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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 consolidated financial statements and the accompanying notes on pages 48 to 73 of this Annual Report. The 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. A glossary of terms used throughout this Annual Report can be found on page 76. The information in this MD&A is current to March 8, 2005, unless otherwise noted.

Forward-Looking Statements

This Annual Report, including this MD&A, contains forward-looking statements which reflect management's expectations regarding the Company's objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as "anticipates", "expects", "believes", "estimates", "intends" and other similar expressions.

These forward-looking statements are not facts, but only predictions. Although the Company believes that these statements are based on information and assumptions which are current, reasonable and complete, these statements are necessarily subject to a number of factors that could cause actual results to vary significantly from the estimates, projections and intentions. Such differences may be caused by factors which include, but are not limited to, changes in consumer spending and preferences, heightened competition including new competitors and expansion of current competitors, the ability to realize anticipated cost savings, the Company's relationship with its employees, results of labour negotiations including the terms of future collective bargaining agreements, changes to the regulatory environment in which the Company operates now or in the future, performance of third party service providers, the ability of the Company to attract and retain key executives and supply and quality control issues with vendors. A discussion of these and other risks and uncertainties is included in the Risks and Risk Management section of this MD&A. The Company cautions that the list of factors is not exhaustive.

Potential investors and other readers are urged to consider these factors carefully in evaluating these forward-looking statements and are cautioned not to place undue reliance on them. The forward-looking statements included in this Annual Report, including this MD&A are made only as of the date of this Annual Report and the Company does not undertake to publicly update these forward-looking statements to reflect new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events contained in these forward-looking statements may or may not occur. The Company cannot assure that projected results or events will be achieved.

Overview

Loblaw, a subsidiary of George Weston Limited, is Canada's largest food distributor and a leading provider of general merchandise products and services. It is committed to providing consumers across the country with the best one-stop shopping destination for their food and everyday household needs. For over 45 years, the Company has supplied the Canadian market with innovative products and services through corporate, franchised and associated stores. Corporate owned store banners include *Atlantic Superstore*, *Dominion* (in Newfoundland and Labrador), *Extra Foods*, *Loblaws*, *Maxi*, *Provigo*, *The Real Canadian Superstore* ("The RCSS") and *Zehrs Markets* and a number of wholesale outlets operating as *Cash & Carry*, *Presto* and *The Real Canadian Wholesale Club*. The Company's franchised and associated stores operate under the trade names *Atlantic SaveEasy*, *Fortinos*, *Lucky Dollar Foods*, *no frills*, *SuperValu*, *Valu-mart* and *Your Independent Grocer*. The store network is supported by 32 warehouse facilities located across Canada.

In addition, the Company makes available to consumers *President's Choice* financial services and products, including the *President's Choice Financial MasterCard*[®], and *PC Financial* auto and home insurance, as well as a loyalty program.

Vision and Strategies

Loblaw's vision has been, and continues to be, centred on three main principles: growth, innovation and flexibility. While accepting prudent operating risks, Loblaw seeks long term, stable growth supported by a strong balance sheet, with the goal of providing superior returns to its shareholders through a combination of common share price appreciation and dividends. It encourages innovation based on the belief that providing consumers with new products, convenient services and exciting shopping environments is critical to its success. Loblaw strives for flexibility in its operations in order to grow its market share across the country.

On a long term basis, Loblaw's goal is to be known for:

- offering the highest quality fresh foods,
- its compelling value proposition and food assortment,
- leading in the development of unique, high quality control label products and services,
- its powerful and compelling general merchandise offering,
- delivering sustainable growth through distinct but integrated approaches to the marketplace, and
- providing a great place to work and grow.

In support of its vision, the Company employs various operating and financial strategies. These strategies guide the Company over the long term and represent a philosophy for the way in which it conducts its business.

The Company's long term operating strategies are:

- using the cash flow generated in the business to invest in its future,
- owning its real estate, where possible, to maximize flexibility for product and business opportunities in the future,
- using a multi-format approach to maximize market share over the longer term,
- focusing on food but serving the consumer's everyday household needs,
- creating customer loyalty and enhancing price competitiveness through a superior control label program,
- implementing and executing plans and programs flawlessly, and
- constantly striving to improve the Company's value proposition.

The Company's long term financial strategies are:

- maintaining a strong balance sheet,
- minimizing the risks and costs of its operating and financing activities, and
- maintaining liquidity and access to capital markets.

The Company recognizes that more immediate and measurable objectives are required in order to effectively carry out its long term strategies. As a result, the Company's Board of Directors (the "Board") and senior management meet annually to review the strategic imperatives. These strategic imperatives, which generally span a three to five year time frame, target specific issues in response to changes in consumer needs and the competitive retail landscape. In 2005, the strategic imperatives have been identified as follows:

- continue to focus on food,
- continue to drive general merchandise programs as a vital and integral component of the business,
- leverage the equity of the *President's Choice* brand across all product lines while ensuring consistent quality is maintained,
- intensify leadership development programs with a focus on store operations, increasing the frequency of sessions and taking a more interactive, collaborative approach to training, and
- execute on imperatives as a cost effective and fully integrated operation.

Management has identified specific critical success factors which are key enablers of the long term strategies. These critical success factors involve systems and technology, logistics, food safety, working capital management and labour partnerships. Targets have been set across the Company that will enable management to assess progress made on each imperative as well as the effectiveness of implementation.

The Company believes that if it successfully implements and executes its various strategic imperatives in support of its long term operating and financial strategies, it will be well positioned to continue to fulfill its vision of providing sustainable superior returns to its shareholders.

Key Performance Indicators

The Company continuously reviews and monitors its activities and performance indicators, which it believes are important to measuring the success of the implementation of its operating and financial strategies. Some of the Company's key performance indicators are set out below.

Key Performance Indicators

	2004 (52 Weeks)	2003 (53 Weeks)
Sales growth ⁽¹⁾	3.9%	9.3%
Basic net earnings per common share growth	15.0%	16.3%
Net debt to equity ratio ^{(2) (3)}	.71:1	.79:1
Return on average shareholders' equity ⁽³⁾	19.2%	19.3%

(1) See the chart *Sales and Sales Growth on a Comparable Week Basis* below.

(2) See Non-GAAP Financial Measures on page 47.

(3) Certain prior year's information was restated due to the implementation of Section 3110 and EIC 144 as discussed in Note 1 to the consolidated financial statements.

Other performance indicators include, but are not limited to: same-store sales growth, operating and administrative cost management, development of new control label products and market share.

Overall Financial Performance

Loblaw enjoyed another strong year in 2004, realizing basic net earnings per common share of \$3.53, a 15.0% improvement over last year. For the 52 week year ended January 1, 2005, total sales increased 3.9% to \$26.2 billion and operating income increased 12.6% to \$1,652 million as compared to the 53 week year in 2003. The 52 week reporting cycle followed by the Company periodically necessitates a 53 week fiscal year, which occurred in 2003.

The Company realized these results during a year of ongoing change in the Canadian retail environment, driven by the changing profile of the average consumer and the resulting response by Canadian retailers.

While low prices continue to be an important attribute for consumers, today's consumer is also more knowledgeable about products, more selective in buying patterns and more time-constrained than ever before. The overall result is an increased demand from retailers for value, choice and convenience. The continued focus on health, diet

and food safety has increased the demand for products that offer healthy alternatives. As the hectic pace of life continues to accelerate, consumers look more to convenience in their shopping experience. Therefore, while offering competitive prices, retailers must also focus on convenience, innovative product and service offerings and positive customer experiences.

The Canadian grocery industry's response to this new age consumer has been a shift from traditional, conventional supermarkets to discount stores, fresh format stores and large format stores. Unprecedented levels of capital investment over the past few years have resulted in increased retail square footage, and a broader choice of retail locations at which consumers can shop. Over the past several years, there has been an increase in the number of retail outlets that traditionally exclusively featured general merchandise or food items that now offer a selection of both, resulting in what is commonly referred to in the industry as "channel blurring". This evolution of the retail landscape presents a number of issues for traditional grocers: the need to re-position conventional supermarkets to either expand or, conversely, better focus their offerings; the reality of lower prices offered by discount models and the obvious need to reduce operating and labour costs in order to maintain earnings in light of lower prices and increased competition.

Loblaw has demonstrated its ability to anticipate these changes in the marketplace by strategically positioning discount models, market formats and larger combination stores under various banners across the country, focusing on pricing strategies and cost effectiveness initiatives, providing innovative solutions to lifestyle trends and working collaboratively with labour in order to maintain its commitment to offering the consumer value, choice and convenience.

RESULTS OF OPERATIONS

Sales and Sales Growth on a Comparable Week Basis

(\$ millions except where otherwise indicated)	2004 (52 Weeks)	2003 (53 Weeks)
Sales	\$ 26,209	\$ 25,220
Sales growth	3.9%	9.3%
Less: (Negative)/positive impact on sales growth of additional week in 2003	(2.0)%	2.0%
Sales growth on a comparable 52 week basis	5.9%	7.3%

Sales Full year sales increased 3.9% to \$26.2 billion from \$25.2 billion last year, including a 2% negative impact from the 53rd week in 2003. On a comparable 52 week basis, sales increased by 5.9%. All regions across the country experienced sales growth, which gained momentum in the last two quarters of 2004.

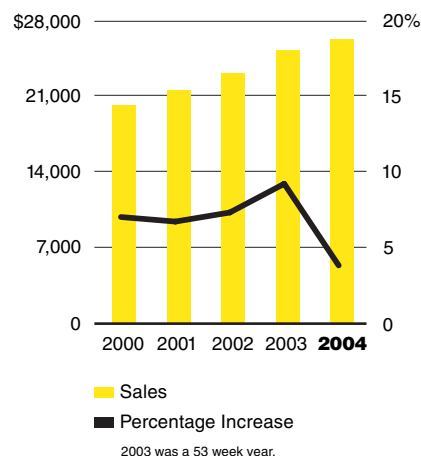
The following factors explain the year-over-year change in sales:

- same-store sales growth of 1.5% including the impact of the repositioning being undertaken in certain markets where Loblaw holds relatively larger market shares; the launch of *The RCSS* banner in Ontario, Canada impacted same-store sales in that region by replacing mature stores that were previously included in same-store sales and by creating expectations of lower prices by consumers in other Company stores located within the respective trading areas,
- national food price inflation which ranged from 1–2% in 2004,
- retail sales growth in general merchandise categories which continues to surpass that of food reflecting the Company's expansion in its breadth of offering; strong sales increases over the prior year were experienced in certain items such as barbecues, patio sets and small appliances,
- strong gas bar sales,

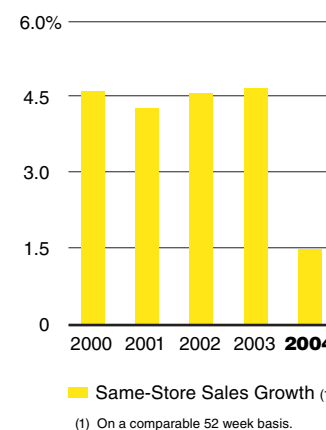
- an increase of 8% in net retail square footage related to the opening of 86 new corporate and franchise stores and the closure of 71 stores; the weighted average net retail square footage increased 6.4%, which is below the absolute increase due to the timing of store closures and openings,
- sales per corporate store increased to \$31 million in 2004 from \$29 million in 2003, on a comparable 52 week basis, reflecting the introduction of larger stores which are expected to become ultimately more productive,
- sales per average square foot of corporate stores of \$592 in 2004 compared to \$593 in 2003 on a comparable 52 week basis; new, larger stores introduced into the marketplace require time to mature, and as a result, have a negative short term impact on average sales per square foot, and
- an increase in control label penetration to 22.2% in 2004 from 21.7% in 2003.

