Financial Results

Management's Statement of Responsibility for Financial Reporting

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 – Financial Review. 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 International Financial Reporting Standards as issued by the International Accounting Standards Board. It also includes ensuring that the financial information presented elsewhere in the Annual Report – Financial Review is consistent with that in the consolidated financial statements.

Management is also responsible for providing 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 and operating effectiveness of internal control over financial reporting. A dedicated control compliance team reviews and evaluates internal controls, the results of which are shared with management on a quarterly basis.

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, 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 – Financial Review based on the review and recommendation of the Audit Committee.

Toronto, Canada
February 21, 2018

[signed]
Galen G. Weston
Chairman and Chief Executive Officer

[signed]
Darren Myers
Chief Financial Officer

Independent Auditors' Report

To the Shareholders of Loblaw Companies Limited:

We have audited the accompanying consolidated financial statements of Loblaw Companies Limited, which comprise the consolidated balance sheets as at December 30, 2017 and December 31, 2016, the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the 52 week years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Loblaw Companies Limited as at December 30, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the 52 week years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
February 21, 2018

Consolidated Statements of Earnings

For the years ended December 30, 2017 and December 31, 2016 (millions of Canadian dollars except where otherwise indicated)	2017	2016
Revenue	**$ 46,702**	$ 46,385
Cost of Merchandise Inventories Sold	**32,913**	33,213
Selling, General and Administrative Expenses	**11,295**	11,080
Operating Income	**$ 2,494**	$ 2,092
Net interest expense and other financing charges (note 6)	**525**	653
Earnings Before Income Taxes	**$ 1,969**	$ 1,439
Income taxes (note 7)	**443**	449
Net Earnings	**$ 1,526**	$ 990
Attributable to:		
Shareholders of the Company	**$ 1,502**	$ 983
Non-Controlling Interests	**24**	7
Net Earnings	**$ 1,526**	$ 990
Net Earnings per Common Share ($) (note 8)		
Basic	**$ 3.78**	$ 2.40
Diluted	**$ 3.75**	$ 2.37
Weighted Average Common Shares Outstanding (millions) (note 8)		
Basic	**393.8**	405.1
Diluted	**397.3**	409.1

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 30, 2017 and December 31, 2016 (millions of Canadian dollars)		2017		2016
Net Earnings	**$**	**1,526**	$	990
Other comprehensive income (loss), net of taxes				
Items that are or may be subsequently reclassified to profit or loss:				
Foreign currency translation adjustment gain	**$**	**3**	$	11
Unrealized gain (loss) on cash flow hedges (note 29)		**2**		(1)
Items that will not be reclassified to profit or loss:				
Net defined benefit plan actuarial gains (losses) (note 25)		**(19)**		33
Other comprehensive income (loss)	**$**	**(14)**	$	43
Total Comprehensive Income	**$**	**1,512**	$	1,033
Attributable to:				
Shareholders of the Company	**$**	**1,488**	$	1,026
Non-Controlling Interests		**24**		7
Total Comprehensive Income	**$**	**1,512**	$	1,033

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

(millions of Canadian dollars except where otherwise indicated)	Common Share Capital	Preferred Share Capital	**Total Share Capital**	**Retained Earnings**	**Contributed Surplus**	Foreign Currency Translation Adjustment	Cash Flow Hedges	**Accumulated Other Comprehensive Income**	**Non-Controlling Interests**	**Total Equity**
Balance at December 31, 2016	$ 7,692	$ 221	**$ 7,913**	**$ 4,944**	**$ 112**	$ 33	$ —	**$ 33**	**$ 26**	**$ 13,028**
Net earnings	$ —	$ —	**$ —**	**1,502**	**$ —**	$ —	$ —	**$ —**	**$ 24**	**$ 1,526**
Other comprehensive income (loss)	—	—	**—**	**(19)**	**—**	3	2	**5**	**—**	**(14)**
Total Comprehensive Income (Loss)	$ —	$ —	**$ —**	**$ 1,483**	**$ —**	$ 3	$ 2	**$ 5**	**$ 24**	**$ 1,512**
Common shares purchased and cancelled (note 23)	(301)	—	**(301)**	**(790)**	**—**	—	—	**—**	**—**	**(1,091)**
Net effect of equity-based compensation (notes 23 and 26)	48	—	**48**	**(23)**	**(2)**	—	—	**—**	**—**	**23**
Shares purchased and held in trust (note 23)	(13)	—	**(13)**	**(35)**	**—**	—	—	**—**	**—**	**(48)**
Shares released from trust (notes 23 and 26)	19	—	**19**	**52**	**—**	—	—	**—**	**—**	**71**
Dividends declared per common share – $1.07 (note 23)	—	—	**—**	**(421)**	**—**	—	—	**—**	**—**	**(421)**
Dividends declared per preferred share – $1.325 (note 23)	—	—	**—**	**(12)**	**—**	—	—	**—**	**—**	**(12)**
Net distribution to non-controlling interests	—	—	**—**	**—**	**—**	—	—	**—**	**(10)**	**(10)**
	$ (247)	$ —	**$ (247)**	**$ 254**	**$ (2)**	$ 3	$ 2	**$ 5**	**$ 14**	**$ 24**
Balance at December 30, 2017	$ 7,445	$ 221	**$ 7,666**	**$ 5,198**	**$ 110**	$ 36	$ 2	**$ 38**	**$ 40**	**$ 13,052**

(millions of Canadian dollars except where otherwise indicated)	Common Share Capital	Preferred Share Capital	**Total Share Capital**	**Retained Earnings(i)**	**Contributed Surplus**	Foreign Currency Translation Adjustment	Cash Flow Hedges	**Accumulated Other Comprehensive Income**	**Non-Controlling Interests**	**Total Equity**
Balance at January 2, 2016	$ 7,851	$ 221	**$ 8,072**	**$ 4,914**	**$ 102**	$ 22	$ 1	**$ 23**	**$ 13**	**$ 13,124**
Net earnings	$ —	$ —	**$ —**	**$ 983**	**$ —**	$ —	$ —	**$ —**	**$ 7**	**$ 990**
Other comprehensive income (loss)	—	—	**—**	**33**	**—**	11	(1)	**10**	**—**	**43**
Total Comprehensive Income (Loss)	$ —	$ —	**$ —**	**$ 1,016**	**$ —**	$ 11	$ (1)	**$ 10**	**$ 7**	**$ 1,033**
Common shares purchased and cancelled (note 23)	(198)	—	**(198)**	**(510)**	**—**	—	—	**—**	**—**	**(708)**
Net effect of equity-based compensation (notes 23 and 26)	50	—	**50**	**(19)**	**10**	—	—	**—**	**—**	**41**
Shares purchased and held in trust (note 23)	(24)	—	**(24)**	**(66)**	**—**	—	—	**—**	**—**	**(90)**
Shares released from trust (notes 23 and 26)	13	—	**13**	**37**	**—**	—	—	**—**	**—**	**50**
Dividends declared per common share – $1.03 (note 23)	—	—	**—**	**(416)**	**—**	—	—	**—**	**—**	**(416)**
Dividends declared per preferred share – $1.325 (note 23)	—	—	**—**	**(12)**	**—**	—	—	**—**	**—**	**(12)**
Net contribution from non-controlling interests	—	—	**—**	**—**	**—**	—	—	**—**	**6**	**6**
	$ (159)	$ —	**$ (159)**	**$ 30**	**$ 10**	$ 11	$ (1)	**$ 10**	**$ 13**	**$ (96)**
Balance at December 31, 2016	$ 7,692	$ 221	**$ 7,913**	**$ 4,944**	**$ 112**	$ 33	$ —	**$ 33**	**$ 26**	**$ 13,028**

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

(millions of Canadian dollars)	As at December 30, 2017	As at December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents (note 9)	**$ 1,798**	$ 1,314
Short term investments (note 9)	**546**	241
Accounts receivable (note 10)	**1,188**	1,122
Credit card receivables (note 11)	**3,100**	2,926
Inventories (note 12)	**4,438**	4,371
Prepaid expenses and other assets	**224**	190
Assets held for sale (note 13)	**33**	40
Total Current Assets	**$ 11,327**	$ 10,204
Fixed Assets (note 14)	**10,669**	10,559
Investment Properties (note 15)	**235**	218
Intangible Assets (note 16)	**8,251**	8,745
Goodwill (note 17)	**3,922**	3,895
Deferred Income Tax Assets (note 7)	**134**	130
Franchise Loans Receivable (note 29)	**166**	233
Other Assets (note 18)	**402**	452
Total Assets	**$ 35,106**	$ 34,436
Liabilities		
Current Liabilities		
Bank indebtedness (note 32)	**$ 110**	$ 115
Trade payables and other liabilities	**5,646**	5,091
Provisions (note 20)	**283**	99
Income taxes payable	**117**	329
Short term debt (note 11)	**640**	665
Long term debt due within one year (note 21)	**1,635**	400
Associate interest	**263**	243
Total Current Liabilities	**$ 8,694**	$ 6,942
Provisions (note 20)	**169**	120
Long Term Debt (note 21)	**9,542**	10,470
Trust Unit Liability (note 29)	**972**	959
Deferred Income Tax Liabilities (note 7)	**1,977**	2,190
Other Liabilities (note 22)	**700**	727
Total Liabilities	**$ 22,054**	$ 21,408
Equity		
Share Capital (note 23)	**$ 7,666**	$ 7,913
Retained Earnings	**5,198**	4,944
Contributed Surplus (note 26)	**110**	112
Accumulated Other Comprehensive Income	**38**	33
Total Equity Attributable to Shareholders of the Company	**$ 13,012**	$ 13,002
Non-Controlling Interests	**40**	26
Total Equity	**$ 13,052**	$ 13,028
Total Liabilities and Equity	**$ 35,106**	$ 34,436

Contingent Liabilities (note 31). Subsequent Events (note 35).

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 30, 2017 and December 31, 2016 (millions of Canadian dollars)	2017	2016
Operating Activities		
Net earnings	$ 1,526	$ 990
Add (Deduct):		
Income taxes (note 7)	443	449
Net interest expense and other financing charges (note 6)	525	653
Depreciation and amortization	1,568	1,543
Asset impairments, net of recoveries	97	139
Gain on disposition of gas bar operations (note 13)	(501)	—
Change in provisions (note 20)	233	(39)
PC Optimum program (note 19)	189	—
	$ 4,080	$ 3,735
Change in non-cash working capital	132	173
Change in credit card receivables (note 11)	(174)	(136)
Income taxes paid	(866)	(329)
Interest received	17	9
Other	20	67
Cash Flows from Operating Activities	$ 3,209	$ 3,519
Investing Activities		
Fixed asset purchases	$ (979)	$ (896)
Intangible asset additions (note 16)	(280)	(328)
Acquisition of QHR Corporation, net of cash acquired	—	(153)
Cash assumed on initial consolidation of franchises (note 5)	26	42
Change in short term investments (note 9)	(305)	(177)
Proceeds from disposal of assets	17	62
Proceeds from disposition of gas bar operations (note 13)	540	—
Other	(53)	13
Cash Flows used in Investing Activities	$ (1,034)	$ (1,437)
Financing Activities		
Change in bank indebtedness	$ (5)	$ (28)
Change in short term debt (note 11)	(25)	115
Long Term Debt (note 21)		
Issued	686	815
Retired	(450)	(1,049)
Interest paid	(471)	(474)
Dividends paid on common and preferred shares	(327)	(425)
Common Share Capital		
Issued (note 26)	41	42
Purchased and held in trust (note 23)	(48)	(90)
Purchased and cancelled (note 23)	(1,091)	(708)
Other	5	20
Cash Flows used in Financing Activities	$ (1,685)	$ (1,782)
Effect of foreign currency exchange rate changes on cash and cash equivalents	$ (6)	$ (4)
Change in cash and cash equivalents	$ 484	$ 296
Cash and cash equivalents, beginning of period	1,314	1,018
Cash and Cash Equivalents, End of Period	$ 1,798	$ 1,314

See accompanying notes to the consolidated financial statements.

Note 1. Nature and Description of the Reporting Entity

Loblaw Companies Limited is a Canadian public company incorporated in 1956 and is Canada's food and pharmacy leader, the nation's largest retailer and the majority unitholder of Choice Properties Real Estate Investment Trust ("Choice Properties"). Loblaw Companies Limited provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise, credit card services, insurance brokerage services, gift cards and telecommunication services. Its registered office is located at 22 St. Clair Avenue East, Toronto, Canada M4T 2S7. Loblaw Companies Limited and its subsidiaries are together referred to, in these consolidated financial statements, as the "Company" or "Loblaw".

The Company's controlling shareholder is George Weston Limited ("Weston"), which owns approximately 48.6% of the Company's outstanding common shares. The Company's ultimate parent is Wittington Investments, Limited ("Wittington"). The remaining common shares are widely held.

The Company has three reportable operating segments: Retail, Financial Services and Choice Properties (see note 34). As at December 30, 2017, Loblaw held an effective interest in Choice Properties of approximately 82.4%.

Note 2. Significant Accounting Policies

Statement of Compliance The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described herein.

These consolidated financial statements were authorized for issuance by the Company's Board of Directors ("Board") on February 21, 2018.

Basis of Preparation The consolidated financial statements were prepared on a historical cost basis except for the following items that were measured at fair value:

- defined benefit pension plan assets with the obligations related to these pension plans measured at their discounted present value as described in note 25;
- liabilities for cash-settled equity-based compensation arrangements as described in note 26; and
- certain financial instruments as described in note 29.

The significant accounting policies set out below have been applied consistently in the preparation of the consolidated financial statements for all periods presented.

The consolidated financial statements are presented in Canadian dollars.

Fiscal Year The fiscal year of the Company ends on the Saturday closest to December 31. Under an accounting convention common in the retail industry, the Company follows a 52-week reporting cycle, which periodically necessitates a fiscal year of 53 weeks. The years ended December 30, 2017 and December 31, 2016 both contained 52 weeks. The next 53 week year will occur in fiscal 2020.

Basis of Consolidation The consolidated financial statements include the accounts of the Company and other entities that the Company controls. Control exists when the Company has the existing rights that give it the current ability to direct the activities that significantly affect the entities' returns. The Company assesses control on an ongoing basis.

Structured entities are entities controlled by the Company which were designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Structured entities are consolidated if, based on an evaluation of the substance of its relationship with the Company, the Company concludes that it controls the structured entity. Structured entities controlled by the Company were established under terms that impose strict limitations on the decision-making powers of the structured entities' management and that results in the Company receiving the majority of the benefits related to the structured entities' operations and net assets, being exposed to the majority of risks incident to the structured entities' activities, and retaining the majority of the residual or ownership risks related to the structured entities or their assets.

Transactions and balances between the Company and its consolidated entities have been eliminated on consolidation.

Non-controlling interests are recorded in the consolidated financial statements and represent the non-controlling shareholders' equity in an entity consolidated by the Company for which the Company's ownership is less than 100%. Transactions with non-controlling interests are treated as transactions with equity owners of the Company. Changes in the Company's ownership interest in its subsidiaries are accounted for as equity transactions.

Loblaw consolidates the Shoppers Drug Mart Corporation ("Shoppers Drug Mart") licensees ("Associates") as well as the franchisees of its food retail stores that are subject to a new, simplified franchise agreement ("Franchise Agreement"). An Associate is a pharmacist-owner of a corporation that is licensed to operate a retail drug store at a specific location using Shoppers Drug Mart trademarks. The consolidation of the Associates and the new franchisees is based on the concept of control, for accounting purposes, which was determined to exist through the agreements that govern the relationships between the Company and the Associates and franchisees. Loblaw does not have any direct or indirect shareholdings in the corporations that operate the Associates. Associate interest reflects the investment the Associates have in the net assets of their businesses. Under the terms of the Associate Agreements, Shoppers Drug Mart agrees to purchase the assets that the Associates use in store operations, primarily at the carrying value to the Associate, when Associate Agreements are terminated by either party. The Associates' corporations and the franchisees remain separate legal entities.

Choice Properties' Trust Units ("Units") held by unitholders other than the Company are presented as a liability as the Units are redeemable for cash at the option of the holder, subject to certain restrictions.

Business Combinations Business combinations are accounted for using the acquisition method as of the date when control is transferred to the Company. The Company measures goodwill as the excess of the sum of the fair value of the consideration transferred over the net identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. Transaction costs that the Company incurs in connection with a business combination, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Net Earnings per Common Share Basic net earnings per common share ("EPS") is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated by adjusting the net earnings available to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive instruments.

Revenue Recognition The Company recognizes revenue when the amount can be reliably measured, when it is probable that future economic benefits will flow to the Company and when specific criteria have been met as described below.

Retail segment revenue includes sale of goods and services to customers through corporate stores and consolidated franchise stores and Associates, and sales to non-consolidated franchise stores and independent wholesale account customers. Revenue is measured at the fair value of the consideration received or receivable, net of estimated returns and sales incentives. The Company recognizes revenue at the time the sale is made or service is delivered to its customers and at the time of delivery of inventory to non-consolidated franchises. Revenue also includes services fees from non-consolidated franchises and independent wholesale account customers, which are recognized when services are rendered.

On the initial sale of franchising arrangements, the Company offered products and services as part of a multiple deliverable arrangement. Prior to the implementation of the new Franchise Agreement, the initial sales to non-consolidated franchise stores were recorded using a relative fair value approach.

Customer loyalty awards are accounted for as a separate component of the sales transaction in which they are granted. A portion of the consideration received in a transaction that includes the issuance of an award is deferred until the awards are ultimately redeemed. The allocation of the consideration to the award is based on an evaluation of the award's estimated fair value at the date of the transaction using the residual fair value method.

Financial Services segment revenue includes interest income on credit card loans, service fees and other revenue related to financial services. Interest income is recognized using the effective interest method. Service fees are recognized when services are rendered. Other revenue is recognized periodically or according to contractual provisions.

Choice Properties segment revenue includes rental revenue on base rents earned from tenants under lease agreements, realty tax and operating cost recoveries and other incidental income, including intersegment revenue earned from the Retail segment. The rental revenue is recognized on a straight-line basis over the terms of the respective leases. Property tax and operating cost recoveries are recognized in the period that recoverable costs are chargeable to tenants. Percentage participation rents are recognized when tenants' specified sales targets have been met as set out in the lease agreements.

