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The following Management's Discussion and Analysis ("MD&A") for Loblaw Companies Limited (the "Company" or "Loblaw") should be read in conjunction with the consolidated financial statements and the related notes on pages 41 to 57 of this Annual Report. A glossary of terms used throughout this Annual Report can be found on page 60.

FORWARD-LOOKING STATEMENTS

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

OVERVIEW

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

VISION AND STRATEGIES

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

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

Looking ahead, Loblaw's long term goals are to be known:

- for offering the highest quality fresh foods,
- for our compelling value proposition and food assortment,
- as a leader in the development of unique, high quality, control label products and services,
- for our powerful and compelling non-food offering,
- as one Company that delivers sustainable growth through distinct but integrated approaches to the market place, and
- for providing a great place to work and grow.

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

The Company's operating strategies include:

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

The Company's financial strategies include:

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

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

KEY PERFORMANCE INDICATORS

The Company continuously reviews and monitors its activities and performance indicators, which it believes are critical to measuring whether the implementation of its operating and financial strategies are successful. Some of the Company's key performance indicators are set out below. Others include: market share, product development of new control label products, and operating and administrative cost management.

KEY PERFORMANCE INDICATORS

	2002	2001
Sales growth	7.4%	6.8%
Basic net earnings per common share growth ⁽¹⁾	29.4%	19.3%
Net debt to equity ratio	.71:1	.76:1
Return on average shareholders' equity	18.9%	16.8%

(1) After adjusting the 2001 basic net earnings per common share to exclude goodwill charges, basic net earnings per common share in 2002 increased 20.0% on a comparable basis.

RESULTS OF OPERATIONS

OPERATING RESULTS

(\$ millions except where otherwise indicated)

	2002	2001	Change
Sales	\$ 23,082	\$ 21,486	7.4%
Operating income	\$ 1,303	\$ 1,136	14.7%
Operating margin	5.6%	5.3%	
EBITDA ⁽¹⁾	\$ 1,657	\$ 1,451	14.2%
EBITDA margin ⁽¹⁾	7.2%	6.8%	

(1) The Company has included information on EBITDA because it believes certain investors use this measure as a means of measuring financial performance. The term EBITDA does not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. This measure should not be construed as an alternative to cash flow from operations or earnings from operations as determined in accordance with Canadian GAAP as a measure of liquidity or earnings. EBITDA is calculated as follows: operating income of \$1,303 million (2001 – \$1,136 million) plus depreciation of \$354 million (2001 – \$315 million).

Our own control labels such as *teddy's choice*, *Klōz for Kids* and *HIGHER STATE* offer selection, convenience and quality at competitive prices. Our *Klōz for Kids* department is now offered in over 280 locations.

Recognizing the importance of meals, we are continually reinventing frozen prepared foods for busy people. With an eye toward emerging trends, we deliver a wide range of easy-to-prepare meals for stay-at-home dinners.



SALES Sales increased 7.4%, to \$23.1 billion from \$21.5 billion in 2001. All regions across the country experienced sales growth, overcoming the effects of our intensified lower pricing in Quebec, a minimal impact from the Fortinos strike and slower sales growth in the second quarter of 2002 attributable to a two week strike in the Saskatchewan Superstore business and unseasonable weather in Ontario and Quebec. Our Quebec lower pricing continues to yield increasing volumes in that region.

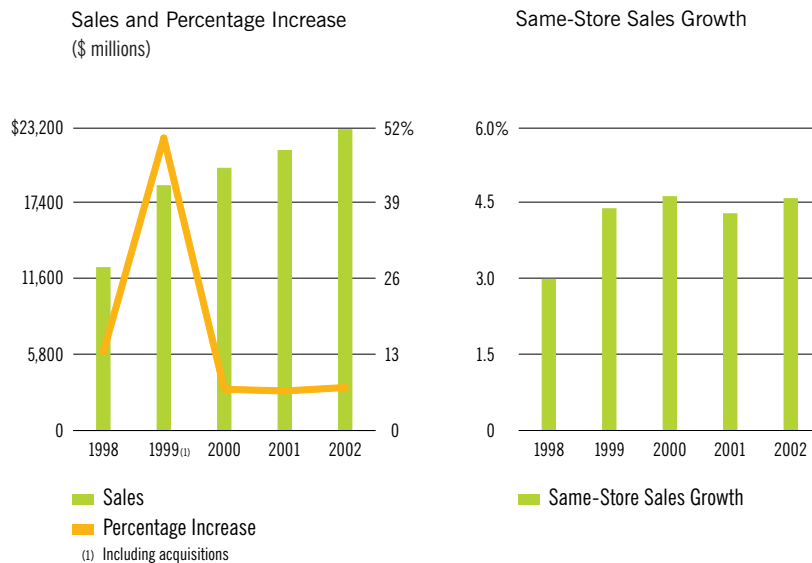
The increase in total sales resulted from:

- a 4.6% same-store sales growth, some of which related to the renovation or minor expansion of 84 stores, and
- a 6.9% increase in net retail square footage related to the opening of 75 new corporate and franchised stores and the closure of 58 stores. The weighted average retail square footage increased 6.2%, net of closures.