In early 2004, the Company changed the basis on which it reports retail sales of control label products for internal purposes to exclude sales of products prepared exclusively for sale by the Company, but which do not bear any of the Company's trademarks. The new approach captures only those retail sales of products sold under trademarks which the Company owns or licenses. Under this new definition, the control label retail sales for 2004 amounted to \$5.6 billion

Sales and Percentage Increase (\$ millions)



Same-Store Sales Growth



compared to \$5.2 billion in 2003, restated from the \$5.6 billion reported in the prior year. Control label penetration, which is measured as control label retail sales as a percentage of total retail sales, was 22.2% for 2004, compared to 21.7% in 2003, restated from the 24.2% reported in the prior year. The Company introduced approximately 1,500 new control label products in 2004, including 1,100 new general merchandise products. The Company's control label program, which includes *President's Choice, PC, President's Choice Organics, PC Mini Chefs, PC Blue Menu, no name, Club Pack, GREEN, EXACT, Teddy's Choice* and *Life@Home*, provides additional sales growth potential.

Loblaw expects that the following initiatives, coupled with continued pricing investment where appropriate, will generate continued sales growth over the next few years:

- capital investment in its store network including the planned opening, expansion or renovation of more than 150 corporate and franchise stores across Canada,
- additional emphasis on food offerings of great quality and value,
- expansion of general merchandise offerings and continued improvement in the execution of its general merchandise program, and
- continued focus on control label products including the development of new products in strategic categories, such as the *PC Mini Chefs* and *PC Blue Menu* product lines recently launched, increased marketing exposure and improved time to market.

Operating Income, EBITDA and Margins

(\$ millions except where otherwise indicated)	2004 (52 Weeks)	2003 (53 weeks)	Change
Operating income	\$ 1,652	\$ 1,467	12.6%
Operating margin	6.3%	5.8%	
EBITDA ⁽¹⁾	\$ 2,125	\$ 1,860	14.2%
EBITDA margin ⁽¹⁾	8.1%	7.4%	

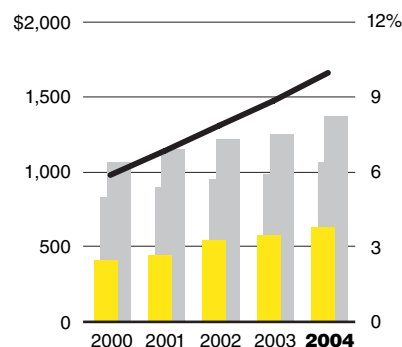
(1) See Non-GAAP Financial Measures on page 47.

Operating Income Operating income for the full year 2004 increased \$185 million, or 12.6%, to \$1,652 million. Operating margin improved to 6.3% from 5.8% in 2003. EBITDA margin (see Non-GAAP Financial Measures on page 47) for the year improved to 8.1% from 7.4% in 2003.

The year-over-year increase in operating income was impacted by the following factors:

- gross margins in 2004 improved in comparison to 2003 mainly due to buying synergies,
- operating margins improved as a result of the continued focus on administrative cost control as well as the efficiencies resulting from improvements in supply chain operations and from leveraging off a higher sales base, and

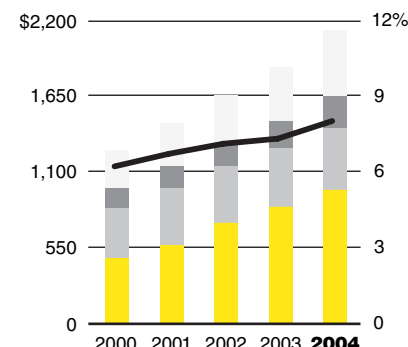
Operating Income and Margins (\$ millions)



■ Net Earnings Margin
■ Operating Margin
■ EBITDA Margin ⁽¹⁾
■ Operating Income

(1) See Non-GAAP Financial Measures on page 47. 2003 was a 53 week year.

Analysis of EBITDA and EBITDA Margin (\$ millions)



■ Net Earnings
■ Goodwill Charges
■ Income Taxes
■ Interest Expense
■ Depreciation and Amortization
■ EBITDA Margin ⁽¹⁾

(1) See Non-GAAP Financial Measures on page 47. 2003 was a 53 week year.

- *President's Choice Financial* services, which includes President's Choice Bank, a wholly owned subsidiary of the Company, contributed to the increase in operating income for the year; the income associated with the credit card portfolio and other financial offerings was partially offset by increased loyalty program and other operating expenses.

These results were achieved during a year in which a number of significant initiatives had been undertaken. The emphasis on improving the Company's value proposition by becoming more price competitive pressured both sales and earnings.

It has been a long established practice of the Company to pursue a strategy of enhancing profitability on a market-by-market basis using a multi-format approach. This strategy was further supported by the introduction of *The RCSS*, a large format combination store that originated in Western Canada, into Ontario, Canada. The roll out into Ontario, which began in 2003, continued during 2004 resulting in 13 stores being opened and operating in this region by year end.

The RCSS introduction to the Ontario market resulted in retail labour savings, which were somewhat offset by the short term impact of accelerated employee turnover in the existing store base and a reinvestment of those savings back into lower prices. Occupancy costs as a percentage of sales increased due to the longer maturation time required for these new, larger stores, and fixed asset impairment charges and accelerated depreciation of \$22 million (2003 – \$4 million), mainly related to the repositioning of the Ontario banner portfolio with the addition of *The RCSS* banner, were absorbed in 2004. In 2003, operating income included a \$25 million charge related to the voluntary early retirement offer accepted by the Ontario employees affected by *The RCSS* labour arrangement.

The Company has well established discount formats that continue to contribute favourably to sales and operating results. In certain markets, discount format stores came under pressure because of the amount of this type of footage added to the market by Loblaw and its competitors during the past two years.

Initiatives associated with the transition of the Company's supply chain to common national processes and systems continued in 2004. The flow of product to the stores continues to improve and the Company has already begun to realize the positive impact of this improvement on operations and earnings.

The Company expects operating income to grow at rates consistent with those of the past few years through:

- sales growth,
- cost reduction initiatives, and
- continued roll out of *President's Choice Financial* services and products.

Initiatives involving the optimization of the Company's warehouse and distribution network, information systems and procurement functions, and the consolidation of various merchandising, marketing, operating and procurement activities are expected to provide significant future opportunities. However, in the short term, these initiatives may require costs to be incurred which will be quantified over the next few months as options are assessed.

Interest Expense Interest expense consists primarily of interest on short and long term debt, the amortization of deferred financing costs, the interest on financial derivative instruments and interest income earned on short term investments net of interest capitalized to fixed assets. In 2004, total interest expense increased \$43 million, or 21.9%, to \$239 million from \$196 million in 2003. The 2005 interest expense is expected to increase marginally due to expected higher interest rates.

Interest on long term debt increased \$21 million to \$290 million in 2004 resulting mainly from higher average borrowing levels partially offset by the impact of the 53rd week in 2003. The 2004 weighted average interest rate of fixed long term debt (excluding capital lease obligations) was 6.8% (2003 – 6.9%) and the weighted average term to maturity was 17 years (2003 – 17 years).

Interest on financial derivative instruments includes the net positive effect of the Company's interest rate swaps, cross currency basis swaps and equity forwards, and amounted to income of \$30 million in 2004 (2003 – \$45 million). The decrease in interest income was due mainly to the maturity of interest rate swaps during the year.

Net short term interest expense decreased by \$5 million over 2003. This decrease resulted primarily from lower interest rates on Canadian dollar short term borrowings partially offset by lower United States dollar denominated cash, cash equivalents and short term investments.

The Company capitalizes interest incurred on debt related to real estate properties under development. During 2004, \$21 million (2003 – \$33 million) of interest expense was capitalized to fixed assets.

Analysis of Long Term Financing Costs

(\$ millions except where otherwise indicated)	2004 (52 Weeks)	2003 (53 Weeks)
Total long term debt at year end (including portion due within one year)	\$ 4,151	\$ 4,062
Interest on long term debt	\$ 290	\$ 269
Weighted average interest rate of fixed long term debt (excluding capital lease obligations)	6.8%	6.9%
Interest coverage ratio	6.9:1	7.5:1

Income Taxes The Company's effective income tax rate in 2004 decreased to 31.5% from 33.5% in 2003, mainly as a result of the decline in the Canadian federal statutory income tax rate, the successful resolution in the first quarter of 2004 of certain income tax matters from a previous year of \$14 million and the 2003 \$7 million charge for an adjustment to future income tax balances due to the increase in corporate income tax rates in Ontario, Canada. The decrease was partially offset by the change in the income tax impact related to stock-based compensation and the associated equity forwards and in the proportion of taxable income across different tax jurisdictions.

The effective income tax rate for 2005 is expected to be approximately 34%; however, this may change if the proportion of taxable income across different tax jurisdictions changes.

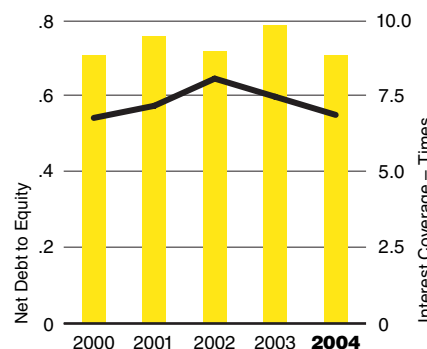
Net Earnings Net earnings increased \$123 million, or 14.6%, to \$968 million from \$845 million in 2003 due to the factors described in the preceding sections. Basic net earnings per common share increased 46 cents, or 15.0%, to \$3.53 from \$3.07 in 2003. In 2004, there was no impact on basic net earnings per common share from stock-based compensation and the associated equity forwards, compared with a positive 6 cents per common share impact in 2003.

FINANCIAL CONDITION

Financial Ratios Throughout 2004 and consistent with 2003, the Company maintained a solid financial position as measured by its financial ratios and balance sheet. This position is expected to continue in 2005. The Company's net debt to equity ratio (see Non-GAAP Financial Measures on page 47) continued to be within the Company's internal guideline of less than 1:1. The 2004 net debt to equity ratio of .71:1 compared to the 2003 ratio of .79:1.

Cash flows from operating activities cover a large portion of the Company's funding requirements and in 2004, exceeded Loblaw's capital investment program of \$1.3 billion. In 2004, funding requirements resulted primarily from the capital investment program and dividends paid on the Company's common shares.

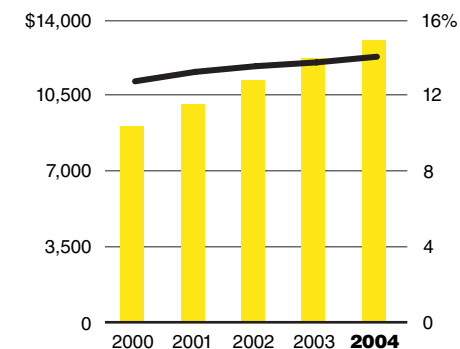
Net Debt to Equity and Interest Coverage



■ Net Debt to Equity (1)
■ Interest Coverage

(1) See Non-GAAP Financial Measures on page 47. 2003 was a 53 week year.

