expense has not been reduced by the tax effect of current accounting losses in certain subsidiary companies. Income tax expense otherwise would have been reduced as follows: from continuing operations by \$7,300,000 (1974, \$4,100,000); from discontinued operations by \$1,350,000 (1974, \$1,400,000); and from extraordinary items by \$3,500,000 (1974, nil).

(b) A summary of accounting losses, the tax effects of which have not been recorded in the accounts, is as follows at January 3, 1976:

Losses which may be carried forward on a tax filing basis:

	United States subsidiaries (in thousands of dollars)	Canadian subsidiaries (in thousands of dollars)
Latest year available for deduction		
1976	\$ 760	
1977	13,501	\$ 749
1978	12,889	3,770
1979	4,870	7,259
1980	10,152	7,254
	<u>42,172</u>	<u>19,032</u>
Expenses recorded for book purposes not yet claimed for tax purposes:		
Depreciation	6,895	4,736
Other	10,641	1,226
Accounting losses, the tax effects of which have not been recognized in the financial statements	<u>\$59,708</u>	<u>\$24,994</u>
The Company's effective interest therein	<u>\$50,938</u>	<u>\$24,533</u>

(c) United States subsidiaries have unused investment tax credits available to reduce future income taxes payable as follows at January 3, 1976:

Latest year available for deduction	
1978	\$ 233
1979	696
1980	556
1981	1,178
1982	1,422
1983	157
	<u>\$ 4,242</u>
The Company's effective interest therein	<u>\$ 3,604</u>

3. Discontinued Operations

During the year the Company's subsidiary, Sayvette Limited, discontinued the major part of its operations. Six stores were closed in 1975 and closure of a seventh was announced in January, 1976.

The 1975 results of operations of these stores to the commencement of the close-down period or year end, if earlier, have been reflected in the consolidated statement of income as loss from discontinued operations. Losses from operations during the close-down periods and other costs of discontinuance have been disclosed separately as extraordinary items (note 4).

Sales, costs and expenses, and minority interest shown in the consolidated statement of income for the fifty-two weeks ended December 28, 1974 have been restated to provide separate disclosure of the comparative results of discontinued operations.

4. Extraordinary Items

	53 weeks ended January 3, 1976	52 weeks ended December 28, 1974
	(in thousands of dollars)	
Income tax reductions realized on application of prior years' losses	\$ 934	\$ 374
Gain on sale of G. Tamblyn, Limited head office and warehousing facility Sayvette Limited		4,367
Leasehold termination costs	(2,943)	
Store operations and other related costs during close-down periods	(2,581)	
Loss on disposal of fixed assets	<u>(1,447)</u>	
	<u>(6,971)</u>	
Minority interest	(83)	(1,762)
	<u>\$ (6,120)</u>	<u>\$ 2,979</u>

5. Accounts Receivable

	1975	1974
	(in thousands of dollars)	
Trade	\$47,631	\$23,380
Affiliated companies	3,158	2,904
Other	25,909	17,628
Loans, advances and non-current receivables due within one year	3,816	163
	<u>\$80,514</u>	<u>\$44,075</u>

6. Investments, at cost

	1975	1974
	(in thousands of dollars)	
Secured loans and advances	\$ 8,929	\$5,077
Sundry investments	3,785	1,842
Non-current receivables	1,727	2,657
	<u>\$14,441</u>	<u>\$9,576</u>

Sundry investments do not have quoted market values and realizable value is estimated to approximate cost.

7. Fixed Assets, at cost

	1975	1974
	(in thousands of dollars)	
Land	\$ 16,211	\$ 10,916
Buildings	53,479	28,016
Equipment and fixtures	318,232	266,850
Leasehold improvements	83,840	55,217
	<u>471,762</u>	<u>360,999</u>
Accumulated depreciation	<u>227,705</u>	<u>164,041</u>
	<u>\$244,057</u>	<u>\$196,958</u>

8. Bank Advances and Notes Payable

Bank indebtedness of a subsidiary company of approximately \$9,295,000 is secured by a pledge of accounts receivable.

9. Accounts Payable and Accrued Liabilities

	1975	1974
	(in thousands of dollars)	
Trade	\$193,322	\$148,570
Affiliated companies	7,753	7,838
Other	55,935	46,901
	<u>\$257,010</u>	<u>\$203,309</u>

