Loblaw COMPANIES LIMITED

# NEWS RELEASE

## Loblaw Companies Limited Provides Preliminary Unaudited Financial Update for the 2006 Fourth Quarter and Fiscal Year Ended December 30, 2006.[1]

**BRAMPTON, ONTARIO February 8, 2007** Loblaw Companies Limited (TSX: L) ("Loblaw" or the "Company") today is providing a financial update for the fourth quarter of fiscal 2006 and the fiscal year ended December 30, 2006, based on management's review of preliminary unaudited results for these periods. Basic net earnings per common share for the fourth quarter, before taking into account a charge with respect to an expected goodwill impairment, were $0.16 compared to $0.73 in 2005. For the year, basic net earnings per common share, before taking into account a charge with respect to an expected goodwill impairment, were $2.12 compared to $2.72 in 2005.

The Company has performed its annual goodwill impairment test analysis. Based on this analysis, it is anticipated that the carrying value of the $1.5 billion of goodwill associated with the acquisition of the Provigo business in 1998 is impaired. As a result, the Company expects to record in the fourth quarter an initial estimate of a goodwill impairment charge, which the Company estimates to be in the range of $600 million to $900 million, in its audited consolidated financial statements for the year ended December 30, 2006. This is a non-cash charge that is expected to be finalized and adjusted as necessary in the first half of 2007. This expected charge will result in a negative impact to basic net earnings per common share for the fourth quarter and the full year of $2.19 to $3.28 per share. After the impact of this charge, the Company expects to record a basic net loss per common share in the range of $2.03 to $3.12 in the fourth quarter. For the year, after the impact of this charge, the Company expects a basic net loss per common share in the range of $0.07 to $1.16.

Adjusted basic net earnings per common share[2] for the quarter and for the year, which will not be impacted by the expected goodwill impairment charge, were $0.58 and $2.72, respectively, compared to $0.94 and $3.35 for the same periods last year.

**Sales**

Sales and sales growth excluding the impact of variable interest entities ("VIEs")[2] are summarized below.

| ($ millions) | **2006 (12 weeks)** | 2005[3] (12 weeks) | **2006 (52 weeks)** | 2005[3] (52 weeks) |
|---|---|---|---|---|
| Total sales | **$ 6,784** | $ 6,552 | **$ 28,640** | $ 27,627 |
| Less: Sales attributable to the consolidation of VIEs | **92** | 98 | **383** | 415 |
| Sales excluding the impact of VIEs[2] | **$ 6,692** | $ 6,454 | **$ 28,257** | $ 27,212 |
| Total sales growth | **3.5%** | 4.3% | **3.7%** | 6.1% |
| Less: Impact on sales growth attributable to the consolidation of VIEs | **(0.2)%** | 1.6% | **(0.1)%** | 1.6% |
| Sales growth excluding the impact of VIEs[2] | **3.7%** | 2.7% | **3.8%** | 4.5% |

Sales for the fourth quarter of 2006 increased 3.5% or $232 million to $6.8 billion from the $6.6 billion reported in the fourth quarter of 2005. For the full year, sales of $28.6 billion were 3.7% ahead of last year. Sales increases were

[1] This News Release contains forward-looking information. See Forward-Looking Statements on page 5 of this News Release for a discussion of material factors that could cause actual results to differ materially from the conclusions, forecasts and projections herein and of the material factors and assumptions that were applied in presenting the conclusions, forecasts and projections presented herein.

[2] See Non-GAAP Financial Measures on page 4 of this News Release.

[3] The Company implemented Emerging Issues Committee Abstract 156, *"Accounting for Consideration by a Vendor to a Customer (Including a Reseller of the Vendor's Products)"* ("EIC 156") in the first quarter of 2006 on a retroactive basis. Accordingly certain sales incentives paid to independent franchisees, associates and independent accounts for 2005 and 2004 have been reclassified between sales and cost of sales, selling and administrative expenses.

realized across all regions of the country and in all areas of food, general merchandise and drugstore. Same-store sales increased by 1.3% for the quarter and 0.8% year-to-date. National food price inflation as measured by "The Consumer Price Index for Food Purchased from Stores" was approximately 1.5% for the fourth quarter of 2006. The growth in sales and same-store sales in the fourth quarter is higher by approximately 2.0% excluding the loss in tobacco sales, which were adversely impacted by the announcement in the third quarter by a major supplier to commence shipping directly to certain customers of the Company's cash & carry and wholesale club network.

During the fourth quarter of 2006, the business focused on shelf availability, targeted pricing investments and incremental marketing. The Company experienced some positive sales momentum particularly when the decrease in tobacco sales is excluded. A successful *Holiday Insider's Report* contributed to this improved sales performance.

