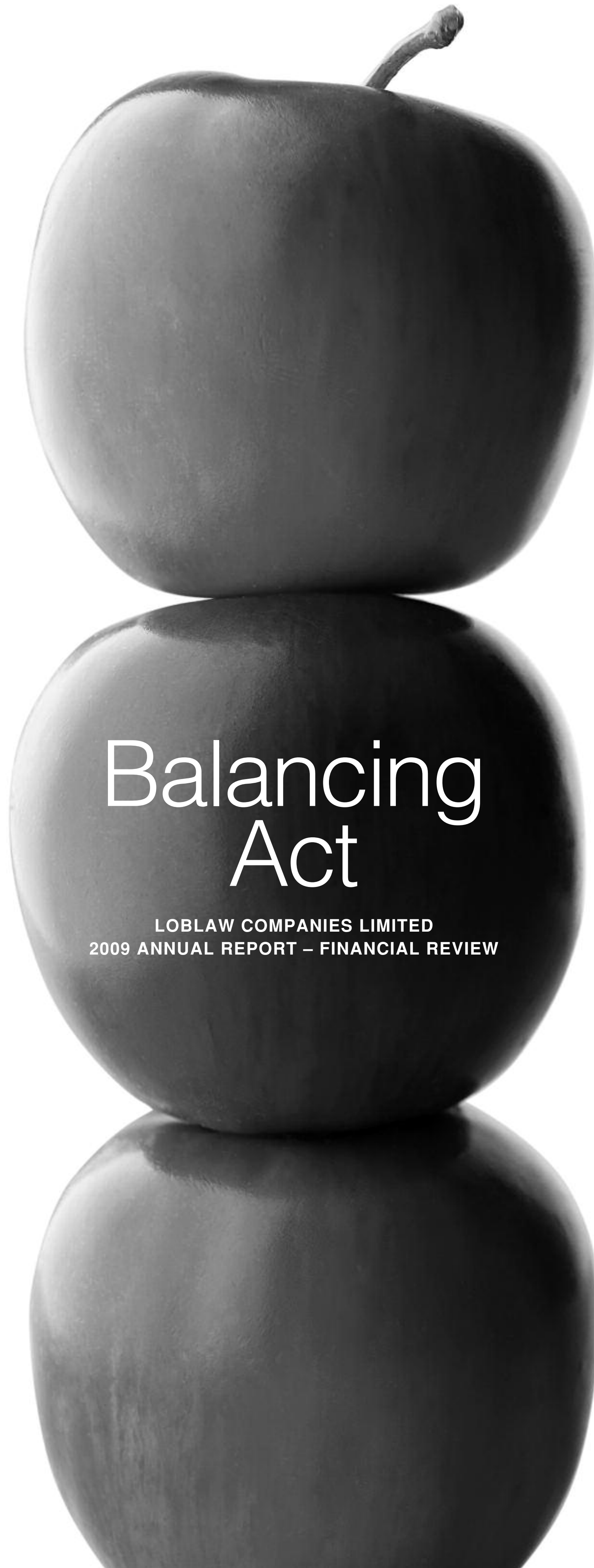
Loblaw
COMPANIES LIMITED



Balancing Act

LOBLAW COMPANIES LIMITED
2009 ANNUAL REPORT – FINANCIAL REVIEW

2009 Annual Report – Financial Review

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Financial Highlights[1]

For the years ended January 2, 2010 and January 3, 2009 (millions except where otherwise indicated)	2009 (52 weeks)	2008[2] (53 weeks)
Operating Results		
Sales	**$ 30,735**	$ 30,802
Gross profit	**7,196**	6,911
Operating income	**1,205**	1,052
Interest expense and other financing charges	**269**	263
Net earnings	**656**	550
Cash Flow		
Cash flows from operating activities	**1,945**	960
Capital investment	**1,067**	750
Per Common Share ($)		
Basic net earnings	**2.39**	2.01
Dividend rate at year end	**0.84**	0.84
Cash flows from operating activities[1]	**7.07**	3.50
Book value	**22.71**	21.16
Market price at year end	**33.88**	35.23
Financial Ratios		
Operating margin	**3.9%**	3.4%
EBITDA[3]	**1,794**	1,602
EBITDA margin[3]	**5.8%**	5.2%
Net debt [3]	**2,783**	3,293
Net debt[3] to EBITDA[3]	**1.6x**	2.1x
Net debt[3] to equity[3]	**0.4:1**	0.5:1
Interest coverage[1]	**4.2x**	3.7x
Return on average net assets[3]	**12.0%**	10.7%
Return on average shareholders' equity	**10.9%**	9.7%
Operating Statistics		
Retail square footage (in millions)	**50.6**	49.8
Corporate square footage (in millions)	**38.2**	37.7
Franchise square footage (in millions)	**12.4**	12.1
Average corporate store size (square feet)	**62,300**	61,900
Average franchise store size (square feet)	**29,700**	28,400
Corporate stores sales per average square foot ($)	**597**	624
Same-store sales (decline) growth	**(1.1%)**	4.2%
Number of corporate stores	**613**	609
Number of franchised stores	**416**	427
Percentage of corporate real estate owned	**72%**	74%
Percentage of franchise real estate owned	**48%**	48%

(1) For financial definitions and ratios refer to the Glossary of Terms on page 86.
(2) Certain 2008 information has been restated to conform with the new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, "Goodwill and Intangible Assets". See note 2 to the consolidated financial statements.
(3) See Non-GAAP Financial Measures on page 37.

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(1) See Non-GAAP Financial Measures on page 37.

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 40 to 84 of this Financial 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. The consolidated financial statements include the accounts of the Company and its subsidiaries and variable interest entities ("VIEs") that the Company is required to consolidate in accordance with Accounting Guideline ("AcG") 15, "*Consolidation of Variable Interest Entities*". A glossary of terms used throughout this Financial Report can be found on page 86. The information in this MD&A is current to March 12, 2010, unless otherwise noted.

1. Forward-Looking Statements

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

These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including, but not limited to:

- the possibility that the Company's plans and objectives will not be achieved;
- changes in economic conditions including the rate of inflation or deflation;
- changes in consumer spending and preferences; heightened competition, whether from new competitors or current competitors;
- changes in the Company's or its competitors' pricing strategies;
- failure of the Company's franchised stores to perform as expected;
- risks associated with the terms and conditions of financing programs offered to the Company's franchisees;
- failure of the Company to realize the anticipated benefits of business acquisitions or divestitures;
- failure to realize sales growth, anticipated cost savings or operating efficiencies from the Company's major initiatives, including investments in the Company's information technology systems, supply chain investments and other cost reduction initiatives, or unanticipated results from these initiatives;
- increased costs relating to utilities, including electricity and fuel;
- the inability of the Company's information technology infrastructure to support the requirements of the Company's business;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink;
- failure to execute successfully and in a timely manner the Company's introduction of innovative and reformulated products or new and renovated stores;
- the inability of the Company's supply chain to service the needs of the Company's stores;
- deterioration in the Company's relationship with its employees, particularly through periods of change in the Company's business;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements which could lead to work stoppages;
- changes to the regulatory environment in which the Company operates;
- the adoption of new accounting standards and changes in the Company's use of accounting estimates including in relation to inventory valuation;
- fluctuations in the Company's earnings due to changes in the value of stock based compensation and equity forward contracts relating to its Common Shares;
- changes in the Company's tax liabilities resulting from changes in tax laws or future assessments;
- detrimental reliance on the performance of third-party service providers;
- public health events;
- changes in interest and currency exchange rates;
- the inability of the Company or its franchisees to obtain external financing;
- the inability of the Company to collect on its credit card receivables;

- any requirement of the Company to make contributions to its registered funded defined benefit pension plans in excess of those currently contemplated;
- the inability of the Company to attract and retain key executives; and
- supply and quality control issues with vendors.

These and other risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Risks and Risk Management section of the Management's Discussion and Analysis ("MD&A") included in the Company's 2009 Annual Report. These forward looking statements reflect management's current assumptions regarding these risks and uncertainties and their respective impact on the Company.

Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this Annual Information Form. The Company disclaims any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

2. Overview

The Company is a subsidiary of George Weston Limited ("Weston") and is Canada's largest food distributor and a leading provider of drugstore, general merchandise and financial products and services. Loblaw is one of the largest private sector employers in Canada. With more than 1,000 corporate and franchised stores from coast to coast, Loblaw and its franchisees employ approximately 138,000 full-time and part-time employees. Through its portfolio of store formats, Loblaw is committed to providing Canadians with a wide, growing and successful range of products and services to meet the everyday household demands of Canadian consumers. Loblaw is known for the quality, innovation and value of its food offering. It offers Canada's strongest control (private) label program, including the unique *President's Choice*, *no name* and *Joe Fresh* brands. In addition, through its subsidiaries, the Company makes available to consumers *President's Choice Financial* services and offers the *PC* points loyalty program.

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

($ millions except where otherwise indicated)	**2009** **(52 weeks)**	2008[(1)] (53 weeks)	2007[(2)] (52 weeks)
Sales	**$ 30,735**	$ 30,802	$ 29,384
Net earnings	**656**	550	336
Basic net earnings per common share($)	**2.39**	2.01	1.23
Total assets	**14,991**	13,943	13,625
Long term debt and capital securities	**4,725**	4,454	4,284
Dividends declared per common share($)	**$ 0.84**	$ 0.84	$ 0.84

(1) Certain 2008 information has been restated to conform with the new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, "Goodwill and Intangible Assets". See note 2 to the consolidated financial statements.
(2) Certain 2007 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets".

Total sales and same-store sales declined 0.2% and 1.1%, respectively in 2009 compared to 2008. Sales and same-store sales increased 4.8% and 4.2%, respectively in 2008 compared to 2007. During the year, the number of corporate stores increased to 613 (2008 – 609, 2007 – 628) and the number of franchised stores decreased to 416 (2008 – 427, 2007 – 408). In 2009, the increase in corporate stores was primarily due to the acquisition of 17 T&T Supermarket Inc. ("T&T") stores partially offset by a conversion of corporate stores to franchises. The number of franchised stores decreased in 2009 due to the conversion of franchised stores to independent affiliates. In 2008, the change was a result of store conversions as corporate stores were converted to franchises. Also, during the year corporate store sales per average square foot decreased to $597 (2008 – $624, 2007 – $591) while the retail square footage remained flat during this period (2009 – 50.6 million, 2008 – 49.8 million, 2007 – 49.6 million).

Net earnings and basic net earnings per common share increased by $106 million and $0.38, respectively, in 2009 compared to 2008. The increase was a result of the increase in operating income. In 2009, the increase in operating income was primarily due to the improvement in gross profit partially offset by a higher stock-based compensation charge, the incremental costs of $73 million related to the Company's investment in information technology and supply chain and a lower gain on the sale of financial investments by President's Choice Bank ("PC Bank"), a wholly owned subsidiary of the Company. In 2008 net earnings and basic net earnings per common share increased by $214 million and $0.78 compared to 2007 as a result of an increase in operating income and a decrease in the effective tax rate. Net earnings in 2007 were negatively impacted by the costs associated with the Company's restructuring initiatives.

Total assets in 2009 increased by 7.5% compared to 2008, primarily as a result of an increase in cash and short term investment balances, an increase in goodwill and intangible assets from the acquisition of T&T and an increase in fixed assets primarily as a result of the Company's incremental investment in information technology and supply chain as well as the acquisition of a distribution centre that was sold in 2007. In 2008, total assets increased by 2.3% compared to 2007 as a result of an increase in cash balances, an increase in inventories and an increase in fixed assets.

Long term debt and capital securities increased by 6.1% in 2009 compared to 2008 primarily due to a net increase in Medium Term Notes outstanding and the assumption of a mortgage. In 2008 compared to 2007 long term debt and capital securities increased by 4.0% as a result of the 2008 issuance of capital securities and unsecured notes partially offset by the repayment of debt maturities. Cash flows from operating activities covered the Company's funding requirements and exceeded the capital investment program in both 2009 and 2008.

3. Vision and Strategies

The Company's mission is to be Canada's best food, health and home retailer by exceeding customer expectations through innovative products at great prices. The Company initiated renewal plans three years ago to achieve its mission by transforming into a centralized marketing-led organization focused on customers, value, innovative and fresh products and stores, while leveraging its scale and asset base to drive profitable growth.

In 2009, the Company moved forward in its renewal program during a challenging economic environment. In the first half of the year the Company saw high inflation, higher food prices and lower volumes. In the second half, inflation declined and price competition emerged. Throughout the year, the Company delivered enhanced fresh food offerings, renovated and revitalized stores, and introduced innovative and differentiated control label brands to provide an enhanced customer shopping experience. In addition, the Company continued to invest and build its core infrastructure, including both information technology and supply chain.

Some of Loblaw's key accomplishments in 2009 include:

- Improved fresh food quality and assortment;
- Delivered targeted price positions through ongoing price management and implemented banner-specific price programs in each region;
- Enhanced store standards that resulted in improved product availability;
- Renovated and refreshed more than 200 stores, including 26 Western Canada *Real Canadian Superstore* upgrades and the rollout of the 2008 "Back to Best" pilot programs for food renewal and enhanced customer service programs;
- Converted an additional five *Extra Foods* stores to *no frills* stores, opened two new *no frills* in Western Canada and opened the first *no frills* in Atlantic Canada;

- Celebrated the 25th anniversary of the *President's Choice* brand, supported by the introduction of 524 new products, the launch of 718 improved products and the packaging redesign for over 1,800 products;
- Opened and renovated three distribution centres and successfully commenced the roll out of new transportation and warehouse management systems, which significantly improved supply chain service levels;
- Acquired T&T, Canada's largest Asian food retailer;
- Strengthened balance sheet providing enhanced financial flexibility;
- Recognized as one of Canada's Top 100 employers; and
- Subsequent to year end, the Company successfully deployed the first Enterprise Resource Planning ("ERP") system release (finance and general ledger systems across Loblaw Properties Limited and President's Choice Financial).

While the Company achieved many of its goals in 2009, consistent execution remains the Company's focus in order to drive sustainable performance. In 2010, the Company intends to intensify its investments in infrastructure and condense its project timelines while keeping a vigilant watch on cost control and cash management. Entering into 2010, the Company continues to expect a challenging economic environment and heightened competitive intensity. With significant investments in supply chain and information technology, the Company remains committed to strategically balance trading for today while building for tomorrow by:

- Continuing to invest in and execute its information technology strategy through the rollout of subsequent ERP and supply chain functionality releases;
- Improving in-store, distribution centre, and store support centre processes in an effort to make the business simpler and more efficient;
- Continuing its store upgrade program that will roll out the food renewal and customer service enhancement programs;
- Continuing to innovate our control label offering while enhancing profitability; and
- Focusing on in-store customer service and providing unmatched value.

4. Key Performance Indicators

The Company has identified specific key performance indicators to measure the progress of short and long term strategies. The Company believes that if it successfully implements and executes its various strategic imperatives in support of its long term operating and financial strategies, it will be well positioned to pursue its vision of providing returns to its shareholders.

Key financial performance indicators are set out below:

	2009 (52 weeks)	2008[1] (53 weeks)
Sales (decline) growth	**(0.2%)**	4.8%
Same-store sales (decline) growth	**(1.1%)**	4.2%
EBITDA[2] ($ millions)	**$ 1,794**	$ 1,602
EBITDA margin[2]	**5.8%**	5.2%
Basic net earnings per common share increase	**18.9%**	63.4%
Cash flows from operating activities ($ millions)	**$ 1,945**	$ 960
Net debt[2] ($ millions)	**2,783**	3,293
Net debt[2] to EBITDA[2]	**1.6x**	2.1x
Net debt[2] to equity[2]	**0.4:1**	0.5:1
Interest coverage[3]	**4.2x**	3.7x
Return on average shareholders' equity	**10.9%**	9.7%
Return on average net assets[2]	**12.0%**	10.7%

(1) Certain 2008 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets". See note 2 to the consolidated financial statements.
(2) See Non-GAAP Financial Measures on page 37.
(3) See glossary of terms on page 86.

5. Financial Performance

The Company continues to progress in its turnaround efforts by focusing on innovating and enhancing its food offering, providing unmatched customer value, standardizing processes for efficiency, and improving its store, supply chain and information technology infrastructure.

5.1 Results of Operations

Sales
Sales in 2009 (52 weeks) decreased $67 million, or 0.2%, to $30.7 billion compared to $30.8 billion in 2008 (53 weeks).

Total Sales, Sales (Decline) Growth and Same-Store Sales (Decline) Growth

For the years ended January 2, 2010 and January 3, 2009 ($ millions)	**2009** **(52 weeks)**	2008 (53 weeks)
Total sales	**$ 30,735**	$ 30,802
Total sales (decline) growth	**(0.2%)**	4.8%
Same-store sales (decline) growth	**(1.1%)**	4.2%

The following factors explain the major components in the change in sales over the prior year:
- same-store sales declined 1.1% including a decline in sales and same-store sales of approximately 1.8% due to the extra selling week in the fourth quarter of 2008;
- T&T sales positively impacted sales by 0.5%;
- sales were negatively impacted by 0.5% by the sale of the Company's food service business in the fourth quarter of 2008;
- on an equivalent 52 week basis:
  - sales growth in food and drugstore were moderate;
  - sales growth in apparel was strong while sales of other general merchandise declined significantly due to lower discretionary consumer spending and reductions in assortment and square footage;
- gas bar sales declined significantly as a result of lower retail gas prices despite strong volume growth;
- internal retail food price inflation was below national food price inflation of 5.5% (2008 – 4.0%) as measured by "The Consumer Price Index for Food Purchased from Stores" ("CPI") but higher than in 2008. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores; and
- 41 (2008 – 37) corporate and franchised stores were opened, including 17 acquired T&T stores, and 33 (2008 – 37) corporate and franchised stores were closed, resulting in a net increase of 0.5 million square feet, or 1.0%.

Sales of control label products for 2009 were $7.6 billion compared to $7.4 billion in 2008. In 2009, the Company launched over 800 new products, redesigned the packaging of over 4,000 products and celebrated the 25th anniversary of *President's Choice*.

Gross Profit
2009 gross profit increased by $285 million to $7,196 million compared to $6,911 million in 2008. 2009 gross profit as a percentage of sales was 23.4% compared to 22.4% in 2008. Improved buying synergies, more disciplined vendor management, lower fuel costs and the efficiency of transportation operations contributed to the increase in gross profit and gross profit as a percentage of sales. Investments in pricing partially offset the improvement.

Operating Income

Operating income for 2009 increased by $153 million, or 14.5%, to $1,205 million, and resulted in an operating margin of 3.9% compared to 3.4% in 2008. Included in 2009 operating income was a charge of $22 million (2008 - $7 million) related to stock-based compensation including the equity forwards. The increases in operating income and operating margin for 2009 were primarily due to the improvement in gross profit partially offset by an increased stock-based compensation charge, incremental costs of $73 million related to the Company's investment in information technology and supply chain and a lower gain on the sale of financial investments by PC Bank of $8 million (2008 - $14 million). Included in 2009 operating income was a charge of $27 million (2008 - $29 million) for fixed asset impairments related to asset carrying values in excess of fair values for specific store locations. Included in 2008 operating income was a gain of $22 million on the sale of the Company's food service business.

Cost reduction initiatives throughout the business contributed to the improvement in operating income in 2009 compared to the prior year. Specifically, labour and supply chain costs decreased as a result of continued labour productivity improvements and efficiency enhancements at distribution centres.

EBITDA(1)

2009 EBITDA(1) increased by $192 million, or 12.0%, to $1,794 million compared to $1,602 million in 2008. 2009 EBITDA margin(1) increased to 5.8% compared to 5.2% in 2008. The increases in EBITDA(1) and EBITDA margin(1) were primarily due to the increases in operating income and operating margin as described above.

Interest Expense and Other Financing Charges

Interest expense consists primarily of interest on short term and long term debt, the interest on derivative instruments, the amortization of financing costs, and interest earned on short term investments and security deposits net of interest capitalized to fixed assets. Other financing charges consist of dividends on capital securities. In 2009 interest and other financing charges increased $6 million, or 2.3%, to $269 million from $263 million in 2008:

- interest on long term debt decreased to $282 million (2008 – $286 million). The change was primarily due to the 53rd week in 2008. The 2009 weighted average fixed interest rate on long term debt (excluding capital lease obligations) was 6.4% (2008 – 6.6%) and the weighted average term to maturity was 14 years (2008 – 16 years);
- interest expense on financial derivative instruments of $2 million (2008 – income of $4 million) includes the net effect of interest rate swaps, cross currency swaps and equity forwards. The change was primarily a result of a decline in Canadian and United States short term interest rates;
- interest income on short term investments net of interest expense on short term debt increased to $8 million (2008 – $7 million) due to lower levels of short term debt partially offset by lower United States short term interest rates;
- dividends on capital securities increased to $14 million (2008 – $8 million) which reflects a full year of dividends related to the issuance of capital securities in 2008; and
- interest related to real estate properties under development of $21 million (2008 – $20 million) was capitalized to fixed assets.

Income Taxes

The Company's 2009 effective income tax rate decreased to 28.7% from 29.0% in 2008. The decrease in the effective income tax rate was primarily related to the cumulative reduction in the income tax expense as a result of a reduction in Ontario statutory income tax rates enacted in the fourth quarter of 2009, an accelerated utilization of loss carryforwards and a decrease in income tax accruals relating to certain prior year income tax matters.

