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Management's Statement of Responsibility for Financial Reporting

The management of Loblaw Companies Limited is responsible for the preparation, presentation and integrity of the accompanying consolidated financial statements, Management's Discussion and Analysis and all other information in the Annual Report. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the judgments and estimates necessary to prepare the consolidated financial statements in accordance with Canadian generally accepted accounting principles. It also includes ensuring that the financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

To provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced, management is required to design a system of internal controls and certify as to the design and operating effectiveness of internal controls over financial reporting. A dedicated control compliance team reviews and evaluates internal controls, the results of which are shared with management on a quarterly basis. KPMG LLP, whose report follows, were appointed as independent auditors by a vote of the Company's shareholders to audit the consolidated financial statements.

The Board of Directors, acting through an Audit Committee comprised solely of directors who are independent, is responsible for determining that management fulfills its responsibilities in the preparation of the consolidated financial statements and the financial control of operations. The Audit Committee recommends the independent auditors for appointment by the shareholders. The Audit Committee meets regularly with senior and financial management, internal auditors and the independent auditors to discuss internal controls, auditing activities and financial reporting matters. The independent auditors and internal auditors have unrestricted access to the Audit Committee. These consolidated financial statements and Management's Discussion and Analysis have been approved by the Board of Directors for inclusion in the Annual Report based on the review and recommendation of the Audit Committee.

Toronto, Canada
March 12, 2009

[*signed*]	[*signed*]	[*signed*]
Galen G. Weston	**Allan L. Leighton**	**Robert G. Vaux**
Executive Chairman	Deputy Chairman and President	Chief Financial Officer

Independent Auditors' Report

To the Shareholders of Loblaw Companies Limited:

We have audited the consolidated balance sheets of Loblaw Companies Limited as at January 3, 2009 and December 29, 2007, the consolidated statements of earnings, changes in shareholders' equity, comprehensive income and the consolidated cash flow statements for the 53 week and 52 week years then ended January 3, 2009 and December 29, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 3, 2009 and December 29, 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
March 12, 2009

Chartered Accountants, Licensed Public Accountants

Consolidated Statements of Earnings

For the years ended January 3, 2009 and December 29, 2007 ($ millions except where otherwise indicated)	**2008** **(53 weeks)**	2007 (52 weeks)
Sales	**$ 30,802**	$ 29,384
Operating Expenses		
Cost of sales, selling and administrative expenses (notes 2 and 11)	**29,172**	27,838
Depreciation and amortization	**585**	588
Restructuring (note 4)	**(1)**	222
	29,756	28,648
Operating Income	**1,046**	736
Interest expense and other financing charges (note 5)	**263**	252
Earnings Before Income Taxes and Minority Interest	**783**	484
Income Taxes (note 6)	**228**	150
Net Earnings Before Minority Interest	**555**	334
Minority Interest	**10**	4
Net Earnings	**$ 545**	$ 330
Net Earnings Per Common Share ($) (note 7)		
Basic and diluted	**$ 1.99**	$ 1.20

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended January 3, 2009 and December 29, 2007 ($ millions except where otherwise indicated)	2008 (53 weeks)	2007 (52 weeks)
Common Share Capital, Beginning and End of Year (note 20)	**$ 1,196**	$ 1,196
Retained Earnings, Beginning of Year	**$ 4,330**	$ 4,245
Cumulative impact of implementing new accounting standards (note 2)	**(41)**	(15)
Net earnings	**545**	330
Dividends declared per common share – 84¢ (2007 – 84¢)	**(230)**	(230)
Retained Earnings, End of Year	**$ 4,604**	$ 4,330
Accumulated Other Comprehensive Income, Beginning of Year	**$ 19**	$ –
Cumulative impact of implementing new accounting standards (note 2)	**–**	16
Other comprehensive income	**11**	3
Accumulated Other Comprehensive Income, End of Year (note 23)	**$ 30**	$ 19
Total Shareholders' Equity	**$ 5,830**	$ 5,545

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended January 3, 2009 and December 29, 2007 ($ millions)	2008 (53 weeks)	2007 (52 weeks)
Net earnings	**$ 545**	$ 330
Other comprehensive income		
Net unrealized gain (loss) on available-for-sale financial assets	**40**	(56)
Reclassification of (gain) loss on available-for-sale financial assets to net earnings	**(21)**	33
	19	(23)
Net gain on derivative instruments designated as cash flow hedges	**21**	57
Reclassification of gain on derivative instruments designated as cash flow hedges to net earnings	**(29)**	(31)
	(8)	26
Other comprehensive income	**11**	3
Total Comprehensive Income	**$ 556**	$ 333

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

As at January 3, 2009 and December 29, 2007 ($ millions)	2008	2007
Assets		
Current Assets		
Cash and cash equivalents (note 8)	**$ 528**	$ 430
Short term investments	**225**	225
Accounts receivable (note 9)	**867**	885
Inventories (note 11)	**2,188**	2,032
Income taxes (note 6)	**40**	111
Future income taxes (note 6)	**41**	56
Prepaid expenses and other assets	**71**	32
Total Current Assets	**3,960**	3,771
Fixed Assets (note 12)	**8,045**	7,953
Goodwill (note 3)	**807**	806
Other Assets (note 13)	**1,173**	1,144
Total Assets	**$ 13,985**	$ 13,674
Liabilities		
Current Liabilities		
Bank indebtedness	**$ 52**	$ 3
Short term debt (note 15)	**190**	418
Accounts payable and accrued liabilities	**2,823**	2,860
Long term debt due within one year (note 16)	**165**	432
Total Current Liabilities	**3,230**	3,713
Long Term Debt (note 16)	**4,070**	3,852
Future Income Taxes (note 6)	**171**	180
Other Liabilities (note 17)	**445**	368
Capital Securities (note 19)	**219**	–
Minority Interest	**20**	16
Total Liabilities	**8,155**	8,129
Shareholders' Equity		
Common Share Capital (note 20)	**1,196**	1,196
Retained Earnings	**4,604**	4,330
Accumulated Other Comprehensive Income (notes 2 and 23)	**30**	19
Total Shareholders' Equity	**5,830**	5,545
Total Liabilities and Shareholders' Equity	**$ 13,985**	$ 13,674

Contingencies, commitments and guarantees (note 27). Leases (note 18).

See accompanying notes to the consolidated financial statements.

Approved on Behalf of the Board

[*signed*]
Galen G. Weston
Director

[*signed*]
Thomas C. O'Neill
Director

Consolidated Cash Flow Statements

For the years ended January 3, 2009 and December 29, 2007 ($ millions)	2008 (53 weeks)	2007 (52 weeks)
Operating Activities		
Net earnings before minority interest	**$ 555**	$ 334
Depreciation and amortization	**585**	588
Restructuring (note 4)	**(1)**	222
Future income taxes	**27**	(17)
Change in non-cash working capital	**(284)**	35
Other	**107**	83
Cash Flows from Operating Activities	**989**	1,245
Investing Activities		
Fixed asset purchases	**(750)**	(613)
Short term investments	**45**	(154)
Proceeds from fixed asset sales	**125**	223
Credit card receivables, after securitization (note 9)	**82**	(238)
Franchise investments and other receivables	**(37)**	19
Other	**(72)**	(88)
Cash Flows used in Investing Activities	**(607)**	(851)
Financing Activities		
Bank indebtedness	**50**	2
Short term debt	**(228)**	(229)
Long term debt (note 16)		
Issued	**301**	25
Retired	**(424)**	(39)
Capital securities issued (note 19)	**218**	–
Dividends	**(288)**	(230)
Other	**–**	(1)
Cash Flows used in Financing Activities	**(371)**	(472)
Effect of foreign currency exchange rate changes on cash and cash equivalents (note 8)	**87**	(60)
Change in Cash and Cash Equivalents	**98**	(138)
Cash and Cash Equivalents, Beginning of Year	**430**	568
Cash and Cash Equivalents, End of Year	**$ 528**	$ 430

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended January 3, 2009 and December 29, 2007
($ millions except where otherwise indicated)

Note 1. Summary of Significant Accounting Policies
The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars.

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

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

Fiscal Year The fiscal year of the Company ends on the Saturday closest to December 31. As a result, the Company's fiscal year is usually 52 weeks in duration but includes a 53rd week every 5 to 6 years. The years ended January 3, 2009 and December 29, 2007 contained 53 weeks and 52 weeks, respectively.

Revenue Recognition Sales include revenues, net of estimated returns, from customers through corporate stores operated by the Company and independent franchisee stores that are consolidated by the Company pursuant to AcG 15. In addition, sales include sales to and service fees from associated stores and independent account customers and franchised stores excluding VIE stores net of sales incentives offered by Loblaw. The Company recognizes revenue at the time the sale is made to its customers.

Earnings per Share ("EPS") Basic EPS is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated using the treasury stock method and the if converted method. The treasury stock method assumes that all outstanding stock options with an exercise price below the average market price during the year are exercised and the assumed proceeds are used to purchase the Company's common shares at the average market price during the year. Under the if converted method, diluted EPS also takes into consideration the dilutive effect of the conversion options on the capital securities which are assumed to be converted using the market share price at the end of the year.

Cash, Cash Equivalents and Bank Indebtedness Cash equivalents consist primarily of highly liquid marketable investments with a maturity of 90 days or less. Cash equivalents are either designated as held-for-trading financial assets or classified as available-for-sale financial assets and are carried at quoted market value. See note 8 for more information.

Short Term Investments Short term investments consist primarily of government treasury bills, government-sponsored debt securities, corporate commercial paper and bank term deposits. Short term investments are either designated as held-for-trading financial assets or classified as available-for-sale financial assets and are carried at quoted market value.

Security Deposits Security deposits consist primarily of government treasury bills and government-sponsored debt securities and are included in other assets for balance sheet presentation purposes. Security deposits are either designated as held-for-trading financial assets or classified as available-for-sale financial assets and are carried at quoted market value.

Credit Card Receivables The Company, through *President's Choice* Bank ("*PC* Bank"), a wholly owned subsidiary of the Company, has credit card receivables that are stated net of an allowance for credit losses. Any credit card receivable with a payment that is contractually 180 days in arrears, or where the likelihood of collection is considered remote, is written off. Interest income on credit card receivables is recorded on an accrual basis and is recognized in operating income.

Allowance for Credit Losses *PC* Bank maintains an allowance for probable credit losses on aggregate exposures for which losses cannot be determined on an item-by-item basis. The allowance is based upon a statistical analysis of past and current performance, the level of allowance already in place and management's judgment. The allowance for credit losses is deducted from the credit card receivables balance. The net credit loss experience for the year is recognized in operating income.

Securitization *PC* Bank securitizes credit card receivables through the sale of a portion of the total interest in certain receivables to independent trusts and does not exercise any control over the trusts' management or assets. *PC* Bank does retain certain servicing and administrative responsibilities. The credit card receivables are removed from the consolidated balance sheet when *PC* Bank has surrendered control and are considered sold for accounting purposes pursuant to AcG 12, "Transfers of Receivables". When *PC* Bank sells credit card receivables in a securitization transaction, it has a retained interest in the securitized receivables represented by the rights to future cash flows after obligations to investors have been met. Although *PC* Bank remains responsible for servicing all credit card receivables, it does not receive additional compensation for servicing those credit card receivables sold to the independent trusts and accordingly a service liability is recorded. The service liability is recorded at fair value upon initial recognition. In the absence of quoted market rates for servicing securitized assets, fees payable to a replacement servicer, in the event that a replacement servicer was to be appointed, formed the basis of determination of fair value of the servicing liability. Gains or losses on the sale of these receivables depends, in part, on the previous carrying amount of receivables involved in the securitization, allocated between the receivables sold and the retained interest, based on their relative fair values at the date of securitization. The fair value of the retained interests is determined as the best estimate of the net present value of expected future cash flows using management's best estimates of key assumptions such as monthly payment rates, weighted average life, expected annual credit losses and discount rates. Any gain or loss on a sale is recognized in operating income at the time of the securitization. Retained interests are designated as held-for-trading financial assets and are recorded at fair value on the consolidated balance sheet.

