

# financials

[33](#) Management's Statement of Responsibility [34](#) Auditors' Report [35](#) Consolidated Statements of Earnings [35](#) Consolidated Statements of Retained Earnings [36](#) Consolidated Balance Sheets [37](#) Consolidated Cash Flow Statements [38](#) Notes to the Consolidated Financial Statements [48](#) Eleven Year Summary [50](#) Results by Quarter

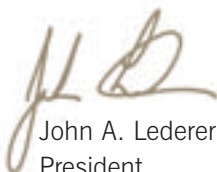
#### MANAGEMENT'S STATEMENT OF RESPONSIBILITY

Management is responsible for the preparation and presentation of the consolidated financial statements and all other information in the Annual Report. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the judgements and estimates necessary to prepare the consolidated financial statements in accordance with Canadian generally accepted accounting principles. It also includes ensuring that the financial information presented elsewhere in the Annual Report is consistent with the consolidated financial statements.

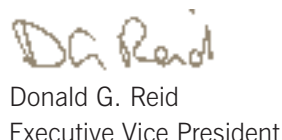
To provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is being produced, management maintains a system of internal controls. Internal auditors, who are employees of the Company, review and evaluate internal controls on management's behalf, coordinating this work with the independent auditors. The consolidated financial statements have been audited by the independent auditors, KPMG LLP, whose report follows. Fees paid to KPMG LLP for completion of the 2001 audit of the consolidated financial statements amounted to \$1.4 million; other fees paid to KPMG LLP in 2001 for professional services other than for the audit amounted to \$.3 million.

The Board of Directors, acting through an Audit Committee comprised solely of directors who are not employees of the Company, is responsible for determining that management fulfills its responsibilities in the preparation of the consolidated financial statements and the financial control of operations. The Audit Committee recommends the independent auditors for appointment by the shareholders. It meets regularly with financial management, internal auditors and the independent auditors to discuss internal controls, auditing matters and financial reporting issues. The independent auditors and internal auditors have unrestricted access to the Audit Committee. The Audit Committee reviews the consolidated financial statements and Management's Discussion and Analysis prior to the Board of Directors approving them for inclusion in the Annual Report.

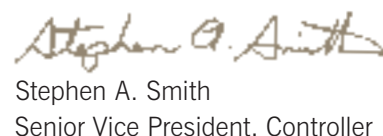
Toronto, Canada March 4, 2002



John A. Lederer  
President



Donald G. Reid  
Executive Vice President



Stephen A. Smith  
Senior Vice President, Controller

**AUDITORS' REPORT**

To the Shareholders of Loblaw Companies Limited:

We have audited the consolidated balance sheets of Loblaw Companies Limited as at December 29, 2001 and December 30, 2000 and the consolidated statements of earnings, retained earnings and cash flow for the 52 week periods then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 29, 2001 and December 30, 2000 and the results of its operations and its cash flow for the periods then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants Toronto, Canada March 4, 2002

## Consolidated Statements of Earnings

52 Weeks Ended December 29, 2001 (\$ millions)	2001	2000
<b>SALES</b>	<b>\$ 21,486</b>	<b>\$ 20,121</b>
<b>OPERATING EXPENSES</b>		
Cost of sales, selling and administrative expenses	20,035	18,862
Depreciation	315	283
	<u>20,350</u>	<u>19,145</u>
<b>OPERATING INCOME</b>	<b>1,136</b>	<b>976</b>
Interest Expense (Income)		
Short term	(50)	(29)
Long term	208	172
	<u>158</u>	<u>143</u>
<b>EARNINGS BEFORE INCOME TAXES</b>	<b>978</b>	<b>833</b>
Income Taxes (note 6)		
Provision	373	321
Other	(1)	(4)
	<u>372</u>	<u>317</u>
<b>EARNINGS BEFORE GOODWILL CHARGES</b>	<b>606</b>	<b>516</b>
Goodwill Charges, net of tax of \$1 (2000 – \$1)	43	43
<b>NET EARNINGS FOR THE PERIOD</b>	<b>\$ 563</b>	<b>\$ 473</b>
<b>NET EARNINGS PER COMMON SHARE (\$)</b>		
Basic	\$ 2.04	\$ 1.71
Diluted (note 2)	\$ 2.03	\$ 1.70
Basic before goodwill charges	\$ 2.20	\$ 1.87

## Consolidated Statements of Retained Earnings

52 Weeks Ended December 29, 2001 (\$ millions)	2001	2000
<b>RETAINED EARNINGS, BEGINNING OF PERIOD</b>	<b>\$ 1,930</b>	<b>\$ 1,721</b>
Impact of adopting new accounting standards (note 1)		(152)
Net earnings for the period	563	473
Premium on common shares purchased for cancellation (note 10)	(1)	(12)
Net stock option plan cash payments, net of tax (note 10)	(7)	(3)
Dividends declared per common share – 40¢ (2000 – 35¢)	(110)	(97)
<b>RETAINED EARNINGS, END OF PERIOD</b>	<b>\$ 2,375</b>	<b>\$ 1,930</b>

See accompanying notes to the consolidated financial statements.