Income Taxes Current and deferred taxes are recognized in the consolidated statement of earnings, except for current and deferred taxes related to a business combination, or amounts charged directly to equity or other comprehensive income, which are recognized in the consolidated balance sheet.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the asset and liability method of accounting on temporary differences arising between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. Deferred tax is measured using enacted or substantively enacted income tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. A deferred tax asset is recognized for temporary differences as well as unused tax losses and credits to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different taxable entities where the Company intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is recorded on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Choice Properties qualifies as a “mutual fund trust” under the Income Tax Act (Canada). The Trustees intend to distribute all taxable income directly earned by Choice Properties to unitholders and to deduct such distributions for income tax purposes. Legislation relating to the federal income taxation of Specified Investment Flow Through trusts or partnerships (“SIFT”) provide that certain distributions from a SIFT will not be deductible in computing the SIFT’s taxable income and that the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. However, distributions paid by a SIFT as return of capital should generally not be subject to tax.

Under the SIFT rules, the taxation regime will not apply to a real estate investment trust (“REIT”) that meets prescribed conditions relating to the nature of its assets and revenue (the “REIT Conditions”). Choice Properties has reviewed the SIFT rules and has assessed its interpretation and application to the REIT’s assets and revenue. While there are uncertainties in the interpretation and application of the SIFT rules, Choice Properties has determined that it meets the REIT Conditions.

Cash Equivalents Cash equivalents consist of highly liquid marketable investments with an original maturity date of 90 days or less from the date of acquisition.

Short Term Investments Short term investments consist of marketable investments with an original maturity date greater than 90 days and less than 365 days from the date of acquisition.

Security Deposits Security deposits consist of cash and cash equivalents and short term investments. Security deposits also include amounts which are required to be placed with counterparties as collateral to enter into and maintain certain outstanding letters of credit and certain financial derivative contracts.

Accounts Receivable Accounts receivable consists primarily of receivables from non-consolidated franchisees, government and third-party drug plans arising from prescription drug sales, independent accounts and amounts owed from vendors, and are recorded net of allowances.

Credit Card Receivables The Company, through President’s Choice Bank (“PC Bank”), a wholly owned subsidiary of the Company, has credit card receivables that are stated net of an allowance. Interest income is recorded in revenue and interest expense is recorded in net interest expense and other financing charges using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash receipts through the expected life of the credit card receivable (or, where appropriate, a shorter period) to the carrying amount. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

Credit card receivables are considered past due when a cardholder has not made a payment by the contractual due date, taking into account a grace period. The amount of credit card receivables that fall within the grace period is considered current. Credit card receivables past due but not impaired are those receivables that are either less than 90 days past due or whose past due status is reasonably expected to be remedied. Any credit card receivables with a payment that is contractually 180 days in arrears, or where the likelihood of collection is considered remote, is written off.

The Company, through PC Bank, participates in various securitization programs that provide the primary source of funds for the operation of its credit card business. PC Bank maintains and monitors co-ownership interest in credit card receivables with independent securitization trusts, in accordance with its financing requirements. PC Bank is required to absorb a portion of the related credit losses. As a result, Loblaw has not transferred all of the risks and rewards related to these assets and continues to recognize these assets in credit card receivables. The transferred receivables are accounted for as financing transactions. The associated liabilities secured by these assets are included in either short term debt or long term debt based on their characteristics and are carried at amortized cost. Loblaw provides a standby letter of credit for the benefit of the independent securitization trusts.

Eagle Credit Card Trust® PC Bank participates in a single seller revolving co-ownership securitization program with *Eagle Credit Card Trust®* ("*Eagle*") and continues to service the credit card receivables on behalf of *Eagle*, but does not receive any fee for its servicing obligations and has a retained interest in the securitized receivables represented by the right to future cash flows after obligations to investors have been met. The Company consolidates *Eagle* as a structured entity.

Other Independent Securitization Trusts The Other Independent Securitization Trusts administer multi-seller, multi-asset securitization programs that acquire assets from various participants, including credit card receivables from PC Bank. These trusts are managed by major Canadian chartered banks. PC Bank does not control the trusts through voting interests and does not exercise any control over the trusts' management, administration or assets. The activities of these trusts are conducted on behalf of the participants and each trust is a conduit through which funds are raised to purchase assets through the issuance of senior and subordinated short term and medium term asset backed notes. These trusts are unconsolidated structured entities.

Franchise Loans Receivable Franchise loans receivable are comprised of amounts due from non-consolidated franchises for loans issued through a structure involving consolidated independent funding trusts. These trusts, which are considered structured entities, were created to provide loans to franchises to facilitate their purchase of inventory and fixed assets. Each franchise provides security to the independent funding trust for its obligations by way of a general security agreement. In the event that a franchise defaults on its loan and the Company has not, within a specified time period, assumed the loan or the default is not otherwise remedied, the independent funding trust would assign the loan to the Company and draw upon a standby letter of credit. The Company has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit. The carrying amount of franchise loan receivables approximates fair value.

Inventories The Company values inventories at the lower of cost and net realizable value.

Cost includes the costs of purchases net of vendor allowances plus other costs, such as transportation, that are directly incurred to bring inventories to their present location and condition. The cost of inventories at retail stores and distribution centres are measured at weighted average cost. Shoppers Drug Mart inventories are measured on a first-in first-out basis.

The Company estimates net realizable value as the amount that inventories are expected to be sold taking into consideration fluctuations in retail prices due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling prices, the amount of the write-down previously recorded is reversed. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred.

Vendor Allowances The Company receives allowances from certain of its vendors whose products it purchases. These allowances are received for a variety of buying and/or merchandising activities, including vendor programs such as volume purchase allowances, purchase discounts, listing fees and exclusivity allowances. Allowances received from a vendor are a reduction in the cost of the vendor's products and services, and are recognized as a reduction in the cost of merchandise inventories sold and the related inventory in the consolidated statement of earnings and the consolidated balance sheet, respectively, when it is probable that they will be received and the amount of the allowance can be reliably estimated. Amounts received but not yet earned are presented in other liabilities as deferred vendor allowances.

Certain exceptions apply if the consideration is a payment for assets or services delivered to the vendor or for reimbursement of selling costs incurred to promote the vendor's products. The consideration is then recognized as a reduction of the cost incurred in the consolidated statement of earnings.

Fixed Assets Fixed assets are recognized and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, including costs incurred to prepare the asset for its intended use and capitalized borrowing costs. The commencement date for capitalization of costs occurs when the Company first incurs expenditures for the qualifying assets and undertakes the required activities to prepare the assets for their intended use.

Borrowing costs directly attributable to the acquisition, construction or production of fixed assets that necessarily take a substantial period of time to prepare for their intended use and a proportionate share of general borrowings, are capitalized to the cost of those fixed assets, based on a quarterly weighted average cost of borrowing. All other borrowing costs are expensed as incurred and recognized in net interest expense and other financing charges.

The cost of replacing a fixed asset component is recognized in the carrying amount if it is probable that the future economic benefits embodied within the component will flow to the Company and the cost can be measured reliably. The carrying amount of the replaced component is derecognized. The cost of repairs and maintenance of fixed assets is expensed as incurred and recognized in operating income.

Gains and losses on disposal of fixed assets are determined by comparing the fair value of proceeds from disposal with the net book value of the assets and are recognized net, in operating income.

Fixed assets are depreciated on a straight-line basis over their estimated useful lives to their estimated residual value when the assets are available for use. When significant parts of a fixed asset have different useful lives, they are accounted for as separate components and depreciated separately. Depreciation methods, useful lives and residual values are reviewed annually and are adjusted for prospectively, if appropriate. Estimated useful lives are as follows:

Buildings	10 to 40 years
Equipment and fixtures	2 to 10 years
Building improvements	up to 10 years
Leasehold improvements	Lesser of term of the lease and useful life up to 25 years
Assets held under financing leases	Lesser of term of the lease(i) and useful life(ii)

(i) If it is reasonably certain that the Company will obtain ownership by the end of the lease term, assets under finance leases would be depreciated over the life of the asset.

(ii) Same basis as owned assets.

Non-current assets are classified as assets held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. To qualify as assets held for sale, the sale must be highly probable, assets must be available for immediate sale in their present condition and management must be committed to a plan to sell assets that should be expected to close within one year from the date of classification. Assets held for sale are recognized at the lower of their carrying amount and fair value less costs to sell and are not depreciated.

Fixed assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. Refer to the Impairment of Non-Financial Assets policy.

Investment Properties Investment properties are properties owned by the Company that are held to either earn rental income, for capital appreciation, or both. The Company's investment properties include single tenant properties held to earn rental income and certain multiple tenant properties. Land and buildings leased to franchisees are not accounted for as investment properties as these properties are related to the Company's operating activities.

Investment property assets are recognized at cost less accumulated depreciation and any accumulated impairment losses. The depreciation policies for investment properties are consistent with those described in the significant accounting policy for fixed assets.

Investment properties are reviewed at each balance sheet date to determine whether there is any indication of impairment. Refer to the Impairment of Non-Financial Assets policy.

Joint Ventures A joint venture is a joint arrangement whereby the parties to the arrangement have rights to the net assets of the joint arrangement. Investments in joint ventures are accounted for using the equity method, where the investment is initially recognized in the consolidated balance sheet at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the joint venture.

Goodwill Goodwill arising in a business combination is recognized as an asset at the date that control is acquired. Goodwill is subsequently measured at cost less accumulated impairment losses. Goodwill is not amortized but is tested for impairment on an annual basis or more frequently if there are indicators that goodwill may be impaired as described in the Impairment of Non-Financial Assets policy.

Intangible Assets Intangible assets with finite lives are measured at cost less accumulated amortization and any accumulated impairment losses. These intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from three to 18 years, and are tested for impairment as described in the Impairment of Non-Financial Assets policy. Useful lives, residual values and amortization methods for intangible assets with finite useful lives are reviewed at least annually. Amortization expense for intangible assets is recognized in selling, general and administrative expenses ("SG&A").

Indefinite life intangible assets are measured at cost less any accumulated impairment losses. These intangible assets are tested for impairment on an annual basis or more frequently if there are indicators that intangible assets may be impaired as described in the Impairment of Non-Financial Assets policy.

Impairment of Non-Financial Assets At each balance sheet date, the Company reviews the carrying amounts of its non-financial assets, other than inventories and deferred tax assets, to determine whether there is any indication of impairment. If any such indication exists, the asset is then tested for impairment by comparing its recoverable amount to its carrying value. Goodwill and indefinite life intangible assets are tested for impairment at least annually.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets. This grouping is referred to as a cash generating unit ("CGU"). The Company has determined that each location is a separate CGU for purposes of impairment testing.

Corporate assets, which include head office facilities and distribution centers, do not generate separate cash inflows. Corporate assets are tested for impairment at the minimum grouping of CGUs to which the corporate assets can be reasonably and consistently allocated. Goodwill arising from a business combination is tested for impairment at the minimum grouping of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of a CGU or CGU grouping is the higher of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows from the CGU or CGU grouping, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU or CGU grouping. The fair value less costs to sell is based on the best information available to reflect the amount that could be obtained from the disposal of the CGU or CGU grouping in an arm's length transaction between knowledgeable and willing parties, net of estimates of the costs of disposal.

An impairment loss is recognized if the carrying amount of a CGU or CGU grouping exceeds its recoverable amount. For asset impairments other than goodwill, the impairment loss reduces the carrying amounts of the non-financial assets in the CGU on a pro-rata basis. Any loss identified from goodwill impairment testing is first applied to reduce the carrying amount of goodwill allocated to the CGU grouping, and then to reduce the carrying amounts of the other non-financial assets in the CGU or CGU grouping on a pro-rata basis. Impairment losses and reversals are recognized in SG&A.

For assets other than goodwill, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

Bank Indebtedness Bank indebtedness is comprised of balances outstanding on bank lines of credit drawn by the Company's Associates.

Provisions Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the present value of the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties specific to the obligation. The unwinding of the discount rate for the passage of time is recognized in net interest expense and other financing charges.

Financial Instruments and Derivative Financial Instruments Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument. Financial instruments, including derivatives and embedded derivatives in certain contracts, upon initial recognition are measured at fair value and classified as either financial assets or financial liabilities at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, loans and receivables or other financial liabilities. Loans and receivables, and other financial liabilities are subsequently measured at cost or amortized cost. Derivatives and non-financial derivatives must be recorded at fair value on the consolidated balance sheet. Fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated using valuation methodologies, primarily discounted cash flows taking into account external market inputs where possible.

Financial derivative instruments in the form of forwards and futures, as well as non-financial derivatives in the form of futures contracts, options contracts and forward contracts, are recorded at fair value on the consolidated balance sheet. The Company does not use derivative instruments for speculative purposes. Any embedded derivative instruments that may be identified are separated from their host contract and recorded on the consolidated balance sheet at fair value. Derivative instruments are recorded in current or non-current assets and liabilities based on their remaining terms to maturity. All changes in fair values of the derivative instruments are recorded in net earnings unless the derivative qualifies and is effective as a hedging item in a designated hedging relationship. The Company has cash flow hedges which are used to manage exposure to fluctuations in foreign currency exchange and interest rates. The effective portion of the change in fair value of the hedging item is recorded in other comprehensive income. If the change in fair value of the hedging item is not completely offset by the change in fair value of the hedged item, the ineffective portion of the hedging relationship is recorded in net earnings. Amounts accumulated in other comprehensive income are reclassified to net earnings when the hedged item is recognized in net earnings.

Classification The following table summarizes the classification and measurement of the Company's financial assets and liabilities:

Asset/Liability	Classification	Measurement
Cash and cash equivalents	Fair value through profit and loss(i)	Fair value
Short term investments	Fair value through profit and loss(i)	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Credit card receivables	Loans and receivables	Amortized cost
Security deposits	Fair value through profit and loss(i)	Fair value
Franchise loans receivable	Loans and receivables	Amortized cost
Certain other assets	Loans and receivables	Amortized cost
Certain long term investments	Available-for-sale	Fair value(iii)
Bank indebtedness	Other liabilities	Amortized cost
Trade payables and other liabilities	Other liabilities	Amortized cost
Short term debt	Other liabilities	Amortized cost
Long term debt	Other liabilities	Amortized cost
Trust Unit Liability	Fair value through profit and loss(ii)	Fair value
Certain other liabilities	Other liabilities	Amortized cost
Derivatives	Fair value through profit and loss(ii)	Fair value

(i) Financial instruments designated at fair value through profit and loss.

(ii) Financial instruments required to be classified at fair value through profit and loss.

(iii) Measured at fair value through other comprehensive income until realized through disposal or impairment.

The Company has not classified any financial assets as held-to-maturity.

Fair Value The Company measures financial assets and financial liabilities under the following fair value hierarchy. The different levels have been defined as follows:

- Fair Value Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Fair Value Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Fair Value Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

Transaction costs other than those related to financial instruments classified as fair value through profit or loss, which are expensed as incurred, are capitalized to the carrying amount of the instrument and amortized using the effective interest method.

Gains and losses on fair value through profit or loss financial assets and financial liabilities are recognized in net earnings in the period in which they are incurred. Settlement date accounting is used to account for the purchase and sale of financial assets. Gains or losses between the trade date and settlement date on fair value through profit or loss financial assets are recorded in net earnings.

Valuation Process The determination of the fair value of financial instruments is performed by the Company's treasury and financial reporting departments on a quarterly basis. There was no change in the valuation techniques applied to financial instruments during the current year. The following table describes the valuation techniques used in the determination of the fair values of financial instruments:

Type	**Valuation Approach**
Cash and cash equivalents, short term investments, security deposits, accounts receivable, credit card receivables, bank indebtedness, trade payables and other liabilities and short term debt	The carrying amount approximates fair value due to the short term maturity of these instruments.
Franchise loans receivable	The carrying amount approximates fair value as fluctuations in the forward interest rates would not have significant impacts on the valuation and the provisions recorded for all impaired receivables.
Derivatives	Specific valuation techniques used to value derivative financial instruments include: • Quoted market prices or dealer quotes for similar instruments; and • The fair value of other derivative instruments are determined based on observable market information as well as valuations determined by external valuators with experience in financial markets.
Long term debt, Trust Unit Liability and certain other financial instruments	The fair value is based on the present value of contractual cash flows, discounted at the Company's current incremental borrowing rate for similar types of borrowing arrangements or, where applicable, quoted market prices.

Financial assets are derecognized when the contractual rights to receive cash flows and benefits from the financial asset expire, or if the Company transfers the control or substantially all the risks and rewards of ownership of the financial asset to another party. The difference between the carrying amount of the financial asset and the sum of the consideration received and receivable is recognized in earnings before income taxes.

Financial liabilities are derecognized when obligations under the contract expire, are discharged or cancelled. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in earnings before income taxes.

Impairment of Financial Assets An assessment of whether there is objective evidence that a financial asset or a group of financial assets is impaired is performed at each balance sheet date. A financial asset or group of financial assets is considered to be impaired if one or more loss events that have an impact on the estimated future cash flows occur after their initial recognition and the loss can be reliably measured. If such objective evidence has occurred, the loss is based on the difference between the carrying amount of the financial asset, or portfolio of financial assets, and the respective estimated future cash flows discounted at the financial assets' original effective interest rate. Impairment losses are recorded in the consolidated statement of earnings with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts.

In periods subsequent to the impairment where the impairment loss has decreased, and such decrease can be related objectively to an event occurring after the impairment was initially recognized, the previously recognized impairment loss is reversed through the consolidated statement of earnings. The impairment reversal is limited to the lesser of the decrease in impairment or the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized, after the reversal.

Foreign Currency Translation The functional currency of the Company is the Canadian dollar.

The assets and liabilities of foreign operations that have a functional currency different from that of the Company, including goodwill and fair value adjustments arising on acquisition, are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. The resulting foreign currency exchange gains or losses are recognized in the foreign currency translation adjustment as part of other comprehensive income. When such foreign operation is disposed of, the related foreign currency translation reserve is recognized in net earnings as part of the gain or loss on disposal. On the partial disposal of such foreign operation, the relevant proportion is reclassified to net earnings.

