FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning, ladies and gentlemen and thank you for standing by. Welcome to the Loblaw Companies Limited First Quarter Results Conference Call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you queue up for questions. (Operator Instructions).

I would like to remind everyone that this conference call is being recorded today, Wednesday, April 30, 2008; at 9 A.M. Eastern Time for replay purposes.

I would now like to turn the conference over to Inge van den Berg, Vice President, Investor Relations. Please go ahead.

Inge van den Berg - *Loblaw Companies - VP IR*

Good morning and welcome to the Loblaw Companies Limited First Quarter Conference Call. This call is also being webcast simultaneously on our website, www.loblaw.ca. I am joined here this morning by Galen G. Weston, Executive Chairman; Allan Leighton, President and Deputy Chairman; Frank Rochetti, Chief Merchandising Officer; Dalton Philips, Chief Operating Officer; Bob Vaux, Chief Financial Officer; and Sarah Burcher, Senior Vice President, Financial Operations.

Before we begin today's call, I want to remind you that the discussion will include forward-looking statements, such as the Company's beliefs and expectations regarding certain aspects of its financial performance in 2008 and future years. These statements are based on certain assumptions and reflect management's current expectations and they 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 are discussed in the Company's materials filed with the Canadian securities regulators from time to time, including the Company's annual report and first quarter report. Any forward-looking statements speak only as of the date they are made. The Company disclaims any intention or obligation to update or revise any forward-looking statement whether as a result of new information, future events or otherwise, other than as required by law.

Certain non-GAAP financial measure may be discussed or referred to today. Please refer to our first-quarter report and other materials filed with the Canadian securities regulators from time to time, for a reconciliation of each of these measures to the most directly comparable GAAP financial measures.

Our first-quarter report, as well as the archive of this conference call, will be available on our website. I would now like to introduce Bob Vaux.

Bob Vaux - *Loblaw Companies - CFO*

Good morning and thank you for joining us today. You'll note from the Q1 release that we no longer report sales, operating income, net earnings, EBITDA and basic net earnings per common share on an adjusted basis. However, we are providing the information so that users can make the adjustments that they believe are appropriate to understand the underlying running rate of the business.

Same-store sales and same-store sales in the first quarter increased 2.8% over last year. Volume increased 3%.

Net earnings increased 14.8%; however, had we reported on an adjusted basis we would have been down year over year by approximately 25%.

In addition to the factors outlined in the MD&A, the year-over-year change in the following items influenced operating income in the first quarter, compared to the same period last year.

Charges related to restructuring costs in 2008 were C$3 million, compared to C$89 million in '07. Charges related to the net effect of stock-based compensation and the associated equity forwards were C$25 million in 2008 compared to C$12 million last year.

Total sales for the first quarter increased 2.8% to C$6.53 billion, despite a 1% year-over-year reduction in internal retail food prices. Approximately 0.7% of our total sales in the same-store sales increase was due to the shift of Easter sales into the first quarter of this year as compared to the second quarter in 2007.

Total sales increases were achieved in Ontario, Atlantic and Western Canada; while Quebec sales were flat compared to last year. All regions experienced positive same-store sales growth. Sales growth was positive in Food and Drug Store, while General Merchandise sales were flat in the quarter.

Operating income was C$155 million, compared to C$134 million during the same period of '07. Operating margin was 2.4%, compared to 2.1% in the first quarter of '07. The increase in operating income and margin was due to lower restructuring costs year over year.

Excluding the impact of restructuring, margins declined in the first quarter 2008 as a result of our continued investment in lower retail prices. We initiated significant pricing investments in the third quarter of 2007, and as a result, margins in the first quarter of 2008 were negatively impacted when compared to the first quarter of '07.

Sales increases in the quarter were insufficient to offset margin declines and cost increases. We experienced higher store labor costs in the first quarter of 2008 as a result of increased wages and incremental statutory holidays, compared to the first quarter of '07. Labor productivity improved in the first quarter, compared to the same period last year.

Loblaw realized first-quarter basic net earnings per common share of C$0.23, compared to C$0.20 for the same period in '07. As previously mentioned, if restructuring costs and the net effect of stock-based compensation associated equity forwards were excluded; net earnings per share would be lower year over year.