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



■ Total Assets (1)
■ Return on Average Total Assets

(1) See Non-GAAP Financial Measures on page 47. 2003 was a 53 week year.

In 2004, shareholders' equity increased \$724 million, or 15.4%, to \$5.4 billion. The 2005 net debt to equity ratio is expected to improve slightly as retained earnings growth is expected to exceed debt financing requirements. The interest coverage ratio declined to 6.9 times compared to 7.5 times in 2003, reflecting proportionately higher interest particularly in the first half of the year.

At year end, the Company's working capital position was relatively consistent year over year. The 2004 return on average total assets (see Non-GAAP Financial Measures on page 47) was 14.1% compared to 13.8% in 2003. The return on average total assets continued to increase after accounting for the significant capital investment activity of the past few years. The 2004 return on average shareholders' equity was 19.2% compared to the 2003 return of 19.3%. The five year average return on shareholders' equity was 18.2% (2003 – 17.2%).

Common Dividends The Company's dividend policy is to maintain a dividend payment equal to approximately 20% to 25% of the prior year's normalized basic net earnings per common share, giving consideration to the year end cash position, future cash flow requirements and investment opportunities. During 2004, the Board declared quarterly dividends of 19 cents per common share. The annualized dividend per common share of 76 cents is equal to 24.8% of the 2003 basic net earnings per common share, which is consistent with the Company's dividend policy. Subsequent to year end, the Board declared a quarterly dividend of 21 cents per common share, payable April 1, 2005.

Outstanding Share Capital The Company's outstanding share capital is comprised of common shares. An unlimited number of common shares is authorized and 274,255,914 common shares were outstanding at year end. Further information on the Company's outstanding share capital is provided in Note 15 to the consolidated financial statements. Subsequent to year end, the Company issued 25,000 common shares on the exercise of stock options. As at March 8, 2005, the Company had 274,280,914 shares issued and outstanding.

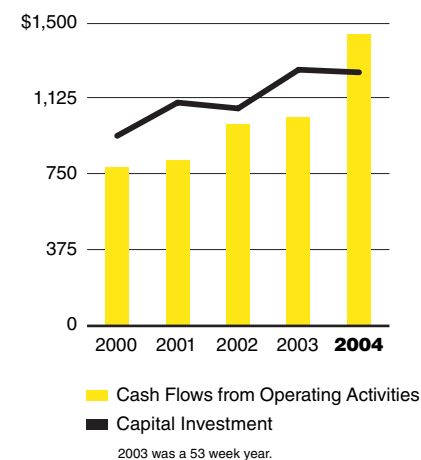
Liquidity and Capital Resources

CASH FLOWS

Major Cash Flow Components

(\$ millions)	2004 (52 Weeks)	2003 (53 weeks)	Source/ (use)
Cash flows from operating activities	\$ 1,443	\$ 1,032	\$ 411
Cash flows used in investing activities	\$ (1,177)	\$ (1,448)	\$ 271
Cash flows (used in) from financing activities	\$ (290)	\$ 386	\$ (676)

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



Cash Flows from Operating Activities 2004 cash flows from operating activities increased to \$1,443 million from \$1,032 million in 2003. The increase resulted mainly from higher net earnings before depreciation and amortization, a decrease in defined benefit pension plan contributions of \$51 million (primarily due to a higher voluntary lump sum contribution made in 2003) and improvements in the change in non-cash working capital, primarily from leveraging accounts payable and accrued liabilities.

The 2005 cash flows from operating activities are expected to increase at a rate consistent with net earnings growth and are expected to fund a large portion of the Company's anticipated 2005 funding requirements, including its planned capital investment activity.

Cash Flows used in Investing Activities 2004 cash flows used in investing activities were \$1,177 million compared to \$1,448 million in 2003. The decrease resulted mainly from a shortening in the maturity profile of the Company's short term investments portfolio.

Capital investment amounted to \$1.3 billion (2003 – \$1.3 billion), reflecting the Company's continuing commitment to maintain and renew its asset base and invest for growth. Approximately 83% (2003 – 80%) of the capital investment was for new stores, renovations or expansions. The Company's continued capital investment activity benefited all regions in varying degrees and strengthened its existing store base. Some of the new larger stores replaced older, smaller, less efficient stores that did not offer the broad range of products and services demanded by today's consumer. The remaining 17% (2003 – 20%) of the capital investment was for the warehouse and distribution network, information systems and other infrastructure required to support store growth. In 2004, two new distribution centres were opened in Vancouver, Canada and Quebec City, Canada and resulted in the closure of several smaller distribution centres.

The 2004 corporate and franchised store capital investment program, which includes the impact of store openings and closures, resulted in an increase in net retail square footage of 8.0% over 2003. During 2004, 86 (2003 – 63) new corporate and franchised stores were opened and 82 (2003 – 87) underwent renovation or minor expansion. The 86 new stores, net of 71 (2003 – 61) store closures, added 3.4 million square feet of retail space (2003 – 1.9 million). The 2004 average corporate store size increased 6.1% to 53,600 square feet (2003 – 50,500) and the average franchised store size increased 6.6% to 26,000 square feet (2003 – 24,400).

The Company expects to continue its capital investment pace in 2005 which is estimated at \$1.3 billion. At year end, the Company

had committed approximately \$354 million (2003 – \$370 million) with respect to capital investment projects and the purchase of real property. In 2005, the Company plans to open, expand or renovate more than 150 corporate and franchised stores throughout Canada in a geographic investment pattern similar to that of last year. This is expected to result in a net increase of approximately 3.0 million square feet, which should generate additional sales growth.

The Company also generated \$110 million from fixed asset sales, including proceeds of \$44 million related to two sale-leaseback transactions involving two warehouses.

Capital Investment and Store Activity

	2004 (52 Weeks)	2003 (53 weeks)	Change
Capital investment (\$ millions)	\$ 1,258	\$ 1,271	
Retail square footage (in millions)	45.7	42.3	8.0%
Average store size (sq. ft.)			
Corporate	53,600	50,500	6.1%
Franchised	26,000	24,400	6.6%

Cash Flows used in/from Financing Activities 2004 cash flows used in financing activities were \$290 million compared to cash flows from financing activities of \$386 million in 2003 due to the issuance of less debt relative to the same period last year. During the year, cash, cash equivalents and short term investments were used, thereby decreasing the issuance of commercial paper. The reduction in a portion of the United States dollar denominated cash, cash equivalents and short term investments resulted in a corresponding decrease in a portion of the outstanding cross currency basis swaps and in a minimal net earnings impact. During the first quarter of 2004, Loblaw issued \$200 million of 6.15% Medium Term Notes ("MTN") due 2035 under its 2003 Base Shelf Prospectus.

Subsequent to year end, the Company issued \$300 million of 5.90% MTN due 2036 to refinance the \$100 million of 6.35% Provigo Inc. Debenture which matured in the fourth quarter of 2004 and the \$200 million of 6.95% MTN which matured in the first quarter of 2005. The Company currently has \$45 million of MTN capacity available to be issued pursuant to its 2003 Base Shelf Prospectus. The Company intends, subject to appropriate approvals, to file a new base shelf prospectus for its MTN program in 2005.

The following table summarizes the activity under the 2003 Base Shelf Prospectus, having an issue limit of \$1 billion of aggregate MTN.

Medium Term Notes Program

(\$ millions)	Base Shelf Prospectus dated May 12, 2003
MTN issue limit	\$ 1,000
MTN issued in 2003 ⁽¹⁾	455
MTN issued in 2004	200
MTN capacity available, year end 2004 ⁽²⁾	\$ 345

(1) In 2003, an additional \$200 million of MTN was issued pursuant to a Base Shelf Prospectus dated May 24, 2001.

(2) Subsequent to year end 2004, an additional \$300 million of MTN was issued, resulting in the Company having \$45 million of MTN capacity available for issue.

The Company intends to renew its Normal Course Issuer Bid ("NCIB") to purchase on the Toronto Stock Exchange or enter into equity forwards to purchase up to 5% of its common shares outstanding. The Company believes that the market price of its common shares could be such that their purchase may be an attractive and appropriate use of funds in light of potential benefits to remaining shareholders. During 2004, the Company purchased for cancellation 576,100 (2003 – 1,282,900) of its common shares for \$35 million (2003 – \$76 million), pursuant to its NCIB.

SOURCES OF LIQUIDITY

The Company can obtain its short term financing through a combination of cash generated from operating activities, cash, cash equivalents, short term investments, bank indebtedness and its commercial paper program. The Company's cash, cash equivalents and short term investments, as well as \$845 million in uncommitted operating lines of credit extended by several banks, support its \$1.2 billion commercial paper program. The Company's commercial paper borrowings generally mature less than three months from the date of issuance although the terms can be up to 364 days.

Securitization of credit card receivables provides President's Choice Bank ("PC Bank"), a wholly owned subsidiary of the Company, with an additional source of funds for the operation of its business. Under PC Bank's securitization program, a portion of the total interest in the credit card receivables is sold to an independent trust. PC Bank securitized \$227 million of credit card receivables during 2004 (2003 – \$202 million). Information on PC Bank's credit card receivables and securitization is provided in Notes 6 and 18 to the consolidated

financial statements and in the Off-Balance Sheet Arrangements section of this MD&A.

The Company obtains its long term financing through its MTN program. The Company plans to refinance existing long term debt as it matures and may obtain additional long term financing for other operating uses or strategic reasons.

In the normal course of business, the Company enters into certain arrangements such as providing comfort letters to third party lenders in connection with financing activities of certain franchisees with no recourse liability to the Company. In addition, the Company establishes standby letters of credit used in connection with certain obligations related to the financing program for its franchisees, securitization of PC Bank's credit card receivables, real estate transactions and benefit and insurance programs. At year end, the aggregate gross potential liability related to the Company's standby letters of credit was approximately \$264 million (2003 – \$201 million) against which the Company had \$311 million (2003 – \$293 million) in credit facilities available to draw on.

The Company has the following sources from which it can fund its 2005 cash requirements: cash, cash equivalents, short term investments, cash flows generated from operating activities, commercial paper program, MTN program and additional credit card receivable securitizations from future growth in the PC Bank credit card operations. In 2005, the Company anticipates no difficulty in obtaining external financing in view of its current credit ratings, its past experience in the capital markets and general market conditions.

Credit Ratings (Canadian Standards)

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

The rating organizations listed above base their ratings on quantitative and qualitative considerations which are relevant for the Company.

These ratings are intended to give an indication of the risk that the Company will not fulfill its obligations in a timely manner and do not take certain factors into account, such as market or pricing risk, since these must be considered by investors as factors in their investment process.