Assets and liabilities denominated in a foreign currency held in foreign operations that have the same functional currency as the Company are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. The resulting foreign currency exchange gains or losses are recognized in operating income.

Revenues and expenses of foreign operations are translated into Canadian dollars at the foreign currency exchange rates that approximate the rates in effect at the dates when such items are transacted.

Short Term Employee Benefits Short term employee benefits include wages, salaries, compensated absences, profit-sharing and bonuses. Short term employee benefit obligations are measured on an undiscounted basis and are recognized in operating income as the related service is provided or capitalized if the service rendered is in connection with the creation of a tangible or intangible asset. A liability is recognized for the amount expected to be paid under short term cash bonus or profit sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined Benefit Post-Employment Plans The Company has a number of contributory and non-contributory defined benefit post-employment plans providing pension and other benefits to eligible employees. The defined benefit pension plans provide a pension based on length of service and eligible pay. The other defined benefits include health care, life insurance and dental benefits provided to eligible employees who retire at certain ages having met certain service requirements. The Company's net defined benefit plan obligations (assets) for each plan are actuarially calculated by a qualified actuary at the end of each annual reporting period using the projected unit credit method pro-rated based on service and management's best estimate of the discount rate, the rate of compensation increase, retirement rates, termination rates, mortality rates and expected growth rate of health care costs. The discount rate used to value the defined benefit plan obligation for accounting purposes is based on high quality corporate bonds denominated in the same currency with cash flows that match the terms of the defined benefit plan obligations. Past service costs (credits) arising from plan amendments are recognized in operating income in the year that they arise. The actuarially determined net interest costs on the net defined benefit plan obligation are recognized in net interest expense and other financing charges.

The fair values of plan assets are deducted from the defined benefit plan obligations to arrive at the net defined benefit plan obligations (assets). For plans that result in a net defined benefit asset, the recognized asset is limited to the present value of economic benefits available in the form of future refunds from the plan or reductions in future contributions to the plan (the "asset ceiling"). If it is anticipated that the Company will not be able to recover the value of the net defined benefit asset, after considering minimum funding requirements for future service, the net defined benefit asset is reduced to the amount of the asset ceiling. When the payment in the future of minimum funding requirements related to past service would result in a net defined benefit surplus or an increase in a surplus, the minimum funding requirements are recognized as a liability to the extent that the surplus would not be fully available as a refund or a reduction in future contributions.

Remeasurements including actuarial gains and losses, the effect of the asset ceiling (if applicable) and the impact of any minimum funding requirements are recognized through other comprehensive income and subsequently reclassified from accumulated other comprehensive income to retained earnings.

Other Long Term Employee Benefit Plans The Company offers other long term employee benefits including contributory long term disability benefits and non-contributory continuation of health care and dental benefits to employees who are on long term disability leave. As the amount of the long term disability benefit does not depend on length of service, the obligation is recognized when an event occurs that gives rise to an obligation to make payments. The accounting for other long term employee benefit plans is similar to the method used for defined benefit plans except that all actuarial gains and losses are recognized in operating income.

Defined Contribution Plans The Company maintains a number of defined contribution pension plans for employees in which the Company pays fixed contributions for eligible employees into a registered plan and has no further significant obligation to pay any further amounts. The costs of benefits for defined contribution plans are expensed as employees have rendered service.

Multi-Employer Pension Plans The Company participates in multi-employer pension plans ("MEPPs") which are accounted for as defined contribution plans. The Company's responsibility to make contributions to these plans is limited to amounts established pursuant to its collective agreements. Defined benefit MEPPs are accounted for as defined contribution plans as adequate information to account for the Company's participation in the plans is not available due to the size and number of contributing employers in the plans. The contributions made by the Company to MEPPs are expensed as contributions are due.

Termination Benefits Termination benefits are recognized as an expense at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. Benefits payable are discounted to their present value when the effect of the time value of money is material.

Equity-Settled Equity-Based Compensation Plans Stock options, Restricted Share Units ("RSUs"), Performance Share Units ("PSUs"), Director Deferred Share Units ("DSUs") and Executive Deferred Share Units ("EDSUs") issued by the Company are settled in common shares and are accounted for as equity-settled awards.

Stock options outstanding have a seven year term to expiry, vest 20% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is based on the greater of the volume weighted average trading price of the Company's common share for either the five trading days prior to the date of grant or the trading day immediately preceding the grant date. The fair value of each tranche of options granted is measured separately at the grant date using a Black-Scholes option pricing model, and includes the following assumptions:

- The expected dividend yield is estimated based on the expected annual dividend prior to the option grant date and the closing share price as at the option grant date;
- The expected share price volatility is estimated based on the Company's historical volatility over a period consistent with the expected life of the options;
- The risk-free interest rate is estimated based on the Government of Canada bond yield in effect at the grant date for a term to maturity equal to the expected life of the options; and
- The effect of expected exercise of options prior to expiry is incorporated into the weighted average expected life of the options, which is based on historical experience and general option holder behaviour.

RSUs and PSUs vest after the end of a three year performance period. The number of PSUs that vest is based on the achievement of specified performance measures. The fair value of each RSU and PSU granted is measured separately at the grant date based on the market value of a Loblaw common share. Dividends paid may be reinvested in RSUs and PSUs and are treated as capital transactions.

The Company established a trust for each of the RSU and PSU plans to facilitate the purchase of shares for future settlement upon vesting. The Company is the sponsor of the respective trusts and has assigned Computershare Trust Company of Canada as the trustee. The trusts are considered structured entities and are consolidated in the Company's financial statements with the cost of the acquired shares recorded at book value as a reduction to share capital. Any premium on the acquisition of the shares above book value is applied to retained earnings until the shares are issued to settle RSU and PSU plan obligations.

Members of the Board, who are not management of the Company, may elect to receive a portion of their annual retainers and fees in the form of DSUs. Eligible executives of the Company may elect to defer up to 100% of the Short Term Incentive Plan earned in any year into the EDSU plan. Dividends paid earn fractional DSUs and EDSUs, respectively and are treated as capital transactions. DSUs and EDSUs vest upon grant.

The compensation expense for equity-settled plans is prorated over the vesting or performance period, with a corresponding increase to contributed surplus. Forfeitures are estimated at the grant date and are revised to reflect changes in expected or actual forfeitures.

Upon exercise of options, the amount recognized in contributed surplus for the award plus the cash received upon exercise is recognized as an increase in share capital. Upon settlement of RSUs and PSUs, the amount recognized in contributed surplus for the award is reclassified to share capital, with any premium or discount applied to retained earnings.

Cash-Settled Equity-Based Compensation Plans Unit Options, Restricted Units ("RUs"), Performance Units ("PUs"), and Trustee Deferred Units ("DUs") issued by Choice Properties, and certain DSUs are accounted for as cash-settled awards.

Choice Properties' Unit Options have a five to ten year term, vest 25% cumulatively on each anniversary date of the grant and are exercisable at the designated Unit price, which is based on the greater of the volume weighted average trading price of a Unit for the five trading days prior to the date of grant or the trading day immediately preceding the grant date. The fair value of each tranche is valued separately using a Black-Scholes option pricing model, and includes the following assumptions:

- The expected distribution yield is estimated based on the expected annual distribution prior to the balance sheet date and the closing Unit price as at the balance sheet date;
- The expected Unit price volatility is estimated based on the average volatility of investment grade entities in the Standard & Poor's/ Toronto Stock Exchange ("TSX") REIT Index over a period consistent with the expected life of the options;
- The risk-free interest rate is estimated based on the Government of Canada bond yield in effect at the balance sheet date for a term to maturity equal to the expected life of the options; and
- The effect of expected exercise of options prior to expiry is incorporated into the weighted average expected life of the options, which is based on expectations of option holder behaviour.

RUs entitle certain employees to receive the value of the RU award in cash or Units at the end of the applicable vesting period, which is usually three years in length. The RU plan provides for the crediting of additional RUs in respect of distributions paid on Units for the period when an RU is outstanding. The fair value of each RU granted is measured based on the market value of a Unit at the balance sheet date.

PUs entitle certain employees to receive the value of the PU award in cash or Units at the end of the applicable performance period, which is usually three years in length, based on Choice Properties achieving certain performance conditions. The PU plan provides for the crediting of additional PUs in respect of distributions paid on Units for the period when a PU is outstanding. The fair value of each PU granted is measured based on the market value of a Unit at the balance sheet date.

Members of the Choice Properties' Board of Trustees, who are not management of Choice Properties, are required to receive a portion of their annual retainer in the form of DUs and may also elect to receive up to 100% of their remaining fees in DUs. Distributions paid earn fractional DUs, which are treated as additional awards. DUs vest upon grant. The fair value of each DU granted is measured based on the market value of a Unit at the balance sheet date.

The fair value of the amount payable to award recipients in respect of these cash settled awards plan is re-measured at each balance sheet date, and a compensation expense is recognized in SG&A over the vesting period for each tranche with a corresponding change in the liability.

Employee Share Ownership Plan The Company's contributions to the Employee Share Ownership Plan ("ESOP") are measured at cost and recorded as compensation expense in operating income when the contribution is made. The ESOP is administered through a trust which purchases the Company's common shares on the open market on behalf of its employees.

Accounting Standards Implemented

Statement of Cash Flows The Company implemented the amendments to International Accounting Standard ("IAS") 7, "Statement of Cash Flows", in the first quarter of 2017 and has provided disclosures on changes in liabilities arising from certain financing activities, including both changes arising from cash and non-cash flows changes, in the notes to the consolidated financial statements.

Note 3. Critical Accounting Estimates and Judgments

The preparation of the consolidated financial statements requires management to make estimates and judgments in applying the Company's accounting policies that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes.

Within the context of these consolidated financial statements, a judgment is a decision made by management in respect of the application of an accounting policy, a recognized or unrecognized financial statement amount and/or note disclosure, following an analysis of relevant information that may include estimates and assumptions. Estimates and assumptions are used mainly in determining the measurement of balances recognized or disclosed in the consolidated financial statements and are based on a set of underlying data that may include management's historical experience, knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances. Management continually evaluates the estimates and judgments it uses.

The following are the accounting policies subject to judgments and key sources of estimation uncertainty that the Company believes could have the most significant impact on the amounts recognized in the consolidated financial statements. The Company's significant accounting policies are disclosed in note 2.

Consolidation

Judgments Made in Relation to Accounting Policies Applied The Company uses judgment in determining the entities that it controls and therefore consolidates. The Company controls an entity when the Company has the existing rights that give it the current ability to direct the activities that significantly affect the entity's returns. The Company consolidates all of its wholly owned subsidiaries. Judgment is applied in determining whether the Company controls the entities in which it does not have ownership rights or does not have full ownership rights. Most often, judgment involves reviewing contractual rights to determine if rights are participating (giving power over the entity) or protective rights (protecting the Company's interest without giving it power).

Inventories

Key Sources of Estimation Inventories are carried at the lower of cost and net realizable value which requires the Company to utilize estimates related to fluctuations in shrink, future retail prices, the impact of vendor rebates on cost, seasonality and costs necessary to sell the inventory.

Impairment of Non-Financial Assets (Goodwill, Intangible Assets, Fixed Assets and Investment Properties)

Judgments Made in Relation to Accounting Policies Applied Management is required to use judgment in determining the grouping of assets to identify their CGUs for the purposes of testing fixed assets for impairment. Judgment is further required to determine appropriate groupings of CGUs, for the level at which goodwill and intangible assets are tested for impairment. The Company has determined that each retail location is a separate CGU for the purposes of fixed asset impairment testing. For the purpose of goodwill and indefinite life intangible assets impairment testing, CGUs are grouped at the lowest level at which goodwill and indefinite life intangible assets are monitored for internal management purposes. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

Key Sources of Estimation In determining the recoverable amount of a CGU or a group of CGUs, various estimates are employed. The Company determines fair value less costs to sell using such estimates as market rental rates for comparable properties, recoverable operating costs for leases with tenants, non-recoverable operating costs, discount rates, capitalization rates and terminal capitalization rates. The Company determines value in use by using estimates including projected future sales, earnings and capital investment consistent with strategic plans presented to the Board. Discount rates are consistent with external industry information reflecting the risk associated with the specific cash flows.

Impairment of Franchise Loans Receivable and Certain Other Financial Assets

Judgments Made in Relation to Accounting Policies Applied Management reviews franchise loans receivable, trade receivables and certain other assets relating to the Company's franchise business at each balance sheet date utilizing judgment to determine whether a triggering event has occurred requiring an impairment test to be completed.

Key Sources of Estimation Management determines the initial fair value of its franchise loans and certain other financial assets using discounted cash flow models. The process of determining these fair values requires management to make estimates of a long term nature regarding discount rates, projected revenues and margins, as applicable. These estimates are derived from past experience, actual operating results and budgets.

Customer Loyalty Awards Programs

Key Sources of Estimation The Company defers revenue equal to the fair value of award points earned by loyalty program members at the time of award. The Company determines fair value using estimates such as retail value per point on redemption and breakage (the amount of points that will never be redeemed). Prior to the launch of the *PC Optimum* program, the estimated fair value per point for the *PC points* and *PC Plus* programs was determined based on the program reward schedule and was $1 for every 1,000 points. For the *Shoppers Optimum* program, the estimated fair value per point was determined based on the expected weighted average redemption levels for future redemptions, including special redemption events. Each program had its own breakage rate and the rates were reviewed on an ongoing basis and were estimated utilizing each program's historical redemption activity and anticipated earn and redeem behaviour of members. As at year end 2017, as a result of the Company’s plan to create one loyalty program, *PC Optimum*, the Company revalued its existing loyalty award liabilities to account for a combined anticipated redemption rate.

Income and Other Taxes

Judgments Made in Relation to Accounting Policies Applied The calculation of current and deferred income taxes requires management to make certain judgments regarding the tax rules in jurisdictions where the Company performs activities. Application of judgments is required regarding the classification of transactions and in assessing probable outcomes of claimed deductions including expectations about future operating results and the timing and reversal of temporary differences.

Segment Information

Judgments Made in Relation to Determining the Aggregation of Operating Segments The Company uses judgment in assessing the criteria used to determine the aggregation of operating segments. The Retail reportable operating segment consists of several operating segments comprised primarily of food retail and Associate-owned drug stores, and also includes in-store pharmacies and other health and beauty products, gas bars, apparel and other general merchandise. The Company has aggregated its retail operating segments on the basis of their similar economic characteristics, customers and nature of products. This similarity in economic characteristics reflects the fact that the Company’s retail operating segments operate primarily in Canada and are therefore subject to the same economic market pressures and regulatory environment. The Company’s retail operating segments are subject to similar competitive pressures such as price and product innovation and assortment from existing competitors and new entrants into the marketplace. The similar economic characteristics also include the provision of centralized, common functions such as marketing and information technology (“IT”) across all retail operating segments.

The retail operating segments’ customer profile is primarily individuals who are purchasing goods for their own or their family’s personal needs and consumption. The nature of products and the product assortment sold by each of the retail operating segments is also similar and includes grocery, pharmaceuticals, cosmetics, electronics and housewares. The aggregation of the retail operating segments reflects the nature and financial effects of the business activities in which the Company engages and the economic environment in which it operates.

Provisions

Judgments made in Relation to Accounting Policies Applied and Key Sources of Estimation The recording of provisions requires management to make certain judgments regarding whether there is a present legal or constructive obligation as a result of a past event, it is probable that the Company will be required to settle the obligation and if a reliable estimate of the amount of the obligation can be made. The Company has recorded provisions primarily in respect of restructuring, environmental and decommissioning liabilities, onerous lease arrangements, legal claims and the Loblaw Card Program. The Company reviews the merits, risks and uncertainties of each provision, based on current information, and the amount expected to be required to settle the obligation. Provisions are reviewed on an ongoing basis and are adjusted accordingly when new facts and events become known to the Company.

Note 4. Future Accounting Standards

The future accounting standards noted below will impact the Company's business processes, internal controls over financial reporting, data systems, and IT, as well as financing and compensation arrangements. As a result, the Company has developed comprehensive project plans to guide the implementations.

IFRS 15 In 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15"), replacing IAS 18, "Revenue", IAS 11, "Construction Contracts", and related interpretations. IFRS 15 provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018. The Company's fiscal year ended on December 30, 2017, therefore the corresponding effective date for IFRS 15 is December 31, 2017. The Company intends to adopt the standard on December 31, 2017 by applying the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings on January 1, 2017 and with the restatement of comparative periods. IFRS 15 permits the use of exemptions and practical expedients. The Company intends to apply the practical expedient which does not require restatement for contracts that began and were completed within the same annual reporting period before December 30, 2017 or are completed on January 1, 2017.

The Company has completed the assessment of significant agreements and contracts with customers and has determined the preliminary expected impacts of the adoption of IFRS 15 on its consolidated financial statements.

The implementation of IFRS 15 will impact the allocation of revenue that is deferred in relation to the Company's customer loyalty award programs. Revenue is currently allocated to the customer loyalty awards using the residual fair value method. Under this method, a portion of the consideration equaling the fair value of the points is allocated to the loyalty awards and deferred until the points are ultimately redeemed. The residual consideration is allocated to the goods and services sold and recognized as revenue. Under IFRS 15, consideration will be allocated between the loyalty awards and the goods and services on which the awards were earned, based on their relative stand-alone selling prices. Using this relative fair value approach, the amount allocated to the loyalty points will be, on average, lower than the amounts allocated under the residual value method. As a result, the Company expects the adoption of the standard to result in a decrease in the amount recognized as deferred revenue in other liabilities, an increase in income taxes payable, with a corresponding increase in retained earnings of approximately $30 million, net of income taxes as at January 1, 2017.

The Company does not expect the implementation of IFRS 15 to otherwise have a significant impact on its Retail, Financial Services or Choice Properties segment revenue streams, including on its franchise arrangements with non-consolidated stores.

The Company continues to assess the impact of the disclosure requirements under IFRS 15 on the Company's consolidated financial statements.

