overview

LOBLAW COMPANIES LIMITED IS CANADA'S LARGEST FOOD DISTRIBUTOR, WITH OPERATIONS ACROSS THE COUNTRY. IT HAS SUPPLIED THE CANADIAN MARKET, AS A SUBSIDIARY OF GEORGE WESTON LIMITED, WITH INNOVATIVE PRODUCTS AND SERVICES FOR MORE THAN 45 YEARS.

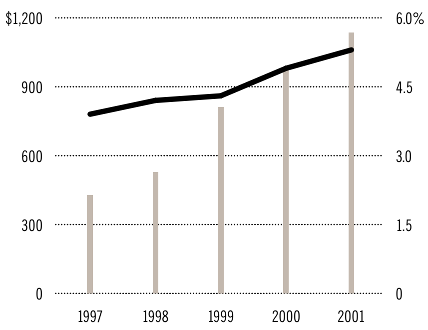
Loblaw Companies Limited ("the Company") believes that to be successful in the Canadian food distribution industry it must continue to provide Canadian consumers with the best in one-stop shopping for everyday household needs. To do so, the Company employs various operating and financial strategies to minimize industry and economic risks, and to maximize its market share and operational flexibility. The Company's operating strategies include: using a multi-format approach, continually developing its brand equity through a superior control label program, enhancing its stores with non-traditional departments and services, reinvesting its cash flow in the business, and owning its real estate. The Company's financial strategies include: adhering to generally conservative accounting policies, maintaining a strong balance sheet, using financial instruments to minimize the risks and costs of its financing activities, and maintaining access to capital markets and liquidity.

The Company believes that if it successfully implements and executes its various operating and financial strategies and programs, and continues to focus on food while serving the consumer's everyday needs, it will be well positioned to provide superior returns to its shareholders by maintaining a stable operational and financial base for sustainable long term growth.

This discussion and analysis, including the results by quarter found on page 50, should be read in conjunction with the audited consolidated financial statements and the notes that accompany them found on pages 33 to 47 of this Annual Report. Certain forward-looking statements are included in this Annual Report concerning capital investment, cost reduction and operating improvements. Such statements are subject to inherent uncertainties and risks, which include but are not limited to: general industry and regional economic conditions, supplier arrangements, pricing pressures and other competitive factors, the results of the Company's ongoing efforts to improve cost effectiveness, and the availability and terms of financing. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements.

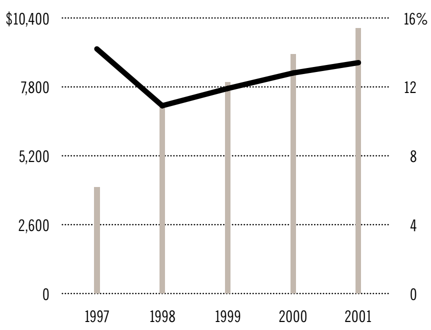
More parents are turning to our *teddy's choice* infant products for the same qualities of innovation, value and dependability that have made *President's Choice* a trusted household name.

Operating Income and
Return on Sales
($ millions)



Operating Income
Operating Income Return on Sales

Total Assets and
Return on Average Total Assets
($ millions)



Total Assets
Return on Average Total Assets

HIGHLIGHTS

19% increase in basic net earnings per common share to $2.04.

7% sales growth to $21.5 billion – same-store sales growth of 4%.

Operating income surpassed the $1 billion milestone.

Continued improvement in operating margins to 5.3%.

Capital investment program of over $1 billion focusing on new, enlarged stores across Canada.

61 new stores opened, adding approximately 2 million square feet of selling space, net of 62 store closures.

RESULTS OF OPERATIONS

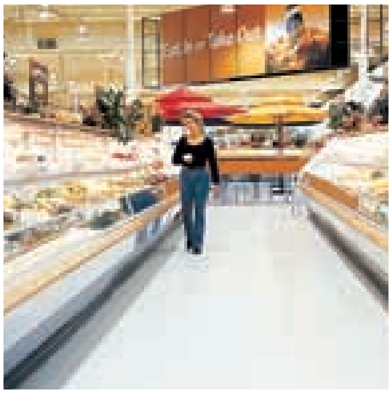
SALES

The Company's sales increased $1.37 billion, or 7%, to $21.49 billion from $20.12 billion in 2000. All regions across the country experienced solid sales growth with continued positive improvements in Quebec. The increase in sales, including the impact of some food price inflation early in the year principally in meat and fresh fruit and vegetables, resulted from:

- 4% same-store sales growth, some of which related to the renovation or minor expansion of 75 stores;
- a net 5% increase in retail square footage related to the opening of 61 new stores (which included major expansions of existing locations) and the closure of 62 stores; and
- a 1½% decrease related to the discontinuance in 2000 of certain non-core Cash and Carry status tobacco and Quebec food service operations.