CONTRACTUAL OBLIGATIONS

The following illustrates certain of the Company's significant contractual obligations and discusses other obligations as at January 1, 2005:

Summary of Contractual Obligations

(\$ millions)	Payments due by year						Total
	2005	2006	2007	2008	2009	Thereafter	
Long term debt							
(including capital lease obligations)	\$ 216	\$ 128	\$ 5	\$ 392	\$ 128	\$ 3,282	\$ 4,151
Operating leases ⁽¹⁾	178	167	151	136	121	647	1,400
Contracts for purchases of real property and capital investment projects ⁽²⁾	333	13	8	—	—	—	354
Purchase obligations ⁽³⁾	658	679	593	516	352	190	2,988
Total contractual obligations	\$ 1,385	\$ 987	\$ 757	\$ 1,044	\$ 601	\$ 4,119	\$ 8,893

(1) Represents the minimum or base rents payable. Amounts are not offset by any expected sub-lease income.

(2) These obligations include agreements for the purchase of real property. These agreements may contain conditions that may or may not be satisfied. If the conditions are not satisfied, it is possible the Company will no longer have the obligation to proceed with the transaction. These obligations also include commitments with respect to capital investment projects, such as the construction, expansion and renovation of buildings.

(3) These include material contractual obligations to purchase goods or services where the contract prescribes fixed or minimum volumes to be purchased or payments to be made within a fixed period of time for a set or variable price. These amounts include certain contracts with variable price provisions. While estimates of anticipated financial commitments were made for the purpose of this disclosure, the amount of actual payments may vary.

Other contractual obligations not reflected in the table above are discussed below.

The purchase obligations presented in the above table do not include purchase orders issued in the ordinary course of business for goods which are meant for resale, nor do they include any contracts which may be terminated on relatively short notice with insignificant cost or liability to the Company. Also excluded are purchase obligations related to commodities for which an active, highly liquid market for resale exists. The Company believes such contracts do not have a material impact on its liquidity.

In connection with the purchase of Provigo, the Company committed to support Quebec small business and farming communities as follows: for a period of seven years commencing in 1999 and, subject to business dispositions, the aggregate amount of goods and services purchased from Quebec suppliers in the normal course of business will not fall below those of 1998. The Company has fulfilled its commitment in each year from 1999 to and including 2004.

At year end, the Company had other long term liabilities which included accrued benefit plan liability, future income taxes liability and stock-based compensation liability. These long term liabilities have not been included in the table above for the following reasons:

- future payments of accrued benefit plan liability, principally post-retirement benefits, depend on when and if retirees submit claims,
- future payments of income taxes depend on the levels of taxable earnings, and
- future payments of the share appreciation value on employee stock options depend on whether employees exercise their stock options, the market price of the Company's common shares on the exercise date and the manner in which they exercise those stock options.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, the Company enters into the following off-balance sheet arrangements:

- standby letters of credit used in connection with certain obligations mainly related to real estate transactions and benefit and insurance programs, the aggregate gross potential liability of which is approximately \$104 million,
- guarantees,
- the securitization of a portion of PC Bank's credit card receivables through an independent trust,
- a standby letter of credit to an independent funding trust which provides loans to the Company's franchisees for their purchase of inventory and fixed assets, and
- financial derivative instruments in the form of interest rate swaps and an electricity forward contract.

Guarantees The Company has entered into various guarantee agreements including standby letters of credit in relation to the securitization of PC Bank's credit card receivables and in relation to third party financing made available to the Company's franchisees and obligations to indemnify third parties in connection with leases, business dispositions and other transactions in the normal course of the Company's business. For a detailed description of the Company's guarantees, see Note 18 to the consolidated financial statements.

Securitization of Credit Card Receivables The Company, through its wholly owned subsidiary PC Bank, securitizes credit card receivables through an independent trust administered by a major Canadian bank. In these securitizations, PC Bank sells a portion of its credit card receivables to the trust in exchange for cash. The trust funds these purchases by issuing debt securities in the form of commercial paper to third party investors. The securitizations are accounted for as asset sales only when PC Bank transfers control of the transferred assets and receives consideration other than beneficial interests in the transferred assets. All transactions between the trust and PC Bank have been, and are expected to continue to be, accounted for as sales as contemplated by Accounting Guideline ("AcG") 12, "*Transfers of Receivables*". As PC Bank does not control or exercise any measure of influence over the trust, the financial results of the trust have not been included in the Company's consolidated financial statements.

When the Company sells credit card receivables to the trust, it no longer has access to the receivables but continues to maintain credit card customer account relationships and servicing responsibilities. The Company does not receive an explicit servicing fee from the trust

for its servicing responsibilities. When a sale occurs, PC Bank may retain subordinated interests consisting of rights to future cash flows after obligations to the investors in the trust have been met and credit enhancement deposits in the form of a cash reserve account, both of which are considered to be a retained interest. The trust's recourse to PC Bank's assets is limited to PC Bank's retained interests and is further supported through a standby letter of credit provided by a major Canadian bank for 15% of the securitized amount. This standby letter of credit could be drawn upon in the event of a major decline in the income flow from or in the value of the securitized credit card receivables, after the cash reserve account established pursuant to the securitization agreement has been depleted. The Company has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit. The carrying value of the retained interests is periodically reviewed and when a decline in value is identified that is other than temporary, the carrying value is written down to fair value.

As at January 1, 2005, the total amount of securitized credit card receivables outstanding which PC Bank continues to service was \$785 million (2003 – \$558 million) and the associated retained interests amounted to \$12 million (2003 – \$9 million). The standby letter of credit supporting these securitized receivables amounted to approximately \$118 million (2003 – \$84 million). During 2004, PC Bank received income of \$83 million (2003 – \$53 million) in securitization revenue from the independent trust relating to the securitized credit card receivables. In the absence of securitization, the Company would be required to raise alternative financing by issuing debt or equity instruments. Further disclosure regarding this arrangement is provided in Notes 6 and 18 to the consolidated financial statements.

Funding Trust Franchisees of the Company may obtain financing through a structure involving independent trusts that was created to provide loans to the franchisees to facilitate their purchase of inventory and fixed assets, consisting mainly of fixturing and equipment. These trusts are administered by a major Canadian bank. The independent funding trust within the structure finances its activities through the issuance of short term asset-backed notes to third party investors. The total amount of loans issued to the Company's franchisees outstanding as of January 1, 2005 was \$394 million (2003 – \$343 million). Based on a defined 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 for approximately 10% of the principal amount of the loans outstanding at any point in time, or \$42 million (2003 – \$35 million) as of January 1, 2005. This credit enhancement allows the independent funding trust to provide favourable financing

terms to the Company's franchisees. In the event that a 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 may 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. No amount has ever been drawn on the letter of credit. The Company is confident it would be able to fully recover from the franchisee any amounts it had reimbursed to the issuing bank. Neither the independent funding trust nor the Company can voluntarily terminate the agreement prior to December 2009, and only upon six months' prior notice following that date. Automatic termination of the agreement can only occur if specific, pre-determined events occur and are not cured within the time periods required. If the arrangement is terminated, the franchisees would be required to replace the loans provided by the independent funding trust with alternative financing. The Company is under no contractual obligation to provide funding to franchisees under such circumstances.

In accordance with current accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"), the financial statements of the independent funding trust are not consolidated with those of the Company.

The Future Accounting Standards section of this MD&A includes a discussion concerning the possible application of AcG 15, "*Consolidation of Variable Interest Entities*", to the independent funding trust and to the independent trust through which credit card receivables are securitized.

Financial Derivative Instruments The Company uses off-balance sheet financial derivative instruments to manage its exposure to changes in interest rates and Ontario electricity prices. For a detailed description of the Company's off-balance sheet financial derivative instruments and the related accounting policies, see Notes 1 and 17 to the consolidated financial statements.

Selected Consolidated Annual Information

The following is a summary of selected consolidated annual information extracted from the Company's audited consolidated financial statements. This information was prepared in accordance with Canadian GAAP and is reported in Canadian dollars. The analysis of the data contained in the table focuses on the trends affecting the financial condition and results of operations over the latest two year period.

Selected Consolidated Annual Information

(\$ millions except where otherwise indicated)	2004 (52 Weeks)	2003 (53 weeks)	2002 (52 weeks)
Sales	\$ 26,209	\$ 25,220	\$ 23,082
Net earnings	\$ 968	\$ 845	\$ 728
Net earnings per common share (\$)			
Basic	\$ 3.53	\$ 3.07	\$ 2.64
Diluted	\$ 3.51	\$ 3.05	\$ 2.62
Total assets ⁽¹⁾	\$ 13,046	\$ 12,184	\$ 11,192
Long term debt (excluding amount due within one year)	\$ 3,935	\$ 3,956	\$ 3,420
Dividends declared per common share (\$)	\$.76	\$.60	\$.48

(1) Certain prior year's information was reclassified to conform with the current year's presentation and was restated due to the implementation of Section 3110 and EIC 144 as discussed in Note 1 to the consolidated financial statements.

Sales in 2004 increased 3.9% to \$26.2 billion from \$25.2 billion in 2003. Sales growth for the full year 2004 includes a 2% negative impact from the 53rd week in 2003. On a comparable 52 week basis, sales were 5.9% ahead of last year. The sales increase resulted from increased same-store sales on an equivalent 52 week basis and increased net retail square footage.

Sales in 2003 increased 9.3% to \$25.2 billion from \$23.1 billion in 2002. Sales growth for 2003 includes a 2% positive impact from the 53rd week. The sales increase also resulted from increased same-store sales on an equivalent 52 week basis and increased net retail square footage. Sales for 2003 were impacted by the investment in lower pricing and a delay in new store construction.

Sales may be influenced by a number of factors, including changes in net retail square footage, same-store sales, inflation, expansion into new services and/or departments and the activities of competitors. Over the past two years, the Company has invested approximately \$1.3 billion in capital annually, resulting in an increase in net retail square footage of approximately 5.3 million square feet or 13%. In addition to the net increase in retail square footage, corporate store sales per average square foot rose from \$588 in 2002 (restated to conform with the current year's presentation) to \$592 in 2004.

The amount of new net retail square footage and the timing of the store openings and closures within any given year may vary; however, there have not been significant variances in the annual increase in weighted average net retail square footage. The increase in weighted average net retail square footage was 6.4% in 2004 and 5.6% in 2003.

Growth in same-store sales was 1.5% in 2004 and 4.7% in 2003 on an equivalent 52 week basis. National food price inflation remained relatively low in 2003, increasing to 1–2% in 2004. The launch of *The RCSS* in Ontario, Canada has had an impact on same-store sales in that region by replacing mature, well performing stores that were previously included in same-store sales, and by creating pricing pressure on other Company stores located within the respective trading areas. In pursuit of improving its value proposition, Loblaw has established price leadership in specific markets by adopting everyday low pricing strategies. Consistent with its strategy of focusing on food but serving the consumer's everyday household needs, the Company has expanded its general merchandise offerings over this period and the retail sales growth realized in those categories continues to surpass retail sales growth of food. Competitor activity varied by market. During the past two years, unprecedented levels of retail square footage, mainly associated with food offerings, have been introduced into certain markets, resulting in pressure on prices and customer retention.

Full year 2004 net earnings increased \$123 million or 14.6% and basic net earnings per common share increased 46 cents or 15.0% over 2003. This improvement included an increase of 12.6% in operating income, offset by a 21.9% increase in interest expense. The effective income tax rate declined to 31.5% from 33.5%.

In 2003, net earnings increased \$117 million or 16.1% and basic net earnings per common share increased 43 cents or 16.3% over 2002. The improvement was due to an increase in operating income of 12.6% over 2002 offset by a 21.7% increase in interest expense. The effective income tax rate declined to 33.5% from 36.3%.