Free cash flow in the first quarter of 2008 was negative C$493 million, compared to negative C$396 million in the first quarter of '07. The reduction was due to an increase in cash flows used in operating activities of C$77 million and an increase in capital expenditures year over year of C$20 million. Free cash flow is typically negative in the first quarter and is expected to improve throughout the remainder of the year, due to increases in net earnings and improvements in cash flows from working capital.

In a very competitive environment, sales volumes continue to improve as a result of our investment in value for customers and focus on shelf availability. Through the remainder of the year, we intend to continue with our targeted pricing investments and expect solid sales volume growth. Management's ongoing focus on cost and operating efficiencies is expected to help offset the effect of pricing and competition on margins.

Although some financial benefits in the restructuring are anticipated to take hold in the second half of the year, there is still much work to do. I would now like to turn it over to Galen Weston.

Galen Weston - *Loblaw Companies - Executive Chairman*

Thank you, Bob. The Company performance in the first quarter was challenging. We maintained market share, improved customer item counts and increased sales and sales volume. However, once adjusted for Easter, our sales momentum was disappointing.

Margins remained under pressure, as we sustained our commitment to better value for our customers. That pressure is likely to continue. And we remain focused on lowering costs and generating operating efficiencies.

We are achieving lower purchase costs for both merchandise and not-for-resale items, benefits of which are expected to begin to show up over the course of the year.

Shrink and labor productivity improved over the same period last year. On-shelf availability also improved steadily in the quarter and we continue to roll-out the Always Available program.

Work continued on our store pilots in all three formats. The results have been well-received by customers and early performance of sales growth and labor productivity is in line with expectations.

The Company remains committed to the Simplify-Innovate-Grow strategy for making Loblaw Companies the Best Again, and in the three-to-five year timeframe for delivery. However, one year into our turnaround, we are not where we need to be. The new centralized organization is on track to deliver the expected benefits of cost management, better buying and operational discipline; however it lags six to nine months behind as an effective selling organization.

Last week we took action to address this by changing the senior executive team. Our new structure will provide the clarity and focus that is required to execute the next phase of our strategy. I would now like to introduce Allan Leighton.

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

(Inaudible) around the formula for growth we think is still valid. This strategy is the compass, the direction you intend to travel. Execution is the roadmap of how you get there. And therefore, execution needs to adapt to the conditions at the time.

The management changes we've made were to provide more focus and clarity, hence better execution. So I'd like to update you as to five key adjustments to our roadmap.

One, we will commence a significant great food renewal program in Ontario, Back to Best. This will focus on investment in front-end service, create a thousand new service jobs, involve more local sourcing of produce, food-range enhancements and a comprehensive refurb program of 20 stores; and a reduction in price aligned to the changes in offering.

This is driven by our learning from our pilots in Burnhamthorpe and Young & Young; and will be completed by the end of 2008.

Two, we will start an aggressive Superstore refurb program and No Frills expansion in the West. This will impact 25 Superstores over the next 12 months, 20 more Extra Foods conversions to No Frills over the same time period, and we are targeting 20-plus new-site No Frills in urban locations in the West over the next two years.

These actions are again driven from the learning and success of our pilots and the No Frills role in the market will be infill with little overlap with Superstore. We believe this will create a very potent combination in the West.

Three, the centrally led and driven merchandise programs will be enhanced locally by market merchants. We're very satisfied with the progress in procurement of our centralized merchandising structure, and now we're going to enhance that with a small number of market merchants located in the markets to add local sales color to our program. Merchandising at Loblaw will be 85% central, 15% local.

Four, the next 18 months of our supply-chain and systems programs will be totally foundation focused. All of our developments will be focused on upgrading the basic foundation systems and processes. From the physical improvement of our distribution network; through both replacement and new physical infrastructure, simple warehouse management systems, simple replenishment systems, simple forecasting tools, all off the shelf, non-proprietary.

Five, there will be a major President's Choice program focused on restoring and enhancing the President's Choice uniqueness and position as the most formidable Canadian private-label program, culminating in a massive celebration of its 25th Year Anniversary.

These five themes clearly signal the ramping up of our recovery program and are designed to add clarity, focus, and inject much-required pace to the process.

Operator, I'd now like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions)

Your first question comes from Ryan Balgopal of Scotia Capital. Please proceed.