National food price inflation remained low during 2002, while 2001 sales growth included some impact from food price inflation early in the year (principally in meat and fresh fruits and vegetables).

The strategy of significant annual capital investment has proven successful and is reflected in the strong sales and same-store sales growth experienced over the past few years. Over the last three years, sales growth and same-store sales growth has averaged 7.1% and 4.5% respectively. Growth was also seen in corporate store sales per average square foot which rose from \$557 in 1999 to \$575 in 2002. Since 2000, the Company has invested approximately \$1 billion in capital annually and plans to increase this to approximately \$1.3 billion in 2003, expanding the store network and strengthening the existing store base through renovation, expansion and/or replacement. In 2003, the Company plans to open, expand or renovate more than 160 corporate and franchised stores across Canada.

Control label sales reached \$4.9 billion in 2002 and penetration, measured as control label sales as a percentage of the Company's retail sales, increased to 23.6% from 21.9% in 2001. The Company introduced approximately 1,000 new control label products in 2002, including 100 new *PC* general merchandise products. The Company's control label program, which includes *President's Choice*, *PC*, *President's Choice Organics*, *no name*, *Club Pack*, *GREEN*, *TOO GOOD TO BE TRUE* and *EXACT*, provides additional sales growth potential.



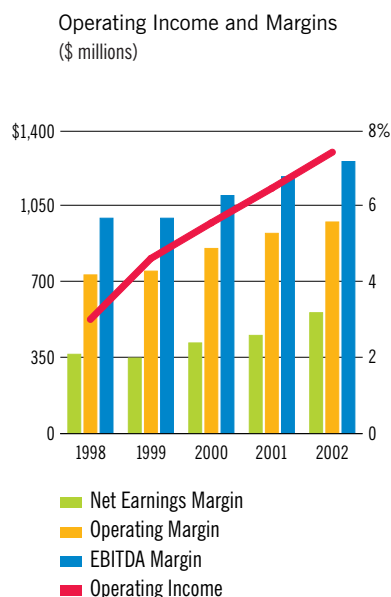
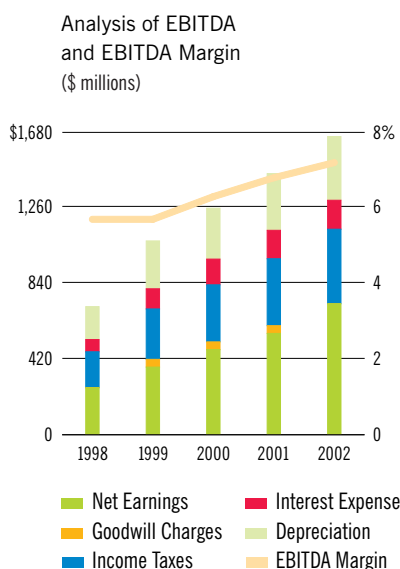
The Company also has growth opportunities as it positions itself in the general merchandise and gas bar categories in Eastern Canada, building on its success in Western Canada. The Company currently operates 96 gas bars in Western Canada and five gas bars that were introduced in the Ontario market in 2002. In 2003, the Company plans to open approximately 30 gas bars in Ontario, Quebec and the Atlantic provinces.

Loblaw expects that the following initiatives will generate continued sales growth over each of the next few years:

- continued capital investment in its store network,
- expansion of non-food/general merchandise offerings,
- opening of additional gas bars, and
- ongoing introduction of new control label products.

OPERATING INCOME Operating income in 2002 increased \$167 million, or 14.7%, to \$1.3 billion, including a \$14 million compensation cost (\$21 million less the \$7 million fair value impact of the equity forwards) relating to the new Canadian accounting standard for stock-based compensation and other stock-based payments implemented in 2002. Gross margins strengthened and operating margin improved to 5.6% from 5.3% in 2001. All regions across the country realized earnings improvements over 2001. EBITDA margin improved to 7.2% from 6.8% in 2001 and compares favourably with North American industry peers. Margins continue to improve as a result of:

- better overall sales mix management at the store level,
- the continued focus on administrative cost control and operating efficiencies, including a focus on controlling retail shrink and retail labour management,
- reduced product costs as a result of buying synergies, and
- the maturing of stores opened during the past few years.



The Company expects continued operating income growth over each of the next few years consistent with recent history as a result of a combination of continued sales increases, a continued focus on the initiatives described above, as well as the following:

- optimization of the Company's supply chain and logistics opportunities, and
- continued roll out of *President's Choice Financial* services and products.

INTEREST EXPENSE Interest expense consists primarily of interest on short and long term debt, the amortization of deferred financing costs, the interest impact of interest rate swaps, cross currency basis swaps and equity forwards and interest income earned on short term investments. In 2002, interest expense increased \$3 million, or 2%, to \$161 million from \$158 million in 2001.

Net short term interest income decreased to \$17 million (2001 – \$23 million) mainly as a result of lower average net interest rates on short term investments and commercial paper.

