

Management's Discussion and Analysis

23	Forward-Looking Statements	36	Risks and Risk Management
23	Overview		Operating Risks and Risk Management
23	Vision and Strategies		Industry
24	Key Performance Indicators		Competitive Environment
24	Overall Financial Performance		Food Safety
	Results of Operations		Labour
	Sales		Third Party Service Providers
	Operating Income		Pension, Post-Retirement and Post-Employment Benefits
	Interest Expense		Real Estate
	Income Taxes		Seasonality
	Net Earnings		Leadership Development and Employee Retention
	Financial Condition		Utility Prices
	Financial Ratios		Insurance
	Common Dividends		Environmental, Health and Safety
	Outstanding Share Capital		Legal, Taxation and Accounting
28	Liquidity and Capital Resources		Holding Company Structure
	Cash Flows		Financial Risks and Risk Management
	Cash Flows from Operating Activities		Financial Derivative Instruments
	Cash Flows used in Investing Activities		Foreign Currency Exchange Rate
	Cash Flows from Financing Activities		Interest Rate
	Sources of Liquidity		Common Stock Market Price
	Contractual Obligations		Electricity Prices
	Off-Balance Sheet Arrangements		Counterparty
	Guarantees		Credit
	Credit Card Receivables	42	Related Party Transactions
	Standby Letter of Credit to an Independent Trust	42	Accounting Standards
	Financial Derivative Instruments		Accounting Standards Implemented in 2003
33	Selected Consolidated Annual Information		Future Accounting Standards
35	Quarterly Results of Operations	43	Outlook
	Results by Quarter	44	Non-GAAP Financial Measures
	Fourth Quarter Results	44	Additional Information

The following Management's Discussion and Analysis ("MD&A") for Loblaw Companies Limited and its subsidiaries (collectively, the "Company" or "Loblaw") should be read in conjunction with the consolidated financial statements and the accompanying notes on pages 45 to 63 of this Annual Report. The consolidated financial statements and the accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars. A glossary of terms used throughout this Annual Report can be found on page 66. The information in this MD&A is current to March 9, 2004, unless otherwise noted.

FORWARD-LOOKING STATEMENTS

This Annual Report, including this MD&A, contains certain forward-looking statements. Such statements relate to, among other things, sales growth, expansion and growth of the Company's business, future capital expenditures and the Company's business strategy. Forward-looking statements are subject to inherent uncertainties and risks including but not limited to: general industry and economic conditions, changes in the Company's relationships with its suppliers, pricing pressures and other competitive factors, the availability and costs of fuels and utilities, the results of the Company's ongoing efforts to improve cost effectiveness, the rates of return on the Company's pension plan assets, changes in regulatory requirements affecting the Company's business and the availability and terms of financing. Other risks are outlined in the Risks and Risk Management section of this MD&A. Consequently, actual results and events may vary significantly from those included in, contemplated by or implied by such statements. In evaluating forward-looking statements, readers should specifically consider the various factors which could cause actual events or results to differ materially from such forward-looking statements.

OVERVIEW

Loblaw, a subsidiary of George Weston Limited, is Canada's largest food distributor and is expanding into certain non-food categories with the objective of providing consumers across the country with the best in one-stop shopping for everyday household needs. The Company has supplied the Canadian market with innovative products and services for more than 45 years.

VISION AND STRATEGIES

Loblaw strives to provide superior returns to its shareholders through a combination of common share price appreciation and dividends and to maximize its market share and operational flexibility. Loblaw seeks long term, stable growth while taking prudent operating risks supported by a strong balance sheet.

Loblaw believes that to be successful it must provide consumers with the best in one-stop shopping and continually introduce innovative products and convenient services that meet their everyday household needs.

Looking ahead, Loblaw's long term goal is to be known for:

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

The Company employs various operating and financial strategies, some of which may carry some short term risk, in order to achieve its long term objectives.

The Company's operating strategies include:

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

The Company's financial strategies include:

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

The Company believes that if it successfully implements and executes its various operating and financial strategies and continues to focus on food while serving the consumer's everyday household needs, it will be well positioned to continue to provide sustainable superior returns to its shareholders.

KEY PERFORMANCE INDICATORS

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

Key Performance Indicators

	2003 (53 Weeks)	2002 (52 Weeks)
Sales growth (1)	9.3%	7.4%
Basic net earnings per common share growth (2)	16.3%	29.4%
Net debt to equity ratio (3)	.78:1	.71:1
Return on average shareholders' equity	19.1%	18.9%

- (1) Sales growth for 2003 includes a 2% positive impact from the 53rd week.
 (2) Basic net earnings per common share in 2002 increased by 20.0% when compared to 2001 basic earnings per common share before goodwill charges.
 (3) See Non-GAAP Financial Measures on page 44.

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

OVERALL FINANCIAL PERFORMANCE

Loblaw enjoyed another strong year in 2003, realizing basic net earnings per common share of \$3.07, a 16.3% improvement over last year. For the 53 week year ended January 3, 2004, total sales increased 9.3% to \$25.2 billion and operating income increased 12.6% to \$1,467 million as compared to the 52 week year in 2002. The 52 week reporting cycle followed by the Company periodically necessitates a 53 week fiscal year, which occurred in 2003.

These results were attained by the Company while operating in a highly competitive industry. The retail industry continues to change, with the

distinction between traditional grocer, mass merchant and discount retailer blurring, as each expands into the areas of food and non-food to drive sales growth and to meet changing consumer needs. New products have been, and continue to be developed in response to varying nutritional and dietary preferences. In addition, food safety has become a priority for food retailers and consumers alike. The Company monitors and responds to these changing forces while moving ahead in the execution of its operating strategies.

Results of Operations

Operating Results

(\$ millions except where otherwise indicated)	2003 (53 weeks)	2002 (52 weeks)	Change
Sales	\$ 25,220	\$ 23,082	9.3%
Operating income	\$ 1,467	\$ 1,303	12.6%
Operating margin	5.8%	5.6%	
EBITDA (1)	\$ 1,860	\$ 1,657	12.3%
EBITDA margin (1)	7.4%	7.2%	

(1) See Non-GAAP Financial Measures on page 44.

Sales Sales increased 9.3%, to \$25.2 billion from \$23.1 billion in 2002. All regions across the country experienced sales growth, inclusive of the effects of the Company's investment in lower pricing and the delay of new store construction in Ontario pending the completion of negotiations with several unions during the third quarter.

The increase in sales resulted from:

- sales for the 53rd week, which accounted for 2% of the sales growth,
- 4.6% same-store sales growth on an equivalent 53 week basis, some of which related to the renovation or minor expansion of 87 stores,
- an increase in non-food sales at approximately twice the rate of food sales at the retail level, and
- an increase of 4.7% in net retail square footage related to the opening of 63 new corporate and franchised stores and the closure of 61 stores. The weighted average net retail square footage increased 5.6% and exceeds the absolute increase due to the timing of the store activity. In 2003, the increase in the weighted average net retail square footage reflects the full year benefit of the 1.6 million of net retail square footage added in the latter half of 2002.

National food price inflation remained low throughout 2003. Warehouse case movement and retail item count, which are indicators of volume, increased over last year.

Control label retail sales reached \$5.6 billion in 2003 while penetration, measured as control label retail sales as a percentage of the Company's retail sales, increased to 24.2% from 23.6% in 2002. The Company introduced approximately 1,500 new control label products in 2003, including 500 new PC general merchandise products. The Company's control label program, which includes *President's Choice*, *PC*, *President's Choice Organics*, *no name*, *Club Pack*, *GREEN*, *TOO GOOD TO BE TRUE*, *EXACT* and *Life@Home*, provides additional sales growth potential.