Ryan Balgopal - *Scotia Capital - Analyst*

Yes, I wanted to ask about conventional store pricing. I'm wondering where you sort of are on that given the changes that you've announced today with respect to the Great Foods stores. Are your cost savings coming fast enough to enact these price cuts over the next two years?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

Ron, it's Allan; two things, really. First of all, on pricing generally, we won't say very much apart from we're pretty satisfied with our position in hard discount. And in Superstore, we said consistently that we need to adjust our price position in conventional. This will happen. I think what I've just said is it will happen as and when we make changes to the rest of the offering in those stores.

We believe that value is important, but it is much more important to get the whole offer correct.

Ryan Balgopal - *Scotia Capital - Analyst*

And I guess historically the gap between conventional pricing and discount pricing has been wider than sort of the 6% to 8% that you're talking about now. I'm wondering if there is a risk to cannibalization of your hard discount format from getting that gap so narrow.

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

Well, we're not really talking about a 6% to 8% gap. This whole issue, we've talked about in the past about indices, is something we want to move from. Clearly we have a price position that we want to establish in the marketplace and clearly we would not do anything in pricing terms, certainly in the conventional business, where it had any cannibalization on the rest of our business.

Ryan Balgopal - *Scotia Capital - Analyst*

Okay. And maybe just on the Supercenter expansion-- did you say 25 new Supercenters in the West?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

No, I said we would refurb 25 of the Superstores in the West.

Ryan Balgopal - *Scotia Capital - Analyst*

Okay. Okay, thank you.

Operator

Your next question comes from Michael Van Aelst of TD Newcrest. Please proceed.

Michael Van Aelst - *TD Newcrest - Analyst*

Just getting back to your outlook comments where you said that you expect to have some offsets in the second half of the year. Can you give a little bit more detail as to where some of these cost savings are going to kick in, in the second half-- more than what you gave in your opening remarks?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

Again, we'll be pretty tight, because we really don't give guidance. You only get cost savings in a couple of places. One is clearly in cost of goods and we're making some progress there. And secondly, in reducing operating costs; and operating costs is really all about productivity and efficiency and Dalton and the Operations team are making progress there. They are the two major places where you get cost savings in retail businesses.

Michael Van Aelst - *TD Newcrest - Analyst*

Alright, it seems a little contradictory that you're adding a thousand new service jobs in your conventional but you're reducing your prices. Usually don't you require that extra pricing to pay for these services-- so how do you do that without having it impact your margins?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

Because the whole idea is you do all of this activity to drive the overall sales, drive the overall contribution. There is never one lever that you pull in retail that delivers the profitability. It's always a series of levers and that's what we're pulling.

Michael Van Aelst - *TD Newcrest - Analyst*

So in other words, it seems like you're relying on higher revenues to come through to offset that lower margin?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

No. We rely on all three things to drive the contribution.

Michael Van Aelst - *TD Newcrest - Analyst*

Alright, thank you.

Operator

Your next question comes from Irene Nattel of RBC Capital Markets. Please proceed.

Irene Nattel - *RBC Capital Markets - Analyst*

Thanks. First of all, Allan if you could sort of elaborate a little bit; as you outline those five points, they're fairly clear except the fourth one when you were talking about the supply chain and foundation focus. Could you just elaborate a little bit on what you mean and how what you're talking about is different than perhaps what we might have heard earlier?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

Yes, two things really. I don't think it's that much different. I think it just says-- it demonstrates where the focus is going to be over the next 18 months. You know you read things about the 20-10 program which seems to suggest that some of the stuff we're trying to do is rocket science. I think the thing-- the point I'm trying to make here is the focus over these next 18 months is very much on the foundational stuff. And any move that we make to flow over time, can only be done if you get these basics right.

And when you talk about 2010, 2010 is still absolutely there and working its way through, but this is the signal to you and to everybody else, where the focus is going to be over this next 18 months. And it purely on the foundation-focused activity which will improve what we've got now quite significantly.

Irene Nattel - *RBC Capital Markets - Analyst*

Okay, thank you very much for clarifying that. And then in the opening remarks, I think it was Galen who said that clearly once you strip out the benefit of Easter; although your pricing position was much better and you've maintained your market share, the sales momentum was disappointing. And I was wondering if you could share with us some thoughts as to why that might be the case.