IFRS 9 In 2014, the IASB issued IFRS 9, "Financial Instruments" ("IFRS 9"), replacing IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"), and related interpretations. IFRS 9 includes revised guidance on the classification and measurement of financial assets, including impairment and a new general hedge accounting model. IFRS 9 becomes effective for annual periods beginning on or after January 1, 2018. The Company intends to adopt the new requirements for classification and measurement, impairment and general hedging on December 31, 2017 by applying the requirements for classification and measurement, including impairment, retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at December 31, 2017 with no restatement of comparative periods.

Classification and measurement IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The Company will adopt the new classification requirements under IFRS 9 and it does not expect significant changes in measurement as a result of the new requirements.

Impairment IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. Applying the ECL model will require considerable judgment, including consideration of how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortized cost or those measured at fair value through other comprehensive income, except for investments in equity instruments, and to contract assets.

The Company's ECL model will change the valuation of its Financial Services segment credit losses on credit card receivables. The Company, through PC Bank, currently assesses for impairment using the incurred loss model when objective evidence indicates that there has been a deterioration of credit quality subsequent to the initial recognition of the receivable, and the loss can be reliably measured. The adoption of IFRS 9 will have a significant impact on the Financial Services segment's impairment methodology.

IFRS 9 outlines a three-stage approach to recognizing ECL which is intended to reflect the deterioration in credit quality of a financial instrument. The Company, through PC Bank, will apply the three-stage approach on assessing the impairment on credit card receivables.

- Stage 1 is comprised of all financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk at the reporting date. PC Bank will be required to recognize impairment for Stage 1 financial instruments based on the expected losses over the expected life of the instrument arising from loss events that could occur during the 12 months following the reporting date.
- Stage 2 is comprised of all financial instruments that have deteriorated significantly in credit quality since initial recognition but that do not have objective evidence of a credit loss event. For Stage 2 financial instruments the impairment is recognized based on the expected losses over the expected life of the instrument arising from loss events that could occur over the expected life. PC Bank is required to recognize a lifetime ECL for Stage 2 financial instruments.
- Stage 3 is comprised of all financial instruments that have objective evidence of impairment at the reporting date. PC Bank is required to recognize impairment based on a lifetime ECL for Stage 3 financial instruments.

As a result of the change in valuation, the Company expects the adoption of IFRS 9 to result in a decrease in credit card receivables, increase in deferred income tax asset, with a corresponding decrease in retained earnings of up to approximately $90 million, net of income taxes, as at December 31, 2017. PC Bank continues to revise, refine and validate the impairment model and related process controls, and assess the impact on the Company's consolidated financial statements.

The Company does not expect the ECL impairment model applied under IFRS 9 to have a material impact on its other financial assets.

General hedging IFRS 9 will require the Company to ensure that hedge accounting relationships are aligned with the Company's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. The Company expects that the types of hedge accounting relationships that the Company currently designates will be capable of meeting the requirements of IFRS 9 once the Company completes certain planned changes to its internal documentation and monitoring processes to meet the requirements of IFRS 9.

IFRS 16 In 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16"), replacing IAS 17, "Leases" ("IAS 17") and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors continue to classify leases as finance and operating leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019. For leases where the Company is the lessee, it has the option of adopting a full retrospective approach or a modified retrospective approach on transition to IFRS 16. While early adoption is permitted if IFRS 15 has been adopted, the Company does not intend to early adopt IFRS 16.

The Company intends to adopt the standard on December 30, 2018 by applying the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at December 30, 2018 using a modified retrospective approach with no restatement of the comparative period. IFRS 16 permits the use of exemptions and practical expedients. The Company intends to measure the cumulative effect of initial application by applying the use of hindsight in the determination of the lease term if the contract contains options to extend or terminate a lease. In addition, the Company also intends to apply the following exemptions and practical expedients:

- the application of IFRS 16 to only those contracts that were previously identified as leases under IAS 17 and IFRIC 4, "Determining whether an Arrangement contains a Lease";
- the exclusion of short term leases and leases for which the underlying asset is of low dollar value from the application of IFRS 16; and
- the application of a single discount rate to a portfolio of leases with similar characteristics.

The Company has performed a preliminary assessment of the potential impacts of the adoption of IFRS 16 on the Company's consolidated financial statements. The adoption of IFRS 16 will result in an increase in fixed assets, long term debt, and deferred income taxes, and a decrease in opening retained earnings as a result of the recognition of right-of-use assets and associated lease liabilities. On an ongoing basis there will be a decrease in rent expense and an increase in depreciation and amortization and net interest expense and other financing charges. The Company expects to disclose quantitative financial impacts before the adoption of IFRS 16.

Note 5. Business Acquisitions

Consolidation of Franchises The Company accounts for the consolidation of existing franchises as business acquisitions and consolidates its franchises as of the date the franchisee enters into a Franchise Agreement with the Company. The assets acquired and liabilities assumed through the consolidation are valued at the acquisition date using fair values, which approximate the franchise carrying values at the date of acquisition. The results of operations of the acquired franchises are included in the Company's results of operations from the date of acquisition.

The following table summarizes the amounts recognized for the assets acquired, the liabilities assumed and the non-controlling interests recognized at the acquisition dates:

(millions of Canadian dollars)	**2017**	2016
Net Assets Acquired:		
Cash and cash equivalents	**$ 26**	$ 42
Inventories	**73**	72
Fixed assets	**81**	76
Trade payables and other liabilities(i)	**(43)**	(67)
Other liabilities(i)	**(132)**	(107)
Non-controlling interests	**(5)**	(16)
Total Net Assets Acquired	**$ —**	$ —

(i) On consolidation, Trade payables and other liabilities and Other Liabilities eliminate against existing Accounts receivable, Franchise Loans Receivable and franchise investments held by the Company.

Acquisition of QHR Corporation In 2017, the Company finalized the purchase price allocation related to the acquisition of QHR Corporation ("QHR") in 2016. The Company acquired all issued and outstanding shares of QHR for total cash consideration of $167 million. The final purchase price allocation was as follows:

(millions of Canadian dollars)	
Net Assets Acquired:	
Cash and cash equivalents	$ 14
Accounts receivable and Prepaid expenses	2
Fixed assets	2
Intangible assets	72
Goodwill	99
Trade payables and other liabilities	(3)
Deferred income tax liabilities	(14)
Other liabilities	(5)
Total Net Assets Acquired	$ 167

Goodwill is attributable to synergies expected from integrating QHR into the Company's existing business. The goodwill is not deductible for tax purposes.

Note 6. Net Interest Expense and Other Financing Charges

The components of net interest expense and other financing charges were as follows:

(millions of Canadian dollars)		**2017**		2016
Interest expense and other financing charges:				
Long term debt	**$**	**451**	$	459
Borrowings related to credit card receivables		**30**		27
Trust Unit distributions		**53**		49
Post-employment and other long term employee benefits (note 25)		**9**		11
Independent funding trusts		**16**		15
Bank indebtedness		**6**		6
Capitalized interest		**(2)**		(4)
	$	**563**	$	563
Interest income:				
Accretion income	**$**	**(10)**	$	(15)
Short term interest income		**(18)**		(10)
Derivative financial instruments(i)		**—**		(3)
	$	**(28)**	$	(28)
Fair value adjustment to the Trust Unit Liability (note 29)	**$**	**(10)**	$	118
Net interest expense and other financing charges	**$**	**525**	$	653

(i) Represents a realized fair value gain of $3 million related to Choice Properties bond forward agreements settled in the first quarter of 2016 (see note 29).

Note 7. Income Taxes

Income taxes recognized in the consolidated statement of earnings were as follows:

(millions of Canadian dollars)		**2017**		2016
Current income taxes:				
Current period	**$**	**638**	$	563
Adjustment in respect of prior periods		**15**		5
	$	**653**	$	568
Deferred income taxes:				
Origination and reversal of temporary differences		**(189)**		(131)
Effect of change in income tax rates		**(15)**		3
Adjustment in respect of prior periods		**(6)**		9
		(210)		(119)
Income taxes	**$**	**443**	$	449

Income tax (recoveries) expense recognized in Other Comprehensive Income was as follows:

(millions of Canadian dollars)		**2017**		2016
Net defined benefit plan actuarial (losses) gains (note 25)	**$**	**(7)**	$	12
Total income tax (recoveries) expense recognized in Other Comprehensive Income	**$**	**(7)**	$	12

The effective income tax rate in the consolidated statement of earnings was reported at rates different than the weighted average basic Canadian federal and provincial statutory income tax rates for the following reasons:

	2017	2016
Weighted average basic Canadian federal and provincial statutory income tax rate	**26.7%**	27.0%
Net increase (decrease) resulting from:		
Effect of tax rate in foreign jurisdictions	**—**	0.3
Non-deductible and non-taxable items	**(3.9)**	0.4
Impact of fair value adjustments of the Trust Unit Liability	**(0.1)**	2.2
Impact of income tax rate changes on deferred income tax balances	**(0.8)**	0.2
Adjustments in respect of prior periods	**0.6**	1.1
Effective income tax rate applicable to earnings before income taxes	**22.5%**	31.2%

Unrecognized deferred tax assets Deferred income tax assets were not recognized on the consolidated balance sheets in respect of the following items:

(millions of Canadian dollars)	**2017**	2016
Deductible temporary differences	**$ 27**	$ 48
Income tax losses	**142**	92
Unrecognized deferred tax assets	**$ 169**	$ 140

The income tax losses expire in the years 2028 to 2037. The deductible temporary differences do not expire under current income tax legislation. Deferred income tax assets were not recognized in respect of these items because it is not probable that future taxable income will be available to the Company to utilize the benefits.

Recognized deferred tax assets and liabilities Deferred tax assets and liabilities were attributable to the following:

(millions of Canadian dollars)	**As at December 30, 2017**	As at December 31, 2016
Trade payables and other liabilities	**$ 57**	$ 56
Other liabilities	**377**	282
Fixed assets	**(507)**	(489)
Goodwill and intangible assets	**(1,908)**	(2,056)
Other assets	**53**	55
Non-capital loss carryforwards (expiring 2030 to 2037)	**29**	34
Capital loss carryforwards	**21**	24
Other	**35**	34
Net deferred income tax liabilities	**$ (1,843)**	$ (2,060)
Recorded on the consolidated balance sheets as follows:		
Deferred income tax assets	**134**	130
Deferred income tax liabilities	**(1,977)**	(2,190)
Net deferred income tax liabilities	**$ (1,843)**	$ (2,060)

Note 8. Basic and Diluted Net Earnings per Common Share

(millions of Canadian dollars except where otherwise indicated)	2017	2016
Net earnings attributable to shareholders of the Company	**$ 1,502**	$ 983
Dividends on Preferred Shares in Equity (note 23)	**(12)**	(12)
Net earnings available to common shareholders	**$ 1,490**	$ 971
Weighted average common shares outstanding (in millions) (note 23)	**393.8**	405.1
Dilutive effect of equity-based compensation (in millions)	**2.9**	3.6
Dilutive effect of certain other liabilities (in millions)	**0.6**	0.4
Diluted weighted average common shares outstanding (in millions)	**397.3**	409.1
Basic net earnings per common share ($)	**$ 3.78**	$ 2.40
Diluted net earnings per common share ($)	**$ 3.75**	$ 2.37

In 2017, 2,559,716 (2016 – 1,271,998) potentially dilutive instruments were excluded from the computation of diluted net earnings per common share as they were anti-dilutive.

Note 9. Cash and Cash Equivalents and Short Term Investments

The components of cash and cash equivalents and short term investments were as follows:

Cash and Cash Equivalents

(millions of Canadian dollars)	As at December 30, 2017	As at December 31, 2016
Cash	**$ 516**	$ 553
Cash equivalents:		
Government treasury bills	**232**	199
Bankers' acceptances	**649**	386
Corporate commercial paper	**401**	176
Total cash and cash equivalents	**$ 1,798**	$ 1,314

Short Term Investments

(millions of Canadian dollars)	As at December 30, 2017	As at December 31, 2016
Government treasury bills	**$ 40**	$ 24
Bankers' acceptances	**295**	175
Corporate commercial paper	**209**	40
Other	**2**	2
Total short term investments	**$ 546**	$ 241

Note 10. Accounts Receivable

The following is an aging of the Company's accounts receivable:

(millions of Canadian dollars)				**As at December 30, 2017**				As at December 31, 2016
	0-90 days	**91-180 days**	**> 180 days**	**Total**	0-90 days	91-180 days	> 180 days	Total
Accounts receivable	**$ 1,091**	**$ 42**	**$ 55**	**$ 1,188**	$ 1,004	$ 42	$ 76	$ 1,122

The following are continuities of the Company's allowances for uncollectable accounts receivable:

(millions of Canadian dollars)	**2017**	2016
Allowances, beginning of year	**$ (71)**	$ (102)
Net write-off	**19**	31
Allowances, end of year	**$ (52)**	$ (71)

Credit risk associated with accounts receivable is discussed in note 30.

Note 11. Credit Card Receivables

The components of credit card receivables were as follows:

(millions of Canadian dollars)	**As at December 30, 2017**	As at December 31, 2016
Gross credit card receivables	**$ 3,147**	$ 2,978
Allowance for credit card receivables	**(47)**	(52)
Credit card receivables	**$ 3,100**	$ 2,926
Securitized to independent securitization trusts:		
Securitized to *Eagle Credit Card Trust®* (note 21)	**$ 900**	$ 650
Securitized to Other Independent Securitization Trusts	**640**	665

The Company, through PC Bank, participates in various securitization programs that provide a source of funds for the operation of its credit card business. PC Bank maintains and monitors the co-ownership interest in credit card receivables with independent securitization trusts, including *Eagle* and Other Independent Securitization Trusts, in accordance with its financing requirements.

The Company has arranged letters of credit on behalf of PC Bank for the benefit of the independent securitization trusts (see note 32).

The securitization agreements between PC Bank and the Other Independent Securitization Trusts are renewed and extended on an annual basis. The existing agreements were renewed in 2017, with their respective maturity dates extended to 2019 and with all other terms and conditions remaining substantially the same.

The undrawn commitments on facilities available from the Other Independent Securitization Trusts as at December 30, 2017 were $160 million (December 31, 2016 – $210 million).

Under its securitization programs, PC Bank is required to maintain, at all times, a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability. PC Bank was in compliance with this requirement as at December 30, 2017 and throughout 2017.

The following is an aging of the Company's gross credit card receivables:

(millions of Canadian dollars)				**As at December 30, 2017**				As at December 31, 2016
	Current	**1-90 days past due**	**> 90 days past due**	**Total**	Current	1-90 days past due	> 90 days past due	Total
Gross credit card receivables	**$ 2,951**	**$ 169**	**$ 27**	**$ 3,147**	$ 2,791	$ 156	$ 31	$ 2,978

The following are continuities of the Company's allowances for credit card receivables:

(millions of Canadian dollars)	**2017**	2016
Allowances, beginning of year	**$ (52)**	$ (54)
Provision for losses	**(104)**	(120)
Recoveries	**(22)**	(19)
Write-offs	**131**	141
Allowances, end of year	**$ (47)**	$ (52)

The allowances for credit card receivables recorded in credit card receivables on the consolidated balance sheets are maintained at a level which is considered adequate to absorb credit related losses on credit card receivables.

Note 12. Inventories

For inventories recorded as at December 30, 2017, the Company recorded an inventory provision of $39 million (December 31, 2016 – $29 million) for the write-down of inventories below cost to net realizable value. The write-down was included in cost of merchandise inventories sold. There were no reversals of previously recorded write-downs of inventories during 2017 and 2016.

Note 13. Assets Held for Sale and Disposition

The Company classifies certain assets, primarily land and buildings, that it intends to dispose of in the next 12 months, as assets held for sale. These assets were previously used in the Company's retail business segment. In 2017, the Company recorded a $1 million gain (2016 – $5 million gain) from the sale of these assets. Impairment charges of $2 million were recognized on these properties during 2017 (2016 – nil).

In 2017, the Company sold its gas bar operations, for proceeds of approximately $540 million, to Brookfield Business Partners L.P. ("Brookfield"). The Company recorded a pre-tax gain on sale of $501 million (post-tax gain of $432 million), net of related costs, in SG&A. As a result of the transaction, Brookfield has become a strategic partner to the Company and will offer the Company's *PC Optimum* program at the gas bars. In addition, the gas bars operate at certain properties that are either owned by the Company or leased by the Company from Choice Properties or third-party landlords. As a result of the transaction, Brookfield leases or sub-leases these properties from the Company.