Vendor Allowances 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. Consideration received from a vendor is a reduction in the cost of the vendor's products or services and is recognized as a reduction in the cost of sales, selling and administrative expenses and the related inventory when recognized in the consolidated statement of earnings and the consolidated balance sheet. Certain exceptions apply if the consideration is a payment for assets or services delivered to the vendor or for reimbursement of selling costs incurred to promote the vendor's products, provided that these costs are separate, incremental and identifiable.

Inventories In 2008, as a result of the implementation of CICA Section 3031 "Inventories" ("Section 3031"), the Company values merchandise inventories at the lower of cost and net realizable value. Costs include the costs of purchase net of vendor allowances plus other costs, such as transportation, that are directly incurred to bring inventories to their present location and condition. Seasonal general merchandise and inventories at the distribution centres are measured at weighted average cost. The Company uses the retail method to measure the cost of certain retail store inventories. The Company estimates net realizable value as the amount that inventories are expected to be sold taking into consideration fluctuations in retail prices due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in retail selling prices, the amount of the write-down previously recorded is reversed. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred. See note 2 for more information.

In 2007, the Company utilized the retail method for retail store inventories, which were stated at the lower of cost and estimated net realizable value less normal gross profit margin. Distribution centre inventories and seasonal general merchandise inventories were stated at the lower of cost and estimated net realizable value.

Fixed Assets Fixed assets are recorded at cost including capitalized interest. Depreciation commences when the assets are put into use and is recognized on a straight-line basis to depreciate the cost of these assets over their estimated useful lives. Estimated useful lives range from 20 to 40 years for buildings, up to 10 years for building improvements and from 3 to 10 years for equipment and fixtures. Leasehold improvements are depreciated over the lesser of the lease term and their estimated useful lives and may include renewal options when an improvement is made after inception of the lease to a maximum of 25 years, which approximates economic life. Equipment under capital leases is depreciated over the term of the lease.

Fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value exceeds the sum of the undiscounted future cash flows expected from use and eventual disposal. These events or changes in circumstances include a commitment to close a store or distribution centre or to relocate or convert a store. Fixed assets are also reviewed for impairment annually. For purposes of annually reviewing store assets for impairment, asset groups are reviewed at their lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. Therefore, store net cash flows are grouped together by primary market areas, where cash flows are largely dependent on each other. Primary markets are regional areas where a number of store formats operate 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 serviced by the distribution centre may 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 fair value. In addition, the carrying value of fixed assets is evaluated whenever events or changes in circumstances indicate that the carrying value of fixed 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 undiscounted future cash flows.

Deferred Charges Deferred charges are amortized over the related assets' estimated useful lives.

Goodwill Goodwill represents the excess of the purchase price of a business acquired over the fair value of the underlying net assets acquired at the date of acquisition. Goodwill is not amortized and is assessed for impairment at a minimum on an annual basis, at the reporting unit level. 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 must be undertaken. A goodwill impairment charge is recognized to the extent that, at the reporting unit level, the carrying value of goodwill exceeds the implied fair value and is recorded in operating income.

The Company determines the fair value 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 of Directors. Discount rates are based on an industry weighted average cost of capital. These estimates and assumptions are subject to change in the future due to uncertain competitive and economic market conditions or changes in business strategies. See note 3 for more information.

Financial Instruments CICA Section 3855 "Financial Instruments – Recognition and Measurement" ("Section 3855") establishes guidance for recognizing and measuring financial assets, financial liabilities and non-financial derivative instruments. All financial instruments must be classified into a defined category, namely, held-for-trading financial assets or financial liabilities, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. The standard requires that financial instruments be included on the Company's balance sheet and measured at fair value, except for loans and receivables, held-to-maturity financial assets and other financial liabilities which are measured at cost or amortized cost. Gains and losses on held-for-trading financial assets and financial liabilities are recognized in net earnings in the period in which they arise. Unrealized gains and losses, including changes in foreign exchange rates on available-for-sale financial assets are recognized in other comprehensive income until the financial asset is derecognized or impaired, at which time any unrealized gains or losses are recorded in net earnings. Transaction costs other than those related to financial instruments classified as held-for-trading, which are expensed as incurred, are amortized using the effective interest method.

As a result of Section 3855, the following classifications were assumed:

- Cash and cash equivalents and short term investments are designated as held-for-trading with the exception of certain United States dollar denominated cash equivalents and short term investments designated in a cash flow hedging relationship, which are classified as available-for-sale financial assets.
- Accounts receivable are classified as loans and receivables.
- Investments in equity instruments are classified as available-for-sale.
- Bank indebtedness, accounts payable and certain accrued liabilities, short term debt, long term debt, capital lease obligations and capital securities have been classified as other financial liabilities.
- Certain accrued liabilities are classified as held-for-trading.

The Company has not classified any financial assets as held-to-maturity.

Derivative Instruments The Company uses financial derivative instruments in the form of cross currency swaps, interest rate swaps and equity forwards to manage its current and anticipated exposure to fluctuations in foreign currency exchange rates, interest rates and the market price of the Company's common shares. The Company uses financial and non-financial derivative instruments in the form of futures contracts, option contracts and forward contracts to manage its current and anticipated exposure to fluctuations in commodity prices. The Company does not enter into derivative agreements for trading or speculative purposes.

All financial derivative instruments are recorded at fair value on the consolidated balance sheet in accordance with CICA Section 3855. Non-financial derivative instruments, such as certain contracts that are linked to commodity prices, are recorded at fair value on the consolidated balance sheet unless they are exempt from this treatment based upon expected purchase, sale or usage requirements. Embedded derivative instruments are separated from their host contract and recorded on the consolidated balance sheet at fair value. Fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated using valuation methodologies, primarily discounted cash flow analysis. Derivative instruments are recorded in current or non-current assets and liabilities based on their remaining terms to maturity. All changes in fair value of the derivative instruments are recorded in net earnings unless cash flow hedge accounting is applied.

The Company formally identifies, designates and documents the relationship between hedging instruments and hedged items including cross currency 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 cash and cash equivalents, short term investments and security deposits included in other assets. The Company also designates cross currency swaps as cash flow hedges against its exposure to fluctuations in the foreign currency exchange rate on its United States dollar private placement note. The Company assesses whether these derivative instruments continue to be highly effective in offsetting the change in the cash flows of hedged items. If and when a derivative instrument is no longer expected to be highly effective, hedge accounting is discontinued. Hedge ineffectiveness, if any, is included in current period net earnings.

Foreign Currency Translation Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. Exchange gains or losses arising from the translation of these balances denominated in foreign currencies are recognized in operating income except for cross currency swaps and available-for-sale cash and cash equivalents, short term investments and security deposits included in other assets denominated in United States dollars which are designated in a cash flow hedge and are deferred in accumulated other comprehensive income and reclassified to net earnings when realized. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the average foreign currency exchange rate for the year.

Income Taxes The asset and liability method of accounting is used for income taxes. Under the asset and liability method, 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 existing assets and liabilities and their respective income tax bases. Future income tax assets and 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 effect on future income tax assets and liabilities of a change in income tax rates is recognized in income tax expense when enacted or substantively enacted. Future income tax assets are evaluated and a valuation allowance, if required, is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

Employee Future Benefits The Company sponsors a number of pension plans including registered funded defined benefit pension plans, defined contribution pension plans and supplemental unfunded arrangements providing pension benefits in excess of statutory limits. The Company also offers certain employee post-retirement and post-employment benefit plans and a long term disability benefit plan. Post-retirement and post-employment benefit plans are generally not funded, are mainly non-contributory and include health care, life insurance and dental benefits. The Company also contributes to various multi-employer pension plans which provide pension benefits.

Defined Benefit Plans The cost and accrued benefit plan obligations of the Company's defined benefit pension plans and other benefit plans, including post-retirement, post-employment and long term disability benefits, are accrued based on actuarial valuations. The actuarial valuations for the defined benefit plans are determined using the projected benefit method prorated on service and management's best estimate of the discount rate, the expected long term rate of return on plan assets, the rate of compensation increase, retirement ages, termination rates, mortality rates and expected growth rate of health care costs. Actuarial valuations are performed using a September 30 measurement date for accounting purposes. Market values used to value benefit plan assets are as at the measurement date. The discount rate used to value the accrued benefit plan obligation is based on market interest rates as at the measurement date, assuming a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the accrued benefit plan obligations.

Past service costs arising from plan amendments are amortized over the expected average remaining service period of the active employees. The unamortized net actuarial gain or loss that exceeds 10% of the greater of the accrued benefit plan obligation or the fair value of the benefit plan assets at the beginning of the year is amortized over the expected average remaining service period of the active employees for defined benefit pension and post-retirement benefit plans. The unamortized net actuarial gain or loss for post-employment and long term disability benefits is amortized over periods not exceeding three years. The expected average remaining service period of the active employees covered by the defined benefit pension plans ranges from 9 to 18 years, with a weighted average of 12 years. The expected average remaining service period of the employees covered by the post-retirement benefit plans ranges from 7 to 20 years, with a weighted average of 15 years.

The net accrued benefit plan asset or liability represents the cumulative difference between the cost and the funding contributions and is recorded in other assets and other liabilities.

Defined Contribution and Multi-Employer Pension Plans The costs of pension benefits for defined contribution pension plans and multi-employer pension plans are expensed as contributions are due.

Stock Option Plan The Company recognizes a compensation cost in operating income and a liability related to employee stock option grants that allow for settlement in shares or in the share appreciation value in cash at the option of the employee, using the intrinsic value method. Under the intrinsic value method, the stock-based compensation liability is the amount by which the market price of the common shares at the balance sheet date exceeds the exercise price of the stock options. A year-over-year change in the stock-based compensation liability is recognized in operating income on a prescribed vesting basis.

Restricted Share Unit ("RSU") Plan The Company recognizes a compensation cost in operating income on a prescribed vesting basis for each RSU granted equal to the market value of a Loblaw common share at the date on which RSUs are awarded to each participant prorated over the performance period and adjusts for changes in the market value until the end of the performance date. The cumulative effect of the change in market value is recognized in operating income in the period of change.

Employee Share Ownership Plan The Company maintains an Employee Share Ownership Plan which allows employees to acquire the Company's common shares through regular payroll deductions of up to 5% of their gross regular earnings. The Company contributes an additional 25% of each employee's contribution to the plan, which is recognized in operating income as a compensation cost when the contribution is made.

Deferred Share Units ("DSU") Members of the Company's Board of Directors, who are not management of the Company, may elect annually to receive all or a portion of their annual retainer(s) and fees in the form of DSUs. The DSU compensation liability is accounted for based on the number of units outstanding and the market value of Loblaw common shares at the balance sheet date. The year-over-year change in the deferred share unit compensation liability is recognized in operating income.

Executive Deferred Share Units ("EDSU") In 2008, the Company approved the introduction of an EDSU Plan. Under this plan, executives may elect to defer up to 100% of the Short Term Incentive Plan ("STIP") earned by the executive in any year into the EDSU Plan, subject to an overall cap of three times the executive's base salary. All EDSUs held by an executive will be paid out in cash by December 15 of the year following the year in which the executive's employment ceases for any reason. An election to participate in the plan in any year must be made before the beginning of the year and is irrevocable. The number of EDSUs granted in respect of any year will be determined by dividing the STIP bonus that is subject to the EDSU plan election by the value of the Company's common shares on the date the STIP bonus would otherwise be payable. For this purpose, and for purposes of determining the value of a EDSU upon conversion of the EDSUs into cash, the value of the EDSUs will be calculated by using the weighted average of the trading prices of the Company's common shares on the Toronto Stock Exchange for the five trading days prior to the valuation date.

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

Certain estimates, such as those related to valuation of inventories, goodwill, income taxes, Goods and Services Tax, provincial sales taxes, fixed asset impairment and employee future benefits depend upon subjective or complex judgments about matters that may be uncertain, and changes in those estimates could materially impact the consolidated financial statements. Illiquid credit markets, volatile equity, foreign currency, and energy markets and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Presentation Certain prior year information has been reclassified to conform with current year presentation. Security deposits, which were previously presented as cash and cash equivalents and short term investments on the consolidated balance sheets, are now included in other assets on the consolidated balance sheets and totaled $437 as at January 3, 2009 (2007 – $322). The Company's unrealized equity forwards liability, which were previously presented as other long term liabilities on the consolidated balance sheets, are now included in accounts payable in accrued liabilities and totaled $92 as at January 3, 2009 (2007 – $91).

