Q3

2008
Third Quarter

Report to Shareholders
40 Weeks Ended October 4, 2008

Loblaw®
COMPANIES LIMITED

LOBLAW COMPANIES LIMITED REPORTS THIRD QUARTER 2008 RESULTS

2008 Third Quarter Summary[1]

For the periods ended October 4, 2008 and October 6, 2007 (unaudited) ($ millions except where otherwise indicated)	**2008 (16 weeks)**	2007 (16 weeks)	Change	**2008 (40 weeks)**	2007 (40 weeks)	Change
Sales	**$ 9,493**	$ 9,137	3.9%	**$ 23,057**	$ 22,417	2.9%
Operating expenses	**9,182**	8,887	3.3%	**22,328**	21,815	2.4%
Operating income	**311**	250	24.4%	**729**	602	21.1%
Net earnings	**155**	117	32.5%	**357**	290	23.1%
Basic net earnings per common share ($)	**0.56**	0.43	30.2%	**1.30**	1.06	22.6%
Same-store sales increase (%)	**3.0%**	1.6%		**2.2%**	2.2%	
Operating margin	**3.3%**	2.7%		**3.2%**	2.7%	
EBITDA[2]	**$ 501**	$ 430	16.5%	**$ 1,190**	$ 1,056	12.7%
EBITDA margin[2]	**5.3%**	4.7%		**5.2%**	4.7%	
Free cash flow[2]	**$ 87**	$ 117	(25.6%)	**$ (265)**	$ 67	(495.5%)

Sales in the third quarter of 2008 were $9,493 million compared to $9,137 million in the same period in 2007, an increase of 3.9%. Net earnings were $155 million, a 32.5% increase compared to $117 million in the same period last year. EBITDA[2] of $501 million represented a 16.5% increase over last year. Basic net earnings per common share were $0.56, compared to $0.43 in the third quarter last year.

The following items influenced the Company's operating income in the third quarter of 2008 compared to the same period in 2007:

- Charges related to restructuring costs in 2008 of $3 million compared to $24 million in 2007. The effect on basic net earnings per common share was a charge of $0.01 (2007 − $0.05).
- Charges related to the net effect of stock-based compensation and the associated equity forwards of $9 million in 2008 compared to a charge of $19 million in 2007. The effect on basic net earnings per common share was a charge of $0.04 (2007 − $0.08). The non-cash charge on equity forwards resulted from a decrease in the Company's share price during the third quarter of 2008.

Excluding the above items, operating income, EBITDA[2] and basic net earnings per common share in the third quarter of 2008 improved compared to the third quarter of 2007.

Commenting on the Company's performance, Galen G. Weston, Loblaw Companies Limited Executive Chairman said: "Third quarter performance showed some signs of progress towards our goal of becoming an effective selling organization. We also continued to realize benefits from our improved buying, cost management and operating procedures. However, we are preparing for a challenging close to the current year and start to the next, driven by the uncertain economy and continued competitive pressures."

Highlights of the Quarter

- The Company remains on track and is progressing well in all areas of its five point plan to drive profitable sales momentum: Back-to-Best great food renewal in Ontario, western Canada refurbishment, local market merchandising, foundational infrastructure focus, and private label innovation.

(1) To be read in conjunction with "Forward-Looking Statements" on page 3.
(2) See Non-GAAP Financial Measures on page 12.

- Total sales were $9,493 million in the third quarter of 2008 compared to $9,137 million in the same period last year, an increase of 3.9%. Same-store sales in the quarter increased by 3.0%. Sales and same-store sales growth in the third quarter of 2008 were negatively impacted by approximately 0.7% as a result of a shift of the Thanksgiving holiday into the fourth quarter of 2008. Total sales growth in both food and drugstore were good in the quarter. General merchandise sales declined compared to the third quarter of 2007 due to unseasonable weather and the markdown of merchandise to sell through seasonal inventory. Gas bar sales continued to be strong in the third quarter as a result of fuel price inflation as well as volume growth. Positive customer count growth was achieved in the third quarter of 2008, while item count growth remained flat versus the same period last year. The Company's analysis indicated that moderate internal retail food price inflation was experienced in the third quarter of 2008.

- Operating income increased by $61 million, or 24.4%, to $311 million in the third quarter of 2008, compared to $250 million in the third quarter of 2007. Operating margin was 3.3% for the third quarter of 2008 compared to 2.7% in 2007. Lower restructuring and net stock-based compensation costs, higher sales and the impact of the Company's cost reduction initiatives contributed to the increase in operating income and operating margin.

- Basic net earnings per common share increased 13 cents or 30.2% to $0.56 for the third quarter of 2008, compared to $0.43 in the same quarter last year. EBITDA(1) for the quarter was $501 million, representing an increase of 16.5% compared to $430 million in the second quarter of 2007. EBITDA margin(1) increased to 5.3% from 4.7% in 2007.

- Free cash flow(1) for the third quarter of 2008 was $87 million compared to $117 million in the third quarter of 2007. The change was primarily due to a decrease in cash flows from operating activities, specifically working capital of $58 million and a decrease in capital expenditures of $19 million compared to the third quarter of last year. On a year-to-date basis, free cash flow(1) was negative $265 million compared to $67 million in 2007. The year-to-date change is primarily due to a decrease in cash flows from working capital of $299 million, partially offset by a decrease in capital expenditures of $43 million.

- During the third quarter of 2008, the Company completed two financing transactions which generated $518 million. In June 2008, a preferred share public offering for net proceeds of $218 million (net of transaction costs) was closed and in September 2008, $300 million of credit card receivables were securitized. The proceeds enabled the Company to repay short term borrowings from its $800 million credit facility. As at October 4, 2008, $273 million was drawn on this five year committed credit facility.

- The Company's ongoing investment in lower food prices, to drive customer value perceptions, continues to have a negative impact on earnings. Reasonable progress was achieved in the third quarter of 2008 to help support these investments:
  - The Company achieved improved year-over-year shrink and on-shelf availability in the third quarter from the continued rollout and training of enhanced "shop-keeping" procedures.
  - Buying synergies and more disciplined vendor management are resulting in lower purchase costs for both merchandise and not-for-resale items.

The Company remains focused on delivering profitable sales momentum, driven by our efforts in food renewal, store enhancements, innovation, infrastructure, and improving value for our customers. While continued progress in cost and operating efficiencies are expected to support these investments, it is anticipated that the unpredictable economy and aggressive competitive environment will further challenge results for the remainder of 2008 and into 2009.

(1) See Non-GAAP Financial Measures on page 12.

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Forward-Looking Statements

This Quarterly Report for Loblaw Companies Limited and its subsidiaries (collectively, the "Company" or "Loblaw") including the Management's Discussion and Analysis ("MD&A"), contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects and opportunities. Words such as "anticipate", "expect", "believe", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may" and "should" and similar expressions, as they relate to the Company and its management, are intended to identify forward-looking statements. These forward-looking statements are not historical facts but reflect the Company's current expectations concerning future results and events.

These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. These risks and uncertainties include, but are not limited to: changes in economic conditions; changes in consumer spending and preferences; heightened competition, whether from new competitors or current competitors; changes in the Company's or its competitors' pricing strategies; failure of the Company's franchised stores to perform as expected; risks associated with the terms and conditions of financing programs offered to the Company's franchisees; failure to realize sales growth, anticipated cost savings or operating efficiencies from the Company's major initiatives, including investments in the Company's information technology systems, supply chain investments and other cost reduction and simplification initiatives; increased costs relating to utilities, including electricity, and fuel; the inability of the Company's information technology infrastructure to support the requirements of the Company's business; the inability of the Company to manage inventory to minimize the impact of obsolete or excess issues and to control shrink; failure to execute successfully and in a timely manner the Company's major initiatives, including the implementation of strategies and introduction of innovative and reformulated products; unanticipated costs associated with the Company's strategic initiatives, including those related to compensation costs; the inability of the Company's supply chain to service the needs of the Company's stores; deterioration in the Company's relationship with its employees, particularly through periods of change in the Company's business; failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements which could lead to work stoppages; changes to the regulatory environment in which the Company operates; the adoption of new accounting standards and changes in the Company's use of accounting estimates including in relation to inventory valuation; fluctuations in the Company's earnings due to changes in the value of equity forward contracts relating to its common shares; changes in the Company's tax liabilities resulting from changes in tax laws or future assessments; detrimental reliance on the performance of third-party service providers; public health events; the inability of the Company to obtain external financing; any requirement of the Company to make contributions to its registered funded defined benefit pension plans in excess of those currently contemplated; the inability of the Company to attract and retain key executives; and supply and quality control issues with vendors. These and other risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Risks and Risk Management section of the MD&A included in the Company's 2007 Annual Report. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements.

In addition to these risks and uncertainties, the material assumptions used in making the forward looking statements contained herein and in particular in the 2008 Third Quarter Summary and the section entitled "Outlook" on page 11 of this Quarterly Report, include: there is no material change in economic conditions; patterns of consumer spending and preferences remain reasonably consistent with historical trends; there is no significant change in competitive conditions, whether related to new competitors or current competitors; there are no unexpected changes in the Company's or its competitors' current pricing strategies; the Company's franchised stores perform as expected; anticipated cost savings and operating efficiencies are achieved, including those from the Company's cost reduction and simplification initiatives; there is no unexpected adverse change in the Company's access to liquidity; and there are no significant regulatory, tax or accounting changes or other significant events occurring outside the ordinary course of business.

Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this Quarterly Report. The Company disclaims any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") for Loblaw Companies Limited and its subsidiaries (collectively, the "Company" or "Loblaw") should be read in conjunction with the Company's 2008 unaudited interim period consolidated financial statements and the accompanying notes on pages 18 to 33 of this Quarterly Report and the audited annual consolidated financial statements and the accompanying notes for the year ended December 29, 2007 and the related annual MD&A included in the Company's 2007 Annual Report. The Company's 2008 unaudited interim period consolidated financial statements and the accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars. These interim period consolidated financial statements include the accounts of Loblaw Companies Limited and its subsidiaries and variable interest entities ("VIEs") that the Company is required to consolidate in accordance with Accounting Guideline 15, "Consolidation of Variable Interest Entities", ("AcG 15"). A glossary of terms used throughout this Quarterly Report can be found on page 85 of the Company's 2007 Annual Report. In addition, this Quarterly Report includes the following terms: "rolling year return on average total assets" which is defined as cumulative operating income for the latest four quarters divided by average total assets excluding cash and cash equivalents, short term investments, and security deposits; and "rolling year return on average shareholders' equity" which is defined as cumulative net earnings available to common shareholders for the latest four quarters divided by average total common shareholders' equity.

The information in this MD&A is current to November 13, 2008, unless otherwise noted.

Results of Operations

The Company continues to realize benefits from improved buying, cost management and operating procedures and remained on track in all areas of its five point plan to drive profitable sales momentum: Back-to-Best great food renewal in Ontario; western Canada refurbishment; local market merchandising; foundational infrastructure; and control label (private) innovation.

Growth in customer count contributed to the increase in total sales in the third quarter of 2008, despite item count growth remaining flat versus the same period last year. Same-store sales in the third quarter of 2008 increased by 3.0% compared to 1.6% for the same period last year. The shift of the Thanksgiving sales into the fourth quarter of 2008 resulted in approximately 0.7% lower growth in the third quarter of 2008. Moderate internal retail food price inflation was experienced in the third quarter of 2008.

Operating income of $311 million for the third quarter of 2008 increased by $61 million compared to the third quarter of 2007. The increase in operating income was due to lower restructuring and net stock-based compensation costs, higher sales and cost reduction initiatives. Operating margin and EBITDA margin(1) , excluding the impact of restructuring costs, increased in the third quarter of 2008, compared to the third quarter of 2007, as a result of the above factors.

The effective income tax rate in the third quarter of 2008 decreased to 30.3% compared to 32.2% in the third quarter of 2007, primarily due to a change in the proportions of taxable income earned across different tax jurisdictions and lower Canadian federal and certain provincial statutory income tax rates relative to the third quarter of 2007 which was partially offset by an increase in income tax accruals relating to certain income tax matters.

Net earnings were $155 million in the third quarter of 2008, a 32.5% increase compared to $117 million in the same period last year. For the third quarter of 2008, basic net earnings per common share were $0.56 compared to $0.43 in 2007, an increase of 30.2%.