Food price inflation was not a contributing factor in the 2000 sales growth.

In 2002, the Company plans to open, expand or remodel more than 130 corporate and franchised stores across Canada, introduce more than 500 control label products and further enhance our non-food product offering, all of which is expected to generate additional sales growth.



Home Meal Replacement in our Real Canadian Superstore provides take-out as well as an in-store sit-down area for anything from a quick coffee to a full service menu, accommodating the busy lifestyles of today.

OPERATING INCOME

The Company's operating income (earnings before interest, taxes and goodwill charges) increased $160 million, or 16%, reaching $1.14 billion in 2001. Gross margins strengthened and operating margin (operating income divided by sales) improved to 5.3% from 4.9% in 2000. Trading profit or EBITDA (operating income before depreciation) divided by sales improved to 6.8% from 6.3% in 2000. Margins improved as a result of:

- better product mix management at the store level;
- better inventory management to minimize inventory shrinkage;
- the Company's continued focus on overhead cost control and efficiencies;
- reduced product costs as a result of buying synergies; and
- the maturing of stores opened during the past few years.

All regions realized earnings improvements over 2000.

Operating income growth is expected to continue in 2002 at a rate comparable to 2001 from the Company's continued focus on the initiatives described above.

Our Natural Value department in over 100 stores offers our customers a wide selection of healthy, organic and nutritious foods, vitamins and supplements, along with natural health and beauty care products.

Operating Results

($ millions)	2001	Change	2000
Sales	$ 21,486	7%	$ 20,121
Operating income	$ 1,136	16%	$ 976
Operating margin	5.3%		4.9%
Trading profit (EBITDA)	$ 1,451	15%	$ 1,259
Trading margin (1)	6.8%		6.3%

(1) Trading margin equals trading profit (EBITDA) divided by sales.

INTEREST EXPENSE

Interest expense consists primarily of interest on short and long term debt, the amortization of deferred financing costs, and the realized interest impact of interest rate and currency derivatives less interest earned on short and long term investments held by Glenhuron Bank Limited, a wholly owned subsidiary of the Company in Barbados. In 2001, net interest expense increased $15 million, or 10%, to $158 million from $143 million in 2000. Net short term interest income increased as a result of an increase in average net short term investment levels and an increase in capitalized short term interest costs partially offset by lower average net interest rates. The Company capitalizes interest incurred on debt to finance properties under development. During 2001, $27 million (2000 – $20 million) of short term interest costs were capitalized to fixed assets.

Long term interest expense increased as a result of an increase in average net long term debt levels partially offset by lower average net borrowing rates. The 2001 weighted average interest rate of fixed long term debt (excluding capital lease obligations) was 7.1% (2000 – 7.6%) and the weighted average term to maturity was 16 years (2000 – 18 years). The net positive effect of the Company's interest rate and currency derivatives of $15 million (2000 – $4 million) also reduced long term interest expense.

Interest coverage (operating income divided by interest expense) improved to 7.2 times (2000 – 6.8 times).

The 2002 net interest expense is expected to increase slightly due to higher average net borrowing levels, but interest coverage should improve.

The Real Canadian Superstore is meeting the changing needs of consumers with the development and expansion of a superior line of non-food products to enhance our customers' one-stop shopping experience.

INCOME TAXES

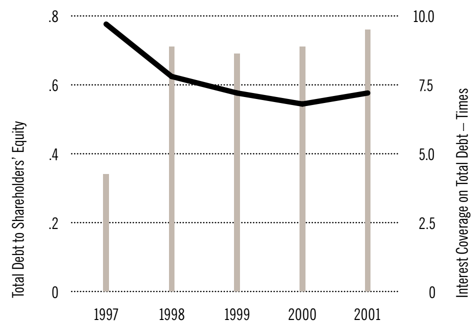
The Company's effective income tax rate decreased slightly in 2001 to 39.7% compared to 40.1% in 2000. The decrease was in line with the 2001 Canadian federal and provincial income tax rate reductions. In 2001, the Company recorded a $1 million income tax recovery related to the recognition of future Ontario income tax rate reductions, which will be phased in from 2002 to 2005. In 2000, the Company recorded a $4 million income tax recovery related to the recognition of future Canadian federal and provincial income tax rate and capital gains/losses inclusion rate reductions, some of which were phased in during 2001 with the remainder to be phased in from 2002 to 2004.