Note 14. Fixed Assets

The following are continuities of the cost and the accumulated depreciation of fixed assets for the years ended December 30, 2017 and December 31, 2016:

	2017						
(millions of Canadian dollars)	Land	Buildings and Building Improvements	Equipment and Fixtures	Leasehold Improvements	Finance Leases - Land, Buildings, Equipment and Fixtures	Assets Under Construction	Total
Cost							
Balance, beginning of year	**$ 1,912**	**$ 7,921**	**$ 6,634**	**$ 1,950**	**$ 919**	**$ 530**	**$ 19,866**
Additions	**21**	**50**	**226**	**96**	**15**	**557**	**965**
Business acquisitions (note 5)	**—**	**—**	**81**	**1**	**—**	**—**	**82**
Disposals	**(2)**	**(1)**	**(35)**	**(14)**	**—**	**—**	**(52)**
Net transfer to assets held for sale	**—**	**(93)**	**(49)**	**(3)**	**—**	**—**	**(145)**
Net transfer from investment properties (note 15)	**1**	**5**	**—**	**—**	**2**	**—**	**8**
Transfer from assets under construction	**43**	**269**	**233**	**24**	**—**	**(569)**	**—**
Balance, end of year	**$ 1,975**	**$ 8,151**	**$ 7,090**	**$ 2,054**	**$ 936**	**$ 518**	**$ 20,724**
Accumulated depreciation							
Balance, beginning of year	**$ —**	**$ 2,970**	**$ 5,024**	**$ 896**	**$ 409**	**$ 8**	**$ 9,307**
Depreciation	**—**	**204**	**373**	**161**	**64**	**—**	**802**
Impairment losses	**1**	**17**	**18**	**21**	**18**	**—**	**75**
Reversal of impairment losses	**—**	**(8)**	**(2)**	**(2)**	**—**	**—**	**(12)**
Disposals	**—**	**(1)**	**(34)**	**(13)**	**—**	**—**	**(48)**
Net transfer to assets held for sale	**—**	**(25)**	**(46)**	**(1)**	**—**	**—**	**(72)**
Net transfer from investment properties (note 15)	**1**	**2**	**—**	**—**	**—**	**—**	**3**
Balance, end of year	**$ 2**	**$ 3,159**	**$ 5,333**	**$ 1,062**	**$ 491**	**$ 8**	**$ 10,055**
Carrying amount as at: December 30, 2017	**$ 1,973**	**$ 4,992**	**$ 1,757**	**$ 992**	**$ 445**	**$ 510**	**$ 10,669**

	2016						
(millions of Canadian dollars)	Land	Buildings and Building Improvements	Equipment and Fixtures	Leasehold Improvements	Finance Leases - Land, Buildings, Equipment and Fixtures	Assets Under Construction	Total
Cost							
Balance, beginning of year	$ 1,866	$ 7,697	$ 6,297	$ 1,852	$ 883	$ 576	$ 19,171
Additions	7	43	194	77	35	571	$ 927
Business acquisitions (note 5)	—	—	76	2	1	—	$ 79
Disposals	—	(1)	(160)	(28)	—	(10)	$ (199)
Net transfer to investment properties (note 15)	(27)	(77)	—	—	—	(8)	$ (112)
Transfer from assets under construction	66	259	227	47	—	(599)	$ —
Balance, end of year	$ 1,912	$ 7,921	$ 6,634	$ 1,950	$ 919	$ 530	$ 19,866
Accumulated depreciation							
Balance, beginning of year	$ 3	$ 2,801	$ 4,794	$ 745	$ 338	$ 10	$ 8,691
Depreciation	—	198	363	160	67	—	788
Impairment losses	—	21	43	16	4	—	84
Reversal of impairment losses	(3)	(10)	(15)	—	—	—	(28)
Disposals	—	(1)	(161)	(25)	—	(2)	(189)
Net transfer to investment properties (note 15)	—	(39)	—	—	—	—	(39)
Balance, end of year	$ —	$ 2,970	$ 5,024	$ 896	$ 409	$ 8	$ 9,307
Carrying amount as at: December 31, 2016	$ 1,912	$ 4,951	$ 1,610	$ 1,054	$ 510	$ 522	$ 10,559

Assets Held under Finance Leases The Company leases various land and buildings, and equipment and fixtures under a number of finance lease arrangements. As at December 30, 2017, the net carrying amount of leased land and buildings was $424 million (December 31, 2016 – $468 million), and the net carrying amount of leased equipment and fixtures was $21 million (December 31, 2016 – $42 million).

Assets under Construction The cost of additions to properties under construction for the year ended December 30, 2017 was $557 million (December 31, 2016 – $571 million). Included in this amount are capitalized borrowing costs of $2 million (2016 – $4 million), with a weighted average capitalization rate of 3.5% (2016 – 3.6%).

Security and Assets Pledged As at December 30, 2017, fixed assets with a carrying amount of $187 million (December 31, 2016 – $243 million) were encumbered by mortgages of $81 million (December 31, 2016 – $78 million).

Fixed Asset Commitments As at December 30, 2017, the Company had entered into commitments of $143 million (December 31, 2016 – $119 million) for the construction, expansion and renovation of buildings and the purchase of real property.

Impairment Losses and Reversals For the year ended December 30, 2017, the Company recorded $60 million (2016 – $41 million) of impairment losses on fixed assets in respect of 21 CGUs (2016 – 24 CGUs) in the retail operating segment. The recoverable amount was based on the greater of the CGU's fair value less costs to sell and its value in use. Approximately 29% (2016 – 21%) of impaired CGUs had carrying values which were $11 million (2016 – $14 million) greater than their fair value less costs to sell. The remaining 71% (2016 – 79%) of impaired CGUs had carrying values which were $48 million (2016 – $27 million) greater than their value in use.

For the year ended December 30, 2017, the Company recorded $12 million (2016 – $13 million) of impairment reversals on fixed assets in respect of seven CGUs (2016 – six CGUs) in the retail operating segment. Impairment reversals are recorded where the recoverable amount of the retail location exceeds its carrying amount. Approximately 57% (2016 – all) of CGUs with impairment reversals had fair value less costs to sell which were $6 million (2016 – $13 million) greater than their carrying values. The remaining 43% (2016 – nil) of CGUs with impairment reversals had value in use which were $5 million (2016 – nil) greater than carrying values.

When determining the value in use of a retail location, the Company develops a discounted cash flow model for each CGU. The duration of the cash flow projections for individual CGUs varies based on the remaining useful life of the significant assets within the CGU. Sales forecasts for cash flows are based on actual operating results, operating budgets, and long term growth rates that were consistent with industry averages, all of which are consistent with strategic plans presented to the Company's Board. The estimate of the value in use of the relevant CGUs was determined using a pre-tax discount rate of 8.0% to 8.5% at December 30, 2017 (December 31, 2016 – 8.0% to 8.5%).

In 2017, the Company recorded $7 million of impairment losses on its fixed assets relating to the announced closures of approximately 22 unprofitable retail locations across a range of banners and formats and $3 million related to other restructuring plans.

Additional impairment losses of $5 million (2016 – $13 million) were incurred related to store closures, renovations and conversions of retail locations. Impairment losses are recorded where the carrying amount of the retail location exceeds its recoverable amount.

In 2016, an ancillary healthcare business triggered for impairment testing and an impairment was identified. As a result the Company recorded an impairment charge of $15 million in fixed assets.

Note 15. Investment Properties

The following are continuities of the cost and the accumulated depreciation of investment properties for the years ended December 30, 2017 and December 31, 2016:

(millions of Canadian dollars)	**2017**	2016
Cost		
Balance, beginning of year	**$ 324**	$ 236
Additions	**32**	2
Disposals	**(13)**	(19)
Net transfer (to) from fixed assets (note 14)	**(8)**	112
Net transfer from (to) assets held for sale	**3**	(7)
Balance, end of year	**$ 338**	$ 324
Accumulated depreciation		
Balance, beginning of year	**$ 106**	$ 76
Depreciation	**3**	2
Impairment losses	**2**	2
Reversal of impairment losses	**(1)**	—
Disposals	**(6)**	(9)
Net transfer (to) from fixed assets (note 14)	**(3)**	39
Net transfer from (to) assets held for sale	**2**	(4)
Balance, end of year	**$ 103**	$ 106
Carrying amount	**$ 235**	$ 218
Fair value	**276**	261

During 2017, the Company recognized in operating income $11 million (2016 – $6 million) of rental income and incurred direct operating costs of $10 million (2016 – $2 million) related to its investment properties. In addition, the Company recognized direct operating costs of $2 million (2016 – $11 million) related to its investment properties for which no rental income was earned.

For disclosure purposes, the Company calculates the fair value of investment properties. An external, independent valuation company, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, provided appraisals for certain of the Company's investment properties. For the other investment properties, the Company determined the fair value by relying on comparable market information. Where available, the fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a buyer and a seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. Where market values are not available, valuations are prepared using the income approach by considering the estimated cash flows expected from renting out the property based on existing lease terms and where appropriate, the ability to renegotiate the lease terms once the initial term or option term(s) expire plus the net proceeds from a sale of the property at the end of the investment horizon.

The valuations of investment properties using the income approach include assumptions as to market rental rates for properties of similar size and condition located within the same geographical areas, recoverable operating costs for leases with tenants, non-recoverable operating costs, vacancy periods, tenant inducements and capitalization rates for the purposes of determining the estimated net proceeds from the sale of the property. At December 30, 2017, the pre-tax discount rates used in the valuations for investment properties ranged from 7.50% to 9.50% (December 31, 2016 – 7.75% to 9.50%) and the terminal capitalization rates ranged from 6.75% to 8.75% (December 31, 2016 – 6.75% to 8.75%).

Note 16. Intangible Assets

The following are continuities of the cost and the accumulated amortization of intangible assets for the years ended December 30, 2017 and December 31, 2016:

	2017				
(millions of Canadian dollars)	**Indefinite Life Intangible Assets**	**Definite Life Internally Generated Intangible Assets**	**Software**	**Other Definite Life Intangible Assets**	**Total**
Cost					
Balance, beginning of year	**$ 3,475**	**$ 20**	**$ 2,172**	**$ 5,976**	**$ 11,643**
Additions	**10**	**—**	**262**	**8**	**280**
Business acquisitions	**—**	**—**	**—**	**27**	**27**
Balance, end of year	**$ 3,485**	**$ 20**	**$ 2,434**	**$ 6,011**	**$ 11,950**
Accumulated amortization					
Balance, beginning of year	**$ —**	**$ 20**	**$ 1,300**	**$ 1,578**	**$ 2,898**
Amortization	**—**	**—**	**245**	**525**	**770**
Impairment losses	**—**	**—**	**29**	**2**	**31**
Balance, end of year	**$ —**	**$ 20**	**$ 1,574**	**$ 2,105**	**$ 3,699**
Carrying amount as at: December 30, 2017	**$ 3,485**	**$ —**	**$ 860**	**$ 3,906**	**$ 8,251**

	2016				
(millions of Canadian dollars)	Indefinite Life Intangible Assets	Definite Life Internally Generated Intangible Assets	Software	Other Definite Life Intangible Assets	Total
Cost					
Balance, beginning of year	$ 3,461	$ 20	$ 1,852	$ 5,895	$ 11,228
Additions	14	—	304	10	328
Business acquisitions	—	—	18	74	92
Disposal	—	—	(2)	(3)	(5)
Balance, end of year	$ 3,475	$ 20	$ 2,172	$ 5,976	$ 11,643
Accumulated amortization					
Balance, beginning of year	$ —	$ 20	$ 1,070	$ 974	$ 2,064
Amortization	—	—	229	532	761
Disposal	—	—	(2)	(1)	(3)
Impairment losses	—	—	3	73	76
Balance, end of year	$ —	$ 20	$ 1,300	$ 1,578	$ 2,898
Carrying amount as at: December 31, 2016	$ 3,475	$ —	$ 872	$ 4,398	$ 8,745

Indefinite Life Intangible Assets Indefinite life intangible assets are comprised of brand names, trademarks, import purchase quotas and certain liquor licenses. The brand names and trademarks are a result of the Company's acquisition of Shoppers Drug Mart and T&T Supermarket Inc. The Company expects to renew the registration of the brand names, trademarks, import purchase quotas and liquor licenses at each expiry date indefinitely, and expects these assets to generate economic benefit in perpetuity. As such, the Company assessed these intangibles to have indefinite useful lives.

The Company completed its annual impairment tests for indefinite life intangible assets and concluded there was no impairment.

Key Assumptions The key assumptions used to calculate the fair value less costs to sell are those regarding discount rates, growth rates and expected changes in margins. These assumptions are consistent with the assumptions used to calculate fair value less costs to sell for goodwill (see note 17).

Software Software is comprised of software purchases and development costs. There were no capitalized borrowing costs included in 2017 (2016 – nil). The Company recorded impairment losses of $29 million, which included $22 million related to the impairment of certain IT assets that support the existing loyalty programs as a result of the *PC Optimum* program (see note 19).

Other Definite Life Intangible Assets Other definite life intangible assets primarily consist of prescription files, the *Shoppers Optimum* loyalty program and customer relationships.

In 2016, an ancillary healthcare business triggered for impairment testing and an impairment was identified. As a result, the Company recorded an impairment charge of $73 million relating to a customer relationship intangible asset for an ancillary healthcare business.

Note 17. Goodwill

The following is a continuity of the cost and the accumulated amortization of goodwill for the years ended December 30, 2017 and December 31, 2016:

(millions of Canadian dollars)	2017	2016
Cost		
Balance, beginning of year	**$ 4,889**	$ 4,769
Business acquisitions	**27**	120
Balance, end of year	**$ 4,916**	$ 4,889
Accumulated amortization and impairment losses		
Balance, beginning of year	**$ 994**	$ 989
Impairment losses	**—**	5
Balance, end of year	**$ 994**	$ 994
Carrying amount as at the end of the year	**$ 3,922**	$ 3,895

The carrying amount of goodwill attributed to each CGU grouping was as follows:

(millions of Canadian dollars)	**As at December 30, 2017**	As at December 31, 2016
Shoppers Drug Mart	**$ 2,952**	$ 2,925
Market	**375**	375
Discount	**459**	459
T&T Supermarket Inc.	**129**	129
All other	**7**	7
Carrying amount of goodwill	**$ 3,922**	$ 3,895

Key Assumptions The key assumptions used to calculate the fair value less costs to sell are those regarding discount rates, growth rates and expected changes in margins. These assumptions are considered to be Level 3 in the fair value hierarchy.

The weighted average cost of capital was determined to be 7.0% (December 31, 2016 – 7.0%) and is based on a risk-free rate, an equity risk premium adjusted for betas of comparable publicly traded companies, an unsystematic risk premium, an after-tax cost of debt based on corporate bond yields and the capital structure of the Company.

Cash flow projections have been discounted using a rate derived from the Company's after-tax weighted average cost of capital. At December 30, 2017, the after-tax discount rate used in the recoverable amount calculations was 7.0% (December 31, 2016 – 7.0%). The pre-tax discount rate was 9.6% (December 31, 2016 – 9.6%).

The Company included a minimum of three years of cash flows in its discounted cash flow model. The cash flow forecasts were extrapolated beyond the three year period using an estimated long term growth rate of 2.0% (December 31, 2016 – 2.0%). The budgeted EBITDA[(1)] growth was based on the Company's three year strategic plan approved by the Board.

Note 18. Other Assets

The components of other assets were as follows:

(millions of Canadian dollars)	As at December 30, 2017	As at December 31, 2016
Sundry investments and other receivables	$ 56	$ 79
Accrued benefit plan asset (note 25)	147	192
Interests in joint ventures	19	5
Other	180	176
Other assets	$ 402	$ 452

Note 19. Customer Loyalty Awards Program Liability

The liability associated with the Company's customer loyalty awards programs ("loyalty liability") is included in trade payables and other liabilities. The carrying amount of the loyalty liability was as follows:

(millions of Canadian dollars)	As at December 30, 2017	As at December 31, 2016
Loyalty liability	$ 413	$ 229

In 2017, the Company announced plans to bring together the *Shoppers Optimum* and *PC Plus* loyalty programs to create one program, *PC Optimum*. As a result, the Company recorded a charge of $189 million, related to the revaluation of the existing *Shoppers Optimum* liability for outstanding points to reflect a higher anticipated redemption rate under the new program. In addition, the Company recorded charges of $22 million, related to the impairment of certain IT assets that support the existing loyalty programs (see note 16). Subsequent to the end of 2017, the Company launched the *PC Optimum* program.

Note 20. Provisions

Provisions consist primarily of amounts recorded in respect of restructuring, self-insurance, environmental and decommissioning liabilities, onerous lease arrangements, legal claims and the Loblaw Card Program. The following is a continuity of provisions for the years ended December 30, 2017 and December 31, 2016:

(millions of Canadian dollars)	**2017**	2016
Provisions, beginning of year	**$ 219**	$ 258
Additions	**354**	123
Payments	**(93)**	(141)
Reversals	**(28)**	(21)
Provisions, end of year	**$ 452**	$ 219

(millions of Canadian dollars)	**As at December 30, 2017**	As at December 31, 2016
Recorded on the consolidated balance sheets as follows:		
Current portion of provisions	**$ 283**	$ 99
Non-current portion of provisions	**169**	120
Total provisions	**$ 452**	$ 219

Competition Bureau Investigation On December 19, 2017, the Company and Weston announced actions taken to address their role in an industry-wide price-fixing arrangement involving certain packaged bread products. The arrangement involved the coordination of retail and wholesale prices of certain packaged bread products over a period extending from late 2001 to March 2015. Under the arrangement, the participants regularly increased prices on a coordinated basis. In connection with the arrangement, the Company has announced the Loblaw Card Program pursuant to which the Company is offering a $25 Loblaw Card to eligible customers. The Loblaw Card can be used to purchase items sold in Loblaw grocery stores across Canada. The Company recorded a charge of $107 million in relation to the Loblaw Card Program in 2017 (see note 31).

Restructuring and other related costs In 2017, the Company eliminated approximately 500 corporate and store-support positions and finalized a plan that will result in the closure of 22 unprofitable retail locations across a range of banners and formats. The Company expects to record charges of approximately $135 million related to this restructuring, of which $123 million was recorded in the fourth quarter of 2017. The charges included $109 million for severance and lease related costs, $7 million for asset impairments and $7 million related to other costs. The Company expects that the store closures will be substantially complete by the end of the first quarter of 2018.

In addition, the Company recorded $20 million in severance and other related charges and $3 million for asset impairments as a result of other restructuring plans approved in the fourth quarter of 2017 and a charge of $19 million related to an adjustment of onerous contract provisions related to previously announced restructuring plans.