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

I think there are a number of things really. The number-one thing is we feel that we should be getting more sales growth in terms of where we are with the business. And we think there is certainly opportunity to do that. I think that the centralized function, as we say, I think has worked well from a procurement perspective, but has not yet turned itself into a selling machine, which is what the merchandising function needs to be-- a combination of two things. And that's where we feel that the opportunity is.

We held our market share, as you say. I think we're slightly disappointed that that is the case.

Irene Nattel - *RBC Capital Markets - Analyst*

So, just make sure that I'm understanding, if I can paraphrase a little bit-- your procurement is better but your in-store merchandising just isn't quite where it needs to be and what we're seeing is the consumer sort of ho-hum response to that?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

Sorry, we lost you-- sort of a technical flaw there. So could you just repeat that, but in the end suddenly all the microphones went off.

Irene Nattel - *RBC Capital Markets - Analyst*

Sorry. I thought so. I had said something there. No just that somehow--

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

That's why we're working on the basic systems to start with.

Irene Nattel - *RBC Capital Markets - Analyst*

Yeah, okay. Thank you.

Operator

Your next question comes from Perry Caicco with CIBC World Markets. Please proceed.

Perry Caicco - *CIBC World Markets - Analyst*

Thanks. Good morning. Five good points Allan; I just want to follow up a little bit on the IT supply chain issue. Can you just give us an indication as to how you intend to manage risk while you fix the foundation? You know, we've been through some issues with supply chain in the past so maybe you could comfort us about the potential for issues cropping up in the future.

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

Yes Perry, two things really. First of all, we have a very good and experienced supply chain team now. They've done this a few times and that always gives me-- makes me feel much better when I go to sleep at night. I think the other thing is the reason I focus on the fact that what we are doing is pretty basic stuff, and that gives-- when you're just doing basic stuff, it's all been done before so that also minimizes the risk.

I think a good example is what we've done at Ajax. As you know, we're sort of moving from Erin Mills to Ajax and that's been going for a couple of weeks. Ajax is up and running and is running pretty well. There are a couple of product groups in there. And the way we will do it is we just migrate until we feel comfortable about what we've got that's new is working, and only then do we make the switch.

I've been through these where they've gone wrong, and as you know, they become very difficult. But the way to do it is you plan it, you do the basics, and you always migrate. And if you do it that way around, then generally you're okay. So I feel pretty confident about what we're going to do over the next 18 months and I think in terms of fixing the basics of our supply chain system, then I think this that piece of focus will help greatly.

Perry Caicco - *CIBC World Markets - Analyst*

Okay, that's good. Thanks. In Western Canada, how do you see the role of Extra Foods evolving then over the course of time? Maybe you could help me with kind of the relative positioning between Superstore, Extra and No Frills over the next three or four years.

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

Well I think over time, Extra Foods will become a much smaller part of our business in the West. The West business will be really dominated by the Superstores and No Frills. Any [tail] of Extra Foods we will manage at the time. But really if you assume that basically there will just be these two formats; and the idea is where we convert, most of the stores we're converting from Extra Foods to No Frills don't overlap in any way with Superstore, and have been very successful.

And the new No Frills, which we intend to build in the urban locations, again will not really overlap with Superstore. So they will play an infill role. And both of them will operate at the hard discount end of the market. And we think for that market that is very potent. And certainly from what we've seen from our conversions, that's what we see.

Perry Caicco - *CIBC World Markets - Analyst*

Okay, and then my last question; I guess on sort of the internal argument of central versus local merchandising; you've made I guess a bit of a concession to kind of get back into the local markets [with your] local market merchant. Can you tell us a little bit about the -- how that impacts programs on a national basis versus programs on a regional basis and whether or not this impacts purchasing decisions as well as merchandising?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

Well, two things really. You are right. Concession is one way of thinking about it. We just think that it's an opportunity that's been missed. And so procurement will always be almost 100% centrally and certainly all of the national programs will be driven from the center. But as you and I know, and to a degree our experience in the West which really we model this on a bit has shown us this; is that there's a great opportunity to enhance the sales by doing some things locally.

So basically the role of the local market merchants will be all around local products, local events, local marketing; added to enhancing the central national programs. So we see this very much as an add-to rather than subtract-from exercise. And that's why we're only putting a few people in, but we'll be putting some of our best people into these roles.

Perry Caicco - *CIBC World Markets - Analyst*

Okay. That's great for now. Thanks.

Operator

Your next question comes from James Durran of National Bank Financial. Please proceed.