Sales Sales for the third quarter increased by 3.9% to $9,493 million compared to $9,137 million in the third quarter of 2007. Total sales growth in both food and drugstore were good in the quarter while general merchandise sales declined compared to the third quarter of 2007 due to unseasonable weather and the markdown of merchandise to sell through seasonal inventory. Gas bar sales continued to be strong in the third quarter as a result of fuel price inflation and volume growth. Moderate internal retail food price inflation contributed to the same-store sales increase of 3.0% in the quarter.

The following factors explain the major components in the change in sales for the third quarter of 2008 compared to same period in 2007:

- same-store sales growth of 3.0%;
- a shift in Thanksgiving holiday sales into the fourth quarter of 2008 resulted in lower sales and same-store sales growth of approximately 0.7% during the third quarter of 2008;

(1) See Non-GAAP Financial Measures on page 12.

- continued strong gas bar sales resulting from both fuel price inflation and volume growth;
- the Company experienced moderate internal retail food price inflation for the third quarter of 2008 although national food price inflation as measured by "The Consumer Price Index for Food Purchased from Stores" was 5.4% for the third quarter of 2008 compared to 2.2% in the same period of 2007. This measure of inflation does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores; and
- during the third quarter of 2008, 8 new corporate and franchised stores were opened and 15 were closed, resulting in a net decrease of 0.2 million square feet or 0.3%. During the latest four quarters, net retail square footage remained flat despite the opening of 29 new corporate and franchised stores, inclusive of stores that underwent conversions and major expansions, and the closure of 35 stores.

For the first three quarters of the year, sales increased by 2.9%, or $640 million, to $23,057 million year-to-date. The following factors in addition to the quarterly factors mentioned above further explained the change in year-to-date sales over the same period in the prior year:

- same-store sales growth of 2.2%; and
- in the first three quarters, 21 new corporate and franchised stores were opened, including stores which underwent conversions and major expansions, and 27 stores closed.

Operating Income Operating income of $311 million for the third quarter of 2008 compared to $250 million in the same period of 2007, an increase of 24.4%. Operating margin was 3.3% for the third quarter of 2008 compared to 2.7% in 2007. The increase in operating income was mainly due to lower restructuring and net stock-based compensation costs, higher sales and cost reduction initiatives that have been implemented throughout the Company.

The year over year change in the following items influenced operating income for the third quarter of 2008 compared to the third quarter of 2007:

- charge of $3 million (2007 − $24 million) related to restructuring costs; and
- charge of $9 million (2007 − charge of $19 million) related to the net effect of stock-based compensation and the associated equity forwards. A non-cash charge on equity forwards resulted from a decrease in the Company's share price during the third quarter of 2008.

Excluding the above items, operating income in the third quarter of 2008 improved compared to the third quarter of 2007.

After factoring in the above items, operating margin and EBITDA margin(1) increased in the third quarter of 2008. The Company's focus on cost reduction, including shrink initiatives has improved margins in the third quarter of 2008 compared to the third quarter of 2007. Buying synergies and more disciplined vendor management are resulting in lower purchase costs for both merchandise and not-for-resale items.

The Company experienced higher store labour costs in the third quarter of 2008 as a result of increased wage rates and investments in training compared to the third quarter of 2007. Labour productivity decreased slightly in the third quarter of 2008 compared to the same period last year but has remained consistent on a year-to-date basis.

EBITDA(1) increased by $71 million, or 16.5%, to $501 million in the third quarter of 2008 compared to $430 million in the third quarter of 2007. EBITDA margin(1) increased in the third quarter of 2008 to 5.3% from 4.7% in the comparable period of 2007. Lower restructuring and net stock-based compensation costs, higher sales and the impact of the Company's cost reduction initiatives have contributed to the increase in EBITDA and EBITDA margin.

Year-to-date operating income for 2008 increased by $127 million, or 21.1%, to $729 million, and resulted in an operating margin of 3.2% as compared to 2.7% in the corresponding period in 2007. During the first three quarters of 2008, the Company recorded restructuring charges of $7 million (2007 − $186 million) of which $3 million (2007 − $168 million) related to Project Simplify, income of $1 million (2007 − charge of $16 million) related to the store operations, and a charge of $5 million (2007 − $2 million) related to the supply chain network. In addition, the Company recognized in operating income a year-to-date charge of $24 million (2007 − $20 million) for the net effect of stock-based compensation and the associated equity forwards. Excluding the above items, year-to-date operating income for 2008 decreased compared to the corresponding period in 2007.

Year-to-date EBITDA(1) increased by $134 million, or 12.7%, to $1,190 million compared to $1,056 million in the corresponding period in 2007. EBITDA margin(1) increased to 5.2% year-to-date compared to 4.7% for the same period last year. The year-to-date increase in EBITDA(1) and EBITDA margin(1) was due to lower restructuring charges, higher sales and cost reduction initiatives.

(1) See Non-GAAP Financial Measures on page 12.

Interest Expense and Other Financing Charges Interest expense and other financing charges for the third quarter of 2008 was $80 million compared to $76 million in the same period of 2007. The following items impacted interest expense:

- interest on long term debt of $85 million (2007 – $87 million);
- interest income on financial derivative instruments, which includes the effect of the Company's interest rate swaps, cross currency basis swaps and equity forwards, of $1 million (2007 – charge of $5 million);
- net short term interest expense of nil (2007 – income of $5 million);
- interest income on security deposits of $2 million (2007 – $5 million);
- interest expense of $6 million (2007 – $6 million) was capitalized to fixed assets; and
- dividends on capital securities of $4 million (2007 − nil).

Interest expense and other financing charges year-to-date was $198 million compared to $193 million in 2007.

Income Taxes The effective income tax rate in the third quarter of 2008 decreased to 30.3%, compared to 32.2% in the third quarter of 2007, and the year-to-date effective income tax rate increased to 31.5% in 2008 compared to 30.1% in 2007. The quarter over quarter reduction in the effective income tax rate is primarily due to a change in the proportions of taxable income earned across different tax jurisdictions and lower Canadian federal and certain provincial statutory income tax rates relative to the third quarter of 2007 which was partially offset by an increase in income tax accruals relating to certain income tax matters. The year over year increase in the effective income tax rate is primarily due to an increase in income tax accruals relating to certain income tax matters which is partially offset by a change in the proportions of taxable income earned across different tax jurisdictions and lower Canadian federal and certain provincial statutory income tax rates relative to the third quarter of 2007.

Net Earnings Net earnings for the third quarter increased by $38 million, or 32.5%, to $155 million from $117 million in the third quarter of 2007 and increased by $67 million, or 23.1%, to $357 million year-to-date from $290 million in 2007. Basic net earnings per common share for the third quarter increased by $0.13, or 30.2%, to $0.56 from $0.43 in the third quarter of 2007 and increased by $0.24, or 22.6%, to $1.30 year-to-date compared to $1.06 for the same period last year.

Basic net earnings per common share were affected in the third quarter of 2008 compared to the third quarter of 2007 by the following:

- charge of $0.01 (2007 – $0.05) per common share related to restructuring costs; and
- charge of $0.04 (2007 – $0.08) per common share for the net effect of stock-based compensation and the associated equity forwards.

Year-to-date basic net earnings per common share for 2008 as compared to the same period in 2007 was affected by the following:

- charge of $0.02 (2007 – $0.44) per common share related to restructuring costs; and
- charge of $0.11 (2007 – $0.09) per common share for the net effect of stock-based compensation and the associated equity forwards.

Financial Condition

Financial Ratios The Company's net debt(1) to equity ratio continued to be within the Company's internal guideline of less than 1:1. The net debt(1) to equity ratio was 0.59:1 at the end of the third quarter of 2008 compared to 0.71:1 at the end of the third quarter of 2007 and 0.67:1(2) at year end 2007. Equity for the purpose of calculating the net debt to equity ratio is defined by the Company as capital securities and shareholders' equity. The decrease in the net debt(1) to equity ratio at the end of the third quarter of 2008 when compared to 2007 was due to a decrease in commercial paper and short term debt and an increase in cash and cash equivalents, short term investments, security deposits and the issuance of capital securities. The change in this ratio from year end 2007 is due to a decrease in commercial paper, offset by the increase in short term debt and the issuance of capital securities. The interest coverage ratio was 3.4 times for the third quarter of 2008 compared to 2.9 times in 2007. For further details on net debt(1) to equity ratio and interest coverage ratio, see note 14 to the unaudited interim period consolidated financial statements.

The rolling year return on average total assets(1) at the end of the third quarter of 2008 increased to 6.9%, compared to (0.7)% for the comparable period in 2007, and to 5.8%(2) at year end 2007. The rolling year return on average shareholders' equity at the end of the third quarter of 2008 increased to 7.1%, compared to (7.9)% for the comparable period of 2007, and remained consistent with 6.0%(2) at year end 2007. The ratios in the third quarter of 2007 were negatively impacted by the decline in cumulative operating income for the latest four quarters including the negative impact of the $800 million non-cash goodwill impairment charge recorded in the fourth quarter of 2006.

(1) See Non-GAAP Financial Measures on page 12.

(2) See page 12 of the Company's 2007 Annual Report.

Dividends Loblaw's Board of Directors declared a dividend equal to $0.21 per common share with a payment date of October 1, 2008 and $0.5394 per preferred share Series A with a payment date of October 31, 2008. Dividends on the second preferred share Series A are reported as a component of interest expense and other financing charges in the statement of earnings commencing in the third quarter of 2008.

Outstanding Share Capital The Company's outstanding share capital is comprised of common shares and preferred shares. An unlimited number of common shares is authorized and 274,173,564 common shares were outstanding at quarter end. In addition, 12.0 million second preferred shares Series A is authorized and 9.0 million of these shares were outstanding at the end of the third quarter of 2008. The preferred shares are classified as capital securities and are included in liabilities. Further information on the Company's outstanding share capital is provided in note 14 to the unaudited interim period consolidated financial statements.

Liquidity and Capital Resources

Cash Flows from Operating Activities Third quarter cash flows from operating activities were $399 million in 2008 compared to $448 million in the comparable period in 2007. The decreases in cash flows from operating activities for the third quarter were mainly due to the change in non-cash working capital as a result of changes in inventories and accounts payable and accrued liabilities; which were partially offset by the increase in operating income, excluding the impact of restructuring costs. On a year-to-date basis, cash flows from operating activities were $362 million compared to $737 million in 2007. The year-to-date decreases in cash flows from operating activities were mainly due to the change in non-cash working capital as a result of changes in inventories, accounts receivable, accounts payable and accrued liabilities and income taxes and a decrease in operating income, excluding the impact of restructuring costs.

Cash Flows from (used in) Investing Activities Third quarter cash flows from investing activities were $91 million compared to $351 million used in 2007. On a year-to-date basis, cash flows used in investing activities were $180 million compared to $545 million in 2007. The third quarter and year-to-date changes were primarily due to decreases in cash flows used in short term investments, capital expenditures and by a change in cash flows from credit card receivables, after securitization. Capital investment for the third quarter amounted to $197 million (2007 – $216 million) and $397 million (2007 − $440 million) year-to-date.

During the third quarter of 2008, $300 million (2007 – $100 million) of credit card receivables were securitized and $300 million (2007 − $225 million) year-to-date by *President's Choice* Bank ("*PC* Bank") through the sale of a portion of the total interest in these receivables to an independent trust. The securitization yielded a net gain of $1 million in 2008 (2007 − nominal net loss) based on the assumptions disclosed in note 10 of the consolidated financial statements for the year ended December 29, 2007 included in the Company's 2007 Annual Report. The independent trusts' recourse to *PC* Bank's assets is limited to *PC* Bank's retained interests and is further supported by the Company through a standby letter of credit for $116 million (2007 – $89 million) on a portion of the securitized amount.

Cash Flows used in Financing Activities Third quarter cash flows used in financing activities were $417 million in 2008 compared to $126 million in 2007. During the third quarter of 2008, the change in cash flows from commercial paper was $252 million as a result of a reduction in commercial paper levels, the change in cash flows from the issuance of capital securities was $218 million, and the change in cash flows used in short term debt was $831 million as a result of an increase in short term debt as described below. On a year-to-date basis, cash flows used in financing activities were $210 million compared to cash flows used in financing activities of $306 million in 2007. On a year-to-date basis, the change in cash flows used in commercial paper was $1 million, the change in cash flows used to retire long term debt was $394 million, the change in cash flows used in short term debt was $33 million, the change in cash flows from the issuance of new long term debt was $276 million, and the change in cash flow from the issuance of capital securities was $218 million.