## Consolidated Balance Sheets

As at December 29, 2001 (\$ millions)	2001	2000
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents (note 3)	\$ 575	\$ 686
Short term investments (note 3)	426	364
Accounts receivable (notes 4 and 5)	472	381
Inventories	1,512	1,310
Current future income taxes (note 6)	73	114
Prepaid expenses and other assets	28	61
	<u>3,086</u>	<u>2,916</u>
Fixed Assets (note 8)	4,931	4,174
Goodwill	1,599	1,641
Franchise Investments and Other Receivables	285	189
Future Income Taxes (note 6)	26	42
Other Assets	81	63
	<u>\$ 10,008</u>	<u>\$ 9,025</u>
<b>LIABILITIES</b>		
Current Liabilities		
Bank indebtedness	\$ 95	\$ 203
Commercial paper	191	427
Accounts payable and accrued liabilities	2,291	2,240
Current income taxes	138	78
Long term debt due within one year (note 9)	81	259
	<u>2,796</u>	<u>3,207</u>
Long Term Debt (note 9)	3,333	2,377
Future Income Taxes (note 6)	49	78
Other Liabilities	261	239
	<u>6,439</u>	<u>5,901</u>
<b>SHAREHOLDERS' EQUITY</b>		
Common Share Capital (note 10)	1,194	1,194
Retained Earnings	2,375	1,930
	<u>3,569</u>	<u>3,124</u>
	<u>\$ 10,008</u>	<u>\$ 9,025</u>

See accompanying notes to the consolidated financial statements.

Approved by the Board



W. Galen Weston  
Director



T. Iain Ronald  
Director

## Consolidated Cash Flow Statements

52 Weeks Ended December 29, 2001 (\$ millions)	2001	2000
<b>OPERATIONS</b>		
Net earnings	\$ 563	\$ 473
Depreciation and amortization	359	327
Future income taxes	44	49
Other	4	13
	<u>970</u>	<u>862</u>
Changes in non-cash working capital	(95)	(16)
Cash Flows from Operating Activities before the following:	875	846
Acquisition restructuring and other charges, including income tax recoveries	(50)	(61)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>825</u>	<u>785</u>
<b>INVESTMENT</b>		
Fixed asset purchases	(1,108)	(943)
Short term investments	(62)	(119)
Proceeds from fixed asset sales	44	16
Change in franchise investments, other receivables and credit card receivables	(128)	(10)
Net change in other items	(27)	3
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<u>(1,281)</u>	<u>(1,053)</u>
<b>FINANCING</b>		
Commercial paper	(236)	(1)
Long term debt (note 9)		
– Issued	1,040	760
– Retired	(252)	(113)
Common share capital (note 10)		
– Issued		12
– Retired	(1)	(13)
Dividends	(110)	(69)
Other	12	(10)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<u>453</u>	<u>566</u>
Change in Cash	(3)	298
Cash, Beginning of Period	483	185
<b>CASH, END OF PERIOD</b>	<u>\$ 480</u>	<u>\$ 483</u>

## Supplementary Schedules to Consolidated Cash Flow Statements

52 Weeks Ended December 29, 2001 (\$ millions)	2001	2000
<b>CASH POSITION</b>		
Cash	\$ 480	\$ 483
Short term investments	426	364
Commercial paper	(191)	(427)
Cash position	<u>\$ 715</u>	<u>\$ 420</u>
<b>OTHER CASH FLOW INFORMATION</b>		
Net interest paid	\$ 191	\$ 161
Net income taxes paid	\$ 277	\$ 192

Cash is defined as cash and cash equivalents net of bank indebtedness.  
See accompanying notes to the consolidated financial statements.

## Notes to the Consolidated Financial Statements

52 Weeks Ended December 29, 2001 (\$ millions except where otherwise indicated)

### Note 1. Summary of Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

**BASIS OF CONSOLIDATION** The consolidated financial statements include the accounts of Loblaw Companies Limited and its subsidiaries ("the Company"). The Company's effective interest in the voting equity share capital of its subsidiaries is 100%.

**REVENUE RECOGNITION** Sales include revenues from customers through corporate stores operated by the Company and sales to and service fees from franchised stores, associated stores and independent accounts, but exclude inter-company sales. The Company recognizes revenue at the time the sale is made to its customer.

**NET EARNINGS PER SHARE ("EPS")** Effective December 31, 2000, the Company adopted the new standard issued by the Canadian Institute of Chartered Accountants ("the CICA") on EPS. The standard was applied retroactively with restatement of the prior period consolidated financial statements. The new standard requires the presentation of basic and diluted EPS on the consolidated statements of earnings regardless of the materiality of the difference between them, calculated using the treasury stock method.

Basic EPS is calculated using the weighted average number of shares outstanding during the period.

**CASH OFFSETTING** Cash balances which the Company has the ability and intent to offset are used to reduce reported bank indebtedness.

**CASH EQUIVALENTS** Cash equivalents are highly liquid investments with a maturity of less than 90 days.

#### **CREDIT CARD ACCOUNTING POLICIES**

(I) **CREDIT CARD RECEIVABLES** Credit card receivables are stated net of an allowance for credit losses.

Interest charges to customers, included in the Company's operating income, is recorded on an accrual basis. A credit card receivable is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Credit card receivables where interest or principal is contractually past due 90 days are automatically recognized as impaired. Any credit card receivable that has a payment that is contractually 180 days in arrears is written off.

(II) **ALLOWANCE FOR CREDIT LOSSES** The Company through President's Choice Bank ("the Bank"), a wholly owned subsidiary of the Company, maintains an allowance for credit losses which, in management's opinion, is considered adequate to absorb all credit-related losses in its portfolio of both on- and off-balance sheet items. The allowance for credit losses is deducted from the related asset category.

General provisions are established to absorb probable credit losses on the aggregate exposures. The general allowance is based upon analysis of past performance, the level of allowance already in place and management's judgement.

The amount of allowance for credit losses that is charged to the consolidated statements of earnings is the net credit loss experience for the period.

(III) **SECURITIZATION** When the Bank sells credit card receivables in a securitization transaction, it retains servicing rights and a cash reserve account, which represents a portion of the retained interest in the securitized receivables. Any gain or loss on the sale of these receivables depends in part on the previous carrying amount of receivables involved in the transfer, allocated between the assets sold and the retained interest based on the relative fair value at the date of transfer. The fair market values are determined using financial models. Any gain or loss on a sale is recognized at the time of the securitization.