Net Earnings

In 2009, net earnings increased by $106 million, or 19.3%, to $656 million from $550 million in 2008. Basic net earnings per common share increased by $0.38, or 18.9% to $2.39 from $2.01 in 2008.

Basic net earnings per common share were impacted in 2009 by a charge of $0.08 (2008 – $0.04) per common share for the net effect of stock-based compensation including equity forwards. 2008 basic net earnings per common share were impacted by a gain of $0.06 by the sale of the Company's food service business.

(1) See Non-GAAP Financial Measures on page 37.

5.2 Financial Condition

Financial Ratios

The Company's net debt[1] to equity[1] ratio was 0.4:1 at the end of 2009 compared to 0.5:1 at the end of 2008 and within the Company's internal guideline of less than 1:1. Equity[1] for the purpose of calculating the net debt[1] to equity[1] ratio is defined by the Company as capital securities plus shareholders' equity. The decrease in this measure was due to the decrease in net debt as described in Section 6.1 of this MD&A. The net debt[1] to EBITDA[1] ratio was 1.6 times at the end of 2009 compared to 2.1 times at the end of 2008. The decrease in these ratios was due to the decrease in net debt[1] as described in Section 6.1 of this MD&A and the increase in EBITDA[1] as described in Section 5.1 of this MD&A. The increase in shareholders' equity also contributed to the decrease in the net debt[1] to equity[1] ratio. In 2009, shareholders' equity increased by $470 million, or 8.1% to $6.3 billion as a result of 2009 net earnings and the increase in common shares as a result of the introduction of a Dividend Reinvestment Plan ("DRIP"), partially offset by the purchase for cancellation of common shares in the fourth quarter of 2009.

The increase in operating income as described in Section 5.1 of this MD&A resulted in an improvement in the interest coverage ratio to 4.2 times in 2009 from 3.7 times in 2008.

The 2009 return on average net assets[1] was 12.0% compared to 10.7% in 2008. The 2009 return on average shareholders' equity was 10.9% compared to the 2008 return of 9.7%. These ratios were positively impacted by the increase in operating income as described in Section 5.1 of this MD&A.

Capital Securities

12.0 million non-voting Second Preferred Shares, Series A, are authorized, 9.0 million of which were outstanding at year end. These preferred shares are classified as capital securities and included in long term liabilities on the consolidated balance sheet.

First Preferred Shares

1.0 million non-voting First Preferred Shares are authorized, none of which was outstanding at year end.

Common Share Capital

An unlimited number of common shares is authorized, 276,188,258 of which were outstanding at year end. Further information on the Company's outstanding share capital is provided in note 20 to the consolidated financial statements.

At year end, a total of 9,207,816 stock options were outstanding, representing 3.3% of the Company's issued and outstanding common shares, which was within the Company's internal guideline of no more than 5%. Further information on the Company's stock option plans is provided in note 22 to the consolidated financial statements.

Dividends

The declaration and payment of common share dividends 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 considered relevant from time to time. Over the long term, the Company's objective is for its common share 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. Dividends on the preferred shares shall be entitled to preference 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 liquidation, dissolution, or winding up of the Company. During 2009, the Board declared dividends of $0.84 (2008 - $0.84) per common share. During 2009, the Board declared dividends of $1.49 (2008 – $0.91) per Second Preferred Share, Series A. For financial statement presentation purposes, Second Preferred Share, Series A have been classified as Capital Securities and the associated dividend of $14 million (2008 – $8 million) is included as a component of interest expense and other financing charges in the Consolidated Statement of Earnings (see note 4). Subsequent to year end, the Board declared a quarterly dividend of $0.21 per common share payable April 1, 2010 and a quarterly dividend of $0.37 per Second Preferred Share, Series A payable April 30, 2010.

(1) See Non-GAAP Financial Measures on page 37.

Dividend Reinvestment Plan

During the second quarter of 2009, the Company commenced a DRIP with the objective of raising $300 million in common share equity. Under the terms of the DRIP, eligible holders of common shares may elect to automatically reinvest their regular quarterly dividends in additional common shares of the Company without incurring any commissions, service charges or brokerage fees. The common shares issued to shareholders under the DRIP will be, at the Company's option, either issued from treasury or purchased on the open market. The Board may from time to time approve a discount on the issuance of common shares from treasury under the DRIP. During the year, the Company issued 3,713,094 common shares from treasury under the DRIP at a three percent (3%) discount to market resulting in net cash savings and incremental common share equity to the Company of $120 million for the year.

6. Liquidity and Capital Resources

6.1 Cash Flows

Major Cash Flow Components

($ millions)	**2009 (52 weeks)**	2008[1] (53 weeks)	Change
Cash flows from (used in):			
Operating activities	**$ 1,945**	$ 960	$ 985
Investing activities	**$ (1,248)**	$ (578)	$ (670)
Financing activities	**$ (173)**	$ (371)	$ 198

Cash Flows from Operating Activities

Cash flows from operating activities for 2009 were $1,945 million compared to $960 million in 2008. The increase in cash flows from operating activities was primarily due to the increase in operating income and a change in non-cash working capital as a result of changes in inventory and accounts payable and accrued liabilities, partially offset by the settlement of equity forward contracts by Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of the Company.

Cash Flows used in Investing Activities

Cash flows used in investing activities were $1,248 million compared to $578 million in 2008. The change was primarily due to the acquisition of T&T, an increase in fixed asset purchases and a change in short term investments, partially offset by a change in security deposits.

Capital investment in 2009 was $1.1 billion (2008 – $750 million). Approximately 9% (2008 – 18%) of the investment was for new store development, expansions and land, approximately 38% (2008 − 36%) was for store conversions and renovations, and approximately 53% (2008 − 46%) was for infrastructure investment. The capital investment activity benefited all regions to varying degrees and strengthened the existing store base. Capital investment of $1.1 billion includes the purchase of a distribution centre for consideration of $140 million plus closing costs. The Company assumed long term debt secured by a mortgage of $96 million in connection with the purchase. In addition, the Company acquired T&T in the third quarter of 2009 for $204 million.

The 2009 corporate and franchised store capital investment program, which included the impact of store openings and closures, resulted in an increase in net retail square footage of 1.0% compared to 2008. During 2009, 41 (2008 – 37) corporate and franchised stores were opened, including 17 acquired T&T stores, 33 (2008 – 37) corporate and franchised stores were closed, resulting in a net increase of 0.5 million square feet (2008 – 0.2 million square feet). Additionally, 128 (2008 – 88) corporate and franchised stores were renovated. The 2009 average corporate store size remained relatively flat at 62,300 square feet (2008 – 61,900) and the average franchised store size increased 4.6% to 29,700 square feet (2008 – 28,400).

(1) Certain 2008 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets". See note 2 to the consolidated financial statements.

As at January 2, 2010, the Company had committed approximately $76 million (2008 – $46 million) for the construction, expansion and renovation of buildings and the purchase of real property.

During 2009, the Company also generated $27 million (2008 – $125 million) from fixed asset sales.

The Company expects to invest approximately $1.0 billion in capital expenditures in 2010. Approximately 50% of these funds are expected to be expended upgrading its information technology and supply chain infrastructure. The remainder will be spent on retail operations as the Company plans to renovate certain banners and to add approximately 300,000 square feet of retail space.

Capital Investment and Store Activity

	2009 (52 weeks)	2008 (53 weeks)	Change
Capital investment ($ millions)	**$ 1,067**	$ 750	$ 317
Corporate square footage (in millions)	**38.2**	37.7	1.3%
Franchise square footage (in millions)	**12.4**	12.1	2.5%
Retail square footage (in millions)	**50.6**	49.8	1.6%
Number of corporate stores	**613**	609	0.7%
Number of franchised stores	**416**	427	(2.6%)
Percentage of corporate real estate owned	**72%**	74%	
Percentage of franchise real estate owned	**48%**	48%	
Average store size (sq. ft.)			
Corporate	**62,300**	61,900	0.6%
Franchised	**29,700**	28,400	4.6%

Cash Flows used in Financing Activities

In 2009, cash flows used in financing activities were $173 million compared to $371 million in 2008. The decrease in cash flows used in financing activities was primarily due to the decrease in cash dividend payments as a result of the DRIP, the timing of common share dividend payments and lower debt maturities net of the refinancing of debt in 2008, partially offset by a purchase of common shares in the fourth quarter of 2009 and the issuance of capital securities in the third quarter of 2008.

During the second quarter of 2009, the Company 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 the 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, the Company may purchase its shares at the then market price of such shares. During 2009, the Company purchased for cancellation 1,698,400 (2008- nil) of its common shares at a price of $33.14.

During the second quarter of 2009, the Company issued $350 million principal amount of 5 year unsecured Medium Term Notes, Series 2-A pursuant to its Medium Term Notes, Series 2 Program. Interest on the notes is payable semi-annually at a fixed rate of 4.85%. The notes are unsecured obligations and are redeemable at the option of the Company.

In the first quarter of 2009, $125 million of 5.75% medium term notes due January 22, 2009 matured and were repaid.

In 2008, the Company issued USD $300 million of fixed rate unsecured notes in a private placement debt financing and raised $218 million through a Canadian public offering of 9 million cumulative redeemable convertible Second Preferred Shares, Series A. The net proceeds from these financings were used to repay maturing debt obligations and for general corporate purposes.

Net Debt[1]

In the first quarter of 2009, the Company revised its definition of net debt[1] to include the fair value of financial derivative assets and liabilities as the Company believes the measure should contain all interest bearing financing arrangements.

Net debt[1] was $2,783 million as at January 2, 2010 compared to $3,293 million as at January 3, 2009. The decrease of $510 million was primarily due to improvements in non-cash working capital and cash savings associated with the DRIP. The decrease was partially offset by the acquisition of T&T, the long term debt secured by a mortgage associated with the acquisition of a distribution centre and a purchase of common shares for cancellation in the fourth quarter of 2009.

As at January 3, 2009, net debt[1] was $3,293 million, a decrease of $276 million compared to $3,569 as at December 29, 2007. The decrease was primarily due to the issuance of capital securities for $218 million in 2008, which were used to refinance a portion of the Company's debt maturities.

6.2 Sources of Liquidity

The Company expects that cash and cash equivalents, short term investments, future operating cash flows and the amounts available to be drawn against its credit facility will enable the Company to finance its capital investment program and fund its ongoing business requirements, including working capital, pension plan funding and financial obligations over the next twelve months. In addition, given reasonable access to capital markets, the Company does not foresee any impediments in securing financing to satisfy its long term obligations.

During 2008, the Company entered into an $800 million, 5-year committed credit facility, provided by a syndicate of third party lenders. The facility contains certain financial covenants with which the Company was in compliance throughout the year. This facility is the primary source of the Company's short term funding requirements and permits borrowings having up to a 180-day term that accrue interest based on short term floating interest rates. As at January 2, 2010, nil (2008 - $190 million) was drawn on the 5-year committed credit facility.

PC Bank participates in bank supported and term securitization programs which provide the primary source of funds for the operation of its business. Under these securitization programs, a portion of the total interest in the credit card receivables is sold to independent trusts. In 2009, no incremental (2008 – $300 million) credit card receivables were securitized. During the fourth quarter of 2009, PC Bank repurchased $50 million (2008 – nil) of co-ownership interest in the securitized receivables from an independent trust and an additional $90 million was repurchased after January 2, 2010. The Independent trusts' recourse to PC Bank's assets is limited to PC Bank's excess collateral (2009 – $121 million; 2008 – $124 million) as well as standby letters of credit (2009 – $116 million; 2008 – $116 million) on a portion of the securitized amount. A portion of the securitized receivables held by an independent trust facility was renewed for a 364 day term in the third quarter of 2009. In the absence of renewal or other securitization, the Company would be required to use its cash and short term investments or raise alternative financing by issuing additional debt or equity instruments. During the first quarter of 2009, one of these independent trusts filed a base shelf prospectus which permits it to issue up to $1.5 billion of notes over a 25 month period. Any issuance of notes is subject to the availability of credit markets. Further information about PC Bank's credit card receivables and securitization is provided in notes 1 and 8 to the consolidated financial statements and in the Off-Balance Sheet Arrangements section of this MD&A.

The Company has traditionally obtained its long term financing primarily through a medium term notes program. The Company may refinance maturing long term debt with medium term notes if market conditions are appropriate or it may consider other alternatives.

(1) See Non-GAAP Financial Measures on page 37.

In the normal course of business, the Company provides comfort letters to third party lenders in connection with financing activities of certain independent franchisees. In addition, the Company establishes standby and documentary letters of credit used in connection with certain obligations related to the financing program for its independent franchisees, securitization of PC Bank's credit card receivables, pension and benefit programs and performance guarantees associated with real estate and other obligations associated with normal course operating activities. At year end, the aggregate gross potential liability related to the Company's standby letters of credit was approximately $428 million (2008 – $398 million), against which the Company had $686 million (2008 – $441 million) in credit facilities available to draw on.

During 2009, DBRS revised the trend on the Company's long term ratings to stable from negative and S&P revised the outlook to stable from negative. The following table sets out the current credit ratings of the Company:

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

The rating organizations listed above base their credit ratings on quantitative and qualitative considerations. These credit ratings are forward-looking and intended to give an indication of the risk that the Company will not fulfill its obligations in a timely manner.

The Company's and PC Bank's ability to obtain funding from external sources may be restricted by downgrades in the Company's current credit ratings 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 financial and other liabilities. The Company mitigates these risks by maintaining appropriate levels of cash and cash equivalents and short term investments, committed lines of credit and diversifying its sources of funding and the maturity profile of its debt and capital obligations.

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.

The gross principal amount of loans issued to the Company's independent franchisees outstanding as at January 2, 2010 was $390 million (2008 – $388 million) including $163 million (2008 – $152 million) of loans payable by VIEs consolidated by the Company. 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 not less than 15% (2008 − 15%) of the principal amount of the loans outstanding at any time. As at January 2, 2010, $66 million (2008 – $66 million) was outstanding as a standby letter of credit. This standby letter of credit has never been drawn upon. This credit enhancement allows the independent funding trust to provide financing 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.

During the second quarter of 2009, a 364-day revolving committed credit facility provided by a syndicate of third party lenders in the amount of $475 million was renewed for 12 months. This facility is the source of funding to the independent trusts and has a 12 month repayment term at the end of the renewal period. In accordance with Canadian GAAP, the financial statements of the independent funding trust are not consolidated with those of the Company.

Equity Forward Contracts

During 2009, Glenhuron paid $55 million to terminate equity forwards representing 3.3 million shares, which led to the extinguishment of a corresponding portion of the associated liability.

As at January 2, 2010, Glenhuron had equity forwards to buy 1.5 million (2008 – 4.8 million) of the Company's common shares at an average forward price of $66.25 (2008 – $54.46) including $10.03 (2008 – $9.59) per common share of interest expense. At the end of 2009 the interest and unrealized market loss of $48 million (2008 - $92 million) was included in accounts payable and accrued liabilities.

6.3 Contractual Obligations

The following illustrates certain of the Company's significant contractual obligations and discusses other obligations as at January 2, 2010:

Summary of Contractual Obligations

	Payments due by year						
($ millions)	2010	2011	2012	2013	2014	Thereafter	Total
Long term debt (including capital lease obligations)	$ 343	$ 390	$ 38	$ 391	$ 474	$ 2,869	$ 4,505
Operating leases[1]	211	192	166	146	126	664	1,505
Contracts for purchases of Real property and capital Investment projects[2]	76	–	–	–	–	–	76
Purchase obligations[3]	688	671	479	16	–	–	1,854
Total contractual obligations	$ 1,318	$ 1,253	$ 683	$ 553	$ 600	$ 3,533	$ 7,940

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

- future payments of accrued benefit plan liability, principally post-retirement benefits, depend on when and if retirees submit claims;
- future payments of income taxes depend on the levels of taxable earnings and income tax rates;
- 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 colleagues exercise those stock options;
- future payments of restricted share units depend on the market price of the Company's common shares; and
- future payments of insurance claims can extend over several years and depend on the timing of anticipated settlements and results of litigation.

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

(2) These obligations include agreements for the purchase of real property and capital commitments for construction, expansion and renovation of buildings. 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 underlying transactions.

(3) These include contractual obligations of a material amount to purchase goods or services where the contract prescribes fixed or minimum volumes to be purchased or payments to be made within a fixed period of time for a set or variable price. These are only estimates of anticipated financial commitments under these arrangements and the amount of actual payments will vary. These purchase obligations do not include purchase orders issued or agreements made in the ordinary course of business which are solely for goods which are meant for resale, nor do they include any contracts which may be terminated on relatively short notice or with relatively insignificant cost or liability to the Company.

6.4 Off-Balance Sheet Arrangements

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

Standby Letters of Credit
Standby and documentary letters of credit are used in connection with certain obligations mainly related to pension and benefit programs and performance guarantees associated with real estate and other obligations associated with normal course operating activities. The aggregate gross potential liability related to the Company's standby letters of credit is approximately $246 million (2008 – $216 million).

Guarantees
The Company has entered into various guarantee agreements including standby letters of credit in relation to the securitization of PC Bank's credit card receivables, third-party financing made available to the Company's independent franchisees, and obligations to indemnify third parties in connection with leases, business dispositions and other transactions in the normal course of the Company's business. For a detailed description of the Company's guarantees, see note 27 to the consolidated financial statements.

Securitization of Credit Card Receivables
PC Bank participates in bank supported and term securitization programs. Under these programs, PC Bank sells a portion of the total interest in its credit card receivables to independent trusts in exchange for cash. The trusts fund these purchases by issuing debt securities in the form of asset-backed commercial paper or asset-backed term notes 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 trusts and PC Bank have been, and are expected to continue to be, accounted for as sales as contemplated by Canadian GAAP, specifically AcG 12, "*Transfers of Receivables*". The trusts are either not controlled by PC Bank or are qualifying special purpose entities and therefore the financial results of the trusts are not included in the Company's consolidated financial statements.

PC Bank sells interest in its credit card receivables to the trusts on a fully serviced basis. PC Bank does not receive a servicing fee from the trusts for its servicing responsibilities and accordingly, a servicing obligation is recorded. When a sale occurs, PC Bank retains rights to future cash flows after obligations to the investors in the trusts have been met, which is considered to be a retained interest. The independent trusts' recourse to PC Bank's assets is limited to PC Bank's excess collateral as well as standby letters of credit provided by major Canadian chartered banks for 9% (2008 – 9%) on a portion of the securitized amount. 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 subordinated notes issued by Eagle Credit Card Trust ("Eagle") provide credit support to those notes which are more senior. The retained interest is recorded at fair value.

As at year end 2009, the total amount of securitized credit card receivables outstanding which PC Bank continues to service was $1.7 billion (2008 – $1.8 billion) and the associated retained interest was $13 million (2008 – $14 million). During 2009, PC Bank received income of $235 million (2008 – $176 million) related primarily to PC Bank's rights to excess cash flows earned on the securitized credit card receivables. In the absence of securitization, the Company would be required to use its cash and short term investments or raise alternative financing by issuing debt or equity instruments. Further disclosure regarding this arrangement is provided in notes 1 and 8 to the consolidated financial statements.

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. Further disclosure regarding this arrangement is provided in Section 6.2, "Independent Funding Trusts" and in note 27 to the consolidated financial statements.

7. Quarterly Results of Operations

7.1 Results by Quarter

Under an accounting convention common in the food distribution industry the Company follows a 52-week reporting cycle which periodically necessitates a fiscal year of 53 weeks. 2008 was a 53-week fiscal year. The 52-week reporting cycle is divided into four quarters of 12 weeks each except for the third quarter, which is 16 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.

Summary of Quarterly Results
(unaudited)

					2009					2008
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Total (audited)**	First Quarter[1]	Second Quarter[1]	Third Quarter[1]	Fourth Quarter[1]	Total[1] (audited)
($ millions except where otherwise indicated)	**(12 weeks)**	**(12 weeks)**	**(16 weeks)**	**(12 weeks)**	**(52 weeks)**	(12 weeks)	(12 weeks)	(16 weeks)	(13 weeks)	(53 weeks)
Sales	**$6,718**	**$7,233**	**$9,473**	**$7,311**	**$30,735**	$6,527	$7,037	$9,493	$7,745	$30,802
Net earnings	**109**	**193**	**189**	**165**	**656**	63	140	157	190	550
Net earnings per common share										
Basic ($)	**$ 0.40**	**$ 0.70**	**$ 0.69**	**$ 0.60**	**$ 2.39**	$ 0.23	$ 0.51	$ 0.57	$ 0.70	$ 2.01
Diluted ($)	**$ 0.40**	**$ 0.70**	**$ 0.69**	**$ 0.59**	**$ 2.38**	$ 0.23	$ 0.51	$ 0.57	$ 0.70	$ 2.01

Sales and same-store sales growth were positive in the first two quarters of 2009 compared to 2008. Sales and same-store sales declined in the third and fourth quarters of 2009 compared to 2008. Quarterly same-store sales increases were 2.1% and 2.5% for the first two quarters of 2009 compared to 2008, respectively. Quarterly same-store sales declines were 0.6%, and 7.8%, for the third and fourth quarters of 2009 compared to 2008, respectively. The sale of the Company's food service business in the fourth quarter of 2008 negatively impacted sales in 2009 compared to 2008 by 0.5% for each of the first three quarters and by 0.3% in the fourth quarter. The acquisition of T&T in the third quarter of 2009 positively impacted the Company's sales by 0.2% and 1.8% in the third and fourth quarters of 2009, respectively, compared to 2008. Quarterly same-store sales increases for the four quarters of 2008 were 2.8%, 0.7%, 3.0% and 10.6%, respectively. The extra selling week in the fourth quarter of 2008 negatively impacted sales and same-store sales by approximately 7.0% in the fourth quarter of 2009 compared to 2008 and positively impacted sales and same-store sales by approximately 7.9% in the fourth quarter of 2008 compared to 2007. Quarterly sales and same-stores sales are also impacted by seasonality and the timing of holidays.