10. Long-Term Debt

	Maturity	Payable within one year	Total	
			1975	1974
			(in thousands of dollars)	
Loblaw Companies Limited				
Bank loan bearing interest at 1% above the bank's prime rate secured by a pledge of 3,000,000 shares of National Tea Co.	1980	\$ 1,000	\$ 17,000	\$ 18,000
8¼% Notes payable	1976	1,950	1,950	1,950
		<u>2,950</u>	<u>18,950</u>	<u>19,950</u>
Loblaws Limited				
Bank loan bearing interest at 1% above the bank's prime rate	1977		15,000	15,000
Sinking Fund Debentures				
4% Series C	1975			2,880
4¾% Series D	1976	198	198	200
6% Series E	1977	278	2,198	2,530
5¾% Series F	1981	394	4,394	4,768
6¾% Series G	1991	25	6,025	6,428
6¾% Series H	1991		6,324	6,738
Mortgages payable	1976-1994	513	1,865	2,623
		<u>1,408</u>	<u>36,004</u>	<u>41,167</u>
Glenmaple Overseas N.V.				
Bank loan bearing interest at 1¾% above the London Interbank offered rate (U.S. \$20,000,000)	1980		20,619	
Kelly, Douglas & Company, Limited and subsidiaries				
Sinking Fund Debentures				
6% Series A	1977	76	1,176	
8¾% 1973 Series	1993		11,475	
Bank loan bearing interest at 1% above the bank's prime rate	1979	500	5,750	
Notes, mortgages and other long-term debt	1976-1991	235	1,590	
		<u>811</u>	<u>19,991</u>	
Loblaw Inc.				
Bank loan bearing interest at 120% of the bank's prime rate plus ½% (U.S. \$30,000,000)	1983		30,928	
Notes, mortgages and other long-term debt (U.S. \$134,000)	1976-1984	56	138	30
		<u>56</u>	<u>31,066</u>	<u>30</u>

	Maturity	Payable within one year	Total	
			1975	1974
			(in thousands of dollars)	
National Tea Co. and subsidiaries				
5% Sinking Fund Debentures (U.S. \$2,984,000)	1977	\$ 107	\$ 3,076	\$ 3,547
3½% Subordinated Debentures (U.S. \$2,313,000)	1980		2,385	2,385
Bank term loan bearing interest at ½% above the bank's prime rate				40,207
Equipment purchase obligations bearing interest at ½% to ¾% above the bank's prime rate	1976-1978	1,169	1,808	3,363
Instalment mortgage notes (U.S. \$386,000)	1976-1985	30	398	300
		<u>1,306</u>	<u>7,667</u>	<u>49,802</u>
Other				
Notes, mortgages and other long-term debt, with a weighted average interest rate of 9.2% (including U.S. \$1,641,000)	1976-1992	1,029	8,655	9,454
		<u>\$7,560</u>	<u>142,952</u>	<u>120,403</u>
Less payable within one year			7,560	12,247
Long-term debt			<u>\$135,392</u>	<u>\$108,156</u>

At March 8, 1976 the Canadian bank's prime rate was 9¾%, the U.S. bank's prime rate was 6¾%, and the London Interbank offered rate was 5 11/16%.

The restrictions, which included the prohibition of dividend payments, applicable to National Tea Co. pursuant to its bank term loan at December 28, 1974 have been removed in 1975 on retirement of the debt.

Principal payable in the next five years on the long-term debt of the Company and its subsidiaries is:

1976	\$ 7,560,000	1979	\$25,960,000
1977	25,788,000	1980	28,294,000
1978	14,315,000		

11. Other Liabilities

	1975	1974
	(in thousands of dollars)	
Capitalized lease obligations	\$2,999	\$2,821
Deferred employee compensation	1,057	940
Provision for future net obligations on closed operations	1,098	2,109
Provision for self insurance	1,340	
	<u>\$6,494</u>	<u>\$5,870</u>

12. Capital Stock

Authorized	
1,000,000	Preferred shares having a par value of \$50 each, issuable in series

15,000,000	(1974, 10,000,000) Class A shares without par value		
17,000,000	(1974, 12,000,000) Class B shares without par value		
		1975	1974
		(in thousands of dollars)	
Issued			
439,652	\$2.40 Cumulative redeemable preferred shares	\$ 21,982	\$21,982
10,000,000	(1974, 3,323,499) Class A shares	88,448	30,902
12,169,054	(1974, 7,964,684) Class B shares	110,430	52,884
To be issued			
786,236	Class A shares	6,997	
786,236	Class B shares		
		<u>\$117,427</u>	<u>\$52,884</u>

In 1975 the Company issued 6,676,501 Class A and 4,204,370 Class B shares at an aggregate value of \$57,546,000 in exchange for the interest of George Weston Limited in Kelly, Douglas & Company, Limited.

The Company has agreed, subject to shareholder approval, to issue 786,236 Class A shares and 786,236 Class B shares at an aggregate value of \$6,997,000 in exchange for the interest of George Weston Limited in Old State Foods, Inc.

The Class A shares carry a non-cumulative preferential dividend of 6¼¢ per share per annum after payment of dividends on the preferred shares and participate equally with Class B shares after payment of 6¼¢ per share on the latter. The \$2.40 cumulative preferred shares are redeemable at \$50 per share.