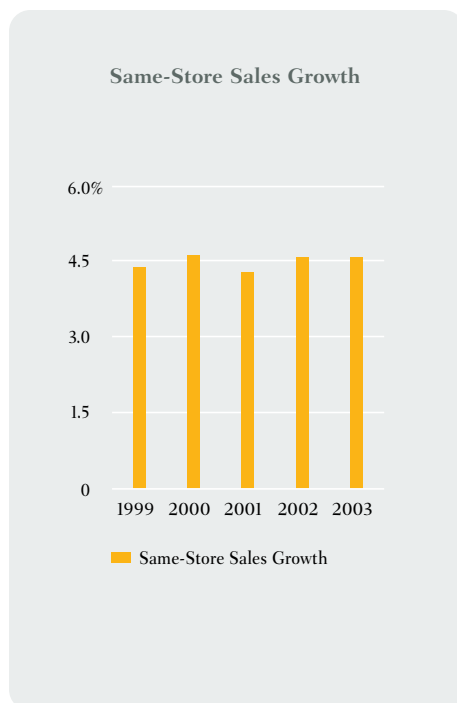
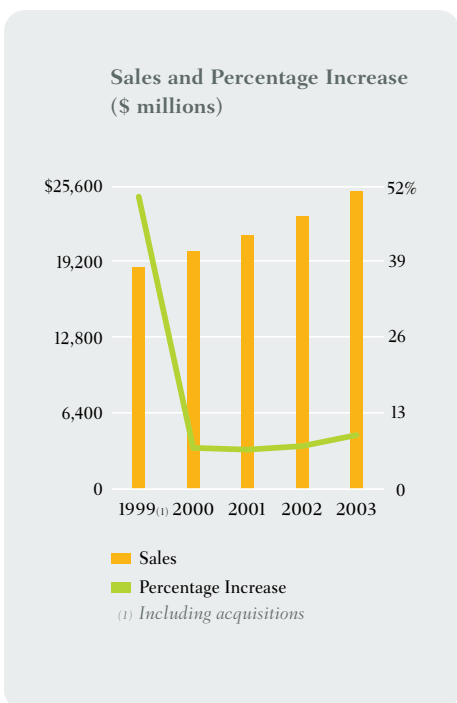
Loblaw expects that the following initiatives, coupled with continued pricing investment where appropriate, will generate continued sales growth over each of the next few years:

- continued capital investment in its store network including the 2004 planned opening, expansion or renovation of more than 160 corporate and franchised stores across Canada,
- expansion of non-food offerings, and
- ongoing introduction of new control label products.

Operating Income Operating income in 2003 increased \$164 million, or 12.6%, to \$1.5 billion. Operating margin improved to 5.8% from 5.6% in 2002. EBITDA margin (see Non-GAAP Financial Measures on page 44) improved to 7.4% from 7.2% in 2002 and compares favourably with North American industry peers. All regions realized earnings improvements over 2002.

Gross margins in 2003 remained relatively flat in comparison to 2002. The investment in lower selling prices was partially offset by sales mix, reduced product costs and improvement in inventory shrinkage.

In 2003, operating income included a \$25 million charge relating to the voluntary early retirement offer made to Ontario employees affected by the new labour arrangement for *The Real Canadian Superstore* ("RCSS"). As part of a long term labour strategy to establish a competitive framework for the RCSS concept in Ontario, certain employees received a voluntary early retirement offer. At year end, 541 employees had accepted the voluntary early retirement offer, resulting in the charge to operating income. Subsequent to year end, an additional 94 employees had accepted the voluntary early retirement offer, which will result in an additional charge of \$2 million to operating income in the first quarter of fiscal 2004.



Operating income for 2003 was further impacted by the following:

- an increase in net defined pension and other benefit plans expense of approximately \$33 million over 2002,
- a \$4 million decrease over 2002 related to the labour disruption in Newfoundland and Labrador,
- an increase in stock-based compensation cost of \$41 million over last year, offset by an increase in the equity forwards gain of \$59 million, and
- the incremental 53rd week in fiscal year 2003, which contributed positively to operating income.

Operating margins improved from the continued focus on administrative cost control and operating efficiencies, including a focus on controlling retail labour management, and the maturing of new stores opened during the past few years.

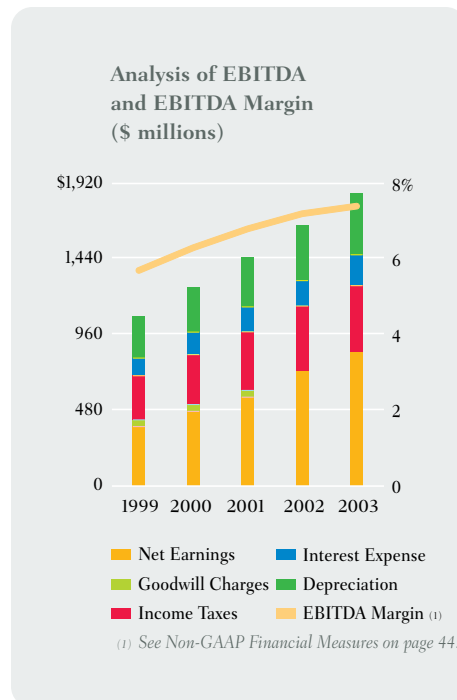
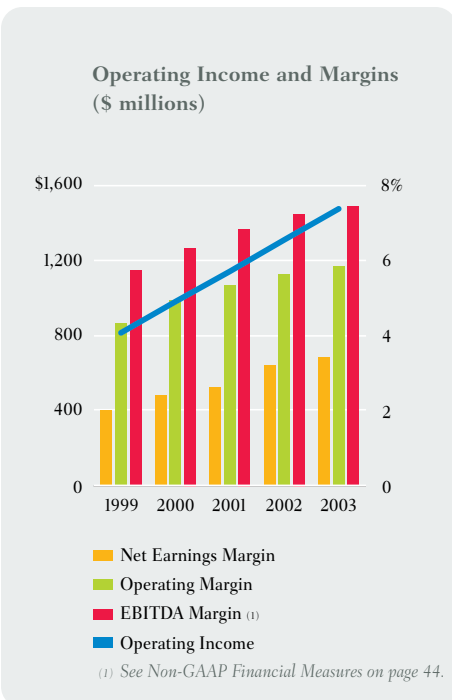
The Company expects operating income to grow at rates slightly below those of the past several years. The investment in pricing is expected to continue, offset by a continued focus on cost initiatives, as well as the following:

- reduction in the variations of store models across the country, where appropriate, to obtain a more consistent and cost effective merchandising thrust,

- optimization of the Company's warehouse and distribution network, information systems and procurement functions, and
- continued rollout of *President's Choice Financial* services and products and *President's Choice Financial* MasterCard as well as personal auto and home insurance offered under the *PC Financial* Insurance brand, which was introduced in the fall of 2003 to selected markets, with an expanded rollout planned throughout 2004 and 2005.

Interest Expense Interest expense consists primarily of interest on short and long term debt, the amortization of deferred financing costs, the interest impact of interest rate swaps, cross currency basis swaps and equity forwards and interest income earned on short term investments. In 2003, total interest expense increased \$35 million, or 21.7%, to \$196 million from \$161 million in 2002 as a result of the impact of the 53rd week and an increase in average long term and short term borrowing levels.

Net short term interest expense increased to \$5 million, up \$22 million compared to 2002 net short term interest income of \$17 million. This increase resulted primarily from a decrease in average short term United States investment rates, which was partially



offset by the positive impact of interest rate swaps and cross currency basis swaps included in other long term interest, and higher average short term Canadian borrowing levels.