The Company capitalizes interest incurred on debt related to real estate properties under development. During 2002, \$30 million (2001 – \$27 million) of interest expense was capitalized to these fixed assets.

Interest on long term debt increased \$23 million to \$246 million in 2002, as a result of an increase in average net borrowing levels partially offset by a decline in average net borrowing rates. Other long term interest includes the net positive effect of the Company's interest rate swaps, cross currency basis swaps and equity forwards of \$38 million (2001 – \$15 million). The 2002 weighted average interest rate of fixed long term debt (excluding capital lease obligations) was 7.0% (2001 – 7.1%) and the weighted average term to maturity was 16 years (2001 – 16 years). The 2003 interest expense is expected to increase due to higher average net borrowing levels.

ANALYSIS OF LONG TERM FINANCING COSTS

(\$ millions except where otherwise indicated)

	2002	2001
Total long term debt at period end (including portion due within one year)	\$ 3,526	\$ 3,414
Interest on long term debt	\$ 246	\$ 223
Weighted average interest rate of long term debt	7.0%	7.1%
Interest coverage	8.1:1	7.2:1

At our 440 outdoor garden centres, our customers can find everything they need to make their gardens beautiful. From the latest annuals, perennials and nursery stock to an outstanding array of soils, fertilizers, and accessories.

Our internationally recognized award winner. This *President's Choice Easy-Carve Turkey* was voted the "best new product in the world" in 2002 from SIAL, the International Food Products Exhibition.



INCOME TAXES The Company's effective income tax rate decreased in 2002 to 36.3% compared to 39.7% in 2001, partially a result of declining Canadian federal and provincial income tax rates. This decrease was also a result of the income tax impact of fair valuing the equity forwards and the impact of the new accounting standard that provides for the discontinuance of goodwill amortization, which together resulted in a decrease of approximately 2% in the Company's 2002 effective income tax rate. The 2003 effective income tax rate is expected to decline in accordance with previously announced federal and provincial budgetary income tax rate reductions.

NET EARNINGS Net earnings increased \$165 million, or 29.3%, to \$728 million from \$563 million in 2001 due to the factors described in the above sections. Basic net earnings per common share increased 60 cents, or 29.4%, to \$2.64 from \$2.04 in 2001. After adjusting the 2001 basic net earnings per common share to exclude goodwill charges, basic net earnings per common share increased 44 cents, or 20.0%, on a comparable basis.

FINANCIAL CONDITION

FINANCIAL RATIOS In 2002, the Company maintained a consistent financial position as measured by its strong financial ratios, balance sheet and cash flow. This position is expected to continue in 2003. For the 14th consecutive year, the Company's net debt to equity ratio was better than the Company's internal guideline of a less than 1:1 ratio. The 2002 ratio of .71:1 compared to the 2001 ratio of .76:1. In 2002, shareholders' equity increased \$555 million, or 16%, to \$4.1 billion. The 2003 net debt to equity ratio is expected to improve slightly as retained earnings growth is expected to exceed debt financing requirements. Interest coverage ratio improved to 8.1 times compared to 7.2 times in 2001 mainly due to improved earnings.

The Company's 2002 return on average total assets was 13.7% compared to 13.4% in 2001. The return on average total assets continues to increase after accounting for the significant capital investment activity over the last few years. The Company's 2002 return on average shareholders' equity was 18.9% compared to the 2001 return of 16.8%. A portion of the improvement was due to the discontinuance of goodwill amortization in accordance with the new accounting standard. The five year average return on shareholders' equity was 16.0%.

COMMON DIVIDENDS The Company's dividend policy is to maintain a dividend payment equal to approximately 20% to 25% of the prior period's normalized basic net earnings per common share, giving consideration to the period end cash position, future cash flow requirements and investment opportunities. During 2002, the Company's Board of Directors (the "Board") declared quarterly dividends of 12 cents per common share. The annualized dividend per common share of 48 cents was equal to 23.5% of the 2001 basic net earnings per common share, which was within the Company's dividend policy range. Subsequent to period end, the Board declared a quarterly dividend of 15 cents per common share, payable April 1, 2003.

LIQUIDITY AND CAPITAL RESOURCES

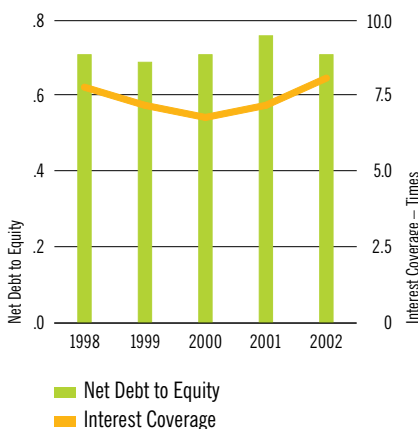
SOURCES OF LIQUIDITY The Company obtains its short term financing through a combination of cash generated from operating activities, cash, cash equivalents, short term investments, bank indebtedness and its commercial paper program. The Company's cash, cash equivalents and short term investments, as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

Securitization of credit card receivables provides President's Choice Bank ("PC Bank"), a wholly owned subsidiary of the Company, with an additional source of funds for the operation of its business. Under the PC Bank's securitization program, a portion of the total interest in the credit card receivables is sold to an independent Trust. PC Bank securitized \$244 million of credit card receivables (2001 – \$112 million) during 2002. Information on PC Bank's credit card receivables and securitization is set out in Note 5 to the consolidated financial statements.