In the first quarter of 2008, the Company entered into an $800 million, 5-year committed credit facility, provided by a syndicate of banks, which contains certain financial covenants. This facility is the primary source of the Company's short term funding requirements and permits borrowings having up to a 180-day term that accrue interest based on short term floating interest rates. This facility replaced a $500 million, 364-day committed credit facility which had no financial covenants and permitted borrowings having up to a 180-day term that accrued interest based on short term floating interest rates. As at October 4, 2008, $273 million was drawn on the new 5-year committed credit facility.

During the second quarter of 2008, the Company issued USD $300 million of fixed-rate unsecured notes in a private placement debt financing which contains certain financial covenants. The notes were issued in two equal tranches of USD $150 million with 5 and 7 year

(1) See Non-GAAP Financial Measures on page 12.

maturities at interest rates of 6.48% and 6.86%, respectively. The Company entered into two fixed cross currency swaps to manage the foreign exchange and US interest rate risk. These cross currency swaps were designated as cash flow hedges (see note 13 to the unaudited interim period consolidated financial statements). The net proceeds from the issue of the notes were used to repay maturing debt obligations, including a portion of the $390 million of 6.00% Medium Term Notes ("MTN") which matured in June 2008.

During the third quarter, the Company closed its Canadian public offering of 9 million cumulative redeemable convertible Second Preferred Shares, Series A, at a price of $25.00 per share, to yield 5.95% per annum, for an aggregate gross amount of $225 million and the net proceeds of $218 million were added to the general funds of the Company. The preferred shares have been listed and posted to trade on the Toronto Stock Exchange ("TSX") under the symbol "L.PR.A". Dominion Bond Rating Service ("DBRS") assigned a rating of Pfd-3 with a Negative trend and Standard & Poor's ("S&P") assigned a rating of P-3 (high) to the Company's preferred shares.

From time to time, *PC* Bank, a wholly owned subsidiary of the Company, securitizes credit card receivables through the sale of a portion of the total interest in these receivables to independent trusts. During the third quarter, $300 million of credit card receivables were securitized by *PC* Bank, through the sale of a portion of the total interest in these receivables to an independent trust. A portion of the securitized receivables are in an independent trust facility with a term of 364 days, subject to annual renewal. If the term of this facility is not renewed, collections will be accumulated prior to the expiry and the amount of that portion of the securitized receivables will be repaid to the trust.

The financing transactions completed earlier in the year, existing cash and cash equivalents, short term investments and security deposits included in other assets, future operating cash flow and the amounts available to be drawn against its credit facility are expected to enable the Company to repay its 2009 5.75% MTN debt maturities of $125 million, finance its capital investment program and fund its ongoing business requirements including working capital and pension plan funding. The Company believes it has sufficient funding available to meet these requirements over the next twelve months. Given reasonable access to capital markets, the Company does not foresee any difficulty in securing financing to satisfy its long term obligations.

With respect to the capital investment program, we are continuing to invest in renovations to our existing store base, with a focus on generating profitable same-store sales growth, and in upgrading our information technology and supply chain infrastructure. Our estimate of capital expenditures for the remainder of 2008 is approximately $300 million.

During the first three quarters of 2008, the Company's MTN, other notes and debentures ratings and commercial paper ratings were downgraded twice by DBRS and once by S&P. The following table sets out the current credit ratings of the Company.

	Dominion Bond Rating Service		Standard & Poor's	
Credit Ratings (Canadian Standards)	Credit Rating	Trend	Credit Rating	Outlook
Commercial paper	R-2 (middle)	Negative	A-2	Negative
Medium term notes	BBB	Negative	BBB	Negative
Preferred shares	Pfd-3	Negative	P-3 (high)	
Other notes and debentures	BBB	Negative	BBB	Negative

The rating organizations listed above base their credit ratings on quantitative and qualitative considerations. These credit ratings are forward-looking and intended to give an indication of the risk that the Company will not fulfill its obligations in a timely manner. As a result of the DBRS downgrade of the short term credit rating, the Company has limited access to commercial paper.

The Company's ability to obtain funding from external sources may be restricted by further downgrades in the Company's credit ratings and should the Company's financial performance and condition deteriorate. In addition, credit and capital markets are subject to inherent global risks that may negatively affect the Company's access and ability to fund its short term and long term debt requirements. The Company mitigates these risks by maintaining appropriate levels of cash and cash equivalents, short term investments and security deposits, actively monitoring market conditions and diversifying its sources of funding and maturity profile. The Company also employs risk management strategies including forward-looking liquidity contingency plans.

Loblaw renewed its Normal Course Issuer Bid during the second quarter of 2008 to purchase on the TSX, or enter into equity derivatives to purchase, up to 13,708,678 of the Company's common shares, representing 5% of the common shares outstanding. In accordance with the requirements of the Toronto Stock Exchange, Loblaw may purchase its shares at the then market prices of such shares. The Company did not purchase any shares under its Normal Course Issuer Bids during the first three quarters of 2008 or in 2007.

Free Cash Flow(1) Free cash flow(1) for the third quarter of 2008 was $87 million compared to $117 million in the third quarter of 2007. The change was primarily due to a decrease in cash flows from operating activities, specifically working capital of $58 million and a decrease in capital expenditures of $19 million compared to the third quarter of last year. On a year-to-date basis, free cash flow(1) was negative $265 million compared to $67 million in 2007. The year-to-date change is primarily due to a decrease in cash flows from working capital of $299 million, partially offset by a decrease in capital expenditures of $43 million.

Independent Funding Trusts

Certain independent franchisees of the Company obtain financing through a structure involving independent trusts, which were created to provide loans to the independent franchisees to facilitate their purchase of inventory and fixed assets, consisting mainly of fixtures and equipment. These trusts are administered by a major Canadian chartered bank.

During the first quarter of 2008, the Company was notified that an Event of Termination of the independent funding trust agreement for the Company's franchisees had occurred as a result of the credit rating downgrade by DBRS of the long term credit rating to "BBB (high)" from "A (low)". As a result of the Event of Termination, during the second quarter of 2008, the Company finalized an alternative financing arrangement for the independent funding trust in the form of a $475 million, 364-day revolving committed credit facility provided by a syndicate of banks.

The gross principal amount of loans issued to the Company's independent franchisees outstanding at the end of the third quarter of 2008 was $380 million (2007 – $418 million) including $151 million (2007 – $148 million) of loans payable by VIEs consolidated by the Company. Based on a formula, the Company has agreed to provide credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trust equal to approximately 15% (2007 − 10%) of the principal amount of the loans outstanding at any point in time, $66 million (2007 – $44 million) as of the end of the third quarter of 2008. The standby letter of credit has never been drawn upon. This credit enhancement allows the independent funding trust to provide favourable financing terms to the Company's independent franchisees. As well, each independent franchisee provides security to the independent funding trust for its obligations by way of a general security agreement. In the event that an independent franchisee defaults on its loan and the Company has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trust would assign the loan to the Company and draw upon this standby letter of credit. The Company has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit. This new alternative financing will result in a higher relative financing cost to the franchisees, which in turn could adversely affect operating results. The new financing structure has been reviewed and the Company determined there were no material implications with respect to the consolidation of VIEs.

Quarterly Results of Operations

The following is a summary of selected consolidated financial information derived from the Company's unaudited interim period consolidated financial statements for each of the eight most recently completed quarters. This information was prepared in accordance with Canadian GAAP and is reported in Canadian dollars. Each of the quarters presented is 12 weeks in duration except for the third quarter, which is 16 weeks in duration. Every 5 years the fourth quarter is 13 weeks in duration and this will occur in fiscal 2008.

Summary of Quarterly Results
(unaudited)

	Third Quarter		Second Quarter		First Quarter		Fourth Quarter	
($ millions except where otherwise indicated)	**2008**	2007	2008	2007	2008	2007	2007	2006
Sales	**$ 9,493**	$ 9,137	$ 7,037	$ 6,933	$ 6,527	$ 6,347	$ 6,967	$ 6,784
Net earnings (loss)	**$ 155**	$ 117	$ 140	$ 119	$ 62	$ 54	$ 40	$ (756)
Net earnings (loss) per common share								
Basic ($)	**$ 0.56**	$ 0.43	$ 0.51	$ 0.43	$ 0.23	$ 0.20	$ 0.14	$ (2.76)
Diluted ($)	**$ 0.56**	$ 0.43	$ 0.51	$ 0.43	$ 0.23	$ 0.20	$ 0.14	$ (2.76)

Sales continued to grow in the third quarter of 2008 compared to the third quarter of 2007. Same-store sales growth during the third quarter of 2008 increased 3.0%. Sales and same-store sales growth in the third quarter of 2008 were negatively impacted by approximately 0.7% due to timing of the Thanksgiving holiday, which occurred one week later in 2008, resulting in a shift in holiday sales into the fourth quarter of 2008 compared to the third quarter of 2007. Sales increased in each quarter compared to the prior year due to increases in same-store sales.

(1) See Non-GAAP Financial Measures on page 12.

Fluctuations in quarterly net earnings reflect the impact of a number of specific charges including restructuring and other charges, the net effect of stock-based compensation and the associated equity forwards, an inventory liquidation charge of $68 million in the fourth quarter of 2006, and a non-cash goodwill impairment charge of $800 million in the fourth quarter of 2006. Earnings in the third quarter of 2008 benefited from the Company's cost reduction initiatives, whereas earnings in the first and second quarters of 2008 and the fourth quarter of 2007 were pressured from investments in lower retail pricing.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There has been no change in the Company's internal control over financial reporting that occurred during the sixteen weeks ended October 4, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Risks and Risk Management

Employee Future Benefit Contributions
Although the Company's registered funded defined benefit plans as of the last filed actuarial valuations were adequately funded and historical returns on defined pension plan assets are in line with long term expectations, there is no assurance that these trends will continue. If the capital markets do not recover some of the recent significant losses in the near term, the Company may experience a significant increase in pension expense for its defined benefit plans and it is possible that future pension plan contributions may be significantly greater than the current projected contributions. The Company continues to assess the impact of capital markets on its funding requirements.

Legal Proceedings

During the first quarter of 2007, the Company was one of 17 defendants served with an action brought in the Superior Court of Ontario by certain beneficiaries of a multi-employer pension plan in which the Company's employees and those of its independent franchisees participate. In their claim against the employers and the trustees of the multi-employer pension plan, the plaintiffs claimed that assets of the multi-employer pension plan had been mismanaged and are seeking, among other demands, damages of $1 billion. The action was framed as a representative action on behalf of all the beneficiaries of the multi-employer pension plan. In the second quarter of 2008, the Company received confirmation that the action against the Company has been dismissed and in the third quarter the Company also received confirmation that the action against the plan trustees has been dismissed.

The Company is the subject of various legal proceedings and claims that arise in the ordinary course of business. The outcome of all of these proceedings is uncertain. However, based on information currently available, these claims, individually and in the aggregate, are not expected to have a material impact on the Company.

Accounting Standards Implemented in 2008

Capital Disclosures and Financial Instruments – Disclosure and Presentation In December 2006, the Canadian Institute of Chartered Accountants ("CICA") issued three new accounting standards: Section 1535, "Capital Disclosures" ("Section 1535"), Section 3862, "Financial Instruments − Disclosures" ("Section 3862") and Section 3863, "Financial Instruments − Presentation" ("Section 3863").

Section 1535 establishes guidelines for the disclosure of information regarding a company's capital and how it is managed. Enhanced disclosures with respect to the entity's objectives, policies and processes for managing capital and quantitative disclosure about what the entity regards as capital are required. For new disclosures refer to note 14 to the unaudited interim period consolidated financial statements. The adoption of Section 1535 did not have an impact on the Company's results of operations or financial condition.

Section 3862 and Section 3863 replaced Section 3861, "Financial Instruments – Disclosure and Presentation". Section 3862 requires increased disclosures regarding the risks associated with financial instruments and how these risks are managed. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivative instruments and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity. For new disclosures refer to notes 16 and 18 to the unaudited interim period consolidated financial statements. Comparative information about the nature and extent of risks arising from financial instruments is not required in the year Section 3862 is adopted. The adoption of Section 3862 and Section 3863 did not have an impact on the Company's results of operations or financial condition.