Future Accounting Standards

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

Credit Risk and the Fair Value of Financial Risks and Financial Liabilities On January 20, 2009 the EIC issued EIC 173 “Credit Risk and the Fair Value of Financial Risks and Financial Liabilities”. The committee reached a consensus that a company’s credit risk and the credit risk of its counterparties should be considered when determining the fair value of its financial assets and financial liabilities, including derivative instruments, for presentation and disclosure purposes. The accounting treatment for this Abstract should be applied retrospectively without restatement of prior periods to all financial assets and financial liabilities measured at fair value in interim and annual financial statements ending on or after January 20, 2009. Retrospective application with restatement of prior periods is permitted but not required. The Company is assessing the impact of this Abstract on the financial statements and will implement this Abstract in the first quarter of 2009.

Note 2. Implementation of New Accounting Standards

Accounting Standards Implemented in 2008

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

Section 1535 establishes guidelines for the disclosure of information regarding a company’s capital and how it is managed. The standard requires enhanced disclosures with respect to (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; and (iii) whether the entity has complied with any external capital requirements, and if it has not complied, the consequences of such non-compliance. For new disclosures refer to note 21. The adoption of Section 1535 did not have an impact on the Company’s financial results or position.

Section 3862 and Section 3863 replaced Section 3861, “Financial Instruments – Disclosure and Presentation”. Section 3862 requires increased disclosures regarding the risks associated with financial instruments such as credit risks, liquidity risks and market risks and the techniques used to identify, monitor and manage these risks. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity. For new disclosures refer to notes 25 and 26. Comparative information about the nature and extent of risks arising from financial instruments is not required in the year Section 3862 is adopted. The adoption of Section 3862 and Section 3863 did not have an impact on the Company’s financial results or position.

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

The Company values merchandise inventories at the lower of cost and net realizable value. Costs include the costs of purchase net of vendor allowances plus other costs, such as transportation, that are directly incurred to bring inventories to their present location and condition. Seasonal general merchandise and inventories at the distribution centres are measured at weighted average cost. The Company uses the retail method to measure the cost of certain retail store inventories. The Company estimates net realizable value as the amount that inventories are expected to be sold taking into consideration fluctuations in retail prices due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in retail selling prices, the amount of the write-down previously recorded is reversed. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred.

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

In addition to the disclosure of accounting policies used in measuring inventories, Section 3031 also requires additional disclosures. See note 11 for the amount of merchandise inventories recognized as an expense in the period, the amount of inventories written down below cost to net realizable value for inventories recorded at period end and the amount of any reversal of any previously recognized write-downs.

Accounting Standards Implemented in 2007

On December 31, 2006, the Company implemented the CICA Handbook Section 3855, “Financial Instruments − Recognition and Measurement”, Section 3865, “Hedges”, Section 1530, “Comprehensive Income”, Section 3251, “Equity” and Section 3861, “Financial Instruments − Disclosure and Presentation”. These standards were applied without restatement of prior periods. All transitional adjustments resulting from these standards resulted in a decrease in retained earnings, net of income taxes and minority interest of $15 million and an increase in accumulated other comprehensive loss, net of income taxes and minority interest of $16 million in 2007.

Note 3. Goodwill

In 2008 and 2007, the Company performed its annual goodwill impairment test and determined that there was no impairment to the carrying value of goodwill.

In the normal course of business, the Company may acquire from time to time franchisee stores and convert them to corporate stores. In 2008, the Company acquired 1 franchisee business (2007 – 4 franchisee businesses). The acquisitions were accounted for using the purchase method of accounting with the results of the business acquired included in the consolidated financial statements from the date of acquisition. The fair value of the net assets acquired consisted of fixed assets of nil (2007 – $3), other assets principally inventory of nil (2007 – $1) and goodwill of $1 (2007 – $8) for cash consideration of $1 (2007 – $9), net of accounts receivable due from the franchisees of nil (2007 – $3).

The following table discloses the changes in goodwill over 2008 and 2007.

		2008		2007
Balance, beginning of year	**$**	**806**	$	794
Goodwill acquired		**1**		8
Other		**–**		4
Balance, end of year	**$**	**807**	$	806

Note 4. Restructuring and Other Charges

Project Simplify During 2007, the Company approved and announced the restructuring of its merchandising and store operations into more streamlined functions as part of Project Simplify. The year-to-date charge of $3 (2007 − $197) is comprised of $2 (2007 − $139) for employee termination costs including severance, additional pension costs resulting from the termination of employees and retention costs; and $1 (2007 − $58) of other costs, primarily consulting directly associated with the restructuring. Cash payments in 2008 were $36 (2007 − $149). As at the end of 2008, a remaining liability of $1 (2007 − $33) was recorded on the consolidated balance sheets in respect of this initiative.

Store Operations During 2007, the Company completed the previously announced restructuring of its store operations. In 2008, the Company recognized income of $3 (2007 − charge of $16) related to this plan. Cash payments in 2008 were $1 (2007 − $22). As at the end of 2008, a remaining liability of nil (2007 − $3) was recorded on the consolidated balance sheets in respect of this initiative.

Supply Chain Network During 2005, the Company approved a comprehensive plan to restructure its supply chain operations nationally. Year-to-date income of $1 (2007 − charge of $9) is composed of income of $3 (2007 – charge of $7) for employee termination costs resulting from planned involuntary terminations and a charge of $2 (2007 − $2) for site closing and other costs. Cash payments in 2008 were $25 (2007 − $5). As at the end of 2008, a remaining liability of $7 (2007 − $33) was recorded on the consolidated balance sheets in respect of this initiative.

The following table provides a summary of the costs recognized and cash payments made, as well as the corresponding net liability as at January 3, 2009 and December 29, 2007:

	Employee Termination Costs	Site Closing Costs and Other	2008 Total	2007 Total
Net liability, beginning of year	$ 59	$ 12	$ 71	$ 40
Costs recognized:				
Project Simplify	$ 2	$ 1	$ 3	$ 197
Store operations	–	(3)	(3)	16
Supply chain network	(3)	2	(1)	9
	$ (1)	$ –	$ (1)	$ 222
Cash payments:				
Project Simplify	$ 26	$ 10	$ 36	$ 149
Store operations	1	–	1	22
Supply chain network	23	2	25	5
	$ 50	$ 12	$ 62	$ 176
Charges against other assets[(1)]	–	–	–	15
Net liability, end of year	$ 8	$ –	$ 8	$ 71
Recorded in the consolidated balance sheet as follows:				
Accounts payable and accrued liabilities	8	–	8	50
Other liabilities (note 17)	–	–	–	21
Net liability, end of year	$ 8	$ –	$ 8	$ 71

Note 5. Interest Expense and Other Financing Charges

	2008	2007
Interest on long term debt	**$ 286**	$ 285
Interest (income) expense on financial derivative instruments	**(4)**	12
Net short term interest expense (income)	**2**	(6)
Interest income on security deposits	**(9)**	(17)
Dividends on capital securities	**8**	–
Capitalized to fixed assets	**(20)**	(22)
Interest expense	**$ 263**	$ 252

(1) Represents defined benefit pension plan cost applied to other assets. Charges against other assets relate to the contractual termination benefits cost recognized which reduced the accrued benefit plan asset (see note 14).

During 2008, net interest expense of $283 (2007 – $261) was recorded related to the financial assets and financial liabilities not classified as held-for-trading. In addition, $12 (2007 – $24) of income from cash and cash equivalents and short term investments, held by Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of the Company located in Barbados, were recognized in net short term interest income. Interest income on security deposits were also earned by Glenhuron.

Interest and dividends on capital securities paid in 2008 were $402 (2007 – $397), and interest received in 2008 was $132 (2007 – $128).

Note 6. Income Taxes

The effective income tax rate in the consolidated statements of earnings is reported at a rate different than the weighted average basic Canadian federal and provincial statutory income tax rate for the following reasons:

	2008	2007
Weighted average basic Canadian federal and provincial statutory income tax rate	**30.8%**	33.2%
Net increase (decrease) resulting from:		
Earnings in jurisdictions taxed at rates different from the Canadian statutory income tax rates	**(3.2)**	1.4
Non-taxable amounts	**(0.3)**	(1.5)
Impact of statutory income tax rate changes on future income tax balances	**–**	(2.3)
Other	**1.8**	0.2
Effective income tax rate	**29.1%**	31.0%

Net income taxes paid in 2008 were $122 (2007 – $220).

The cumulative effects of changes in Canadian federal and certain provincial statutory income tax rates on future income tax assets and liabilities are included in the consolidated financial statements at the time of substantive enactment. Accordingly, in 2007 an $11 net reduction to the future income tax expense was recognized as a result of the change in the Canadian federal and certain provincial statutory income tax rates.

The income tax effects of temporary differences that gave rise to significant portions of the future income tax assets (liabilities) were as follows:

	2008	2007
Accounts payable and accrued liabilities	**$ 32**	$ 47
Other liabilities	**146**	120
Fixed assets	**(294)**	(259)
Other assets	**(101)**	(89)
Losses carried forward (expiring 2015 to 2028)	**78**	41
Other	**9**	16
Net future income tax liabilities	**$ (130)**	$ (124)

	2008	2007
Recorded in the consolidated balance sheets as follows:		
Current future income tax assets	**$ 41**	$ 56
Non-current future income tax liabilities	**(171)**	(180)
Net future income tax liabilities	**$ (130)**	$ (124)

Note 7. Basic and Diluted Net Earnings per Common Share ($, except where otherwise indicated)

	2008	2007
Net earnings for basic earnings per share ($ millions)	**$ 545**	$ 330
Dividends on capital securities ($ millions) (note 21)	**8**	–
Net earnings for diluted earnings per share ($ millions)	**553**	330
Weighted average common shares outstanding (in millions) (note 20)	**274.2**	274.2
Dilutive effect of stock-based compensation (in millions)	**0.1**	–
Dilutive effect of capital securities (in millions) (note 19)	**3.6**	–
Diluted weighted average common shares outstanding (in millions)	**277.9**	274.2
Basic and diluted net earnings per common share ($)	**$ 1.99**	$ 1.20

Stock options outstanding with an exercise price greater than the market price of the Company's common shares at January 3, 2009 were not recognized in the computation of diluted net earnings per common share. Accordingly, 4,690,732 (2007 – 6,390,459) stock options, with a weighted average exercise price of $52.98 (2007 – $52.67) per common share, were excluded from the computation of diluted net earnings per common share.

Note 8. Cash and Cash Equivalents

The components of cash and cash equivalents as at January 3, 2009 and December 29, 2007 were as follows:

	2008	2007
Cash	**$ 42**	$ 61
Cash equivalents − short term investments with a maturity of 90 days or less:		
Bank term deposits	**–**	77
Government treasury bills	**219**	109
Government-sponsored debt securities	**58**	59
Corporate commercial paper	**209**	124
Cash and cash equivalents	**$ 528**	$ 430

The Company recognized an unrealized foreign currency exchange gain of $210 (2007 − loss of $155) as a result of translating its United States dollar denominated cash and cash equivalents, short term investments and security deposits which are included in other assets, of which a gain of $87 (2007 − loss of $60) related to cash and cash equivalents. The resulting gain or loss on cash and cash equivalents, short term investments and security deposits which are included in other assets is partially offset in operating income and accumulated other comprehensive income by the unrealized foreign currency exchange loss or gain on the cross currency swaps as described in note 24.

Note 9. Accounts Receivable

The components of accounts receivable as at January 3, 2009 and December 29, 2007 were as follows:

	2008	2007
Credit card receivables	**$ 2,206**	$ 2,023
Amount securitized	**(1,775)**	(1,475)
Net credit card receivables	**431**	548
Other receivables	**436**	337
Accounts receivable	**$ 867**	$ 885

Credit Card Receivables The Company, through *PC* Bank, securitizes certain credit card receivables by selling them to independent trusts that issue interest bearing securities. When *PC* Bank sells credit card receivables, it retains servicing responsibilities, certain administrative responsibilities and the rights to future cash flows after obligations to investors have been met. These retained interests have been designated as held-for-trading and are carried at their fair value in accounts receivable. The fair value of these retained interests was estimated using management's best estimate of the net present value of expected future cash flows using key assumptions. Although *PC* Bank remains responsible for servicing all credit card receivables, it does not receive additional compensation for servicing those credit card receivables sold to the independent trusts.