**INVENTORIES** Retail store inventories are stated at the lower of cost and net realizable value less normal profit margin. Wholesale inventories are stated at the lower of cost and net realizable value. Cost is determined substantially using the first-in, first-out method.

**FIXED ASSETS** Fixed assets are stated at cost including capitalized interest. 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 20 to 40 years for buildings and from 3 to 10 years for equipment and fixtures. Leasehold improvements are depreciated over the lesser of the applicable useful life and the term of the lease.

**GOODWILL** Goodwill represents the excess of the purchase price of the business acquired over the fair value of the underlying net tangible assets acquired at the date of acquisition. Goodwill is amortized on a straight-line basis over the estimated life of the benefit determined for each acquisition. The weighted average remaining amortization period is 37 years. Any permanent impairment in value, based on projected cash flows, is written off against net earnings.

**TRANSLATION OF FOREIGN CURRENCIES** Assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at each period end date. The resulting exchange gains or losses are included in the current period's net earnings. Revenues and expenses denominated in foreign currencies are translated at the average exchange rates for the period.

**FINANCIAL DERIVATIVES** The Company uses interest rate derivatives, currency derivatives and equity forward contracts to manage its exposure to fluctuations in interest rates, exchange rates and the market price of its common shares. The realized gains and losses arising from interest rate derivatives is included in interest expense. Unrealized gains or losses on currency derivatives are offset by unrealized gains or losses on the Company's foreign currency net assets. The net unrealized currency difference is recorded in the consolidated statements of earnings. The unrealized gains or losses on equity forward contracts for anticipated transactions are deferred.

**INCOME TAXES** Effective January 2, 2000, the Company adopted the new standard issued by the CICA on accounting for income taxes. The standard was applied retroactively without restatement of the prior period consolidated financial statements. The cumulative effect of adoption was a decrease in retained earnings of \$22. The new income tax accounting standard replaced the concept of deferred income taxes with the asset and liability method of tax allocation. Under the asset and liability method, future income taxes are recognized for temporary differences between the tax and accounting bases of the Company's assets and liabilities based on income tax rates and laws that are expected to apply in the periods in which the differences are expected to be realized.

**PENSION, POST-RETIREMENT AND POST-EMPLOYMENT BENEFITS** Effective January 2, 2000, the Company adopted the new standard issued by the CICA on accounting for employee future benefits. The standard was applied retroactively without restatement of the prior period consolidated financial statements. The cumulative effect of adoption was a decrease in retained earnings of \$130 (net of future income tax of \$100). Under the new standard, the cost of the Company's defined benefit pension plans, post-retirement health and life insurance and other post-employment benefits is accrued as earned, based on actuarial valuations. Market values are used to value pension fund assets. Past service costs from plan amendments and the excess net actuarial gain or loss over 10% of the greater of the accrued benefit plan obligation and the market value of the plan assets are amortized on a straight-line basis over the average remaining service period of the active employees. Employee future benefits are measured using market interest rates on high quality debt instruments. The cost of pension benefits for defined contribution plans are expensed as contributions are paid. Multi-employer defined benefit pension plans are accounted for as defined contribution plans.

**STOCK OPTION PLAN** The Company has a stock option plan as described in Note 10. Consideration paid by employees on the exercise of a stock option is credited to common share capital. For those employees electing to receive the cash differential, the excess of the market price of the common shares at the date of exercise over the specified stock option price, net of the related taxes, is charged to retained earnings.

**USE OF ESTIMATES AND ASSUMPTIONS** The preparation of the consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates and assumptions are based on management's best knowledge of current events and actions that the Company may undertake in the future.

**Note 2. Diluted Net Earnings per Common Share**

	2001			2000		
	Net Earnings	Weighted Avg. Number of Shares (millions)	Per Share Amount (\$)	Net Earnings	Weighted Avg. Number of Shares (millions)	Per Share Amount (\$)
Basic net earnings per share	\$ 563	276.2	\$ 2.04	\$ 473	276.0	\$ 1.71
Dilutive effect of stock options		1.9	(.01)		1.6	(.01)
Diluted net earnings per share	\$ 563	278.1	\$ 2.03	\$ 473	277.6	\$ 1.70

**Note 3. Cash, Cash Equivalents and Short Term Investments**

Cash, cash equivalents, short term investments, bank indebtedness and the Company's commercial paper program form an integral part of the Company's cash management.

At period end, the Company had \$993 (2000 – \$1,037) in cash, cash equivalents and short term investments held by Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of the Company in Barbados. Short term investments are carried at the lower of cost or quoted market value and consist primarily of United States government securities, commercial paper, bank deposits and repurchase agreements. The income from these investments of \$50 (2000 – \$55) has been included as a reduction of short term interest expense.