Internal retail food price inflation decreased throughout each of the last eight quarters and was lower than national food price inflation as measured by CPI. In the fourth quarter of 2009, the Company experienced internal retail food price deflation. CPI decreased to 1.6% in the fourth quarter of 2009 from 9.0% in the first quarter of 2009 and increased to 8.4% in the fourth quarter of 2008 from 0.1% in the first quarter of 2008. This measure of inflation does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores.

Net retail square footage increased by 1.0 million square feet since the end of fiscal 2007, to 50.6 million square feet, including the acquisition of 17 T&T stores in the third quarter of 2009 which increased net retail square footage by 0.8 million square feet.

(1) Certain 2008 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets". See note 2 to the consolidated financial statements.

Fluctuations in quarterly net earnings during 2009 reflect the underlying operations of the Company as well as the impact of specific charges including the impact of stock-based compensation including the equity forwards and costs related to the incremental investment in information technology and supply chain. Since the third quarter of 2008, quarterly net earnings have benefited from the Company's cost reduction initiatives. Earnings in the third and fourth quarters of 2009 and the first and second quarters of 2008 were pressured by investments in pricing. Quarterly net earnings are also impacted by seasonality and the timing of holidays. The impact of seasonality is greatest in the fourth quarter and least in the first quarter.

The change in the effective income tax rate for 2009 over 2008 was primarily related to the cumulative reduction in the income tax expense as a result of a reduction in Ontario statutory income tax rates enacted in the fourth quarter of 2009, an accelerated utilization of loss carryforwards and a decrease in income tax accruals relating to certain prior year income tax matters.

7.2 Fourth Quarter Results

The following is a summary of selected consolidated unaudited financial information for the fourth quarter of 2009. This information was prepared in accordance with Canadian GAAP and is reported in Canadian dollars. The analysis of the data contained in the table focuses on the results of operations and changes in the financial condition and cash flows in the fourth quarter.

Selected Consolidated Information for the Fourth Quarter

(unaudited)

($ millions except where otherwise indicated)	**2009 (12 weeks)**	2008[(1)] (13 weeks)
Sales	**$ 7,311**	$ 7,745
Gross profit	**1,728**	1,740
Operating income	**277**	320
Interest expense and other financing charges	**64**	65
Income taxes	**39**	62
Net earnings	**165**	190
Net earnings per common share ($)		
Basic	**0.60**	0.70
Cash flows from (used in):		
Operating activities	**615**	619
Investing activities	**(753)**	(419)
Financing activities	**(51)**	(161)
Dividends declared per common share ($)	**0.21**	0.21
Dividends declared on second preferred share Series A ($)	**0.37**	0.37

(1) Certain 2008 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets". See note 2 to the consolidated financial statements.

Total Sales, Sales Growth and Same-Store Sales Growth

($ millions)	**2009 (12 weeks)**	2008 (13 weeks)
Total sales	**$ 7,311**	$ 7,745
Total sales (decline) growth	**(5.6%)**	11.2%
Same-store sales (decline) growth	**(7.8%)**	10.6%

Sales for the fourth quarter decreased 5.6% to $7,311 million (12 weeks) compared to $7,745 million (13 weeks) in the fourth quarter of 2008.

The following factors explain the major components that influenced sales for the fourth quarter of 2009 compared to the fourth quarter of 2008:

- same-store sales declined 7.8%, including a decline in sales and same-store sales of approximately 7.0%, due to the extra selling week in the fourth quarter of 2008;
- T&T sales positively impacted sales by 1.8%;
- sales were negatively impacted by 0.3% by the sale of the Company's food service business in the fourth quarter of 2008;
- sales and same-store sales were negatively impacted by approximately 0.7% as a result of the shift of Thanksgiving holiday sales into the third quarter of 2009 from the fourth quarter of 2008;
- sales and same-store sales were positively impacted by approximately 0.6% as a result of a labour disruption in certain *Maxi* stores in Quebec in the fourth quarter of 2008. These stores reopened in the first quarter of 2009, except for two stores that were permanently closed;
- on an equivalent 12 week basis, sales growth in food was flat and sales growth in drugstore was moderate;
- on an equivalent 12 week basis, sales growth in apparel was strong while sales of other general merchandise declined significantly due to lower discretionary consumer spending and reductions in assortment and square footage;
- on an equivalent 12 week basis, gas bar sales increased as a result of higher retail gas prices and strong volume growth;
- the Company experienced internal retail food price deflation compared to modest national food price inflation of 1.6% as measured by CPI. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores; and
- during the fourth quarter of 2009, 7 corporate and franchised stores were opened and 10 corporate and franchised stores were closed, resulting in a net decrease of 0.2 million square feet or 0.5%.

Gross profit decreased by $12 million to $1,728 million in the fourth quarter of 2009 compared to $1,740 million in 2008, as a result of the additional selling week in 2008. Gross profit as a percentage of sales was 23.6% in the fourth quarter of 2009 compared to 22.5% in 2008.

Operating income decreased by $43 million to $277 million for the fourth quarter of 2009 compared to $320 million in 2008, primarily as a result of the additional selling week in 2008. Operating margin was 3.8% for the fourth quarter of 2009 compared to 4.1% in 2008. Contributing to the decrease in operating income was a charge of $5 million (2008 – income of $17 million) related to stock-based compensation including the equity forwards and incremental costs of $12 million related to the Company's investment in information technology and supply chain. Included in 2009 fourth quarter operating income was a charge of $27 million (2008 - $29 million) for fixed asset impairments related to asset carrying values in excess of fair values for specific store locations. The fourth quarter of 2008 was positively impacted by $8 million related to lower than anticipated restructuring costs and a gain of $22 million on the sale of the Company's food service business.

EBITDA[(1)] decreased by $14 million, or 3.2%, to $420 million in the fourth quarter of 2009 compared to $434 million in the fourth quarter of 2008. EBITDA margin[(1)] increased to 5.7% compared to 5.6% in the fourth quarter of 2008. The decrease in EBITDA[(1)] was primarily due to the decrease in operating income and operating margin.

(1) See Non-GAAP Financial Measures on page 37.

On an equivalent 12 week basis and excluding the above items, operating income and EBITDA[(1)] in the fourth quarter of 2009 improved significantly compared to the fourth quarter of 2008.

Total interest expense and other financing charges for the fourth quarter of 2009 were $64 million compared to $65 million in 2008.

The effective income tax rate in the fourth quarter of 2009 was 18.3% (2008 – 24.3%). The decrease in the effective income tax rate was primarily related to the cumulative reduction in the income tax expense as a result of a reduction in Ontario statutory income tax rates enacted in the fourth quarter of 2009, the accelerated utilization of loss carryforwards and a decrease in income tax accruals relating to certain prior year income tax matters.

Net earnings for the fourth quarter decreased by $25 million, or 13.2%, to $165 million from $190 million in the fourth quarter of 2008. Basic net earnings per common share for the fourth quarter decreased by $0.10, or 14.3%, to $0.60 from $0.70 in the fourth quarter of 2008.

Basic net earnings per common share were impacted in the fourth quarter of 2009 by a charge of $0.01 (2008 – income of $0.07) and a 2009 charge of $0.08 (2008 – $0.04) per common share for the net effect of the stock-based compensation including equity forwards.

Fourth quarter cash flows from operating activities were $615 million in 2009 compared to $619 million in the fourth quarter of 2008. The decrease can be attributed to the decrease in operating income primarily related to the additional selling week in 2008 and the settlement of equity forward contracts, partially offset by the change in non-cash working capital. Fourth quarter cash flows used in investing activities were $753 million in 2009 compared to $419 million in 2008. The increase was primarily due to the change in short term investments and a change in cash flows from credit card receivables, after securitization. During the fourth quarter of 2009, a distribution centre that was sold in 2007 was acquired for approximately $140 million including the assumption of a mortgage for $96 million. Capital expenditures for the fourth quarter were approximately $460 million (2008 – $353 million). Fourth quarter cash flows used in financing activities were $51 million in 2009 compared to $161 million in 2008. The decrease was primarily due to the decrease in cash dividend payments as a result of the DRIP and the repayment of short term debt in the fourth quarter of 2008, partially offset by the purchase of common shares in the fourth quarter of 2009.

8. Disclosure Controls and Procedures

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company and its subsidiaries is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

As required by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the Executive Chairman, as Chief Executive Officer, and the Chief Financial Officer have caused to be evaluated under their supervision the effectiveness of such disclosure controls and procedures. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at January 2, 2010.

9. Internal Control over Financial Reporting

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

(1) See Non-GAAP Financial Measures on page 37.

As required by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the Executive Chairman, as Chief Executive Officer, and the Chief Financial Officer have caused to be evaluated under their supervision the effectiveness of such internal controls over financial reporting using the framework established in 'Internal Control – Integrated Framework (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO)'. Based on that evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at January 2, 2010.

In designing and evaluating such controls, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Additionally, management is required to use judgment in evaluating controls and procedures.

Changes in Internal Control over Financial Reporting

Management has also evaluated whether there were changes in the Company's internal controls over financial reporting that occurred during the period beginning on October 11, 2009 and ended on January 2, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Management has determined that no material changes occurred during this period.

10. Enterprise Risks and Risk Management

The Company is committed to establishing a framework that ensures risk management is an integral part of its activities. To ensure the continued growth and success of the Company, risks are managed through an Enterprise Risk Management ("ERM") program. The Board has approved an ERM policy and oversees the ERM program, which assists all areas of the business in achieving the Company's strategic objectives by bringing a systematic approach, methodology and tools for evaluating and improving the effectiveness of risk management and control. The results of the ERM program and other business planning processes are used to prioritize risk management activities, allocate resources effectively and develop a risk-based internal audit plan.

The Company identifies and manages its risks in support of its vision, mission and goals to assist in achieving its strategic objectives. Risk is not eliminated through the ERM program; rather risks are identified and managed within acceptable risk tolerances. The ERM program is designed to:

- Promote a cultural awareness of risk management and compliance within the Company;
- Facilitate corporate governance by providing a consolidated view of risks across the Company and insight into the identification, assessment, measurement and monitoring of the risks;
- Ensure that resources are acquired economically, used efficiently and adequately protected; and
- Allow the Company to focus on its key risks in the business planning process and optimize financial performance through responsible risk management.

An annual ERM assessment is completed to assist in the update and identification of financial, operational or reputational risks affecting the Company. The ERM program is primarily carried out through interviews and risk assessments with senior management. Risks are assessed based on the likelihood and impact that the underlying risk would have on the Company's ability to execute its strategies and achieve its objectives. Each quarter, management provides an update to the Audit Committee as to the status of the top ten risks in relation to how they have changed from the previous quarter. The accountability for oversight of the management of each risk is allocated by the Audit Committee to either the full Board of Directors or to a Committee of the Board. At least once a year, the relevant business owners update the applicable Committee or the full Board of Directors on their risk management activities over the course of the preceding year.

In the normal course of business, the Company is exposed to financial and market risks that have the potential to negatively affect its financial performance. As such, the Company operates with policies and guidelines covering funding, investing, equity, commodity, foreign currency exchange and interest rate management. Policies and guidelines prohibit the use of any financial derivative instrument for trading or speculative purposes.

The operating, financial and reputational risks and risk management strategies identified by management are discussed below. Any of these risks has the potential to negatively affect financial performance. The Company has risk management strategies including insurance programs, which are intended to mitigate the potential impact of these risks. Although these strategies are designed to minimize these risks, some of which are discussed below, the strategies do not guarantee that the associated risks will be mitigated or not materialize or that events or circumstances will not occur which could negatively affect the Company's financial condition or performance.

10.1 Operating Risks and Risk Management

Change Management and Execution

Significant initiatives in support of the Company's multi-year turnaround plan are currently underway or in the planning stages. These initiatives include the restructuring of the Company's supply chain, execution of the information technology strategic plan and changes in the Company's organizational structure. Success of these initiatives is dependent on management effectively realizing the intended benefits. Ineffective change management may result in disruptions to the operations of the business or affect the ability of the Company to change or implement and achieve its long term strategic objectives. In addition, the centralization of the Company may create synergies in some areas of the business but also increase the risk of losing valuable market knowledge at the regional levels and across the various banners.

To assist in the management of change throughout the organization, the Company has positioned a team to support the major change initiatives in the Company. A department of human resource colleagues is dedicated to business change management and has a focus on communication, training and other support functions for major change initiatives within the Company. In addition, the Company has a Strategic Program Office which tracks progress on strategic initiatives and reviews new initiatives for alignment to the strategy. Despite these activities, any of the events noted above could negatively impact the Company's performance. The Company may not always achieve the expected cost savings and other benefits of its initiatives.

Information Technology, Integrity & Reliability

To support the current and future requirements of the business in an efficient, cost-effective and well-controlled manner, the Company is reliant on information technology (IT) systems. These systems are essential in providing management with relevant, reliable and accurate information for decision making, including its key performance indicators. Any significant failure or disruption of these systems or the failure to successfully migrate from legacy systems to new systems as part of the Company's significant IT infrastructure initiatives could negatively affect the Company's reputation, ability to carry on business, revenues and financial performance. If the information provided by the information technology systems is inaccurate, the risk of disclosing inaccurate or incomplete information is increased.

The Company has under invested in its IT infrastructure in the past and its systems are in need of upgrading. An IT strategic plan was developed to guide the new systems environment that the Company requires. The Company recently completed the first year of its ERP implementation to integrate and simplify finance and general ledger systems across Loblaw Properties Limited and President's Choice Financial. The Company is planning for additional system implementations in 2010 to streamline merchandising and operations activities. This is one of the largest technology infrastructure programs ever implemented by the Company and is fundamental to the Company's long-term growth strategies. Completing it will require intense focus and significant investment over the next two years.

Change management risk and other associated risks will arise from the various projects which will be undertaken to upgrade existing systems and introduce new systems to effectively manage the business going forward. Failure by the Company to appropriately invest in information technology or failure to implement information technology infrastructure in a timely or effective manner may negatively impact the Company's financial performance.

Information security risk and other associated risks will also arise from undertaking the various projects to upgrade existing systems and introduce new systems. The IT strategic plan includes upgrading information security systems through adherence to information security standards by instituting stricter security system protocols and corporate information security policies**.** However, any failures in the Company's information security systems or non-compliance with information security standards, including those in relation to personal information belonging to the Company's customers, could result in harm to the reputation or competitive position of the Company and could negatively affect financial performance.

Economic Environment

The Company remains cautious that the economic factors that impact consumer spending patterns could deteriorate. These factors include continued high levels of unemployment, changes in interest rates, household debt, reduced disposable incomes and access to consumer credit and changes in inflation. Management regularly monitors economic conditions and estimates their impact on the Company's operations and incorporates these estimates in short term operating and longer term strategic decisions. Despite these activities, one or more of these factors could negatively affect the Company's sales and margins. Inflationary trends are unpredictable and changes in the rate of inflation will affect consumer prices, which in turn could have a negative impact on the results of the Company.

Competitive Environment

The retail industry in Canada is highly competitive. If the Company is ineffective in responding to consumer trends or ineffective in executing its strategies, its financial performance could be negatively impacted.

The Company's competitors include traditional supermarket operators, as well as mass merchandisers, warehouse clubs, drugstores, limited assortment stores, discount stores, convenience stores and specialty stores. Many of these competitors now offer a selection of food, drugstore and general merchandise. Others remain focused on supermarket-type merchandise. The Company is also subject to competitive pressures from new entrants into the marketplace and from the expansion or combination of existing competitors, particularly those expanding into the grocery market. These competitors may have extensive resources to allow them to compete effectively with the Company in the long term. Several of the Company's competitors operate in a non-union environment. These competitors may benefit from lower labour costs and more favourable operating efficiencies, making it more difficult for the Company to compete. Increased competition could adversely 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, reduced market share and growth opportunities, as well as lower pricing in response to its competitors' pricing activities.

In addition, competitors could acquire or develop partnerships with other businesses, which could increase their market share or otherwise improve their competitiveness. If significant acquisitions or alliances are undertaken by competitors, the Company could lose opportunities for growth and partnerships in the market or otherwise experience adverse consequences.

The Company monitors its market share and the markets in which it operates and will adjust its operating strategies, which include, but are not limited to, closing underperforming stores, relocating stores or reformatting them under a different banner, reviewing and adjusting pricing, product offerings and marketing programs. However, the Company's competitive position and financial performance could be negatively impacted should any of the above events occur.

Food Safety and Public Health

The Company is subject to risks associated with food safety and non-food product defects. Such liabilities may arise as part of product procurement, distribution and product preparation and display, including the development and manufacture of the Company's control label products. A majority of the Company's sales are generated from food products and thus could be vulnerable in the event of a significant outbreak of food-borne illness or other public health concerns related to food products. Such an event could negatively affect the Company's financial performance. The traceability of products to the consumer level may affect the Company's ability to be effective in a recall situation.

A product recall program is in place to manage such events, should they occur. The program identifies risks, provides clear procedures for communication to employees and consumers and is aimed at ensuring that potentially harmful products are expeditiously removed from inventory and are not available for sale. The Company has food safety procedures and training programs which address safe food handling and preparation standards. The Company endeavours to employ current best practices for the procurement, distribution and preparation and display of food products. Also, it actively supports customer awareness of safe food handling and healthy choices. The Company places special focus on applying a safety and quality management system to ensure its control label products meet all food safety, regulatory nutritional requirements and quality standards for today's health conscious consumer to make informed choices. The ability of these programs and procedures to address such events is dependent on their successful execution. The existence of these procedures does not mean that the Company will in all circumstances be able to mitigate the underlying risks and any event related to these matters has the potential to adversely affect the Company's reputation and its financial performance.

Colleague Attraction, Development and Retention

The degree to which the Company is not effective in attracting and retaining talented employees, developing its employees, managing performance and implementing appropriate succession planning processes and retention strategies could lead to a lack of requisite knowledge, skills and experience. Effective talent attraction, colleague development, performance management, succession planning and colleague retention are essential to sustaining the growth and success of the Company. Management has implemented new programs throughout 2009 which will be ongoing into 2010 to assist in colleague attraction, retention, and development. The initiatives are focused on improving colleague engagement and supporting the Company's "Be a Great Place to Work" principle. Should these initiatives not be successful, the Company may not be able to execute its strategies, efficiently run its operations and its goals for financial performance may be adversely affected.

Distribution and Supply Chain

The need to invest in and improve the Company's supply chain may adversely affect the Company's capacity to effectively and efficiently attract and retain current and potential customers. A significant restructuring of the Company's supply chain will continue for the next two years. Although this initiative is expected to result in improved service levels for the Company's stores, the scale of the change and the implementation of new processes could cause disruption in the flow of goods to stores, which would negatively affect sales.

Labour Relations

A majority of the Company's store level and distribution centre workforce is unionized. Renegotiating collective agreements may result in work stoppages or slowdowns, which could negatively affect the Company's financial performance, depending on their nature and duration. In 2010, 73 collective agreements affecting approximately 35,000 colleagues will expire including the Company's single largest agreement covering approximately 13,700 colleagues. The Company will also continue to negotiate the 66 collective agreements carried over from 2005 to 2009 inclusively. 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. Although the labour relations leadership team attempts to mitigate work stoppages and disputes through early negotiations, where possible, or through delaying negotiations through busy periods, work stoppages or slowdowns are possible.

Merchandising and Excess Inventory

The Company may have inventory that customers don't want or need, is not reflective of current trends in customer tastes or habits, is priced at a level customers are not willing to pay, or that is late in reaching the market . The Company's operations as they relate to food, sales volume and product mix, are impacted to some degree by certain holiday periods in the year. Certain general merchandise items are subject to more seasonal fluctuations. The Company focuses effort on reducing inventory levels and early identification of inventory at risk. New information systems are being implemented that are expected to improve demand forecasting. In order to reduce the amount of excess inventory, the Company monitors the impact of customer trends. Innovation is critical to the Company in order to respond to these customer demands and to stay competitive in the marketplace. Despite these efforts, the Company may experience excess inventory that cannot be sold profitably which may negatively impact the Company's financial performance.

Strategic

Strategies must be understood and properly managed in order to deliver long term growth for the Company. If the strategy for the various banners is not clear, the stores may not be properly positioned in the marketplace. The execution of the Company's capital plans could pose a risk if they are not aligned with the strategy of the Company. In addition, the Company's ability to operate in the long term is affected by the development and location of real estate and spending decisions made in the short term. Decisions over rebuilding old networks of assets or increasing new assets could affect the Company's ability to compete in the long term. The strategy is formulated annually by Senior Management and is communicated throughout the organization. It is reviewed on a periodic basis to drive execution and ensure ongoing relevance. If the Company's strategy is not effectively communicated and executed, performance of the Company could suffer.