James Durran - *National Bank Financial - Analyst*

Yes, just a couple of questions; first of all, in previous quarters you have talked about cost savings being able to not totally but partially offset your price investment. Are we to take away from this that the magnitude of offset maybe somewhat less or deferred at least, versus what was suggested at the Investor Day?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

No.

James Durran - *National Bank Financial - Analyst*

Okay. And on your General Merchandise program; not much talk about it right now, is it sort of veiled underneath the PC program or can you give us some idea of how you feel about General Merchandise, in particular in the Ontario market now?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

Well, we don't just think about the Ontario market. We think about all the markets. And clearly our big piece of General Merchandise actually isn't in the Ontario market, it's in the West. So how do we feel about General Merchandise? A bit disappointed; because sales are pretty flat, the profitability is pretty flat. We've been working on taking inventory out, which I think has been absolutely the right thing to do and there's been some good work done by the merchants in terms of delivering what we've described as the next generation of products, which I think will be much more concise and much more about items rather than huge ranges where we are.

So we still believe there's an opportunity for us in General Merchandise. And we've got a team that's fixed on it. But at the moment, we would be slightly disappointed in where we are.

James Durran - *National Bank Financial - Analyst*

Would we be expecting sort of a major push this fall or are we still talking about sort of working our way through SKU count?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

Well, I'd sort of try and move away from major pushes, really. I think getting the ranges right is the work that's being done, and that's being done well. Remember it's a bit of a curious egg in terms of General Merchandise. We always exclude Drug Store from it in terms of our thinking. And we're pretty pleased with our Drug Store business.

I think you'll just see more seasonal eventing and more theme-based activity around General Merchandise, which is really the way that you drive that business; and certainly historically, it was the way that it was driven in the West very successfully.

James Durran - *National Bank Financial - Analyst*

And last question; just going back to conventional pricing; are we to take away that you'll change the pricing once you've changed the store on the Great Foods side-- does that mean you're going to limit your price changes to those converted stores or will it be more extensive than that.

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

Well again, in terms of pricing; we're clearly not going to say what we're going to do, where we're going to do it, or when we're going to do it; because if you know, then everybody else would know and that's not the idea. Suffice to say that where I started off is that our conventional pricing will need adjusting and we will adjust it appropriately, but at the same time that we change other things in the store. I'm a great believer in that you do things in an integrated way and that's where you get the real power. And I think you'll just see a lot more of that than in the past.

James Durran - *National Bank Financial - Analyst*

Great. Thank you, Allan.

Operator

Your next question comes from David Hartley at BMO Capital Markets. Please proceed.

David Hartley - *BMO Capital Markets - Analyst*

Hi and thanks for coming on the call today. Mr. Leighton, I don't mean to patronize you here but you have a well-established reputation as an operator in the UK and clearly you coming to Loblaw and leading the charge is seen as a good thing. But my question to you is-- will you be giving up directorships or chairmanships in the UK or elsewhere and focus solely on the Loblaw opportunity?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

Well, two things. Lastly I have-- I think we made it clear last week that I'm 100% committed to Loblaw. I still have some responsibilities in the UK with Royal Mail, which will come to a close at the end of the year at which stage I'll be here nearly all the time.

David Hartley - *BMO Capital Markets - Analyst*

Okay, great. Thank you. And in terms of your improved offering, I see the advertisements going in the market on the Drug Store side. I'm not sure the offering has really changed that much; you're just highlighting maybe a cost advantage. Is there plans on the Drug Store-Health and Beauty side to improve that offering; not just across the conventional formats but across all formats or what are your plans there?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

Again, without getting into too much detail of what the plans are because the thing about this market is that it's very competitive and will get increasingly more competitive, so clearly we want to keep some stuff back and surprise people, particularly our competition with it. We think we've made very good progress on the Drug Store. Michael Lovsin and his team have done a very good job on it, under Frank's leadership. This is really an exercise in demonstrating what great value we have.

The issue we've had with our Drug Store business is it's very competitively priced. People don't always get that value. So this is part of that program. Quite a lot of work has already been done to ranges. Quite a lot of work-- we learned quite a lot from what we did at Milton and I think you will continue to see a lot of development in that particular area, which we see as a great growth potential for us.