Operating income for the full year 2004 improved over 2003 as a result of ongoing improvements in administrative cost control, supply chain efficiencies and the contribution of *President's Choice Financial* services offset somewhat by an \$18 million increase in fixed asset impairment and accelerated depreciation charges related primarily to the repositioning of the Ontario banner portfolio with

the addition of *The RCSS* banner. In 2003, operating income included a \$25 million charge taken for *The RCSS* labour arrangement and an extra week of earnings.

Initiatives to reduce retail operating costs were successful in the areas of inventory shrinkage and labour efficiency, and complemented buying synergies and cost minimizing initiatives within the warehouse and distribution network and administrative functions. The capital investment program resulted in new, larger stores replacing older, smaller stores, dampening short term earnings growth while sales developed.

Net interest expense increased, mainly reflecting the increased weighted average borrowing levels required to support the Company's funding requirements. Canadian federal statutory income tax rate reductions contributed to the declining effective income tax rate in each of the two years. The 2004 effective income tax rate was also impacted by the successful resolution of certain income tax matters from a previous year of \$14 million. The 2003 effective income tax rate also declined due to the impact of fair valuing the Company's equity forwards, offset by a \$7 million adjustment to future income tax balances due to the increase in corporate income tax rates in Ontario, Canada.

Total assets of the Company have increased with operating income growth, as evidenced by the increase in the return on average total assets. Fixed assets have grown as a result of the capital investment program. Inventory growth resulted from the increase in new stores and the necessary investment in supply chain inventory to support new stores. Inventory turns of general merchandise categories are lower than those of food categories, resulting in higher aggregate levels of investment in general merchandise inventory as that business is developed. Accounts receivable from franchised stores, associated stores and independent accounts have also grown consistently with that business. A substantial portion of credit card receivables is sold to an independent trust and the unsecuritized balance net of loss provision has increased by \$37 million since 2002. The increase in other assets resulted mainly from an increase in the accrued benefit plan asset due to increased funding, an increase in the unrealized equity forwards receivable as a result of the increase in the market price of the Company's common shares and an increase in the unrealized cross currency basis swaps receivable due to the appreciation of the Canadian dollar relative to the United States dollar.

Although cash flows from operating activities have covered a large portion of the funding requirements for the Company, external funding was also required. Incremental long term debt issued in 2004 was well below that of 2003 mainly due to improved cash flows from operating activities. The amount of fixed rate debt issued in any given year is intended to continue to preserve the Company's liquidity needs.

Dividends declared per common share have been consistent with the Company's policy of maintaining a dividend payment equal to approximately 20% to 25% of the prior year's normalized basic net earnings per common share.

During the two year period, the Company implemented several new accounting standards issued by the CICA. The following standards were implemented prospectively in 2003:

- AcG 14, "Disclosure of Guarantees",
- Section 3475, "Disposal of Long-lived Assets and Discontinued Operations",
- Emerging Issues Committee ("EIC") Abstract 134, "Accounting for Severance and Termination Benefits", and
- EIC Abstract 135, "Accounting for Costs Associated with Exit and Disposal Activities (Including Costs Incurred in a Restructuring)".

The implementation of these standards did not have a material impact on the Company's financial position or results of operations in 2003.

The new accounting standards implemented in 2004 and the resulting impact on financial position and results of operations are outlined in the Accounting Standards section of this MD&A.

Quarterly Results of Operations

RESULTS BY QUARTER

The 52 week reporting cycle followed by the Company is divided into four quarters of 12 weeks each except for the third quarter which is 16 weeks in duration. When a fiscal year such as 2003 contains 53 weeks, the fourth quarter is 13 weeks in duration. The following is a summary of selected consolidated financial information derived from the Company's unaudited interim 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.

Summary of Quarterly Results⁽¹⁾

(unaudited)

(\$ millions except where otherwise indicated)	2004					2003				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total (audited)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total (audited)
Sales	\$5,677	\$6,069	\$8,134	\$6,329	\$26,209	\$5,376	\$5,798	\$7,673	\$6,373	\$25,220
Net earnings	\$ 176	\$ 197	\$ 258	\$ 337	\$ 968	\$ 151	\$ 182	\$ 218	\$ 294	\$ 845
Net earnings per common share										
Basic (\$)	\$.64	\$.72	\$.94	\$ 1.23	\$ 3.53	\$.55	\$.66	\$.79	\$ 1.07	\$ 3.07
Diluted (\$)	\$.64	\$.71	\$.94	\$ 1.22	\$ 3.51	\$.55	\$.65	\$.79	\$ 1.06	\$ 3.05

(1) The implementation of Section 3110 and EIC 144 did not result in a material change in the current and prior year's quarterly net earnings.

Sales growth and same-store sales growth in 2004 have been impacted by various factors. Fourth quarter sales in 2004 decreased 0.7% including an approximate 7.5% negative impact for the 53rd week in 2003. On an equivalent 52 week basis, sales growth in 2004 gained momentum during the last half of the year. Net retail square footage increased by 3.4 million square feet in 2004 and was somewhat

weighted over the last two quarters. Same-store sales growth was reasonably consistent during the year, varying between 1.2% and 2.0%. Overall food price inflation during the first half of 2004 was nominal and included the effects of food price deflation in certain markets. Inflation trended upwards in the latter half of the year.

Cost control, operating efficiency improvements and buying synergies in 2004 have contributed to the increase in net earnings. Fourth quarter operating income in 2003 was impacted by an extra week of earnings and the \$25 million charge from the voluntary early retirement offer accepted by Ontario, Canada employees affected by *The RCSS* labour arrangement. Operating margins in the fourth quarter are generally stronger than those generated during the other quarters due to a more profitable sales mix.

Quarter-to-quarter variability in operating income and net earnings was also caused by the fluctuation in stock-based compensation net of the impact of the associated equity forwards as a result of changes in the market price of the Company's common shares.

Proportionately higher interest expense was absorbed in the first half of the year as a result of relatively higher average long term borrowing levels.

The effective income tax rate declined over last year mainly as a result of the 2% reduction in the Canadian federal statutory income tax rate. Income tax expense includes a reversal of \$14 million due to the successful resolution in the first quarter of 2004 of certain income tax matters from a previous year and includes a \$7 million charge in the fourth quarter of 2003 for an adjustment to future income tax balances due to the increase in corporate income tax rates in Ontario, Canada.

Throughout 2004 and 2003 the Company purchased common shares for cancellation pursuant to its NCIB. The weighted average number of common shares outstanding has not been significantly impacted by these purchases.

FOURTH QUARTER RESULTS

Sales for the quarter decreased 0.7% to \$6.3 billion from \$6.4 billion in 2003 including an approximate 7.5% negative impact for the 53rd week in 2003. Excluding the impact of the 53rd week in 2003, all regions across the country experienced solid sales growth over the prior year and, consistent with prior quarters in 2004, retail sales growth in general merchandise categories continued to surpass that of food, reflecting the Company's expansion in its breadth of offering.

Fourth quarter same-store sales growth was 1.4% on an equivalent 12 week basis. During the quarter, 29 new corporate and franchised stores were opened and 20 stores were closed, resulting in an increase of 1.2 million square feet of net retail square footage. National food price inflation increased during the quarter.

Net earnings for the quarter increased \$43 million, or 14.6%, to \$337 million from \$294 million in 2003. Basic net earnings per common share increased 16 cents, or 15.0%, to \$1.23 from \$1.07 in 2003. The fourth quarter basic net earnings per common share included a positive impact of 6 cents per common share from the net after tax effect of the stock-based compensation and the associated equity forwards as compared to 5 cents per common share in the fourth quarter of 2003.

Operating income for the quarter increased \$47 million or 9.7% from last year to \$530 million. Operating margin improved to 8.4% from 7.6% in the comparable quarter of 2003. EBITDA margin (see Non-GAAP Financial Measures on page 47) improved to 10.2% from 9.1% in 2003.

The gross margin percentage for the quarter was relatively flat when compared to the same quarter last year as the investment in selling prices in certain markets was offset by improved buying synergies. The improvement in operating margin also resulted from the continued focus on administrative cost control and the efficiency improvements in supply chain operations, in addition to the efficiencies gained from leveraging off a higher sales base.

Income of \$8 million (2003 – \$3 million) related to the stock-based compensation net of the impact of the associated equity forwards was included in the quarter, offset by fixed asset impairment and accelerated depreciation charges of \$8 million (2003 – \$3 million).

Interest expense for the quarter increased \$4 million or 7.7% to \$56 million and the effective income tax rate for the quarter decreased to 28.9% from 31.8% in 2003.

Fourth quarter cash flows from operating activities were \$894 million compared to \$553 million in the comparable period of 2003, increasing mainly due to higher net earnings before depreciation and amortization and improvements in the change in non-cash working capital, primarily accounts payable and accrued liabilities.

Fourth quarter cash flows used in investing activities were \$430 million compared to \$408 million in 2003.

Fourth quarter cash flows used in financing activities were \$489 million compared to \$170 million in 2003, increasing mainly due to the repayment of the Company's \$100 million of 6.35% Series 1997 Provigo Inc. Debenture as it matured and the issuance of \$200 million of 5.40% MTN due 2013 during the fourth quarter of 2003.

Further discussion and analysis on the fourth quarter results is provided in the Company's 2004 Fourth Quarter Preliminary Report to Shareholders and is available online at www.sedar.com.

Risks and Risk Management

OPERATING RISKS AND RISK MANAGEMENT

In the normal course of business, the Company is exposed to operating risks that have the potential to negatively affect its financial performance. The Company has operating and risk management strategies and insurance programs which help to minimize these operating risks.

Industry The retail industry in Canada is a changing and competitive market. Consumer needs drive changes in the industry, which is impacted by changing demographic and economic trends such as changes in disposable income, increasing ethnic diversity, nutritional awareness and time availability. Over the past several years, consumers have demanded more value, choice and convenience. If the Company is ineffective in responding to these demands, its financial performance could be negatively impacted.

The Company monitors its market share and the retail market, and will adjust its operating strategies, which include, but are not limited to, relocating stores or reformatting them under a different banner, reviewing pricing and adjusting product offerings and marketing programs. The Company's control label program represents a significant competitive advantage because it enhances customer loyalty by offering superior value and provides some protection against national brand pricing strategies.

Competitive Environment The Company faces increasing competition from many types of non-traditional competitors, such as mass merchandisers, warehouse clubs, drug stores, limited assortment and convenience stores and specialty stores, all of which continue to increase their offerings of products typically associated with traditional supermarkets. In order to compete effectively and efficiently, the Company is developing and operating new departments and services that complement the traditional supermarket layout, as well as enhancing its product and service offerings. The Company is also subject to competitive pressures from new entrants into the marketplace and from the potential consolidation of existing competitors. These competitors may have extensive resources which will allow them to compete effectively with the Company in the long term. In order to remain competitive by having an optimal cost structure, the Company continuously evaluates and implements various cost saving initiatives. The Company may not always achieve the expected cost savings and other benefits of the initiatives. Accordingly, the Company's competitive position and financial results could be negatively impacted.