Vendor Management and Business Partnership

Certain aspects of the Company's business rely on suppliers that provide the Company with goods and services. Although appropriate contractual arrangements are put in place with these suppliers, the Company has no direct influence over how the companies are managed. Negative events affecting the suppliers could in turn negatively impact the Company's operations and its financial performance. Inefficient, ineffective or incomplete supplier management strategies, policies and/or procedures may impact the Company's ability to optimize financial performance, meet customer needs and/or control costs and quality.

The Company's control label products are manufactured under contract by third-party suppliers. In order to preserve the brands' equity, these suppliers are held to high standards of quality. The Company also uses third-party logistic services including the operation of dedicated warehouse and distribution facilities, and third-party common carriers. The Company maintains a strategy of multiple sources for logistics providers so that in the event of a disruption of service from one supplier, their services can be replaced by another. However, disruption in these services is possible which could interrupt the delivery of merchandise to the stores and therefore could negatively impact sales.

Offshore sourcing could provide products which contain harmful or banned substances or that do not meet Canadian standards. The Company continues to implement practices and performance expectations with its supplier base, including asking suppliers to support sales plans, cost reduction initiatives and to align with major program changes. Failure to effectively implement this program will have an impact on the Company's ability to realize the expected benefits.

President's Choice Financial banking services are provided by a major Canadian chartered bank. PC Bank uses third-party service providers to process credit card transactions, operate call centres and operationalize certain risk management strategies for the *President's Choice Financial* MasterCard®. 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 has established a vendor management team that provides its Board with regular reports on vendor management and risk assessment.

The Company relies on third parties for investment management, custody and other services for its cash equivalents, short term investments, security deposits and pension assets. Any disruption in the services provided by these suppliers could affect the return on these assets or liquidity of the Company.

Business Continuity

Events or series of events may cause business interruptions which could potentially impact sales, profitability, colleague safety, reputation and customer service. The Company has an enterprise wide business continuity program which is being continually matured. However, there can be no assurance that the existence of a business continuity program will ensure the Company responds appropriately in the event of business interruptions, crises and potential disasters.

Trademark and Brand Protection

Decrease in value of the Company's trademarks or brands, either because of adverse events or otherwise over time may threaten the demand for the Company's products or services or damage the Company's reputation. The Company endeavours to have the appropriate contractual protections in its arrangements with control label vendors and suppliers of all marketing elements (printing, flyers, advertising etc). The Company actively monitors and manages its trademark portfolio. Notwithstanding these activities, any negative impact to the value of the Company's trademarks or brands may impair its ability to maintain or grow current and future sales and profitability.

Tax and Regulatory

Changes to any of the laws, rules, regulations or policies related to the Company's business including taxation, accounting and the production, processing, preparation, distribution, packaging and labelling of its products could have an adverse impact on Loblaw's financial and operational performance. In the course of complying with such changes, the Company may incur significant costs. Changing regulations or enhanced enforcement of existing regulations could threaten the Company's competitive position and its capacity to efficiently conduct business. Failure by the Company to fully comply with applicable laws, rules, regulations and policies may subject it to civil or regulatory actions or proceedings, including fines, assessment, injunctions, recalls or seizures, which may have an adverse effect on the Company's financial results.

The Company is subject to various laws regarding the protection of personal information and has adopted a Privacy Code setting out guidelines for the handling of personal information. Any failure of the Company to comply with these laws may result in damage to its reputation and negatively affect financial performance.

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

Franchise Independence and Relationships

A substantial portion of the Company's revenues and earnings come from amounts paid by franchisees. Franchisees are independent businesses and, as a result, their operations may be negatively affected by factors beyond the Company's control which in turn may damage the Company's reputation and potentially affect revenues and earnings. Revenues and earnings could also be negatively affected, and the Company's reputation could be harmed, if a significant number of franchisees were to experience operational failures, including health and safety exposures, experience financial difficulty, be unwilling or unable to pay the Company for products, rent or other fees, or fail to enter into renewals of franchise agreements. The Company's franchise system is also subject to franchise legislation enacted by a number of provinces. Any new legislation or failure to comply with existing legislation may negatively affect operations and could add administrative costs and burdens, any of which could affect the Company's relationship with its franchisees. Relationships with franchisees could pose significant risks if they are disrupted which could result in legal action, reputational damage and/or adverse financial consequences.

Environmental, Health and Safety

The Company maintains a large portfolio of real estate and is subject to environmental risks associated with the contamination of such properties, whether by previous owners or occupants, neighbouring properties or from its own operations. The Company could be subject to increased or unexpected costs associated with the related remediation activities.

The Company has environmental, health and workplace safety programs 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 employee awareness programs throughout its operating locations. In the area of health and safety, the Company has established a national health and safety policy and a 5 year injury reduction plan, which is administered by functional corporate and regional safety steering committees.

The Environmental, Health and Safety Committee of the Board receives regular reporting from management addressing current and potential future issues, risks, programs/initiatives, identifying new regulatory concerns and related communication efforts. The Company's dedicated environmental affairs department works closely with operations to help ensure requirements are met.

Despite these efforts, adverse environmental, health and safety events could negatively affect the Company's reputation and financial performance. In addition, in recent years, provincial and municipal governments have introduced legislation that imposes liabilities on retailers, brand owners and importers for costs associated with recycling and disposal of consumer goods packaging and printing materials distributed to consumers. This is a growing trend and the Company expects to be subject to increased costs associated with these laws.

Employee Future Benefit Contributions

The Company manages the assets in its defined benefit pension plans by engaging professional investment managers who operate under prescribed investment policies and procedures in respect of permitted investments and asset allocations. The future contributions to the Company's pension plans are impacted by the investment performance of the plan assets and the discount rate used to value the liabilities of the plans. The Company regularly monitors and assesses plan experience and the impact of changes in participant demographics, changes in capital markets and other economic factors that may impact funding requirements, employee future benefit costs and actuarial assumptions. If capital market returns are below assumed levels, or if the discount rate drops, the Company may be required to make contributions to its registered funded defined benefit pension plans in excess of those currently contemplated, which in turn may have a negative effect on the Company's financial performance and cash flow.

Multi-Employer Pension Plans

In addition to the Company-sponsored pension plans, the Company participates in various multi-employer pension plans, providing pension benefits in which approximately 39% (2008 – 40%) of employees of the Company and of its independent 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, the Company 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; however, poor performance of these plans could have an adverse impact on the Company's employees and former employees who are members of these plans. Pension cost for these plans is recognized as contributions are due.

Real Estate and Store Renovations

Real estate development plans may be contingent on successful negotiation of labour agreements with respect to same-site expansion or redevelopment. 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 enabling the Company to introduce new departments and services that could be precluded under third party operating leases. As part of ongoing review of performance of, and customer satisfaction with, the Company's stores, the Company from time to time undertakes store renovations and remodelling. Efforts are made to minimize the duration of renovation and remodelling projects in order to limit the disruption at store level. However, the Company could be negatively impacted if such renovations and remodelling are carried out in a manner that is disruptive to the ongoing store operations or results in a poor customer experience.

Utility and Fuel Prices

The Company is a significant consumer of electricity, other utilities and fuel. The Company has entered into contracts to fix the price of a portion of its future variable costs associated with electricity, natural gas and fuel. However, cost increases in these items could negatively affect the Company's financial performance.

Ethical Business Conduct

Any failure of the Company or its vendors to adhere to ethical business conduct policies, the law or ethical business practices could significantly affect the Company's reputation and brands and could, therefore, negatively impact the Company's financial performance.

The Company has adopted a Code of Business Conduct which employees and directors of the Company are required to acknowledge on a regular basis. The Company has in place an Ethics and Business Conduct Committee which monitors compliance with the Code of Business Conduct and determines how the Company can best ensure it is conducting its business in an ethical manner. The Company has also adopted a Vendor Code of Conduct which outlines its ethical expectations to its vendor community in a number of areas, including social responsibility.

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**.**

10.2 Financial Risks and Risk Management

Liquidity and Capital Availability

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. Insufficient access to capital would impair the Company's capacity to grow, execute its business model and generate financial returns.

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 short term investments as well as its access to external capital to fund its liabilities including financial liabilities. The Company mitigates these risks by maintaining appropriate levels of cash and cash equivalents and short term investments in highly rated liquid securities, committed lines of credit and diversifying the sources and maturity profile of its external capital.

In March 2011, $500 million of credit card receivables-backed notes issued by Eagle will mature. The notes were issued by Eagle to fund the purchase of an interest in PC Bank originated credit card receivables. An accumulation period that requires PC Bank to set aside cash collections will begin approximately 6 months prior to the maturity of the notes, or at such earlier or later date declared by the Trust. PC Bank and the Company expect to have sufficient access to short term liquidity to fund the accumulation and long term funding and securitization facilities to replace or refinance this facility.

Credit

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 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. Potential counterparty risk and losses are limited to the net amounts recoverable under such derivative agreements with any specific counterparty. These risks are further reduced by entering into 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 exposure to any single counterparty for financial derivative agreements. Internal policies, controls and reporting processes, which require ongoing assessment and corrective action, if necessary, are in place with respect to derivative transactions.

Credit risk associated with 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. 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 attempt to mitigate credit risk. These investments are purchased and held directly in custody accounts and there is 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.

Foreign Currency Exchange Rate

The Company is exposed to foreign currency exchange rate variability, primarily on United States dollar denominated cash and cash equivalents, short term investments, security deposits included in other assets held by Glenhuron, foreign denominated and foreign currency based purchases in accounts payable and accrued liabilities, and USD private placement notes included in long term debt. The Company and Glenhuron have cross currency swaps that partially offset their respective exposure to fluctuations in foreign currency exchange rates. Cross currency swaps are transactions in which interest payments and principal amounts in one currency are exchanged against the receipt of interest payments and principal amounts in a second currency.

Commodity Price

The Company uses financial and non-financial derivative instruments in the form of future contracts, option contracts and forward contracts to manage its current and anticipated exposure to fluctuations in commodity prices. 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 a portion of 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 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 and option contracts to minimize cost volatility in fuel prices.

Common Share Market Price

The Company issues stock-based compensation to its employees in the form of stock options and RSU's based on its common shares. Consequently, the operating results of the Company are negatively impacted when the common share price increases and positively when the share price declines. Glenhuron's equity forwards provide a partial offset to fluctuations in stock-based compensation cost. 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 the Company'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 more effective when the market price of the Company's common shares exceeds the exercise price of the employee stock options. When the market price of the common shares is lower than the exercise price of the 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. As at the 2009 year end, 4,118,464 stock options had exercise prices which were greater than the market price of the Company's common shares at year end.

Interest Rate

Interest rate risk arises from the issuance of short term debt by the Company and equity forwards by Glenhuron, net of cash and cash equivalents, short term investments and security deposits included in other assets. The Company is exposed to changes in short term interest rate volatility which are offset partly by Glenhuron's and the Company's interest rate swaps. Interest rate swaps are transactions in which interest flows are exchanged with a counterparty on a specified notional amount for a pre-determined period based on agreed-upon fixed and floating interest rates.

Derivative Instruments

Over-the counter derivative instruments offset certain risks. The fair value of derivative instruments is subject to changing market conditions which could negatively impact earnings. Policies and guidelines prohibit the use of any derivative instrument for trading or speculative purposes. See notes 1 and 24 to the consolidated financial statements for additional information about the Company's financial derivative instruments.

11. Related Party Transactions

The Company's majority shareholder, Weston and its affiliates other than the Company, 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% (2008 – 3%) of the cost of merchandise inventories sold.

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 2009 were approximately $30 million (2008 – $28 million).

Real Estate

The Company leases office space from an affiliate of Weston for approximately $3 million (2008 – $2 million).

Borrowings/Lendings

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 amounts (2008 – nil) 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.

Supply Agreement

In 2008, the Company entered into a long term supply agreement with a subsidiary of Weston, and in exchange received cash proceeds of $65 million which will be recognized into income over the term of the agreement, of which $8 million (2008 – $1 million) was recognized in 2009. As at January 2, 2010, $8 million was included in accounts payable and accrued liabilities and $48 million in other liabilities. Certain assets and liabilities of a wholly owned subsidiary were sold by Weston in 2009.

Management Agreements
The Company has 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 2009 were $16 million (2008 – $13 million). Fees paid under this agreement are reviewed each year by the Audit Committee.

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. In 2008, Glenhuron had an agreement with a subsidiary of Weston for the administration of a loan portfolio of third party long term loans receivable. During 2009, Weston disposed of this subsidiary.

12. Critical Accounting Estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes.

Management continually evaluates the estimates and assumptions it uses. These estimates and assumptions are based on management's historical experience, best knowledge of current events and conditions and activities that the Company may undertake in the future. Actual results could differ from these estimates.

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

12.1 Inventories

Certain retail store inventories are stated at the lower of cost and estimated net realizable value. Estimation or judgment is required in the determination of (i) discount factors used to convert inventory to cost after a physical count at retail has been completed and (ii) estimated inventory losses, or shrinkage, occurring between the last physical inventory count and the balance sheet date.

Inventories counted at retail are converted to cost by applying a discount factor to retail selling prices. This discount factor is determined at the category level, is calculated in relation to historical gross margins and is reviewed on a regular basis for reasonableness. Inventory shrinkage, which is calculated as a percentage of sales, is evaluated throughout the year and provides for estimated inventory shortages from the last physical count to the balance sheet date. To the extent that actual losses experienced vary from those estimated, both inventories and operating income will be impacted.

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

Additional information on inventories is provided in note 10 to the consolidated financial statements.

12.2 Fixed Assets

Fixed assets are reviewed for impairment annually and also when events or circumstances indicate that their carrying value exceeds the sum of the undiscounted cash flows expected from their use and eventual disposition. An impairment loss is measured as the amount by which the fixed assets carrying value exceeds the fair value. As discussed in note 11 to the consolidated financial statements in 2009, the Company recorded a fixed asset impairment charge of $27 million (2008 − $29 million) and other charges of $19 million (2008 –$18 million).

The factor that most significantly influences the impairment assessments is the determination of fair value based on estimates of future cash flows. The Company uses its internal plans in estimating future cash flows. These plans reflect the Company's current best estimate of future cash flows but may change due to uncertain competitive and economic market conditions or changes in business strategies. Changes or differences in these estimates may result in changes to fixed assets on the consolidated balance sheet and a charge to operating income on the consolidated statement of earnings.

12.3 Employee Future Benefits

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

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

The discount rates are based on market interest rates as at the Company's measurement date of September 30 on a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the accrued benefit plan obligations. The discount rates used to determine the 2009 net cost for defined benefit pension and other benefit plans were 6.0% and 5.7%, respectively, on a weighted average basis, compared to 5.5% and 5.3%, respectively, in 2008. The discount rates which will be used to determine the net 2010 defined benefit pension and other benefit plans costs have decreased to 5.75% and 5.5%, respectively.

The expected long term rate of return on plan assets is based on current market conditions, the asset mix, the active management of defined benefit pension plan assets and historical returns. The Company has reduced the expected long term rate of return on plan assets to 6.75% in calculating its defined benefit pension plans cost for 2010. The Company's defined benefit pension plan assets had a 10 year annualized return of 5.3% as at the 2009 measurement date. The actual annual returns within this 10 year period varied with market conditions.

The expected growth rate in health care costs for 2009 was based on external data and the Company's historical trends for health care costs. In 2010, the growth rate of health care costs is estimated at 9.0% and is assumed to gradually decrease to 5.0% by 2015, remaining at that level thereafter.

Since the three key assumptions discussed above are forward-looking and long term in nature, they are subject to uncertainty and actual results may differ. In accordance with Canadian GAAP, differences between actual experience and the assumptions, as well as the impact of changes in the assumptions, are accumulated as unamortized net actuarial gains or losses and amortized over future periods, affecting the recognized cost of defined benefit pension plans and other benefit plans and the accrued benefit plan obligation in future periods. While the Company believes that its assumptions are appropriate, significant differences in actual experience or significant changes in the Company's assumptions may materially affect its defined benefit pension plans and other benefit plans accrued benefit plan obligations and future cost.

Additional information regarding the Company's pension and other benefit plans, including a sensitivity analysis for changes in key assumptions, is provided in note 14 to the consolidated financial statements and in the Employee Future Benefit Contributions discussion in the Operating Risks and Risk Management section of this MD&A.

12.4 Goodwill and Indefinite Life Intangible Assets

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

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

The Company performed the annual goodwill impairment test in 2009 and it was determined that the fair value of each of the reporting units exceeded its respective carrying value and therefore no goodwill impairment was identified.

Intangible assets with indefinite useful lives, primarily consisting of T&T trademarks and brand names, are assessed for impairment at least annually. Any potential intangible asset impairment is identified by comparing the fair value of the indefinite life intangible asset to its carrying value. If the fair value of the intangible asset exceeds its carrying value, the intangible asset is considered not to be impaired. If the carrying value of the intangible asset exceeds its fair value, impairment is identified as the difference between the fair value and the carrying value and will result in a reduction in the carrying value of the intangible asset on the consolidated balance sheet and the recognition of a non-cash impairment charge in operating income in the consolidated statement of earnings.

The Company determines the fair value of its trademarks and brand names by using the "Relief from Royalty Method", a discounted cash flow model. The process of determining the fair values requires management to make assumptions of a long term nature regarding projected future sales, terminal growth rates, royalty rates and discount rates. Projected future sales are consistent with strategic plans presented to the Company's Board and discount rates are based on an industry after-tax cost of equity. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

The impairment test was not performed in 2009 as the assets were acquired in the third quarter.

12.5 Income Taxes

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

At each balance sheet date, future income tax assets are reviewed to determine whether a valuation allowance is required. Such an allowance is required when it is deemed unlikely that projected future taxable income will be sufficient to realize the future income tax benefits.

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

13. Accounting Standards

13.1 Accounting Standards Implemented in 2009

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, in conjunction with Section 3064, provide guidance for the recognition of intangible assets, including internally developed assets from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The Company implemented these requirements in 2009, retroactively with restatement of the comparative period. Restatement of the comparative period resulted in an increase in selling and administrative expenses of $29 million, a decrease in depreciation and amortization of $35 million and an increase to future tax expense of $1 million. Restatement of the comparative period also resulted in a decrease to other assets of $42 million, a decrease to retained earnings of $27 million and a decrease to the future income taxes liability of $15 million.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities On January 20, 2009 EIC Abstract No.173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" ("EIC 173") was issued. 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. The transitional provisions require the abstract to be applied retrospectively without restatement of prior periods. Financial assets and financial liabilities, including derivative instruments, have been remeasured as at January 4, 2009 to take into account the appropriate Company's credit risk and counterparty credit risk. As a result, a decrease in other assets of $12 million, a decrease in other liabilities of $4 million, a decrease net of income taxes in accumulated other comprehensive income of $2 million and a decrease in retained earnings of $6 million were recorded in the consolidated balance sheet.

Financial Instruments – Disclosures In June 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures" to include additional disclosure relating to the measurement of fair value for financial instruments and liquidity risk. The amendment establishes a three level hierarchy that reflects the significance of the inputs used in fair value measurements on financial instruments. The amendment is effective for annual financial statements relating to fiscal years ending after September 30, 2009. See note 25 to the consolidated financial statements for the additional disclosures.

13.2 Future Accounting Standards

The Company closely monitors new accounting standards to assess the impact, if any, on its consolidated financial statements. In 2010 and 2011, the Company will be reviewing the implications of the following standards and implementing the recommendations as required:

Business Combinations In January 2009, the CICA issued Section 1582, "Business Combinations," which will replace Section 1581 of the same title and issued Sections 1601 "Consolidated Financial Statements" and 1602 "Non-Controlling Interests". These standards will harmonize Canadian GAAP with International Financial Reporting Standards ("IFRS"). The amendments establish principles and requirements for determining how an enterprise recognizes and measures the fair value of certain assets and liabilities acquired in a business combination, including non-controlling interests, contingent consideration, and certain acquired contingencies. The amendments also require that acquisition related transaction expenses and restructuring costs be expensed as incurred rather than capitalized as a component of the business combination. These amendments are effective for business combinations with an acquisition date on or after January 1, 2011 and early adoption is permitted. The impact of implementing these amendments on the Company's financial statements is currently being assessed.

Multiple Deliverable Revenue Arrangements On December 24, 2009 the EIC issued EIC 175 "Multiple Deliverable Revenue Arrangements" which replaces EIC 142 "Revenue Arrangements with Multiple Deliverables". The Abstract provides guidance on the identification and accounting for multiple revenue generating activities and specifically requires a vendor to allocate consideration to multiple deliverables based on their relative selling price. The Abstract may be applied prospectively for annual fiscal periods beginning on or after January 1, 2011 with permitted early adoption. The impact of implementing this Abstract on the Company's financial statements is currently being assessed.

13.3 International Financial Reporting Standards

The Canadian Accounting Standards Board will require all public companies to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

Project Structure and Status

The Company has an IFRS team led by the Chief Financial Officer to ensure the timely and appropriate implementation of IFRS. The IFRS team consists of dedicated resources as well as consultants and other employees on an as needed basis. This team reports regularly to a steering committee comprised of senior management, as well as to the Audit Committee.

The Company has developed an IFRS conversion project plan consisting of three main phases:

Phase One: Diagnostic Impact Assessment This phase consisted of a high-level impact assessment that identified the key areas of accounting differences between Canadian GAAP and IFRS that were likely to impact the Company. The diagnostic impact assessment was completed in 2008 and resulted in the ranking of accounting differences as high, medium, or low priority for further analysis.