The Company capitalizes interest incurred on debt related to real estate properties under development. During 2003, \$33 million (2002 – \$30 million) of interest expense was capitalized to fixed assets.

Interest on long term debt increased \$23 million to \$269 million in 2003 as a result of an increase in average borrowing levels and the impact of the 53rd week. Other long term interest includes the net positive effect of the Company's interest rate swaps, cross currency basis swaps and equity forwards of \$45 million (2002 – \$38 million). The 2003 weighted average interest rate of fixed long term debt (excluding capital lease obligations) was 6.9% (2002 – 7.0%) and the weighted average term to maturity was 17 years (2002 – 16 years). The 2004 interest expense is expected to increase due to expected higher average net borrowing levels.

Analysis of Long Term Financing Costs

(\$ millions except where otherwise indicated)	2003 (53 Weeks)	2002 (52 weeks)
Total long term debt at year end (including portion due within one year)	\$ 4,062	\$ 3,526
Interest on long term debt	\$ 269	\$ 246
Weighted average interest rate of fixed long term debt	6.9%	7.0%
Interest coverage ratio	7.5:1	8.1:1

Income Taxes The Company's effective income tax rate in 2003 decreased to 33.5% from 36.3% in 2002, mainly as a result of declining Canadian federal income tax rates and the income tax impact of fair valuing the equity forwards. The decrease was partially offset by an adjustment to future income tax balances caused by the increase in corporate income tax rates by the Ontario provincial government. In 2003, the Ontario government enacted a 1.5% increase in tax rates from 12.5% in 2003 to 14% in 2004, and repealed the scheduled 2004 to 2006 income tax rate reductions of 1.5% per annum, resulting in a \$7 million charge to future income tax expense.

The effective income tax rate for 2004 is expected to be reasonably consistent with that of 2003. However, the effective income tax rate may differ if the

allocation of taxable income across the various tax jurisdictions changes.

Net Earnings Net earnings increased \$117 million, or 16.1%, to \$845 million from \$728 million in 2002 due to the factors described above. Basic net earnings per common share increased 43 cents, or 16.3%, to \$3.07 from \$2.64 in 2002.

Financial Condition

Financial Ratios In 2003, the Company maintained a consistent financial position as measured by its financial ratios and balance sheet. This position is expected to continue in 2004. The Company's net debt to equity ratio (see Non-GAAP Financial Measures on page 44) continued to be within the Company's internal guideline of less than 1:1. The 2003 net debt to equity ratio of .78:1 compared to the 2002 ratio of .71:1.

Cash flows from operating activities cover a large portion of the Company's funding requirements. In 2003, funding requirements resulted primarily from:

- the capital investment program,
- defined benefit pension plan contributions,
- non-cash working capital requirements, resulting principally from a reduction in accounts payable outstanding at year end and an increase in non-food inventory,
- purchases of the Company's common shares pursuant to its Normal Course Issuer Bid ("NCIB"), and
- dividends paid on its common shares.

Over one half of the increase in the net debt to equity ratio resulted from the decrease in United States dollar cash, cash equivalents and short term investments due to the appreciation of the Canadian dollar. In 2003, shareholders' equity increased \$608 million, or 14.7%, to \$4.7 billion. The 2004 net debt to equity ratio is expected to improve slightly as retained earnings growth is expected to exceed debt financing requirements. The interest coverage ratio declined to 7.5 times compared to 8.1 times in 2002 due mainly to higher interest expense.

The working capital position was relatively consistent year over year. The Company's 2003 return on average total assets (see Non-GAAP Financial Measures on page 44) was 13.9% compared to 13.7% in 2002. The return on average total assets continued to increase after accounting for the significant capital investment activity of the past few years. The Company's 2003 return on average shareholders' equity was 19.1%

compared to the 2002 return of 18.9%. The five year average return on shareholders' equity was 17.2% (2002 – 16.0%).

Common Dividends The Company's dividend policy is to maintain a dividend payment equal to approximately 20% to 25% of the prior year's normalized basic net earnings per common share, giving consideration to the year end cash position, future cash flow requirements and investment opportunities. During 2003, the Company's Board of Directors (the "Board") declared quarterly dividends of 15 cents per common share. The annualized dividend per common share of 60 cents was equal to 22.7% of the 2002 basic net earnings per common share, which was consistent with the Company's dividend policy. Subsequent to year end, the Board declared a quarterly dividend of 19 cents per common share, payable April 1, 2004.

Outstanding Share Capital The Company's outstanding share capital is comprised of common shares. An unlimited number of common shares is authorized and 274,829,014 common shares were outstanding at year end. Subsequent to year end, the Company purchased for cancellation 132,400 of its common shares for \$8 million, pursuant to its NCIB. Further information on the Company's outstanding share capital is provided in Note 14 to the consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

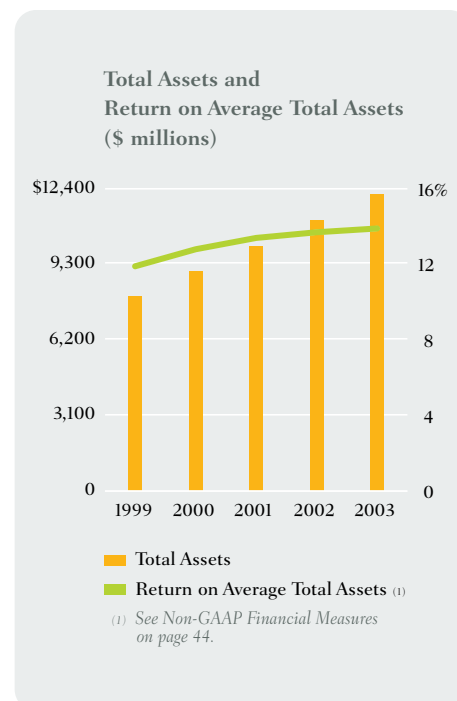
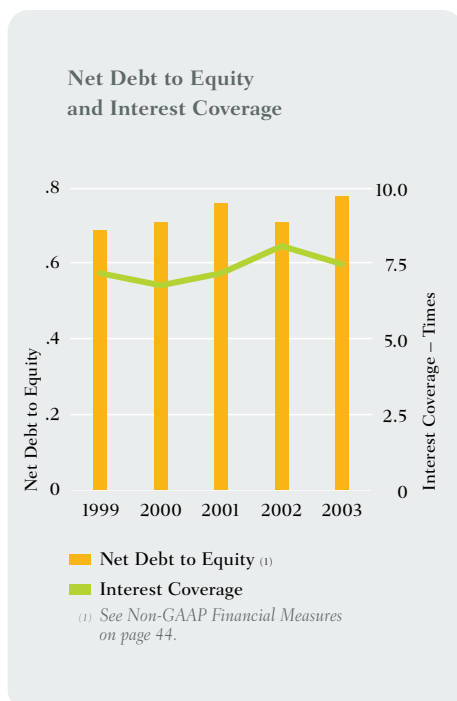
Cash Flows

Major Cash Flow Components

(\$ millions)	2003 (53 Weeks)	2002 (52 Weeks)	Change
Cash flows from operating activities	\$ 1,032	\$ 998	3%
Cash flows used in investing activities	\$ (1,448)	\$ (995)	46%
Cash flows from financing activities	\$ 386	\$ 226	71%

Cash Flows from Operating Activities 2003 cash flows from operating activities increased to \$1,032 million from \$998 million in 2002. The increase resulted mainly from improved net earnings before depreciation partially offset by an increased funding requirement from non-cash working capital, primarily a reduction in total accounts payable outstanding at year end and an increase in non-food inventory, as well as an increase in defined benefit pension plan contributions.