During 2008, $300 (2007 – $225) of credit card receivables were securitized through the sale of a portion of the total interest in these receivables to independent trusts. A portion of the securitized receivables are in an independent trust facility with a term of 364 days, subject to annual renewal. If the term of this facility is not renewed, collections will be accumulated prior to the expiry and the amount of that portion of the securitized receivables will be repaid to the independent trusts. The securitization yielded a $1 gain (2007 – $1) on the initial sale inclusive of $1 (2007 – nil) servicing liability. During 2008, *PC* Bank received income of $176 (2007 − $141) in securitization revenue from the independent trusts relating to the securitized credit card receivables. An increase in servicing liability of $1 (2007 − $2) was recognized during the year on securitization and the fair value at year end of recognized servicing liabilities was $11 (2007 – $10). The trusts' recourse to *PC* Bank's assets is limited to *PC* Bank's retained interests and is further supported by the Company through standby letters of credit for $116 (2007 – $89) on a portion of the securitized amount (see note 27).

Net credit loss experience of $35 (2007 – $11) includes $99 (2007 – $57) of credit losses on the total portfolio of credit card receivables net of credit losses of $64 (2007 – $46) relating to securitized credit card receivables.

The following table displays the sensitivity of the current fair value of retained interests to an immediate 10% and 20% adverse change in the 2008 key economic assumptions. The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

		Change in Assumptions	
	2008	**10%**	**20%**
Carrying value of retained interests	**$ 14**		
Payment rate (monthly)	**41.56%**	**$ (1)**	**$ (2)**
Weighted average life (years)	**0.7**		
Expected credit losses	**5.35%**	**$ (2)**	**$ (4)**
Annual discount rate applied to residual cash flows	**7.65%**		
Net Yield	**13.00%**	**$ (4)**	**$ (9)**
Cost of Funds	**3.65%**	**$ (1)**	**$ (3)**

The details on the cash flows from securitization are as follows:

	2008	2007
Proceeds from new securitizations	**$ 300**	$ 225
Net cash flows received on retained interests	**$ 177**	$ 143

Credit card receivables that are past due of $7 as at January 3, 2009 are not classified as impaired as they are less than 90 days past due and most receivables are reasonably expected to remedy the past due status. Any credit card receivable balances with a payment that is contractually 180 days in arrears or where the likelihood of collection is considered remote are written-off. Concentration of credit risk with respect to receivables is limited due to the Company's customer base being diverse. Credit risk on the credit card receivables is managed as described in note 26.

Other Receivables Other receivables consist mainly of receivables from independent franchisees, associated stores and independent accounts. Other receivables that are past due but not impaired totaled $79 as at January 3, 2009, of which a nominal amount were more than 60 days past due.

Note 10. Allowances for Receivables

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

Credit Card Receivables

	January 3, 2009	December 29, 2007
Allowance at beginning of year	**$ (13)**	$ (11)
Provision for losses	**(35)**	(11)
Recoveries	**(14)**	(7)
Write-offs	**47**	16
Allowance at end of year	**$ (15)**	$ (13)

Other Receivables

	January 3, 2009	December 29, 2007
Allowance at beginning of year	**$ (35)**	$ (37)
Provision for losses	**(81)**	(79)
Write-offs	**92**	81
Allowance at end of year	**$ (24)**	$ (35)

Note 11. Inventories

The cost of merchandise inventories recognized as an expense during the year ended January 3, 2009 was $23,891. The Company recorded $16 as an expense for the write-down of inventories below cost to net realizable value for inventories recorded as at January 3, 2009. There was no reversal of inventories written down previously that are no longer estimated to sell below cost.

Note 12. Fixed Assets

	2008			2007		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Properties held for development	**$ 556**	**–**	**$ 556**	$ 525	–	$ 525
Properties under development	**164**	**–**	**164**	89	–	89
Land	**1,753**	**–**	**1,753**	1,709	–	1,709
Buildings	**5,471**	**$ 1,454**	**4,017**	5,292	$ 1,254	4,038
Equipment and fixtures	**4,266**	**3,033**	**1,233**	4,108	2,857	1,251
Building and leasehold improvements	**517**	**255**	**262**	518	238	280
	12,727	**4,742**	**7,985**	12,241	4,349	7,892
Capital leases – buildings and equipment	**170**	**110**	**60**	164	103	61
	$ 12,897	**$ 4,852**	**$ 8,045**	$ 12,405	$ 4,452	$ 7,953

The following items were recognized in operating income during 2008: fixed asset impairment charge of $29 (2007 – $33) and accelerated depreciation charge of $11 (2007 – $3).

Note 13. Other Assets

	2008	2007
Security deposits	**$ 437**	$ 322
Accrued benefit plan asset (note 14)	**273**	181
Franchise investments and other receivables	**203**	217
Unrealized cross currency swaps receivable (note 24)	**107**	270
Deferred charges and other	**153**	154
	$ 1,173	$ 1,144

Included in deferred charges and other above are $21 (2007 – $9) of unrealized interest rate swap receivable and $7 (2007 – $5) related to an electricity forward contract (see note 24).

Note 14. Employee Future Benefits

Pension and Other Benefit Plans

The Company sponsors a number of pension plans, including registered funded defined benefit pension plans, defined contribution pension plans and supplemental unfunded arrangements providing pension benefits in excess of statutory limits. Certain obligations of the Company to these supplemental pension arrangements are secured by a standby letter of credit issued by a major Canadian chartered bank. The Company's defined benefit pension plans are predominantly non-contributory and these benefits are, in general, based on career average earnings.

A national defined contribution pension plan for salaried employees was introduced by the Company during 2006. All eligible salaried employees were given the option to join this new plan and convert their past accrued pension benefits or to remain in their existing defined benefit pension plans. All new salaried employees participate only in the national defined contribution pension plan.

The Company also offers certain employee post-retirement and post-employment benefit plans and a long term disability benefit plan. Post-retirement and post-employment benefit plans are generally not funded, are mainly non-contributory and include health care, life insurance and dental benefits. Employees eligible for post-retirement benefits are those who retire at certain retirement ages and employees eligible for post-employment benefits are those on long term disability leave. The majority of post-retirement health care plans for current and future retirees include a limit on the total benefits payable by the Company.

The Company also contributes to various multi-employer pension plans that provide pension benefits.

The accrued benefit plan obligations and the fair value of the benefit plan assets were determined using a September 30 measurement date for accounting purposes.

Funding of Pension and Other Benefit Plans

The most recent actuarial valuations of the defined benefit pension plans for funding purposes ("funding valuations") were performed as at December 31, 2006 or December 31, 2007. The Company is required to file funding valuations at least every three years; the next funding valuations for two plans will be prepared as at December 31, 2008 and for the remainder no later than December 31, 2009 and 2010.

Total cash payments made by the Company during 2008, consisting of contributions to funded defined benefit pension plans, defined contribution pension plans, multi-employer pension plans, long term disability benefit plan and benefits paid directly to beneficiaries of the supplemental unfunded defined benefit pension plans and other benefit plans, were $215 (2007 – $183).

During 2009, the Company expects to contribute approximately $100 to its registered funded defined benefit pension plans. This estimate may vary subject to the completion of actuarial valuations, market performance and regulatory requirements. The Company also expects to make contributions in 2009 to defined contribution pension plans and multi-employer pension plans as well as benefit payments to the beneficiaries of the supplemental unfunded defined benefit pension plans and other benefit plans.

Pension and Other Benefit Plans Status

Information on the Company's defined benefit pension plans and other benefit plans, in aggregate, was as follows:

	2008			2007		
	Pension Benefit Plans	**Other Benefit Plans[(1)]**	**Total**	Pension Benefit Plans	Other Benefit Plans[(1)]	Total
Benefit Plan Assets						
Fair value, beginning of year	**$ 1,161**	**$ 33**	**$ 1,194**	$ 1,052	$ 44	$ 1,096
Actual (loss) return on plan assets	**(145)**	**2**	**(143)**	91	1	92
Employer contributions	**142**	**11**	**153**	77	10	87
Employee contributions	**2**	**1**	**3**	2	2	4
Benefits paid	**(81)**	**(24)**	**(105)**	(61)	(23)	(84)
Transfers to national defined contribution pension plan	**(23)**	**–**	**(23)**	–	–	–
Other	**–**	**–**	**–**	–	(1)	(1)
Fair value, end of year	**$ 1,056**	**$ 23**	**$ 1,079**	$ 1,161	$ 33	$ 1,194
Accrued Benefit Plan Obligations						
Balance, beginning of year	**$ 1,232**	**$ 319**	**$ 1,551**	$ 1,262	$ 308	$ 1,570
Current service cost	**47**	**38**	**85**	52	44	96
Interest cost	**69**	**18**	**87**	65	16	81
Benefits paid	**(81)**	**(24)**	**(105)**	(61)	(23)	(84)
Actuarial gain	**(85)**	**(28)**	**(113)**	(87)	(22)	(109)
Contractual termination costs[(2)]	**–**	**–**	**–**	7	–	7
Special termination costs[(2)]	**–**	**–**	**–**	6	–	6
Curtailment gains[(3)]	**–**	**–**	**–**	(11)	(2)	(13)
Transfers to national defined contribution pension plan	**(23)**	**–**	**(23)**	–	–	–
Other	**2**	**–**	**2**	(1)	(2)	(3)
Balance, end of year	**$ 1,161**	**$ 323**	**$ 1,484**	$ 1,232	$ 319	$ 1,551
Deficit of Plan Assets Versus Plan Obligations	**$ (105)**	**$ (300)**	**$ (405)**	$ (71)	$ (286)	$ (357)
Unamortized past service costs	**2**	**(5)**	**(3)**	2	(6)	(4)
Unamortized net actuarial loss	**334**	**97**	**431**	193	137	330
Net accrued benefit plan asset (liability)	**$ 231**	**$ (208)**	**$ 23**	$ 124	$ (155)	$ (31)
Recorded in the consolidated balance balance sheets as follows:						
Other assets (note 13)	**$ 273**	**$ –**	**$ 273**	$ 170	$ 11	$ 181
Other liabilities (note 17)	**(42)**	**(208)**	**(250)**	(46)	(166)	(212)
Net accrued benefit plan asset (liability)	**$ 231**	**$ (208)**	**$ 23**	$ 124	$ (155)	$ (31)

(1) Other benefit plans include post-retirement, post-employment and long term disability benefit plans.

(2) Contractual and special termination costs resulted from the 2007 Project Simplify, which involves the restructuring and streamlining of the Company's merchandising and store operations, were recorded in restructuring and other charges in 2007 (see note 4).

(3) Certain defined benefit pension plans and other benefit plans affected by the 2007 Project Simplify to restructure and streamline the Company's merchandising and store operations were re-measured as at March 31, 2007 and costs subsequent to April 1, 2007 were determined using a discount rate of 5.0%. This resulted in a nominal impact to 2007 net earnings and curtailment gains which were offset against unamortized net actuarial losses for those plans.

Funded Status of Plans in a Deficit

Included in the accrued benefit plan obligations and the fair value of benefit plan assets at year end are the following amounts in respect of plans with accrued benefit plan obligations in excess of benefit plan assets:

	2008		2007	
	Pension Benefit Plans	**Other Benefit Plans[(1)]**	Pension Benefit Plans	Other Benefit Plans[(1)]
Fair Value of Benefit Plan Assets	**$ 977**	**$ 23**	$ 326	$ 33
Accrued Benefit Plan Obligations	**1,083**	**323**	424	319
Deficit of Plan Assets versus Plan Obligations	**$ (106)**	**$ (300)**	$ (98)	$ (286)

(1) Other benefit plans include post-retirement, post-employment and long term disability benefit plans.

Asset Allocations

The benefit plan assets are held in trust and at September 30 consisted of the following asset categories:

Percentage of Plan Assets	**2008**		2007	
Asset Category	**Pension Benefit Plans**	**Other Benefit Plans[(1)]**	Pension Benefit Plans	Other Benefit Plans[(1)]
Equity securities	**62%**	**– %**	63%	–%
Debt securities	**37%**	**99%**	35%	91%
Cash and cash equivalents	**1%**	**1%**	2%	9%
Total	**100%**	**100%**	100%	100%

(1) Other benefit plans include post-employment and long term disability benefit plans.