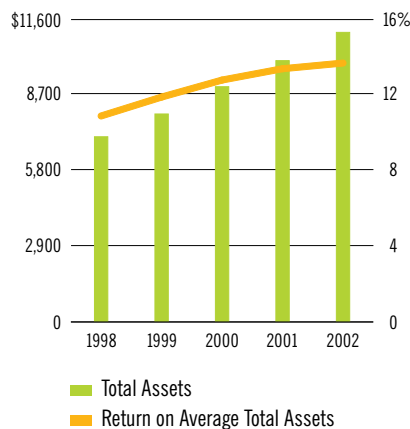
The Company obtains its long term financing through its Medium Term Notes ("MTN") program. The Company plans to refinance existing long term debt as it matures and may obtain additional long term financing for other operating uses or strategic reasons.

In the normal course of business, the Company enters into certain arrangements such as providing comfort letters to third party lenders in connection with financing activities, including the financing obtained by certain franchisees (with no recourse liability to the Company), and establishing standby letters of credit. These arrangements are for varying terms. The aggregate gross potential liability related to the Company's standby letters of credit is approximately \$179 million (2001 – \$123 million) against which the Company has \$256 million (2001 – \$240 million) in credit facilities available to draw on. The Company has also provided a guarantee, on behalf of PC Bank, to MasterCard International Incorporated for \$50 million U.S. (2001 – \$12 million U.S.) relating to PC Bank's obligations to meet its settlement commitments arising from its credit card program.

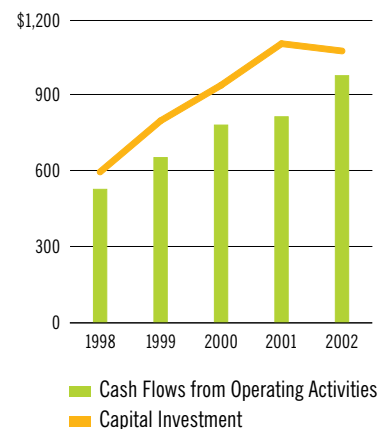
Net Debt to Equity and Interest Coverage



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



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



The Company has the following sources from which it can fund its 2003 cash requirements: cash, cash equivalents, short term investments, cash flows generated from operating activities, commercial paper program, MTN program and additional credit card receivables securitization from future growth in the PC Bank operations. In 2003, the Company anticipates no difficulty in obtaining long term financing in view of its current credit ratings, consistent with last year, and its past experience in the capital markets.

CREDIT RATINGS (CANADIAN STANDARDS)

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

MAJOR CASH FLOW COMPONENTS

(\$ millions)	2002	2001	Change
Cash flows from operating activities	\$ 981	\$ 818	20%
Cash flows used in investing activities	\$ (978)	\$ (1,281)	(24%)
Cash flows from financing activities	\$ 245	\$ 352	(30%)

CASH FLOWS FROM OPERATING ACTIVITIES 2002 cash flows from operating activities increased \$163 million, or 20%, to \$981 million compared to \$818 million in 2001. The increase resulted mainly from improved net earnings before depreciation and amortization offset by an increased investment in non-cash working capital. The 2002 working capital position was \$372 million compared to \$290 million in 2001. The change in working capital was due to an increase in short term debt borrowing offset by an increase in inventory levels and in credit card receivables (net of securitization). The increase in credit card receivables was mainly due to an increase in the number of accounts.

The 2003 cash flows from operating activities are expected to increase at a rate consistent with operating earnings growth and are expected to fund a significant portion of the Company's anticipated 2003 capital investment activity.

CASH FLOWS USED IN INVESTING ACTIVITIES 2002 cash flows used in investing activities were \$978 million compared to \$1,281 million in 2001.

Capital investment amounted to \$1.1 billion (2001 – \$1.1 billion), reflecting the Company's continuing commitment to maintain and renew its asset base and invest for growth in Canada. Approximately 80% of the capital investment was for new stores, renovations, or expansions. Other capital investments were for the distribution network, information systems and other infrastructure to support store growth. The Company's continued capital investment benefited all regions to varying degrees and strengthened its existing store base. Some of the new, larger stores replaced older, smaller, less efficient stores that did not offer the broad range of products and services demanded by today's consumer. The Company continued to roll out its new enlarged store layout, which is designed to accommodate a greater selection of general merchandise products.

The 2002 corporate and franchised store capital investment program increased net retail square footage by 6.9% over 2001, which includes the impact of store openings and closures during the period. During 2002, 75 (2001 – 61) new corporate and franchised stores were opened and 84 (2001 – 75) underwent renovation or minor expansion. The 75 new stores added 2.6 million square feet of retail space (2001 – 1.9 million), net of 58 (2001 – 62) store closures. The 2002 average corporate store size increased 5% to 48,900 square feet (2001 – 46,400) and the average franchised store size increased 2% to 23,400 square feet (2001 – 22,900).