The 2004 cash flows from operating activities are expected to increase at a rate consistent with net earnings growth and are expected to fund a large



portion of the Company's anticipated 2004 funding requirements, including its planned capital investment activity.

Cash Flows used in Investing Activities 2003 cash flows used in investing activities were \$1,448 million compared to \$995 million in 2002.

Capital investment amounted to \$1.3 billion (2002 – \$1.1 billion), reflecting the Company's continuing commitment to maintain and renew its asset base and invest for growth. Approximately 80% (2002 – 80%) of the capital investment was for new stores, renovations or expansions. Other capital investments were for the warehouse and distribution network, information systems and other infrastructure required to support store growth. The Company's continued capital investment activity benefited all regions in varying degrees and strengthened its existing store base. Some of the new larger stores replaced older, smaller, less efficient stores that did not offer the broad range of products and services demanded by today's consumer.

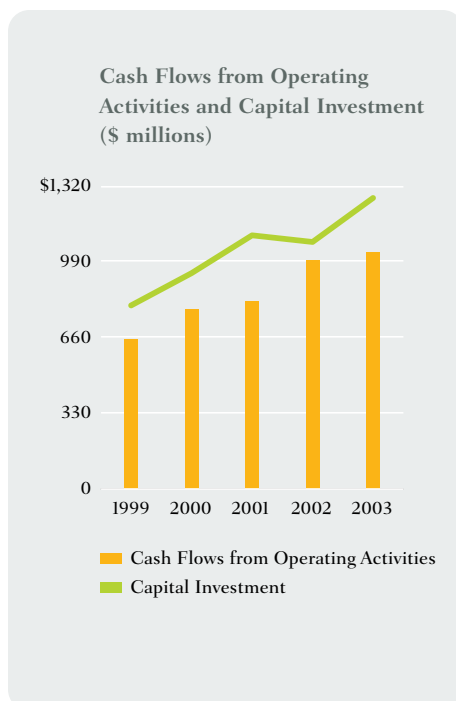
The 2003 corporate and franchised store capital investment program, which includes the impact of store openings and closures, resulted in an increase in net retail square footage of 4.7% over 2002. During 2003, 63 (2002 – 75) new corporate and franchised

stores were opened and 87 (2002 – 84) underwent renovation or minor expansion. The 63 new stores added 1.9 million square feet of retail space (2002 – 2.6 million), net of 61 (2002 – 58) store closures. The 2003 average corporate store size increased 3% to 50,500 square feet (2002 – 48,900) and the average franchised store size increased 4% to 24,400 square feet (2002 – 23,400). The increase in net retail square footage in 2003 was impacted by a delay in new store construction in the third quarter pending the completion of negotiations with several unions.

The Company expects to continue its capital investment pace in 2004 which is estimated at \$1.4 billion. At year end, the Company had committed approximately \$370 million with respect to capital investment projects and the purchase of real property. In 2004, the Company plans to open, expand or renovate more than 160 corporate and franchised stores throughout Canada in a geographic investment pattern similar to that of last year. This is expected to result in a net increase of approximately 3.2 million square feet, which should generate additional sales growth.

Capital Investment and Store Activity

	2003 (53 Weeks)	2002 (52 Weeks)	Change
Capital investment (\$ millions)	\$ 1,271	\$ 1,079	
Retail square footage (in millions)	42.3	40.4	5%
Average store size (sq. ft.)			
Corporate	50,500	48,900	3%
Franchised	24,400	23,400	4%



Cash Flows from Financing Activities 2003 cash flows from financing activities were \$386 million compared to \$226 million in 2002. During 2003, the Company issued \$655 million of Medium Term Notes ("MTN"). In the first quarter of 2003, the Company issued \$200 million of 6.54% MTN due 2033 under its 2001 Base Shelf Prospectus. The remaining balance of \$500 million on the 2001 Base Shelf Prospectus expired on May 24, 2003. During the second quarter of 2003, Loblaw filed a Base Shelf Prospectus which permits the Company to issue an aggregate principal amount of up to \$1.0 billion of MTN. Under this new 2003 Base Shelf Prospectus, Loblaw issued \$200 million of 6.05% MTN due 2034 during the

second quarter, \$55 million of 5.86% MTN due 2043 during the third quarter and \$200 million of 5.40% MTN due 2013 during the fourth quarter. The Company also repaid its \$100 million 6.60% MTN which matured during the second quarter. Subsequent to year end, the Company issued \$200 million of 6.15% MTN due 2035, resulting in \$345 million of MTN remaining available for issue.

The Company intends to renew its NCIB to purchase on the Toronto Stock Exchange or enter into equity forwards to purchase up to 5% of its common shares outstanding. The Company believes that the market price of its common shares could be such that their purchase may be an attractive and appropriate use of funds in light of potential benefits to remaining shareholders. During 2003, the Company purchased for cancellation 1,282,900 (2002 – 309,000) of its common shares for \$76 million (2002 – \$17 million) and entered into equity forwards to buy 1,103,500 (2002 – 390,100) of its common shares, pursuant to its NCIB.

Subsequent to year end, the Company purchased for cancellation 132,400 of its common shares for \$8 million, pursuant to its NCIB.

Medium Term Notes Program

(\$ millions)	Base Shelf Prospectus dated	
	May 12, 2003	May 24, 2001
In 2001 issued MTN of		\$ 600
In 2002 issued MTN of		200
In 2003 issued MTN of	\$ 455	200
Total issued against		
Base Shelf Prospectus	\$ 455	\$ 1,000
MTN issue expired		\$ 500
MTN issue limit	\$ 1,000	\$ 1,500
MTN available at		
year end 2003 (1)	\$ 545	

(1) Subsequent to year end, an additional \$200 million of MTN was issued, resulting in the Company having \$345 million of MTN available for issue.

Sources of Liquidity

The Company can obtain its short term financing through a combination of cash generated from operating activities, cash, cash equivalents, short term investments, bank indebtedness and its commercial paper program. The Company's cash, cash equivalents and short term investments, as well as \$845 million in uncommitted operating lines of credit extended by

several banks, support its \$1.2 billion commercial paper program. The Company's commercial paper borrowings generally mature less than three months from the date of issuance although the terms can be up to 364 days.

Securitization of credit card receivables provides President's Choice Bank ("PC Bank"), a wholly owned subsidiary of the Company, with an additional source of funds for the operation of its business. Under PC Bank's securitization program, a portion of the total interest in the credit card receivables is sold to an independent trust. PC Bank securitized \$202 million of credit card receivables during 2003 (2002 – \$244 million). Information on PC Bank's credit card receivables and securitization is provided in Note 6 to the consolidated financial statements and in the Off-Balance Sheet Arrangements section of this MD&A.

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

In the normal course of business, the Company enters into certain arrangements such as providing comfort letters to third party lenders in connection with financing activities of certain franchisees with no recourse liability to the Company. In addition, the Company establishes standby letters of credit used in connection with certain obligations related to the financing program for its franchisees, securitization of PC Bank's credit card receivables, real estate transactions and benefit and insurance programs. At year end, the aggregate gross potential liability related to the Company's standby letters of credit was approximately \$201 million (2002 – \$179 million) against which the Company had \$293 million (2002 – \$256 million) in credit facilities available to draw on.

The Company has the following sources from which it can fund its 2004 cash requirements: cash, cash equivalents, short term investments, cash flows generated from operating activities, commercial paper program, MTN program and additional credit card receivable securitizations from future growth in the PC Bank credit card operations. In 2004, the Company anticipates no difficulty in obtaining external financing in view of its current credit ratings, its past experience in the capital markets and general market conditions.