David Hartley - *BMO Capital Markets - Analyst*

Okay, and then another question; with regard to format changes and moving to the No Frills concept, etc.-- Extra Foods; how does the whole union issue come into play here? Do you have to renegotiate contracts, are there add-ons here? Could you talk a bit about that and labor costs?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

Well again, we're in the process of just doing some of the switches now between Extra Foods and No Frills. Some may well be franchised, some may not be. We think that it's very manageable and clearly we wouldn't be talking to anybody over this piece of communication before we started to talk to our people. I mean clearly in the work that we're going to be doing in the conventional stores and in the work we'll be doing in the conversions from Extra Foods to No Frills; the people who all know about it first are the people in the store and that's how we like to keep it.

David Hartley - *BMO Capital Markets - Analyst*

Okay and then finally a lot of the changes made, they sound great; it sounds like this is the way you should be going. Is this just a question of you being able to communicate this better than maybe the previous management team and that really this is just you're continuing to follow on the original plans? And that would be the first part of that question.

The second part is-- with these changes, how focused is it around this price positioning as opposed to offering positioning?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

The second one first; it's all around offering positioning. And the first one-- I think I said that this signals clearly the ramping up of our recovery program. We feel that we have been on defense, not on offense. We feel that we've been a bit more reactive than we should have been. We are the number-one player in this market. We have the big market share and we have the assets, we have the brands, and I think you will just see that we will now start to utilize those.

David Hartley - *BMO Capital Markets - Analyst*

Great, thank you.

Operator

Your next question comes from Winston Lee of Credit Suisse. Please proceed.

Winston Lee - *Credit Suisse - Analyst*

Hi. I noticed that there was no mention about Quebec and I wondered how you felt about your stores in that market; the conditions of the stores and sort of conventional and discount and whether there's any room for improvement.

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

I was up in Quebec a couple of weeks ago with Jocy and the team, a very strong team we've got up there. As you know, it's a very competitive market. We think Maxi and Maxi & Co. are ideally set in that marketplace and feel pleased with the progress of those. Clearly our conventional business is slightly more challenged and one of the things that we will just develop over time is more clarity of positioning of the conventional stores in Quebec.

But we've got a great business in Quebec. We have a very, very good team up there and certainly the Maxi piece of that business is absolutely right for that marketplace. We are the price leaders and we intend to stay that way.

Winston Lee - *Credit Suisse - Analyst*

And as you look across all the banners and different franchise agreements, are there opportunities there to create greater uniformity?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

There are opportunities everywhere, but I think you have to keep the balance; their uniformity is only right when it adds something to the business. We have some elements of our business that are -- and the West is a very good example, our

Superstores in the West -- a very clear identity, work very successfully and you'd want to keep that piece of uniqueness about them. You wouldn't want to make them more uniform.

So we look at things on a store-by-store, banner-by-banner basis and that's the way we'll continue to do it.

Winston Lee - *Credit Suisse - Analyst*

And I wonder about the refurbs that you're going to do out west, the Superstores. What's different about the Superstores out there and the refurbs that you'll do compared to the Superstores that are in Ontario?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

Well two things; one is that they're a very different proposition in that they have much more General Merchandise in there. And again, wait and see. We've done some work on the refurbs. We're pretty pleased with that. You want to get yourself out there and have a look at some of them; it will give you some idea about what we're doing.

Winston Lee - *Credit Suisse - Analyst*

So I'm just-- Allan, maybe I can ask you; why do you think that those Superstores are more successful out there than here in Ontario?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

They've just been there longer, more established; it's got a very clear position in the marketplace and deliver [against] every day.

Winston Lee - *Credit Suisse - Analyst*

Okay. Thanks very much.

Operator

Your next question comes from Keith Howlett of Desjardins Securities. Please proceed.

Keith Howlett - *Desjardins Securities - Analyst*

Yes. A few questions just on the broad statements; I was just trying to understand exactly what it means if you're six to nine months behind schedule, being a selling organization; I'm not exactly to be honest sure what that means.

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

Okay. I'm going have a break and let Galen have a go.

Galen Weston - *Loblaw Companies - Executive Chairman*

The answer to that question is very much what was written in our statement. We feel good about the central structure and its ability to leverage scale. But the way that we are executing our national programs is not optimal and we feel that some of these modifications that we're making and drawing some lines, putting some flags down; will allow us to execute that.