The 2002 effective income tax rate is expected to decline slightly compared to 2001 in accordance with previously announced budgetary income tax rate reductions, excluding the impact of the new accounting standard that provides for the discontinuance of goodwill and intangible asset amortization. This accounting change will result in an apparent decrease of approximately 2% in the Company's effective income tax rate in 2002.

NET EARNINGS

Net earnings increased $90 million, or 19%, to $563 million from $473 million in 2000 due to the factors described above. Basic net earnings per share increased 33 cents, or 19%, to $2.04 from $1.71 in 2000. Excluding the 2001 and 2000 future income tax recovery adjustments, basic net earnings per share increased 20%.

Total Debt to Shareholders' Equity
and Interest Coverage on Total Debt



Total Debt to Shareholders' Equity
Interest Coverage on Total Debt

FINANCIAL POSITION

The Company maintained a sound financial position in 2001, which is expected to continue into 2002. The 2001 working capital position was $290 million compared to negative $291 million in 2000. The significant change in working capital was a result of the refinancing of net short term debt as long term debt and an increase in inventory levels.

For the 13th consecutive year, the Company's total debt to equity ratio (including cash, cash equivalents and short term investments) was better than the Company's internal guideline of a less than 1:1 ratio. The 2001 ratio was .76:1 compared to the 2000 ratio of .71:1. In 2001, shareholders' equity increased $445 million, or 14%, to $3.57 billion compared to $3.12 billion in 2000. The 2002 ratio is expected to improve slightly.

The Company's dividend policy is to maintain a stable dividend payment equal to approximately 20% to 25% of the prior period's normalized basic net earnings per common share, giving consideration to the period end cash position, future cash flow requirements and investment opportunities. During 2001, the Company declared, after approval by the Board of Directors, a 40 cent annualized dividend per common share, equal to 23% of the 2000 basic net earnings per common share, which was within the Company's dividend policy range.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS FROM OPERATING ACTIVITIES

2001 cash flows from operating activities increased $40 million, or 5%, to $825 million compared to $785 million in 2000. The increase mainly reflected improved net earnings and higher depreciation, reflective of the capital investment program, offset by an increase in non-cash working capital. The increase in non-cash working capital was attributed principally to a strategic investment in non-food inventory. Typically, non-food inventory turnover is slower than that of food inventory.

The cash flows from operating activities before acquisition restructuring and other charges excludes the acquisition restructuring and other charges which are not considered part of normal operations and are used as an indicator of normalized cash flows from operating activities. In 2001, this measure had a similar trend to the cash flows from operations for the reasons noted above.

The 2002 cash flows from operating activities are expected to increase at a rate consistent with operating earnings growth and are expected to fund the majority of the Company's anticipated 2002 capital investment activity.

CASH FLOWS USED IN INVESTING ACTIVITIES

Capital investment reached $1.11 billion in 2001 compared to $943 million in 2000. Approximately 80% of the total capital investment was for new stores, renovations, expansions and/or replacements. Other capital investments were for information systems, the distribution network and other infrastructure to support store growth. The Company's continued capital investment activity benefited all banners and regions in varying degrees and strengthened the existing store base. Some of the new, larger stores replaced older, smaller, less efficient stores that did not offer the broad range of products and services demanded by today's consumer.

The 2001 corporate and franchised store capital investment program increased net square footage by 5% compared to 2000. This increase includes the impact of store openings and closures during the period. During 2001, 61 (2000 – 71) new corporate and franchised stores were opened and 75 (2000 – 66) underwent major renovation or minor expansion. New stores include major expansions to existing locations. The 61 new stores added approximately 2 million square feet of selling space (2000 – 2 million), net of 62 (2000 – 62) store closures. The 2001 average corporate store size increased 4% to 46,400 square feet (2000 – 44,600) and the average franchised store size increased 4% to 22,900 square feet (2000 – 22,000). The Company opened 3 stores in Ontario employing its new enlarged store layout of approximately 115,000 square feet, which was designed to accommodate a greater selection of non-food products. In addition to the retail store capital investment during 2001, the Company also constructed a new warehouse in Cambridge, Ontario and opened a new office building in Montreal for the Quebec operations.