Phase Two: Detailed Assessment This phase involved a comprehensive assessment of the differences between IFRS and the Company's current accounting policies and included reviews with the various finance groups and business process owners to further understand the impact of these differences. The detailed assessment was completed in April 2009 at which time the potential changes to existing accounting policies, business process and information systems were identified. Further analysis to finalize these impacts continued through 2009 and will be concluded in 2010.

Phase Three: Implementation This phase includes two components: implementation development and implementation transition and will result in the compilation of IFRS transitional adjustments, as required, as well as IFRS financial statements with required reconciliations to Canadian GAAP.

The implementation development phase is currently in progress and involves an analysis of policy alternatives under IFRS, including certain exemptions and elections available on transition. To date, management has determined preliminary conclusions for certain policy alternatives, as discussed below, while certain others remain under review. In addition, during this phase the required changes to supporting information systems and business processes, including the budgeting and planning process, financial covenants, key performance indicators, compensation arrangements that rely on financial statement indicators and contractual agreements, are being reviewed. The design and development of the required changes in these areas is in process and are expected to be completed by the end of 2010.

The implementation transition phase involves the final approval of accounting policies, including transitional elections, the execution of changes to business processes and supporting information systems, and the training of finance, operational and other staff. These activities are currently in process and will continue throughout 2010 in preparation for IFRS reporting, beginning in the first quarter of 2011.

Throughout 2010, the Company will prepare its internal opening balance sheet and quarterly financial statements in accordance with IFRS, based on management's preliminary conclusions for various policy alternatives. Changes to information systems required to prepare the opening balance sheet have been completed, while further changes necessary to gather appropriate information for dual reporting throughout 2010 are in process and nearing completion. Preparation of the opening balance sheet is currently in progress, and quarterly financial statements are expected to be prepared throughout 2010.

The Company has provided high level training to affected employees, senior management and the Board. Further detailed training regarding specific changes has been provided to individuals responsible for affected areas and will continue throughout 2010.

For all accounting policy changes identified, an assessment of the design and effectiveness implications on Internal Controls over Financial Reporting and Disclosure Controls and Procedures will be completed. Documentation of internal controls related to accounting policy changes has commenced and is expected to be completed during the third quarter of 2010.

The Company will continue to provide quarterly updates on its progress throughout the conversion period, to allow stakeholders to assess the impact of the conversion on the Company's financial performance, and the Company's ability to transition to IFRS in the first quarter of 2011. The Company anticipates communicating decisions about accounting policy alternatives and the impact of these decisions on the Company's consolidated financial statements once these items are finalized.

The information below is provided to allow investors and others to obtain a better understanding of the possible effects on, the Company's consolidated financial statements and operating performance measures. Readers are cautioned, however, that it may not be appropriate to use such information for any other purpose.

Changes in Accounting Policies

The Company continues to assess the aggregate effect of adopting IFRS, and the relevant changes in accounting policies. The changes identified below should not be regarded as a complete list of changes that will result from the transition to IFRS as it is intended to highlight those areas that are believed to be most significant at this point in the project. The International Accounting Standards Board has significant ongoing projects that could affect the ultimate differences between Canadian GAAP and IFRS and their impact on the Company's consolidated financial statements. Therefore, the Company's analysis of changes and accounting policy decisions have been made based on the accounting standards that are currently effective.

The Company is currently assessing the quantitative impact of the transitional adjustments on the consolidated financial statements and expects to be able to report later in fiscal 2010.

Securitization of Receivables International Accounting Standard ("IAS") 39, "Financial Instruments: Recognition and Measurement", contains different criteria than Canadian GAAP for the derecognition of financial assets and requires an evaluation of the extent to which an entity retains the risks and rewards of ownership. Under Canadian GAAP these financial assets qualify for sale treatment pursuant to AcG 12. The Company has determined that under IFRS credit card receivables will not qualify for derecognition.

Consolidation The Company consolidates certain independent franchisees and other entities subject to warehouse and distribution service agreements. Under IAS 27, "Consolidated and Separate Financial Statements" and Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" consolidation is assessed using a control model that does not include the concept of a variable interest entity. Under IFRS it is anticipated that the above noted entities will no longer be consolidated, while other financing entities, specifically the Independent Funding Trust through which franchisees obtain financing and Eagle, the independent trust that finances certain PC Bank credit card receivables, will likely be consolidated.

Employee Benefits IAS 19, "Employee Benefits" ("IAS 19") requires the past service cost element of defined benefit plans to be expensed on an accelerated basis, with vested past service costs expensed immediately and unvested past service costs recognized on a straight-line basis until the benefits become vested. Under Canadian GAAP, the Company generally amortizes past service costs on a straight-line basis over the average remaining service period of active employees expected under the plan. This difference will likely result in a reduction of unamortized past service costs on transition to IFRS.

IAS 19 provides a policy choice regarding recognition of actuarial gains and losses for defined benefit pension plans and post retirement benefit plans, permitting deferred recognition using the corridor method, or immediate recognition in either equity or through earnings. Under Canadian GAAP the Company applies the corridor method. The Company continues to review the impact of this policy choice.

Property Plant and Equipment IAS 16, "Property, Plant and Equipment" ("IAS 16") provides specific guidance such that when an individual part of an item of property, plant and equipment is replaced and capitalized as part of property, plant and equipment, the replaced part of the original asset must be de-recognized even if the replacement part was not originally componentized. The guidance in IAS 16 also provides more specific guidance with respect to the costs that are required and those that are eligible for capitalization, and the basis of their initial recognition. The Company is currently quantifying the potential impact of these changes on the opening balance sheet but they will likely result in the reduction of property, plant and equipment balances on transition to IFRS.

IAS 16 provides a policy choice in measuring each class of property, plant and equipment after initial recognition permitting the use of the cost or the revaluation model. The cost method is currently used under Canadian GAAP. The Company currently intends to continue to use the cost model as its accounting policy for the measurement of property, plant and equipment after initial recognition.

Impairment of Assets IAS 36, "Impairment of Assets", uses a one-step approach for testing and measuring impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use using discounted future cash flows. Canadian GAAP generally uses a two-step approach to impairment testing of long-lived assets: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. The difference in methodologies may potentially result in additional asset impairments under IFRS.

IFRS also requires that assets be tested for impairment at the level of cash generating units, which are defined as the lowest level of assets that generate largely independent cash inflows. Canadian GAAP requires assets to be grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities for impairment testing purposes. As a result, IFRS is expected to result in a lower level grouping of assets and therefore, may result in additional asset impairment charges under IFRS.

Provisions IAS 37, "Provision, Contingent Liabilities and Contingent Assets" ("IAS 37"), requires an entity to recognize a provision when a contract is determined to be onerous. A contract is onerous when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Canadian GAAP only requires the recognition of such a liability in certain prescribed situations. This difference could result in recognition of a liability under IFRS that was not previously recognized under Canadian GAAP. In addition, the measurement provisions under IAS 37 differ from the corresponding requirements under Canadian GAAP, which could result in the recording of provisions earlier or at a different amount than under Canadian GAAP. The Company is currently reviewing contracts and assessing the impact of measurement differences throughout the business to determine the overall impact of IAS 37 on transition to IFRS.

Share-based Payments IFRS 2, "Share-based Payments", requires that cash-settled share-based payments to employees be measured (both initially and at each reporting date) based on the fair value of the awards. Canadian GAAP requires that such payments be measured based on the intrinsic value of the awards at each reporting date. This difference is expected to impact the compensation expense recognized related to the Company's share-based payments, including stock options, share appreciation rights, and restricted share units and will likely result in an increase to the Company's liability on transition to IFRS.

Customer Loyalty Programs International Financial Reporting Interpretations Committee 13, Customer Loyalty Programs, requires the fair value of loyalty programs to be recognized as a component of sales transactions. The Company will be required to defer a portion of the revenue for the initial sales transaction in which the awards are granted based on their fair value. Under Canadian GAAP, the Company recognizes the net cost of the program in operating expenses. Although the amount of the impact is currently being assessed, the Company expects the impact will be not significant on transition to IFRS.

First-Time Adoption of IFRS

The adoption of IFRS will require the application of IFRS 1, "First Time Adoption of IFRS" ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of all IFRS effective at the reporting date, with the exception of certain mandatory exceptions and limited optional exemptions provided in the standard. The following are the significant optional exemptions available under IFRS 1 that the Company expects to apply in preparing its opening balance sheet in accordance with IFRS:

Employee Benefits The Company expects to apply an election which will recognize all cumulative actuarial gains and losses through retained earnings. If this exemption is not taken, actuarial gains and losses would have to be recalculated based on the requirements of IAS 19 from the inception of each of the Company's defined benefit plans. The Company's choice must be applied to all defined benefit plans consistently.

Borrowing Costs IFRS 1 allows prospective application of IAS 23, "Borrowing Costs" ("IAS 23"), which requires capitalization of borrowing costs to all qualifying assets. The Company currently expects to elect to apply IAS 23 prospectively, which will result in derecognition of borrowing costs previously capitalized.

Business Combinations The Company expects to apply IFRS 3, "Business Combinations" ("IFRS 3") prospectively only to those business combinations that occur after the date of transition. If this election is not made, the Company would have to select a historical transition date from which to apply the requirements of IFRS 3 prospectively.

14. Outlook[1]

The Company has completed three years of its renewal program and is making progress, with two of the toughest years ahead. Entering into 2010 sales and margins will continue to be challenged by deflation and increased competitive intensity. In 2010 the Company plans to step up investments in information technology and supply chain which will negatively impact operating income by approximately $185 million over 2009, while at the same time maintaining its capital expenditures at approximately $1 billion.

(1) To be read in conjunction with "Forward-Looking Statements" on page 2.

15. Non-GAAP Financial Measures

The Company uses the following non-GAAP financial measures: EBITDA and EBITDA margin, net debt, net debt to equity, net debt to EBITDA and return on average net assets. The Company believes these non-GAAP financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below. These measures do not have a standardized meaning prescribed by Canadian GAAP and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies, and they should not be construed as an alternative to other financial measures determined in accordance with Canadian GAAP.

EBITDA and EBITDA Margin

The following table reconciles earnings before minority interest, income taxes, interest expense and depreciation and amortization ("EBITDA") to operating income which is reconciled to Canadian GAAP net earnings measures reported in the consolidated statements of earnings for the years ended January 2, 2010, January 3, 2009 and December 29, 2007. EBITDA is useful to management in assessing the Company's performance of its ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

EBITDA margin is calculated as EBITDA divided by sales.

($ millions)	**2009 (52 weeks)**	2008[1] (53 weeks)	2007[2] (52 weeks)
Net earnings	**$ 656**	$ 550	$ 336
Add impact of the following:			
Minority interest	**11**	10	4
Income taxes	**269**	229	152
Interest expense and other financing charges	**269**	263	252
Operating income	**1,205**	1,052	744
Add impact of the following:			
Depreciation and amortization	**589**	550	556
EBITDA	**$ 1,794**	$ 1,602	$ 1,300

Net Debt

In the first quarter of 2009, the Company revised its definition of net debt to include the fair value of certain financial derivative assets and liabilities as the Company believes that the measure should include all interest bearing financing arrangements.

The following table reconciles net debt used in the net debt to equity ratio to Canadian GAAP measures reported in the audited consolidated balance sheets as at the years ended. The Company calculates net debt as the sum of bank indebtedness, short term debt, long term debt, other liabilities and the fair value of financial derivatives less cash and cash equivalents, short term investments, security deposits included in other assets and the fair value of financial derivatives. The Company believes that this measure is useful in assessing the amount of financial leverage employed.

(1) Certain 2008 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets". See note 2 to the consolidated financial statements.
(2) Certain 2007 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets".

($ millions)	As at January 2, 2010	As at January 3, 2009	As at December 29, 2007
Bank indebtedness	**$ 2**	$ 52	$ 3
Short term debt	**–**	190	418
Long term debt due within one year	**343**	165	432
Long term debt	**4,162**	4,070	3,852
Other liabilities	**36**	–	–
Fair value of financial derivatives related to the above	**58**	63	119
	4,601	4,540	4,824
Less: Cash and cash equivalents	**993**	528	430
Short term investments	**397**	225	225
Security deposits included in other assets	**250**	437	322
Fair value of financial derivatives related to the above	**178**	57	278
	1,818	1,247	1,255
Net debt	**$ 2,783**	$ 3,293	$ 3,569

The Second Preferred Shares, Series A are classified as capital securities and are excluded from the calculation of net debt. For the purpose of calculating net debt, fair value of financial derivatives is not credit value adjusted in accordance with EIC 173. As at January 2, 2010 the credit value adjustment was $4 million.

Net Assets

The following table reconciles net assets used in the return on average net assets ratio to Canadian GAAP measures reported in the audited consolidated balance sheets as at the years ended. The Company believes the return on average net assets ratio is useful in assessing the return on productive assets.

Net assets is calculated as total assets less cash and cash equivalents, short term investments, security deposits included in other assets and accounts payable and accrued liabilities. Return on average net assets is calculated as operating income for the year divided by average net assets.

($ millions)	As at January 2, 2010	As at January 3, 2009(1)	As at December 29, 2007(2)
Canadian GAAP total assets	**$ 14,991**	$ 13,943	$ 13,625
Less: Cash and cash equivalents	**993**	528	430
Short term investments	**397**	225	225
Security deposits included in other assets	**250**	437	322
Accounts payable and accrued liabilities	**3,242**	2,823	2,860
Net assets	**$ 10,109**	$ 9,930	$ 9,788

(1) Certain 2008 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets". See note 2 to the consolidated financial statements.
(2) Certain 2007 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets".

Equity

The following table reconciles equity used in the net debt to equity ratio to Canadian GAAP measures reported in the audited consolidated financial statements as at the years ended.

Equity is calculated as the sum of capital securities and shareholder's equity.

($ millions)	**As at January 2, 2010**	As at January 3, 2009[1]	As at December 29, 2007[2]
Capital securities	**220**	219	–
Shareholders' equity	**6,273**	5,803	5,513
Equity	**6,493**	6,022	5,513

16. Additional Information

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

March 12, 2010
Toronto, Canada

(1) Certain 2008 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets". See note 2 to the consolidated financial statements.
(2) Certain 2007 information has been restated to conform with the new CICA Handbook Section 3064, "Goodwill and Intangible Assets".

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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.

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. 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, 2010

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

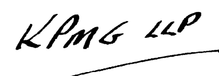
Independent Auditors' Report

To the Shareholders of Loblaw Companies Limited:

We have audited the consolidated balance sheets of Loblaw Companies Limited as at January 2, 2010 and January 3, 2009, the consolidated statements of earnings, changes in shareholders' equity and comprehensive income and the consolidated cash flow statements for the 52 week and 53 week years ended January 2, 2010 and January 3, 2009. 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 2, 2010 and January 3, 2009 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 11, 2010

Chartered Accountants, Licensed Public Accountants

Consolidated Statements of Earnings

For the years ended January 2, 2010 and January 3, 2009 ($ millions except where otherwise indicated)	2009 (52 weeks)	2008[1] (53 weeks)
Sales	**$ 30,735**	$ 30,802
Cost of Merchandise Inventories Sold **(note 10)**	**23,539**	23,891
Gross Profit	**7,196**	6,911
Operating Expenses		
Selling and administrative expenses	**5,402**	5,309
Depreciation and amortization	**589**	550
	5,991	5,859
Operating Income	**1,205**	1,052
Interest expense and other financing charges (note 4)	**269**	263
Earnings Before Income Taxes and Minority Interest	**936**	789
Income Taxes (note 5)	**269**	229
Net Earnings Before Minority Interest	**667**	560
Minority Interest	**11**	10
Net Earnings	**$ 656**	$ 550
Net Earnings Per Common Share ($) (note 6)		
Basic	**$ 2.39**	$ 2.01
Diluted	**$ 2.38**	$ 2.01

See accompanying notes to the consolidated financial statements.

(1) Restated - See note 2 to the Consolidated Financial Statements.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended January 2, 2010 and January 3, 2009 ($ millions except where otherwise indicated)	**2009** **(52 weeks)**	2008[1] (53 weeks)
Common Share Capital, Beginning of Year	**$ 1,196**	$ 1,196
Common shares issued (note 20)	**120**	–
Purchased for cancellation (note 20)	**(8)**	–
Common Share Capital, End of Year	**$ 1,308**	$ 1,196
Retained Earnings, Beginning of Year	**$ 4,577**	$ 4,289
Cumulative impact of implementing new accounting standards (note 2)	**(6)**	(32)
Net earnings	**656**	550
Dividends declared per common share – 84¢ (2008 – 84¢)	**(231)**	(230)
Premium on common shares purchased for cancellation (note 20)	**(48)**	–
Retained Earnings, End of Year	**$ 4,948**	$ 4,577
Accumulated Other Comprehensive Income, Beginning of Year	**$ 30**	$ 19
Cumulative impact of implementing new accounting standards (note 2)	**(2)**	–
Other comprehensive (loss) income	**(11)**	11
Accumulated Other Comprehensive Income, End of Year (note 23)	**$ 17**	$ 30
Total Shareholders' Equity	**$ 6,273**	$ 5,803

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended January 2, 2010 and January 3, 2009 ($ millions)	**2009** **(52 weeks)**	2008[1] (53 weeks)
Net earnings	**$ 656**	$ 550
Other comprehensive income		
Net unrealized (loss) gain on available-for-sale financial assets	**(23)**	40
Reclassification of loss (gain) on available-for-sale financial assets to net earnings	**2**	(21)
	(21)	19
Net gain on derivative instruments designated as cash flow hedges	**8**	21
Reclassification of loss (gain) on derivative instruments designated as cash flow hedges to net earnings	**2**	(29)
	10	(8)
Other comprehensive (loss) income (note 23)	**(11)**	11
Total Comprehensive Income	**$ 645**	$ 561

See accompanying notes to the consolidated financial statements.

(1) Restated - See note 2 to the Consolidated Financial Statements.

Consolidated Balance Sheets

As at January 2, 2010 and January 3, 2009 ($ millions)	2009	2008[1]
Assets		
Current Assets		
Cash and cash equivalents (note 7)	**$ 993**	$ 528
Short term investments	**397**	225
Accounts receivable (note 8)	**774**	867
Inventories (note 10)	**2,112**	2,188
Income taxes (note 5)	**–**	40
Future income taxes (note 5)	**38**	41
Prepaid expenses and other assets	**50**	71
Total Current Assets	**4,364**	3,960
Fixed Assets (note 11)	**8,559**	8,045
Goodwill and intangible assets (notes 2 and 12)	**1,026**	818
Other Assets (note 13)	**1,042**	1,120
Total Assets	**$ 14,991**	$ 13,943
Liabilities		
Current Liabilities		
Bank indebtedness	**$ 2**	$ 52
Short term debt (note 15)	**–**	190
Accounts payable and accrued liabilities	**3,242**	2,823
Income taxes payable (note 5)	**41**	–
Long term debt due within one year (note 16)	**343**	165
Total Current Liabilities	**3,628**	3,230
Long Term Debt (note 16)	**4,162**	4,070
Other Liabilities (note 17)	**534**	445
Future Income Taxes (note 5)	**143**	156
Capital Securities (note 19)	**220**	219
Minority Interest	**31**	20
Total Liabilities	**8,718**	8,140
Shareholders' Equity		
Common Share Capital (note 20)	**1,308**	1,196
Retained Earnings	**4,948**	4,577
Accumulated Other Comprehensive Income (notes 2 and 23)	**17**	30
Total Shareholders' Equity	**6,273**	5,803
Total Liabilities and Shareholders' Equity	**$ 14,991**	$ 13,943

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

See accompanying notes to the consolidated financial statements.

Approved on Behalf of the Board

[*signed*]	**[*signed*]**
Galen G. Weston	**Thomas C. O'Neill**
Director	Director

(1) Restated - See note 2 to the Consolidated Financial Statements.

Consolidated Cash Flow Statements

For the years ended January 2, 2010 and January 3, 2009 ($ millions)	2009 (52 weeks)	2008[1] (53 weeks)
Operating Activities		
Net earnings before minority interest	**$ 667**	$ 560
Depreciation and amortization	**589**	550
Future income taxes	**(29)**	27
Settlement of equity forward contracts (note 24)	**(55)**	–
Change in non-cash working capital	**707**	(284)
Other	**66**	107
Cash Flows from Operating Activities	**1,945**	960
Investing Activities		
Fixed asset purchases	**(971)**	(750)
Short term investments	**(216)**	45
Proceeds from fixed asset sales	**27**	125
Credit card receivables, after securitization (note 8)	**8**	82
Business acquisitions – net of cash acquired (note 3)	**(204)**	–
Franchise investments and other receivables	**6**	(37)
Other	**102**	(43)
Cash Flows used in Investing Activities	**(1,248)**	(578)
Financing Activities		
Bank indebtedness	**(50)**	50
Short term debt	**(190)**	(228)
Long term debt (note 16)		
Issued	**402**	301
Retired	**(167)**	(424)
Capital securities issued (note 19)	**–**	218
Common shares retired (note 20)	**(56)**	–
Dividends	**(112)**	(288)
Cash Flows used in Financing Activities	**(173)**	(371)
Effect of foreign currency exchange rate changes on cash and cash equivalents (note 7)	**(59)**	87
Change in Cash and Cash Equivalents	**465**	98
Cash and Cash Equivalents, Beginning of Year	**528**	430
Cash and Cash Equivalents, End of Year	**$ 993**	$ 528

See accompanying notes to the consolidated financial statements.