**Note 4. Credit Card Receivables**

Details of credit card receivables included in accounts receivable are as follows:

	2001
Credit card receivables	\$ 166
Amount securitized	(112)
Net credit card receivables	\$ 54

**Note 5. Securitization**

During 2001, the Company received net cash flows of \$111 (plus \$1 in retained interest) relating to the securitization of credit card receivables, yielding a minimal gain, inclusive of a \$3 servicing liability, on the initial sale. The following table shows the key economic assumptions used in measuring the securitization gain:

	2001
Payment rate (monthly)	50%
Expected credit losses (annual)	3.5%
Discounted residual cash flows (annual)	18%

## Note 6. Income Taxes

The Company's effective income tax rate in the consolidated statements of earnings is at a rate less than the combined basic Canadian federal and provincial income tax rate for the following reasons:

	2001	2000
Combined basic Canadian federal and provincial income tax rate	41.2%	42.5%
Net decrease resulting from:		
Operating in countries with lower effective income tax rates	(3.0)	(3.4)
Non-taxable amounts including capital gains/losses	(.2)	(.5)
Substantially enacted changes in income tax rates	(.1)	(.5)
Effective income tax rate before goodwill charges	37.9	38.1
Non-deductible goodwill charges	1.8	2.0
Effective income tax rate	39.7%	40.1%

The cumulative effects of changes in Canadian federal or provincial income tax rates on future income tax assets or liabilities are included in the consolidated financial statements at the time of substantial enactment. In 2001, the effect of the reduction in the Ontario provincial income tax rate of 1.5% in each of 2002, 2003, 2004 and 2005 was reported as a \$1 reduction to future income tax expense. In 2000, the effects of the reduction in the Canadian federal income tax rate of 1% in 2001 and 2% in each of 2002, 2003 and 2004 and the reductions in capital gains/losses inclusion rates from three-quarters to two-thirds for all capital gains/losses realized after February 27, 2000 and to one-half for all capital gains/losses realized after October 18, 2000, as well as the changes in the Ontario and Alberta provincial budgets, were reported as a \$4 reduction to future income tax expense.

The income tax effects of temporary differences that gave rise to significant portions of the future income tax assets and future income tax liabilities are presented below:

	2001	2000
<b>Future Income Tax Assets</b>		
Accounts payable and accrued liabilities	\$ 69	\$ 105
Long term debt (including amounts due within one year)	14	20
Other liabilities	51	28
Losses carried forward (expiring 2008)	20	10
Other		3
	<u>\$ 154</u>	<u>\$ 166</u>
<b>Future Income Tax Liabilities</b>		
Fixed assets	\$ 97	\$ 76
Other	7	12
	<u>\$ 104</u>	<u>\$ 88</u>

**Note 7. Pension, Post-Retirement and Post-Employment Benefits**

The Company has a number of defined benefit and defined contribution plans providing pension, other retirement and post-employment benefits to most of its employees. The Company also participates in a multi-employer defined benefit plan providing pension benefits.

Information about the Company's defined benefit plans other than the multi-employer defined benefit plan, in aggregate, is as follows:

	2001		2000	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
<b>Benefit Plan Assets</b>				
Fair value, beginning of period	\$ 834	\$ 13	\$ 732	\$ 12
Actual return on plan assets	(95)	1	170	1
Employer contributions	6	10	8	8
Employees' contributions	2		2	
Benefits paid	(51)	(8)	(49)	(8)
Settlement gain	(3)		(27)	
Other	(3)		(2)	
Fair value, end of period	\$ 690	\$ 16	\$ 834	\$ 13
<b>Accrued Benefit Plan Obligations</b>				
Balance, beginning of period	\$ 690	\$ 99	\$ 741	\$ 101
Current service cost	21	5	23	6
Interest cost	48	7	49	6
Benefits paid	(51)	(8)	(49)	(8)
Actuarial gains	(18)		(45)	(6)
Plan amendments	5			
Settlement gain	(3)		(29)	
Balance, end of period	\$ 692	\$ 103	\$ 690	\$ 99
<b>Funded Status</b>				
Net benefit plan (deficit) surplus	\$ (2)	\$ (87)	\$ 144	\$ (86)
Unamortized past service costs	4			
Unamortized net actuarial gains	(11)	(5)	(159)	(6)
Net accrued benefit plan liability	\$ (9)	\$ (92)	\$ (15)	\$ (92)
<b>Net Benefit Plan Expense</b>				
Current service cost	\$ 19	\$ 5	\$ 21	\$ 6
Interest cost	48	7	49	6
Expected return on plan assets	(65)	(1)	(55)	(1)
Amortization of net actuarial gains	(6)	(1)		
Settlement gain			(2)	
Net benefit plan (income) expense	\$ (4)	\$ 10	\$ 13	\$ 11

At period end, the net aggregate accrued benefit plan obligations for those pension benefit plans in which the accrued benefit plan obligations exceeded the fair value of benefit plan assets was \$54 (2000 – \$36). There were no plan assets in the non-registered pension plans. All the Company's post-retirement benefit plans, other than pensions and long term disability benefits, also had no plan assets and at period end 2001, had a net aggregate benefit plan deficit of \$87 (2000 – \$86).

The significant actuarial weighted average assumptions used to determine the Company's accrued benefit plan obligations were as follows:

	2001		2000	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Discount rate	7.5%	7.5%	7%	7%
Rate of compensation increase	3.5%		3%	
Growth rate of health care costs	4.5%		4%	

The expected long term rates of return on plan assets for pension benefit plans and other benefit plans used in calculating the Company's net benefit plan expense were 8% and 7%, respectively (2000 – 8% and 6.75%).

The accrued benefit plan obligations and the fair values of the benefit plan assets were determined using a September 30 measurement date.