The Company expects to continue its organic growth rate in 2002. Capital investment in 2002 is estimated at $1.13 billion, which includes approximately $109 million for projects-in-progress that the Company has effectively committed to complete. In 2002, the Company plans to open, expand or renovate more than 130 corporate and franchised stores throughout Canada in a geographic investment pattern similar to that of last year. This is expected to result in a net increase of approximately 3 million square feet, which should generate additional profitable sales growth.

Cash Flows from Operating Activities, Capital Investment and Store Activity

		2001	Change	2000
Cash flows from operating activities before acquisition restructuring and other charges ($ millions)		$ 875	3%	$ 846
Capital investment ($ millions)		$ 1,108	17%	$ 943
New stores opened		61	(14%)	71
Major renovations and minor expansions		75	14%	66
Total net square footage (in millions)		37.8	5%	35.9
Average store size (sq. ft.)	Corporate	46,400	4%	44,600
	Franchised	22,900	4%	22,000

CASH FLOWS FROM FINANCING ACTIVITIES

The Company obtains its short term financing through a combination of internally generated cash flow, cash, cash equivalents, short term investments, bank indebtedness and its commercial paper program. The Company's cash, cash equivalents and short term investments, as well as $820 million in lines of credit extended by several banks, support the Company's $1.20 billion commercial paper program.

The Company obtains its long term financing through its Medium Term Note ("MTN") program. The Company plans to refinance existing long term debt as it matures and may obtain additional long term financing for other operating uses or for strategic reasons. The Company anticipates no difficulty in obtaining long term financing in view of its current credit ratings and its past experiences in the capital markets.

Currently numbering over 125 items, our *President's Choice TOO GOOD TO BE TRUE* products promote a healthy lifestyle through great tasting foods made with specific nutritional ingredients.

Our 337 in-store pharmacies are the smart alternative to the traditional drugstore for health and beauty care needs, offering favourite brands at competitive prices.

Credit Ratings (Canadian Standards)	Dominion Bond Rating Service	Standard & Poor's
Commercial paper	R-1 (low)	A-1 (mid)
Medium term notes	A (high)	A
Other notes and debentures	A (high)	A

During 2001, the Company issued the remaining $440 million of MTN related to its 2000 shelf prospectus. During the first quarter of 2001, the Company filed another shelf prospectus to issue up to $1.50 billion of MTN, from which it issued $600 million in 2001. Proceeds from these MTN issues were used to repay short term commercial paper and to redeem/repay other long term debt; the proceeds also contributed to the cash position increase during the period. During 2001, $100 million of Provigo Inc. Debentures matured, $50 million of Series 5 Debentures were redeemed and $100 million 7.34% MTN matured. Subsequent to period end 2001, the Company announced its intention to redeem its Series 8, $61 million Debentures and issued $200 million of 6.85% MTN.

During 2000, the Company issued $760 million of MTN related to its 1999 and 2000 shelf prospectuses and redeemed its $100 million 5.39% Notes.

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 Normal Course Issuer Bids.

The Company expects to meet its 2002 cash requirements through funds generated from operations, its $1.20 billion commercial paper program and its remaining $700 million MTN facility.

On June 13, 2001, we opened our 80th Maxi store in Rivière-du-Loup. This 47,000 sq. ft. format is the first discount store in the area, offering our customers "the lowest grocery bill".

ACCOUNTING STANDARD AND DISCLOSURE CHANGE IMPLEMENTED IN 2001

The Canadian Institute of Chartered Accountants ("the CICA") issued an accounting standard, Section 3500 "Earnings per Share" ("EPS"), which was implemented by the Company in the first quarter of 2001 with restatement of the prior period consolidated statements of earnings. Section 3500 requires the presentation of basic and diluted EPS, calculated using the treasury stock method, on the consolidated statements of earnings.

ACCOUNTING STANDARD AND DISCLOSURE CHANGES TO BE IMPLEMENTED IN 2002

The CICA issued 2 accounting standards, Section 3870 "Stock-based Compensation and Other Stock-based Payments" and Section 3062 "Goodwill and Intangible Assets", which the Company intends to implement in the first quarter of 2002.