Inventories During the first quarter of 2008, the Company also implemented Section 3031, "Inventories" ("Section 3031"), which replaced Section 3030 of the same title. Section 3031 provides guidance with respect to the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. Costs such as storage costs and administrative overhead that do not contribute to bringing inventories to their present location and condition are specifically excluded from the cost of inventories and expensed in the period incurred. Reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories is now required. The cost of the inventories should be based on a first-in, first-out or a weighted average cost formula. Techniques used for the measurement of cost of inventories, such as the retail method may be used if the results approximate cost. The new standard also requires additional disclosures including the accounting policies used in measuring inventories, the carrying amount of the inventories, amounts recognized as an expense during the period, write-downs and the amount of any reversal of any write-downs recognized as a reduction in expenses.

Upon implementation of Section 3031, a decrease in opening inventories of $65 million, an increase in current income taxes receivable of $24 million and a decrease of $41 million to opening retained earnings were recorded on the consolidated balance sheet resulting from the application of a consistent cost formula for all inventories having a similar nature and use to the Company. For further details of the specific accounting changes and related impacts, see notes 2 and 10 to the unaudited interim period consolidated financial statements.

Future Accounting Standards

Goodwill and Intangible Assets In November 2007, the CICA issued amendments to Section 1000 "Financial Statement Concepts", and AcG 11 "Enterprises in the Development Stage", issued a new Handbook Section 3064 "Goodwill and Intangible Assets" ("Section 3064"), to replace Section 3062 "Goodwill and Other Intangible Assets", withdrew Section 3450 "Research and Development Costs" and amended EIC 27 "Revenues and Expenditures During the Pre-operating Period" to not apply to entities that have adopted Section 3064. These amendments provide guidance for the recognition of internally developed intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The amendments are effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008 and therefore the Company will implement them in the first quarter of 2009, retroactively with restatement of the comparative periods for the current and prior year. The impact of implementing these amendments on the Company's financial statements is currently being assessed.

International Financial Reporting Standards ("IFRS") The Canadian Accounting Standards Board will require all public companies to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. The transition from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of 2011 when the Company will prepare both the current and comparative financial information using IFRS.

The Company has completed a diagnostic impact assessment, has completed planning activities, including the establishment of a steering committee comprised of senior management, and is currently progressing through the detailed assessment and design of the overall implementation strategy.

The Company expects the transition to IFRS to impact financial reporting, business processes and information systems. The Company will continue to review all proposed and continuing projects of the International Accounting Standards Board to determine their impact on the Company, and will continue to invest in training and resources throughout the transition period to facilitate a timely conversion.

Outlook(1)

The Company remains focused on delivering profitable sales momentum, driven by our efforts in food renewal, store enhancements, innovation, infrastructure, and improving value for our customers. While continued progress in cost and operating efficiencies are expected to support these investments, it is anticipated that the unpredictable economy and aggressive competitive environment will further challenge results for the remainder of 2008.

(1) To be read in conjunction with "Forward-Looking Statements" on page 3.

Additional Information

Additional information about the Company has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at www.sedar.com and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator of the Company's subsidiary, *President's Choice* Bank.

Non-GAAP Financial Measures

The Company reports its financial results in accordance with Canadian GAAP. It has historically also included in its Quarterly and Annual Reports certain non-GAAP financial measures and ratios. Over the past year, the Company has reviewed its practices with respect to the disclosure of non-GAAP financial measures. The Company considered the separate presentation of non-GAAP financial measures taking into account the discussion in the MD&A of the results of operations and the impact of specific events on these results of operations, the disclosure practices of its industry peers and best practices.

Based on this review, the Company decided that effective the first quarter of 2008 it would discontinue its use of the following non-GAAP financial measures: sales and sales growth excluding the impact of tobacco sales and VIEs, adjusted operating income and adjusted operating margin, adjusted EBITDA and adjusted EBITDA margin and adjusted basic net earnings per common share. The Company will continue to discuss the impact of individual specific items that are important in understanding the ongoing operations including those that relate to sales, operating income and basic earnings per common share.

The Company will continue to use the following non-GAAP financial measures: EBITDA and EBITDA margin, net debt, return on average total assets and free cash flow. The Company believes these non-GAAP financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below. These measures do not have a standardized meaning prescribed by Canadian GAAP and, therefore, may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to other financial measures determined in accordance with Canadian GAAP.

EBITDA and EBITDA Margin The following table reconciles earnings before minority interest, income taxes, interest expense, depreciation and amortization ("EBITDA") to operating income which is reconciled to Canadian GAAP net earnings measures reported in the unaudited interim period consolidated statements of earnings, for the sixteen and forty week periods ended October 4, 2008 and October 6, 2007. EBITDA is useful to management in assessing the Company's performance of its ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

EBITDA margin is calculated as EBITDA divided by sales.

($ millions)	**2008 (16 weeks)**	2007 (16 weeks)	**2008 (40 weeks)**	2007 (40 weeks)
Net earnings	**$ 155**	$ 117	**$ 357**	$ 290
Add (deduct) impact of the following:				
Minority interest	**6**	1	**7**	(4)
Income taxes	**70**	56	**167**	123
Interest expense and other financing charges	**80**	76	**198**	193
Operating income	**311**	250	**729**	602
Add impact of the following:				
Depreciation and amortization	**190**	180	**461**	454
EBITDA	**$ 501**	$ 430	**$ 1,190**	$ 1,056

Net Debt The following table reconciles net debt used in the net debt to equity ratio to Canadian GAAP measures reported in the unaudited interim period consolidated balance sheets as at October 4, 2008 and October 6, 2007. The Company calculates net debt as the sum of long term debt and short term debt less cash and cash equivalents, short term investments and security deposits which are included in other assets and believes this measure is useful in assessing the amount of leverage employed.

($ millions)	2008	2007
Bank indebtedness	$ 64	$ 32
Commercial paper	9	239
Short term debt	273	306
Long term debt due within one year	163	432
Long term debt	4,040	3,856
Less: Cash and cash equivalents	439	393
Short term investments	251	193
Security deposits included in other assets	356	317
Net debt	$ 3,503	$ 3,962

Free Cash Flow The following table reconciles free cash flow to Canadian GAAP cash flows used in operating activities reported in the unaudited interim period consolidated cash flow statements for the sixteen and forty week periods ended October 4, 2008 and October 6, 2007. The Company calculates free cash flow as cash flows from operating activities less fixed asset purchases and dividends. The Company believes free cash flow is a useful measure of the change in the Company's cash available for additional funding requirements.

($ millions)	2008 (16 weeks)	2007 (16 weeks)	2008 (40 weeks)	2007 (40 weeks)
Cash flows from operating activities	$ 399	$ 448	$ 362	$ 737
Less: Fixed asset purchases	197	216	397	440
Dividends	115	115	230	230
Free cash flow	$ 87	$ 117	$ (265)	$ 67

Total Assets The following table reconciles total assets used in the return on average total assets to Canadian GAAP total assets reported in the unaudited interim period consolidated balance sheets as at October 4, 2008 and October 6, 2007. The Company believes the return on average total assets ratio is useful in assessing the performance of its operating assets and therefore excludes cash and cash equivalents, short term investments and security deposits which are included in other assets from the total assets used in the ratio. Rolling year return on average total assets is calculated as cumulative operating income for the latest four quarters divided by average total assets excluding cash and cash equivalents, short term investments and security deposits which are included in other assets.

($ millions)	2008	2007
Canadian GAAP total assets	$ 13,574	$ 13,357
Less: Cash and cash equivalents	439	393
Short term investments	251	193
Security deposits included in other assets	356	317
Total assets	$ 12,528	$ 12,454

Consolidated Statements of Earnings

(unaudited)

For the periods ended October 4, 2008 and October 6, 2007 ($ millions except where otherwise indicated)	**2008** **(16 weeks)**	2007 (16 weeks)	**2008** **(40 weeks)**	2007 (40 weeks)
Sales	**$ 9,493**	$ 9,137	**$ 23,057**	$ 22,417
Operating Expenses				
Cost of sales, selling and administrative expenses	**8,989**	8,683	**21,860**	21,175
Depreciation and amortization	**190**	180	**461**	454
Restructuring charges (note 3)	**3**	24	**7**	186
	9,182	8,887	**22,328**	21,815
Operating Income	**311**	250	**729**	602
Interest expense and other financing charges (note 4)	**80**	76	**198**	193
Earnings before Income Taxes and Minority Interest	**231**	174	**531**	409
Income Taxes (note 5)	**70**	56	**167**	123
Net Earnings before Minority Interest	**161**	118	**364**	286
Minority Interest	**6**	1	**7**	(4)
Net Earnings	**$ 155**	$ 117	**$ 357**	$ 290
Net Earnings Per Common Share ($) (note 6)				
Basic and Diluted	**$ 0.56**	$ 0.43	**$ 1.30**	$ 1.06

See accompanying notes to the unaudited interim period consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity
(unaudited)

For the periods ended October 4, 2008 and October 6, 2007 ($ millions except where otherwise indicated)	2008 (40 weeks)	2007 (40 weeks)
Common Share Capital, Beginning and End of Period	**$ 1,196**	$ 1,196
Retained Earnings, Beginning of Period	**$ 4,330**	$ 4,245
Cumulative impact of implementing new accounting standards (note 2)	**(41)**	(15)
Net earnings	**357**	290
Dividends declared per common share – 63¢ (2007 – 63¢)	**(173)**	(173)
Retained Earnings, End of Period	**$ 4,473**	$ 4,347
Accumulated Other Comprehensive Income, Beginning of Period	**$ 19**	$ –
Cumulative impact of implementing new accounting standards (note 2)	**–**	16
Other comprehensive loss	**(7)**	(3)
Accumulated Other Comprehensive Income, End of Period (note 15)	**$ 12**	$ 13
Total Shareholders' Equity	**$ 5,681**	$ 5,556

See accompanying notes to the unaudited interim period consolidated financial statements.

Consolidated Statements of Comprehensive Income
(unaudited)

For the periods ended October 4, 2008 and October 6, 2007 ($ millions)	2008 (16 weeks)	2007 (16 weeks)	2008 (40 weeks)	2007 (40 weeks)
Net earnings	**$ 155**	$ 117	**$ 357**	$ 290
Other comprehensive income, net of income taxes				
Net unrealized gain (loss) on available-for-sale financial assets	**11**	(32)	**33**	(61)
Reclassification of (gain) loss on available-for-sale financial assets to net earnings	**(8)**	27	**(9)**	14
	3	(5)	**24**	(47)
Net gain (loss) on derivatives designated as cash flow hedges	**6**	31	**(9)**	56
Reclassification of gain on derivatives designated as cash flow hedges to net earnings	**(4)**	(25)	**(22)**	(12)
	2	6	**(31)**	44
Other comprehensive income (loss)	**5**	1	**(7)**	(3)
Total Comprehensive Income	**$ 160**	$ 118	**$ 350**	$ 287

See accompanying notes to the unaudited interim period consolidated financial statements.

Consolidated Balance Sheets

($ millions)	As at October 4, 2008 (unaudited)	As at October 6, 2007 (unaudited)	As at December 29, 2007 (audited)
Assets			
Current Assets			
Cash and cash equivalents (notes 7 and 20)	**$ 439**	$ 393	$ 430
Short term investments (note 20)	**251**	193	225
Accounts receivable (notes 8 and 9)	**688**	656	885
Inventories (notes 2 and 10)	**2,217**	1,904	2,032
Income taxes	**52**	67	111
Future income taxes	**49**	94	56
Prepaid expenses and other assets	**59**	61	32
Total Current Assets	**3,755**	3,368	3,771
Fixed Assets	**7,877**	8,078	7,953
Goodwill	**807**	804	806
Other Assets (note 20)	**1,135**	1,107	1,144
Total Assets	**$ 13,574**	$ 13,357	$ 13,674
Liabilities			
Current Liabilities			
Bank indebtedness	**$ 64**	$ 32	$ 3
Commercial paper	**9**	239	418
Short term debt (note 12)	**273**	306	–
Accounts payable and accrued liabilities	**2,462**	2,329	2,769
Long term debt due within one year (note 13)	**163**	432	432
Total Current Liabilities	**2,971**	3,338	3,622
Long Term Debt (note 13)	**4,040**	3,856	3,852
Future Income Taxes	**163**	212	180
Other Liabilities	**481**	387	459
Capital Securities (note 14)	**219**	–	–
Minority Interest	**19**	8	16
Total Liabilities	**7,893**	7,801	8,129
Shareholders' Equity			
Common Share Capital (note 14)	**1,196**	1,196	1,196
Retained Earnings	**4,473**	4,347	4,330
Accumulated Other Comprehensive Income (note 15)	**12**	13	19
Total Shareholders' Equity	**5,681**	5,556	5,545
Total Liabilities and Shareholders' Equity	**$ 13,574**	$ 13,357	$ 13,674

Contingencies, commitments and guarantees (note 19).