The total net expense for the Company's benefit plans is summarized as follows:

	2001		2000	
	Pension Benefit Plans	Other Benefit Plans	Pension Benefit Plans	Other Benefit Plans
Net defined benefit plan (income) expense	\$ (4)	\$ 10	\$ 13	\$ 11
Defined contribution plan expense	5		5	
Multi-employer plan expense	30		25	
	<u>\$ 31</u>	<u>\$ 10</u>	<u>\$ 43</u>	<u>\$ 11</u>

#### Note 8. Fixed Assets

	2001			2000		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Properties held for development	\$ 248		\$ 248	\$ 217		\$ 217
Properties under development	206		206	192		192
Land	1,067		1,067	923		923
Buildings	2,576	\$ 476	2,100	2,084	\$ 428	1,656
Equipment and fixtures	2,153	1,221	932	1,866	1,032	834
Leasehold improvements	565	205	360	507	177	330
	<u>6,815</u>	<u>1,902</u>	<u>4,913</u>	<u>5,789</u>	<u>1,637</u>	<u>4,152</u>
Capital leases – buildings and equipment	83	65	18	82	60	22
	<u>\$ 6,898</u>	<u>\$ 1,967</u>	<u>\$ 4,931</u>	<u>\$ 5,871</u>	<u>\$ 1,697</u>	<u>\$ 4,174</u>

Interest capitalized to fixed assets during the year was \$27 (2000 – \$20).

**Note 9. Long Term Debt**

	2001	2000
<b>Loblaw Companies Limited Debentures</b>		
Series 5, 10%, due 2006, retractable annually commencing 1996, redeemed in 2001		\$ 50
Series 8, 10%, due 2007, redeemable in 2002	\$ 61	61
<b>Provigo Inc. Debentures</b>		
Series 1991, 11.25%, due 2001		100
Series 1997, 6.35%, due 2004	100	100
Series 1996, 8.70%, due 2006	125	125
Other	17	22
<b>Loblaw Companies Limited Notes</b>		
7.34%, due 2001		100
6.20%, BA Range Note, due 2002	10	10
6.60%, due 2003	100	100
6.95%, due 2005	200	200
6.00%, due 2008	390	
5.75%, due 2009	125	125
7.10%, due 2010	300	300
6.50%, due 2011	350	
6.00%, due 2014	100	100
7.10%, due 2016	300	
6.65%, due 2027	100	100
6.45%, due 2028	200	200
6.50%, due 2029	175	175
11.40%, due 2031		
– principal	151	151
– effect of coupon repurchase	1	6
8.75%, due 2033	200	200
6.45%, due 2039	200	200
7.00%, due 2040	150	150
Other at a weighted average interest rate of 10.49%, due 2002 to 2040	59	61
Total long term debt	<u>3,414</u>	<u>2,636</u>
Less amount due within one year	81	259
	<u>\$ 3,333</u>	<u>\$ 2,377</u>

The 5 year schedule of repayment of long term debt based on maturity is as follows: 2002 – \$81; 2003 – \$106; 2004 – \$106; 2005 – \$215; 2006 – \$129.

**LOBLAW COMPANIES LIMITED DEBENTURES AND NOTES** During 2001, the Company redeemed its Series 5, \$50 10% Debentures in accordance with their terms.

Subsequent to period end 2001, the Company announced its intention to redeem, in 2002, the Series 8, \$61 10% Debentures due 2007 and issued \$200 of Notes with an interest rate of 6.85% due 2032.

**PROVIGO INC. DEBENTURES – OTHER** The \$17 (2000 – \$22) represents the unamortized portion of the adjustment to fair value the Provigo Debentures. This adjustment was recorded as part of the Provigo purchase equation and was calculated using the Company's average credit spread applicable to the remaining life of the Provigo Debentures. The adjustment is being amortized over the remaining term of the Provigo Debentures.

## Note 10. Common Share Capital (\$)

	2001	2000
Common share capital (\$ millions)	\$ 1,194	\$ 1,194
Common shares issued and outstanding, authorized – unlimited (number of shares)	276,252,714	276,245,314
Weighted average common shares outstanding (number of shares)	276,247,689	276,003,195

**STOCK OPTION PLAN** The Company maintains a stock option plan for certain employees. Under the plan, the Company may grant options for up to 20,400,000 common shares. Stock options have up to a 7 year term, are exercisable at the designated common share price and vest 20% cumulatively on each anniversary date of the grant after the first anniversary. Each stock option is exercisable into 1 common share of the Company at the price specified in the terms of the option or option holders may elect to receive in cash the share appreciation value equal to the excess of the market price at the date of exercise over the specified option price.

In 2001, the Company issued 20,000 common shares (2000 – 1,610,949) for cash consideration of \$.4 million (2000 – \$12 million) on the exercise of stock options and paid the share appreciation value of \$8 million, net of tax of \$6 million (2000 – \$7 million, net of tax of \$5 million), on 513,970 stock options (2000 – 450,893).

A summary of the status of the Company's stock option plan and activity is presented below:

	2001		2000	
	Options (number of shares)	Weighted Avg. Exercise Price/Share	Options (number of shares)	Weighted Avg. Exercise Price/Share
Outstanding options, beginning of period	5,033,280	\$ 28.676	3,798,072	\$ 15.243
Granted	386,190	\$ 48.664	3,484,200	\$ 32.102
Exercised	(533,970)	\$ 24.699	(2,061,842)	\$ 9.941
Forfeited/Cancelled	(52,600)	\$ 31.653	(187,150)	\$ 26.235
Outstanding options, end of period	4,832,900	\$ 30.680	5,033,280	\$ 28.676
Options exercisable, end of period	1,083,424	\$ 25.541	517,190	\$ 19.893

Range of Exercise Prices	2001 Outstanding Stock Options			2001 Exercisable Stock Options	
	Number of Options Outstanding	Weighted Avg. Remaining Contractual Life (years)	Weighted Avg. Exercise Price/Share	Number of Exercisable Options	Weighted Avg. Exercise Price/Share
\$ 14.250 – \$ 24.500	1,153,744	3	\$ 20.158	542,886	\$ 18.681
\$ 32.000 – \$ 49.050	3,679,156	5	\$ 33.980	540,538	\$ 32.429

**NORMAL COURSE ISSUER BIDS ("NCIB")** During 2001, the Company purchased for cancellation 12,600 (2000 – 276,000) of its common shares for \$1 million (2000 – \$13 million) pursuant to its NCIB. In addition, the Company intends to renew its NCIB to purchase on The Toronto Stock Exchange or enter into equity forward contracts to purchase up to 5% of its common shares outstanding. The Company, in accordance with the rules and by-laws of The Toronto Stock Exchange, may purchase its shares at the then market prices of such shares.