Section 3870 establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. The Company intends to implement this standard retroactively without restatement of prior periods for employee awards that are a direct award for stock and that specify settlement in cash. The cumulative effect of implementation will be reported in fiscal 2002 as a net decrease to consolidated retained earnings of approximately $25 million, net of future income tax recoverable of $23 million and the fair value impact of the equity forward contracts. Going forward, the Company will record an annual charge to the consolidated statements of earnings. Additional disclosures for options granted to employees including disclosure of pro forma net earnings and pro forma EPS, as if the fair value based accounting method was used, are required.

Thanks to outstanding flavour, quality and convenience of preparation, our diverse selection of *President's Choice* packaged frozen products hold a special place in our customers' kitchens.

Section 3062 no longer requires the amortization of goodwill, but instead requires that the book value of goodwill be tested annually for impairment. In addition, the amortization of intangible assets is no longer required unless the intangible asset has a limited life, in which case it will be amortized over its limited life. Intangible assets not subject to amortization will be tested annually for impairment. Any permanent impairment in the book value of goodwill or intangible assets is to be written off against earnings. The Company expects the impact of implementing this standard to be an annual increase to net earnings of approximately $43 million or 16 cents per common share, based on current period goodwill charges, net of tax, and weighted average common shares outstanding.

RISKS AND RISK MANAGEMENT

The Company's operating and financial strategies are indicative of its long term objectives of security and growth. The Company employs these various strategies, a few of which may carry some short term risk, in order to achieve these objectives.

The Company pursues a strategy of enhancing profitability on a market-by-market basis by using a multi-format approach. By operating across Canada through 617 corporate stores (2000 – 606), 401 franchised stores (2000 – 405) and 694 associated stores (2000 – 736), and by servicing 7,982 independent accounts (2000 – 8,252), the Company strategically minimizes and balances its exposure to regional economic and industry risk. The Company continuously evaluates the markets it operates in and will exit a particular market and reallocate assets elsewhere when there is a strategic advantage in doing so.

A significant competitive advantage the Company has developed is its powerful control label program, which includes *President's Choice*, *no name*, *Club Pack*, *GREEN*, *TOO GOOD TO BE TRUE*, *teddy's choice* and *EXACT*. This program enhances customer loyalty by offering superior value, and provides some protection against national brand pricing strategies. The newest control label product addition, *President's Choice Organics*, was extremely well received by consumers and has had strong sales performance. The Company's *President's Choice Financial* services, which uses Amicus Bank, a member of the CIBC group of companies, as a service provider for banking services, experienced its 4th year of strong growth since its introduction in 1998. In March 2001, President's Choice Bank ("the Bank"), a subsidiary of the Company, successfully launched the *President's Choice Financial* MasterCard.

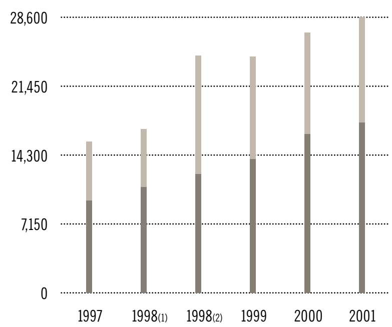
The Bank manages the *President's Choice Financial* MasterCard accounts and the *PC* loyalty program. The risks associated with these offerings include operational, financing, liquidity, credit and fraud risks. In order to minimize these risks, the Bank and the Company actively manage and monitor their relationship with third party service providers, implemented a securitization program and employ operational practices and credit scoring techniques which are considered leading in the industry.

The Company competes effectively and efficiently in the evolving retail market, where non-traditional food retailers continue to increase their offerings of products typically associated with supermarkets. The Company does so by developing and operating new departments and services that complement the traditional supermarket layout and by enhancing its non-food product offerings.

The Company maintains a significant portfolio of owned retail real estate with a market value well in excess of book value and, whenever practical, pursues a strategy of purchasing sites for future store locations. This enhances the Company's operating flexibility and allows the Company to benefit from any long term property value appreciation. At period end 2001, the Company owned 62% (2000 – 61%) of its corporate store square footage.