Credit Ratings (Canadian Standards)

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

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

Contractual Obligations

The following illustrates certain of the Company's significant contractual obligations and discusses other obligations as at January 3, 2004:

Summary of Contractual Obligations

(\$ millions)	Payments due by year						Total
	2004	2005	2006	2007	2008	Thereafter	
Long term debt							
(including capital lease obligations)	\$ 106	\$ 215	\$ 129	\$ 5	\$ 393	\$ 3,214	\$ 4,062
Operating leases (1)	159	147	132	117	103	626	1,284
Contracts for purchases of property and capital investment projects (2)	311	53	6				370
Total contractual obligations (3)	\$ 576	\$ 415	\$ 267	\$ 122	\$ 496	\$ 3,840	\$ 5,716

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

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

(3) Financial Derivative Instruments are discussed in Note 16 to the consolidated financial statements.

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

In connection with the purchase of Provigo, the Company committed to support Quebec small business and farming communities as follows: for a period of seven years commencing in 1999 and, subject to business dispositions, the aggregate amount of goods and services purchased from Quebec suppliers in the normal course of business will not fall below those of 1998. The Company has fulfilled its commitment in each year from 1999 to and including 2003.

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

- future contributions to the Company's pension plans depend on the funded status of each plan, which may vary based on the results of actuarial valuations and on the investment performance of the pension plans' assets,

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

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

At any given time, the Company will have significant commitments with respect to purchases of goods and services in the normal course of business, such as the purchase of inventory, often in the form of outstanding purchase orders or invoices. Although a small number of these contracts are long term, such as certain arrangements for warehousing and distribution, they are generally short term in nature and are settled in accordance with normal trade terms.

Off-Balance Sheet Arrangements

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

- guarantees,
- the securitization of a portion of PC Bank's credit card receivables through an independent trust,
- a standby letter of credit to an independent trust which provides loans to the Company's franchisees for their purchase of inventory and fixed assets, and
- financial derivative instruments in the form of interest rate swaps and an electricity forward contract.

Guarantees The Company has entered into various guarantee agreements. For a detailed description of the Company's guarantees, see Note 17 to the consolidated financial statements.

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

When the Company sells credit card receivables to the trust it no longer has access to the receivables but continues to maintain credit card customer account relationships and servicing responsibilities. The Company does not receive an explicit servicing fee from the trust for its servicing responsibilities. When a sale occurs, PC Bank may retain subordinated interests consisting of rights to future cash flows after

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

As at January 3, 2004, the total amount of securitized credit card receivables outstanding which PC Bank continues to service was \$558 million and the associated retained interests amounted to \$9 million. The standby letter of credit supporting these securitized receivables amounted to approximately \$84 million. During 2003, PC Bank received income of \$53 million from the independent trust relating to the securitized credit card receivables.

In the absence of securitization, the Company would be required to raise alternative financing by issuing debt or equity instruments. Further disclosure regarding this arrangement is provided in Notes 6 and 17 to the consolidated financial statements.

Standby Letter of Credit to an Independent Trust

Franchisees of the Company may obtain financing from an independent trust that was created to provide loans to franchisees to facilitate their purchase of inventory and fixed assets, mainly fixturing and equipment. The trust's activities are financed through the issuance of short term asset-backed notes to third party investors. The total amount of loans outstanding to the Company's franchisees as of January 3, 2004 was \$343 million. A standby letter of credit has been provided for the benefit of the trust by a major Canadian bank for approximately 10% of the principal

amount of the loans or \$35 million as a form of credit enhancement which, in turn, allows the trust to provide favourable financing terms to the Company's franchisees. In the event that a franchisee defaults on its loan and the Company has not, within a specified time period, (i) assumed the loan, (ii) purchased the assets of the defaulting franchisee over which security has been taken by the trust, or (iii) provided for an increase of the amount of the standby letter of credit by the outstanding amount under the loan, the trust may draw upon this standby letter of credit or realize on its security. The Company has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

In accordance with current accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"), the financial statements of the trust are not consolidated with those of the Company. The discussion in the Future Accounting Standards section of this MD&A concerning Accounting Guideline 15, "*Consolidation of Variable Interest Entities*", includes a discussion concerning the possible application of this accounting guideline to the trust.

Financial Derivative Instruments The Company uses off-balance sheet financial derivative instruments to manage its exposure to changes in interest rates and Ontario electricity prices. For a detailed description of the Company's off-balance sheet financial derivative instruments and the related accounting policies, see Notes 1 and 16 to the consolidated financial statements.

SELECTED CONSOLIDATED ANNUAL INFORMATION

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

Selected Consolidated Annual Information

(\$ millions except where otherwise indicated)	2003 (53 Weeks)	2002 (52 Weeks)	2001 (52 Weeks)
Sales	\$ 25,220	\$ 23,082	\$ 21,486
Net earnings	\$ 845	\$ 728	\$ 563
Net earnings per common share (\$)			
Basic	\$ 3.07	\$ 2.64	\$ 2.04
Diluted	\$ 3.05	\$ 2.62	\$ 2.03
Total assets	\$ 12,177	\$ 11,110	\$ 10,025
Long term debt (excluding amount due within one year)	\$ 3,956	\$ 3,420	\$ 3,333
Dividends declared per common share (\$)	\$.60	\$.48	\$.40

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

Sales in 2002 increased 7.4% to \$23.1 billion from \$21.5 billion in 2001. All regions experienced sales growth overcoming the effects of intensified lower pricing activity in Quebec, the effects of strikes in the *Fortinos* business and the RCSS business in Saskatchewan and unseasonable weather in Ontario and Quebec. An increase in same-store sales and net retail square footage also contributed to the increase in sales.

Excluding the impact of the 53rd week in 2003, sales growth has been reasonably consistent over the past two years.

Sales may be influenced by a number of factors including changes in net retail square footage, same-store sales, inflation, expansion into new services and/or departments and the activities of competitors. Over the past two years, the Company has invested more than \$1 billion in capital annually, resulting in an increase in net retail square footage of approximately 4.5 million square feet or 12%. In addition to the net increase in retail square footage, corporate store sales per average square foot rose from \$566 in 2001 to \$591 in 2003. The amount of new net retail square footage and the timing of the

store openings and closures within any given year may vary; however, there have not been significant variances in the annual increase in weighted average retail square footage. The weighted average increase in net retail square footage was 5.6% in 2003 and 6.2% in 2002.

Growth in same-store sales was 4.6% in 2002 and 4.6% in 2003 on an equivalent 53 week basis. Inflation over this period has been low. In addition, in its pursuit of improving its value proposition Loblaw has invested in lower prices establishing price leadership in specific markets. Consistent with its strategy of focusing on food but serving the consumer's everyday household needs, the Company has also expanded its non-food offerings over this period, which has resulted in non-food retail sales growth at approximately twice the rate of food retail sales growth in 2003. Competitor activity varies by market. Any negative effect on the Company's sales from this activity may be caused by increased price competition and the addition of retail square footage by competitors in markets in which Loblaw operates. While the impact of competitor activity has varied within markets over the past two years, it has not caused significant variations in overall sales growth.

In 2003, net earnings increased \$117 million or 16.1% and basic net earnings per common share increased 43 cents or 16.3% over 2002. This improvement included an increase of 12.6% in operating income, offset by a 21.7% increase in interest expense. The effective income tax rate declined by 2.8%.

In 2002, net earnings increased \$165 million or 29.3% and basic net earnings per common share increased 60 cents or 29.4% over 2001. The improvement was due to a change in accounting standards that became effective in 2002 that no longer required the amortization of goodwill, an increase in operating income of 14.7% over 2001 and a 3.4% decline in the effective income tax rate.