During 2006, net retail square footage increased by 1.2 million square feet or 2.4% due to the net effect of the opening of 37 new corporate and franchised stores and the closure of 33 stores, inclusive of stores which underwent conversions and major expansions. During the fourth quarter of 2006, 8 new corporate and franchised stores were opened and 4 stores were closed, resulting in a net increase of 0.3 million square feet or 0.6%.

**Operating Income Before Expected Goodwill Impairment Charge**

Operating income for the fourth quarter before the expected goodwill impairment charge decreased $289 million, or 73.4% from last year, to $105 million. Operating margin before the expected goodwill charge declined to 1.5% from 6.0% in the comparable period of 2005 due to the effects of the items described below. After the effect of the expected goodwill impairment charge, operating loss for the fourth quarter is expected to be in the range of $495 million to $795 million and operating margin is expected to be in the range of -7.3% to -11.7%.

Adjusted operating income[1] in the fourth quarter of 2006 was $286 million compared to $441 million in 2005, resulting in adjusted operating margins[1] of 4.3% and 6.8% respectively.

In addition to the expected goodwill impairment charge, items which were excluded in arriving at adjusted operating income and margin[1] are set out below:

| ($ millions) | **2006 (12 weeks)** | 2005 (12 weeks) | **2006 (52 weeks)** | 2005 (52 weeks) |
|---|---|---|---|---|
| Operating income before expected goodwill impairment charge | **$ 105** | $ 394 | **$ 1,089** | $ 1,401 |
| Add (deduct) impact of the following: | | | | |
| Ontario collective labour agreement | **84** | | **84** | |
| Inventory liquidation | **68** | | **68** | |
| Restructuring and other charges | **35** | 6 | **44** | 86 |
| Net effect of stock-based compensation and the associated equity forwards | **(6)** | 27 | **37** | 43 |
| Departure entitlement charge | | | **12** | |
| Goods and Services Tax and provincial sales taxes | | | | 40 |
| Direct costs associated with supply chain disruptions | | 10 | | 30 |
| VIEs | | 4 | **(8)** | |
| Adjusted operating income[1] | **$ 286** | $ 441 | **$ 1,326** | $ 1,600 |

A number of factors negatively influenced operating income before the expected goodwill impairment charge for the fourth quarter of 2006, including:

- Higher inventory shrink of approximately $35 million and higher store labour costs of approximately $20 million;
- An investment of approximately 0.5% in food pricing, resulting in an impact of approximately $30 million;

[1] See Non-GAAP Financial Measures on page 4 of this News Release.

- Higher general merchandise mark-downs in the range of $15 million to $20 million to clear inventory through retail stores;
- A fixed asset impairment charge of $24 million due in part to a decision to suspend plans for a number of sites scheduled for future development; and
- Incremental supply chain costs and information technology investments of approximately $15 million.

During the fourth quarter of 2006, the Company and members of certain Ontario locals of the United Food and Commercial Workers Union ratified a new four-year collective agreement. The new agreement enables the Company to convert 44 stores in Ontario to *The Real Canadian Superstore* banner or food stores with equivalent labour economics, and the flexibility to invest in additional store labour where appropriate. As a result of securing this agreement, the Company recorded a one-time charge of $84 million in the fourth quarter. The Company expects this agreement to generate economic benefits and to provide increased operating efficiencies, on a store by store basis, in a critical era of intensifying competition.

The Company continues to manage inventory levels down to more desirable levels in store backrooms, outside storage as well as distribution centres. Some success was realized in the fourth quarter from the focused clearance pricing of certain categories as well as the initiation of the previously disclosed liquidation process for selected general merchandise inventory. In connection with this liquidation process, a charge of $68 million was recorded in the fourth quarter reflecting the expected inventory value through liquidation as well as the associated costs of facilitating the disposition. Total costs associated with the general merchandise liquidation are expected to be at the low end of the previously disclosed range of $100 million to $120 million.

As part of a review of its store operations, management approved plans in the fourth quarter of 2006 to close 19 under performing stores in Quebec, mainly within the Provigo banner, 8 stores in the Atlantic region, and 24 cash & carry and wholesale club outlets. These closures are expected to result in total costs of $54 million. Of these costs, $35 million was recorded in the fourth quarter of 2006.