Economic and market risks relating to the Company's operating and financing activities include changes in interest rates, foreign currency exchange rates and the market value of the Company's common shares. The Company uses financial instruments, specifically interest rate and currency derivative agreements and equity forward contracts, to minimize the risks and costs associated with its financing activities. The Company maintains treasury centres which operate under Company approved policies and guidelines covering funding, investing, foreign exchange and interest rate management. The Company's policies and guidelines restrict it from using any financial instrument for speculative purposes. In addition, the Company has sought to minimize its potential counterparty risk by transacting with counterparties that have a minimum A credit rating and by placing

Corporate Stores
Owned vs. Leased
(thousands of sq. ft.)



Owned
Leased
(1) Excluding acquisitions
(2) Including acquisitions, excluding 1999 dispositions

risk-adjusted limits on its financial instrument exposure to any one counterparty. In the normal course of business, the Company also enters into certain arrangements such as: providing comfort letters to third party lenders in connection with the financing obtained by certain franchisees (with no recourse liability to the Company) and establishing letters of credit to support certain normal operating activities.

In 2002, the Government of Ontario is planning to deregulate the supply of electricity. In order to mitigate the risk of potential price increases, the Company, provided deregulation occurs, has a 3 year fixed price contract to purchase $134 million of electricity (at approximately current market prices) from a company that has a long term debt rating of A from Dominion Bond Rating Service. The effect of this contract is to remove price volatility and to maintain a substantial portion of the Company's electricity costs at the current rates.

Low cost, non-union competitors continue to be a threat to the Company's cost structure. The Company is willing to accept the short term costs of labour disruption in order to negotiate competitive labour costs and operating conditions for the longer term. 2001 represented another year of significant labour negotiations across the Company. There were 113 collective agreements to be negotiated, of which 74 agreements were settled. There were 3 labour strikes – 1 in each of Quebec, Ontario and British Columbia. In 2002, 57 collective agreements affecting almost 33,000 employees will expire, with the single largest agreement covering approximately 4,400 employees. The Company will also continue to negotiate the 39 agreements carried over from 2000 and 2001. The Company has good relations with its employees and unions, and, although possible, no significant labour disruption is anticipated.

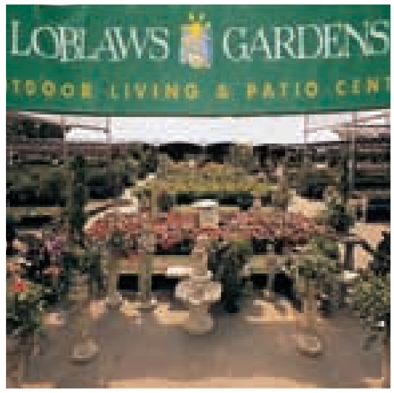
The Company effectively limits its exposure to risk through a combination of appropriate levels of self-insurance and the purchase of integrated insurance programs. Insurance is arranged on a multi-year basis with reliable, financially stable insurance companies as rated by A.M. Best Company, Inc. The integrated insurance programs do not expire for 2 years, which will limit the Company's exposure to insurance premium increases and restrictions in coverage being instituted in today's environment. The Company combines comprehensive loss prevention programs and the active management of claims handling and litigation processes by using internal professionals and external technical expertise to reduce the risk it retains.

The Company has had for many years food safety procedures that proactively minimize food safety risks to the consumer. In addition, procedures are in place to manage food crises should they occur, which identify risks, ensure that communication with consumers is clear, immediate and precise, and ensure that potentially hazardous products are removed from inventory immediately.

The Company endeavours to be socially and environmentally responsible, and recognizes that the competitive pressures for economic growth and cost efficiency must be integrated with environmental stewardship and ecological considerations. Environmental committees throughout the Company meet regularly to monitor and ensure the maintenance of responsible business operations. The Environmental, Health and Safety Committee of the Board of Directors receives reports which review outstanding environmental issues, identify new legislative concerns and outline related communication efforts. Currently, the Company is not aware of any significant environmental liabilities.

OUTLOOK

The financial strength of the Company and the strategic deployment of its financial resources will allow for the continued successful implementation of the Company's operating and financial strategies. The Company plans to continue its capital investment program while maintaining its reputation for innovation and cost effective operations. Sales and earnings are expected to continue to grow solidly into 2002 and beyond, while a strong balance sheet and cash flow position are maintained.



At our more than 200 in-store flower markets and 420 outdoor garden centres, our customers will always find a wide selection of the season's freshest flowers and plants – and everything else they need for a beautiful garden.

In addition to our regular grocery section, customers can take advantage of our *Club Pack* section, which offers a wide selection of products at "warehouse club" prices.