The Company expects to continue its capital investment pace in 2003. Capital investment in 2003 is estimated at \$1.3 billion, which includes approximately \$179 million for projects-in-progress that the Company has effectively committed to complete. In 2003, the Company plans to open, expand or renovate more than 160 corporate and franchised stores throughout Canada in a geographic investment pattern similar to that of last year. This is expected to result in a net increase of approximately 2.4 million square feet, which should generate additional sales growth.

CAPITAL INVESTMENT AND STORE ACTIVITY

	2002	2001	Change
Capital investment (\$ millions)	\$ 1,079	\$ 1,108	
Retail square footage (in millions)	40.4	37.8	7%
Average store size (sq. ft.)			
Corporate	48,900	46,400	5%
Franchised	23,400	22,900	2%

CASH FLOWS FROM FINANCING ACTIVITIES 2002 cash flows from financing activities were \$245 million compared to \$352 million in 2001. In the first quarter of 2002, the Company issued \$200 million of 6.85% MTN due 2032 under its 2001 Base Shelf Prospectus, in the second quarter redeemed its \$61 million Series 8, 10% Debentures, and in the fourth quarter repaid its \$10 million 6.20% BA Range Note as it matured. Subsequent to period end, the Company issued \$200 million of 6.54% MTN due 2033.

During 2001, the Company issued the remaining \$440 million of MTN related to its 2000 Base Shelf Prospectus. During the first quarter of 2001, the Company filed another Base Shelf Prospectus to issue up to \$1.5 billion of MTN, under which it issued \$600 million in 2001. During 2001, the Company repaid its \$100 million of Provigo Inc. Debentures and its \$100 million 7.34% MTN as they matured, and redeemed its \$50 million Series 5, 10% Debentures.

Proceeds from these MTN issues were used to repay short term commercial paper and to redeem/repay other long term debt.

The Company intends to renew its Normal Course Issuer Bid (“NCIB”) to purchase on the Toronto Stock Exchange or enter into equity forwards to purchase up to 5% of its common shares outstanding. The Company believes that the market price of its common shares could be such that their purchase may be an attractive and appropriate use of funds in light of potential benefits to remaining shareholders. During 2002, the Company purchased for cancellation 309,000 (2001 – 12,600) of its common shares for \$17 million (2001 – \$1 million) and entered into equity forwards to buy 390,100 (2001 – 601,600) of its common shares pursuant to its NCIB.

Subsequent to period end, the Company purchased for cancellation 730,000 of its common shares for \$41 million and entered into equity forwards to buy 1,103,500 of its common shares, at an average forward price of \$56.39 with an initial term of 10 years, pursuant to its NCIB.

BASE SHELF PROSPECTUS

(\$ millions)	Base Shelf Prospectus Dated	
	2001	2000
In 2000 issued MTN of		\$ 560
In 2001 issued MTN of	\$ 600	440
In 2002 issued MTN of	200	
Total issued against Base Shelf Prospectus	\$ 800	\$ 1,000
MTN issue limit	\$ 1,500	\$ 1,000
MTN available at period end 2002 (1)	\$ 700	

(1) Subsequent to period end, issued MTN of \$200 million.

OPERATING RISKS AND RISK MANAGEMENT

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

INDUSTRY AND COMPETITION The food distribution industry in Canada is a changing and competitive market. Consumer needs drive changes in the industry, which is impacted by changing demographic and economic trends such as changes in disposable income, increasing ethnic diversity, nutritional awareness and time availability. Over the last several years, consumers have demanded more quality, value and convenience. The Company monitors its market share and the retail market and will adjust its operating strategies which include, but are not limited to relocating stores or reformatting them under a different banner, reviewing pricing and adjusting product offerings and marketing programs. A significant competitive advantage the Company has developed is its control label program, which includes *President's Choice*, *PC*, *President's Choice Organics*, *no name*, *Club Pack*, *GREEN*, *TOO GOOD TO BE TRUE* and *EXACT*. This program enhances customer loyalty by offering superior value and provides some protection against national brand pricing strategies.

Customers can experience the simple and fresh flavours of the authentic Italian “cucina” through our *President's Choice Splendido* family of Italian inspired products, many of which are imported directly from Italy.

Every day, people turn to trusted *no name* items for quality and value. These iconic yellow packages can be found in the cupboards of many Canadian homes.



Recent industry changes have seen the introduction of non-traditional competitors, such as mass merchandisers and warehouse clubs, who continue to increase their offerings of products typically associated with supermarkets. In order to compete effectively and efficiently, the Company is developing and operating new departments and services that complement the traditional supermarket layout as well as enhancing its non-food product and service offerings.

The Company 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. At period end 2002, the Company owned 63% (2001 – 62%) of its corporate store square footage.