Adjusted EBITDA and EBITDA margin[1] for the fourth quarter and the year were $414 million and 6.2% and $1.9 billion and 6.7% respectively. For the comparable periods of 2005, adjusted EBITDA and EBITDA margin[1] were $573 million and 8.9% and $2.1 billion and 7.8% respectively. The items excluded in arriving at adjusted EBITDA and EBITDA margin[1] are set out below:

| ($ millions) | **2006 (12 weeks)** | 2005 (12 weeks) | **2006 (52 weeks)** | 2005 (52 weeks) |
|---|---|---|---|---|
| Adjusted operating income[1] | **$ 286** | $ 441 | **$ 1,326** | $ 1,600 |
| Add (deduct) impact of the following: | | | | |
| Depreciation and amortization | **133** | 140 | **590** | 558 |
| VIE depreciation and amortization | **(5)** | (8) | **(24)** | (26) |
| Adjusted EBITDA[1] | **$ 414** | $ 573 | **$ 1,892** | $ 2,132 |

[1] See Non-GAAP Financial Measures on page 4 of this News Release.

In addition to the expected goodwill impairment charge, items which were excluded in arriving at adjusted basic net earnings per common share[1] are set out below:

| ($) | **2006 (12 weeks)** | 2005 (12 weeks) | **2006 (52 weeks)** | 2005 (52 weeks) |
|---|---|---|---|---|
| Basic net earnings per common share before expected goodwill impairment charge | **$ 0.16** | $ 0.73 | **$ 2.12** | $ 2.72 |
| Add (deduct) impact of the following: | | | | |
| Ontario collective labour agreement | **0.20** | | **0.20** | |
| Inventory liquidation | **0.16** | | **0.16** | |
| Restructuring and other charges | **0.09** | 0.01 | **0.11** | 0.20 |
| Net effect of stock-based compensation and the associated equity forwards | **(0.02)** | 0.15 | **0.17** | 0.22 |
| Departure entitlement charge | | | **0.03** | |
| Changes in statutory income tax rates | | 0.01 | **(0.06)** | 0.01 |
| Goods and Services Tax and provincial sales taxes | | | | 0.10 |
| Direct costs associated with supply chain disruptions | | 0.02 | | 0.07 |
| VIEs | **(0.01)** | 0.02 | **(0.01)** | 0.03 |
| Adjusted basic net earnings per common share[1] | **$ 0.58** | $ 0.94 | **$ 2.72** | $ 3.35 |

Loblaw's previously announced "Formula for Growth" is focused on delivering sustainable long-term growth and the Company believes that the actions described above support this direction. Subsequent to the end of the fourth quarter of 2006, the Company approved and announced the restructuring of its merchandising and store operations into more streamlined functions. Costs for this restructuring, including severance, retention and other costs are expected to be in the range of $150 million to $200 million, the substantial portion of which should be recorded in the first quarter of 2007.

The new management team is highly focused on improving performance and creating an exciting platform on which the Company can execute its "Formula for Growth". Although the Company has many strengths, there is no escaping the fact that the retailing basics of availability, accountability, value and format economics are in poorer shape than expected. There is still much hard work to be done.

## Non-GAAP Financial Measures

The Company's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This News Release includes certain non-GAAP financial measures and ratios which the Company believes provide useful information to both management and readers of this News Release in measuring the financial performance and financial condition of the Company for the reasons set out below. These measures do 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 and they should not be construed as an alternative to other financial measures determined in accordance with Canadian GAAP.

***Sales and Sales Growth Excluding the Impact of VIEs*** These financial measures exclude the impact on sales from the consolidation by the Company of certain independent franchisees which resulted from the implementation of Accounting Guideline 15, "*Consolidation of Variable Interest Entities*", retroactively without restatement effective January 2, 2005. This impact on sales is excluded because the Company believes this allows for a more effective analysis of the operating performance of the Company. Both the current and comparative measures reflect the retroactive implementation of EIC 156.

***Adjusted Operating Income and Margin*** Items listed in the table on page 2 are excluded because the Company believes this allows for a more effective analysis of the operating performance of the Company. In

[1] See Non-GAAP Financial Measures on page 4 of this News Release.

addition, they affect the comparability of the financial results and could potentially distort the analysis of trends. The exclusion of these items does not imply they are non-recurring. Adjusted operating income and margin are useful to management in assessing the Company's performance and in making decisions regarding the ongoing operations of its business. Adjusted operating margin is calculated as adjusted operating income divided by sales excluding the impact of VIEs.

***Adjusted EBITDA and Margin*** Adjusted earnings before interest, income taxes, depreciation and amortization ("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. Adjusted EBITDA margin is calculated as adjusted EBITDA divided by sales excluding the impact of VIEs.

***Adjusted Basic Net Earnings per Common Share*** Items listed in the table on page 4 are excluded because the Company believes this allows for a more effective analysis of the operating performance of the Company. In addition, they affect the comparability of the financial results and could potentially distort the analysis of trends. The exclusion of these items does not imply they are non-recurring. Adjusted basic net earnings per common share is useful to management in assessing the Company's performance and in making decisions regarding the ongoing operations of its business.