The Company continuously evaluates the markets it operates in and will enter new markets and review acquisitions when opportunities arise and will also exit a particular market and reallocate assets elsewhere when there is a strategic advantage to doing so. The Company pursues a strategy of enhancing profitability on a market-by-market basis using a multi-format approach. By operating across Canada through corporate stores, franchised stores and associated stores and by servicing independent accounts, the Company strategically minimizes and balances its exposure to industry and competitive risks.

Increased competition could affect the Company's ability to achieve its objectives. The Company's inability to compete effectively with its current or any future competitors could result in, among other things, lessening of market share and lower pricing in response to its competitors' pricing activities.

Food Safety The Company is subject to potential liabilities connected with its business operations, including potential exposures associated with product defects, food safety and product handling. Such liabilities may arise in relation to the storage, distribution and display of products and, with respect to the Company's control label products, in relation to the production, packaging and design of products.

A majority of the Company's sales are generated from food products and the Company could be vulnerable in the event of a significant outbreak of food-borne illness or increased public health concerns in connection with certain food products. Such an event could materially affect the Company's financial performance. Procedures are in place to manage such events should they occur. These procedures identify risks, provide clear communication to employees and consumers and ensure that potentially harmful products are removed from inventory immediately. Food safety related liability exposures are insured by the Company's insurance program. In addition, the Company has food safety procedures and programs which address safe food handling and preparation standards. The Company employs best practices for storage and distribution of food products and is intensifying the campaign for consumer awareness on safe food handling and consumption.

Labour A significant portion of the Company's workforce is unionized. Renegotiating collective agreements might result in work stoppages or slowdowns, which could materially affect the Company's financial performance, depending on their nature and duration. The Company is willing to accept the short term costs of labour disruption in order to negotiate competitive labour costs and operating conditions for the longer term. Significant labour negotiations took place across the Company in 2004 as 76 collective agreements expired and another 86 collective agreements were successfully negotiated which represented a combination of agreements expiring in 2004 and those carried over from prior years. The Company experienced a labour disruption at four *Provigo* stores in Quebec, Canada, which was settled after 28 weeks, resulting in a six year collective agreement. In 2005, 52 collective agreements affecting approximately 5,300 employees will expire, with the single largest agreement covering approximately 1,600 employees. The Company will also continue to negotiate the 41 collective agreements carried over from 2002 to 2004 and anticipates no labour disruption with respect to these negotiations. The Company has good relations with its employees and unions and, although it is possible, does not anticipate any unusual difficulties in renegotiating these agreements.

Several of the Company's competitors operate in a non-union environment. These competitors may benefit from lower labour costs, making it more difficult for the Company to compete.

Pension Contributions While the Company's registered funded defined benefit pension plans are currently adequately funded and returns on pension plan assets are in line with expectations, there is no assurance that this will continue. An extended period of depressed capital markets and low interest rates could require the Company to make significant contributions to its registered funded defined benefit pension plans, which in turn could have a material effect on its financial performance.

The poor performance of financial markets in recent years combined with interest rates at 40 year lows have negatively impacted the funding of the Company's registered funded defined benefit pension plans in recent years. During 2004, the Company contributed \$40 million (2003 – \$91 million) to its registered funded defined benefit pension plans including a voluntary lump sum contribution of \$5 million (2003 – \$34 million). During 2005, the Company expects to contribute approximately \$58 million to these plans.

In addition to the Company-sponsored pension plans, the Company participates in various multi-employer pension plans, providing pension benefits in which approximately 41% (2003 – 41%) of employees of the Company and of its franchisees participate. The administration of these plans and the investment of their assets are legally controlled by a board of independent trustees generally consisting of an equal number of union and employer representatives. In some circumstances, Loblaw may have a representative on the board of trustees of these multi-employer pension plans. The Company's responsibility to make contributions to these plans is limited by the amounts established pursuant to its collective agreements. Pension cost for these plans is recognized as contributions are paid.

Third Party Service Providers Certain aspects of the Company's business are significantly affected by third parties. While appropriate contractual arrangements are put in place with these third parties, the Company has no direct influence over how such third parties are managed. It is possible that negative events affecting these third parties could in turn negatively impact the Company's operations and its financial performance.

The Company's control label products which are among the most recognized brands in Canada are manufactured under contract by third party vendors. In order to preserve the brands' equity, these vendors are held to high standards of quality.

The Company also uses third party logistic services including those in connection with a dedicated distribution centre in Pickering, Ontario and third party common carriers. Any disruption in these services could interrupt the delivery of merchandise to the stores and therefore could negatively impact sales.

President's Choice Financial banking services are provided by Amicus Bank, a member of the CIBC group of companies. PC Bank uses third party service providers to process credit card transactions, operate call centres and monitor credit and fraud for the *President's Choice Financial* MasterCard. In order to minimize operating risk, PC Bank and the Company actively manage and monitor their relationships with all third party service providers. PC Bank has developed a vendor management policy, approved by its Board of Directors, and provides its Board with regular reports on vendor management and risk assessment. *PC Financial* insurance products are provided by companies within the Aviva Canada group, the Canadian subsidiary of a major international property and casualty insurance provider.

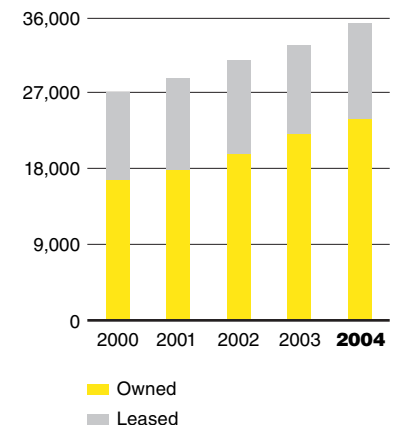
Real Estate The availability and conditions affecting the acquisition and development of real estate properties may impact the Company's ability to execute its planned real estate program on schedule and therefore, its ability to achieve its sales targets. As the Company expands its general merchandise offering, on-time execution of the real estate program becomes increasingly important due to significantly longer lead times required for ordering this merchandise. The Company maintains a significant portfolio of owned retail real estate and, whenever practical, pursues a strategy of purchasing sites for future store locations. This enhances the Company's operating flexibility by allowing the Company to introduce new departments and services that could be precluded under operating leases. At year end 2004, the Company owned 70% (2003 – 67%) of its corporate store square footage.

Seasonality The Company's operations as they relate to food, specifically inventory levels, sales volume and product mix, are impacted to some degree by certain holiday periods in the year. As the Company expands the breadth of its general merchandise offering, it may increase the number of seasonal products offered and its operations may therefore be subject to more seasonal fluctuations.

Leadership Development and Employee Retention Effective leadership is essential to sustaining the growth and success of the Company. The Company continues to focus on the development of leaders at all levels and across all regions by executing tailored leadership development programs that provide the knowledge and skills necessary to drive positive change and ensure effective execution. The degree to which the Company is effective in developing its leaders and retaining key employees could affect its ability to execute its strategies, efficiently run its operations and meet its goals for financial performance.

A new office facility in Brampton, Ontario is scheduled to open in the third quarter of 2005 which will allow for the combination of several administrative and operating offices from across southern Ontario. In addition, in 2005, internal reorganizations involving the merchandising, procurement and operations groups will take effect, including the transfer of the general merchandise operations from Calgary, Alberta to the new office facility. These initiatives may result in some short term employee turnover and disruption as certain employees may assume new roles and responsibilities.

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



Utility and Fuel Prices The Company is a significant consumer of electricity, other utilities and fuel. Unanticipated cost increases in these items could affect the Company's financial performance. In 2002, the government of Ontario deregulated the electricity market in that province. In order to minimize the risk of higher electricity prices, the Board approved the Company's entry into a three year initial term electricity forward contract, which expires in May 2005. This contract maintains a portion of the Company's electricity costs at approximately 2001 rates. In light of the pending expiry of the electricity forward contract, the Company is presently reviewing alternative arrangements under current market conditions.

Insurance The Company effectively limits its exposure to risk through a combination of appropriate levels of self-insurance and the purchase of various insurance coverages including an integrated insurance program. The Company's insurance program is based on various lines and limits of coverage which provides the appropriate level of retained and insured risks. Insurance is arranged on a multi-year basis with reliable, financially stable insurance companies as rated by A.M. Best Company, Inc. The Company combines comprehensive risk management programs and the active management of claims handling and litigation processes by using internal professionals and external technical expertise to manage the risk it retains.

Environmental, Health and Safety The Company has effective environmental programs in place and has established policies and procedures aimed at ensuring compliance with applicable environmental legislative requirements. To this end, the Company employs environmental risk assessments and audits using internal and external resources together with effective employee awareness programs throughout its operating locations.

The Company endeavours to be socially and environmentally responsible, and recognizes that the competitive pressures for economic growth and cost efficiency must be integrated with environmental stewardship and ecological considerations. Environmental protection requirements do not and are not expected to have a material effect on the Company's financial performance. The Company has a health and safety program designed to address health and wellness, workplace safety and compliance with internal and regulatory guidelines for workplace health and safety.

The Environmental, Health and Safety Committee of the Board receives regular reporting from management addressing current and potential future issues, identifying new legislative concerns and related communication efforts.

Legal, Taxation and Accounting Changes to any of the laws, rules, regulations or policies related to the Company's business including the production, processing, preparation, distribution, packaging and labelling of its products could have a significant impact on its financial and operational performance. In the course of complying with such changes, the Company may incur significant costs. Failure by the Company to fully comply with applicable laws, rules, regulations and policies may subject it to civil or regulatory actions or proceedings, including fines, assessments, injunctions, recalls or seizures, which may have a material adverse effect on the Company's financial performance.

There can be no assurance that the tax laws and regulations in the jurisdictions affecting the Company will not be changed in a manner which could adversely affect the Company. New accounting pronouncements introduced by appropriate authoritative bodies may also impact the Company's financial performance.

Holding Company Structure Loblaw Companies Limited is a holding company. As such, it does not carry on business directly but does so through its subsidiaries. It has no major source of income or assets of its own, other than the interests it has in its subsidiaries, which are all separate legal entities. Loblaw Companies Limited is therefore financially dependent on dividends and other distributions it receives from its subsidiaries.

FINANCIAL RISKS AND RISK MANAGEMENT

In the normal course of its business, the Company is exposed to financial risks that have the potential to negatively affect its financial performance. The financial risks relate to changes in foreign currency exchange rates, interest rates, market price of the Company's common shares and electricity prices in Ontario, Canada. These risks and the actions taken to minimize them are discussed below. The Company is also exposed to credit risk on certain of its financial instruments.

Financial Derivative Instruments The Company uses over-the-counter financial derivative instruments, specifically cross currency basis swaps, interest rate swaps and equity forwards, to minimize the risks and costs associated with its financing activities and its stock-based compensation plans. The Company has also entered into an electricity forward contract to partially offset electricity price volatility. The Company maintains treasury centres that operate under policies and guidelines approved by the Board covering funding, investing, equity, foreign currency exchange and interest rate management.

The Company's policies and guidelines prevent it from using any financial derivative instrument for trading or speculative purposes. See Notes 1 and 17 to the consolidated financial statements for additional information on the Company's financial derivative instruments.

Foreign Currency Exchange Rate The Company enters into cross currency basis swaps to manage its current and anticipated exposure to fluctuations in foreign currency exchange rates. The Company's cross currency basis swaps are transactions in which floating interest payments and principal in United States dollars are exchanged against the receipt of floating interest payments and principal in Canadian dollars. These cross currency basis swaps limit the Company's exposure against foreign currency exchange rate fluctuations on a portion of its United States dollar denominated assets, principally cash, cash equivalents and short term investments.