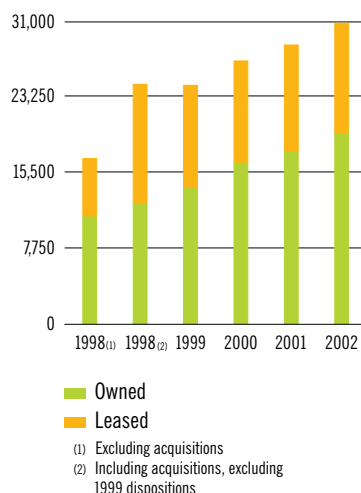
The Company continuously evaluates the markets it operates in and will enter new markets and review acquisitions when opportunities arise and will also exit a particular market and reallocate assets elsewhere when there is a strategic advantage in doing so.

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

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

THIRD PARTY SERVICE PROVIDERS *President's Choice Financial* services are provided by Amicus Bank, a member of the CIBC group of companies. PC Bank uses third party service providers to process credit card transactions, to operate call centres and to monitor credit and fraud for the *President's Choice Financial* MasterCard. In order to minimize operating risk, PC Bank and the Company actively manage and monitor their relationship with all third party service providers. PC Bank has developed a vendor management policy, approved by its Board of Directors and provides its Board with regular reports on vendor management and risk assessment.

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



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

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

The following table outlines the 2003 key economic assumptions used in measuring the accrued benefit plan obligations and related expenses. The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities in each key variable have been calculated independently of any changes in other key variables. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities. The impact of such changes is mitigated through the amortization of actuarial gains or losses in accordance with Canadian generally accepted accounting principles.

(\$ millions except where otherwise indicated)	Pension Benefit Plans		Other Benefit Plans	
	Accrued Benefit Plan Obligations	Benefit Plan Expense	Accrued Benefit Plan Obligations	Benefit Plan Expense
Expected long term rate of return on plan assets		8.0%		
Impact of: 1% increase		\$ (6)		
1% decrease		\$ 6		
Discount rate	6.5%	6.5%	6.2%	6.2%
Impact of: 1% increase	\$ (101)	\$ (14)	\$ (17)	\$ (2)
1% decrease	\$ 116	\$ 20	\$ 19	\$ 2
Growth rate of health care costs (1)			9.0%	9.0%
Impact of: 1% increase			\$ 18	\$ 4
1% decrease			\$ (16)	\$ (3)

(1) Trending to 5.0% in 2010 and remaining at that level thereafter.

For 2003, the Company has assumed an 8.0% (2002 – 8.0%) expected long term rate of return on plan assets based on the asset mix and the active management of its pension plan assets. At period end 2002, the Company's defined benefit pension plan assets had a 10 year annualized return of 9.5%.

Over the past three years, the poor performance in financial markets combined with interest rates at 40-year lows have negatively impacted the funding of the Company's defined benefit pension plans. During 2002, the Company contributed \$13 million (2001 – \$6 million) to its defined benefit pension plans. During 2003, the Company expects to contribute approximately \$60 million to these plans. In addition, contributions are also made to various multi-employer defined benefit plans providing pension benefits in which approximately 54% of employees of the Company and its franchisees participate.

ELECTRICITY PRICES In 2002, the Government of Ontario deregulated the supply of electricity. In order to minimize the risk of higher electricity prices, the Board approved the Company's entry into a three year initial term electricity forward purchase contract, which expires May 2005. This contract maintains a portion of the Company's electricity costs at approximately 2001 rates.

LABOUR Low cost, non-union competitors continue to be a threat to the Company's cost structure. 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. 2002 represented another year of significant labour negotiations across the Company. In 2002, 71 collective agreements were negotiated, of which 49 agreements were settled. The 2002 labour negotiations were challenging and resulted in two labour strikes of short duration – one in Ontario and one in Saskatchewan – which were ultimately resolved and resulted in collective agreements with terms of five and three years respectively. In 2003, 50 collective agreements affecting approximately 13,000 employees will expire, with the single largest agreement covering approximately 7,100 employees. The Company will also continue to negotiate the 33 collective agreements carried over from 2000, 2001 and 2002. The Company has good relations with its employees and unions, and, although it is possible, does not anticipate any unusual difficulties in renegotiating these agreements.

LEADERSHIP DEVELOPMENT The experience and skills of the Company's management team are critical to its growth initiatives and strategies. It is imperative that it continually develop its employees. Therefore, the Company has implemented a leadership training program to ensure the development of strong leaders at all levels throughout the Company and to reinforce its ability to sustain effective execution in the long term.

In 2002, the Company announced the building of a new office in Brampton that will consolidate eight administrative and operating offices in southern Ontario by the fall of 2004, which may result, in the short term, in some employee turnover.

INSURANCE The Company effectively limits its exposure to risk through a combination of appropriate levels of self-insurance and the purchase of an integrated insurance program. Insurance is arranged on a multi-year basis with reliable, financially stable insurance companies as rated by A.M. Best Company, Inc. The integrated insurance program will expire at the end of 2003. The Company is actively working with the current insurance providers to negotiate a multi-year program, as well as evaluating alternatives with other insurance providers. The Company combines comprehensive loss prevention programs and the active management of claims handling and litigation processes by using internal professionals and external technical expertise to reduce and manage the risk it retains.