An option has been granted on 100,000 Class B shares at \$5.50 per share expiring not later than December 17, 1981. The exercise of this option would not materially dilute earnings per share.

13. Commitments and Contingent Liabilities

(a) The Company and its subsidiaries have obligations under long-term leases for retail outlets, warehousing facilities, equipment and store fixtures. The aggregate minimum rentals (exclusive of additional rents based on sales, realty taxes and other charges) under leases with an initial term greater than five years are as follows for each of the periods shown:

For the year:	(in thousands of dollars)
1976	\$ 61,926
1977	60,601
1978	57,988
1979	55,550
1980	52,817
For the five years ending:	
1985	198,618
1990	129,977
1995	74,969
2000	22,011
Thereafter to 2023	5,064
	<u>\$719,521</u>

(b) Endorsements and guarantees amount to \$6,180,000.

(c) The present value of the unfunded past service pension liability is estimated to be \$13,113,000 at January 3, 1976 and is to be amortized over various periods not exceeding seventeen years.

14. Anti-Inflation Legislation

The Company and its Canadian subsidiaries are subject to Anti-Inflation legislation of the federal government from October 14, 1975. This legislation provides for restraint with respect to prices, profit margins, employee compensation and shareholder dividends. There are uncertainties with respect to the application of this legislation, however, it is not expected to have a significant impact on the results of operations for the period ended January 3, 1976. Under this legislation the amount of dividends which may be paid to Class A and Class B shareholders during the year ending October 13, 1976 is limited to \$.38 per share.

15. Subsequent event

The Company's subsidiary Kelly, Douglas & Company, Limited has agreed, subject to the approval of the Foreign Investment Review Agency, to sell the shares of its subsidiary, Nabob Foods Limited.

16. Other Information

(a) The aggregate direct remuneration paid to directors and officers is as follows:

Number of directors	8
Number of officers	14 (including 1 former officer)
Number of officers who are also directors	7

	Directors' fees	Other remuneration
Paid by the Company	Nil	Nil
Paid by subsidiaries	\$5,918	\$576,375

(b) Included in loss from discontinued operations and in 1975 in extraordinary items are the following:

	53 weeks ended January 3, 1976	52 weeks ended December 28, 1974
	(in thousands of dollars)	
Sales	<u>\$14,645</u>	<u>\$21,928</u>
Rentals on long-term leases	<u>\$ 1,264</u>	<u>\$ 1,609</u>
Depreciation	<u>\$ 155</u>	<u>\$ 240</u>
Other interest	<u>\$ 140</u>	<u>\$ 246</u>

(c) The Companies Act of British Columbia
These financial statements comply with the disclosure requirements of the act of incorporation (The Canada Corporations Act) and the securities legislation of certain provinces in Canada, but do not purport to comply with all disclosure requirements unique to the Companies Act of British Columbia.

(d) The prior period's comparative figures have been reclassified to conform with the current period's financial statement presentation.

Auditors' Report

To the Shareholders of
Loblaw Companies Limited

We have examined the consolidated balance sheet of Loblaw Companies Limited as at January 3, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the 53 weeks then ended. For Loblaw Companies Limited and those subsidiaries of which we are the auditors, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. For those subsidiaries of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to rely on the reports of the other auditors for purposes of consolidation.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at January 3, 1976 and the results of their operations and the changes in their financial position for the period then ended, in accordance with generally accepted accounting principles applied, on a basis consistent with that of the preceding period.



Thorne Riddell & Co.
Chartered Accountants

Toronto, Canada
March 8, 1976

Directors

W. Galen Weston
George C. Metcalf
W. Struan Robertson, Q.C.
Richard G. Meech, Q.C.
Richard J. Currie
David A. Nichol
Roger A. Lindsay
Mark Hoffman

Officers

W. Galen Weston
President & Chief Executive Officer
George C. Metcalf
Chairman of the Board
Richard J. Currie
Executive Vice President
David A. Nichol
Executive Vice President
W. Struan Robertson, Q.C.
Secretary
Charles B. Barcelona
Vice President
Brian Y. Davidson
Vice President, Food Services
Sheldon Douglass
Vice President, Controller
Mark Hoffman
Vice President
Harold A. Seitz
Senior Vice President,
Real Estate Development
William A. Sloan
Treasurer
Roger A. Lindsay
Assistant Secretary
Kenneth H. Smith
Assistant Secretary
Dorothy M. Leamen
Assistant Controller
Robert Scott
Assistant Controller
Ivan R. Franklin
Assistant Treasurer
and Tax Manager

Executive Offices

22 St. Clair Ave. E.
Toronto, Ontario

General Counsel

Borden & Elliot
Toronto, Ontario

Auditors

Thorne Riddell & Co.
Toronto, Ontario

Transfer Agents

National Trust Company Limited
Toronto, Montreal, Winnipeg,
Calgary, Vancouver

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