See accompanying notes to the unaudited interim period consolidated financial statements.

Consolidated Cash Flow Statements
(unaudited)

For the periods ended October 4, 2008 and October 6, 2007 ($ millions)	**2008** **(16 weeks)**	2007 (16 weeks)	**2008** **(40 weeks)**	2007 (40 weeks)
Operating Activities				
Net earnings before minority interest	**$ 161**	$ 118	**$ 364**	$ 286
Depreciation and amortization	**190**	180	**461**	454
Restructuring charges (note 3)	**3**	24	**7**	186
Future income taxes	**6**	–	**(2)**	(25)
Change in non-cash working capital	**10**	68	**(561)**	(262)
Other	**29**	58	**93**	98
Cash Flows from Operating Activities	**399**	448	**362**	737
Investing Activities				
Fixed asset purchases	**(197)**	(216)	**(397)**	(440)
Short term investments	**58**	(105)	**(3)**	(118)
Proceeds from fixed asset sales	**48**	29	**61**	48
Credit card receivables, after securitization (note 8)	**200**	(47)	**232**	45
Franchise investments and other receivables	**(2)**	12	**(21)**	15
Other	**(16)**	(24)	**(52)**	(95)
Cash Flows from (used in) Investing Activities	**91**	(351)	**(180)**	(545)
Financing Activities				
Bank indebtedness	**9**	(66)	**61**	31
Commercial paper	**9**	(243)	**(409)**	(408)
Short term debt (note 12)	**(525)**	306	**273**	306
Long term debt (note 13)				
Issued	**–**	2	**301**	25
Retired	**(13)**	(10)	**(424)**	(30)
Capital securities issued (note 14)	**218**	–	**218**	–
Dividends	**(115)**	(115)	**(230)**	(230)
Cash Flows used in Financing Activities	**(417)**	(126)	**(210)**	(306)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**21**	(19)	**37**	(61)
Change in Cash and Cash Equivalents	**94**	(48)	**9**	(175)
Cash and Cash Equivalents, Beginning of Period	**345**	441	**430**	568
Cash and Cash Equivalents, End of Period	**$ 439**	$ 393	**$ 439**	$ 393

See accompanying notes to the unaudited interim period consolidated financial statements.

Notes to the Unaudited Interim Period Consolidated Financial Statements

($ millions except where otherwise indicated)

Note 1. Summary of Significant Accounting Principles

Basis of Presentation The unaudited interim period consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and follow the same accounting policies and methods of application as those used in the preparation of the audited annual consolidated financial statements and related notes for the year ended December 29, 2007 ("Annual Report") except as described in note 2. Under Canadian GAAP, additional disclosure is required in annual financial statements and accordingly the unaudited interim period consolidated financial statements should be read together with the audited annual consolidated financial statements and the accompanying notes included in the Loblaw Companies Limited 2007 Annual Report.

Basis of Consolidation The consolidated financial statements include the accounts of Loblaw Companies Limited and its subsidiaries, collectively referred to as the "Company" or "Loblaw". The Company's interest in the voting share capital of its subsidiaries is 100%.

The Company also consolidates variable interest entities ("VIEs") pursuant to Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG 15"), that are subject to control by Loblaw on a basis other than through ownership of a majority of voting interest. AcG 15 defines a variable interest entity as an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. AcG 15 requires the primary beneficiary to consolidate VIEs and considers an entity to be the primary beneficiary of a VIE if it holds variable interests that expose it to a majority of the VIEs' expected losses or that entitle it to receive a majority of the VIEs' expected residual returns or both.

Use of Estimates and Assumptions The preparation of the unaudited interim period consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the unaudited interim period consolidated financial statements and accompanying notes. These estimates and assumptions are based on management's historical experience, best knowledge of current events and conditions and activities that may be undertaken in the future. Actual results could differ from these estimates.

Certain estimates, such as those related to valuation of inventories, goodwill, income taxes, Goods and Services Tax and provincial sales taxes, fixed assets and employee future benefits, depend upon subjective or complex judgments about matters that may be uncertain, and changes in those estimates could materially impact the consolidated financial statements.

Future Accounting Standards

Goodwill and Intangible Assets In November 2007, the CICA issued amendments to Section 1000 "Financial Statement Concepts", and AcG 11 "Enterprises in the Development Stage", issued a new Handbook Section 3064 "Goodwill and Intangible Assets" ("Section 3064") to replace Section 3062 "Goodwill and Other Intangible Assets", withdrew Section 3450 "Research and Development Costs" and amended Emerging Issues Committee Abstract 27 "Revenues and Expenditures During the Pre-operating Period" to not apply to entities that have adopted Section 3064. These amendments provide guidance for the recognition of internally developed intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The amendments are effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008 and therefore the Company will implement them in the first quarter of 2009, retroactively with restatement of the comparative periods for the current and prior year. The impact of implementing these amendments on the Company's financial statements is currently being assessed.

Note 2. Implementation of New Accounting Standards

Accounting Standards Implemented in 2008

Capital Disclosures and Financial Instruments – Disclosure and Presentation In December 2006, the CICA issued three new accounting standards: Section 1535 "Capital Disclosures" ("Section 1535"), Section 3862 "Financial Instruments − Disclosures" ("Section 3862") and Section 3863 "Financial Instruments − Presentation" ("Section 3863").

Section 1535 establishes guidelines for the disclosure of information regarding a company's capital and how it is managed. The standard requires enhanced disclosures with respect to (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; and (iii) whether the entity has complied with any external capital requirements, and if it has not complied, the consequences of such non-compliance. For new disclosures refer to note 14. The adoption of Section 1535 did not have an impact on the Company's financial results or position.

Section 3862 and Section 3863 replaced Section 3861, "Financial Instruments – Disclosure and Presentation". Section 3862 requires increased disclosures regarding the risks associated with financial instruments such as credit risk, liquidity risk and market risks and the techniques used to identify, monitor and manage these risks. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity. For new disclosures refer to notes 16 and 18. Comparative information about the nature and extent of risks arising from financial instruments is not required in the year Section 3862 is adopted. The adoption of Section 3862 and Section 3863 did not have an impact on the Company's financial results or position.

Inventories Effective January 1, 2008, the Company implemented Section 3031 "Inventories" ("Section 3031"), issued by the CICA in June 2007, which replaces Section 3030 of the same title. Section 3031 requires inventories to be measured at the lower of cost and net realizable value. Costs such as storage costs and administrative overhead that do not contribute to bringing inventories to their present location and condition are specifically excluded from the cost of inventories and expensed in the period incurred. Reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories is now required. The cost of inventories should be based on a first-in, first-out or weighted average cost formula. Techniques used for the measurement of cost of inventories, such as the retail method, may be used if the results approximate cost. The new standard also requires additional disclosures including the accounting policies used in measuring inventories, the carrying amounts of the inventories, amounts recognized as an expense during the period, write-downs and the amount of any reversal of any write-downs recognized as a reduction in expenses.

The Company values merchandise inventories at the lower of cost and net realizable value. Costs include the cost of purchase net of vendor allowances and other costs, such as transportation, that are directly incurred to bring inventories to their present location and condition. Seasonal general merchandise and inventories at the distribution centres are measured at weighted average cost. The Company uses the retail method to measure the cost of certain retail store inventories. The Company estimates net realizable value as the amount that inventories are expected to be sold taking into consideration fluctuations of retail price due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in retail selling price, the amount of the write-down previously recorded is reversed. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred.

The transitional adjustments resulting from the implementation of Section 3031 are recognized in the 2008 opening balance of retained earnings. Prior period balances have not been restated. Upon implementation of these requirements, a decrease in opening inventories of $65, an increase in current income taxes receivable of $24 and a decrease of $41 to opening retained earnings were recorded on the consolidated balance sheet resulting from the application of a consistent cost formula for all inventories having a similar nature and use to the Company.

In addition to the disclosure of accounting policies used in measuring inventories, Section 3031 also requires additional disclosures. See note 10 for the amount of merchandise inventories recognized as an expense in the period, the amount of inventories written down below cost and the amount of any reversal of any previously recognized write-downs.

Accounting Standards Implemented in 2007

On December 31, 2006, the Company implemented the CICA Handbook Section 3855, "Financial Instruments − Recognition and Measurement" ("Section 3855"), Section 3865, "Hedges", Section 1530, "Comprehensive Income", Section 3251, "Equity" and Section 3861, "Financial Instruments − Disclosure and Presentation". These standards were applied without restatement of prior periods. All transitional adjustments resulting from these standards resulted in a decrease in retained earnings, net of income taxes and minority interest of $15 million and an increase in accumulated other comprehensive loss, net of income taxes and minority interest of $16 million in 2007 as more fully described in note 2 of the audited annual consolidated financial statements for the year ended December 29, 2007.

Note 3. Restructuring Charges

Project Simplify

During 2007, the Company approved and announced the restructuring of its merchandising and store operations into more streamlined functions as part of Project Simplify. In the third quarter of 2008, the Company recognized nil (2007 − $23) of restructuring costs resulting from this plan. The year-to-date charge of $3 (2007 − $168) is comprised of $2 (2007 − $120) for employee termination costs including severance, additional pension costs resulting from the termination of employees and retention costs; and $1 (2007 − $48) of other costs, primarily consulting directly associated with the restructuring. Cash payments in the third quarter of 2008 were $4 (2007 − $54) and $34 (2007 − $130) year-to-date. As at the end of the third quarter of 2008, a remaining liability of $3 (2007 − $29) was recorded on the consolidated balance sheets in respect of this initiative.

Store Operations

During 2007, the Company completed the previously announced restructuring of its store operations. In the third quarter of 2008, the Company recognized nil (2007 − nil) and income of $1 (2007 − charge of $16) year-to-date related to this plan. Cash payments in the third quarter of 2008 were nil (2007 − $2) and $1 (2007 − $20) year-to-date. As at the end of the third quarter of 2008, a remaining liability of $2 (2007 − $5) was recorded on the consolidated balance sheets in respect of this initiative.

Supply Chain Network

During 2005, the Company approved a comprehensive plan to restructure its supply chain operations nationally. The restructuring plan is expected to be completed in 2009 and the total restructuring costs under this plan are estimated to be approximately $90. Of this total, approximately $57 is attributable to employee termination costs, which include severance and additional pension costs resulting from the termination of employees, $13 is attributable to fixed asset impairment and accelerated depreciation of assets relating to this restructuring activity and $20 is attributable to site closing and other costs directly related to the restructuring plan. In the third quarter of 2008, the Company recognized $3 (2007 – $1) of restructuring costs resulting from this plan. The year-to-date charge of $5 (2007 − $2) is composed of $4 (2007 – $1) for employee termination costs resulting from planned involuntary terminations and $1 (2007 − $1) for site closing and other costs. At the end of the third quarter of 2008, $6 in estimated costs remained to be incurred and will be recognized as appropriate criteria are met. Cash payments in the third quarter of 2008 were $13 (2007 − nil) and $21 (2007 − $4) year-to-date. As at the end of the third quarter of 2008, a remaining liability of $17 (2007 − $27) was recorded on the consolidated balance sheets in respect of this initiative.

Note 4. Interest Expense and Other Financing Charges

	16 weeks ended		40 weeks ended	
	October 4, 2008	October 6, 2007	**October 4, 2008**	October 6, 2007
Interest on long term debt	**$ 85**	$ 87	**$ 216**	$ 219
Interest (income) expense on financial derivative instruments	**(1)**	5	**(4)**	10
Net short term interest expense (income)	**–**	(5)	**4**	(6)
Interest income on security deposits	**(2)**	(5)	**(7)**	(13)
Dividends on capital securities	**4**	–	**4**	–
Capitalized to fixed assets	**(6)**	(6)	**(15)**	(17)
Interest expense and other financing charges	**$ 80**	$ 76	**$ 198**	$ 193

In the third quarter of 2008, net interest expense of $89 and $215 year-to-date were recorded related to the financial assets and financial liabilities not classified as held-for-trading.