Pension benefit plan assets include securities issued by the Company's majority shareholder, George Weston Limited ("Weston") and by Loblaw having a fair value of nil and $2 (2007 – $5 and $1), respectively, as at September 30, 2008. Other benefit plan assets do not include any Weston or Loblaw securities.

Pension and Other Benefit Plans Cost

The total net cost for the Company's benefit plans and multi-employer pension plans was as follows:

	2008		2007	
	Pension Benefit Plans	**Other Benefit Plans[1]**	Pension Benefit Plans	Other Benefit Plans[1]
Current service cost, net of employee contributions	**$ 45**	**$ 37**	$ 50	$ 42
Interest cost on plan obligations	**69**	**18**	65	16
Actual loss (return) on plan assets	**145**	**(2)**	(91)	(1)
Actuarial gain	**(85)**	**(28)**	(87)	(22)
Contractual termination costs[2]	**–**	**–**	7	–
Special termination costs[2]	**–**	**–**	6	–
Curtailment loss[2]	**–**	**–**	2	–
Defined benefit plan cost (income), before adjustments to recognize the long term nature of employee future benefit costs	**174**	**25**	(48)	35
(Shortfall) excess of actual return over expected return on plan assets	**(230)**	**-**	9	(1)
Excess of amortized net actuarial loss over actual actuarial gain on accrued benefit obligation	**91**	**40**	99	34
Shortfall of amortized past service costs over actual past service costs	**–**	**(1)**	–	(1)
Net defined benefit plan cost	**35**	**64**	60	67
Defined contribution plan cost	**11**	**–**	10	–
Multi-employer pension plan cost	**51**	**–**	50	–
Net benefit plan cost	**$ 97**	**$ 64**	$ 120	$ 67
Recognized in the consolidated statements of earnings as follows:				
Pension and other benefit plan costs	**$ 97**	**$ 64**	$ 105	$ 67
Restructuring and other charges[2]	**–**	**–**	15	–
Net benefit plan cost	**$ 97**	**$ 64**	$ 120	$ 67

(1) Other benefit plans include post-retirement, post-employment and long term disability benefit plans.

(2) Contractual and special termination costs and curtailment losses resulted from the 2007 Project Simplify, which involves the restructuring and streamlining of the Company's merchandising and store operations, were recorded in restructuring and other charges in 2007 (see note 4).

Plan Assumptions

The significant annual weighted average actuarial assumptions used in calculating the Company's accrued benefit plan obligations as at the measurement date of September 30 and the net defined benefit plan cost for the year were as follows:

	2008		2007	
	Pension Benefit Plans	**Other Benefit Plans[(1)]**	Pension Benefit Plans	Other Benefit Plans[(1)]
Accrued Benefit Plan Obligations				
Discount rate	**6.0%**	**5.8%**	5.5%	5.3%
Rate of compensation increase	**3.5%**		3.5%	
Net Defined Benefit Plan Cost				
Discount rate[(2)]	**5.5%**	**5.3%**	5.0%	5.0%
Expected long term rate of return on plan assets	**7.5%**	**5.0%**	7.75%	5.0%
Rate of compensation increase	**3.5%**		3.5%	

(1) Other benefit plans include post-retirement, post-employment and long term disability benefit plans.

(2) Certain defined benefit pension plans and other benefit plans affected by the 2007 Project Simplify to restructure and streamline the Company's merchandising and store operations were re-measured as at March 31, 2007 and costs subsequent to April 1, 2007 were determined using a discount rate of 5.0%. This resulted in a nominal impact to 2007 net earnings and curtailment gains which were offset against unamortized net actuarial losses for those plans.

The growth rate of health care costs, primarily drug and other medical costs for other benefit plans, was estimated at 10.0% (2007 – 10.0%) and is assumed to gradually decrease to 5.0% by 2015 (2007 – 5.0% by 2015), remaining at that level thereafter.

Sensitivity of Key Assumptions

The following table outlines the key assumptions for 2008 and the sensitivity of a 1% change in each of these assumptions on the accrued benefit plan obligations and on the benefit plan cost for defined benefit pension plans and other benefit plans. The table reflects the impact on the current service and interest cost components for the discount rate and expected growth rate of health care costs assumptions.

The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

	Pension Benefit Plans		Other Benefit Plans[(1)]	
	Accrued Benefit Plan Obligations	Benefit Plan Cost[(2)]	Accrued Benefit Plan Obligations	Benefit Plan Cost[(2)]
Expected long term rate of return on plan assets		7.5%		5.0%
Impact of: 1% increase	n/a	$ (11)	n/a	$ –
1% decrease	n/a	$ 11	n/a	$ –
Discount rate	6.0%	5.5%	5.8%	5.3%
Impact of: 1% increase	$ (160)	$ (8)	$ (36)	$ (3)
1% decrease	$ 186	$ 9	$ 42	$ 3
Expected growth rate of health care costs[(3)]			9.5%	10.0%
Impact of: 1% increase	n/a	n/a	$ 31	$ 5
1% decrease	n/a	n/a	$ (27)	$ (4)

n/a – not applicable

(1) Other benefit plans include post-retirement, post-employment and long term disability benefit plans.

(2) Discount rate and expected growth rate of health care costs sensitivity is for current service and interest costs only.

(3) Gradually decreasing to 5.0% by 2015 (2007 – 5.0% by 2015) for the accrued benefit plan obligation and the benefit plan cost, and remaining at that level thereafter.

Note 15. Short Term Debt

In 2008, the Company entered into an $800 5-year committed credit facility provided by a syndicate of banks which contains certain financial covenants (see note 21). This facility is the primary source of the Company's short term funding requirements and permits borrowings having up to a 180-day term. Interest is based on a floating rate, primarily the bankers' acceptance rate and an applicable margin based on the Company's credit rating. This facility replaced a $500, 364-day committed credit facility. As at January 3, 2009, $190 was drawn on the new 5-year committed credit facility. In 2008, short term debt included nil (2007 – $418) of commercial paper.

Note 16. Long Term Debt

	2008	2007
Loblaw Companies Limited Notes		
6.00%, due 2008	**$ –**	$ 390
5.75%, due 2009	**125**	125
7.10%, due 2010	**300**	300
6.50%, due 2011	**350**	350
5.40%, due 2013	**200**	200
6.00%, due 2014	**100**	100
7.10%, due 2016	**300**	300
6.65%, due 2027	**100**	100
6.45%, due 2028	**200**	200
6.50%, due 2029	**175**	175
11.40%, due 2031		
– principal	**151**	151
– effect of coupon repurchase	**(55)**	(44)
6.85%, due 2032	**200**	200
6.54%, due 2033	**200**	200
8.75%, due 2033	**200**	200
6.05%, due 2034	**200**	200
6.15%, due 2035	**200**	200
5.90%, due 2036	**300**	300
6.45%, due 2039	**200**	200
7.00%, due 2040	**150**	150
5.86%, due 2043	**55**	55
Private Placement Notes		
6.48%, due 2013 (US $150 million)	**180**	–
6.86%, due 2015 (US $150 million)	**181**	–
Other at a weighted average interest rate of 11.50%, due 2009 to 2043	**9**	17
VIE loans payable (i) (see note 27)	**152**	153
Capital lease obligations (i) (see note 18)	**62**	62
Total long term debt	**4,235**	4,284
Less amount due within one year	**165**	432
	$ 4,070	$ 3,852

(i) Pursuant to the requirements of AcG 15, the consolidated balance sheet as at January 3, 2009 includes $179 (2007 – $183) of loans payable and capital lease obligations of VIEs consolidated by the Company, $35 (2007 – $32) of which is due within one year.

During 2008, the Company issued United States Dollar ("USD") $300 of fixed rate notes in a private placement debt financing which contains certain financial covenants (see note 21). The notes were issued in two equal tranches of USD $150 with 5 and 7 year maturities at interest rates of 6.48% and 6.86%, respectively. The Company entered into fixed cross currency swaps, a portion of which are designated as cash flow hedges to manage the foreign exchange risk. As at January 3, 2009, $361 was recorded in long term debt on the consolidated balance sheet. For further information on the Company's policies with respect to cash flow hedges, refer to note 1.

The schedule of repayment of long term debt, inclusive of VIE and other debt, based on maturity is as follows: 2009 − $165; 2010 − $333; 2011 − $381; 2012 − $25; 2013 − $409; thereafter − $2,922.

During 2008, the $390 6.00% medium term note due June 2, 2008 matured and was repaid. Subsequent to year end, the Company repaid its $125 5.75% medium term note that matured.

See note 25 for the fair value of long term debt.

Note 17. Other Liabilities

	2008	2007
Accrued benefit plan liability (note 14)	**$ 250**	$ 212
Deferred vendor allowances (note 29)	**56**	–
Unrealized interest rate swap liability (note 24)	**43**	28
Goods and services tax and provincial sales tax	**27**	23
Stock-based compensation (note 22)	**12**	10
Restructuring and other charges (note 4)	**–**	21
Other	**57**	74
	$ 445	$ 368

Included in other above is a guarantee of $7 (2007 – $7) which is a financial liability related to the standby letter of credit issued by a major Canadian chartered bank for the benefit of an independent funding trust.

Note 18. Leases

As Lessee

Future minimum lease payments relating to the Company's operating leases are as follows:

	Payments due by year							
	2009	2010	2011	2012	2013	Thereafter to 2046	**2008 Total**	2007 Total
Operating lease payments	$ 207	$ 189	$ 166	$ 143	$ 125	$ 793	**$ 1,623**	$ 1,423
Expected sub-lease income	(33)	(29)	(23)	(18)	(16)	(64)	**(183)**	(172)
Net operating lease payments	$ 174	$ 160	$ 143	$ 125	$ 109	$ 729	**$ 1,440**	$ 1,251

As Lessor
Fixed assets on the consolidated balance sheets include cost of properties held for leasing purposes of $603 (2007 − $571) and related accumulated depreciation of $173 (2007 − $163). Rental income for the year ended January 3, 2009 from these operating leases totaled $45 (2007 − $49).

Capital Leases
Capital lease obligations of $62 (2007 – $62) are included in the consolidated balance sheet as at year end (see note 16). The capital lease obligations are related primarily to equipment of the third-party VIE that provides distribution and warehousing services. The amount due within one year is $8 (2007 – $9).

Sale-Leaseback
In 2007, the Company completed a sale-leaseback transaction of property and a partially constructed building ("Property") for a total purchase price of $109, subject to a vendor take back mortgage of $35 (2007 – $27) which bears interest at 6% due in 2009. There was no gain or loss recorded on the sale of the Property. The Company has leased back the Property for a term of 20 years, with options to renew for an additional 20 years, and in turn subleased the Property to a third-party logistics provider. In 2008, the leaseback was accounted for as an operating lease. The Company also entered into a warehousing and distribution agreement with the third-party logistics provider, which will use this Property to provide services to Loblaw.

Note 19. Capital Securities ($, except where otherwise indicated)

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

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

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

Note 20. Common Share Capital (authorized – unlimited)

The changes in the common shares issued and outstanding during the year were as follows:

	2008		2007	
	Number of Common Shares	**Common Share Capital**	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning and end of year	**274,173,564**	**$ 1,196**	274,173,564	$ 1,196
Weighted average outstanding	**274,173,564**		274,173,564	

Approximately 62% of the common shares are owned by George Weston Limited; the remaining shares are widely held.

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

Note 21. Capital Management

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

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

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

	As at January 3, 2009	As at December 29, 2007
Interest coverage[(1)]	**3.7:1**	2.7:1
Net debt to equity[(1)]	**.54:1**	.67:1

Interest coverage is calculated as operating income divided by interest expense and other financing charges adding back interest capitalized to fixed assets. The interest coverage ratio is calculated for the 53 week period ended January 3, 2009 and for the 52 week period ended December 29, 2007. The Company manages debt on a net basis as outlined below. The net debt to equity ratio continued to be within the Company's internal guideline of less than 1:1. This ratio is useful in assessing the amount of leverage employed. These ratios are also calculated from time-to-time on an alternative basis by management to approximate the methodology of debt rating agencies and other market participants.