Interest Rate The Company enters into interest rate swaps to manage its current and anticipated exposure to fluctuations in interest rates and market liquidity. Interest rate swaps are transactions in which the Company exchanges interest flows with a counterparty on a specified notional amount for a predetermined period based on agreed upon fixed and floating interest rates. Notional amounts are not exchanged. The Company monitors market conditions and the impact of interest rate fluctuations on its fixed and floating interest rate exposure mix on an ongoing basis.

Common Stock Market Price The Company enters into equity forwards to manage its current and anticipated exposure to fluctuations in its stock-based compensation cost as a result of changes in the market price of its common shares. These equity forwards change in value as the market price of the underlying common shares changes which effectively results in a partial offset to fluctuations in the Company's stock-based compensation cost. The partial offset between the Company's stock-based compensation costs and the equity forwards is effective as long as the market price of the Company's common shares exceeds the exercise price of employee stock options.

Electricity Prices The Company entered into an electricity forward contract to minimize volatility in the price of electricity in Ontario, Canada. The forward contract changes in value as the price of electricity changes, has an initial term of three years and expires in May 2005. In light of the pending expiry, the Company is presently reviewing alternative arrangements under current market conditions.

Counterparty Over-the-counter financial derivative instruments are subject to counterparty risk. Counterparty risk arises from the possibility that market changes may affect a counterparty's position unfavourably and that the counterparty defaults on its obligations to the Company. The Company has sought to minimize potential counterparty risk and losses by implementing a policy that allows such transactions only with counterparties that have, at a minimum, a long term A rating by Standard & Poor's, Dominion Bond Rating Service or equivalent from another recognized credit rating agency, placing risk adjusted limits on its exposure to any single counterparty and having master netting agreements with its counterparties. These netting agreements mitigate counterparty risk to the extent that unfavourable contracts with the same counterparty can be legally netted against the settlement of favourable contracts.

Credit The Company's exposure to credit risk relates to the Company's cash equivalents and short term investments, PC Bank's credit card receivables and accounts receivable from franchisees, associates and independent accounts.

Credit risk associated with the Company's cash equivalents and short term investments results from the possibility that a counterparty may default on the repayment of a security. This risk is mitigated by the Company's policies and guidelines that require issuers of permissible investments to have a minimum A credit rating from a recognized credit rating agency and specify minimum and maximum exposures to specific issuers.

PC Bank manages the *President's Choice Financial* MasterCard. PC Bank grants credit to its customers on *President's Choice Financial* MasterCard with the intention of increasing the loyalty of those customers and the Company's profitability. Credit risk results from the potential for loss due to those customers defaulting on their payment obligations. In order to minimize the associated credit risk, PC Bank employs stringent credit scoring techniques, actively monitors the credit card portfolio and reviews techniques and technology that can improve the effectiveness of its collection process. In addition, these receivables are dispersed among a large, diversified group of credit card customers.

The Company also has accounts receivable from its franchisees, associates and independent accounts, mainly as a result of sales to these customers. The Company actively monitors the balances on an ongoing basis and collects funds from its franchisees on a weekly basis in accordance with terms specified in the applicable agreements.

Related Party Transactions

The Company's majority shareholder, George Weston Limited and its affiliates (other than the Company) are related parties. It is the Company's policy to conduct all transactions and settle balances with related parties on market terms and conditions.

Related party transactions include:

- inventory purchases,
- cost sharing agreements,
- electricity forward contract,
- real estate leases,
- borrowings/lendings,
- income tax matters, and
- management agreements.

For a detailed description of the Company's related party transactions, see Note 19 to the consolidated financial statements.

Critical Accounting Estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. Management continually evaluates the estimates and assumptions it uses. These estimates and assumptions are based on management's historical experience, best knowledge of current events and conditions and activities that the Company may undertake in the future. Actual results could differ from these estimates.

The estimates and assumptions described in this section depend upon subjective or complex judgments about matters that may be uncertain and changes in these estimates and assumptions could materially impact the consolidated financial statements.

Valuation of Inventories Retail inventories are stated at the lower of cost and estimated net realizable value less normal gross profit margin. Significant estimation or judgment is required in the determination of (i) discount factors used to convert inventory to cost after a physical count at retail has been completed and (ii) estimated inventory losses, or shrinkage, occurring between the last physical inventory count and the balance sheet date.

Inventories counted at retail are converted to cost by applying a discount factor to retail selling prices. This discount factor is determined at a department level, is calculated in relation to historical gross

margins and is reviewed on a regular basis for reasonableness. As the Company continues to expand its general merchandise offerings, the mix of product within certain departments and historical gross margins may change and the resulting discount factors may be adjusted accordingly.

Inventory shrinkage, which is calculated as a percentage of sales, is evaluated throughout the year and provides for estimated inventory shortages from the last physical count to the balance sheet date. To the extent that actual losses experienced vary from those estimated, both inventories and operating income may be impacted.

Changes or differences in these estimates may result in changes to inventories on the consolidated balance sheet and a charge or credit to operating income in the consolidated statement of earnings.

Employee Future Benefits The cost and accrued benefit plan obligations of the Company's defined benefit pension plans and other benefit plans are accrued based on actuarial valuations which are dependent on assumptions determined by management. These assumptions include the expected long term rate of return on plan assets, the rate of compensation increase, retirement ages, mortality rates, the expected growth rate of health care costs and the discount rate. These assumptions are reviewed annually by management and the Company's actuaries.

The discount rate, the expected long term rate of return on plan assets and the expected growth rate in health care costs are the three most significant assumptions.

The discount rate is based on market interest rates, as at the Company's measurement date of September 30 on a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the accrued benefit plan obligations. The discount rates used to determine the 2004 net cost for defined benefit pension and other benefit plans were 6.25% and 6.0%, respectively, on a weighted average basis, compared to 6.5% and 6.2%, respectively, in 2003. The discount rates used to determine the net 2005 defined benefit pension and other benefit plans cost remained relatively unchanged from 2004 and as a result, the Company does not expect a significant impact on this cost in 2005.

The expected long term rate of return on plan assets is based on historical returns, on the asset mix and on the active management of defined benefit pension plan assets. The Company's defined benefit

pension plan assets had a 10 year annualized return of 9.0% in 2004, as at the measurement date. The actual annual returns per annum within this 10 year period varied with market conditions. Consistent with 2003 and 2004, the Company has assumed an 8.0% expected long term rate of return on plan assets in calculating its defined benefit pension plans cost for 2005.

The expected growth rate in health care costs for 2004 was based on external data and the Company's historical trends for health care costs, and was relatively consistent with that of 2003.

Since the three key assumptions discussed above are forward-looking and long term in nature, they are subject to uncertainty and actual results may differ. Differences between actual experience and the assumptions and changes in the assumptions could have a material impact on the accrued benefit plan asset and liability presented in the consolidated balance sheet and the defined benefit pension and other benefit plans cost recognized in the consolidated statement of earnings.

In accordance with GAAP, the difference between actual results and assumptions are accumulated in net actuarial gain or loss. The magnitude of any immediate impact to the Company's operating income is mitigated by the fact that the excess net accumulated actuarial gain or loss over 10% of the greater of the accrued benefit plan obligation and the fair value of the plan assets at the beginning of the year is amortized on a straight-line basis over the expected average remaining service period of the active employees. As at September 30, 2004, the unamortized net actuarial loss was \$137 million (2003 – \$143 million) for pension benefit plans and \$70 million (2003 – \$75 million) for other benefit plans.

Additional information regarding the Company's pension and other benefit plans, including a sensitivity analysis for changes in key assumptions, is provided in Note 11 to the consolidated financial statements and in the Pension Contributions discussion in the Operating Risks and Risk Management section of this MD&A.

Goodwill Goodwill is not amortized and is assessed for impairment at the reporting unit level at least annually. Any potential goodwill impairment is identified by comparing the fair value of a reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of the reporting unit exceeds its fair value, a more detailed goodwill impairment assessment would have to be undertaken.

A goodwill impairment loss would be recognized to the extent that, at the reporting unit level, the carrying value of goodwill exceeds the implied fair value. Any goodwill impairment will result in a reduction in the carrying value of goodwill on the consolidated balance sheet and in the recognition of a non-cash impairment charge in operating income.

The Company determines the fair value of its reporting units using a discounted cash flow model corroborated by other valuation techniques such as market multiples. The process of determining these fair values requires management to make estimates and assumptions including, but not limited to projected future sales, earnings and capital investment, discount rates and terminal growth rates. Projected future sales, earnings and capital investment are consistent with strategic plans presented to the Company's Board. Discount rates are based on an industry weighted average cost of capital. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

Based on the analysis performed to date, it was determined that the fair value of each of the reporting units exceeded its carrying value and therefore, no goodwill impairment was identified.

Income Taxes Future income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. Future income tax assets or liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The calculation of current and future income taxes requires management to make estimates and assumptions and to exercise a certain amount of judgment regarding the financial statement carrying values of assets and liabilities which are subject to accounting estimates inherent in those balances, the interpretation of income tax legislation across various jurisdictions, expectations about future operating results and the timing of reversal of temporary differences and possible audits of tax filings by the regulatory authorities. Management believes it has adequately provided for income taxes based on current available information.

Changes or differences in these estimates or assumptions may result in changes to the current or future income tax balances on the consolidated balance sheet, a charge or credit to income tax expense in the consolidated statement of earnings and may result in cash payments or receipts.

Accounting Standards

ACCOUNTING STANDARDS IMPLEMENTED IN 2004

Effective January 4, 2004, the Company implemented the new accounting standards concerning long-lived assets, financial derivative instruments and asset retirement obligations issued by the CICA as discussed below:

- Section 3063, "*Impairment of Long-lived Assets*", addresses the recognition, measurement and disclosure of impairment of long-lived assets held-for-use. Long-lived assets are reviewed for impairment when events or circumstances indicate that their carrying value exceeds the sum of the undiscounted cash flows expected from their use and eventual disposal. An impairment loss is measured as the amount by which the long-lived assets' carrying value exceeds the fair value. Accordingly, the Company reviews long-lived assets for impairment annually. Asset groups are reviewed for impairment at their lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. For purposes of annually reviewing store assets for impairment, store net cash flows are grouped together by primary market areas where cash flows are largely dependent on each other. Primary market areas are regional areas where the Company operates a number of store formats within close proximity to one another. If an indicator of impairment exists, such as sustained negative operating cash flows of the respective asset group, then an estimate of undiscounted future cash flows of each such store within this group is prepared and compared to its carrying value. For purposes of annually reviewing distribution centre assets for impairment, distribution centre net cash flows are grouped with the respective net cash flows of the stores they service. An impairment in the store network served by the distribution centre would indicate an impairment in the distribution centre assets as well. If these assets are determined to be impaired, the impairment loss is measured as the excess of the carrying value over its fair value. In addition, the Company evaluates the carrying value of the long-lived assets whenever events or changes in circumstances indicate that the carrying value of assets may not be recoverable. These events or changes in circumstances include a commitment to close a store or distribution centre or to relocate or convert a store where the carrying value of its assets is greater than the expected future cash flows.