**Note 11. Financial Instruments**

**CURRENCY DERIVATIVES** The Company has entered into currency derivative agreements to exchange an amount of \$1,021 (2000 – \$915) Canadian dollar debt for United States dollar debt. The derivatives are a hedge against exchange rate fluctuations on the Company's United States dollar denominated net assets, principally cash equivalents and short term investments. The derivatives mature as follows: 2002 – \$90; 2003 – \$49; 2004 – \$344; 2005 – \$64; thereafter to 2016 – \$474. Currency adjustments receivable or payable arising from these derivatives may be settled in cash on maturity or the term may be extended. At period end, an unrealized currency adjustment of \$96 (2000 – \$57) was included in other liabilities and the consolidated statements of earnings.

**INTEREST RATE DERIVATIVES** The Company has entered into interest rate derivative agreements converting a net notional \$883 (2000 – \$693) of 6.88% (2000 – 6.95%) fixed rate debt into floating rate debt. The net maturities are as follows: 2002 – \$16; 2003 – \$188; 2004 – \$281; 2005 – \$161; thereafter to 2013 – \$237.

**EQUITY FORWARD CONTRACTS (\$)** The Company has entered into equity forward contracts to manage its exposure to fluctuations in the market price of its common shares. At period end, the Company had entered into equity forward contracts based on 3,300,000 (2000 – 2,750,200) of its common shares at an average forward price of \$42.70 (2000 – \$38.66) per share. The method of settlement, cash or common shares, is at the discretion of the Company.

**COUNTERPARTY RISK** Changes in the underlying exchange rates, interest rates and market value of the Company's common shares related to the Company's financial instruments will result in market gains and losses. Furthermore, the Company may be exposed to losses should any counterparty to its derivative contracts fail to fulfill its obligations. The Company has sought to minimize potential counterparty losses by transacting with counterparties that have a minimum A rating and placing risk adjusted limits on its exposure to any single counterparty. The Company has implemented internal policies, controls and reporting processes permitting ongoing assessment and corrective action respecting its derivative activity. In addition, principal amounts on currency derivatives and equity forward contracts are netted by agreement and there is no exposure to loss of the notional principal amounts on the interest rate derivatives and equity forward contracts.

**FAIR VALUE OF FINANCIAL INSTRUMENTS** The fair value of a financial instrument is the estimated amount that the Company would receive or pay to terminate the contract at the reporting date. The following methods and assumptions were used to estimate the fair value of each type of financial instrument by reference to various market value data and other valuation techniques as appropriate.

The fair values of cash, cash equivalents, short term investments, accounts receivable, bank indebtedness, commercial paper, accounts payable and accrued liabilities approximated their carrying values given their short term maturities.

The fair values of long term debt issues were estimated based on the discounted cash payments of the debt at the Company's estimated incremental borrowing rates for debt of the same remaining maturities.

The fair values of interest rate derivatives were estimated by discounting cash payments of the derivatives at market rates for derivatives of the same remaining maturities.

The fair values of equity forward contracts were estimated by multiplying the total outstanding contracts to purchase the Company's common shares by the difference between the market price of its common shares and the average forward price of the outstanding contracts at period end.

	2001		2000	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long term debt liability	\$ 3,414	\$ 3,550	\$ 2,636	\$ 2,678
Interest rate derivatives net asset		\$ 48		\$ 14
Equity forward contracts net asset		\$ 30		\$ 33

## Note 12. Other Information

**SEGMENTED INFORMATION** The Company's only reportable operating segment is food distribution. All sales to external parties were generated in Canada and all fixed assets and goodwill were attributable to Canadian operations.

**CONTINGENT LIABILITIES AND COMMITMENTS** The Company and its subsidiaries are involved in and potentially subject to various claims and litigation arising out of the ordinary course and conduct of their business including product liability, labour and employment, environmental and tax. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to such litigation to be material to these consolidated financial statements.

Commitments for net operating lease payments total \$960 (\$1,192 less \$232 of expected sub-lease income). Net payments for each of the next 5 years and thereafter are as follows: 2002 – \$119 (net of \$45 of expected sub-lease income); 2003 – \$109 (net of \$39 of expected sub-lease income); 2004 – \$103 (net of \$34 of expected sub-lease income); 2005 – \$89 (net of \$31 of expected sub-lease income); 2006 – \$77 (net of \$27 of expected sub-lease income); thereafter to 2051 – \$463 (net of \$56 of expected sub-lease income).

Gross rentals under leases assigned to others for which the Company is contingently liable amount to \$230.

In connection with the purchase of Provigo, the Company has committed to support Quebec small business and farming communities as follows: for a period of 7 years commencing 1999 and, subject to business dispositions, the aggregate amount of goods and services purchased from Quebec suppliers in the ordinary course of business will not fall below those of 1998. The Company fulfilled its commitment in 2001.

**RELATED PARTY TRANSACTIONS** The Company's majority shareholder, George Weston Limited, its subsidiaries and its affiliates are related parties. It is the Company's policy to conduct all transactions and settle balances with related parties on normal trade terms. Total purchases from related companies represented about 3% of the cost of sales, selling and administrative expenses.

Pursuant to an investment management agreement, the Company, through Glenhuron, manages certain United States cash, cash equivalents and short term investments on behalf of wholly owned non-Canadian subsidiaries of George Weston Limited. Management fees were based on market rates and were included in interest expense.