(1) See Non-GAAP Financial Measures on page 33.

Debt

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

($ millions)	**As at January 3, 2009**	As at December 29, 2007
Bank indebtedness	**$ 52**	$ 3
Short term debt	**190**	418
Long term debt due within one year	**165**	432
Long term debt	**4,070**	3,852
Less: Cash and cash equivalents	**528**	430
Short term investments	**225**	225
Security deposits included in other assets	**437**	322
Net debt[(1)]	**$ 3,287**	$ 3,728

Capital securities are excluded from the calculation of net debt because the Company at its option can convert the Second Preferred Shares into common shares.

Security deposits consist primarily of Government treasury bills and Government-sponsored debt securities which Glenhuron is required to place with counterparties as collateral to enter into and maintain outstanding derivatives and equity forwards. The amount of the required security deposits will fluctuate primarily as a result of the change in market value of the derivatives.

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

During the second quarter of 2008, the Company filed a Short Form Base Shelf Prospectus ("Prospectus") allowing for the potential issue of up to $1 billion of unsecured debentures and/or preferred shares subject to the availability of funding by capital markets. During the third quarter of 2008, the Company issued preferred shares under the Prospectus (see note 19).

Dividends ($)

The declaration and payment of dividends and the amount thereof are at the discretion of the Board of Directors of the Company ("Board") which takes into account the Company's financial results, capital requirements, available cash flow and other factors the Board considers relevant from time to time. Over the long term, the Company's objective is for its dividend payment ratio to be in the range of 20% to 25% of the prior year's basic net earnings per common share adjusted as appropriate for items which are not regarded to be reflective of ongoing operations giving consideration to the year end cash position, future cash flow requirements and investment opportunities. During 2008, the Board declared common share dividends of $0.84 (2007– $0.84) per common share. During 2008, the Board of Directors declared dividends of $0.911275 per second preferred share. For financial statement presentation purposes, preferred share dividends of $8 million are included as a component of interest expense and other financing charges on the Consolidated Statement of Earnings for the year ended January 3, 2009 (see note 5).

(1) See Non-GAAP Financial Measures on page 33.

The Series A Second Preferred Shares rank after the First Preferred Shares to the extent that there is a conflict between the preferences, priorities and rights attaching to the two classes of preferred shares, and shall be entitled to preferences over the common shares with respect to the priority in the payment of dividends and with respect to the priority in the distribution of assets of the Company in the event of the liquidation, dissolution or winding up of the Company. The Company has 1.0 million non-voting First Preferred Shares which are authorized of which none were outstanding at year end.

Covenants and Regulatory Requirements
The committed credit facility which the Company entered into during the first quarter of 2008 (see note 15) and the USD $300 fixed-rate private placement notes which the Company issued during the second quarter of 2008 (see note 16) both contain certain financial covenants. The covenants under both agreements include maintaining an interest coverage ratio as well as a leverage ratio, which the Company measures on a quarterly basis. These ratios are defined in the respective agreements. As at January 3, 2009, the Company was in compliance with these covenants.

The Company is also subject to externally imposed capital requirements from the Office of the Superintendent of Financial Institutions ("OSFI"), as the primary regulator of *PC* Bank, and the Central Bank of Barbados, as the primary regulator of Glenhuron, both wholly-owned subsidiaries of the Company. *PC* Bank's capital management objectives are to maintain a consistently strong capital position while considering the Bank's economic risks and to meet all regulatory capital requirements as defined by OSFI. A new regulatory capital management framework, Basel II, has been implemented in Canada that establishes regulatory capital requirements that are more sensitive to a bank's risk profile. *PC* Bank met all applicable capital targets as at the end of 2008. Glenhuron is currently regulated under Basel I. Under Basel I, Glenhuron's assets are risk weighted and the minimum ratio of capital to risk weighted assets is 8.0%. Glenhuron's ratio of capital to risk weighted assets met the minimum requirements under Basel I as at January 3, 2009.

Note 22. Stock-Based Compensation ($, except where otherwise indicated)

The Company maintains various types of stock-based compensation plans, which are described below.

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

($ millions)	**2008**	2007
Stock option plan expense	**$ 8**	$ –
Equity forwards (gain) loss (note 24)	**(10)**	67
Restricted share unit plan expense	**9**	5
Net stock-based compensation cost	**$ 7**	$ 72

Stock Option Plan The Company maintains a stock option plan for certain employees. Under this plan, the Company may grant options for up to 13.7 million common shares which is the Company's guideline on the number of stock option grants up to a maximum of 5% of outstanding common shares at any time. Stock options have up to a seven-year term, vest 20%-33% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is 100% of the market price of the Company's common shares on the last trading day prior to the effective date of the grant. Each stock option is exercisable into one common share of the Company at the price specified in the terms of the option, or option holders may elect to receive in cash the share appreciation value equal to the excess of the market price at the date of exercise over the specified option price.

During 2008, the Company granted 3,431,432 (2007 – 4,368,980) stock options with a weighted average exercise price of $28.99 (2007 – $47.28) per common share under its existing stock option plan which allows for settlement in shares or in the share appreciation value in cash at the option of the employee.

In 2008, the share appreciation value of nil (2007 – a nominal amount) was paid on the exercise of nil (2007 – 108,000) stock options. In 2008 and 2007, the Company did not issue common shares or receive cash consideration on the exercise of stock options.

In addition, 2,071,528 (2007 – 1,812,870) stock options were forfeited or cancelled.

At year end, a total of 7,892,660 (2007 – 6,532,756) stock options were outstanding, and represented approximately 2.9% (2007 – 2.4%) of the Company's issued and outstanding common shares, which was within the Company's guideline of 5%. Of the outstanding options, 7,892,660 (2007 – 6,491,516) relate to stock option grants that allow for settlement in shares or in the share appreciation value in cash at the option of the employee and nil (2007 – 41,240) relate to stock option grants, issued prior to December 30, 2001 that will be settled by issuing common shares.

A summary of the status of the Company's stock option plan and activity was as follows:

	2008		2007	
	Options (number of shares)	**Weighted Average Exercise Price/Share**	Options (number of shares)	Weighted Average Exercise Price/Share
Outstanding options, beginning of year	**6,532,756**	**$ 52.34**	4,084,646	$ 61.36
Granted	**3,431,432**	**$ 28.99**	4,368,980	$ 47.28
Exercised	**–**	**$ –**	(108,000)	$ 48.75
Forfeited/cancelled	**(2,071,528)**	**$ 48.13**	(1,812,870)	$ 60.69
Outstanding options, end of year	**7,892,660**	**$ 43.29**	6,532,756	$ 52.34
Options exercisable, end of year	**1,971,244**	**$ 56.05**	1,314,278	$ 59.00

	2008 Outstanding Options			**2008 Exercisable Options**	
Range of Exercise Prices	**Number of Options Outstanding**	**Weighted Average Remaining Contractual Life (years)**	**Weighted Average Exercise Price/Share**	**Number of Exercisable Options**	**Weighted Average Exercise Price/Share**
$ 28.95 – $ 33.10	**3,201,928**	**6**	**$ 29.10**	**17,668**	**$ 33.03**
$ 46.01 – $ 50.80	**2,914,694**	**5**	**$ 47.63**	**582,939**	**$ 47.63**
$ 53.60 – $ 69.75	**1,776,038**	**2**	**$ 61.75**	**1,370,637**	**$ 59.92**

Restricted Share Unit Plan The Company maintains a RSU plan for certain senior employees. The RSUs entitle employees to a cash payment after the end of each performance period, of up to 3 years, following the date of award. The RSU payment will be an amount equal to the weighted average price of a Loblaw common share on the last three trading days preceding the end of the performance period for the RSUs multiplied by the number of RSUs held by the employee.

During 2008, the Company granted 416,294 (2007 – 335,056) RSUs to 346 (2007 – 349) employees, 103,103 (2007 – 161,621) RSUs were cancelled and 252,479 (2007 – 154,700) were paid out in the amount of $9 million (2007 – $8 million). At year end, a total of 829,399 (2007 – 768,687) RSUs were outstanding.

Employee Share Ownership Plan ("ESOP") The Company maintains an ESOP which allows employees to acquire the Company's common shares through regular payroll deductions of up to 5% of their gross regular earnings. The Company contributes an additional 25% (2007 – 25%) of each employee's contribution to the plan. The ESOP is administered through a trust which purchases the Company's common shares on the open market on behalf of employees. A compensation cost of $6 million (2007 – $6 million) related to this plan was recognized in operating income.

Deferred Share Unit Plan Members of the Company's Board of Directors, who are not management of the Company, may elect annually to receive all or a portion of their annual retainer(s) and fees in the form of DSUs, the value of which is determined by the market price of the Company's common shares at the time the director's annual retainer(s) or fees are earned. Upon termination of Board service, the common shares due to the director, as represented by the DSUs, will be purchased on the open market on the director's behalf. At year end, 79,939 (2007 – 56,082) DSUs were outstanding. The year-over-year change in the deferred share unit compensation liability was $1 million (2007 – a nominal amount) and was recognized in operating income.

Executive Deferred Share Units In 2008, the Company approved the introduction of an EDSU Plan. Under this plan, executives may elect to defer up to 100% of the STIP earned by the executive in any year into the EDSU Plan, subject to an overall cap of three times the executive's base salary. All EDSUs held by an executive will be paid out in cash by December 15 of the year following the year in which the executive's employment ceases for any reason. An election to participate in the plan in any year must be made before the beginning of the year and is irrevocable. The number of EDSUs granted in respect of any year will be determined by dividing the STIP bonus that is subject to the EDSU plan election by the value of the Company's common shares on the date the STIP bonus would otherwise be payable. For this purpose, and for purposes of determining the value of a EDSU upon conversion of the EDSUs into cash, the value of the EDSUs will be calculated by using the weighted average of the trading prices of the Company's common shares on the Toronto Stock Exchange for the five trading days prior to the valuation date.

Note 23. Accumulated Other Comprehensive Income

The following table provides further detail regarding the composition of accumulated other comprehensive income for the years ended January 3, 2009 and December 29, 2007:

	2008			2007		
	Cash Flow Hedges	**Available-for-sale Assets**	**Total**	Cash Flow Hedges	Available-for-sale Assets	Total
Balance, beginning of year	**$ 22**	**$ (3)**	**$ 19**	$ –	$ –	$ –
Cumulative impact of implementing new accounting standards [net of income taxes of nil (2007 – $1)] (note 2)	**–**	**–**	**–**	(4)	20	16
Net unrealized gain (loss) on available-for-sale financial assets [net of income taxes of $1 (2007 – $5)]	**–**	**40**	**40**	–	(56)	(56)
Reclassification of gain (loss) on available-for-sale financial assets [net of income taxes recovered of $5 (2007 – nil)]	**–**	**(21)**	**(21)**	–	33	33
Net gain on derivatives designated as cash flow hedges [net of income taxes of $22 (2007 – $2)]	**21**	**–**	**21**	57	–	57
Reclassification of gain on derivatives designated as cash flow hedges [net of income taxes of $21 (2007 – $1)]	**(29)**	**–**	**(29)**	(31)	–	(31)
Balance, end of year	**$ 14**	**$ 16**	**$ 30**	$ 22	$ (3)	$ 19

An estimated net gain of $2 (2007 − $18) recorded in accumulated other comprehensive income related to the cash flow hedges as at January 3, 2009, is expected to be reclassified to net earnings during the next 12 months. This will be offset by the estimated loss on available-for-sale financial assets that are hedged. Remaining amounts will be reclassified to net earnings over periods up to 5 years.