(1) Restated - See note 2 to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

For the years ended January 2, 2010 and January 3, 2009
($ 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 the Company 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 2, 2010 and January 3, 2009 contained 52 weeks and 53 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 the Company. The Company recognizes revenue at the time the sale is made to its customers.

Net Earnings per Common 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 and a component of other liabilities 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 which approximates the fair value of these instruments. See note 7 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 which approximates the fair value of these instruments.

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 which approximates the fair value of these instruments.

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. These trusts are either not controlled by PC Bank or are qualifying special purpose entities. 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 retains servicing responsibilities, certain administrative responsibilities and 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 and accordingly a servicing liability is recorded. The servicing 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 securitization of the receivables depends, in part, on the previous carrying amount of the receivables involved in the transfer, allocated between the assets sold and retained interest, based on their relative fair values at the date of transfer. The fair value of the retained interest 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 net yield, 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 interest is 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 merchandise inventories sold 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 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 10 for more information.

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.

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 ("Board"). 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 12.

Intangible Assets The Company assesses intangible assets for legal, regulatory, contractual, competitive or other factors to determine if the useful life is definite. Intangible assets which are determined to have a definite life are amortized over the related assets' estimated useful lives, to a maximum of 17 years.

Intangible assets with indefinite useful lives, consisting of T&T Supermarket Inc. ("T&T") trademarks and brand names, will be assessed for impairment at least annually. Any potential intangible asset impairment is identified by comparing the fair value of the indefinite life intangible asset to its carrying value. If the fair value of the intangible asset exceeds its carrying value, the intangible asset is considered not to be impaired. If the carrying value of the intangible asset exceeds its fair value, impairment is identified as the difference between the fair value and the carrying value and will result in a reduction in the carrying value of the intangible asset on the consolidated balance sheet and the recognition of a non-cash impairment charge in operating income in the consolidated statement of earnings.

The Company determines the fair value of its trademarks and brand names by using the "Relief from Royalty Method", a discounted cash flow model. The process of determining the fair values requires management to make assumptions of a long term nature regarding projected future sales, terminal growth rates, royalty rates and discount rates. Projected future sales are consistent with strategic plans presented to the Board and discount rates are based on an industry after-tax cost of equity. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

Financial Instruments Financial instruments are 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. Financial instruments are 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. Financial assets and financial liabilities have been initially remeasured as at January 4, 2009 to take into account the appropriate Company's credit risk and counterparty credit risk (see note 2). 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.

The following classifications have been applied:

- Cash and cash equivalents, short term investments and security deposits included in other assets are designated as held-for-trading with the exception of certain United States dollar denominated cash equivalents, short term investments and security deposits included in other assets 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, certain other liabilities 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 Financial derivative instruments in the form of cross currency swaps, interest rate swaps and equity forwards partially offset exposure to fluctuations in foreign currency exchange rates, interest rates and the market price of the Company's common shares. Financial and non-financial derivative instruments in the form of futures contracts, option contracts and forward contracts mitigate current and anticipated exposure to fluctuations in commodity prices and foreign currency exchange rates. Policies and guidelines prohibit the use of any derivative instruments for trading or speculative purposes.

All financial derivative instruments are recorded at fair value on the consolidated balance sheet. Derivative instruments have been initially remeasured as at January 4, 2009 to take into account the appropriate Company's credit risk and counterparty credit risk (see note 2). 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 (see note 25). 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 exposure to fluctuations in the foreign currency exchange rate and variable interest rates (see note 24). 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 items 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 rates, 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 and then adjusted for employer contributions made between the measurement date and the fiscal year end. 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, unless the plan covers mostly inactive members in which case life expectancy is used. The amortization period for the defined benefit pension plans ranges from 9 to 18 years, with a weighted average of 11 years. The amortization period for the post-retirement benefit plans ranges from 7 to 17 years, with a weighted average of 15 years. The unamortized net actuarial gain or loss for post-employment and long term disability benefits is amortized over a period not exceeding three 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 ("ESOP") 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.

Director Deferred Share Unit ("DSU") Plan Members of the Board, 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 Unit ("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 an 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 and intangible assets, income 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. Intangible assets, which were previously presented as other assets on the consolidated balance sheet, are now included in goodwill and intangible assets and totaled $10 (2008 - $11) as at January 2, 2010.

Future Accounting Standards

Business Combinations In January 2009, the CICA issued Section 1582, "Business Combinations," which will replace Section 1581 of the same title and issued Sections 1601 "Consolidated Financial Statements" and 1602 "Non-Controlling Interests". These standards will harmonize Canadian GAAP with International Financial Reporting Standards ("IFRS"). The amendments establish principles and requirements for determining how an enterprise recognizes and measures the fair value of certain assets and liabilities acquired in a business combination, including non-controlling interests, contingent consideration, and certain acquired contingencies. The amendments also require that acquisition related transaction expenses and restructuring costs be expensed as incurred rather than capitalized as a component of the business combination. These amendments are effective for business combinations with an acquisition date on or after January 1, 2011 and early adoption is permitted. The impact of implementing these amendments is currently being assessed.

Multiple Deliverable Revenue Arrangements On December 24, 2009 the Emerging Issues Committee ("EIC") issued EIC 175 "Multiple Deliverable Revenue Arrangements" which replaces EIC 142 "Revenue Arrangements with Multiple Deliverables". The Abstract provides guidance on the identification and accounting for multiple revenue generating activities and specifically requires a vendor to allocate consideration to multiple deliverables based on their relative selling price. The Abstract may be applied prospectively for annual fiscal periods beginning on or after January 1, 2011 with permitted early adoption. The impact of implementing this Abstract on the Company's financial statements is currently being assessed.

Note 2. Implementation of New Accounting Standards

Accounting Standards Implemented in 2009

Goodwill and Intangible Assets In November 2007, the CICA issued amendments to Section 1000 "Financial Statement Concepts", and AcG 11 "Enterprises in the Development Stage", issued a new Handbook Section 3064 "Goodwill and Intangible Assets" ("Section 3064") to replace Section 3062 "Goodwill and Other Intangible Assets", withdrew Section 3450 "Research and Development Costs" and amended EIC Abstract 27 "Revenues and Expenditures During the Pre-operating Period" to not apply to entities that have adopted Section 3064. These amendments, in conjunction with Section 3064, provide guidance for the recognition of intangible assets, including internally developed assets from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The Company implemented these requirements effective 2009, retroactively with restatement of the comparative period. Restatement of the comparative period resulted in an increase in selling and administrative expenses of $29, a decrease in depreciation and amortization of $35 and an increase to future tax expense of $1. Restatement of the comparative period also resulted in a decrease to other assets of $42, a decrease to retained earnings of $27 and a decrease to the future income taxes liability of $15.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities On January 20, 2009 EIC Abstract No.173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" ("EIC 173") was issued. 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. The transitional provisions require the abstract to be applied retrospectively without restatement of prior periods. Financial assets and financial liabilities, including derivative instruments, have been remeasured as at January 4, 2009 to take into account the appropriate Company's credit risk and counterparty credit risk. As a result, a decrease in other assets of $12, a decrease in other liabilities of $4, a decrease net of income taxes in accumulated other comprehensive income of $2 and a decrease in retained earnings of $6 were recorded in the consolidated balance sheet.

Financial Instruments – Disclosures In June 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures," ("Section 3862") to include additional disclosure relating to the measurement of fair value for financial instruments and liquidity risk. The amendment establishes a three level hierarchy that reflects the significance of the inputs used in fair value measurements on financial instruments. The amendment is effective for annual financial statements relating to fiscal years ending after September 30, 2009. See note 25 for new disclosures.

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 3862 and Section 3863, “Financial Instruments – Presentation”. The adoption of these sections did not have an impact on the Company’s results of operations or financial condition.

Inventories Effective January 1, 2008, the Company implemented Section 3031, “Inventories” (“Section 3031”), issued by the CICA in June 2007, which replaced Section 3030 of the same title. The transitional adjustments resulting from the implementation of Section 3031 were recognized in the 2008 opening balance of retained earnings. Upon implementation of these requirements, a decrease in opening inventories of $65, an increase in current taxes receivable of $24 and a decrease of $41 to opening retained earnings as at December 30, 2007 were recorded on the consolidated balance sheet resulting mainly from the application of a consistent cost formula for all inventories having a similar nature and use.

Note 3. Business Acquisitions and Dispositions

Acquisition of T&T

The Company acquired all of the outstanding common shares of T&T in the third quarter of 2009 for cash consideration of $200, $191 of which was paid on the date of acquisition. The Company also assumed a liability of $34 associated with preferred shares issued by T&T to a vendor prior to the acquisition. The liability will increase with a favourable performance of the T&T business and the increase in the liability will be expensed as incurred. $4 of acquisition costs were incurred in connection with the acquisition. The acquisition was accounted for using the purchase method of accounting and its results of operations from the date of the acquisition have been included by the Company.

The preferred shares are classified as Other Liabilities on the Consolidated Balance Sheet as at January 2, 2010. Redemption or purchase of the preferred shares may take place upon the occurrence of certain events, including the expiry of 5 years from the closing date of the acquisition. The preferred shareholder may increase this period up to a further 5 years if certain conditions are met. The preferred share liability may be satisfied in cash, the Company’s common shares, or a combination thereof, at the option of the Company.

The preliminary purchase price allocation, based on management’s assessment of fair value is as follows:

Net assets acquired:	
Inventory	$ 39
Other current assets	7
Fixed assets	73
Goodwill	131
Indefinite life intangible assets (trademarks and brand names)	51
Definite life intangible assets	14
Current liabilities	(60)
Other liabilities	(39)
Future income taxes	(16)
Cash consideration	$ 200

In connection with the acquisition of T&T, the Company also acquired certain net assets for $5.

The goodwill associated with these transactions is not deductible for tax purposes.

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 4. Interest Expense and Other Financing Charges

	2009	2008
Interest on long term debt	**$ 282**	$ 286
Interest expense (income) on financial derivative instruments	**2**	(4)
Net short term interest (income) expense	**(6)**	2
Interest income on security deposits	**(2)**	(9)
Dividends on capital securities	**14**	8
Capitalized to fixed assets	**(21)**	(20)
Interest expense	**$ 269**	$ 263

During 2009, net interest expense of $263 (2008 − $283) was recorded related to the financial assets and financial liabilities not classified as held-for-trading. In addition, $2 (2008 – $12) of income from cash and cash equivalents and short term investments, held by Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of the Company, were recognized in net short term interest income.

Interest and dividends on capital securities paid in 2009 were $365 (2008 – $402), and interest received in 2009 was $73 (2008 − $132).

Note 5. 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:

	2009	2008[(1)]
Weighted average basic Canadian federal and provincial statutory income tax rate	**30.7%**	30.8%
Net increase (decrease) resulting from:		
Earnings in jurisdictions taxed at rates different from the Canadian statutory income tax rates	**(0.6)**	(3.2)
Non-deductible amounts	**0.2**	(0.3)
Impact of statutory income tax rate changes on future income tax balances	**(0.4)**	–
Other	**(1.2)**	1.7
Effective income tax rate	**28.7%**	29.0%

Net income taxes paid in 2009 were $199 (2008 – $122).

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 2009 a $3 (2008 – nil) 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.

(1) Restated - See note 2.

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

	2009	2008[1]
Accounts payable and accrued liabilities	**$ 35**	$ 32
Other liabilities	**158**	146
Fixed assets	**(281)**	(294)
Other assets	**(103)**	(86)
Losses carried forward (expiring 2015 to 2029)	**92**	78
Other	**(6)**	9
Net future income tax liabilities	**$ (105)**	$ (115)

	2009	2008[1]
Recorded on the consolidated balance sheets as follows:		
Current future income tax assets	**$ 38**	$ 41
Non-current future income tax liabilities	**(143)**	(156)
Net future income tax liabilities	**$ (105)**	$ (115)

Note 6. Basic and Diluted Net Earnings per Common Share ($, except where otherwise indicated)

	2009	2008[1]
Net earnings for basic earnings per share ($ millions)	**$ 656**	$ 550
Dividends on capital securities ($ millions) (note 19)	**14**	8
Net earnings for diluted earnings per share ($ millions)	**670**	558
Weighted average common shares outstanding (in millions) (note 20)	**275.0**	274.2
Dilutive effect of stock-based compensation (in millions)	**0.2**	0.1
Dilutive effect of capital securities (in millions) (note 19)	**6.6**	3.6
Dilutive effect of certain other liabilities (in millions)	**0.3**	–
Diluted weighted average common shares outstanding (in millions)	**282.1**	277.9
Basic net earnings per common share ($)	**$ 2.39**	$ 2.01
Diluted net earnings per common share ($)	**$ 2.38**	$ 2.01

Stock options outstanding with an exercise price greater than the market price of the Company's common shares at January 2, 2010 were not recognized in the computation of diluted net earnings per common share. Accordingly, 4,118,464 (2008 – 4,690,732) stock options, with a weighted average exercise price of $52.64 (2008 – $52.98) per common share, were excluded from the computation of diluted net earnings per common share.

(1) Restated - See note 2.

Note 7. Cash and Cash Equivalents

The components of cash and cash equivalents as at January 2, 2010 and January 3, 2009 were as follows:

	2009	2008
Cash	$ 219	$ 42
Cash equivalents − short term investments with a maturity of 90 days or less:		
Bank term deposits	385	–
Government treasury bills	168	219
Government-sponsored debt securities	40	58
Corporate commercial paper	181	209
Cash and cash equivalents	$ 993	$ 528

The Company recognized an unrealized foreign currency exchange loss of $146 (2008 – gain of $210) as a result of translating United States dollar denominated cash and cash equivalents, short term investments and security deposits included in other assets, of which a loss of $59 (2008 – gain of $87) is related to cash and cash equivalents. The resulting loss (2008 – gain) on cash and cash equivalents, short term investments and security deposits included in other assets is offset in operating income and accumulated other comprehensive income by the unrealized foreign currency exchange gain of $145 (2008 – loss of $208) on the cross currency swaps as described in note 24.

Note 8. Accounts Receivable

The components of accounts receivable as at January 2, 2010 and January 3, 2009 were as follows:

	2009	2008
Credit card receivables	$ 2,128	$ 2,206
Amount securitized	(1,725)	(1,775)
Net credit card receivables	403	431
Other receivables	371	436
Accounts receivable	$ 774	$ 867

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. The retained interest has been designated as held-for-trading and is carried at their fair value in accounts receivable. The fair value of the retained interest 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 and accordingly, a servicing liability is recorded.

In 2009, no incremental (2008 – $300) credit card receivables were securitized. During the year, securitization yielded no gain (2008 – $1) on the initial sale. During 2009, PC Bank repurchased $50 (2008 – nil) of the co-ownership interest in the securitized receivables from an independent trust and an additional $90 was repurchased subsequent to January 2, 2010. A portion of the securitized receivables held by an independent trust facility was renewed for a 364 day term during the third quarter of 2009. During 2009, PC Bank received income of $235 (2008 − $176) related primarily to PC Bank's rights to excess cash flows earned on the securitized credit card receivables. A decrease in servicing liability of $3 (2008 – increase of $1) was recognized during the year on securitization and at year end the servicing liability was $8 (2008 – $11). The trusts' recourse to PC Bank's assets is limited to PC Bank's excess collateral of $121 (2008 – $124) as well as a standby letter of credit for $116 (2008 – $116) on a portion of the securitized amount (see note 27).

Net credit loss experience of $21 (2008 – $35) includes $139 (2008 – $99) of credit losses on the total portfolio of credit card receivables net of credit losses of $118 (2008 – $64) relating to securitized credit card receivables.

The following table displays the sensitivity of the current fair value of the retained interest to an immediate 10% and 20% adverse change in the 2009 key 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	
	2009	**10%**	**20%**
Carrying value of retained interest	**$ 13**		
Payment rate (monthly)	**45.46%**	**$ (1)**	**$ (2)**
Weighted average life (years)	**0.7**		
Expected credit losses	**7.11%**	**$ (2)**	**$ (4)**
Annual discount rate applied to residual cash flows	**6.44%**		
Net Yield	**13.55%**	**$ (4)**	**$ (8)**
Cost of Funds	**2.34%**	**$ (1)**	**$ (1)**

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

	2009	2008
(Repurchase of co-ownership interests) Proceeds from new securitizations	**$ (50)**	$ 300
Net cash flows received on retained interest	**$ 244**	$ 177

Credit card receivables that are past due of $7 (2008 – $7) as at January 2, 2010 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 $46 as at January 2, 2010, (2008 – $79) of which a nominal amount were more than 60 days past due.

Note 9. Allowances for Receivables

The allowance for credit card receivables recorded in accounts receivable on 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 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 2, 2010	January 3, 2009
Allowance, at beginning of year	**$ (15)**	$ (13)
Provision for losses	**(21)**	(35)
Recoveries	**(9)**	(14)
Write-offs	**29**	47
Allowance, at end of year	**$ (16)**	$ (15)

Other Receivables

	January 2, 2010	January 3, 2009
Allowance, at beginning of year	**$ (24)**	$ (35)
Provision for losses	**(101)**	(81)
Write-offs	**105**	92
Allowance, at end of year	**$ (20)**	$ (24)

Note 10. Inventories

For inventories recorded as at January 2, 2010, the Company recorded $15 (2008 – $16) as an expense for the write-down of inventories below cost to net realizable value. There were no reversals of inventories written down previously that are no longer estimated to sell below cost.

Note 11. Fixed Assets

		2009			2008	
	Cost	**Accumulated Depreciation**	**Net Book Value**	Cost	Accumulated Depreciation	Net Book Value
Properties held for development	**$ 494**	**$ –**	**$ 494**	$ 556	$ –	$ 556
Properties under development	**191**	**–**	**191**	164	–	164
Land	**1,840**	**–**	**1,840**	1,753	–	1,753
Buildings	**5,871**	**1,614**	**4,257**	5,471	1,454	4,017
Equipment and fixtures	**4,744**	**3,316**	**1,428**	4,266	3,033	1,233
Building and leasehold improvements	**559**	**272**	**287**	517	255	262
	13,699	**5,202**	**8,497**	12,727	4,742	7,985
Capital leases − buildings and equipment	**179**	**117**	**62**	170	110	60
	$ 13,878	**$ 5,319**	**$ 8,559**	$ 12,897	$ 4,852	$ 8,045

Included in land and buildings is $58 (2008 – $68) of properties held for sale. The following items were recognized in operating income during 2009: fixed asset impairment charge of $27 (2008 – $29) and other charges of $19 (2008 – $18).

During 2009, the Company completed the purchase of a distribution centre for consideration of $140 plus closing costs. The Company assumed a mortgage of $96 in connection with the purchase, of which $2 is included in long term debt due within one year (see note 16).

Note 12. Goodwill and Intangible Assets

In 2009 and 2008, the Company performed its annual goodwill impairment test and determined that there was no impairment to the carrying value of goodwill.

During 2009, the Company acquired T&T for cash consideration of $200 which resulted in goodwill acquired of $131. For the preliminary purchase equation see note 3. In addition, the Company acquired 3 (2008 – 1) franchisee stores for cash consideration of $6 (2008 – $1) resulting in goodwill acquired of $5 (2008 – $1).

The following table discloses the changes in goodwill and intangible assets over 2009 and 2008.

	2009	2008
Goodwill, beginning of year	**$ 807**	$ 806
Goodwill acquired (note 3)	**136**	1
Goodwill, end of year	**$ 943**	$ 807
Trademarks and brand names (note 3)	**51**	–
Other intangible assets	**32**	11
Goodwill and Intangible Assets	**$ 1,026**	$ 818

All trademarks and brand names are indefinite life intangible assets. All other intangible assets are definite life intangible assets.

Note 13. Other Assets

	2009	2008[(1)]
Accrued benefit plan asset (note 14)	**$ 319**	$ 273
Security deposits	**250**	437
Franchise investments and other receivables	**201**	203
Unrealized cross currency swaps receivable (note 24)	**187**	107
Other	**85**	100
	$ 1,042	$ 1,120

Included in Other above are $15 (2008 – $21) of unrealized interest rate swap receivable and nil (2008 – $7) related to an electricity forward contract (see note 24).

(1) Restated - See note 2.

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 having met certain service requirements 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, December 31, 2007 or December 31, 2008. The Company is required to file funding valuations at least every three years; accordingly, the next funding valuations for the above mentioned plans will be performed as at December 31, 2009, 2010 or 2011.

Total cash payments made by the Company during 2009, consisting of contributions to funded defined benefit pension plans, defined contribution pension plans, multi-employer pension plans, long term disability benefit plans and benefits paid directly to beneficiaries of the supplemental unfunded defined benefit pension plans and other benefit plans, were $183 (2008 – $215).