The standard was applied prospectively with no material impact on the financial condition or results of operations.

- AcG 13, "*Hedging Relationships*", addresses the identification, designation, documentation and effectiveness of hedging relationships for the purposes of applying hedge accounting and provides guidance with respect to the discontinuance of hedge accounting. Financial derivative instruments not designated within an AcG 13 compliant hedging relationship are measured at fair value with changes in fair value recorded in the consolidated statement of earnings in accordance with the EIC Abstract 128, "*Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments*".

Pursuant to the requirements of AcG 13, the Company has formally identified, designated and documented the following hedging relationships: cross currency basis swaps and interest rate swaps as cash flow hedges against its exposure to fluctuations in the foreign currency exchange rate and variable interest rates on a portion of its United States dollar denominated assets, principally cash equivalents and short term investments; the electricity forward contract as a cash flow hedge of price volatility of the Company's electricity costs in Ontario, Canada; and interest rate swaps as a cash flow hedge of the variable interest rate exposure on commercial paper. Effectiveness tests are performed to evaluate the hedge effectiveness at inception and on an ongoing basis, both retrospectively and prospectively.

Hedging relationships that ceased to be eligible for hedge accounting under AcG 13 were discontinued as of January 4, 2004. The financial derivative instruments in these hedging relationships which were previously recorded on an accrual basis were fair valued as of January 4, 2004 and the resulting fair value loss was deferred and is being amortized over the original hedge term of approximately three years. The resulting impact on the financial condition and results of operation was not material. Subsequent changes in the fair value of these financial derivative instruments will be recognized in interest expense prospectively. The accounting policies of the Company concerning financial derivative instruments are included in Note 1 to the consolidated financial statements.

- Section 3110, "*Asset Retirement Obligations*", establishes standards for the recognition, measurement and disclosure of legal obligations associated with the costs to retire long-lived assets. A liability associated with the retirement of long-lived assets is recorded in the period in which the legal obligation is incurred at its estimated fair value and a corresponding asset is capitalized as part of the related asset and depreciated over its estimated useful life. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted to reflect the passage of time and changes in the estimated future costs underlying the obligation.

Accordingly, the Company has recognized a discounted liability associated with obligations arising from specific provisions in certain lease agreements regarding the exiting of leased properties at the end of the respective lease terms. The standard was implemented retroactively with restatement of the prior year's consolidated financial statements. The cumulative effect of implementation was a decrease to opening retained earnings for 2003 of \$4 million (net of future income taxes recoverable of \$2 million), an increase in fixed assets of \$2 million and an increase in other liabilities of \$8 million. The impact on net earnings for each of 2003 and 2004 was not material.

In 2004, subsequent to the implementation of the aforementioned accounting standards, the CICA issued the following new and amended accounting standards:

- EIC Abstract 144, "*Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor*" ("EIC 144") provides that cash consideration received from a vendor is presumed to be a reduction in the cost of the vendor's products or services and should, therefore, be characterized as a reduction in the cost of sales and the related inventory when recognized in the customer's income statement and balance sheet. Certain exceptions apply if the consideration is a payment for assets or services delivered to the vendor or for reimbursements of selling costs incurred to promote the vendor's products, provided certain conditions are met. EIC 144 requires retroactive application to all financial statements for annual and interim periods ending after August 15, 2004. Accordingly, in the third quarter of 2004, the Company implemented EIC 144 retroactively with restatement of the comparative periods for the current and prior year.

The Company receives allowances from certain of its vendors whose products it purchases for resale. These allowances are received for a variety of buying and/or merchandising activities, including vendor programs such as volume purchase allowances, purchase discounts, listing fees and exclusivity allowances. As a result of implementing EIC 144, the timing of recognition of certain vendor allowances has changed. Upon retroactive implementation of EIC 144, the Company recorded a decrease to opening retained earnings for 2003 of \$38 million (net of current income taxes recoverable of \$11 million), a decrease to inventories of \$32 million and an increase in accounts payable and accrued liabilities of \$17 million. Current and prior year's annual and quarterly net earnings were not materially impacted.

- Section 3461, "*Employee Future Benefits*" was amended to enhance disclosure requirements relating to pension, post-retirement and post-employment benefit plans. The new annual and interim disclosures are effective for fiscal years and interim periods ending on or after June 30, 2004. Accordingly, the Company implemented the additional interim disclosures in the second quarter of 2004 and the additional annual disclosures are provided in Notes 1 and 11 to the consolidated financial statements.

FUTURE ACCOUNTING STANDARDS

The Company closely monitors new accounting pronouncements and changes in current accounting standards to assess the impact, if any, on its consolidated financial statements. In 2005, the Company will be required to implement the following pronouncements issued by the CICA:

- AcG 15, "*Consolidation of Variable Interest Entities*", provides guidance for applying consolidation principles to entities that are subject to control on a basis other than ownership through voting interests. AcG 15 requires that a variable interest entity ("VIE") be consolidated by the Company if it is exposed to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The Company has reviewed a number of entities that are VIEs to determine whether they will require consolidation by the Company commencing in the first quarter of fiscal 2005.

The Company has entered into a warehousing and distribution arrangement with a third party. Under the terms of this arrangement, it has been determined that the Company is the primary beneficiary of this VIE and accordingly it will be consolidated by the Company. The consolidation is not expected to materially impact the results of operation of the Company.

In addition, approximately 125 of the Company's independent franchisees are currently under review to determine whether they are VIEs that will require consolidation. To the extent that certain of these franchisees have incurred operating losses in excess of the allowance for doubtful accounts previously recorded by the Company, a cumulative adjustment to opening retained earnings will be recorded upon implementation. The consolidation of these entities will not have an effect on the underlying risks to the Company.

The independent funding trust which provides financing loans to the Company's independent franchisees had been previously identified as a VIE. During the fourth quarter of 2004, structural changes were made and under the new structure, the Company believes that consolidation of this independent funding trust by the Company will not be required under the existing accounting standards.

In addition, the independent trust used to securitize credit card receivables for PC Bank was identified as a VIE. It was determined that Loblaw was not the primary beneficiary and therefore the Company believes that consolidation of this trust by the Company will not be required.

The Company will implement AcG 15 in the first quarter of fiscal 2005.

- EIC Abstract 150, "*Determining Whether an Arrangement Contains a Lease*", addresses arrangements comprising a transaction or a series of transactions that do not take the legal form of a lease but convey a right to use a tangible asset in return for a payment or a series of payments. This EIC provides guidance for determining whether these types of arrangements contain a lease within the scope of CICA 3065 "*Leases*" and should be accounted for accordingly. The assessment should be based on whether the fulfillment of the arrangement is dependent on the use of specific tangible assets and whether the arrangement conveys the right to control the use of the tangible assets. This assessment should be made at inception of the arrangement and only reassessed if certain conditions are met. This EIC is effective for arrangements entered into or modified as of the beginning of the first quarter of 2005.
- Section 3500, "*Earnings per Share*", exposure draft addresses amendments to the current guidance with respect to calculating the number of incremental shares included in diluted shares when applying the treasury stock method and the elimination of the

current provisions that allow an entity to rebut the assumption based on past experience or stated policy, that contracts with the option of settling in either cash or common shares, at the issuer's option, will be settled in common shares, if share settlement is more dilutive. In addition, guidance is provided for shares issued upon conversion of a mandatory convertible instrument to be included in the weighted average number of common shares outstanding when computing basic earnings per share from the date when conversion becomes mandatory. These revisions are expected to be effective for interim and annual periods relating to fiscal years beginning on or after January 1, 2005.

- Section 1506, "*Changes in Accounting Policies and Estimates and Errors*", exposure draft proposes to replace the current guidance in "*Accounting Changes*". The revisions would permit an entity to change an accounting policy pursuant to a requirement by a primary source of generally accepted accounting principles or when the change will result in a reliable and more relevant presentation. In addition, an entity is required to disclose information with respect to new primary sources of generally accepted accounting principles that have been issued but not yet come into effect and have not yet been adopted by the entity. The effective date is expected to be fiscal years beginning on or after January 1, 2005.

Outlook

In the year ahead, Loblaw will look to reach several new important milestones. A new office facility in Brampton, Ontario is scheduled to open in the third quarter of 2005 which will allow for the combination of several administrative and operating offices from across southern Ontario. The internal reorganizations involving the merchandising, procurement and operations groups will proceed, including the transfer of the general merchandise operations from Calgary, Alberta to the new office facility. Through continued assessment of our supply chain network, we expect to identify areas for further synergistic opportunities. These initiatives are expected to provide significant future opportunities for Loblaw but may, in the interim, require costs to be incurred which will be quantified over the next several months as options are assessed. Loblaw continues to follow its well established strategies, investing appropriately to ensure its long term growth and expects continued good sales and net earnings growth in 2005.

Non-GAAP Financial Measures

The Company reports its financial results in accordance with Canadian GAAP. However, the Company has included certain non-GAAP financial measures and ratios which it believes provide useful information to both management and readers of this Annual Report in measuring the financial performance and financial condition of the Company. These measures do not have a standardized meaning prescribed by 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.

All operating and financial results contained within this document were reported on a 52 week period in 2004 and compared to a 53 week period in 2003, unless otherwise noted. Sales growth on a comparable or equivalent 52 week basis is referenced within this document and is calculated as indicated in the table on page 23.

EBITDA The Company believes EBITDA is useful as an indicator of its operational performance and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program. The following table reconciles EBITDA to Canadian GAAP measures reported in the consolidated statements of earnings for the periods ended January 1, 2005 and January 3, 2004, respectively:

(\$ millions)	2004 (52 Weeks)	2003 (53 Weeks)
Operating income	\$ 1,652	\$ 1,467
Depreciation and amortization	473	393
EBITDA	\$ 2,125	\$ 1,860

Net Debt The Company calculates net debt as the sum of long term debt and short term debt less cash, cash equivalents and short term investments and believes this measure is useful in evaluating the amount of leverage employed by the Company. The following table reconciles net debt used in the net debt to equity ratio to Canadian GAAP measures reported in the consolidated balance sheets as at January 1, 2005 and January 3, 2004, respectively:

(\$ millions)	2004	2003
Bank indebtedness	\$ 28	\$ 38
Commercial paper	473	603
Long term debt due within one year	216	106
Long term debt	3,935	3,956
Less:		
Cash and cash equivalents	549	618
Short term investments	275	378
Net debt	\$ 3,828	\$ 3,707

Total Assets The Company uses the return on average total assets ratio to measure the performance of operating assets and therefore excludes cash, cash equivalents and short term investments from the total assets used in this ratio. The Company believes this results in a more accurate measure of the performance of its operating assets. The following table reconciles total assets used in the return on average total assets measure to Canadian GAAP measures reported in the consolidated balance sheets as at January 1, 2005 and January 3, 2004, respectively:

(\$ millions)	2004	2003 restated (1)
Total assets	\$ 13,046	\$ 12,184
Less:		
Cash and cash equivalents	549	618
Short term investments	275	378
Total assets	\$ 12,222	\$ 11,188

(1) Certain prior year's information was reclassified to conform with the current year's presentation and was restated due to the implementation of Section 3110 and EIC 144 as discussed in Note 1 to the consolidated financial statements.

Additional Information

Additional information, including the Company's Annual Information Form, has been filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at www.sedar.com.

March 8, 2005
Toronto, Canada