Note 24. Financial Instruments

A summary of the Company's outstanding financial derivative instruments is as follows:

	Notional Amounts Maturing						**2008**	2007
	2009	2010	2011	2012	2013	Thereafter	**Total**	Total
Cross currency swap receivable	$ 31	$ 199	$ 56	$ 166	$ 75	$ 654	**$ 1,181**	$ 1,100
Cross currency swap payable	$ –	$ –	$ –	$ –	$ (148)	$ (148)	**$ (296)**	$ –
Interest rate swaps receivable	$ 140	$ 50	$ 200	$ –	$ –	$ –	**$ 390**	$ 630
Interest rate swaps payable	$ –	$ –	$ –	$ –	$ (150)	$ –	**$ (150)**	$ (150)
Equity forwards	$ (261)	$ –	$ –	$ –	$ –	$ –	**$ (261)**	$ (254)
Electricity forward contract	$ (8)	$ (9)	$ (8)	$ –	$ –	$ –	**$ (25)**	$ (33)

Notional amounts do not represent assets or liabilities and are therefore not recorded on the consolidated balance sheet. The notional amounts are used in order to calculate the payments to be exchanged under the contracts.

Cross Currency Swaps The Company entered into cross currency swaps (see note 26) to exchange United States dollars for $1,181 (2007 – $1,100) Canadian dollars, which mature by 2017. Cross currency swaps totalling $320 (2007 − $560) are designated in a cash flow hedge and the remaining undesignated $861 (2007 − $540) are classified as held-for-trading financial assets. Currency adjustments receivable or payable arising from these swaps are settled in cash on maturity. A cumulative unrealized foreign currency exchange rate receivable of $36 (2007 − $270) was recorded in other assets.

In 2008, the Company entered into fixed cross currency swaps to exchange $296 Canadian dollars for $300 USD, which mature by 2015. A portion of these cross currency swaps are designated in a cash flow hedge to manage the foreign exchange related to a part of the Company's fixed rate USD private placement notes (see note 16).

Interest Rate Swaps The Company's interest rate swaps (see note 26) convert a notional $390 (2007 – $630) of its floating rate available-for-sale cash and cash equivalents, short term investments and security deposits included in other assets to average fixed rate investments at 5.39% (2007 – 5.60%), which mature by 2011. At year end, the fair value of these interest rate swaps of $21 (2007 − $9) was recorded in other assets and the unrealized fair value gain of $21 (2007 − $9) is deferred, net of tax, in accumulated other comprehensive income. When realized, these unrealized gains are reclassified to net earnings.

During 2007, the Company terminated hedge accounting for its interest rate swaps previously designated as a cash flow hedge of the variable interest rate exposure on commercial paper. These interest rate swaps converted a notional $150 of floating rate commercial paper debt to an average fixed rate debt of 8.37% which matures by 2013. As a result of this termination in 2007, the cumulative loss of $2, net of income taxes, in accumulated other comprehensive income was reclassified to net earnings. At January 3, 2009, the fair value of these interest rate swaps of $43 (2007 − $28) was recorded in other liabilities.

Equity Forwards ($, except where otherwise indicated) At year end 2008, the Company had cumulative equity forwards (see note 22) to buy 4.8 million (2007 – 4.8 million) of its common shares at a cumulative average forward price of $54.46 (2007 – $53.14) including $9.59 (2007 – $8.27) per common share of interest expense, net of dividends, that has been recognized in net earnings and will be paid at termination. The equity forwards provide for settlement of net amounts owing between the Company and its counterparty in cash or common shares. They change in value as the market price of the Company's common shares changes and provide a partial offset to fluctuations in Loblaw's stock-based compensation cost, including RSU plan expense. The partial offset between the Company's stock-based compensation costs, including RSU plan expense, and the equity forwards is effective when the market price of the Company's common shares exceed the exercise price of the related employee stock options. When the market price of the common shares is lower than the exercise price of the related employee stock options, only RSUs will provide a partial offset to these equity forwards. The amount of net stock-based compensation cost recorded in operating income is mainly dependent upon the number of unexercised stock options and RSUs, their vesting schedules relative to the number of underlying common shares on the equity forwards, the market price and fluctuations in the market price of the underlying common shares. Cumulative interest net of dividends and unrealized market loss of $92 million (2007 – $91 million) is included in accounts payable and accrued liabilities relating to these equity forwards. The Company is in discussions with the counterparty which may lead to the extinguishment of all or a portion of the liability.

Electricity Forward Contract The Company entered into an electricity forward contract to minimize price volatility and to maintain a portion of the Company's electricity costs in Alberta, Canada at approximately 2006 rates. This electricity forward contract has an initial term of five years and expires in December 2011. Loblaw is required to measure its electricity forward contract at fair value in accordance with Section 3855. At year end, the fair value of this forward contract of $7 (2007 − $5) was recorded in other assets. During 2008, a gain in value of $2 (2007 − loss of $2) was recorded in operating income.

Fuel Exchange Traded Futures and Options The Company entered into exchange traded futures contracts and options contracts to minimize cost volatility on fuel prices. Futures contracts establish a fixed cost on a portion of the Company's fuel exposure and option contracts typically provide protection against a range of cost outcomes. As at January 3, 2009, the Company had $4 (2007 - nil) recorded in accounts payable and accrued liabilities related to the above contracts.

Note 25. Fair Values of Financial Instruments

The fair value of derivative instruments is the estimated amount that the Company would receive or pay to terminate the instrument at the reporting date. The fair values have been determined by reference to prices available from the markets on which the instruments trade and prices provided by counterparties. The fair values of all derivative instruments approximated their carrying value and are recorded in other assets or other liabilities on the consolidated balance sheets.

The following tables provide a comparison of carrying and fair values for each classification of financial instruments as at January 3, 2009 and December 29, 2007:

As at January 3, 2009

	Financial derivatives designated in a cash flow hedge	Financial instruments required to be classified as held-for-trading	Financial instruments designated as held-for-trading	Available-for-sale instruments measured at fair value	Loans and receivables	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents, short term investments and security deposits	$ –	$ –	$ 898	$ 292	$ –	$ –	$ 1,190	$ 1,190
Accounts receivable	–	–	14	–	853	–	867	867
Other financial assets	–	–	–	–	40	–	40	40
Available for sale securities	–	–	–	7	–	–	7	7
Derivatives	98	45	–	–	–	–	143	143
Total financial assets	$ 98	$ 45	$ 912	$ 299	$ 893	$ –	$ 2,247	$ 2,247
Short term borrowings	$ –	$ –	$ –	$ –	$ –	$ 242	$ 242	$ 242
Accounts payable and accrued liabilities	–	92	–	–	–	2,731	2,823	2,823
Long term debt	–	–	–	–	–	4,235	4,235	3,746
Capital Securities	–	–	–	–	–	219	219	212
Derivatives (see note 24)	–	51	–	–	–	7	58	58
Total financial liabilities	$ –	$ 143	$ –	$ –	$ –	$ 7,434	$ 7,577	$ 7,081

The equity investment in franchises is measured at a cost of $72 because quoted market prices in an active market are not available. These investments are classified as available-for-sale, and the Company has no intention of disposing of these equity investments.

As at December 29, 2007								
	Financial derivatives designated in a cash flow hedge	Financial instruments required to be classified as held-for-trading	Financial instruments designated as held-for-trading	Available-for-sale instruments measured at fair value	Loans and receivables	Other financial liabilities	Total carrying amount	Total fair value
Cash and cash equivalents, short term investments and security deposits	$ –	$ –	$ 533	$ 444	$ –	$ –	$ 977	$ 977
Accounts receivable	–	–	8	–	877	–	885	885
Other financial assets	–	–	–	–	75	–	75	75
Available for sale securities	–	–	–	16	–	–	16	16
Derivatives	184	101	–	–	–	–	285	285
Total financial assets	$ 184	$ 101	$ 541	$ 460	$ 952	$ –	$ 2,238	$ 2,238
Short term borrowings	$ –	$ –	$ –	$ –	$ –	$ 421	$ 421	$ 421
Accounts payable and accrued liabilities (see note 1)	–	91	–	–	–	2,769	2,860	2,860
Long term debt	–	–	–	–	–	4,284	4,284	4,216
Derivatives (see note 24)	–	29	–	–	–	7	36	36
Total financial liabilities	$ –	$ 120	$ –	$ –	$ –	$ 7,481	$ 7,601	$ 7,533

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

During the year ended January 3, 2009, the net unrealized and realized gain on held-for-trading financial assets designated as held-for-trading, recognized in net earnings before income taxes and minority interest was $169 (2007 − loss of $76). In addition, the net unrealized and realized loss on held-for-trading financial assets and financial liabilities, including non-financial derivatives, required to be classified as held-for-trading, recognized in net earnings before income taxes and minority interest was $233 (2007 − loss of $7).

Note 26. Financial Risk Management

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

Credit Risk The Company is exposed to credit risk resulting from the possibility that counterparties may default on their financial obligations. Exposure to credit risk relates to derivative instruments, cash and cash equivalents, short term investments, security deposits included in other assets, pension assets held in the Company's defined benefit plans, *PC* Bank's credit card receivables and other receivables from independent franchisees, associated stores and independent accounts.

The Company may be exposed to losses if a counterparty to the Company's financial or non-financial derivative agreements fails to fulfill its obligations.

The Company has sought to minimize potential counterparty risk and losses by conducting transactions for its derivative agreements with counterparties that have at minimum a long term “A” credit rating from a recognized credit rating agency and by placing risk adjusted limits on its exposure to any single counterparty for its financial derivative agreements. The Company has internal policies, controls and reporting processes which require ongoing assessment and corrective action, if necessary, with respect to derivative transactions. In addition, net obligations and asset amounts on cross currency swaps and equity forwards are each netted by agreement with swap counterparties.

Credit risk associated with the Company’s cash equivalents, short term investments and security deposits included in other assets results from the possibility that a counterparty may default on the repayment of a security. The Company attempts to mitigate this risk through policies and guidelines that require issuers of permissible investments to have at minimum a long term “A” credit rating from a recognized credit rating agency and that specify minimum and maximum exposures to specific industries, issuers and types of investment instruments. The Company purchases and holds these investments directly in custody accounts, and has limited exposure to any third party money market portfolios and funds.

Credit risk from *PC* Bank’s credit card receivables and receivables from independent franchisees, associated stores and independent accounts results from the possibility that customers may default on their payment obligation. *PC* Bank manages the credit card receivable risk by employing stringent credit scoring techniques, actively monitoring the credit card portfolio, and reviewing techniques and technology that can improve the effectiveness of the collection process. In addition, these receivables are dispersed among a large, diversified group of credit card customers.

Accounts receivable from independent franchisees, associated stores and independent accounts are actively monitored on an ongoing basis and settled on a frequent basis in accordance with the terms specified in the applicable agreements.

The Company’s maximum exposure to credit risk as it relates to derivative instruments is represented by the positive fair market value of the derivatives on the balance sheet (see note 25).

Refer to note 10 for additional information on the credit quality performance of credit card receivables and other receivables from independent franchisees, associated stores and independent accounts.

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

Interest Rate Risk The Company is exposed to interest rate risk which it manages through the use of interest rate swaps. Loblaw’s interest rate risk arises from the issuance of short term debt and equity forwards, net of its cash and cash equivalents, short term investments and security deposits included in other assets. The Company manages fluctuations in its interest expense through its exposure to a mix of fixed and floating interest rates, by managing the duration of its financial instruments and by entering into interest rate swaps. The Company estimates that a 100 basis point increase (decrease) in interest rates, with all other variables held constant, would result in an increase (decrease) of $5 to interest expense.

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

At year end, the Company had $1,096 (2007 – $801) in cash and cash equivalents, short term investments and security deposits included in other assets held by Glenhuron. To manage this risk, the Company designates a portion of its cross currency swaps in a cash flow hedge of the exposure to fluctuations in the foreign currency exchange rate on a portion of its United States dollar denominated cash equivalents, short term investments and security deposits included in other assets. The remaining undesignated cross currency swaps economically hedge exposure to fluctuations in the foreign currency exchange rate on the remaining United States dollar denominated cash and cash equivalents, short term investments, security deposits included in other assets and the USD private placement notes.

During the year, the unrealized foreign currency exchange gain of $50 (2007 − loss of $79), related to the cash and cash equivalents, short term investments and security deposits included in other assets classified as available-for-sale is recognized in other comprehensive income and was partially offset by the unrealized foreign currency exchange rate loss of $51 (2007 − gain of $72) before income taxes relating to the designated cross currency swaps also deferred in other comprehensive income. The unrealized foreign currency exchange gain of $160 (2007 − loss of $76) on the designated held-for-trading cash and cash equivalents, short term investments and security deposits included in other assets is partially offset in operating income by the unrealized foreign currency exchange rate loss of $157 (2007 − gain of $79) relating to the cross currency swaps which are not designated in a cash flow hedge. During the year, the Company realized a foreign currency exchange gain of $26 (2007 − $46) relating to cross currency swaps that matured or were terminated.