In addition to our regular grocery section, customers can take advantage of our *Club Pack* section, which offers a wide selection of products at "warehouse club" prices and sizes with "no membership required".

Our new Maxi store in Verdun, Quebec offers customers "the lowest grocery bill"/ "le panier le moins cher" through a large selection of products that emphasize our everyday low prices.



FOOD SAFETY The Company has for many years had food safety procedures that proactively minimize food safety risks to the consumer. Food safety programs address safe food handling and preparation standards, ensure co-packing arrangements and suppliers of food product adhere to safe standards, and that best practices are in place for storage and distribution of food product. The Company is also intensifying the campaign for consumer awareness on safe food handling and consumption. In addition, procedures are in place to manage food crises, should they occur, which identify risks, ensure that communication with consumers is clear, immediate and precise, and ensure that potentially harmful products are removed from inventory immediately.

ENVIRONMENTAL, HEALTH AND SAFETY The Company has effective environmental programs in place and has established policies aimed at ensuring compliance with all applicable environmental legislative requirements. To this end, the Company has initiated environmental risk assessments and audits using internal and external resources as well as using communication tools to raise awareness among employees throughout its operating locations.

The Company endeavours to be socially and environmentally responsible, and recognizes that the competitive pressures for economic growth and cost efficiency must be integrated with environmental stewardship and ecological considerations. Environmental committees throughout the Company meet regularly to monitor and ensure the maintenance of responsible business operations. Environmental protection requirements do not and are not expected to have a material effect on the Company's financial condition and results of operations. The Company has a health and safety program that is designed to address health and wellness, workplace safety and compliance with internal and regulatory guidelines for occupational health and safety. This health and safety program is subject to compliance audits. Environmental risk assessments and compliance audits for health and safety are used as an effective means of identifying current and potential risks. The results show that there are no significant issues or risks to report. The Environmental, Health and Safety Committee of the Board receives reports which review outstanding issues, identify new legislative concerns and outline related communication efforts.

FINANCIAL RISKS AND RISK MANAGEMENT

In the normal course of its business, the Company is exposed to financial risks that have the potential to affect its operating results. These risks and the actions taken to minimize them are discussed below.

The Company maintains treasury centres that operate under policies and guidelines approved by the Board, covering funding, investing, foreign exchange, equity and interest rate management. The Company's policies and guidelines prevent it from using any financial instrument for speculative purposes. Risks relating to the Company's financing activities include changes in interest rates, foreign currency exchange rates and the market price of the Company's common shares. The Company uses financial instruments, specifically cross currency basis swaps, interest rate swaps and equity forwards to minimize the risks and costs associated with its financing activities and its stock-based compensation plans. See Note 14 to the consolidated financial statements for detailed information on the Company's financial instruments.

COUNTERPARTY The successful completion of a financial transaction depends on the ability of both parties to meet their financial commitments under the contract. The Company has sought to minimize potential counterparty risk and losses by implementing a policy which allows such transactions only with counterparties that have at a minimum an A rating by Standard & Poor's or Dominion Bond Rating Service, placing risk adjusted limits on its exposure to any single counterparty and having master netting agreements with its counterparties. These netting agreements allow for the legal right to settle different transactions with the same counterparty on a net basis.

CREDIT The Company's exposure to credit risk relates mainly to PC Bank's credit card receivables. PC Bank manages the *President's Choice Financial* MasterCard and the PC points loyalty program. PC Bank grants credit to its customers on *President's Choice Financial* MasterCard with the intention of increasing the loyalty of those customers and the Company's profitability. In order to minimize the associated credit risk, PC Bank employs credit scoring techniques which are considered leading in the industry; actively monitors the credit card portfolio; and reviews techniques and technology that can improve the effectiveness of its collection process.

FOREIGN EXCHANGE The Company enters into cross currency basis swaps, to manage its current and anticipated exposure to fluctuations in foreign currency exchange rates. These agreements limit its exposure against foreign currency exchange rate fluctuations on the Company's United States dollar denominated net assets, principally cash, cash equivalents and short term investments.

INTEREST RATE The Company enters into interest rate swaps to manage its current and anticipated exposure to fluctuations in interest rates and market liquidity. The Company monitors market conditions and the impact of interest rate fluctuations on its fixed/floating interest rate exposure mix on an ongoing basis.

COMMON STOCK MARKET PRICE The Company enters into equity forwards to manage its current and anticipated exposure to fluctuations in its stock-based compensation cost as a result of changes in the market price of its common shares. These forwards change in value as the market price of the underlying common shares changes and effectively result in a partial offset to fluctuations in the Company's stock-based compensation cost.

ACCOUNTING STANDARDS IMPLEMENTED IN 2002

Effective December 30, 2001, the Company implemented two new Canadian accounting standards – Section 3870 “Stock-based Compensation and Other Stock-based Payments” and Section 3062 “Goodwill and Intangible Assets” (see Note 1 to the consolidated financial statements). The cumulative effect of implementing Section 3870 was a net decrease to retained earnings of \$25 million (\$80 million less future income tax recoverable of \$23 million and the \$32 million fair value impact of the equity forwards). Under Section 3062, goodwill is no longer amortized but instead the carrying value of goodwill must be tested annually for impairment. The Company performed the annual impairment test for goodwill and determined that there was no impairment to the carrying value of goodwill. If this new standard had been applied to 2001 results, net earnings would have increased \$43 million and basic net earnings per common share would have increased 16 cents.