Note 21. Long Term Debt

The components of long term debt were as follows:

(millions of Canadian dollars)	As at December 30, 2017	As at December 31, 2016
Unsecured Term Loan Facility		
1.13% + Bankers' Acceptance, due 2019	**$ 250**	$ 250
1.45% + Bankers' Acceptance, due 2019	**48**	48
Debentures and Medium Term Notes		
Loblaw Companies Limited Notes		
3.75%, due 2019	**800**	800
5.22%, due 2020	**350**	350
4.86%, due 2023	**800**	800
6.65%, due 2027	**100**	100
6.45%, due 2028	**200**	200
6.50%, due 2029	**175**	175
11.40%, due 2031		
Principal	**151**	151
Effect of coupon repurchase	**(19)**	(33)
6.85%, due 2032	**200**	200
6.54%, due 2033	**200**	200
8.75%, due 2033	**200**	200
6.05%, due 2034	**200**	200
6.15%, due 2035	**200**	200
5.90%, due 2036	**300**	300
6.45%, due 2039	**200**	200
7.00%, due 2040	**150**	150
5.86%, due 2043	**55**	55
Shoppers Drug Mart Notes		
2.36%, due 2018	**275**	275
Choice Properties Senior Unsecured Debentures		
Series A 3.55%, due 2018	**400**	400
Series B 4.90%, due 2023	**200**	200
Series C 3.50%, due 2021	**250**	250
Series D 4.29%, due 2024	**200**	200
Series E 2.30%, due 2020	**250**	250
Series F 4.06%, due 2025	**200**	200
Series G 3.20%, due 2023	**250**	250
Series H 5.27%, due 2046	**100**	100
Series 6 3.00%, due 2017	**—**	200
Series 7 3.00%, due 2019	**200**	200
Series 8 3.60%, due 2020	**300**	300
Series 9 3.60%, due 2021	**200**	200
Series 10 3.60%, due 2022	**300**	300
Long Term Debt Secured by Mortgage		
2.47% – 5.49%, due 2018 – 2029 (note 14)	**81**	78
Guaranteed Investment Certificates		
0.85% – 3.25%, due 2018 – 2021	**852**	928
Independent Securitization Trust		
2.91%, due 2018	**400**	400
2.23%, due 2020	**250**	250
2.71%, due 2022	**250**	—
Independent Funding Trusts	**551**	587
Finance Lease Obligations	**568**	607
Choice Properties Credit Facilities	**561**	172
Transaction costs and other	**(21)**	(23)
Total long term debt	**$ 11,177**	$ 10,870
Less amount due within one year	**1,635**	400
Long Term Debt	**$ 9,542**	$ 10,470

Significant long term debt transactions are described below.

Debentures and Medium Term Notes The following table summarizes the debentures and Medium Term Notes ("MTNs") issued in 2017 and 2016:

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	**Principal Amount 2017**	Principal Amount 2016
Choice Properties Series senior unsecured debentures				
– Series G	3.20%	March 7, 2023	**$ —**	$ 250
– Series H	5.27%	March 7, 2046	**—**	100
Total Debentures and Medium Term Notes issued			**$ —**	$ 350

Subsequent to the end of 2017, Choice Properties issued two series of senior unsecured debentures: $300 million Series I senior unsecured debentures due March 21, 2022, which bear interest at a rate of 3.01% per annum; and $350 million Series J senior unsecured debentures due January 10, 2025, which bear interest at a rate of 3.55% per annum.

The following table summarizes the debentures and MTNs repaid in 2017 and 2016:

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	**Principal Amount 2017**	Principal Amount 2016
Loblaw Companies Limited Notes	7.10%	June 1, 2016	**$ —**	$ 300
Shoppers Drug Mart Notes	2.01%	May 24, 2016	**—**	225
Choice Properties senior unsecured debentures – Series 6	3.00%	April 20, 2017[(i)]	**200**	—
Choice Properties senior unsecured debentures – Series 5	3.00%	April 20, 2016[(ii)]	**—**	300
Total Debentures and Medium Term Notes repaid			**$ 200**	$ 825

(i) Choice Properties Series 6 unsecured debentures was redeemed on January 23, 2017.

(ii) Choice Properties Series 5 unsecured debentures was redeemed on March 7, 2016.

Subsequent to the end of 2017, Choice Properties issued an early redemption notice for its $400 million Series A 3.55% senior unsecured debentures, which were redeemed on February 12, 2018 with an original maturity date of July 5, 2018.

Guaranteed Investment Certificates The following table summarizes PC Bank's Guaranteed Investment Certificates ("GICs") activity, before commissions, in 2017 and 2016:

(millions of Canadian dollars)	**2017**	2016
Balance, beginning of year	**$ 928**	$ 809
GICs issued	**76**	239
GICs matured	**(152)**	(120)
Balance, end of year	**$ 852**	$ 928

Independent Securitization Trust The notes issued by *Eagle* are MTNs, which are collateralized by PC Bank's credit card receivables (see note 11). The Company has arranged letters of credit for the benefit of the *Eagle* notes issued prior to 2015 and outstanding as at December 30, 2017 (see note 32).

In 2017, *Eagle* issued $250 million of senior and subordinated term notes with a maturity date of October 17, 2022 at a weighted average interest rate of 2.71%. In connection with this issuance, $200 million of bond forward agreements were settled, resulting in a realized fair value gain of $6 million, in Other Comprehensive Income, and a net effective interest rate of 2.26% on the *Eagle* notes issued.

Independent Funding Trusts As at December 30, 2017, the independent funding trusts had drawn $551 million (December 31, 2016 – $587 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts.

Committed Credit Facilities The components of the committed lines of credit as at December 30, 2017 and December 31, 2016 were as follows:

		As at December 30, 2017		As at December 31, 2016	
(millions of Canadian dollars)	Maturity Date	**Available**	**Drawn**	Available	Drawn
Loblaw's Committed Credit Facility	June 10, 2021	**$ 1,000**	**$ —**	$ 1,000	$ —
Choice Properties Committed Syndicated Credit Facility	July 5, 2022[(i)]	**500**	**311**	500	172
Choice Properties Committed Bi-lateral Credit Facility	December 21, 2018	**250**	**250**	250	—
Total Committed Lines of Credit		**$ 1,750**	**$ 561**	$ 1,750	$ 172

(i) Choice Properties Committed Syndicated Credit Facility was extended for an additional year from July 5, 2021 to July 5, 2022.

Subsequent to the end of 2017, Choice Properties repaid and cancelled the Committed Bi-lateral Credit Facility.

These facilities contain certain financial covenants (see note 24).

Long Term Debt due Within One Year The following table summarizes long term debt due within one year:

(millions of Canadian dollars)	**As at December 30, 2017**	As at December 31, 2016
Choice Properties Notes	**$ 400**	$ 200
Shoppers Drug Mart Notes	**275**	—
Guaranteed Investment Certificates	**193**	142
Independent Securitization Trust	**400**	—
Finance Lease Obligations	**44**	53
Long term debt secured by mortgage	**73**	5
Choice Properties Credit Facility	**250**	—
Long term debt due within one year	**$ 1,635**	$ 400

Schedule of Repayments The schedule of repayments of long term debt, based on maturity, is as follows:

(millions of Canadian dollars)	**As at December 30, 2017**
2018	**$ 1,635**
2019	**2,150**
2020	**1,380**
2021	**658**
2022	**930**
Thereafter	**4,464**
Total Long Term Debt (excludes transaction costs and effect of coupon repurchases)	**$ 11,217**

See note 29 for the fair value of long term debt.

Reconciliation of Long Term Debt The following table reconciles the changes in cash flows from financing activities for long term debt:

(millions of Canadian dollars)		2017
Total Long Term Debt, beginning of period	$	10,870
Long Term Debt issuances(i)	$	686
Long Term Debt repayments(ii)		(450)
Total cash flow from Long Term Debt Financing Activities	$	236
Finance Lease additions	$	16
Other non-cash changes		55
Total non-cash Long Term Debt activities	$	71
Total Long Term Debt, end of period	$	11,177

(i) Includes net issuances from Choice Properties' credit facilities and the Independent Funding Trust, which are revolving debt instruments.

(ii) Includes repayments on Finance Lease Obligations of $94 million.

Note 22. Other Liabilities

The components of other liabilities were as follows:

(millions of Canadian dollars)		As at December 30, 2017		As at December 31, 2016
Net defined benefit plan obligation (note 25)	$	325	$	327
Other long term employee benefit obligation		108		108
Deferred lease obligation		140		119
Fair value of acquired leases		65		77
Equity-based compensation liability (note 26)		4		4
Other		58		92
Other liabilities	$	700	$	727

Note 23. Share Capital

First Preferred Shares (authorized – 1.0 million shares) There were no First Preferred Shares outstanding as at December 30, 2017 and December 31, 2016.

Second Preferred Share Capital (authorized – unlimited) The Company has outstanding 9.0 million 5.30% non–voting Second Preferred Shares, Series B, with a face value of $225 million, which were issued for net proceeds of $221 million. These preferred shares are presented as a component of equity on the consolidated balance sheets.

Common Shares (authorized – unlimited) Common shares issued are fully paid and have no par value. The activity in the common shares issued and outstanding during the periods was as follows:

	December 30, 2017 (52 weeks)		December 31, 2016 (52 weeks)	
(millions of Canadian dollars except where otherwise indicated)	**Number of Common Shares**	**Common Share Capital**	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of period	**400,829,870**	**$ 7,713**	409,985,226	$ 7,861
Issued for settlement of stock options	**1,019,610**	**48**	1,131,944	50
Purchased and cancelled(i)	**(15,555,539)**	**(301)**	(10,287,300)	(198)
Issued and outstanding, end of period	**386,293,941**	**$ 7,460**	400,829,870	$ 7,713
Shares held in trust, beginning of period	**(1,105,620)**	**$ (21)**	(643,452)	$ (10)
Purchased for future settlement of RSUs and PSUs	**(686,000)**	**(13)**	(1,250,000)	(24)
Released for settlement of RSUs and PSUs (note 26)	**1,010,682**	**19**	787,832	13
Shares held in trust, end of period	**(780,938)**	**$ (15)**	(1,105,620)	$ (21)
Issued and outstanding, net of shares held in trust, end of period	**385,513,003**	**$ 7,445**	399,724,250	$ 7,692
Weighted average outstanding, net of shares held in trust (note 8)	**393,764,159**		405,058,645	

(i) Includes 22,012 shares held in escrow that were transferred and cancelled in a private transaction and are excluded from the Company's Normal Course Issuer Bid.

Dividends The declaration and payment of dividends on the Company's common shares and the amount thereof are at the discretion of the Board, which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time. Over the long term, it is the Company's intention to increase the amount of the dividend while retaining appropriate free cash flow to finance future growth. In the second quarters of 2017 and 2016, the Board raised the quarterly dividend by $0.01 to $0.27 and $0.26 per common share, respectively.

The following table summarizes the Company's cash dividends declared for the periods as indicated:

	2017(i)	2016
Dividends declared per share ($):		
Common Share	**$ 1.07**	$ 1.03
Second Preferred Share, Series B	**$ 1.325**	$ 1.325

(i) The fourth quarter dividends for 2017 of $0.27 per share declared on common shares were payable on December 30, 2017 and subsequently paid on January 2, 2018. The fourth quarter dividends for 2017 of $0.33125 per share declared on Second Preferred Shares, Series B were payable on December 31, 2017 and subsequently paid on January 2, 2018.

(millions of Canadian dollars)	2017	2016
Dividends declared:		
Common Share	**$ 421**	$ 416
Second Preferred Share, Series B (note 8)	**12**	12
Total dividends declared	**$ 433**	$ 428

Subsequent to the end of the year, the Board declared a quarterly dividend of $0.27 per common share, payable on April 1, 2018 to shareholders of record on March 15, 2018 and a dividend on the Second Preferred Shares, Series B of $0.33125 per share payable on March 31, 2018 to shareholders of record on March 15, 2018.

Normal Course Issuer Bid Activity under the Company's Normal Course Issuer Bid ("NCIB") during the periods was as follows:

(millions of Canadian dollars except where otherwise indicated)	2017	2016
Common shares repurchased under the NCIB for cancellation (number of shares)	**15,533,527**	10,287,300
Cash consideration paid	**$ 1,091**	$ 708
Premium charged to Retained Earnings	**790**	510
Reduction in Common Share Capital	**301**	198
Common shares repurchased under the NCIB and held in trust (number of shares)	**686,000**	1,250,000
Cash consideration paid	**$ 48**	$ 90
Premium charged to Retained Earnings	**35**	66
Reduction in Common Share Capital	**13**	24

In 2017, the Company renewed its NCIB to purchase on the TSX or through alternative trading systems up to 21,016,472 of the Company's common shares, representing approximately 10% of the public float. In accordance with the rules and by-laws of the TSX, the Company may purchase its common shares from time to time at the then market price of such shares. As of December 30, 2017, the Company has purchased 12,830,034 common shares under its current NCIB.

Subsequent to the end of 2017, the Company entered into an automatic share purchase plan ("ASPP") with a broker in order to facilitate repurchases of the Company's common shares under its current NCIB. Under the Company's ASPP, the Company's broker may purchase common shares at times when the Company ordinarily would not be active in the market.

Note 24. Capital Management

In order to manage its capital structure, the Company, among other activities, may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to its NCIB, issue new shares or issue or repay long term debt with the objective of:

- ensuring sufficient liquidity is available to support its financial obligations and to execute its operating and strategic plans;
- maintaining financial capacity and flexibility through access to capital to support future development of the business;
- minimizing the after-tax cost of its capital while taking into consideration current and future industry, market and economic risks and conditions;
- utilizing short term funding sources to manage its working capital requirements and long term funding sources to manage the long term capital investments of the business;
- returning an appropriate amount of capital to shareholders; and
- targeting an appropriate leverage and capital structure for the Company and each of its reportable operating segments.

The Company has policies in place which govern debt financing plans and risk management strategies for liquidity, interest rates and foreign exchange. These policies outline measures and targets for managing capital, including a range for leverage consistent with the desired credit rating. Management and the Audit Committee regularly review the Company's compliance with, and performance against, these policies. In addition, management regularly reviews these policies to ensure they remain consistent with the risk tolerance acceptable to the Company.

The following table summarizes the Company's total capital under management:

(millions of Canadian dollars)	**As at December 30, 2017**	As at December 31, 2016
Bank indebtedness	**$ 110**	$ 115
Short term debt	**640**	665
Long term debt due within one year	**1,635**	400
Long term debt	**9,542**	10,470
Certain other liabilities	**41**	31
Total debt	**$ 11,968**	$ 11,681
Equity attributable to shareholders of the Company	**13,012**	13,002
Total capital under management	**$ 24,980**	$ 24,683

Short Form Base Shelf Prospectus Filings During 2017, the Company filed a Short Form Base Shelf Prospectus, which allows for the potential issuance of up to $2 billion of unsecured debentures and/or preferred shares subject to the availability of funding in the capital markets.

During 2017, *Eagle* filed a Short Form Base Shelf Prospectus, which allows for the potential issuance of up to $1 billion of notes over a 25-month period.

Subsequent to the end of 2017, Choice Properties filed a Short Form Base Shelf Prospectus, which allows for the potential issuance of up to $2 billion of Units and debt securities, or any combination thereof, over a 25-month period. Under this prospectus, Choice Properties issued $650 million of senior unsecured debentures (see note 21).

Covenants and Regulatory Requirements The Company is subject to certain key financial and non-financial covenants under its existing Credit Facility, unsecured term loan facilities, certain MTNs and letters of credit. These covenants, which include interest coverage and leverage ratios, as defined in the respective agreements, are measured by the Company on a quarterly basis to ensure compliance with these agreements. As at December 30, 2017 and throughout the year, the Company was in compliance with each of the covenants under these agreements.

Choice Properties has certain key financial and non-financial covenants in its Debentures and the Choice Properties Credit Facilities, which include debt service ratios and leverage ratios. These ratios are measured by Choice Properties on a quarterly basis to ensure compliance. As at December 30, 2017 and throughout the year, Choice Properties was in compliance with the covenants under these agreements.

The Company is subject to externally imposed capital requirements from the Office of the Superintendent of Financial Institutions ("OSFI"), the primary regulator of PC Bank. PC Bank's capital management objectives are to maintain a consistently strong capital position while considering the economic risks generated by its credit card receivables portfolio and to meet all regulatory capital requirements as defined by OSFI. PC Bank uses Basel III as its regulatory capital management framework, which includes a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6.0% and a total capital ratio of 8.0%. In addition to the regulatory capital ratios requirement, PC Bank is subject to the Basel III Leverage ratio. PC Bank is also subject to the OSFI's Guideline on Liquidity Adequacy Requirements ("LARs"). The LARs guideline establishes standards based on the Basel III framework, including a Liquidity Coverage Ratio ("LCR") standard. As at the end of 2017 and throughout the year, PC Bank has met all applicable regulatory requirements.

Note 25. Post-Employment and Other Long Term Employee Benefits

The Company sponsors a number of pension plans, including registered defined benefit pension plans, registered defined contribution pension plans and supplemental unfunded arrangements providing pension benefits in excess of statutory limits. Certain obligations of the Company under these supplemental pension arrangements are secured by a standby letter of credit issued by a major Canadian chartered bank.

The Company's Pension Committee oversees the Company's pension plans. The Pension Committee is responsible for assisting the Board in fulfilling its general oversight responsibilities for the plans. The Pension Committee assists the Board with oversight of management's administration of the plans, pension investment and monitoring responsibilities, and compliance with legal and regulatory requirements.

The Company's defined benefit pension plans are primarily funded by the Company, predominantly non-contributory and the benefits are, in general, based on career average earnings subject to limits. The funding is based on a solvency valuation for which the assumptions may differ from the assumptions used for accounting purposes as detailed in this note.

The Company also offers certain other defined benefit plans other than pension plans. These other defined benefit plans are generally not funded, are mainly non-contributory and include health care, life insurance and dental benefits. Employees eligible for these other defined benefits are those who retire at certain ages having met certain service requirements. The majority of other defined benefit plans for current and future retirees include a limit on the total benefits payable by the Company.

The Company's defined benefit pension plans and other defined benefit plans expose it to a number of actuarial risks, such as longevity risk, interest rate risk and market risk.

In Canada, the Company also has a national defined contribution plan for salaried employees. All newly hired salaried employees are only eligible to participate in this defined contribution plan.

The Company also contributes to various MEPPs, which are administered by independent boards of trustees generally consisting of an equal number of union and employer representatives. The Company's responsibility to make contributions to these plans is limited by amounts established pursuant to its collective agreements.

The Company expects to make contributions in 2018 to its defined benefit and defined contribution plans and the MEPPs in which it participates as well as benefit payments to the beneficiaries of the supplemental unfunded defined benefit pension plans, other defined benefit plans and other long term employee benefit plans.

Other Long Term Employee Benefits

The Company offers other long term employee benefit plans that include long term disability benefits and continuation of health care and dental benefits while on disability.