At period end 2000, the Company had a net loan payable to the Company's majority shareholder, George Weston Limited, of \$61 included in bank indebtedness. The interest expense was based on market interest rates and was included in short term interest expense.

## Eleven Year Summary (1)

(\$ millions)	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
<b>SALES AND EARNINGS</b>											
Sales	21,486	20,121	18,783	12,497	11,008	9,848	9,854	10,000	9,356	9,262	8,533
Trading profit (EBITDA)	1,451	1,259	1,077	712	573	481	449	410	326	313	328
Operating income	1,136	976	811	529	428	361	322	274	203	197	223
Interest expense	158	143	112	68	44	46	54	63	54	62	63
Net earnings	563	473	376	261	213	174	147	126	90	76	99
<b>FINANCIAL POSITION</b>											
Working capital	290	(291)	(397)	(707)	202	154	179	29	148	145	262
Fixed assets	4,931	4,174	3,549	3,194	2,093	1,738	1,491	1,603	1,414	1,231	1,115
Goodwill	1,599	1,641	1,685	1,363	38	40	42	44	49	52	54
Total assets	10,008	9,025	7,979	7,105	4,013	3,531	3,197	3,042	2,743	2,504	2,362
Total debt	2,699	2,216	1,999	1,842	513	435	287	525	506	426	397
Shareholders' equity	3,569	3,124	2,904	2,595	1,495	1,311	1,160	1,105	985	916	884
<b>CASH FLOW</b>											
Cash flows from operating activities before acquisition restructuring and other charges	875	846	791	530	426	262	270	328	279	269	215
Capital investment	1,108	943	802	599	517	389	302	339	315	198	159

(1) Financial terms and ratios are defined as follows:

Trading profit (EBITDA) – operating income before depreciation.

Working capital – current assets less current liabilities.

Total debt – bank indebtedness, commercial paper, long term debt due within one year, long term debt and debt equivalents less cash, cash equivalents and short term investments.

Dividend rate per common share (period end) – 4<sup>th</sup> quarter common dividends declared multiplied by 4.

Cash flows from operating activities before acquisition restructuring and other charges per common share – cash flows from operating activities before acquisition restructuring and other charges less preferred dividends paid divided by the weighted average common shares outstanding at period end.

Capital investment per common share – capital investment divided by the weighted average common shares outstanding at period end.

Book value per common share – shareholders' equity divided by the common shares outstanding at period end.

Trading profit (EBITDA) return on sales – trading profit (EBITDA) divided by sales.

Operating income return on sales – operating income divided by sales.

Net earnings return on sales – net earnings divided by sales.

Return on average total assets – operating income divided by average total assets excluding cash, cash equivalents and short term investments.

Return on average common shareholders' equity – net earnings before extraordinary items less preferred dividends divided by average common share capital, retained earnings, foreign currency translation adjustment and the applicable portion of contributed surplus.

Interest coverage on total debt – operating income divided by interest expense.

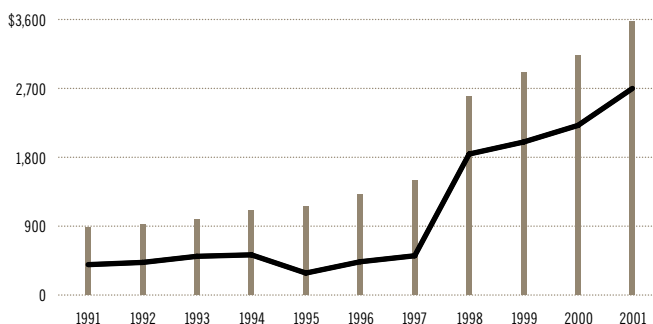
Total debt to shareholders' equity – total debt divided by shareholders' equity.

Cash flows from operating activities before acquisition restructuring and other charges to total debt – cash flows from operating activities before acquisition restructuring and other charges divided by total debt.

Price/net earnings ratio (period end) – market value per common share divided by basic net earnings per common share.

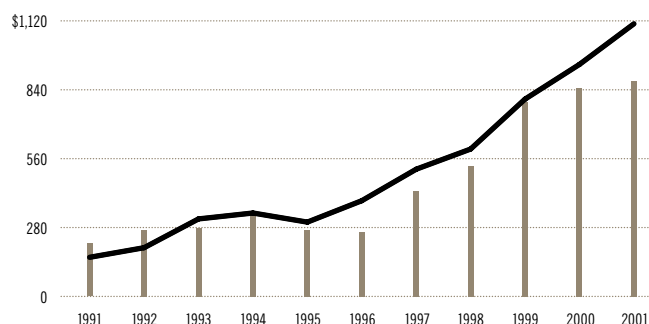
Market/book ratio (period end) – market value per common share divided by book value per common share.

Capital Structure  
(\$ millions)



Shareholders' Equity  
Total Debt

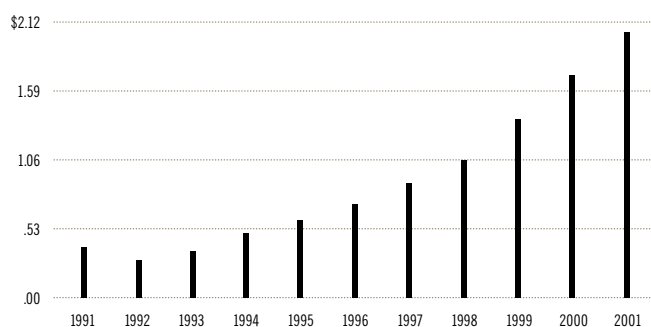
Cash Flows from Operating Activities and Capital Investment  
(\$ millions)