Interest paid in the third quarter of 2008 was $99 (2007 – $105), and interest received was $35 (2007 − $45). Interest paid year-to-date was $304 (2007 − $307) and interest received year-to-date was $103 (2007 − $107).

Note 5. Income Taxes

The effective income tax rate in the third quarter of 2008 was 30.3% (2007 − 32.2%) and 31.5% (2007 − 30.1%) year-to-date. The quarter over quarter reduction in the effective income tax rate is primarily due to a change in the proportions of taxable income earned across different tax jurisdictions and lower Canadian federal and certain provincial statutory income tax rates relative to the third quarter of 2007 which was partially offset by an increase in income tax accruals relating to certain income tax matters. The year over year increase in the effective income tax rate is primarily due to an increase in income tax accruals relating to certain income tax matters which is partially offset by a change in the proportions of taxable income earned across different tax jurisdictions and lower Canadian federal and certain provincial statutory income tax rates relative to the third quarter of 2007.

Net income taxes refunded in the third quarter was $17 (2007 – taxes paid $27), and year-to-date taxes paid were $88 (2007 − $154).

Note 6. Basic and Diluted Net Earnings per Common Share

	16 weeks ended		40 weeks ended	
	October 4, 2008	October 6, 2007	**October 4, 2008**	October 6, 2007
Net earnings for basic earnings per share ($ millions)	**$ 155**	$ 117	**$ 357**	$ 290
Dividends on capital securities ($ millions)	**4**	–	**4**	–
Net earnings for diluted earnings per share ($ millions)	**$ 159**	$ 117	**$ 361**	$ 290
Weighted average common shares outstanding (in millions)	**274.2**	274.2	**274.2**	274.2
Dilutive effect of stock-based compensation (in millions)	**–**	–	**–**	–
Dilutive effect of capital securities (in millions)	**7.9**	–	**3.0**	–
Diluted weighted average common shares outstanding (in millions)	**282.1**	274.2	**277.2**	274.2
Basic and diluted net earnings per common share ($)	**$ 0.56**	$ 0.43	**$ 1.30**	$ 1.06

Stock options outstanding with an exercise price greater than the market price of the Company's common shares at the end of the third quarter were not recognized in the computation of diluted net earnings per common share. Accordingly, for the third quarter of 2008, 4,863,725 (2007 – 6,757,541) stock options, with a weighted average exercise price of $52.57 (2007 – $53.03) per common share, were excluded from the computation of diluted net earnings per common share.

Note 7. Cash and Cash Equivalents

The components of cash and cash equivalents as at October 4, 2008, October 6, 2007 and December 29, 2007 were as follows:

	As at October 4, 2008	As at October 6, 2007	As at December 29, 2007
Cash	**$ 46**	$ 39	$ 61
Cash equivalents − short term investments with a maturity of 90 days or less:			
Bank term deposits	**–**	63	77
Government treasury bills	**144**	55	109
Government-sponsored debt securities	**116**	115	59
Corporate commercial paper	**133**	121	124
Cash and cash equivalents	**$ 439**	$ 393	$ 430

In the third quarter of 2008, the Company recognized an unrealized foreign currency exchange gain of $52 (2007 − loss of $71) and $94 (2007 − loss of $150) year-to-date as a result of translating its United States dollar denominated cash and cash equivalents, short term investments and security deposits which are included in other assets, of which a gain of $21 (2007 − loss of $19) and a gain of $37 (2007 − loss of $61) year-to-date related to cash and cash equivalents. The resulting gain or loss on cash and cash equivalents, short term investments and security deposits which are included in other assets is partially offset in operating income and accumulated other comprehensive income by the unrealized foreign currency exchange loss or gain on the cross currency basis swaps.

Note 8. Accounts Receivable

From time to time, *President's Choice* Bank ("*PC* Bank"), a wholly owned subsidiary of the Company, securitizes credit card receivables through the sale of a portion of the total interest in these receivables to independent trusts. During the third quarter of 2008, $300 (2007 – $100) of credit card receivables were securitized, $300 (2007 − $225) year-to-date to an independent trust. A portion of the securitized receivables are in an independent trust facility with a term of 364 days, subject to annual renewal. If the term of this facility is not renewed, collections will be accumulated prior to the expiry and the amount of that portion of the securitized receivables will be repaid to the trust. The securitization yielded a $1 gain (2007 − nominal net loss) based on the assumptions disclosed in note 10 of the consolidated financial statements for the year ended December 29, 2007. The independent trusts' recourse to *PC* Bank's assets is limited to *PC* Bank's retained interests and is further supported by the Company through a standby letter of credit for $116 (2007 – $89) on a portion of the securitized amount. Other receivables consist mainly of receivables from independent franchisees, associated stores and independent accounts.

	As at October 4, 2008	As at October 6, 2007	As at December 29, 2007
Credit card receivables	**$ 2,065**	$ 1,744	$ 2,023
Amount securitized	**(1,775)**	(1,475)	(1,475)
Net credit card receivables	**290**	269	548
Other receivables	**398**	387	337
Accounts receivable	**$ 688**	$ 656	$ 885

Credit card receivables that are past due of $6 as at October 4, 2008 are not classified as impaired as they are less than 90 days past due and most receivables are reasonably expected to remedy the past due status. Any credit card receivable balances with a payment that is contractually 180 days in arrears or where the likelihood of collection is considered remote are written-off. Concentration of credit risk with respect to receivables is limited due to the Company's customer base being diverse. Credit risk on the credit card receivables is managed as described in note 22 of the Company's 2007 Annual Report. Other receivables that are past due but not impaired totaled $61 as at October 4, 2008, of which a nominal amount were more than 60 days past due.

Note 9. Allowances for Receivables

The allowance for credit card receivables recorded in the consolidated balance sheets is maintained at a level which is considered adequate to absorb credit related losses on credit card receivables. The allowance for credit card losses is recorded in accounts receivables in the consolidated balance sheets. The allowance for accounts receivables from independent franchisees is recorded in accounts payable and accrued liabilities on the consolidated balance sheets. The allowance for other receivables from associated stores and independent accounts is recorded in accounts receivable on the consolidated balance sheets**.** A continuity of the Company's allowances for losses is as follows:

Credit Card Receivables

	16 weeks ended		**40 weeks ended**		**52 weeks ended**
($ millions)	**October 4, 2008**	October 6, 2007	**October 4, 2008**	October 6, 2007	December 29, 2007
Allowance at beginning of period	**$ (13)**	$ (13)	**$ (13)**	$ (11)	$ (11)
Provision for losses	**(14)**	(3)	**(26)**	(8)	(11)
Recoveries	**(5)**	(3)	**(9)**	(6)	(7)
Write-offs	**19**	6	**35**	12	16
Allowance at end of period	**$ (13)**	$ (13)	**$ (13)**	$ (13)	$ (13)

Other Receivables

	16 weeks ended		**40 weeks ended**		**52 weeks ended**
($ millions)	**October 4, 2008**	October 6, 2007	**October 4, 2008**	October 6, 2007	December 29, 2007
Allowance at beginning of period	**$ (35)**	$ (42)	**$ (35)**	$ (37)	$ (37)
Provision for losses	**(29)**	(19)	**(56)**	(62)	(79)
Recoveries	**–**	–	**–**	–	–
Write-offs	**37**	17	**64**	55	81
Allowance at end of period	**$ (27)**	$ (44)	**$ (27)**	$ (44)	$ (35)

Note 10. Inventories

The cost of merchandise inventories recognized as an expense during the third quarter of 2008 was $7,396 and $17,886 year-to-date. The cost of merchandise inventories recognized as an expense during the third quarter of 2008 includes $10 and $43 year-to-date for the write-down of inventories below cost to net realizable value. There was no reversal of inventories written down previously that are no longer estimated to sell below cost.

Note 11. Employee Future Benefits

The Company's total net benefit plan cost recognized in operating income was $49 (2007 – $63) and $126 (2007 − $144) for the third quarter of 2008 and year-to-date, respectively. The total net benefit plan cost included costs for the Company's defined benefit pension and other benefit plans, defined contribution pension plans and multi-employer pension plans.

Note 12. Short Term Debt

In the first quarter of 2008, the Company entered into an $800, 5-year committed credit facility, provided by a syndicate of banks, which contains certain financial covenants (see note 14). This facility is the primary source of the Company's short term funding requirements and permits borrowings having up to a 180-day term that accrue interest based on short term floating interest rates. This facility replaced a $500, 364-day committed credit facility which had no financial covenants and permitted borrowings having up to a 180-day term that accrued interest based on short term floating interest rates. As at October 4, 2008, $273 was drawn on the new 5-year committed credit facility.

Note 13. Long Term Debt

During the second quarter of 2008, the Company issued USD $300 of fixed-rate unsecured notes in a private placement debt financing which contains certain financial covenants (see note 14). The notes were issued in two equal tranches of USD $150 with 5 and 7 year maturities at interest rates of 6.48% and 6.86%, respectively. The Company entered into two fixed cross currency swaps designated as cash flow hedges to manage the foreign exchange risk. The ineffective portion of the gains or losses on the derivatives within these hedging relationships was insignificant. As at October 4, 2008, $326 was recorded in long term debt on the consolidated balance sheet. For further information on the Company's policies with respect to cash flow hedges, refer to note 1 of the Company's 2007 Annual Report.

During the second quarter of 2008, the $390 6.00% medium term note due June 2, 2008 matured and was repaid.

Note 14. Capital Management

The Company defines capital as net debt, capital securities and shareholders' equity. Equity for the purpose of calculating the net debt to equity ratio is defined by the Company as capital securities and shareholders' equity. The Company's objectives when managing capital are to:

- ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans;
- maintain financial capacity and access to capital to support future development of the business;
- minimize the cost of its capital while taking into consideration current and future industry, market and economic risks and conditions; and
- utilize short term funding sources to manage its working capital requirements and long term funding sources to match the long term nature of the fixed assets of the business.

The following ratios are used by the Company to monitor its capital:

	As at October 4, 2008	As at October 6, 2007	As at December 29, 2007
Interest coverage	**3.4:1**	2.9:1	2.7:1
Net debt to equity	**.59:1**	.71:1	.67:1

Interest coverage is calculated as operating income divided by interest expense and other financing charges adding back interest capitalized to fixed assets. The interest coverage ratio is calculated for the 40 week periods ended October 4, 2008 and October 6, 2007, and for the 52 week period ended December 29, 2007. The Company manages debt on a net basis as outlined below. The net debt to equity ratio continued to be within the Company's internal guideline of less than 1:1. This ratio is useful in assessing the amount of leverage employed. These ratios are also calculated from time-to-time on an alternative basis by management to approximate the methodology of debt rating agencies and other market participants.

Debt

The following table details the net debt calculation used in the net debt to equity ratio as at the periods ended as indicated:

($ millions)	**As at October 4, 2008**	As at October 6, 2007	As at December 29, 2007
Bank indebtedness	**$ 64**	$ 32	$ 3
Commercial paper	**9**	239	418
Short term debt	**273**	306	–
Long term debt due within one year	**163**	432	432
Long term debt	**4,040**	3,856	3,852
Less: Cash and cash equivalents	**439**	393	430
Short term investments	**251**	193	225
Security deposits included in other assets	**356**	317	322
Net debt	**$ 3,503**	$ 3,962	$ 3,728

Security deposits represent short term investments in government securities which Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of the Company, is required to place with counterparties as collateral to enter into and maintain outstanding swaps and equity forwards. The amount of the required security deposits will fluctuate primarily as a result of market value volatility of the derivatives.

The Company monitors its credit ratings as part of its goal to maintain access to capital markets for its liquidity requirements. The Company's ability to obtain funding from external sources may be restricted by downgrades in the Company's credit rating and should the Company's financial performance and condition deteriorate. In addition, credit and capital markets are subject to inherent global risks that may negatively affect the Company's access and ability to fund its short term and long term debt requirements. The Company mitigates these risks by maintaining appropriate levels of cash and cash equivalents, short term investments and security deposits included in other assets, actively monitoring market conditions and diversifying its capital sources and maturity profile. The Company also employs risk management strategies including forward-looking liquidity contingency plans.

During the second quarter of 2008, the Company filed a Short Form Base Shelf Prospectus ("Prospectus") allowing for the potential issue of up to $1 billion of unsecured debentures and/or preferred shares subject to the availability of funding by capital markets. During the third quarter of 2008, the Company issued preferred shares under the Prospectus as described below.