From a six-to-nine month perspective; in the three-to-five year program, it's reasonable to say that we are six to nine months behind. We still believe that we can deliver within the five years, but we're now closer to five than to three.

Keith Howlett - *Desjardins Securities - Analyst*

Is Mr. Leighton going to take a shot or does he like the answer?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

We say the same thing, as usual; but true.

Keith Howlett - *Desjardins Securities - Analyst*

So I'm too simple a guy; I think selling involves person to person so I can't figure out what it means when the executives talk about being a selling organization but only that's my problem I guess.

But just in terms of the Superstore positioning in Ontario, what is your idea versus-- the Superstore positioning Ontario versus your new plans for conventional and why would I choose to go to one versus the other I guess, if I did have the choice?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

Well, two things; first of all, I think we-- there's an opportunity to make our Superstore proposition in Ontario much clearer than it is today. So watch this space. The second thing is there is a difference in terms of there is certainly a wider range in the conventional stores than there is in the Superstores and clearly there is a significantly different price position. And range and price are pretty big levers in any retail business.

Also on your points on sales; what-- retail business is driven by sales. If you're not a selling machine, which means the whole organization isn't just focused on buying stuff; it's focused on how you sell the stuff, too. Then all that happens every week is you roughly take the same money. So when we talk about a selling machine, we talk about an organization that doesn't just know how to buy stuff, it knows how to sell stuff too. And that isn't a one-to-one thing. It's the whole organization galvanized in such a way to drive sales through stores; that's what we mean.

Keith Howlett - *Desjardins Securities - Analyst*

And in terms of the pricing program; do you have any thoughts on the pricing programs over the last six months like the no GST and no PST or the C$10 off on 100-- were those things that you would have done if you had been President during that period or not?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

I mean you look at different things at different times. The other great thing about retail; you try things. Some things work and some things don't. That's the history of retailing. And the things that don't work; try not to do them again. And the things that work; do them. So there is a role for eventing in our business, but the way you always have to think about this is that they are the cream on the top. They can never be the thing that drives the business. You have to have a core momentum in sales in the organization that you then add on top of.

So I think we are-- I think you should see today as a bit of a-- we've put a flag in the ground that we are moving on and we've learned a lot over the last 12-18 months. I think we've done a lot of good things, actually. But at the same time, we feel we're behind where we need to be and I think the purpose of us moving forward is to create some real momentum in the business.

Keith Howlett - *Desjardins Securities - Analyst*

Just finally on the management team; Bob has come over from Weston, so he's going to have two jobs there. But excluding Bob, in terms of the rest of the management team; are you going to add people or are you happy with where you are in terms of the executive group?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

We're very happy with what we've got in the executive group.

Keith Howlett - *Desjardins Securities - Analyst*

Great. Thanks very much.

Operator

Your next question is a follow-up question from Irene Nattel of RBC Capital Markets. Please proceed.

Irene Nattel - *RBC Capital Markets - Analyst*

Thanks, two questions, if I may; first of all, just on the whole subject of cost inflation-- you did refer to it in the press release and in your comments about labor cost inflation, but clearly with all the commodity price movements, the supplier community is getting extremely restless. So if you could talk about your thoughts with regard to that. And then the second question I guess is a follow up to what you were just saying, Allan which is-- how do you change the culture within an organization so that it becomes focused on being a selling organization and not just focused on the cost side?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

Irene, let me do this in reverse order, really. The way you do it is clearly you give some clarity to the organization in terms of what different roles are within it and what people's responsibilities are. But actually, everybody gets it. It's not actually a difficult thing to persuade people to do. You then just got to give them the mechanisms to be able to do that and organize yourself around it. This is not new. Lots of people do it. We've got elements of our business that does it. The West I think is a great example of a bit of a selling machine, actually.

So I don't think it's hard to do. I think you just refocus people and you give them a bit of clarity and you make people think about things in a slightly different way.

On the cost front, we have cost inflation in the business; but as you can see in overall terms, we've got deflation in terms of where we are. And I think there's a balance here. Clearly when suppliers and manufacturers come to us with cost pressures; and there are a lot of cost pressures, particularly in the commodity area. If you talk about (inaudible), as you know we've been working in the bacon business and there has been huge cost inflation in those businesses that we've had to deal with for a period of time.