Operating income in 2003 has shown improvement year over year despite absorbing a \$25 million charge from the voluntary early retirement offer accepted by employees affected by the new RCSS labour arrangement. The increase in certain expenses such as pension, post-retirement and post-employment benefits and stock-based compensation has been offset by reduced retail operating costs and gains from the fair value impact of the equity forwards. Initiatives

to reduce retail operating costs have been successful in the areas of inventory shrinkage and labour efficiency, and complement similar cost minimizing initiatives within the warehouse and distribution network and administrative functions. The capital investment program resulted in new, larger stores replacing older, smaller stores, which dampened short term earnings growth as sales developed and leveraged lower variable costs off the new fixed cost base. Net interest expense has increased, reflecting the increased borrowing levels required to support the Company's funding requirements. Statutory income tax rate reductions, the income tax impact of fair valuing the equity forwards and the impact from the discontinuance of goodwill amortization in 2002 have all contributed to the declining effective income tax rate.

Total assets of the Company have increased with operating income growth as evidenced by the increase in the return on average total assets. Fixed assets have grown as a result of the capital investment program. Inventory level growth parallels that of the growth in new stores and the necessary supply chain inventory investment to support new stores. Inventory turns of non-food are lower than those of food, resulting in somewhat higher aggregate levels of investment in inventory as that business is developed. Accounts receivable from franchised stores, associated stores and independent accounts have grown consistently with that business. A substantial portion of credit card receivables is sold to an independent trust and the unsecuritized balance has increased by \$99 million since 2001.

Although cash flows from operating activities have covered a large portion of the funding requirements for the Company, external funding was also required. The amount of fixed rate debt issued in any given year is intended to continue to preserve the Company's liquidity needs.

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

During the two year period, the Company implemented two accounting standards that impacted the financial information presented. During the first quarter

of 2002, the Company prospectively implemented Section 3062, “*Goodwill and Other Intangible Assets*”, which no longer requires the amortization of goodwill but does require the carrying value of goodwill to be tested annually, at a minimum, for impairment. If this standard had been applied to 2001 results, net earnings would have increased by \$43 million and basic net earnings per common share would have increased by 16 cents. Also during the first quarter of 2002, the Company implemented Section 3870,

“*Stock-based Compensation and Other Stock-based Payments*”, retroactively without restatement of the prior period consolidated financial statements. As a result of implementing Section 3870, costs related to employee stock options that allow for settlement in shares or in the share appreciation value in cash at the option of the employee are recognized as compensation cost in operating income. This compensation cost is partially offset by the fluctuation in the fair value of the equity forwards.

QUARTERLY RESULTS OF OPERATIONS

Results by Quarter

The 52 week reporting cycle followed by the Company is divided into four quarters of 12 weeks each except for the third quarter which is 16 weeks in duration. When a fiscal year such as 2003 contains 53 weeks, the fourth quarter is 13 weeks in duration. The following is a summary of selected consolidated financial information derived from the Company’s unaudited interim consolidated financial statements for each of the eight most recently completed quarters. This information was prepared in accordance with Canadian GAAP and is reported in Canadian dollars.

Summary of Quarterly Results (unaudited)

(\$ millions except where otherwise indicated)		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total (audited)
Sales	2003	\$ 5,376	\$ 5,798	\$ 7,673	\$ 6,373	\$ 25,220
	2002	\$ 4,951	\$ 5,308	\$ 7,178	\$ 5,645	\$ 23,082
Net earnings	2003	\$ 151	\$ 182	\$ 218	\$ 294	\$ 845
	2002	\$ 126	\$ 149	\$ 188	\$ 265	\$ 728
Net earnings per common share						
Basic (\$)	2003	\$.55	\$.66	\$.79	\$ 1.07	\$ 3.07
	2002	\$.46	\$.54	\$.68	\$.96	\$ 2.64
Diluted (\$)	2003	\$.55	\$.65	\$.79	\$ 1.06	\$ 3.05
	2002	\$.46	\$.53	\$.68	\$.95	\$ 2.62

Sales growth and same-store sales growth were strong in the first half of 2003 and declined slightly in the latter half of the year. Sales increases in 2003 for the first and third quarters were relatively consistent with those of the prior year. Sales in the third quarter of 2003 were negatively impacted by the delay in new store construction pending the completion of negotiations with several unions. Fourth quarter sales increased 12.9% including an 8% positive impact from the 53rd week in 2003 compared to 7.5% in 2002. In the second quarter in 2002, the sales increase was negatively impacted by a two week strike in the RCSS business in Saskatchewan and unseasonable weather in Ontario and Quebec. Holidays such as Easter, Thanksgiving and Christmas have fallen within the same quarters year over year.

For the first three quarters of 2003, operating margin improved steadily over the respective quarters of 2002. Fourth quarter operating income in 2003 was negatively impacted by the \$25 million charge for the voluntary early retirement offer accepted by the Ontario employees affected by the new RCSS labour arrangement. Operating margins in the fourth quarter are generally stronger than those generated during the other quarters due to a more profitable sales mix.

Interest expense increased in the third and fourth quarters because of increased average borrowing levels outstanding.

The effective income tax rate declined over last year mainly as a result of the 2% reduction in the federal statutory income tax rate. Income tax expense for the fourth quarter of 2003 includes a \$7 million charge for an adjustment to the future income tax balances caused by the increase in corporate income taxes enacted by the Ontario provincial government. Fluctuations in the effective income tax rate on a quarterly basis were mainly caused by the fair value impact of the equity forwards.

Throughout 2003 and 2002 the Company purchased common shares for cancellation pursuant to its NCIB. The weighted average number of common shares outstanding has not been significantly impacted by these purchases.

Fourth Quarter Results

The Company's 2003 fourth quarter results of operations, financial condition and cash flows were affected by the following:

- sales for the 53rd week, which had a positive 8% impact on sales growth in the quarter,
- same-store sales growth of 3.3% on an equivalent 13 week basis,
- a \$25 million charge to operating income related to the voluntary early retirement offer,
- an adjustment to future income tax balances to reflect both the increase in the provincial income tax rate to 14% in 2004 from 12.5% in 2003 and the Ontario government's repeal of income tax rate reductions of 1.5% scheduled for each of 2004, 2005 and 2006 which resulted in a \$7 million charge to the future income tax expense, and
- an increase of 1.0 million square feet in net retail space.

Further discussion and analysis on the fourth quarter results is provided in the Company's 2003 Fourth Quarter Preliminary Report.

RISKS AND RISK MANAGEMENT

Operating Risks and Risk Management

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

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

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

Competitive Environment The Company faces competition from many types of non-traditional competitors, such as mass merchandisers, warehouse clubs, drug stores and specialty stores, which continue to increase their offerings of products typically associated with supermarkets. In order to compete effectively and efficiently, the Company is developing and operating new departments and services that complement the traditional supermarket layout, as well as enhancing its non-food product and service offerings. The Company is also subject to competitive pressures from new entrants into the marketplace and from the potential consolidation of existing competitors.

The Company continuously evaluates the markets it operates in and will enter new markets and review acquisitions when opportunities arise and will also exit a particular market and reallocate assets elsewhere when there is a strategic advantage to doing so.

The Company pursues a strategy of enhancing profitability on a market-by-market basis by using a multi-format approach. By operating across Canada through corporate stores, franchised stores and associated stores and by servicing independent accounts, the Company strategically minimizes and balances its exposure to industry and competitive risks.