Defined Benefit Pension Plans and Other Defined Benefit Plans

Information on the Company's defined benefit pension plans and other defined benefit plans, in aggregate, is summarized as follows:

	2017		2016	
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Defined Benefit Plans**	Defined Benefit Pension Plans	Other Defined Benefit Plans
Present value of funded obligations	**$ (1,780)**	**$ —**	$ (1,768)	$ —
Present value of unfunded obligations	**(145)**	**(154)**	(136)	(171)
Total present value of defined benefit obligation	**$ (1,925)**	**$ (154)**	$ (1,904)	$ (171)
Fair value of plan assets	**1,916**	**—**	1,947	—
Total funded status of (obligations) surpluses	**$ (9)**	**$ (154)**	$ 43	$ (171)
Assets not recognized due to asset ceiling	**(15)**	**—**	(7)	—
Total net defined benefit plan (obligations) surpluses	**$ (24)**	**$ (154)**	$ 36	$ (171)
Recorded on the consolidated balance sheets as follows:				
Other Assets (note 18)	**$ 147**	**$ —**	$ 192	$ —
Other Liabilities (note 22)	**$ (171)**	**$ (154)**	$ (156)	$ (171)

The following are the continuities of the fair value of plan assets and the present value of the defined benefit plan obligations:

	2017			2016		
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Defined Benefit Plans**	**Total**	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Changes in the fair value of plan assets						
Fair value, beginning of year	**$ 1,947**	**$ —**	**$ 1,947**	$ 2,167	$ —	$ 2,167
Employer contributions	**55**	**—**	**55**	29	—	29
Employee contributions	**3**	**—**	**3**	3	—	3
Benefits paid	**(75)**	**—**	**(75)**	(94)	—	(94)
Interest income	**77**	**—**	**77**	86	—	86
Actuarial gains in other comprehensive income	**142**	**—**	**142**	11	—	11
Settlements(i)	**(229)**	**—**	**(229)**	(251)	—	(251)
Other	**(4)**	**—**	**(4)**	(4)	—	(4)
Fair value, end of year	**$ 1,916**	**$ —**	**$ 1,916**	$ 1,947	$ —	$ 1,947
Changes in the present value of the defined benefit plan obligations						
Balance, beginning of year	**$ 1,904**	**$ 171**	**$ 2,075**	$ 2,124	$ 161	$ 2,285
Current service cost	**57**	**6**	**63**	61	5	66
Interest cost	**77**	**6**	**83**	87	7	94
Benefits paid	**(82)**	**(6)**	**(88)**	(101)	(7)	(108)
Employee contributions	**3**	**—**	**3**	3	—	3
Actuarial losses (gains) in other comprehensive (loss) income	**183**	**(23)**	**160**	(42)	5	(37)
Settlements(i)	**(217)**	**—**	**(217)**	(228)	—	(228)
Balance, end of year	**$ 1,925**	**$ 154**	**$ 2,079**	$ 1,904	$ 171	$ 2,075

(i) Settlements relate to annuity purchases and pension buy-outs.

In 2017, the Company completed several annuity purchases with respect to former employees. In 2016, the Company also completed several annuity purchases and pension buy-outs with respect to former employees. These activities are designed to reduce the Company's defined benefit pension plan obligations and decrease future risks and volatility associated with these obligations. The Company paid $229 million (2016 – $251 million) from the impacted plans' assets to settle $217 million (2016 – $228 million) of pension obligations and recorded settlement charges of $12 million (2016 – $23 million) in SG&A. The settlement charges resulted from the difference between the amount paid for the annuity purchases and pension buy-outs and the value of the Company's defined benefit plan obligations related to these annuity purchases and buy-outs at the time of the settlement.

For 2017, the actual return on plan assets was $219 million (2016 – $97 million).

The net defined benefit obligation can be allocated to the plans' participants as follows:

- Active plan participants 55% (2016 – 48%);
- Deferred plan participants 10% (2016 – 9%); and
- Retirees 35% (2016 – 43%).

During 2018, the Company expects to contribute approximately $56 million (2017 – contributed $55 million) to its registered defined benefit pension plans. The actual amount paid may vary from the estimate based on actuarial valuations being completed, investment performance, volatility in discount rates, regulatory requirements and other factors.

The net cost recognized in earnings before income taxes for the Company's defined benefit pension plans and other defined benefit plans was as follows:

	2017			2016		
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Defined Benefit Plans**	**Total**	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Current service cost	**$ 57**	**$ 6**	**$ 63**	$ 61	$ 5	$ 66
Interest cost on net defined benefit plan obligations	**—**	**6**	**6**	1	7	8
Settlement charges(i)	**12**	**—**	**12**	23	—	23
Other	**4**	**—**	**4**	4	—	4
Net post-employment defined benefit cost	**$ 73**	**$ 12**	**$ 85**	$ 89	$ 12	$ 101

(i) Relates to annuity purchases and pension buy-outs.

The actuarial losses (gains) recognized in other comprehensive income (loss) net of taxes for defined benefit plans were as follows:

	2017			2016		
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Defined Benefit Plans**	**Total**	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Return on plan assets, excluding amounts included in net interest expense and other financing charges	**$ (142)**	**$ —**	**$ (142)**	$ (11)	$ —	$ (11)
Experience adjustments	**19**	**(28)**	**(9)**	(9)	—	(9)
Actuarial (gains) from change in demographic assumptions	**—**	**—**	**—**	(1)	—	(1)
Actuarial losses (gains) from change in financial assumptions	**164**	**5**	**169**	(32)	5	(27)
Change in liability arising from asset ceiling	**8**	**—**	**8**	3	—	3
Total net actuarial losses (gains) recognized in other comprehensive income (loss) before income taxes	**$ 49**	**$ (23)**	**$ 26**	$ (50)	$ 5	$ (45)
Income tax (recoveries) expenses on actuarial losses (gains) (note 7)	**(13)**	**6**	**(7)**	13	(1)	12
Actuarial losses (gains) net of income tax (recoveries) expenses	**$ 36**	**$ (17)**	**$ 19**	$ (37)	$ 4	$ (33)

The cumulative actuarial (gains) losses before income taxes recognized in equity for the Company's defined benefit plans were as follows:

	2017			2016		
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Defined Benefit Plans**	**Total**	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Cumulative amount, beginning of year	**$ (30)**	**$ (56)**	**$ (86)**	$ 20	$ (61)	$ (41)
Net actuarial losses (gains) recognized in the year before income taxes	**49**	**(23)**	**26**	(50)	5	(45)
Cumulative amount, end of year	**$ 19**	**$ (79)**	**$ (60)**	$ (30)	$ (56)	$ (86)

Composition of Plan Assets The defined benefit pension plan assets are held in trust and consisted of the following asset categories:

(millions of Canadian dollars, except where otherwise indicated)		2017			2016	
Equity securities						
Canadian - pooled funds	$	79	4%	$	87	4%
Foreign - pooled funds		713	37%		770	40%
Total Equity Securities	$	792	41%	$	857	44%
Debt securities						
Fixed income securities:						
- government	$	439	23%	$	437	22%
- corporate		131	7%		134	7%
Fixed income pooled funds(i):						
- government		404	21%		386	20%
- corporate		10	1%		14	1%
Total Debt Securities	$	984	52%	$	971	50%
Other investments		117	6%		108	5%
Cash and cash equivalents		23	1%		11	1%
Total	$	1,916	100%	$	1,947	100%

(i) Both government and corporate securities may be included within the same fixed income pooled fund.

As at December 30, 2017 and December 31, 2016, the defined benefit pension plans did not directly include any of the Company's securities.

All equity and debt securities and other investments are valued based on quoted prices (unadjusted) in active markets for identical assets or liabilities or based on inputs other than quoted prices in active markets that are observable for the asset or liability, either directly as prices or indirectly, either derived from prices or as per agreements for contractual returns.

The Company's asset allocation reflects a balance of interest-rate sensitive investments, such as fixed income investments, and equities, which are expected to provide higher returns over the long term. The Company's targeted asset allocations are actively monitored and adjusted on a plan by plan basis to align the asset mix with the liability profiles of the plans.

Principal Actuarial Assumptions The principal actuarial assumptions used in calculating the Company's defined benefit plan obligations and net defined benefit plan cost for the year were as follows (expressed as weighted averages):

	2017		2016	
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Defined Benefit Pension Plans	Other Defined Benefit Plans
Defined Benefit Plan Obligations				
Discount rate	3.50%	3.50%	4.00%	3.75%
Rate of compensation increase	3.00%	n/a	3.00%	n/a
Mortality table(i)	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational
Net Defined Benefit Plan Cost				
Discount rate	4.00%	3.75%	4.00%	4.00%
Rate of compensation increase	3.00%	n/a	3.50%	n/a
Mortality table(i)	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational

n/a – not applicable
(i) Public or private sector mortality table is used depending on the prominent demographics of each plan.

The weighted average duration of the defined benefit obligation as at December 30, 2017 is 17.7 years (December 31, 2016 – 17.7 years).

The growth rate of health care costs, primarily drug and other medical costs, for the other defined benefit plan obligations as at the end of the year was estimated at 4.50% and is expected to remain at 4.50% at the end of 2018 and thereafter.

Sensitivity of Key Actuarial Assumptions The following table outlines the key assumptions for 2017 (expressed as weighted averages) and the sensitivity of a 1% change in each of these assumptions on the defined benefit plan obligations and the net defined benefit plan cost.

The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

	Defined Benefit Pension Plans		Other Defined Benefit Plans	
Increase (Decrease) (millions of Canadian dollars except where otherwise indicated)	Defined Benefit Plan Obligations	Net Defined Benefit Plan Cost(i)	Defined Benefit Plan Obligations	Net Defined Benefit Plan Cost(i)
Discount rate	**3.50%**	**4.00%**	**3.50%**	**3.75%**
Impact of:				
1% increase	**$ (314)**	**$ (29)**	**$ (20)**	**$ —**
1% decrease	**$ 377**	**$ 28**	**$ 25**	**$ —**
Expected growth rate of health care costs			**4.50%**	**4.50%**
Impact of:				
1% increase	**n/a**	**n/a**	**$ 16**	**$ 2**
1% decrease	**n/a**	**n/a**	**$ (13)**	**$ (1)**

n/a – not applicable

(i) Discount rate and expected growth rate of health care costs sensitivity is for current service and interest costs only.

Multi-Employer Pension Plans

During 2017, the Company recognized an expense of $66 million (2016 – $65 million) in operating income, which represents the contributions made in connection with MEPPs. During 2018, the Company expects to continue to make contributions into these MEPPs.

The Company, together with its franchises, is the largest participating employer in the Canadian Commercial Workers Industry Pension Plan ("CCWIPP"), with approximately 54,000 (2016 – 53,000) employees as members. Included in the 2017 expense described above are contributions of $65 million (2016 – $65 million) to CCWIPP.

Post-Employment and Other Long Term Employee Benefit Costs

The net cost recognized in earnings before income taxes for the Company's post-employment and other long term employee benefit plans was as follows:

(millions of Canadian dollars)	2017	2016
Net post-employment defined benefit cost(i)	**$ 85**	$ 101
Defined contribution costs(ii)	**22**	22
Multi-employer pension plan costs(iii)	**66**	65
Total net post-employment benefit costs	**$ 173**	$ 188
Other long term employee benefit costs(iv)	**28**	23
Net post-employment and other long term employee benefit costs	**$ 201**	$ 211
Recorded on the consolidated statement of earnings as follows:		
Selling, general and administrative expenses (note 27)	**$ 192**	$ 200
Net interest expense and other financing charges (note 6)	**9**	11
Net post-employment and other long term employee benefit costs	**$ 201**	$ 211

(i) Includes settlement charges of $12 million (2016 – $23 million) related to annuity purchases and pension buy-outs.
(ii) Amounts represent the Company's contributions made in connection with defined contribution plans.
(iii) Amounts represent the Company's contributions made in connection with MEPPs.
(iv) Other long term employee benefit costs include $3 million (2016 – $3 million) of net interest expense and other financing charges.

Note 26. Equity-Based Compensation

The Company's equity-based compensation expense, which includes Loblaw Stock Option, RSU, PSU, DSU, EDSU plans, and the unit-based compensation plans of Choice Properties, was $57 million during 2017 (2016 – $63 million). The expense was recognized in operating income.

The carrying amount of the Company's equity-based compensation arrangements including Loblaw Stock Option, RSU, PSU, DSU, EDSU plans, and the unit-based compensation plans of Choice Properties, were recorded on the consolidated balance sheets as follows:

(millions of Canadian dollars)	**As at December 30, 2017**	As at December 31, 2016
Trade payables and other liabilities	**$ 11**	$ 10
Other liabilities (note 22)	**4**	4
Contributed surplus	**110**	112

The following are details related to the equity-based compensation plans of the Company:

Stock Option Plan The Company maintains a stock option plan for certain employees. Under this plan, the Company may grant options up to 28,137,162 common shares.

The following is a summary of the Company's stock option plan activity:

	2017		2016	
	Options (number of shares)	**Weighted Average Exercise Price / Share**	Options (number of shares)	Weighted Average Exercise Price / Share
Outstanding options, beginning of year	**7,322,358**	**$ 48.93**	7,411,405	$ 43.77
Granted	**1,584,407**	**$ 70.02**	1,285,649	$ 68.97
Exercised	**(1,019,610)**	**$ 39.98**	(1,131,944)	$ 37.16
Forfeited/cancelled	**(399,381)**	**$ 64.74**	(242,752)	$ 52.77
Outstanding options, end of year	**7,487,774**	**$ 53.77**	7,322,358	$ 48.93
Options exercisable, end of year	**3,847,491**	**$ 43.57**	3,384,188	$ 40.33

	2017 Outstanding Options			**2017 Exercisable Options**	
Range of Exercise Prices	**Number of Options Outstanding**	**Weighted Average Remaining Contractual Life (years)**	**Weighted Average Exercise Price/Share**	**Number of Exercisable Options**	**Weighted Average Exercise Price/Share**
$32.47 – $38.62	**1,527,978**	**1.1**	**$ 34.97**	**1,527,978**	**$ 34.97**
$38.63 – $51.85	**2,187,451**	**2.1**	**$ 43.03**	**1,617,683**	**$ 42.30**
$51.86 – $77.81	**3,772,345**	**5.2**	**$ 67.58**	**701,830**	**$ 65.24**
	7,487,774		**$ 53.77**	**3,847,491**	**$ 43.57**

During 2017, the Company issued common shares on the exercise of stock options with a weighted average market share price of $70.98 (2016 – $70.19). The Company received cash consideration of $41 million (2016 – $42 million) related to the exercise of these options.

The fair value of stock options granted during 2017 was $15 million (2016 – $13 million). The assumptions used to measure the fair value of options granted during 2017 and 2016 under the Black-Scholes valuation model at date of grant were as follows:

	2017	2016
Expected dividend yield	**1.5%**	1.5%
Expected share price volatility	**16.0% – 18.2%**	17.7% – 19.0%
Risk-free interest rate	**0.9% – 1.7%**	0.6% – 1.1%
Expected life of options	**3.8 – 6.3 years**	3.8 – 6.3 years

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at December 30, 2017 was 10.0% (December 31, 2016 – 10.0%).

Restricted Share Unit Plan The following is a summary of the Company's RSU plan activity:

(Number of awards)	**2017**	2016
RSUs, beginning of year	**858,106**	887,792
Granted	**337,846**	283,962
Reinvested	**4,418**	—
Settled	**(323,894)**	(295,403)
Forfeited	**(51,771)**	(18,245)
RSUs, end of year	**824,705**	858,106

The fair value of RSUs granted during 2017 was $24 million (2016 – $19 million).

Performance Share Unit Plan The following is a summary of the Company's PSU plan activity:

(Number of awards)	**2017**	2016
PSUs, beginning of year	**965,863**	1,100,356
Granted	**404,150**	373,844
Reinvested	**3,152**	—
Settled	**(687,007)**	(492,929)
Forfeited	**(54,630)**	(15,408)
PSUs, end of year	**631,528**	965,863

The fair value of PSUs granted during 2017 was $16 million (2016 – $14 million).

Settlement of Awards from Shares Held in Trust During 2017, the Company settled RSUs and PSUs totaling 1,010,901 (2016 – 788,332), of which 1,010,682 (2016 – 787,832) were settled through the trusts established for settlement of each of the RSU and PSU plans (see note 23). The settlements resulted in a $19 million (2016 – $13 million) increase to share capital and a net increase of $29 million (2016 – $18 million) to retained earnings.

Director Deferred Share Unit Plan The following is a summary of the Company's DSU plan activity:

(Number of awards)	**2017**	2016
DSUs outstanding, beginning of year	**188,202**	183,722
Granted	**29,289**	27,784
Reinvested	**3,181**	2,773
Settled	**—**	(26,077)
DSUs outstanding, end of year	**220,672**	188,202

The fair value of DSUs granted during 2017 was $2 million (2016 – $2 million).

Executive Deferred Share Unit Plan The following is a summary of the Company's EDSU plan activity:

(Number of awards)	**2017**	2016
EDSUs outstanding, beginning of year	**35,559**	24,023
Granted	**16,558**	15,383
Reinvested	**686**	434
Settled	**(5,509)**	(4,281)
EDSUs outstanding, end of year	**47,294**	35,559

The fair value of EDSUs granted during 2017 was $1 million (2016 – $1 million).

Choice Properties The following are details related to the unit-based compensation plans of Choice Properties:

Unit Option Plan Choice Properties maintains a Unit Option plan for certain employees. Under this plan, Choice Properties may grant Options totaling up to 19,744,697 Units. The following is a summary of Choice Properties' Unit Option plan activity:

	2017			2016		
	Number of awards		**Weighted average exercise price/unit**	Number of awards		Weighted average exercise price/unit
Outstanding Unit Options, beginning of year	**3,990,231**	**$**	**11.25**	3,499,656	$	11.05
Granted	**451,000**	**$**	**14.20**	655,266	$	12.38
Exercised	**(37,374)**	**$**	**10.24**	(65,318)	$	11.21
Forfeited	**—**	**$**	**—**	(99,373)	$	11.76
Outstanding Unit Options, end of year	**4,403,857**	**$**	**11.56**	3,990,231	$	11.25
Unit Options exercisable, end of year	**2,308,008**	**$**	**10.99**	1,764,241	$	10.95

The assumptions used to measure the fair value of the Unit Options under the Black-Scholes model were as follows:

	2017	2016
Expected average distribution yield	**5.5%**	5.3%
Expected average Unit price volatility	**10.0% – 16.9%**	16.3% – 19.2%
Average risk-free interest rate	**0.01% – 1.9%**	0.5% – 1.1%
Expected average life of options	**0.1 – 4.8 years**	0.5 – 4.7 years

Restricted Unit Plan The following is a summary of Choice Properties' RU plan activity:

(Number of awards)	2017	2016
Outstanding RUs, beginning of year	**264,691**	267,721
Granted	**160,361**	93,561
Reinvested	**17,517**	15,927
Settled	**(83,398)**	(106,370)
Forfeited	**(17)**	(6,148)
Outstanding RUs, end of year	**359,154**	264,691

RUs vest over a period of three years. There were no RUs vested as at December 30, 2017 (December 31, 2016 – nil).

