

## 7. Selected Consolidated Annual Information

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 two year period.

### Selected Consolidated Annual Information

(\$ millions except where otherwise indicated)	2006 (52 weeks)	2005 <sup>(2)</sup> (52 weeks)	2004 <sup>(2)</sup> (52 weeks)
Sales	<b>\$ 28,640</b>	\$ 27,627	\$ 26,030
Sales excluding the impact of VIEs <sup>(1)</sup>	<b>28,257</b>	27,212	26,030
Net (loss) earnings	<b>(219)</b>	746	968
Net (loss) earnings per common share (\$)			
Basic	<b>(.80)</b>	2.72	3.53
Adjusted basic <sup>(1)</sup>	<b>2.72</b>	3.35	3.48
Diluted	<b>(.80)</b>	2.71	3.51
Total assets	<b>13,486</b>	13,761	12,949
Long term debt (excluding amount due within one year)	<b>4,212</b>	4,194	3,935
Dividends declared per common share (\$)	<b>.84</b>	.84	.76

(1) See Non-GAAP financial measures on page 40.

(2) During 2006, the Company implemented Emerging Issues Committee Abstract 156, "Accounting by a Vendor for Consideration Given to a Customer (Including a Reseller of the Vendor's Products)" on a retroactive basis. Accordingly certain sales incentives paid to independent franchisees, associates and independent accounts for the prior years have been reclassified between sales and cost of sales, selling and administrative expenses. For a further discussion, see the Accounting Standards Implemented in 2006 section included in this MD&A.

The Company has been undergoing a significant amount of change over the past two years. As discussed previously, a number of significant changes in the operations of the Company occurred in 2006, including the change in senior leadership. The new management team commenced a review of the Company in the latter half of 2006 which focused on key drivers of the business such as fresh food presentation, the value propositions of the Company's banners, maximizing employee engagement, the performance of retailing basics and customer satisfaction. The Company also continued to feel the effects in 2006 of certain of its 2005 initiatives which included restructuring of the supply chain operations, supply chain systems conversions which were initiated as part of the creation of a national information technology platform, the reorganization of its merchandising, procurement and operations groups and the move of personnel to the Store Support Centre in Brampton, Ontario.

Sales in 2006 increased 3.7% to \$28.6 billion from \$27.6 billion in 2005. Excluding the impact of VIEs, sales were \$28.3 billion or 3.8% higher than 2005. Same-store sales increased 0.8% in 2006 and 0.2% in 2005. National food price inflation as measured by CPI was approximately 2.3% for 2006 compared to approximately 2.0% for 2005. The Company's calculation of food price inflation, which considers Company-specific product mix and pricing strategy, was reasonably consistent with that of CPI. Sales and same-store sales in 2006 were adversely impacted by a decrease in tobacco sales caused by a general market decline and the loss of tobacco sales through its wholesale club network due to the decision of a major tobacco supplier to sell directly to certain customers of the Company. In 2005, and to a lesser extent 2006, sales and same-store sales were also adversely impacted as the flow of inventory to the Company's stores was disrupted by the effects of systems conversions and the start-up of a third-party warehouse.

Sales were also influenced by a number of other factors, including changes in net retail square footage, expansion into new services and/or departments and the activities of competitors. Over the past two years, an average of \$1.0 billion annually in capital was invested, resulting in an increase in net retail square footage of approximately 4.0 million square feet or 8.8%.

Corporate store sales per average square foot decreased from \$592 in 2004 to \$585 in 2006.

The amount of new net retail square footage and the timing of the store openings and closures within any given year may vary. The increase in weighted average net retail square footage was 4.5% in 2006 and 7.5% in 2005.

In pursuit of improving its value proposition, Loblaw has invested in pricing in specific markets by adopting everyday low pricing strategies. Consistent with its strategy of focusing on food but serving the consumer's everyday household needs, the Company has expanded its general merchandise and drugstore offerings over this period and the retail sales growth realized in those categories continued to surpass retail sales growth of food. Competitor activity varied by market. During the past two years, unprecedented levels of retail square footage, mainly associated with food offerings, have been introduced into certain markets, resulting in pressure on prices and customer retention.

Full year 2006 net earnings decreased \$965 million to a net loss of \$219 million and basic net earnings per common share decreased \$3.52 to a basic net loss per common share of 80 cents. This decline included a decrease of 79.4% in operating income and a 2.8% increase in interest expense. The effective income tax rate increased to 826.7% in 2006 from 34.8% in 2005.

In 2005, net earnings decreased \$222 million or 22.9% and basic net earnings per common share decreased 81 cents or 22.9% from 2004. The decrease was due to a decrease in operating income of 15.2% over 2004 and a 5.4% increase in interest expense. The effective income tax rate increased to 34.8% in 2005 from 31.5% in 2004.

## Management's Discussion and Analysis

Operating income for the full year 2006 was lower than in 2005 as a result of recording a non-cash goodwill impairment charge. The ongoing transformative changes and certain other charges outlined previously in the Results of Operations section of this MD&A have resulted in lower operating income for the year for both 2006 and 2005 when compared to the prior year. Over the two year period, net interest expense increased, primarily due to the increase in Canadian short term borrowing rates and the decrease in net interest income due to the maturity of interest rate swaps during this period. The 2006 increase in the effective income tax rate was mainly the result of the non-deductible goodwill impairment charge.

Adjusted basic net earnings per common share<sup>(1)</sup> decreased 18.8% to \$2.72 in 2006 from \$3.35 in 2005 and decreased 3.7% to \$3.35 in 2005 from \$3.48 in 2004.

Total assets of the Company decreased in 2006 as a result of the non-cash goodwill impairment charge. Fixed assets have grown as a result of the capital investment program. Inventory at the end of 2006 remained relatively flat to 2005 but was still greater than that of two years ago due to an investment in general merchandise. Inventory turns of general merchandise categories are lower than those of food categories, resulting in higher aggregate levels of investment in general merchandise inventory as that business developed. A substantial portion of credit card receivables is sold to independent trusts and the unsecured balance net of the allowance for credit losses increased by \$156 million since 2004. Cash flows from operating activities have covered a large portion of the funding requirements for the Company. While the Company issued long term debt net of amounts retired in 2005, long term debt was repaid in 2006. In addition, long term debt increased in 2005 as a result of consolidating the long term debt of VIEs pursuant to AcG 15.

Dividends declared per common share have been consistent with the Company's policy of maintaining a dividend payment equal to approximately 20% to 25% of the prior year's adjusted basic net earnings per common share<sup>(1)</sup>, although dividends in 2006 were slightly in excess of that range.

During the two year period ended December 30, 2006, the Company implemented several new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). The new accounting standards implemented in 2006 and the resulting impact on the financial position and results of operations are outlined in the Accounting Standards Implemented in 2006 section of this MD&A.

The following standards were implemented in 2005:

- AcG 15, "*Consolidation of Variable Interest Entities*";
- EIC Abstract 150, "*Determining Whether an Arrangement Contains a Lease*"; and
- EIC Abstract 154, "*Accounting for Pre-Existing Relationships Between the Parties of a Business Combination*".