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

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

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

Labour A significant portion of the Company's workforce is unionized. Renegotiating collective agreements might result in work stoppages or slowdowns, which could materially affect the Company's financial performance, depending on their nature and duration. The Company is willing to accept the short term costs of labour disruption in order to negotiate competitive labour costs and operating conditions for the longer term. There were significant labour negotiations across the Company in 2003; 54 collective agreements expired and another 54 collective agreements were successfully negotiated. The 2003 labour negotiations were challenging and resulted in a

labour disruption of short duration in the Dominion banner in Newfoundland and Labrador, which was ultimately resolved and resulted in a collective agreement of 41 months in duration. In 2004, 76 collective agreements affecting approximately 9,000 employees will expire, with the single largest agreement covering approximately 2,300 employees. The Company will also continue to negotiate the 48 collective agreements carried over from 2000 to 2003 and anticipates no labour disruption with respect to these negotiations. The Company has good relations with its employees and unions and, although it is possible, does not anticipate any unusual difficulties in renegotiating these agreements.

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

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

The Company's control label products are manufactured under contract by third party vendors. These vendors are held to high standards of quality.

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

Pension, Post-Retirement and Post-Employment Benefits

In order to measure the obligations and expenses of Company-sponsored pension, post-retirement and post-employment benefit plans, the Company is required to use various assumptions including a long term estimate of the expected rate of return on plan assets, discount rate and growth rate of health care costs. Because these assumptions are forward-looking and longer term in nature, actual results in the short term may differ.

The following table outlines the 2004 key economic assumptions used in measuring the accrued benefit plan obligations and related expenses of the Company's

Benefit Plans Sensitivity Analysis

(\$ millions except where otherwise indicated)	Pension Benefit Plans		Other Benefit Plans	
	Accrued Benefit Plan Obligations	Benefit Plan Expense	Accrued Benefit Plan Obligations	Benefit Plan Expense
Expected long term rate of return on plan assets		8.0%		
Impact of: 1% increase		\$ (8)		
1% decrease		\$ 8		
Discount rate	6.25%	6.25%	6.0%	6.0%
Impact of: 1% increase	\$ (110)	\$ (10)	\$ (19)	\$ (3)
1% decrease	\$ 126	\$ 16	\$ 22	\$ 3
Growth rate of health care costs (1)			9.0%	9.0%
Impact of: 1% increase			\$ 19	\$ 4
1% decrease			\$ (17)	\$ (3)

(1) Gradually decreasing to 5.0% in 2011 and remaining at that level thereafter.

For 2004, the Company has assumed an 8.0% (2003 – 8.0%) expected long term rate of return on plan assets based on the asset mix and the active management of its pension plan assets. The Company's defined benefit pension plan assets had a 10 year annualized return of 8.9% in 2003. The actual annual returns per annum within this 10 year period varied with market conditions.

The poor performance of financial markets in recent years combined with interest rates at 40 year lows have negatively impacted the funding of the Company's defined benefit pension plans. During 2003, the Company voluntarily made a lump sum contribution to its defined benefit pension plans of \$34 million, bringing the total contribution to \$93 million (2002 – \$13 million). During 2004, the Company expects to contribute approximately \$25 million to these plans.

pension and other benefit plans. The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key variable have been calculated independently of any changes in other key variables. 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 variables. Actuarial gains or losses are amortized in accordance with Canadian GAAP, further reducing the volatility associated with these changes.

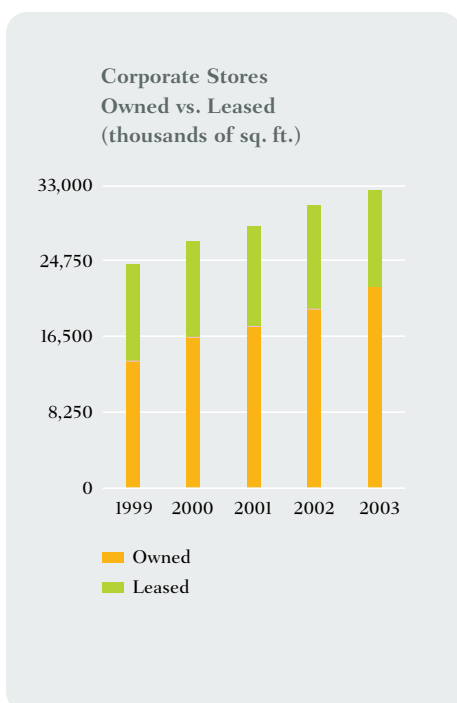
While the Company's pension plans are currently adequately funded and returns on pension plan assets are in line with expectations, there is no assurance that this will continue. An extended period of depressed capital markets and low interest rates could require the Company to make significant contributions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

In addition to the Company-sponsored pension plans, the Company participates in various multi-employer pension plans, providing pension benefits in which approximately 41% (2002 – 40%) of employees of the Company and of its franchisees participate. The administration of these plans and the investment of their assets are legally controlled by a board of independent trustees generally consisting of an equal number of union and employer representatives. In some

circumstances, Loblaw may have a representative on the board of trustees of these multi-employer pension plans. The Company's responsibility to make contributions to these plans is limited by the amounts established pursuant to its collective agreements. Pension expense for these plans is recognized as contributions are paid.

Real Estate The availability and conditions affecting the acquisition and development of real estate properties may impact the Company's strategies and financial performance. The Company maintains a significant portfolio of owned retail real estate and, whenever practical, pursues a strategy of purchasing sites for future store locations. This enhances the Company's operating flexibility by allowing the Company to introduce new departments and services that could be precluded under operating leases. At year end 2003, the Company owned 67% (2002 – 63%) of its corporate store square footage.

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



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

In 2002, the Company announced the construction of a new office facility in Brampton that will consolidate eight administrative and operating offices from across southern Ontario by 2005, which may result in some short term employee turnover.

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

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

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

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

The Environmental, Health and Safety Committee of the Board receives reports which review outstanding issues, identify new legislative concerns and outline related communication efforts.

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

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

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

Financial Risks and Risk Management

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

Financial Derivative Instruments The Company uses over-the-counter financial derivative instruments, specifically cross currency basis swaps, interest rate swaps and equity forwards, to minimize the risks and costs associated with its financing activities and its stock-based compensation plans. The Company has also entered into an electricity forward contract to partially offset electricity price volatility. The Company maintains treasury centres that operate under policies and guidelines approved by the Board covering funding, investing, foreign currency exchange, equity and interest rate management. The Company's policies and guidelines prevent it from using any financial derivative instrument for trading or speculative purposes. See Notes 1 and 16 to the consolidated financial statements for additional information on the Company's financial derivative instruments.

Foreign Currency Exchange Rate The Company enters into cross currency basis swaps to manage its current and anticipated exposure to fluctuations in foreign currency exchange rates. The Company's cross currency basis swaps are transactions in which floating interest payments and principal in United States dollars are exchanged against the receipt of floating interest payments and principal in Canadian dollars. These cross currency basis swaps limit the Company's exposure against foreign currency exchange

rate fluctuations on a portion of its United States dollar denominated assets, principally cash, cash equivalents and short term investments.

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

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

Electricity Prices The Company entered into an electricity forward contract to partially offset its volatility in the price of electricity in Ontario. The forward contract changes in value as the price of electricity changes.

Counterparty Over-the-counter financial derivative instruments are subject to counterparty risk. Counterparty risk arises from the possibility that market changes may affect a counterparty's position unfavourably and that the counterparty defaults on its obligations to the Company. The Company has sought to minimize potential counterparty risk and losses by implementing a policy that allows such transactions only with counterparties that have, at a minimum, a

long term A rating by Standard & Poor's or Dominion Bond Rating Service, placing risk adjusted limits on its exposure to any single counterparty and having master netting agreements with its counterparties. These netting agreements mitigate counterparty risk to the extent that unfavourable contracts with the same counterparty can be legally netted against the settlement of favourable contracts.