So we understand where some of the manufacturers are coming from. But at the same time, we think that value is very important in this marketplace. We think actually it will become increasingly important. And so where there's a rationale for price increases, we will put that cost inflation through. Where we don't think there is, then at the moment some of the times we're sucking it and some of the time the suppliers are.

Irene Nattel - *RBC Capital Markets - Analyst*

Okay. And just sorry, to come back to -- thank you very much for the first part of the question. When you say that it's making it clear to people; does it also involve changing the way people are compensated?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

Yes and no. I mean I think if you compensate people the way we compensate it, then the only idea of driving sales in the end is that you drive EBIT is-- we often have conversations recently with our people about whether you want us to get sales or margin. Of course the answer is both. And that's the way you have to think about it. So there's nothing new here. And if you look at the really good retailers around the world, that's what they do. And I think we're very capable of doing that. I think we just need to refocus everybody, give them a bit of clarity and frankly put some flags into the ground about what it is we're going to do and what we're all going to be focused and galvanized around. And that's what we intend to do.

Irene Nattel - *RBC Capital Markets - Analyst*

That's great. Thank you.

Operator

(Operator Instructions). Your next question is a follow-up question from James Durran of National Bank Financial. Please proceed.

James Durran - *National Bank Financial - Analyst*

I just wanted to focus on your current in-stock position. I mean I continue to have shoppers in the stores and other investors complaining about the in-stock problems in Ontario. Where do you feel you are at that? How are some of the metrics, if you can share any with us, and how much longer do you think it will take before you feel like you've really got that beast under control?

Dalton Philips - *Loblaw Companies - COO*

As we said at the Investor Day, our plan is to hit 400-- to have 450 stores on our Availability program by the end of the year. We're currently rolling out more stores as we speak and we're happy with the progress so far. Obviously, there is more work to be done.

James Durran - *National Bank Financial - Analyst*

Are you concerned that it's actually though becoming a dynamic that's pushing customers to competitor stores, that you may not get back and is there no way to ramp the speed of that implementation up?

Galen Weston - *Loblaw Companies - Executive Chairman*

Jim, it's Galen. We're actually very pleased with the progress of on-shelf availability both in Ontario and across the country. In fact, there was a recent news article which pointed out that we had 291 [holds] on our shelves in Grocery. That was a cause for celebration in our business. That's about as close to the gold standard for on-shelf availability in a retailer as you can get. So we feel pretty good.

James Durran - *National Bank Financial - Analyst*

Okay. Thank you.

Operator

Your next question comes from David Hartley of BMO Capital Markets. Please proceed.

David Hartley - *BMO Capital Markets - Analyst*

Hi. One just housekeeping I guess on CapEx store expansion and I guess financing all that; I mean are you changing your plans for CapEx and if you could just remind us what your CapEx plans are and then maybe talk about-- I know you talked about the No Frills stores and so on-- if you could talk about right across the country what your plans now are for new stores or new square footage going into the market?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

Well we won't do the latter, but the former is I think we flagged about C$825 million of CapEx for this year. That will still be the case. We'd allowed in our CapEx for some of this activity and frankly if we were doing this activity we'd have probably spent less CapEx anyway. So C$825 million is still a good work around for this year and we'll talk about next year's numbers when we get to talk about next year.

David Hartley - *BMO Capital Markets - Analyst*

And so there's no adjustment to the breakdown of that CapEx, you're saying?

Allan Leighton - *Loblaw Companies - President and Deputy Chairman*

There may be some small shifts inside, but directionally use the numbers that you've been working on before.

David Hartley - *BMO Capital Markets - Analyst*

Okay and the new shelf prospectus that you filed; is there anything we should be thinking about there or is that just a refinance existing pref shares that come up for expiree-- could you talk to that?

Bob Vaux - *Loblaw Companies - CFO*

Well, we filed the prospectus to give us the flexibility that if we do decide to do financings, we can do financings quickly and efficiently. We're clearly moving forward on any number of ways to satisfy liquidity needs and we're comfortable we're in very good shape right now.

David Hartley - *BMO Capital Markets - Analyst*

Okay, thank you.

Inge van den Berg - *Loblaw Companies - VP IR*

Thanks everyone. This is Inge van den Berg. I just wanted to thank you for your time today and we look forward to talking to you on the next call.

Operator

Ladies and gentlemen, this concludes the conference call for today. Thank you for participating. You may now disconnect your lines.