Capital Securities ($, except where otherwise indicated)

Second Preferred Shares, Series A (authorized – 12.0 million shares) On June 20, 2008, the Company issued 9.0 million 5.95% non-voting Second Preferred Shares, Series A, with a face value of $225 million for net proceeds of $218 million, which entitle the holder to a fixed cumulative preferred cash dividend of $1.4875 per share per annum which will, if declared, be payable quarterly. On and after July 31, 2013, the Company may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares as follows:

On or after July 31, 2013 at $25.75 per share, together with all accrued and unpaid dividends to but not including the redemption date;
On or after July 31, 2014 at $25.50 per share, together with all accrued and unpaid dividends to but not including the redemption date; and
On or after July 31, 2015 at $25.00 per share, together with all accrued and unpaid dividends to but not including the redemption date.

On and after July 31, 2013, the Company may, at its option, convert these preferred shares into that number of common shares of the Company determined by dividing the then applicable redemption price, together with all accrued and unpaid dividends to but excluding the date of conversion, by the greater of $2.00 and 95% of the then current market price of the common shares. On and after July 31, 2015, these outstanding preferred shares are convertible, at the option of the holder, into that number of common shares of the Company determined by dividing $25.00, together with accrued and unpaid dividends to but excluding the date of conversion, by the greater of $2.00 and 95% of the then current market price of the common shares. This option is subject to the Company's right to redeem the preferred shares for cash or arrange for their sale to substitute purchasers. These preferred shares which are presented as Capital Securities on the Consolidated Balance Sheet are classified as other financial liabilities, and measured using the effective interest method.

Common Share Capital

At the end of the third quarter of 2008, the Company's outstanding common share capital was comprised of common shares, an unlimited number of which were authorized and 274,173,564 (2007 − 274,173,564) were issued and outstanding. Approximately 62% of the common shares are owned by George Weston Limited; the remaining shares are widely held. Further information on the Company's outstanding share capital is provided in note 19 to the 2007 Annual Report.

At quarter end, a total of 8,012,762 stock options were outstanding and represented 2.9% of the Company's issued and outstanding common share capital. Pursuant to guidelines set by the Company, stock option compensation is limited to 5% of the issued and outstanding common shares outstanding. The Company is currently in compliance with this internal guideline.

In the second quarter of 2008, Loblaw renewed its Normal Course Issuer Bid ("NCIB") to purchase on the Toronto Stock Exchange, or enter into equity derivatives to purchase, up to 13,708,678 of Company's common shares, representing approximately 5% of the common shares outstanding. In accordance with the rules and by-laws of the Toronto Stock Exchange, Loblaw may purchase its shares at the then market price of such shares. The Company did not purchase any shares under its NCIB during the first three quarters of 2008 or fiscal 2007.

Dividends ($)

The declaration and payment of dividends and the amount thereof are at the discretion of the Board of Directors. Over the long term, the Company's objective is for its common dividend payment ratio to be in the range of 20% to 25% of the prior year's basic net earnings per common share adjusted as appropriate for items which are not regarded to be reflective of ongoing operations giving consideration to the year end cash position, future cash flow requirements and investment opportunities. During the third quarter of 2008, the Board declared common share dividends of $0.21 (2007– $0.21) and $0.63 (2007 − $0.63) year-to-date per common share. During the third quarter of 2008, the Board of Directors declared dividends of $0.5394 per second preferred share. For financial statement presentation purposes, preferred share dividends of $4 are included as a component of interest expense and other financing charges on the Consolidated Statement of Earnings (see note 4).

Covenants and Regulatory Requirements

The committed credit facility which the Company entered into during the first quarter of 2008 (see note 12) and the USD $300 fixed-rate private placement notes which the Company issued during the second quarter of 2008 (see note 13) both contain certain financial covenants. The covenants under both agreements include maintaining an interest coverage ratio as well as a leverage ratio, as defined in the respective credit agreements, which the Company measures on a quarterly basis. As at the end of the third quarter of 2008, the Company was in compliance with these covenants.

The Company is also subject to externally imposed capital requirements from the Office of the Superintendent of Financial Institutions ("OSFI"), as the primary regulator of *PC* Bank, and the Central Bank of Barbados, as the primary regulator of Glenhuron, both wholly-owned subsidiaries of the Company. *PC* Bank's capital management objectives are to maintain a consistently strong capital position while considering the Bank's economic risks and to meet all regulatory capital requirements as defined by OSFI. A new regulatory capital management framework, Basel II, has been implemented in Canada that establishes regulatory capital requirements that are more sensitive to a bank's risk profile. *PC* Bank met all applicable capital targets as at the end of the third quarter of 2008. Glenhuron is currently regulated under Basel I. Under Basel I, Glenhuron's assets are risk weighted and the minimum ratio of capital to risk weighted assets is 8.0%. Glenhuron's ratio of capital to risk weighted assets met the minimum requirements under Basel I as at the end of the third quarter of 2008.

Note 15. Accumulated Other Comprehensive Income

The following table provides further detail regarding the composition of accumulated other comprehensive income for the forty week periods ended October 4, 2008 and October 6, 2007:

	40 weeks ended					
	October 4, 2008			October 6, 2007		
($ millions)	**Available-for-sale Assets**	**Cash Flow Hedges**	**Total**	Available-for-sale Assets	Cash Flow Hedges	Total
Balance, beginning of period	**$ (3)**	**$ 22**	**$ 19**	$ –	$ –	$ –
Cumulative impact of implementing new accounting standards [net of income taxes of nil (2007 – $1)]	**–**	**–**	**–**	20	(4)	16
Net unrealized gain (loss) on available-for-sale financial assets [net of income taxes of $1 (2007 – nil)]	**33**	**–**	**33**	(61)	–	(61)
Reclassification of loss (gain) on available-for-sale financial assets [net of income taxes recovered of $5 (2007 – nil)]	**(9)**	**–**	**(9)**	14	–	14
Net (loss) gain on derivatives designated as cash flow hedges [net of income taxes of $9 (2007 – $2)]	**–**	**(9)**	**(9)**	–	56	56
Reclassification of (gain) loss on derivatives designated as cash flow hedges [net of income taxes of nil (2007 – $1)]	**–**	**(22)**	**(22)**	–	(12)	(12)
Balance, end of period	**$ 21**	**$ (9)**	**$ 12**	$ (27)	$ 40	$ 13

See note 20 of the Company's 2007 Annual Report for further details regarding the composition of accumulated other comprehensive income for the year ended December 29, 2007.

An estimated net loss of $11 recorded in accumulated other comprehensive income related to the cash flow hedges as at October 4, 2008, is expected to be reclassified to net earnings during the next 12 months. This will be offset by the available-for-sale financial assets that are hedged. Remaining amounts will be reclassified to net earnings over periods up to 7 years.

Note 16. Fair Values of Financial Instruments

The following tables provide a comparison of carrying and fair values for each classification of financial instruments as at October 4, 2008, October 6, 2007 and December 29, 2007:

As at October 4, 2008

	Financial derivatives designated in a cash flow hedge	Financial instruments required to be classified as held-for-trading	Financial instruments designated as held-for-trading	Available-for-sale instruments measured at fair value	Loans and receivables	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents, short term investments and security deposits	$ –	$ –	$ 792	$ 254	$ –	$ –	$ 1,046	$ 1,046
Accounts receivable	–	–	–	–	688	–	688	688
Other financial assets	–	–	–	–	80	–	80	80
Available for sale securities	–	–	–	6	–	–	6	6
Derivatives	114	80	–	–	–	–	194	194
Total financial assets	$ 114	$ 80	$ 792	$ 260	$ 768	$ –	$ 2,014	$ 2,014
Short term borrowings	$ –	$ –	$ –	$ –	$ –	$ 346	$ 346	$ 346
Accounts payable and accrued liabilities	–	–	–	–	–	2,462	2,462	2,462
Long term debt	–	–	–	–	–	4,203	4,203	3,692
Capital Securities	–	–	–	–	–	219	219	203
Derivatives	–	153	–	–	–	–	153	153
Total financial liabilities	$ –	$ 153	$ –	$ –	$ –	$ 7,230	$ 7,383	$ 6,856

The equity investment in franchises is measured at a cost of $71 because quoted market prices in an active market are not available. These investments are classified as available-for-sale, and the Company has no intention of disposing of these equity investments.

As at October 6, 2007

	Financial derivatives designated in a cash flow hedge	Financial instruments required to be classified as held-for-trading	Financial instruments designated as held-for-trading	Available-for-sale instruments measured at fair value	Loans and receivables	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents, short term investments and security deposits	$ –	$ –	$ 438	$ 465	$ –	$ –	$ 903	$ 903
Accounts receivable	–	–	–	–	656	–	656	656
Other financial assets	–	–	–	–	44	–	44	44
Available for sale securities	–	–	–	11	–	–	11	11
Derivatives	161	86	–	–	–	–	247	247
Total financial assets	$ 161	$ 86	$ 438	$ 476	$ 700	$ –	$ 1,861	$ 1,861
Short term borrowings	$ –	$ –	$ –	$ –	$ –	$ 577	$ 577	$ 577
Accounts payable and accrued liabilities	–	–	–	–	–	2,329	2,329	2,329
Long term debt	–	–	–	–	–	4,288	4,288	4,439
Derivatives	–	34	–	–	–	–	34	34
Total financial liabilities	$ –	$ 34	$ –	$ –	$ –	$ 7,194	$ 7,228	$ 7,379

The equity investment in franchises is measured at a cost of $73 because quoted market prices in an active market are not available. These investments are classified as available-for-sale, and the Company has no intention of disposing of these equity investments.

As at December 29, 2007

	Financial derivatives designated in a cash flow hedge	Financial instruments required to be classified as held-for-trading	Financial instruments designated as held-for-trading	Available-for-sale instruments measured at fair value	Loans and receivables	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents, short term investments and security deposits	$ –	$ –	$ 533	$ 444	$ –	$ –	$ 977	$ 977
Accounts receivable	–	–	–	–	885	–	885	885
Other financial assets	–	–	–	–	75	–	75	75
Available for sale securities	–	–	–	16	–	–	16	16
Derivatives	184	101	–	–	–	–	285	285
Total financial assets	$ 184	$ 101	$ 533	$ 460	$ 960	$ –	$ 2,238	$ 2,238
Short term borrowings	$ –	$ –	$ –	$ –	$ –	$ 421	$ 421	$ 421
Accounts payable and accrued liabilities	–	–	–	–	–	2,769	2,769	2,769
Long term debt	–	–	–	–	–	4,284	4,284	4,216
Derivatives	–	120	–	–	–	–	120	120
Total financial liabilities	$ –	$ 120	$ –	$ –	$ –	$ 7,474	$ 7,594	$ 7,526

The equity investment in franchises is measured at a cost of $75 because quoted market prices in an active market are not available. These investments are classified as available-for-sale, and the Company has no intention of disposing of these equity investments.

During the third quarter and year-to-date 2008, the net unrealized and realized gain on held-for-trading financial assets designated as held-for-trading, recognized in net earnings before income taxes and minority interest was $52 and $81 (2007 − loss of $32 and $68), respectively. In addition, the net unrealized and realized loss on held-for-trading financial assets and financial liabilities, including non-financial derivatives, required to be classified as held-for-trading, recognized in net earnings before income taxes and minority interest was $71 and $114 (2007 − gain of $9 and $48), respectively.

Note 17. Stock-Based Compensation ($, except where otherwise indicated)

The Company's compensation cost recognized in operating income related to its stock option plan and the associated equity forwards and the restricted share unit plan was as follows:

	16 weeks ended		40 weeks ended	
($ millions)	**October 4, 2008**	October 6, 2007	**October 4, 2008**	October 6, 2007
Stock option plan (income) expense	**$ (1)**	$ (2)	**$ 1**	$ –
Equity forwards loss	**8**	19	**18**	12
Restricted share unit plan expense	**2**	2	**5**	8
Net stock-based compensation expense	**$ 9**	$ 19	**$ 24**	$ 20

Stock Option Plan During the first three quarters of 2008, the Company paid the share appreciation value of nil (2007 − $0.2 million) on the exercise of nil (2007 − 108,000) stock options. In addition, 1,914,555 (2007 − 1,445,788) stock options were forfeited or cancelled. Under its existing stock option plan, which allows for settlement in shares or in the share appreciation value in cash at the option of the employee, the Company granted 82,204 (2007 − 194,559) stock options with an exercise price of $29.30 (2007 − $49.11) per common share during the third quarter of 2008. During the second quarter of 2008, the Company granted 8,800 (2007 − 38,938 and 148,987) stock options with an exercise price of $33.10 (2007 − $46.01 and $50.80) per common share. During the first quarter of 2008, the Company granted 3,303,557 (2007 − 3,885,439) stock options with an exercise price of $28.95 (2007 − $47.44) per common share.