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

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

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

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

RELATED PARTY TRANSACTIONS

The Company's majority shareholder, George Weston Limited, its subsidiaries and its affiliates are related parties. It is the Company's policy to conduct all transactions and settle balances with related parties on normal trade terms. Total purchases from related parties represented approximately 3% (2002 – 3%) of the cost of sales, selling and administrative expenses.

Pursuant to an investment management agreement, the Company, through Glenhuron Bank Limited, a wholly owned subsidiary of the Company, manages certain United States cash, cash equivalents and short term investments on behalf of wholly owned non-Canadian subsidiaries of George Weston Limited. Management fees are based on market rates and are included in interest expense.

ACCOUNTING STANDARDS

Accounting Standards Implemented in 2003

Effective December 29, 2002, the Company implemented Accounting Guideline (AcG) 14, "Disclosure of Guarantees" issued by the CICA (see Note 17 to the consolidated financial statements). AcG 14 requires the Company to disclose significant information about guarantees it has provided without regard to the likelihood that the Company will have to make any payments under those guarantees, and is in addition to the requirements under Section 3290, "Contingencies".

In addition, the Company has implemented the revisions to Section 3475, "Disposal of Long-lived Assets and Discontinued Operations" and the new Emerging Issues Committee (EIC) Abstracts 134, "Accounting for Severance and Termination Benefits" and EIC 135, "Accounting for Costs Associated with Exit and Disposal Activities". Section 3475 replaces the existing Section 3475, "Discontinued Operations" and the disposal provisions of Section 3061, "Property, Plant and Equipment". These recommendations address the recognition, measurement, presentation, and disclosure of disposal activities initiated after May 1, 2003. EIC 134 addresses the recognition, measurement and disclosure associated with various types of severance and termination benefits resulting from the termination of employees' services prior to normal retirement. EIC 135 addresses recognition, measurement and disclosure associated with exit and disposal activities. These EICs

require that costs be recognized when the liability is incurred rather than at the date of a commitment to an exit or restructuring plan and were effective for activities undertaken after March 31, 2003. The implementation of these recommendations has not had a material impact on the Company's financial position or results of operations.

Future Accounting Standards

The Company closely monitors new accounting pronouncements and changes in current accounting standards to assess the impact, if any, on its consolidated financial statements. The Company is currently reviewing or has implemented the following pronouncements issued by the CICA:

- AcG 13, "Hedging Relationships", addresses the identification, designation, documentation and effectiveness of hedging relationships for the purposes of applying hedge accounting. The Company has completed the required documentation and effectiveness testing of its hedging relationships as at January 4, 2004 and has determined that no material changes to its accounting for hedging relationships are required.
- Section 3063, "Impairment of Long-lived Assets", addresses the recognition, measurement and disclosure of impairment of long-lived assets. Accordingly, long-lived assets are reviewed for impairment when events or circumstances indicate that the carrying value of the assets or the asset group may not be recoverable. An impairment loss is recognized when the carrying value of long-lived assets exceeds the sum of the undiscounted cash flows expected to result from their use and eventual disposition. An impairment loss is measured as the amount by which the long-lived assets' carrying value exceeds their fair value. These recommendations are effective for fiscal years beginning on or after April 1, 2003. The Company is currently assessing the impact of these recommendations and will implement them in the first quarter of 2004.
- Section 3110, "Asset Retirement Obligations", addresses recognition, measurement and disclosure of legal obligations associated with the costs to retire long-lived assets. These recommendations are effective for fiscal years beginning on or after January 1, 2004. The Company is currently reviewing its legal obligations with respect to asset retirement obligations and will implement these recommendations in the first quarter of 2004.

- EIC 144, “*Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor*”, was issued in January 2004 and addresses accounting for cash consideration received from a vendor. EIC 144 provides that cash consideration received from a vendor is presumed to be a reduction in the prices of the vendor’s products or services and should, therefore, be characterized as a reduction in cost of sales and related inventory when recognized in the customer’s income statement and balance sheet. However, that presumption is overcome when consideration is a payment for assets or services delivered to the vendor, in which case the cash consideration should be characterized as revenue or other income, or it is a reimbursement of costs incurred to sell the vendor’s products, in which case the cash consideration should be characterized as a reduction of that cost, provided certain conditions are met. EIC 144 requires retroactive application to all financial statements for annual and interim periods ending after August 15, 2004. The Company is currently assessing the impact of these recommendations and will implement them in the third quarter of 2004.
- AcG 15, “*Consolidation of Variable Interest Entities*”, issued in June 2003, provides guidance for applying consolidation principles to entities that are subject to control on a basis other than ownership of voting interests. The recommendations require the identification of the Company’s participation in variable interest entities (“VIEs”), which are defined as entities with insufficient equity at risk to finance its activities without additional subordinated financial support from other parties. Entities identified as VIEs are to be consolidated by the primary beneficiary, who holds the majority of the exposure to the expected losses or stands to gain from the majority of the expected returns. Based on the current requirements of AcG 15, the Company is reviewing its interest in unconsolidated entities to identify potential VIEs. Among the entities under review is an independent trust, which provides loans to the Company’s franchisees for the purchase of inventory and fixed assets, mainly fixturing and equipment. This independent trust has been identified as a VIE and the Company is evaluating the resulting impact. The CICA is

monitoring developments by the United States Financial Accounting Standards Board (“FASB”), regarding FASB Interpretation No. 46 (Revised December 2003) (“FIN 46R”), “*Consolidation of Variable Interest Entities*”. It is expected that AcG 15 will be amended in 2004 to harmonize with FIN 46R and therefore the effective date of AcG 15 has been deferred to fiscal years beginning on or after November 1, 2004. The Company is monitoring these developments and will implement these recommendations as required in the first quarter of 2005.

OUTLOOK

The Company had another successful year in 2003, maintaining a strong financial position and continuing to generate good cash flows while supporting its \$1.3 billion capital investment program. Management believes that the financial strength of the Company and the strategic deployment of its financial resources will allow for the continued successful implementation of the Company’s operating and financial strategies. The Company plans to continue investing in competitive pricing. It also plans to continue investing capital in its retail portfolio as well as its warehouse and distribution network, while maintaining its focus on product and service innovation. It anticipates another successful year in 2004 with sales growth consistent with that of the past several years and net earnings growth slightly below that of the past several years.

NON-GAAP FINANCIAL MEASURES

The Company reports its financial results in accordance with Canadian GAAP. However, the Company has included certain non-GAAP financial measures and ratios which it believes provide useful information to both management and readers of this Annual Report in measuring the financial performance and financial condition of the Company. These measures do not have a standardized meaning prescribed by GAAP and, therefore, may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to other earnings measures determined in accordance with Canadian GAAP.

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

(\$ millions)	2003 (53 weeks)	2002 (52 weeks)
Operating income	\$ 1,467	\$ 1,303
Depreciation	393	354
EBITDA	\$ 1,860	\$ 1,657

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

(\$ millions)	2003	2002
Bank indebtedness	\$ 38	
Commercial paper	603	\$ 533
Long term debt due within one year	106	106
Long term debt	3,956	3,420
Less:		
Cash and cash equivalents	618	823
Short term investments	378	304
Net debt	\$ 3,707	\$ 2,932

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

(\$ millions)	2003	2002
Total assets	\$ 12,177	\$ 11,110
Less:		
Cash and cash equivalents	618	823
Short term investments	378	304
Total assets	\$ 11,181	\$ 9,983

ADDITIONAL INFORMATION

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

March 9, 2004
Toronto, Canada