Cash Flows from Operating Activities before Acquisition Restructuring and Other Charges  
Capital Investment

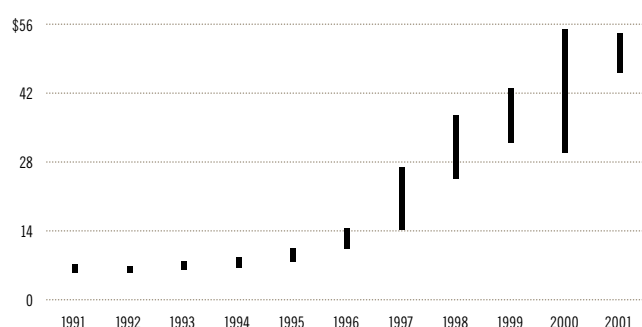
	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
<b>PER COMMON SHARE (\$)</b>											
Basic net earnings	<b>2.04</b>	1.71	1.37	1.06	.88	.72	.60	.50	.36	.29	.39
Basic net earnings before goodwill charges	<b>2.20</b>	1.87	1.52	1.06	.88	.73	.61	.50	.37	.30	.40
Dividend rate (period end)	<b>.40</b>	.40	.24	.20	.16	.12	.12	.09	.08	.08	.08
Cash flows from operating activities before acquisition restructuring and other charges	<b>3.17</b>	3.07	2.88	2.15	1.76	1.08	1.12	1.35	1.15	1.11	.90
Capital investment	<b>4.01</b>	3.42	2.92	2.43	2.14	1.62	1.25	1.41	1.34	.83	.70
Book value	<b>12.92</b>	11.31	10.56	9.46	6.08	5.35	4.74	4.27	3.79	3.52	3.17
Market value (period end)	<b>51.85</b>	50.50	35.25	37.40	26.00	14.25	10.29	7.96	7.63	6.50	5.75
<b>FINANCIAL RATIOS</b>											
Returns on sales (%)											
Trading profit (EBITDA)	<b>6.8</b>	6.3	5.7	5.7	5.2	4.9	4.6	4.1	3.5	3.4	3.8
Operating income	<b>5.3</b>	4.9	4.3	4.2	3.9	3.7	3.3	2.7	2.2	2.1	2.6
Net earnings	<b>2.6</b>	2.4	2.0	2.1	1.9	1.8	1.5	1.3	1.0	.8	1.2
Return on average total assets (%)	<b>13.4</b>	12.8	11.9	10.9	14.2	13.6	12.3	10.6	8.6	9.0	10.5
Return on average common shareholders' equity (%)	<b>16.8</b>	15.7	13.7	12.8	15.3	14.2	13.4	12.5	9.7	8.8	13.4
Interest coverage on total debt	<b>7.2</b>	6.8	7.2	7.8	9.7	7.9	6.0	4.3	3.7	3.1	3.5
Total debt to shareholders' equity	<b>.76</b>	.71	.69	.71	.34	.33	.25	.48	.51	.46	.45
Cash flows from operating activities before acquisition restructuring and other charges to total debt	<b>.32</b>	.38	.40	.29	.83	.60	.94	.62	.58	.63	.54
Price/net earnings ratio (period end)	<b>25.4</b>	29.5	25.8	35.3	29.6	19.8	17.2	15.9	21.2	22.4	14.7
Market/book ratio (period end)	<b>4.0</b>	4.5	3.3	4.0	4.3	2.7	2.2	1.9	2.0	1.9	1.8

Basic Net Earnings per Common Share (\$)



Basic Net Earnings per Common Share

Common Share Market Value Range (\$)



Market Value per Common Share

## Results by Quarter (1)

(\$ millions)	2001	2000
<b>SALES</b>		
1st Quarter	\$ 4,545	\$ 4,287
2nd Quarter	4,985	4,688
3rd Quarter	6,703	6,255
4th Quarter	5,253	4,891
	<u>\$ 21,486</u>	<u>\$ 20,121</u>
<b>TRADING PROFIT (EBITDA)</b>		
1st Quarter	\$ 274	\$ 238
2nd Quarter	309	272
3rd Quarter	393	338
4th Quarter	475	411
	<u>\$ 1,451</u>	<u>\$ 1,259</u>
<b>OPERATING INCOME</b>		
1st Quarter	\$ 204	\$ 175
2nd Quarter	239	208
3rd Quarter	296	250
4th Quarter	397	343
	<u>\$ 1,136</u>	<u>\$ 976</u>
<b>NET EARNINGS</b>		
1st Quarter	\$ 93	\$ 77
2nd Quarter	115	95
3rd Quarter	138	113
4th Quarter	217	188
	<u>\$ 563</u>	<u>\$ 473</u>
<b>BASIC NET EARNINGS PER COMMON SHARE (\$)</b>		
1st Quarter	\$ .34	\$ .28
2nd Quarter	.41	.34
3rd Quarter	.50	.41
4th Quarter	.79	.68
	<u>\$ 2.04</u>	<u>\$ 1.71</u>
<b>DILUTED NET EARNINGS PER COMMON SHARE (\$)</b>		
1st Quarter	\$ .34	\$ .28
2nd Quarter	.41	.34
3rd Quarter	.50	.41
4th Quarter	.78	.67
	<u>\$ 2.03</u>	<u>\$ 1.70</u>
<b>BASIC NET EARNINGS BEFORE GOODWILL CHARGES PER COMMON SHARE (\$)</b>		
1st Quarter	\$ .38	\$ .32
2nd Quarter	.45	.38
3rd Quarter	.55	.46
4th Quarter	.82	.71
	<u>\$ 2.20</u>	<u>\$ 1.87</u>

(1) For financial term definitions refer to page 48.