

3. Vision and Strategies

Vision

Loblaw's vision is to maximize the return on its assets under the three main principles of, "Simplify, Innovate, Grow" in addition to its "Formula for Growth". The Company strives to be consumer focused, cost effective and agile. While accepting prudent operating risks, Loblaw seeks long term, stable growth supported by a strong balance sheet, with the goal of providing sustainable superior returns to its shareholders through a combination of common share price appreciation and dividends.

Strategies

Under the principles of Simplify, Innovate, Grow, the Company employs various operating and financial strategies which guide the Company over the long term and represent a philosophy for the way in which it conducts its business.

Loblaw is simplifying the organization by more clearly defining accountabilities, eliminating duplication and establishing consistent, simple and efficient processes. A less complex organizational structure and a short list of key performance indicators are expected to lead to more focus on customers and store operations.

Innovation is one of the many strengths of Loblaw, most clearly exhibited by its control label offerings. The Company supports innovation based on the belief that providing consumers with new products and convenient services at competitive prices and stimulating shopping environments is critical to its success.

The new management team developed its Formula for Growth to define priorities for a three year renewal plan. In order to provide an integrated offering of food, general merchandise and drugstore, the Company's Formula for Growth focuses on the following:

- best format: truly distinctive formats meeting customers' different needs;
- fresh first: best fresh food offering;
- control label advantage: leading in the development of unique, high quality control label products and services;
- *Joe Fresh Style*: ensuring great style at an affordable price;
- health, home and wholesome: making healthy living affordable;
- priced right: providing best value;
- always available: best in-stock positions; and
- friendly colleagues motivated to serve.

The Company's long term operating strategies are consistent with its Formula for Growth and continue to be as follows:

- using the cash flow generated in the business to invest in its future;
- owning its 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 serving the consumer's everyday household 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 the Company's value proposition.

The Company's long term financial strategies are as follows:

- maintaining a strong balance sheet;
- minimizing the risks and costs of its operating and financing activities; and
- maintaining liquidity and access to capital markets.

The table below summarizes the Company's strategic imperatives and the activities undertaken in 2006 to progress these imperatives.

Strategic Imperative	Progress in 2006
Simplify	<ul style="list-style-type: none"> • Continued efforts to restructure the supply chain which proved to be more complex and costly than originally anticipated. By year end, the supply chain stabilized and delivered improved service levels. • Planned and developed organizational transition, focused on redesigned processes and a leaner administrative structure. • Identified key performance indicators to be further developed and implemented in 2007.
Innovate	<ul style="list-style-type: none"> • Launched <i>Joe Fresh Style</i> apparel for adults in April 2006 with positive consumer response. • Developed and distributed a record six issues of the <i>Insider's Report</i> to a total of over ten million homes in Canada, keeping customers informed about exciting new products and services. • Over 2,000 new control label products launched.
Grow	<ul style="list-style-type: none"> • Commenced the 100 Day Review of key drivers of the business. • Established the first phase of Positive Action Groups, teams made up of employees from every functional area across the business, dedicated to producing meaningful action on individual strategic issues including optimization of the <i>Real Canadian Superstore</i>, fresh perception measurement, groundwork for Maple Leaf Gardens great food store, Credit For Value, on-shelf availability measurement, and an employee survey tool. • Continued major product development, to be refined as needed. • Reached a labour agreement in Ontario which will allow store conversions.

Board Commitment

The Company's Board and senior management meet annually to review the strategic imperatives. These strategic imperatives, which generally span a three to five year timeframe, target specific issues in response to the Company's performance and changes in consumer needs and the competitive retail landscape.