During 2008, the Company recognized in operating income an unrealized foreign currency exchange loss of $65 related to the USD $300 million fixed-rate private placement notes. This was partially offset by both the effective portion of the designated cross currency swaps that was reclassified from other comprehensive income to operating income and the fair value gain of the cross currency swaps that are not designated in a hedging relationship. At the inception of the cash flow hedge, a nominal amount of ineffectiveness was recognized in operating income.

Commodity Price Risk The Company is exposed to increases in the prices of commodities in operating its stores and distribution centres, as well as the indirect link of commodities to its consumer products. To manage this exposure, the Company uses purchase commitments for a portion of its needs for certain consumer products that may be commodities based and the Company expects to take delivery of these consumer products in the normal course of business. A non-financial derivative contract with a notional value of $25 is used to hedge electricity price risk for a portion of the Company's expected electricity consumption in Alberta. The Company also enters into exchange traded futures contracts and option contracts to minimize cost volatility on fuel prices. The Company estimates that a 10% increase (decrease) in relevant commodity prices, with all other variables held constant, would result in a gain (loss) of $4 on earnings before income taxes and minority interest.

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

Liquidity Risk Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

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

Maturity Analysis The following are the undiscounted contractual maturities of significant financial liabilities as at January 3, 2009:

	2009	2010	2011	2012	2013	Thereafter[4]	Total
Interest rate swaps payable[1]	$ 13	$ 13	$ 13	$ 13	$ 5	$ –	$ 57
Equity forward contracts[2]	261	–	–	–	–	–	261
Long term debt including fixed interest payments[3]	437	591	606	230	569	6,185	8,618
	$ 711	$ 604	$ 619	$ 243	$ 574	$ 6,185	$ 8,936

(1) Based on the pay fixed interest which will be partially offset by the floating interest received.
(2) Based on the average cost base as at January 3, 2009.
(3) Based on the maturing face values and annual interest for each instrument as well as annual payment obligations for VIEs, mortgages, and capital leases.
(4) Capital securities and their related dividends have been excluded as the Company is not contractually obligated to pay these amounts.

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

Note 27. Contingencies, Commitments and Guarantees

The Company is involved in and potentially subject to various claims by third parties arising out of the normal course and conduct of its business including, but not limited to, product liability, labour and employment, regulatory and environmental claims. In addition, the Company is involved in and potentially subject to regular audits from federal and provincial tax authorities relating to income, capital and commodity taxes and as a result of these audits may receive assessments and reassessments.

Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to these consolidated financial statements, with the exception of the items disclosed in legal proceedings below.

At year end, the Company has committed approximately $46 (2007 – $113) with respect to capital investment projects such as the construction, expansion and renovation of buildings and the purchase of real property.

The Company establishes standby letters of credit used in connection with certain obligations mainly related to real estate transactions and benefit programs. The aggregate gross potential liability related to these standby letters of credit is approximately $216 (2007 – $221). Other standby letters of credit related to the financing program for the Company's independent franchisees and securitization of *PC* Bank's credit card receivables have been identified as guarantees and are discussed further in the Guarantees section below.

Guarantees The Company has provided to third parties the following significant guarantees as defined pursuant to AcG 14, "Disclosure of Guarantees".

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

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

The gross principal amount of loans issued to the Company's independent franchisees outstanding as of January 3, 2009 was $388 (2007 − $418) including $152 (2007 − $153) of loans payable by VIEs consolidated by the Company. Based on a formula, the Company has agreed to provide credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trust equal to approximately 15% (2007 − 10%) of the principal amount of the loans outstanding at any point in time, $66 (2007 − $44) as of January 3, 2009. The standby letter of credit has not been drawn upon. This credit enhancement allows the independent funding trust to provide favourable financing terms to the Company's independent franchisees. As well, each independent franchisee provides security to the independent funding trust for its obligations by way of a general security agreement. In the event that an independent franchisee defaults on its loan and the Company has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trust would assign the loan to the Company and draw upon this standby letter of credit. The Company has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit. This new alternative financing structure has been reviewed and the Company determined there were no material implications with respect to the consolidation of VIEs. In accordance with Canadian GAAP, the financial statements of the independent funding trust are not consolidated with those of the Company.

Standby Letter of Credit Standby letters of credit for the benefit of independent trusts with respect to the credit card receivables securitization program of *PC* Bank have been issued by major Canadian chartered banks. These standby letters 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. The Company has agreed to reimburse the issuing banks for any amount drawn on the standby letters of credit. The aggregate gross potential liability under these arrangements, which represents 9% (2007 – 9%) on a portion of the securitized credit card receivables amount, is approximately $116 (2007 – $89) (see note 9).

Lease Obligations In connection with historical dispositions of certain of its assets, the Company has assigned leases to third parties. The Company remains contingently liable for these lease obligations in the event any of the assignees are in default of their lease obligations. The estimated amount for minimum rent, which does not include other lease related expenses such as property tax and common area maintenance charges, is in aggregate $63 (2007 – $79).

Indemnification Provisions The Company from time to time enters into agreements in the normal course of its business, such as service and outsourcing arrangements and leases, in connection with business or asset acquisitions or dispositions. These agreements by their nature may provide for indemnification of counterparties. These indemnification provisions may be in connection with breaches of representation and warranty or with future claims for certain liabilities, including liabilities related to tax and environmental matters. The terms of these indemnification provisions vary in duration and may extend for an unlimited period of time. Given the nature of such indemnification provisions, the Company is unable to reasonably estimate its total maximum potential liability as certain indemnification provisions do not provide for a maximum potential amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, the Company has not made any significant payments in connection with these indemnification provisions.

Legal Proceedings In 2007, the Company was one of 17 defendants served with an action brought in the Superior Court of Ontario by certain beneficiaries of a multi-employer pension plan in which the Company's employees and those of its independent franchisees participate. In their claim against the employers and the trustees of the multi-employer pension plan, the plaintiffs claimed that assets of the multi-employer pension plan had been mismanaged and were seeking, among other demands, damages of $1 billion. The action was framed as a representative action on behalf of all the beneficiaries of the multi-employer pension plan. In 2008, the Company received confirmation that the actions against the Company and against the plan trustees have been dismissed. In addition to the civil proceedings described above, the trustees of this multi-employer pension plan are involved in proceedings brought by the Financial Services Commission of Ontario whereby it has been alleged that the trustees violated certain provisions of the Pensions Benefits Act (Ontario) in its management of the plan's funds. One of the trustees, an officer of Loblaw, is entitled to indemnification from the Company.

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

Note 28. Variable Interest Entities

Pursuant to AcG 15, the Company consolidates all VIEs for which it is the primary beneficiary. AcG 15 defines a VIE as an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. AcG 15 requires the primary beneficiary to consolidate VIEs and considers an entity to be the primary beneficiary of a VIE if it holds variable interests that expose it to a majority of the VIE's expected losses or that entitle it to receive a majority of the VIE's expected residual returns or both. The Company has identified the following significant VIEs:

Independent Franchisees The Company enters into various forms of franchise agreements that generally require the independent franchisee to purchase inventory from the Company and pay certain fees in exchange for services provided by the Company and for the right to use certain trademarks and licenses owned by the Company. Independent franchisees generally lease the land and building from the Company, and when eligible, may obtain financing through a structure involving independent trusts to facilitate the purchase of the majority of their inventory and fixed assets, consisting mainly of fixtures and equipment (see note 27). These trusts are administered by a major Canadian chartered bank. Under the terms of certain franchise agreements, the Company may also lease equipment to independent franchisees. Independent franchisees may also obtain financing through operating lines of credit with traditional financial institutions or through issuing preferred shares or notes payable to the Company. The Company monitors the financial condition of its independent franchisees and provides for estimated losses or write-downs on its accounts and notes receivable or investments when appropriate.

As at year end 2008, 154 (2007 – 137) of the Company's independent franchise stores met the criteria for a VIE and were consolidated pursuant to AcG 15.

Warehouse and Distribution Agreements The Company has warehouse and distribution agreements with third-party entities to provide to the Company distribution and warehousing services from dedicated facilities. The Company has no equity interest in these third-party entities; however, the terms of the agreement with the third-party entities are such that the Company has determined that the third-party entities meet the criteria for a VIE that requires consolidation by the Company. The impact of the consolidation of the warehouse and distribution entities was not material.

Accordingly, the Company has included the results of these independent franchisees and these third-party entities that provide distribution and warehousing services in its consolidated financial statements. The consolidation of these VIEs by the Company does not result in any change to its tax, legal or credit risks, nor does it result in the Company assuming any obligations of these third parties.

Independent Trusts The Company has also identified that it holds variable interests, by way of standby letters of credit in independent trusts which are used to securitize credit card receivables for *PC* Bank. In these securitizations, *PC* Bank sells a portion of its credit card receivables to the independent trusts in exchange for cash. Although these independent trusts have been identified as a VIE, it was determined that the Company is not the primary beneficiary and therefore these VIEs are not subject to consolidation by the Company. The Company's maximum exposure to loss as a result of its involvement with these independent trusts is disclosed in note 27.

Note 29. Related Party Transactions

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

Inventory Purchases Purchases of inventory from related parties for resale in the distribution network represented approximately 3% (2007 – 3%) of the cost of sales, selling and administrative expenses.

Cost Sharing Agreements Weston has entered into certain contracts with third parties for administrative and corporate services, including telecommunication services and information technology related matters on behalf of the Company. Through cost sharing agreements that have been established between the Company and Weston concerning these costs, the Company has agreed to be responsible to Weston for its proportionate share of the costs incurred on its behalf. Payments by the Company pursuant to these cost sharing agreements in 2008 were approximately $28 (2007 – $27).

Real Estate Matters The Company leases certain properties from an affiliate of Weston, namely office space for approximately $2 (2007 – $2).

Borrowings/Lending The Company, from time to time, may borrow funds from or may lend funds to Weston on a short term basis at short term market borrowing rates. There were no such amounts outstanding as at year end.

Income Tax Matters From time to time, the Company and Weston and its affiliates may make elections that are permitted or required under applicable income tax legislation with respect to affiliated corporations, and as a result, may enter into agreements in that regard. These elections and accompanying agreements did not have any material impact on the Company.

Management Agreements The Company has entered into an agreement with Weston to provide certain administrative services by each company to the other. The services to be provided under this agreement include those related to commodity management, pension and benefits, tax, medical, travel, information system, risk management, treasury and legal. Payments are made quarterly based on the actual costs of providing these services. Where services are provided on a joint basis for the benefit of the Company and Weston together, each party pays the appropriate proportion of such costs. Net payments under this agreement in 2008 were $13 (2007 − $9). Fees paid under this agreement are reviewed each year by the Audit Committee.

The Company, through Glenhuron, manages certain United States cash, cash equivalents and short term investments for wholly owned non-Canadian subsidiaries of Weston and management fees earned are based on market rates. As at January 3, 2009, Glenhuron had an agreement with a subsidiary of Weston for the administration of a loan portfolio of third-party long term loans receivable. Subsequent to year end the subsidiary of Weston sold the business to which this loan portfolio related, and as a result, the agreement is now between Glenhuron and a third party and is no longer a related party transaction.

Supply Agreement The Company entered into a long term supply agreement with a subsidiary of Weston and in exchange received cash proceeds of $65 which will be recognized into income over the term of the agreement as goods are purchased, of which $1 was recognized in 2008. As at January 3, 2009, $8 was included in accounts payable and accrued liabilities and $56 in other liabilities. Certain assets and liabilities of a wholly-owned subsidiary were subsequently sold by Weston.

Note 30. Disposition of Food Service Business

In 2008, the Company disposed of its food service business for proceeds of $36 which resulted in a pre-tax gain of $22 in operating income ($16, net of tax).

Note 31. Other Information

Segment Information The only reportable operating segment is merchandising, which primarily includes food, general merchandise and drugstore products and services. All sales to external parties were generated in Canada and all fixed assets and goodwill were attributable to Canadian operations.