During 2010, the Company expects to contribute approximately $100 to its registered funded defined benefit pension plans. The actual amount paid may vary from the estimate based on actuarial valuations being completed, market performance and regulatory requirements. The Company also expects to make contributions in 2010 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:

	2009			2008		
	Pension Benefit Plans	**Other Benefit Plans[1]**	**Total**	Pension Benefit Plans	Other Benefit Plans[1]	Total
Benefit Plan Assets						
Fair value, beginning of year	**$ 1,056**	**$ 23**	**$ 1,079**	$ 1,161	$ 33	$ 1,194
Actual return (loss) on plan assets	**51**	**1**	**52**	(145)	2	(143)
Employer contributions	**104**	**11**	**115**	142	11	153
Employee contributions	**2**	**–**	**2**	2	1	3
Benefits paid	**(93)**	**(26)**	**(119)**	(81)	(24)	(105)
Transfers to national defined contribution pension plan	**–**	**–**	**–**	(23)	–	(23)
Fair value, end of year	**$ 1,120**	**$ 9**	**$ 1,129**	$ 1,056	$ 23	$ 1,079
Accrued Benefit Plan Obligations						
Balance, beginning of year	**$ 1,161**	**$ 323**	**$ 1,484**	$ 1,232	$ 319	$ 1,551
Current service cost	**43**	**32**	**75**	47	38	85
Interest cost	**70**	**19**	**89**	69	18	87
Benefits paid	**(93)**	**(26)**	**(119)**	(81)	(24)	(105)
Actuarial loss (gain)	**57**	**(29)**	**28**	(85)	(28)	(113)
Plan amendments	**4**	**–**	**4**	–	–	–
Transfers to national defined contribution pension plan	**–**	**–**	**–**	(23)	–	(23)
Other	**–**	**–**	**–**	2	–	2
Balance, end of year	**$ 1,242**	**$ 319**	**$ 1,561**	$ 1,161	$ 323	$ 1,484
Deficit of Plan Assets Versus Plan Obligations	**$ (122)**	**$ (310)**	**$ (432)**	$ (105)	$ (300)	$ (405)
Unamortized past service costs	**6**	**(5)**	**1**	2	(5)	(3)
Unamortized net actuarial loss	**393**	**65**	**458**	334	97	431
Net accrued benefit plan asset (liability)	**$ 277**	**$ (250)**	**$ 27**	$ 231	$ (208)	$ 23
Recorded in the consolidated balance sheets as follows:						
Other assets (note 13)	**$ 319**	**$ –**	**$ 319**	$ 273	$ –	$ 273
Other liabilities (note 17)	**(42)**	**(250)**	**(292)**	(42)	(208)	(250)
Net accrued benefit plan asset (liability)	**$ 277**	**$ (250)**	**$ 27**	$ 231	$ (208)	$ 23

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

	2009		2008	
	Pension Benefit Plans	**Other Benefit Plans[(1)]**	Pension Benefit Plans	Other Benefit Plans[(1)]
Fair Value of Benefit Plan Assets	**$ 1,037**	**$ 9**	$ 977	$ 23
Accrued Benefit Plan Obligations	**1,161**	**319**	1,083	323
Deficit of Plan Assets versus Plan Obligations	**$ (124)**	**$ (310)**	$ (106)	$ (300)

(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	**2009**		2008	
Asset Category	**Pension Benefit Plans**	**Other Benefit Plans[(1)]**	Pension Benefit Plans	Other Benefit Plans[(1)]
Equity securities	**55%**	**–%**	62%	–%
Debt securities	**43%**	**98%**	37%	99%
Cash and cash equivalents	**2%**	**2%**	1%	1%
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 having a fair value of $2 (2008 – $2) as at September 30, 2009. Other benefit plan assets do not include any of the Company's 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:

	2009		2008	
	Pension Benefit Plans	**Other Benefit Plans[(1)]**	Pension Benefit Plans	Other Benefit Plans[(1)]
Current service cost, net of employee contributions	**$ 41**	**$ 32**	$ 45	$ 37
Interest cost on plan obligations	**70**	**19**	69	18
Actual (return) loss on plan assets	**(51)**	**(1)**	145	(2)
Actuarial loss (gain)	**57**	**(29)**	(85)	(28)
Plan amendments	**4**	**–**	–	–
Defined benefit plan cost, before adjustments to recognize the long term nature of employee future benefit costs	**121**	**21**	174	25
Shortfall of actual return over expected return on plan assets	**(23)**	**–**	(230)	–
(Shortfall) excess of amortized net actuarial loss (gain) over actual actuarial loss (gain) on accrued benefit obligation	**(36)**	**32**	91	40
Shortfall of amortized past service costs over actual past service costs	**(4)**	**–**	–	(1)
Net defined benefit plan cost	**58**	**53**	35	64
Defined contribution plan cost	**13**	**–**	11	–
Multi-employer pension plan cost	**55**	**–**	51	–
Net benefit plan cost	**$ 126**	**$ 53**	$ 97	$ 64

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

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:

	2009		2008	
	Pension Benefit Plans	**Other Benefit Plans[(1)]**	Pension Benefit Plans	Other Benefit Plans[(1)]
Accrued Benefit Plan Obligations				
Discount rate	**5.75 %**	**5.5 %**	6.0%	5.8%
Rate of compensation increase	**3.5 %**		3.5%	
Net Defined Benefit Plan Cost				
Discount rate	**6.0 %**	**5.7 %**	5.5%	5.3%
Expected long term rate of return on plan assets	**7.25%**	**5.0 %**	7.5%	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.

The growth rate of health care costs, primarily drug and other medical costs for other benefit plans, for the net benefit plan cost was estimated at 9.5% (2008 – 10.0%) and is assumed to gradually decrease to 5.0% by 2015 (2008 – 5.0% by 2015), remaining at that level thereafter.

Sensitivity of Key Assumptions

The following table outlines the key assumptions for 2009 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 Benefits 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		7.25%		5.0%
Impact of: 1% increase	n/a	$ (10)	n/a	–
1 % decrease	n/a	$ 10	n/a	–
Discount rate	5.75%	6.0%	5.5%	5.7%
Impact of: 1% increase	$ (162)	$ (9)	$ (34)	$ (3)
1% decrease	$ 187	$ 9	$ 38	$ 3
Expected growth rate of health care costs[3]			9.0%	9.5%
Impact of: 1% increase	n/a	n/a	$ 29	$ 5
1% decrease	n/a	n/a	$ (26)	$ (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 (2008 – 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 committed credit facility expiring in March of 2013 provided by a syndicate of third party lenders which contains certain financial covenants (see note 21). This facility is a 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. As at January 2, 2010, nil (2008 – $190) was drawn on the committed credit facility.

Note 16. Long Term Debt

	2009	2008
Loblaw Companies Limited Notes		
5.75%, due 2009	**$ –**	$ 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
4.85%, due 2014	**350**	–
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	**(67)**	(55)
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)	**158**	180
6.86%, due 2015 (US $150 million)	**158**	181
Long Term Debt Secured by Mortgage		
5.49%, due 2018 (see note 11)	**96**	–
VIE loans payable[1] (see note 27)	**163**	152
Capital lease obligations[1] (see note 18)	**64**	62
Other	**2**	9
Total long term debt	**4,505**	4,235
Less amount due within one year	**343**	165
	$ 4,162	$ 4,070

(1) Pursuant to the requirements of AcG 15, the consolidated balance sheet as at January 2, 2010 includes $181 (2008 – $179) of loans payable and capital lease obligations of VIEs consolidated by the Company, $37 (2008 – $35) of which is due within one year.

During the second quarter of 2009, the Company issued $350 principal amount of unsecured Medium Term Notes, Series 2-A pursuant to its Medium Term Notes, Series 2 program. The Series 2-A notes pay a fixed rate of interest of 4.85% payable semi-annually commencing on November 8, 2009 until maturity on May 8, 2014 and are subject to certain covenants. The notes are unsecured obligations of the Company and rank equally with all other unsecured indebtedness that has not been subordinated. The Series 2-A notes may be redeemed at the option of the Company, in whole at any time or in part from time to time, upon not less than 30 days and not more than 60 days notice to the holders of the notes.

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 currency exchange rate risk. As at January 2, 2010, $316 (2008 − $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: 2010 − $343; 2011 − $390; 2012 − $38; 2013 − $391; 2014 – $474; thereafter − $2,869.

In 2009, the $125 5.75% medium term note due January 22, 2009 matured and was repaid. During 2008, the $390 6.00% medium term note due June 2, 2008 matured and was repaid.

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

Note 17. Other Liabilities

	2009	2008
Accrued benefit plan liability (note 14)	**$ 292**	$ 250
Deferred vendor allowances (note 29)	**48**	56
Unrealized interest rate swap liability (note 24)	**31**	43
Stock-based compensation (note 22)	**26**	12
Other	**137**	84
	$ 534	$ 445

Included in Other above is the liability associated with the preferred shares issued by T&T (see note 3).

Note 18. Leases

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

	Payments due by year							
	2010	2011	2012	2013	2014	Thereafter	**2009 Total**	2008 Total
Operating lease payments	$ 211	$ 192	$ 166	$ 146	$ 126	$ 664	**$ 1,505**	$ 1,623
Sub-lease income	(38)	(34)	(30)	(27)	(20)	(55)	**(204)**	(183)
Net operating lease payments	$ 173	$ 158	$ 136	$ 119	$ 106	$ 609	**$ 1,301**	$ 1,440

As Lessor
Fixed assets on the consolidated balance sheets include cost of properties held for leasing purposes of $755 (2008 − $603) and related accumulated depreciation of $211 (2008 − $173). Rental income for the year ended January 2, 2010 from these operating leases totaled $47 (2008 − $45).

Capital Leases
Capital lease obligations of $64 (2008 – $62) are included in the consolidated balance sheet as at year end (see note 16). The capital lease obligations are related to leased properties and equipment of the VIEs that provides distribution and warehousing services. The amount due within one year is $8 (2008 – $8).

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

First Preferred Shares
1.0 million non-voting First Preferred Shares are authorized, none of which was outstanding at year end.

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. During 2009, the Board declared dividends of $1.4875 (2008 – $0.911275) per second preferred share which are included as a component of interest expense and other financing charges on the Consolidated Statement of Earnings for the year ended January 2, 2010 (see note 4). Subsequent to year end, the Board declared a dividend of $0.37 per Second Preferred Share, Series A payable April 30, 2010.

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.

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.

Note 20. Common Share Capital (authorized – unlimited)

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

	2009		2008	
	Number of Common Shares	**Common Share Capital**	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of year	**274,173,564**	**$ 1,196**	274,173,564	$ 1,196
Common shares issued	**3,713,094**	**$ 120**	–	–
Purchased for cancellation	**(1,698,400)**	**$ (8)**	–	–
Issued and outstanding, end of year	**276,188,258**	**$ 1,308**	274,173,564	$ 1,196
Weighted average outstanding	**275,028,991**		274,173,564	

During 2009, the Company purchased for cancellation 1,698,400 (2008 – nil) of its common shares for $56 (2008 – nil), resulting in a reduction of $48 (2008 – nil) to retained earnings for the premium on the common shares purchased for cancellation.

Approximately 63% (2008 – 62%) of the common shares are owned by George Weston Limited (“Weston”); the remaining shares are widely held.

Common Share Dividends ($)

The declaration and payment of dividends and the amount thereof are at the discretion of the 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 2009, the Board declared common share dividends of $0.84 (2008– $0.84) per common share. Subsequent to year end, the Board declared a quarterly dividend of $0.21 per common share payable April 1, 2010.

Dividend Reinvestment Plan

During the second quarter of 2009, the Company commenced a Dividend Reinvestment Plan (“DRIP”) with the objective of raising $300 in common share equity. Under the terms of the DRIP, eligible holders of common shares may elect to automatically reinvest their regular quarterly dividends in additional common shares of the Company without incurring any commissions, service charges or brokerage fees. The common shares issued to shareholders under the DRIP will be, at the Company’s option, either issued from treasury or purchased on the open market. The Board may from time to time approve a discount on the issuance of common shares from treasury under the DRIP. During the year, the Company issued 3,713,094 common shares from treasury under the DRIP at a three percent (3%) discount to market resulting in an increase in common share capital of $120.

Normal Course Issuer Bids In the second quarter of 2009, the Company 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, the Company may purchase its shares at the then market price of such shares. During 2009, the Company purchased for cancellation 1,698,400 (2008- nil) of its common shares at a price of $33.14.

Note 21. Capital Management

The Company defines capital as net debt[1] 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 2, 2010	As at January 3, 2009[2]
Interest coverage	**4.2x**	3.7x
Net debt[1] to equity[1]	**0.4:1**	0.5:1
Net debt[1] to EBITDA[1]	**1.6:1**	2.1:1

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 52 week period ended January 2, 2010 and for the 53 week period ended January 3, 2009. The Company manages debt on a net basis as outlined below. The net debt[1] to equity[1] 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.

Net Debt[1]

The following table details the net debt[1] calculation used in the net debt[1] to equity[1] and the net debt[1] to EBITDA[1] ratios:

($ millions)	**As at January 2, 2010**	As at January 3, 2009
Bank indebtedness	**$ 2**	$ 52
Short term debt	**–**	190
Long term debt due within one year	**343**	165
Long term debt	**4,162**	4,070
Other liabilities	**36**	–
Fair value of financial derivatives related to the above	**58**	63
	4,601	4,540
Less: Cash and cash equivalents	**993**	528
Short term investments	**397**	225
Security deposits included in other assets	**250**	437
Fair value of financial derivatives related to the above	**178**	57
	1,818	1,247
Net debt[1]	**$ 2,783**	$ 3,293

(1) See Non-GAAP Financial Measures on page 37 of the Company's Management's Discussion & Analysis.
(2) Restated - See note 2.

In 2009, the Company revised its definition of net debt[1] to include the fair value of financial derivative assets and liabilities as the Company believes that the measure should include all interest bearing financing arrangements. The Second Preferred Shares, Series A are classified as capital securities and are excluded from the calculation of net debt[1]. For purposes of calculating net debt, fair value of financial derivatives is not credit value adjusted in accordance with EIC 173 (see note 2). As at January 2, 2010, the credit value adjustment was $4.

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.

EBITDA[1]

The following table reconciles EBITDA[1] used in the net debt[1] to EBITDA[1] ratio to Canadian GAAP measures reported in the audited consolidated financial statements as at the years ended:

($ millions)	**2009 (52 weeks)**	2008[2] (53 weeks)
Net earnings	**$ 656**	$ 550
Add impact of the following:		
Minority interest	**11**	10
Income taxes	**269**	229
Interest expense and other financing charges	**269**	263
Operating income	**1,205**	1,052
Add impact of the following:		
Depreciation and amortization	**589**	550
EBITDA[1]	**$ 1,794**	$ 1,602

Equity[1]

The following table reconciles equity used in the net debt[1] to equity[1] ratio to Canadian GAAP measures reported in the audited consolidated financial statements as at the years ended.

Equity[1] is calculated as the sum of capital securities and shareholder's equity as follows:

($ millions)	**As at January 2, 2010**	As at January 3, 2009[2]
Capital securities	**220**	219
Shareholders' equity	**6,273**	5,803
Equity[1]	**6,493**	6,022

(1) See Non-GAAP Financial Measures on page 37 of the Company's Management's Discussion & Analysis.
(2) Restated - See note 2.

The Company monitors its credit ratings as part of its goal to maintain access to capital markets for its liquidity requirements. 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 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 (see note 19). During the second quarter of 2009, the Company filed a Prospectus Supplement to the Prospectus filed in 2008 to allow for the issuance of up to $775 in unsecured Medium Term Notes, Series 2. Under this Prospectus Supplement, the Company issued $350 of medium term notes (see note 16).

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 2, 2010, the Company was in compliance with both of 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. PC Bank is subject to the Basel II regulatory capital management framework and has met all applicable capital targets as at the end of 2009. 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 2, 2010.

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 and restricted share unit plans, including Glenhuron's equity forwards, was as follows:

($ millions)	**2009**	2008
Stock option plan expense	**$ 6**	$ 8
Restricted share unit plan expense	**10**	9
Equity forwards loss (gain) (note 24)	**6**	(10)
Net stock-based compensation cost	**$ 22**	$ 7

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% or 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.

In 2009, the share appreciation value of $1 million (2008 – nil) was paid on the exercise of 127,513 (2008 – nil) stock options. In 2009 and 2008, the Company did not issue common shares or receive cash consideration on the exercise of stock options. At year end, a total of 9,207,816 (2008 – 7,892,660) stock options were outstanding, and represented approximately 3.3% (2008 – 2.9%) of the Company's issued and outstanding common shares, which was within the Company's guideline of 5%.

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

	2009		2008	
	Options (number of shares)	**Weighted Average Exercise Price/Share**	Options (number of shares)	Weighted Average Exercise Price/Share
Outstanding options, beginning of year	**7,892,660**	**$ 43.29**	6,532,756	$ 52.34
Granted	**2,787,970**	**$ 31.13**	3,431,432	$ 28.99
Exercised	**(127,513)**	**$ 29.00**	–	$ –
Forfeited/cancelled	**(1,345,301)**	**$ 40.99**	(2,071,528)	$ 48.13
Outstanding options, end of year	**9,207,816**	**$ 40.14**	7,892,660	$ 43.29
Options exercisable, end of year	**2,940,474**	**$ 50.15**	1,971,244	$ 56.05

	2009 Outstanding Options			**2009 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 – $ 42.55	**5,156,693**	**6**	**$ 30.10**	**577,007**	**$ 29.19**
$ 42.56 – $ 56.15	**3,267,875**	**3**	**$ 48.93**	**1,736,871**	**$ 50.09**
$ 56.15 – $ 69.75	**783,248**	**2**	**$ 69.63**	**626,596**	**$ 69.63**

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.

The following is a summary of the RSU activity during the year.

Number of Awards	**2009**	2008
RSUs, beginning of year	**829,399**	768,687
Granted	**453,680**	416,294
Cancelled	**(104,785)**	(103,103)
Cash settled	**(204,943)**	(252,479)
RSUs, end of year	**973,351**	829,399
RSUs Cash Settled ($ millions)	**$ 7**	$ 9

Employee Share Ownership Plan 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% (2008 – 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 (2008 – $6 million) related to this plan was recognized in operating income.

Director Deferred Share Unit Plan Members of the Board, 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, 110,303 (2008 – 79,939) DSUs were outstanding. The year-over-year change in the deferred share unit compensation liability was $1 million (2008 – $1 million) and was recognized in operating income.

Executive Deferred Share Unit 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 an 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. As at the end of 2009 and 2008, there were no EDSUs outstanding.

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 2, 2010 and January 3, 2009:

	2009			2008		
	Cash Flow Hedges	**Available-for-sale Assets**	**Total**	Cash Flow Hedges	Available-for-sale Assets	Total
Balance, beginning of year	**$ 14**	**$ 16**	**$ 30**	$ 22	$ (3)	$ 19
Cumulative impact of implementing new accounting standards [net of income taxes recovered of $1 (2008 – nil)] (note 2)	**(2)**	**–**	**(2)**	–	–	–
Net unrealized (loss) gain on available-for-sale financial assets [net of income taxes of $1 (2008 – $1)]	**–**	**(23)**	**(23)**	–	40	40
Reclassification of loss (gain) on available-for-sale financial assets [net of income taxes recovered of $3 (2008 – $5)]	**–**	**2**	**2**	–	(21)	(21)
Net gain on derivatives designated as cash flow hedges [net of income taxes recovered of $9 (2008 – income taxes of $22)]	**8**	**–**	**8**	21	–	21
Reclassification of loss (gain) on derivatives designated as cash flow hedges [net of income taxes recovered of $6 (2008 – income taxes of $21)]	**2**	**–**	**2**	(29)	–	(29)
Balance, end of year	**$ 22**	**$ (5)**	**$ 17**	$ 14	$ 16	$ 30

An estimated gain of $8 (2008 – loss of $10) recorded in accumulated other comprehensive income related to interest rate swaps as at January 2, 2010, is expected to be reclassified to net earnings during the next 12 months. Remaining amounts on the interest rate swaps will be reclassified to net earnings over periods of up to 2 years. A gain of $5 (2008 – $12) recorded in accumulated other comprehensive income on cross currency swaps will be reclassified to net earnings over the next 12 months but will be partially offset by the losses reclassified from accumulated other comprehensive income to net earnings on available-for-sale assets. Remaining amounts on the cross currency swaps will be reclassified to net earnings over periods up to 4 years.

Note 24. Financial Derivative Instruments

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

	Notional Amounts Maturing						**2009**	2008
	2010	2011	2012	2013	2014	Thereafter	**Total**	Total
Cross currency swap receivable	$ 161	$ 56	$ 166	$ 75	$ 145	$ 546	**$ 1,149**	$ 1,181
Cross currency swap payable	$ –	$ –	$ –	$ (148)	$ –	$ (148)	**$ (296)**	$ (296)
Interest rate swaps receivable	$ 50	$ 200	$ –	$ –	$ –	$ –	**$ 250**	$ 390
Interest rate swaps payable	$ –	$ –	$ –	$ (150)	$ –	$ –	**$ (150)**	$ (150)
Equity forwards	$ (99)	$ –	$ –	$ –	$ –	$ –	**$ (99)**	$ (261)
Electricity forward contract	$ (9)	$ (8)	$ –	$ –	$ –	$ –	**$ (17)**	$ (25)

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 Glenhuron entered into cross currency swaps (see note 26) to exchange United States dollars for $1,149 (2008 – $1,181) Canadian dollars, which mature by 2017. Cross currency swaps totalling $250 (2008 − $320) are designated in a cash flow hedge and the remaining undesignated $899 (2008 − $861) are classified as held-for-trading financial assets. Currency adjustments receivable or payable arising from these swaps are settled in cash on maturity. As at January 2, 2010, a cumulative unrealized foreign currency exchange rate receivable of $167 (2008 − $36) was recorded in other assets. In addition, a credit value adjustment of $4 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 Glenhuron maintains interest rate swaps (see note 26) that convert a notional $250 (2008 – $390) of 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 5.11% (2008 – 5.39%), which are part of a hedging relationship that matures by 2011. As at January 2, 2010, the fair value of these interest rate swaps of $15 (2008 − $21) was recorded in other assets (see note 13) and the unrealized fair value gain of $15 (2008 − $21) is deferred, net of tax, in accumulated other comprehensive income. In addition, a nominal credit value adjustment was recorded in other assets. When realized, these unrealized gains are reclassified to net earnings.

