

Management's Statement of Responsibility for Financial Reporting

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

To provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced, management is required to design a system of internal controls and certify as to the design effectiveness of internal controls over financial reporting. Internal auditors, who are employees of the Company, review and evaluate internal controls on management's behalf. 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 of the Company, 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 13, 2007



Galen G. Weston

Executive Chairman



Mark Foote

President and Chief Merchandising Officer



Richard P. Mavrinc

Executive Vice President

Independent Auditors' Report

To the Shareholders of Loblaw Companies Limited:

We have audited the consolidated balance sheets of Loblaw Companies Limited as at December 30, 2006 and December 31, 2005 and the consolidated statements of earnings, retained earnings and cash flow for the 52 week years then ended. 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 December 30, 2006 and December 31, 2005 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.



Toronto, Canada

March 13, 2007



Chartered Accountants

Consolidated Statements of Earnings

For the years ended December 30, 2006 and December 31, 2005 (\$ millions except where otherwise indicated)	2006 (52 weeks)	2005 (52 weeks)
Sales (note 2)	\$ 28,640	\$ 27,627
Operating Expenses		
Cost of sales, selling and administrative expenses (note 2)	26,917	25,542
Depreciation and amortization	590	558
Goodwill impairment (note 3)	800	—
Restructuring and other charges (note 4)	44	86
Goods and Services Tax and provincial sales taxes (note 5)	—	40
	28,351	26,226
Operating Income	289	1,401
Interest Expense (note 7)	259	252
Earnings before Income Taxes	30	1,149
Income Taxes (note 8)	248	400
Net (Loss) Earnings before Minority Interest	(218)	749
Minority Interest	1	3
Net (Loss) Earnings	\$ (219)	\$ 746
Net (Loss) Earnings per Common Share (\$) (note 9)		
Basic	\$ (.80)	\$ 2.72
Diluted	\$ (.80)	\$ 2.71

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Retained Earnings

For the years ended December 30, 2006 and December 31, 2005 (\$ millions except where otherwise indicated)	2006 (52 weeks)	2005 (52 weeks)
Retained Earnings, Beginning of Year	\$ 4,694	\$ 4,193
Net (loss) earnings	(219)	746
Premium on common shares purchased for cancellation (note 18)	—	(15)
Dividends declared per common share — 84¢ (2005 — 84¢)	(230)	(230)
Retained Earnings, End of Year	\$ 4,245	\$ 4,694

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

As at December 30, 2006 and December 31, 2005

(\$ millions)

	2006	2005
Assets		
Current Assets		
Cash and cash equivalents (note 10)	\$ 669	\$ 916
Short term investments (note 10)	327	4
Accounts receivable (note 11)	728	656
Inventories (note 12)	2,037	2,020
Income taxes	63	3
Future income taxes (note 8)	85	72
Prepaid expenses and other assets	39	30
Total Current Assets	3,948	3,701
Fixed Assets (note 13)	8,055	7,785
Goodwill (note 3)	794	1,587
Other Assets (note 14)	689	688
Total Assets	\$ 13,486	\$ 13,761
Liabilities		
Current Liabilities		
Bank indebtedness	\$ 1	\$ 30
Commercial paper	647	436
Accounts payable and accrued liabilities	2,598	2,535
Long term debt due within one year (note 16)	27	161
Total Current Liabilities	3,273	3,162
Long Term Debt (note 16)	4,212	4,194
Future Income Taxes (note 8)	234	237
Other Liabilities (note 17)	314	271
Minority Interest	12	11
Total Liabilities	8,045	7,875
Shareholders' Equity		
Common Share Capital (note 18)	1,196	1,192
Retained Earnings	4,245	4,694
Total Shareholders' Equity	5,441	5,886
Total Liabilities and Shareholders' Equity	\$ 13,486	\$ 13,761

See accompanying notes to the consolidated financial statements.

Approved on Behalf of the Board



Galen G. Weston
Director



Thomas C. O'Neill
Director

Consolidated Cash Flow Statements

For the years ended December 30, 2006 and December 31, 2005

(\$ millions)

	2006 (52 weeks)	2005 (52 weeks)
Operating Activities		
Net (loss) earnings before minority interest	\$ (218)	\$ 749
Depreciation and amortization	590	558
Goodwill impairment (note 3)	800	—
Restructuring and other charges (note 4)	44	86
Goods and Services Tax and provincial sales taxes (note 5)	—	40
Future income taxes	(18)	90
Change in non-cash working capital	(69)	(51)
Other	51	17
Cash Flows from Operating Activities	1,180	1,489
Investing Activities		
Fixed asset purchases	(937)	(1,156)
Short term investments	(323)	271
Proceeds from fixed asset sales	99	109
Credit card receivables, after securitization (note 11)	(82)	(84)
Franchise investments and other receivables	(18)	53
Other	(47)	(96)
Cash Flows used in Investing Activities	(1,308)	(903)
Financing Activities		
Bank indebtedness	(29)	(17)
Commercial paper	211	(37)
Long term debt (note 16)		
Issued	29	333
Retired	(162)	(240)
Common share capital		
Issued (notes 18 and 19)	4	1
Retired (note 18)	—	(16)
Dividends	(173)	(230)
Other	—	(2)
Cash Flows used in Financing Activities	(120)	(208)
Effect of foreign currency exchange rate changes		
on cash and cash equivalents (note 10)	1	(31)
Initial impact of variable interest entities (note 2)	—	20
Change in Cash and Cash Equivalents	(247)	367
Cash and Cash Equivalents, Beginning of Year	916	549
Cash and Cash Equivalents, End of Year	\$ 669	\$ 916

See accompanying notes to the consolidated financial statements.