FUTURE ACCOUNTING STANDARDS

The Canadian Institute of Chartered Accountants (the "CICA") issued several new accounting pronouncements, some of which are being revised, which the Company will be required to adopt in the future. The Company closely monitors changes in accounting standards and is assessing the impact, if any, on its consolidated financial statements of the following pronouncements:

- Accounting Guideline 14 – "Disclosure of Guarantees". This guideline requires a guarantor to disclose significant information about guarantees it has provided without regard to the probability that the guarantor will have to make any payments under those guarantees, and is in addition to the requirements under Section 3290, "Contingencies". This guideline is effective for interim and annual periods beginning on or after January 1, 2003 and will be implemented in the first quarter of 2003.
- Section 3063 – "Impairment of Long-Lived Assets" and revised Section 3475 "Disposal of Long-Lived Assets and Discontinued Operations". Section 3063 establishes standards for the recognition, measurement, presentation and disclosure of impairment of long-lived assets that are held for use and is effective for fiscal years beginning on or after April 1, 2003. The Company intends to implement Section 3063 in the first quarter of 2004. The revised Section 3475 establishes the criteria for recognition, measurement, presentation and disclosure of disposal of long-lived assets including the presentation and disclosure of discontinued operations and is applicable for disposal activities initiated after May 1, 2003.
- Accounting Guideline 13 – "Hedging Relationships". This guideline addresses the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. This guideline is under review by the CICA and will be reissued. The effective implementation date was deferred to fiscal years beginning on or after July 1, 2003.
- Draft Accounting Guideline – "Consolidation of Special Purpose Entities" ("SPE"). This draft guideline establishes the principles for determining when an entity should consolidate the activities of an SPE in its consolidated financial statements. This draft guideline is being reviewed by the CICA and is expected to be reissued.
- Exposure draft amending Section 3870 "Stock-based Compensation and Other Stock-based Payments". The proposed amendments would require the recognition of expenses for all employee stock-based compensation transactions and eliminate the current option to disclose the effect of such transactions on net earnings and net earnings per share on a pro forma basis. These amendments would be effective for fiscal years beginning on or after January 1, 2004.

OUTLOOK

The Company had another strong year in 2002, maintaining a consistent financial position and good cash flow generation, while continuing its \$1.1 billion capital investment program. Management believes the financial strength of the Company and the strategic deployment of its financial resources will allow for the continued successful implementation of the Company's operating and financial strategies. The Company plans to continue its capital investment program, adding new retail outlets, renovating and expanding others and continuing the investment in the warehouse and distribution network. We anticipate another successful year for the Company in 2003.

QUARTERLY FINANCIAL INFORMATION

The following is a summary of selected quarterly financial information. Each quarter represents a 12 week period, except the third quarter, which represents a 16 week period.

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
OPERATING RESULTS (\$ MILLIONS)						
Sales	2002	\$ 4,951	\$ 5,308	\$ 7,178	\$ 5,645	\$23,082
	2001	\$ 4,545	\$ 4,985	\$ 6,703	\$ 5,253	\$21,486
EBITDA	2002	\$ 313	\$ 354	\$ 455	\$ 535	\$ 1,657
	2001	\$ 274	\$ 309	\$ 393	\$ 475	\$ 1,451
Operating income	2002	\$ 234	\$ 274	\$ 346	\$ 449	\$ 1,303
	2001	\$ 204	\$ 239	\$ 296	\$ 397	\$ 1,136
Interest expense	2002	\$ 34	\$ 39	\$ 50	\$ 38	\$ 161
	2001	\$ 38	\$ 35	\$ 51	\$ 34	\$ 158
Income taxes	2002	\$ 74	\$ 86	\$ 108	\$ 146	\$ 414
	2001	\$ 63	\$ 79	\$ 94	\$ 136	\$ 372
Net earnings	2002	\$ 126	\$ 149	\$ 188	\$ 265	\$ 728
	2001	\$ 93	\$ 115	\$ 138	\$ 217	\$ 563
EARNINGS PER COMMON SHARE (\$)						
Basic						
Net earnings	2002	\$.46	\$.54	\$.68	\$.96	\$ 2.64
	2001	\$.34	\$.41	\$.50	\$.79	\$ 2.04
Earnings before goodwill charges	2002	\$.46	\$.54	\$.68	\$.96	\$ 2.64
	2001	\$.38	\$.45	\$.55	\$.82	\$ 2.20
Diluted						
Net earnings	2002	\$.46	\$.53	\$.68	\$.95	\$ 2.62
	2001	\$.34	\$.41	\$.50	\$.78	\$ 2.03
Earnings before goodwill charges	2002	\$.46	\$.53	\$.68	\$.95	\$ 2.62
	2001	\$.38	\$.45	\$.55	\$.81	\$ 2.19