

10. INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control 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.

Management of Loblaw has concluded that, as of year end 2007, a previously reported weakness no longer exists in the design of the Company's internal control over financial reporting in the area of inventory controls. This design weakness was first identified in the first quarter of 2007 and was caused primarily by the lack of sufficient compensating controls in the absence of a perpetual inventory system.

Loblaw management continues to monitor and improve controls related to inventory and has designed and implemented the following compensating controls:

- New policies and procedures were developed and implemented throughout the third and fourth quarters of 2007 relating to:
 - Authorization procedures for the recommendation and processing of inventory markdowns;
 - Excess inventory review procedures; and
 - Regular assessments of the appropriateness of assumptions used in identifying excess inventory.
- Loblaw management has enhanced the quarterly retail count process by designing and implementing a statistically sound count method that is able to be extrapolated across Loblaw inventory.
- The assumptions used to determine the discount rate to calculate the cost value of inventory are now evaluated on a more standardized and regular basis.
- The assumptions and guidance used to identify excess inventory and apply related markdowns are now evaluated on a more standardized and regular basis.

Other than the remediation steps discussed above, there was no change in the Company's internal controls over financial reporting that occurred during the quarter ended December 31, 2007 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.