## 2006 Annual Consolidated Financial Statements and MD&A

The Company's audited consolidated financial statements and Management's Discussion and Analysis ("MD&A") for the year ended December 30, 2006 will be released on or before March 30, 2007. Both documents will be contained in the Company's 2006 Annual Report and will be available in the Investor Zone section of the Company's website at www.loblaw.ca or at www.sedar.com.

## Investor Relations

Shareholders, security analysts and investment professionals should direct their requests to Mr. Geoffrey H. Wilson, Senior Vice President, Financial Services and Investor Relations at the Company's National Head Office or by e-mail at investor@loblaw.ca.

Additional 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.

## Conference Call and Webcast

Loblaw Companies Limited will host a conference call on February 8, 2007 at 11:00 a.m. (EST).

To access via Tele-conference please dial (416) 644-3424. The playback will be made available one hour after the event at (416) 640-1917, passcode: 21216641#. To access via webcast please visit www.loblaw.ca, go to Investor Zone and click on webcast. Pre-registration will be available.

Loblaw Companies Limited is also hosting an analysts' meeting on February 21, 2007 at 9:00 a.m. (EST).

To access via Tele-conference please dial (416) 644-3417. The playback will be made available one hour after the event at (416) 640-1917, passcode: 21218703#. To access via webcast please visit www.loblaw.ca, go to Investor Zone then click on webcast. Pre-registration will be available.

Full details are available on the Loblaw Companies Limited website at www.loblaw.ca.

## FORWARD-LOOKING STATEMENTS

This News Release contains forward-looking statements which reflect management's expectations regarding the Company's objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities. These forward-looking statements include a preliminary unaudited financial update for its fourth quarter and fiscal year 2006. Forward-looking statements are typically identified by words or phrases such as “anticipates”, “expects”, “believes”, “estimates”, “intends” and other similar expressions.

These forward-looking statements are not guarantees, but only predictions. Although the Company believes that these statements are based on information and assumptions which are current, reasonable and complete, these statements are necessarily subject to a number of factors that could cause actual results to vary significantly from the estimates, projections and intentions. Such differences may be caused by factors which include, but are not limited to, changes in consumer spending and preferences, heightened competition including new competitors and expansion of current competitors, any of which could result in, among other things, changes in the Company’s or its competitors’ pricing strategies, the ability to realize anticipated cost savings and efficiencies, including those resulting from restructuring, inventory liquidation and other cost reduction and simplification initiatives, the ability to execute restructuring plans effectively and in a timely manner, changes in the markets for the inventory intended for liquidation and changes in the expected realizable value and costs associated with the liquidation, unanticipated, increased or decreased costs associated with the announced initiatives, including those related to compensation costs, the Company’s relationship with its employees, results of labour negotiations including the terms of future collective bargaining agreements, changes to the regulatory environment in which the Company operates now or in the future, changes in the Company’s tax liabilities, either through changes in tax laws or future assessments, performance of third party service providers, public health events, the ability of the Company to attract and retain key executives and supply and quality control issues with vendors. The calculation of the expected goodwill impairment charge described in this News Release involves the estimation of several variables, including but not limited to market EBITDA multiples, projected future sales, earnings and capital investment, discount rates and terminal growth rates. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies. The Company cautions that this list of factors is not exhaustive. These factors 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 included in the Company’s 2005 Annual Report.

The assumptions applied in making the forward-looking statements contained in this News Release include the following: economic conditions do not materially change from those expected, patterns of consumer spending are reasonably consistent with historical trends, no new significant competitors enter our market nor does any existing competitor unexpectedly significantly increase its presence, neither the Company’s nor its competitors’ pricing strategies change materially, anticipated cost savings and efficiencies are realized as planned, continuing future restructuring activities are effectively executed and executed in a timely manner, costs associated with the liquidation of inventory are not higher or lower than expected, the Company’s assumptions regarding average compensation costs and average years of service for employees affected by the simplification initiatives are materially correct, the Company does not significantly change its approach to its current restructuring activities, there are no material work stoppages and the performance of third-party service providers is in accordance with expectations.

Potential investors and other readers are urged to consider these factors carefully in evaluating these forward-looking statements and are cautioned not to place undue reliance on them. The forward-looking statements included in this News Release, are made only as of the date of this News Release and the Company does not undertake to publicly update these forward-looking statements to reflect new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events contained in these forward-looking statements may or may not occur. The Company cannot assure that projected results or events will be achieved.

For further information :
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