The Company also maintains interest rate swaps which are not part of a hedging relationship. At January 2, 2010, the fair value of these interest rate swaps of $31 (2008 − $43) was recorded in other liabilities (see note 17). In addition, a nominal credit value adjustment was recorded in other liabilities.

Equity Forwards ($, except where otherwise indicated) At year end 2009, Glenhuron had cumulative equity forwards (see note 22) to buy 1.5 million (2008 – 4.8 million) of the Company's common shares at a cumulative average forward price of $66.25 (2008 – $54.46) including $10.03 (2008 – $9.59) 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 Glenhuron and its counterparty in cash or common shares and change in value as the market price of Loblaw's common shares changes. The equity forwards provide a partial offset to fluctuations in the Company's stock-based compensation cost, including RSU plan expense which 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 $48 million (2008 – $92 million) is included in accounts payable and accrued liabilities relating to these equity forwards. During 2009, Glenhuron paid $55 million to terminate equity forwards representing 3.3 million shares, which led to the extinguishment of a corresponding portion of the associated 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. The Company is required to measure its electricity forward contract at fair value. As at January 2, 2010, the fair value of this forward contract of $3 (2008 – $7) was recorded in other liabilities (2008 – other assets). During 2009, a loss in value of $10 (2008 – gain 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 2, 2010, the Company had nil (2008 - $4) recorded in accounts payable and accrued liabilities related to the above contracts.

Foreign Exchange Forward During 2009, the Company entered into forward contracts to hedge a portion of its United States dollar fixed asset purchases. At year end, a nominal fair value of the outstanding forward contracts is included in accounts payable and accrued liabilities and accordingly a nominal loss was recorded in operating income.

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 January 2, 2010, and an analysis of financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Fair Value Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Fair Value Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Fair Value Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following describes the fair value determinations of financial instruments:

Cash and Cash Equivalents, Short Term Investments and Security Deposits Fair value is primarily based on interest rates for similar instruments. Due to the short term maturity of these instruments, the carrying amount approximates fair value.

Accounts Receivable, Accounts Payable and Accrued Liabilities and Short Term Borrowings The carrying amount approximates fair value due to the short term maturity of these instruments.

Long-Term Debt and Capital Securities Fair value is based on the Company's current incremental borrowing rate for similar types of borrowing arrangements or, where applicable, quoted market prices.

Derivative Financial Instruments The fair values for the derivative assets and liabilities are estimated using industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit spreads, foreign exchange rates, and forward and spot prices for currencies.

As at January 2, 2010

	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	$ –	$ –	$ 1,448	$ 192	$ –	$ –	$ 1,640	$ 1,640
Accounts receivable	–	–	13	–	761	–	774	774
Derivatives	83	116	–	–	–	–	199	199
Total financial assets	$ 83	$ 116	$ 1,461	$ 192	$ 761	$ –	2,613	$ 2,613
Fair value level 1	$ –	$ –	$ –	$ –				$ –
Fair value level 2	83	115	1,448	192				1,838
Fair value level 3	–	1	13	–				14
Fair Value Total	$ 83	$ 116	$ 1,461	$ 192				$ 1,852
Short term borrowings	$ –	$ –	$ –	$ –	$ –	$ 2	$ 2	$ 2
Accounts payable and accrued liabilities	–	48	–	–	–	3,194	3,242	3,242
Long term debt	–	–	–	–	–	4,505	4,505	4,801
Capital Securities	–	–	–	–	–	220	220	244
Derivatives (see note 24)	–	34	–	–	–	7	41	41
Total financial liabilities	$ –	$ 82	$ –	$ –	$ –	$ 7,928	$ 8,010	$ 8,330
Fair value level 1	$ –	$ –	$ –	$ –				$ –
Fair value level 2	–	82	–	–				82
Fair value level 3	–	–	–	–				–
Fair Value Total	$ –	$ 82	$ –	$ –				$ 82

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.

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
Available for sale securities	–	–	–	7	–	–	7	7
Derivatives	98	45	–	–	–	–	143	143
Total financial assets	$ 98	$ 45	$ 912	$ 299	$ 853	$ –	$ 2,207	$ 2,207
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)	–	56	–	–	–	7	63	63
Total financial liabilities	$ –	$ 148	$ –	$ –	$ –	$ 7,434	$ 7,582	$ 7,086

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.

The financial instruments classified as level 3 are as follows:

- The retained interest from the securitization of PC Bank receivables, for which a reconciliation and sensitivity analysis are included in note 8.
- The fair value of the embedded foreign currency derivative was $1 included in other assets (2008 - $3 included in other liabilities), of which the fair value gain of $4 (2008 – loss of $4) was recognized in operating income. A 100 basis point increase (decrease) in foreign currency exchange rates would result in a $1 gain (loss) in fair value.

There were no significant transfers between the fair value hierarchy levels during the year ended January 2, 2010.

During the year ended January 2, 2010, the net unrealized and realized loss on held-for-trading financial assets designated as held-for-trading, recognized in net earnings before income taxes and minority interest was $122 (2008 – gain of $169). In addition, the net unrealized and realized gain 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 $88 (2008 – loss of $233).

Note 26. Financial Instrument Risk Management

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

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 short term investments as well as its access to external capital to fund its derivative and non-derivative financial liabilities. The Company mitigates these risks by maintaining appropriate levels of cash and cash equivalents and short term investments in highly rated liquid securities and diversifying the sources and maturity profile of its external capital.

In March 2011, $500 million of credit card receivables-backed notes issued by Eagle Credit Card Trust ("Eagle") will mature. The notes were issued by Eagle to fund the purchase of an interest in PC Bank originated credit card receivables. An accumulation period that requires PC Bank to set aside cash collections will begin approximately 6 months prior to the maturity of the notes, or at such earlier or later date declared by the Trust. PC Bank and the Company expect to have sufficient access to short term liquidity to fund the accumulation, long term funding and securitization facilities to replace or refinance this facility.

Maturity Analysis The following are the undiscounted contractual maturities of significant financial liabilities as at January 2, 2010:

	2010	2011	2012	2013	2014	Thereafter[5]	Total
Derivative Financial Liabilities							
Interest rate swaps payable[1]	$ 13	$ 13	$ 13	$ 5	$ –	$ –	$ 44
Equity forward contracts[2]	99	–	–	–	–	–	99
Non-Derivative Financial Liabilities							
Long term debt including fixed interest payments[3]	615	631	256	594	661	5,989	8,746
Other Liabilities[4]	5	–	–	–	36	–	41
	$ 732	$ 644	$ 269	$ 599	$ 697	$ 5,989	$ 8,930

(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 2, 2010.
(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) Contractual amount of foreign exchange forwards and the contractual obligation related to certain other liabilities.
(5) 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.

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 financial or non-financial derivative agreements fails to fulfill its obligations. Potential counterparty risk and losses are limited to the net amounts recoverable under such derivative agreements with any specific counterparty. These risks are further reduced by entering into agreements with counterparties that have at minimum long term "A" credit rating from a recognized credit rating agency and by placing risk adjusted limits on exposure to any single counterparty for financial derivative agreements. Internal policies, controls and reporting processes are in place which require ongoing assessment and corrective action, if necessary, with respect to derivative transactions.

Credit risk associated with 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. Policies and guidelines that require issuers of permissible investments to have a minimum 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 mitigate credit risk. These investments are purchased and held directly in custody accounts, and have limited exposure to 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 approximated by the positive fair market value of the derivatives on the balance sheet (see note 25).

Refer to note 9 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 Interest rate risk arises from the issuance of short term debt by the Company and equity forwards by Glenhuron, net of cash and cash equivalents, short term investments and security deposits included in other assets. The Company is exposed to changes in short term interest rate volatility which are offset partly by Glenhuron’s and the Company’s 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 a decrease (increase) of $16 to interest expense.

Foreign Currency Exchange Rate Risk The Company is exposed to foreign currency exchange rate variability, primarily on United States dollar denominated cash and cash equivalents, short term investments, security deposits included in other assets held by Glenhuron, foreign denominated and foreign currency based purchases in accounts payable and accrued liabilities, and USD private placement notes included in long term debt. The Company and Glenhuron have cross currency swaps that partially offset their respective exposure to fluctuations in foreign currency exchange rates.

As at January 2, 2010, USD $945 (2008 – USD $961) was included in cash and cash equivalents, short term investments and security deposits included in other assets (see notes 7 and 13). The Company designates a portion of the cross currency swaps in a cash flow hedge of the exposure to fluctuations in the foreign currency exchange rate on a portion of United States dollar denominated cash equivalents, short term investments and security deposits included in other assets. The remaining undesignated cross currency swaps partially offset 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 loss of $25 (2008 – gain of $50), 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 gain of $28 (2008 – loss of $51) before income taxes relating to the designated cross currency swaps also deferred in other comprehensive income. The unrealized foreign currency exchange loss of $121 (2008 – gain of $160) 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 gain of $117 (2008 – loss of $157) 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 loss of $14 (2008 – gain of $26) relating to cross currency swaps that matured or were terminated.

During 2009, the Company recognized in operating income an unrealized foreign currency exchange gain of $45 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 a portion of 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 $17 (2008 – $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 $2 on earnings before income taxes and minority interest.

Common Share Price Risk The Company issues stock-based compensation to its employees in the form of stock options and RSU's based on its common shares. Consequently, operating income is negatively impacted when the common share price increases and positively when the share price declines. Glenhuron's equity forwards provide a partial offset to fluctuations in stock-based compensation cost. 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 the Company'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 more effective when the market price of the Company's common shares exceeds the exercise price of the employee stock options. When the market price of the common shares is lower than the exercise price of the 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 $1 in earnings before income taxes and minority interest.

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 $76 (2008 – $46) 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, benefit programs and performance guarantees. The aggregate gross potential liability related to these standby letters of credit is approximately $246 (2008 – $216). 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.

The gross principal amount of loans issued to the Company's independent franchisees outstanding as of January 2, 2010 was $390 (2008 − $388) including $163 (2008 − $152) 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% (2008 − 15%) of the principal amount of the loans outstanding at any point in time, $66 (2008 − $66) as of January 2, 2010. 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.

During the second quarter of 2009, the $475, 364-day revolving committed credit facility was renewed. This facility has a further 12 month repayment term upon maturity and is the source of funding to the independent trusts. The new financing structure has been reviewed and the Company determined there were no additional VIEs to consolidate as a result of this financing. 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% (2008 – 9%) on a portion of the securitized credit card receivables amount, is approximately $116 (2008 – $116) (see note 8).

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 $41 (2008 – $63).

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 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 and claims is uncertain. However, based on information currently available, these proceedings and 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 VIEs' expected losses or that entitle it to receive a majority of the VIEs' 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 2009, 166 (2008 – 154) 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, Weston and its affiliates other than the Company 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% (2008 – 3%) of the cost of merchandise inventories sold.

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 2009 were approximately $30 (2008 – $28).

Real Estate Matters The Company leases office space from an affiliate of Weston for approximately $3 (2008 – $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 amounts (2008 – nil) 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 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 2009 were $16 (2008 – $13). Fees paid under this agreement are reviewed each year by the Audit Committee.

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. In 2008, Glenhuron had an agreement with a subsidiary of Weston for the administration of a loan portfolio of third party long term loans receivable. During 2009, Weston disposed of this subsidiary.

Supply Agreement

In 2008, 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, of which $8 (2008 – $1) was recognized in 2009. As at January 2, 2010, $8 was included in accounts payable and accrued liabilities and $48 in other liabilities. Certain assets and liabilities of a wholly owned subsidiary were sold by Weston in 2009.

Note 30. 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.

Three Year Summary[1]

Year[2] ($ millions except where otherwise indicated)	2009	2008[2][5]	2007[5]
Operating Results			
Sales	**30,735**	30,802	29,384
Operating income	**1,205**	1,052	744
Interest expense and other financing charges	**269**	263	252
Net earnings	**656**	550	336
Financial Position			
Working capital	**736**	730	58
Fixed assets	**8,559**	8,045	7,953
Goodwill and intangible assets[4]	**1,026**	818	812
Total assets	**14,991**	13,943	13,625
Net debt[3]	**2,783**	3,293	3,569
Shareholders' equity	**6,273**	5,803	5,513
Cash Flow			
Cash flows from operating activities	**1,945**	960	1,219
Capital investment	**1,067**	750	613
Per Common Share ($)			
Basic net earnings	**2.39**	2.01	1.23
Dividend rate at year end	**0.84**	0.84	0.84
Cash flows from operating activities[1]	**7.07**	3.50	4.45
Fixed asset purchases	**3.53**	2.74	2.24
Book value	**22.71**	21.16	20.11
Market price at year end	**33.88**	35.23	34.07
Financial Ratios			
Operating margin (%)	**3.9**	3.4	2.5
EBITDA[3]	**1,794**	1,602	1,300
EBITDA margin[3] (%)	**5.8**	5.2	4.4
Net debt[3] to EBITDA[3]	**1.6x**	2.1x	2.7x
Net debt[3] to equity[3]	**0.4:1**	0.5:1	0.6:1
Interest coverage[1]	**4.2x**	3.7x	2.7x
Return on average net assets (%)[3]	**12.0**	10.7	7.6
Return on average shareholders' equity (%)	**10.9**	9.7	6.1
Cash flows from operating activities activities to net debt[3]	**0.70**	0.29	0.34
Price/net earnings ratio at year end	**14.2**	17.5	27.7
Market/book ratio at year end	**1.5**	1.7	1.7
Operating Statistics			
Retail square footage (in millions)	**50.6**	49.8	49.6
Average corporate store size (square feet)	**62,300**	61,900	60,800
Average franchise store size (square feet)	**29,700**	28,400	28,000
Corporate stores sales per average square foot ($)	**597**	624	591
Same-store sales (decline) growth (%)	**(1.1)**	4.2	2.4
Number of corporate stores	**613**	609	628
Number of franchised stores	**416**	427	408

(1) For financial definitions and ratios refer to the Glossary of Terms on page 86.
(2) 2008 was a 53 week year.
(3) See Non-GAAP Financial Measures on page 37 of the Company's Management's Discussion & Analysis.
(4) Certain prior year information has been reclassified to conform with current year presentation. Prior to 2009, intangible assets were presented as other assets and are now included in goodwill and intangible assets on the consolidated balance sheet.
(5) In 2009, the Company adopted Canadian Institute of Chartered Accountants ("CICA") Section 3064 "Goodwill and Intangible Assets" with restatement of prior periods. In 2008, the Company adopted Section 3031 "Inventories" without restatement of prior periods. In 2007, the Company implemented CICA Section 3855 "Financial Instruments – Recognition and Measurement", CICA Section 3865 "Hedges", CICA Section "1530 – Comprehensive Income", and CICA Section 3251 "Equity" without restatement of prior periods.

Glossary of Terms

Term	Definition
Annual Report	For 2009, the Annual Report consists of a Business Review and a Financial Review.
Basic net (loss) earnings per common share	Net (loss) earnings available to common shareholders divided by the weighted average number of common shares outstanding during the year.
Book value per common share	Shareholders' equity divided by the number of common shares outstanding at year end.
Capital investment per common share	Capital investment divided by the weighted average number of common shares outstanding during the year.
Cash flows from operating activities per common share	Cash flows from operating activities divided by the weighted average number of common shares outstanding during the year.
Cash flows from operating activities to net debt	Cash flows from operating activities divided by net debt.
Control label	A brand and associated trademark that is owned by the Company for use in connection with its own products and services.
Conversion	A store that changes from one Company banner to another Company banner.
Corporate stores sales per average square foot	Sales by corporate stores divided by the average corporate stores' square footage at year end.
Diluted net (loss) earnings per common share	Net (loss) earnings available to common shareholders divided by the weighted average number of common shares outstanding during the period minus the dilutive impact of outstanding stock option grants, certain other liabilities and capital securities at period end.
Dividend rate per common share at year end	Dividend per common share declared in the fourth quarter multiplied by four.
DRIP	Dividend Reinvestment Investment Plan
EBITDA	Operating income before depreciation and amortization (see Non-GAAP Financial Measures on page 37 of the Company's Management's Discussion & Analysis).
EBITDA margin	EBITDA divided by sales (see Non-GAAP Financial Measures on page 37 of the Company's Management's Discussion & Analysis).
Gross margin	Sales less cost of merchandise inventories sold including inventory shrinkage divided by sales.
Interest coverage	Operating income divided by interest expense and other financing charges adding back interest capitalized to fixed assets.
Major expansion	Expansion of a store that results in an increase in square footage that is greater than 25% of the square footage of the store prior to the expansion.
Market/book ratio at year end	Market price per common share at year end divided by book value per common share at year end.
Minor expansion	Expansion of a store that results in an increase in square footage that is less than or equal to 25% of the square footage of the store prior to the expansion.
Net debt	Bank indebtedness, short term debt, long term debt due within one year, certain other liabilities, long term debt, and the fair value of certain financial derivative liabilities less cash and cash equivalents, short term investments, security deposits included in other assets and the fair value of certain financial derivative assets (see Non-GAAP Financial Measures on page 37 of the Company's Management's Discussion & Analysis).
Net debt to EBITDA	Net debt divided by EBITDA.
Net debt to equity	Net debt divided by total shareholders' equity and capital securities.
New store	A newly constructed store, conversion or major expansion.
Operating income	Earnings before interest expense, income taxes and minority interest.
Operating margin	Operating income divided by sales.
Price/net (loss) earnings ratio at year end	Market price per common share at year end divided by basic net (loss) earnings per common share for the year.
Renovation	A capital investment in a store resulting in no change to the store square footage.
Retail sales	Combined sales of stores owned by the Company and those owned by the Company's independent franchisees.
Retail square footage	Retail square footage includes corporate and independent franchised stores.
Return on average net assets	Operating income divided by average total assets excluding cash and cash equivalents, short term investments, security deposits included in other assets and accounts payable and accrued liabilities (see Non-GAAP Financial Measures on page 37 of the Company's Management's Discussion & Analysis).
Return on average shareholders' equity	Net (loss) earnings available to common shareholders divided by average total common shareholders' equity.
Same-store sales	Retail sales from the same physical location for stores in operation in that location in both periods being compared by excluding sales from a store that has undergone a conversion or major expansion in the period.
Variable interest entity ("VIE")	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 (see note 28 to the consolidated financial statements).
Weighted average common shares outstanding	The number of common shares outstanding determined by relating the portion of time within the year the common shares were outstanding to the total time in that year.
Working capital	Total current assets less total current liabilities.
Year	A fiscal year ends on the Saturday closest to December 31, usually 52 weeks in duration, but includes 53 weeks every 5 to 6 years. The year ended January 3, 2009 contained 53 weeks.

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Stock Exchange Listing and Symbol
The Company's common shares and second preferred shares are listed on the Toronto Stock Exchange and trade under the symbols "L" and "L.PR.A", respectively.

Common Shares
W. Galen Weston, directly and indirectly, including through his controlling interest in Weston, owns approximately 64% of the Company's common shares.

At year end 2009 there were 276,188,258 common shares issued and outstanding and 99,756,363 common shares available for public trading.

The average daily trading volume of the Company's common shares for 2009 was 395,859.

Preferred Shares
At year end 2009 there were 9,000,000 second preferred shares issued and outstanding and available for public trading.

The average daily trading volume of the Company's second preferred shares for 2009 was 13,988.

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

Common Dividend Policy
The declaration and payment of dividends and the amount thereof are at the discretion of the Board of Directors which takes into account the Company's financial results, capital requirements available cash flow and other factors the Board of Directors 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.

Common Dividend Dates
The declaration and payment of quarterly dividends are made subject to approval by the Board of Directors. The anticipated record and payment dates for 2010 are:

Record Date	Payment Date
March 15	April 1
June 15	July 1
Sept. 15	Oct. 1
Dec. 15	Dec. 30

Investor Relations
Shareholders, security analysts and investment professionals should direct their requests to Kim Lee, Senior Director, Investor Relations at the Company's National Head Office or by e-mail at: investor@loblaw.ca

Preferred Share Dividend Dates
The declaration and payment of quarterly dividends are made subject to approval by the Board of Directors. The anticipated payment dates for 2010 are: January 31, April 30, July 31 and October 31.

Normal Course Issuer Bid
The Company has a Normal Course Issuer Bid on the Toronto Stock Exchange.

Value of Common Shares
For capital gains purposes, the valuation day (December 22, 1971) cost base for the Company is $0.958 per common share. The value on February 22, 1994 was $7.67 per common share.

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To change your address, eliminate multiple mailings, or for other shareholder account inquiries, please contact Computershare Investor Services Inc.

Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, President's Choice Bank

Independent Auditors
KPMG LLP
Chartered Accountants
Toronto, Canada

Annual Meeting
The 2010 Annual Meeting of Shareholders of Loblaw Companies Limited will be held on Wednesday, May 5, 2010 at 11:00 a.m. (EST), at the Metro Toronto Convention Centre, Toronto, Ontario, Canada.

The Company holds an analyst call shortly following the release of its quarterly results. These calls are archived in the Investor Zone section of the Company's website (www.loblaw.ca).

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Loblaw

COMPANIES LIMITED

Ce rapport est disponible en français.