At the end of the third quarter of 2008, a total of 8,012,762 (2007 − 6,798,781) stock options were outstanding and represented approximately 2.9% (2007 − 2.5%) of the Company's issued and outstanding common shares, which was within the Company's guideline of 5%. The Company's market price per common share at the end of the third quarter was $29.75 (2007 − $45.67).

Restricted Share Unit ("RSU") Plan Under its existing RSU plan, the Company granted 13,526 (2007 − 23,425) RSUs in the third quarter; 45,321 (2007 − 10,925) RSUs in the second quarter and 352,268 (2007 − 281,818) in the first quarter of 2008. In addition, 87,995 (2007 – 142,322) RSUs were cancelled year-to-date and 246,785 (2007 – 134,882) were settled in cash in the amount of $8 million (2007 – $7 million) in the first three quarters of 2008. At the end of the third quarter, 845,022 (2007 – 788,916) RSUs remained outstanding.

Note 18. Financial Risk Management

The Company is exposed to the following risks as a result of holding financial instruments: credit risk, market risk and liquidity risk. The following is a description of those risks and how the exposures are managed:

Credit Risk The Company is exposed to credit risk resulting from the possibility that counterparties may default on their financial obligations, or if there is a concentration of transactions carried out with the same counterparty or of financial obligations which have similar economic characteristics such that they could be similarly affected by changes in economic conditions. Exposure to credit risk relates to derivative instruments, cash equivalents, short term investments, security deposits included in other assets, *PC* Bank's credit card receivables and accounts receivables from independent franchisees, associated stores and independent accounts.

The Company may be exposed to losses if a counterparty to the Company's financial or non-financial derivative agreements fails to fulfill its obligations. The Company's risk management practices are more fully described in note 22 of the Company's 2007 Annual Report.

The Company's maximum exposure to credit risk as it relates to derivative instruments is represented by the positive fair market value of the derivatives on the balance sheet (see note 16).

Refer to note 9 for additional information on the credit quality performance of credit card and accounts receivable from independent franchisees, associated stores and independent accounts.

Market Risk Market risk is the loss that may arise from changes in market factors such as interest rates, foreign currency exchange rates, commodity prices and common share price.

Interest Rate Risk The Company is exposed to interest rate risk which it manages through the use of interest rate swaps. Loblaw's interest rate risk arises from the issuance of medium term notes and US private placement notes included in long term debt, short term debt, and commercial paper net of its cash and cash equivalents, short term investments and security deposits included in other assets. The Company manages fluctuations in its interest expense through its exposure to a mix of fixed and variable interest rates. The Company estimates that a 100 basis point increase (decrease) in interest rates, with all other variables held constant, would result in an increase (decrease) of $9 to interest expense.

Foreign Currency Exchange Rate Risk The Company is exposed to foreign currency exchange rate variability, primarily on its United States dollar denominated cash and cash equivalents, short term investments, security deposits included in other assets, and USD private placement notes included in long term debt. To manage its foreign currency exchange rate exposure, the Company enters into cross currency basis swaps. As a result, a significant strengthening (weakening) of the Canadian dollar against the US dollar, with all other variables held constant, would not have a significant impact on earnings before income taxes and minority interest.

Commodity Price Risk The Company is exposed to increases in the prices of commodities indirectly linked with its consumer products. To manage this exposure, the Company uses purchase commitments for a portion of its needs for certain consumer products that may be commodities based and the Company expects to take delivery of these consumer products in the normal course of business. A non-financial derivative contract with a notional value of $27 is used to hedge electricity price risk for a portion of the Company's expected electricity consumption in Alberta. In addition, the Company uses an insignificant amount of exchange traded futures and options. The Company estimates that a 10% increase (decrease) in relevant commodity prices, with all other variables held constant, would result in a gain (loss) of $5 on earnings before income taxes and minority interest.

Common Share Price Risk The Company enters into equity forwards to manage its exposure to fluctuations in its stock-based compensation cost as a result of changes in the market price of its common shares. The equity forwards allow for settlement in cash, common shares or net settlement. These forwards change in value as the market price of the Company's common shares changes and provide a partial offset to fluctuations in Loblaw's stock-based compensation cost, including RSU plan expense. The partial offset between the Company's stock-based compensation costs, including RSU plan expense, and the equity forwards is effective when the market price of the Company's common shares exceeds the exercise price of the related employee stock options. When the market price of the common shares is lower than the exercise price of the related employee stock options, only RSUs will provide a partial offset to these equity forwards. The amount of net stock-based compensation cost recorded in operating income is mainly dependent upon the number of unexercised stock options and RSUs, their vesting schedules relative to the number of underlying common shares on the equity forwards, and the level of fluctuations in the market price of the underlying common shares. The impact on the equity forwards of a one dollar increase (decrease) of the market value in the Company's underlying common shares, with all other variables held constant, would result in a gain (loss) of $5 in earnings before income taxes and minority interest.

Liquidity Risk Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The Company meets liquidity requirements by holding assets that can be readily converted into cash, and by managing cash flows.

The Company's ability to obtain funding from external sources may be restricted by further downgrades in the Company's credit ratings and should the Company's financial performance and condition deteriorate. In addition, credit and capital markets are subject to inherent global risks that may negatively affect the Company's access and ability to fund its short term and long term debt requirements. The Company mitigates these risks by maintaining appropriate levels of cash and cash equivalents, short term investments and security deposits, and by actively monitoring market conditions and diversifying its sources of funding and maturity profile. The Company also employs risk management strategies including forward-looking liquidity contingency plans.

Maturity Analysis The following are the undiscounted contractual maturities of significant financial liabilities as at October 4, 2008:

	2008 Remaining	2009	2010	2011	2012	Thereafter[4]	Total
Interest rate swaps payable[1]	$ 6	$ 13	$ 13	$ 13	$ 13	$ 5	$ 63
Equity forward contracts[2]	–	–	126	36	26	72	260
Long term debt including fixed interest payments[3]	84	433	589	615	222	6,743	8,686
	$ 90	$ 446	$ 728	$ 664	$ 261	$ 6,820	$ 9,009

(1) Based on the pay fixed interest which will be partially offset by the floating interest received.

(2) Based on the average cost base as at October 4, 2008.

(3) Based on the maturing face values and annual interest for each instrument as well as annual payment obligations for VIEs, mortgages, and capital leases.

(4) Capital securities and their related dividends have been excluded as the Company is not contractually obligated to pay these amounts.

The Company's bank indebtedness, commercial paper, short term debt, and accounts payable and accrued liabilities are short term in nature, which are due within the next 12 months, and thus not included above.

Note 19. Contingencies, Commitments and Guarantees

Guarantees – Independent Funding Trusts Certain independent franchisees of the Company obtain financing through a structure involving independent trusts, which were created to provide loans to the independent franchisees to facilitate their purchase of inventory and fixed assets, consisting mainly of fixtures and equipment. These trusts are administered by a major Canadian chartered bank.

During the first quarter of 2008, the Company was notified that an Event of Termination of the independent funding trust agreement for the Company's franchisees had occurred as a result of the Company's long term credit rating downgrade by Dominion Bond Rating Service ("DBRS") to "BBB (high)" from "A (low)". As a result of the Event of Termination, during the second quarter of 2008, the Company finalized an alternative financing arrangement for the independent funding trust in the form of a $475, 364-day revolving committed credit facility provided by a syndicate of banks.

The gross principal amount of loans issued to the Company's independent franchisees outstanding as of October 4, 2008 was $380 (2007 – $418) including $151 (2007 – $148) of loans payable by VIEs consolidated by the Company. Based on a formula, the Company has agreed to provide credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trust equal to approximately 15% (2007 – 10%) of the principal amount of the loans outstanding at any point in time, $66 (2007 – $44) as of October 4, 2008. The standby letter of credit has not been drawn upon. This credit enhancement allows the independent funding trust to provide favorable financing terms to the Company's independent franchisees. As well, each independent franchisee provides security to the independent funding trust for its obligations by way of a general security agreement. In the event that an independent franchisee defaults on its loan and the Company has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trust would assign the loan to the Company and draw upon this standby letter of credit. The Company has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit. This new alternative financing structure has been reviewed and the Company determined there were no material implications with respect to the consolidation of VIEs. In accordance with Canadian GAAP, the financial statements of the independent funding trust are not consolidated with those of the Company.

Legal Proceedings During the first quarter of 2007, the Company was one of 17 defendants served with an action brought in the Superior Court of Ontario by certain beneficiaries of a multi-employer pension plan in which the Company's employees and those of its independent franchisees participate. In their claim against the employers and the trustees of the multi-employer pension plan, the plaintiffs claimed that assets of the multi-employer pension plan had been mismanaged and are seeking, among other demands, damages of $1 billion. The action was framed as a representative action on behalf of all the beneficiaries of the multi-employer pension plan. In the second quarter of 2008, the Company received confirmation that the action against the Company has been dismissed and in the third quarter the Company also received confirmation that the action against the plan trustees has been dismissed.

The Company is the subject of various legal proceedings and claims that arise in the ordinary course of business. The outcome of all of these proceedings is uncertain. However, based on information currently available, these claims, individually and in the aggregate, are not expected to have a material impact on the Company.

Note 20. Presentation

Certain prior year information has been reclassified to conform with current year presentation. Security deposits, which were previously presented as cash and cash equivalents and short term investments on the consolidated balance sheets, are now included in other assets on the consolidated balance sheets and totaled $356 as at October 4, 2008 (October 6, 2007 – $317; December 29, 2007 – $322).

Corporate Profile

Loblaw Companies Limited, a subsidiary of George Weston Limited, is Canada's largest food distributor and a leading provider of drugstore, general merchandise and financial products and services. Loblaw is one of the largest private sector employers in Canada, with over 140,000 full-time and part-time employees executing its business strategy in more than 1,000 corporate and franchised stores from coast to coast. Through its portfolio of store formats, Loblaw is committed to providing Canadians with a wide, growing and successful range of products and services to meet the everyday household demands of Canadian consumers. Loblaw is known for the quality, innovation and value of its food offering. It offers Canada's strongest control (private) label program, including the unique *President's Choice*®, *no name*® and *Joe Fresh Style*® brands. In addition, the Company makes available to consumers *President's Choice* Financial services and offers the *PC* points loyalty program.

Loblaw is committed to a strategy developed under three core themes: Simplify, Innovate and Grow. The Company strives to be consumer focused, cost effective and agile, with the goal of achieving long term growth for its many stakeholders. Loblaw believes that a strong balance sheet is critical to achieving its potential. It is highly selective in its consideration of acquisitions and other business opportunities. The Company maintains an active product program to support its control label program. It works to ensure that its technology and systems logistics enhance the efficiency of its operations.

Trademarks

Loblaw Companies Limited and its subsidiaries own a number of trademarks. Several subsidiaries are licensees of additional trademarks. These trademarks are the exclusive property of Loblaw Companies Limited or the licensor and where used in this report are in italics.

Investor Relations

Shareholders, security analysts and investment professionals should direct their requests to Inge van den Berg, Vice President, Public Affairs & Investor Relations at the Company's National Head Office or by e-mail at investor@loblaw.ca.

Additional information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, *President's Choice* Bank. The Company holds an analyst call shortly following the release of its quarterly results. These calls are archived in the Investor Zone section of the Company's website.

Ce rapport est disponible en français.

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Business Review Report

Provides an update on achievements towards Making Loblaw the Best Again, plus outlines Loblaw's priorities for 2008, 2007 financial highlights, facts and statistics, corporate social responsibility summary, corporate governance practices, and corporate and shareholder information.

February 2008

2007 Annual Report

Contains Loblaw Companies Limited annual financial statements, report to shareholders, auditor's report, and management discussion and analysis.

March 2008

2007 Corporate Social Responsibility Report

Loblaw Companies Limited first Corporate Social Responsibility (CSR) report will outline the environmental and social achievements made in 2007 which support our five business pillars. It will describe the strategy and priorities, primarily for 2008, and how we will use this inaugural year to set long-term objectives.

April 2008

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