Performance Unit Plan The following is a summary of Choice Properties' PU plan activity:

(Number of awards)	2017	2016
Outstanding PUs, beginning of year	**39,696**	—
Granted	**36,099**	39,772
Reinvested	**3,817**	1,678
Cancelled	**—**	(1,754)
Outstanding PUs, end of year	**79,612**	39,696

PUs vest over a period of three years. There were no PUs vested as at December 30, 2017 (December 31, 2016 – nil).

Trustee Deferred Unit Plan The following is a summary of Choice Properties' DU plan activity:

(Number of awards)	2017	2016
Outstanding DUs, beginning of year	**218,992**	158,778
Granted	**51,865**	50,844
Reinvested	**12,847**	9,370
Outstanding DUs, end of year	**283,704**	218,992

All DUs vest when issued, however, they cannot be settled while Trustees are members of the Board.

Note 27. Employee Costs

Included in operating income are the following employee costs:

(millions of Canadian dollars)	2017	2016
Wages, salaries and other short term employment benefits	**$ 5,402**	$ 5,176
Post-employment benefits (note 25)	**167**	180
Other long term employee benefits (note 25)	**25**	20
Equity-based compensation	**55**	60
Capitalized to fixed assets	**(46)**	(42)
Total employee costs	**$ 5,603**	$ 5,394

Note 28. Leases

The Company leases certain of its retail stores, distribution centres, corporate offices, and other assets under operating or finance lease arrangements. Substantially all of the retail store leases have renewal options for additional terms. The contingent rents under certain of the retail store leases are based on a percentage of retail sales. The Company also has properties which are sub-leased to third parties.

Determining whether a lease arrangement is classified as finance or operating requires judgment with respect to the fair value of the leased asset, the economic life of the lease, the discount rate and the allocation of leasehold interests between the land and building elements of property leases.

Operating Leases – As Lessee Future minimum lease payments relating to the Company's operating leases are as follows:

	Payments due by year						**As at December 30, 2017**	As at December 31, 2016
(millions of Canadian dollars)	2018	2019	2020	2021	2022	Thereafter	**Total**	Total
Operating lease payments	$ 687	$ 646	$ 575	$ 505	$ 426	$ 1,859	**$ 4,698**	$ 5,112
Sub-lease income	(53)	(43)	(31)	(28)	(26)	(92)	**(273)**	(244)
Net operating lease payments	$ 634	$ 603	$ 544	$ 477	$ 400	$ 1,767	**$ 4,425**	$ 4,868

During 2017, the Company recorded $685 million (2016 – $679 million) as an expense included in the statement of earnings in respect of operating leases. In addition, contingent rent recognized as an expense in respect of operating leases totaled $1 million (2016 – $2 million) and sub-lease income earned totaled $52 million (2016 – $48 million), which is recognized in operating income. Contingent rent recognized as income in respect of sub-leased operating leases in 2017 was $3 million (2016 – $4 million).

Operating Leases – As Lessor Future minimum lease payments to be received by the Company relating to properties that are leased to third parties are as follows:

	Payments to be received by year						**As at December 30, 2017**	As at December 31, 2016
(millions of Canadian dollars)	2018	2019	2020	2021	2022	Thereafter	**Total**	Total
Net operating lease income	$ 125	$ 103	$ 89	$ 75	$ 69	$ 219	**$ 680**	$ 726

As at December 30, 2017, the Company leased certain owned land and buildings with a cost of $2,974 million (December 31, 2016 – $2,721 million) and related accumulated depreciation of $796 million (December 31, 2016 – $759 million). For the year ended December 30, 2017, rental income was $131 million (2016 – $138 million) and contingent rent was $2 million (2016 – $4 million), both of which were recognized in operating income.

Finance Leases – As Lessee Future minimum lease payments relating to the Company's finance leases are as follows:

	Payments due by year						As at December 30, 2017	As at December 31, 2016
(millions of Canadian dollars)	2018	2019	2020	2021	2022	Thereafter	**Total**	Total
Finance lease payments	$ 71	$ 64	$ 59	$ 57	$ 57	$ 606	**$ 914**	$ 989
Less future finance charges	(27)	(24)	(23)	(25)	(24)	(223)	**(346)**	(382)
Present value of minimum lease payments	$ 44	$ 40	$ 36	$ 32	$ 33	$ 383	**$ 568**	$ 607

During 2017, contingent rent recognized by the Company as an expense in respect of finance leases was $1 million (2016 – $1 million).

Certain assets classified as finance leases have been sub-leased by the Company to third parties. The future sub-lease income relating to these sub-lease agreements are as follows:

	Payments to be received by year						As at December 30, 2017	As at December 31, 2016
(millions of Canadian dollars)	2018	2019	2020	2021	2022	Thereafter	**Total**	Total
Sub-lease income	$ 14	$ 13	$ 11	$ 7	$ 6	$ 8	**$ 59**	$ 77

During 2017, the sub-lease income earned under finance leases was $15 million (2016 – $15 million).

Note 29. Financial Instruments

The following table presents the fair value hierarchy of financial assets and financial liabilities, excluding those classified as amortized cost that are short term in nature. The carrying values of the Company's financial instruments approximate their fair values except for long term debt.

	As at December 30, 2017				As at December 31, 2016			
(millions of Canadian dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Financial assets:								
Cash and cash equivalents	**$ 748**	**$ 1,050**	**$ —**	**$ 1,798**	$ 752	$ 562	$ —	$ 1,314
Short term investments	**40**	**506**	**—**	**546**	24	217	—	241
Franchise loans receivable	**—**	**—**	**166**	**166**	—	—	233	233
Certain other assets(i)	**20**	**3**	**23**	**46**	23	2	42	67
Derivatives included in prepaid expenses and other assets	**3**	**—**	**2**	**5**	7	11	—	18
Financial liabilities:								
Long term debt	**—**	**12,103**	**—**	**12,103**	—	11,864	—	11,864
Trust unit liability	**972**	**—**	**—**	**972**	959	—	—	959
Certain other liabilities(i)	**—**	**—**	**18**	**18**	—	—	22	22
Derivatives included in trade payables and other liabilities	**—**	**11**	**—**	**11**	—	—	2	2

(i) Certain other assets and certain other liabilities are included in the consolidated balance sheets in Other Assets and Other Liabilities, respectively.

There were no transfers between levels of the fair value hierarchy during the years presented.

During 2017, the Company recognized a loss of $6 million (2016 – loss of $5 million) in operating income on financial instruments designated as fair value through profit or loss. In addition, during 2017, a net loss of $9 million (2016 – net loss of $110 million) was recorded in earnings before income taxes related to financial instruments required to be classified as fair value through profit or loss.

Franchise Loans Receivable and Franchise Investments The value of Loblaw franchise loans receivable of $166 million (December 31, 2016 – $233 million) was recorded in the consolidated balance sheet. In 2017, the Company recorded a gain of $8 million (2016 – $1 million loss) in operating income related to these loans receivable.

The value of Loblaw franchise investments of $20 million (December 31, 2016 – $39 million) was recorded in other assets. During 2017, the Company recorded a gain of $2 million (2016 – $4 million) in operating income related to these investments.

Embedded Derivatives The Company's level 3 financial instruments classified as fair value through profit or loss consist of embedded derivatives on purchase orders placed in neither Canadian dollars, nor the functional currency of the vendor. These derivatives are valued using a market approach based on the differential in exchange rates and timing of settlement. The significant unobservable input used in the fair value measurement is the cost of purchase orders. Significant increases (decreases) in any one of the inputs could result in a significantly higher (lower) fair value measurement.

During 2017, a gain of $4 million (2016 – gain of $5 million) was recorded in operating income related to these derivatives. In addition, a corresponding asset of $2 million was included in prepaid expenses and other assets as at December 30, 2017 (December 31, 2016 – $2 million liability included in trade payable and other liabilities). As at December 30, 2017, a 1% increase in foreign currency exchange rates would result in a $1 million gain in fair value and a 1% decrease in foreign currency exchange rates would result in a $2 million loss in fair value.

Trust Unit Liability During 2017, the Company recorded a fair value gain of $10 million (2016 – loss of $118 million) in net interest expense and other financing charges related to Choice Properties' Trust Units (see note 6).

As at December 30, 2017, 72,800,965 Units were held by unitholders other than the Company (December 31, 2016 – 71,068,828). During 2017, Choice Properties issued 1,732,137 units (2016 – 1,615,011), to eligible unitholders under its distribution reinvestment plan at an average price of $13.18 (2016 – $12.65).

Securities Investments PC Bank holds investments which are considered part of the liquid securities required to be held to meet its LCR. As at December 30, 2017, the fair value of available for sale investments of $20 million (December 31, 2016 – $23 million) was included in other assets. During 2017, PC Bank recorded a nominal unrealized fair value loss (2016 – nominal loss) in other comprehensive income related to these investments.

Other Derivatives The Company uses bond forwards and interest rate swaps, to manage its anticipated exposure to fluctuations in interest rates on future debt issuances. The Company also uses futures, options and forward contracts to manage its anticipated exposure to fluctuations in commodity prices and exchange rates in its underlying operations. The following is a summary of the fair values recognized in the consolidated balance sheets and the net realized and unrealized gains (losses) before income taxes related to the Company's other derivatives:

			December 30, 2017
(millions of Canadian dollars)	Net Asset/ (Liability) Fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
Derivatives designated as cash flow hedges(i)			
Foreign Exchange Forwards	$ (1)	$ (3)	$ 1
Bond Forwards(ii)	—	6	—
Total derivatives designated as cash flow hedges	$ (1)	$ 3	$ 1
Derivatives not designated in a formal hedging relationship			
Foreign Exchange and Other Forwards	$ (10)	$ —	$ (23)
Other Non-Financial Derivatives	3	—	—
Total derivatives not designated in a formal hedging relationship	$ (7)	$ —	$ (23)
Total derivatives	$ (8)	$ 3	$ (22)

(i) Includes interest rate swap agreements with a notional value of $100 million. During 2017, a nominal unrealized fair value loss was recorded in OCI relating to these agreements.

(ii) As a result of the issuance of *Eagle* notes, bond forward agreements with a notional value of $200 million were settled in 2017 (see note 21).

(millions of Canadian dollars)			December 31, 2016
	Net Asset/ (Liability) Fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
Derivatives designated as cash flow hedges[i]			
Foreign Exchange Forwards	$ 2	$ (1)	$ 2
Total derivatives designated as cash flow hedges	$ 2	$ (1)	$ 2
Derivatives not designated in a formal hedging relationship			
Foreign Exchange and Other Forwards	$ 9	$ —	$ (8)
Bond Forwards[ii]	—	—	3
Other Non-Financial Derivatives	7	—	8
Total derivatives not designated in a formal hedging relationship	$ 16	$ —	$ 3
Total derivatives	$ 18	$ (1)	$ 5

(i) Includes bond forward agreements with a notional value of $95 million, which were settled within the year, and interest rate swap agreements with a notional value of $200 million. During 2016, a nominal unrealized fair value gain was recorded in OCI relating to these agreements.

(ii) Realized fair value gain of $3 million related to Choice Properties bond forward agreements settled in the first quarter of 2016 and recorded in net interest expense and other financing charges (see note 6).

Note 30. Financial Risk Management

As a result of holding and issuing financial instruments, the Company is exposed to liquidity, credit and market risk. The following is a description of those risks and how the exposures are managed:

Liquidity Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash or its equivalents in a cost effective manner to fund its obligations as they come due. The Company is exposed to liquidity risk through, among other areas, PC Bank and its credit card business, which requires a reliable source of funding for its credit card business. PC Bank relies on its securitization programs and the acceptance of GIC deposits to fund the receivables of its credit cards. The Company would experience liquidity risk if it fails to maintain appropriate levels of cash and short term investments, it is unable to access sources of funding or it fails to appropriately diversify sources of funding. If any of these events were to occur, they could adversely affect the financial performance of the Company.

Liquidity risk is mitigated by maintaining appropriate levels of cash and cash equivalents and short term investments, actively monitoring market conditions, and by diversifying sources of funding, including the Company's committed credit facilities, and maintaining a well-diversified maturity profile of debt and capital obligations.

The following are the undiscounted contractual maturities of significant financial liabilities as at December 30, 2017:

	2018	2019	2020	2021	2022	Thereafter	Total[i]
Derivative Financial Liabilities							
Foreign exchange forward contracts	$ 381	$ —	$ —	$ —	$ —	$ —	$ 381
Non-Derivative Financial Liabilities							
Bank Indebtedness	110	—	—	—	—	—	110
Short term debt[ii]	640	—	—	—	—	—	640
Long term debt including interest payments[iii]	2,062	2,507	1,687	956	1,213	6,728	15,153
Other liabilities	3	2	3	3	—	—	11
	$ 3,196	$ 2,509	$ 1,690	$ 959	$ 1,213	$ 6,728	$ 16,295

(i) The Trust Unit Liability has been excluded as this liability does not have a contractual maturity date. The Company also excluded trade payables and other liabilities, which are due within the next 12 months.

(ii) These are obligations owed to independent securitization trusts which are collateralized by the Company's credit card receivables (see note 11).

(iii) Fixed interest payments are based on the maturing face values and annual interest for each instrument, including GICs, long term independent securitization trusts and an independent funding trust, as well as annual payment obligations for structured entities, mortgages and finance lease obligations. Variable interest payments are based on the forward rates as of December 30, 2017.

Credit The Company is exposed to credit risk resulting from the possibility that counterparties could default on their financial obligations to the Company, including derivative instruments, cash and cash equivalents, short term investments, security deposits, PC Bank's credit card receivables, franchise loans receivable, pension assets held in the Company's defined benefit plans and accounts receivable, including amounts due from franchisees, government, prescription sales and third-party drug plans, independent accounts and amounts owed from vendors. Failure to manage credit risk could adversely affect the financial performance of the Company.

The risk related to derivative instruments, cash and cash equivalents, short term investments and security deposits is reduced by policies and guidelines that require that the Company enters into transactions only with counterparties or issuers that have a minimum long term "A-" credit rating from a recognized credit rating agency and place minimum and maximum limits for exposures to specific counterparties and instruments.

Choice Properties mitigates the risk of credit loss relating to rent receivables by evaluating the creditworthiness of new tenants and joint venture partners, obtaining security deposits wherever permitted by legislation, ensuring its tenant mix is diversified and by limiting its exposure to any one tenant except Loblaw. Choice Properties establishes an allowance for doubtful accounts that represents the estimated losses with respect to rents receivable. The allowance is determined on a tenant-by-tenant basis based on the specific factors related to the tenant.

PC Bank manages its credit card receivable risk by employing stringent credit scoring techniques, actively monitoring the credit card portfolio and reviewing techniques and technology that can improve the effectiveness of the collection process. In addition, these receivables are dispersed among a large, diversified group of credit card customers.

Franchise loans receivable and accounts receivable, including amounts due from franchisees, governments, prescription sales covered by third-party drug plans, independent accounts and amounts owed from vendors, are actively monitored on an ongoing basis and settled on a frequent basis in accordance with the terms specified in the applicable agreements.

Market Market risk is the loss that may arise from changes in factors such as interest rates, foreign currency exchange rates, commodity prices, common share and Unit price and the impact these factors may have on other counterparties.

Interest Rate The Company is exposed to interest rate risk from fluctuations in interest rates on its floating rate debt and from the refinancing of existing financial instruments. The Company manages interest rate risk by monitoring the respective mix of fixed and floating rate debt and by taking action as necessary to maintain an appropriate balance considering current market conditions, with the objective of maintaining the majority of its debt at fixed interest rates. The Company estimates that a 1% increase (decrease) in short term interest rates, with all other variables held constant, would result in an increase (decrease) of $2 million to net interest expense and other financing charges.

Foreign Currency Exchange Rates The Company is exposed to foreign currency exchange rate variability, primarily on its USD denominated trade payables and other liabilities. A depreciating Canadian dollar relative to the USD will have a negative impact on year-over-year changes in reported operating income and net earnings, while an appreciating Canadian dollar relative to the USD will have the opposite impact. The Company is also exposed to fluctuations in the prices of USD denominated purchases as a result of changes in USD exchange rates. During 2017 and 2016, the Company entered into derivative instruments in the form of futures contracts and forward contracts to manage its current and anticipated exposure to fluctuations in U.S. dollar exchange rates.

Commodity Prices The Company is exposed to increases in the prices of commodities in operating its stores and distribution networks, as well as to the indirect effect of changing commodity prices on the price of consumer products. Rising commodity prices could adversely affect the financial performance of the Company. To manage a portion of this exposure, the Company uses purchase commitments and derivative instruments in the form of exchange traded futures contracts and forward contracts to minimize cost volatility related to commodities. The Company estimates that based on the outstanding derivative contracts held by the Company as at December 30, 2017, a 10% decrease in relevant energy prices, with all other variables held constant, would result in a loss of $2 million on earnings before income taxes.

Choice Properties' Unit Price The Company is exposed to market price risk as a result of Units that are held by unitholders other than the Company. These Units are presented as a liability on the Company's consolidated balance sheets as they are redeemable for cash at the option of the holder. The liability is recorded at fair value at each reporting period based on the market price of Units. The change in the fair value of the liability negatively impacts net earnings when the Unit price increases and positively impacts net earnings when the Unit price declines. A one dollar increase in the market value of Units, with all other variables held constant, would result in a $73 million increase to net interest expense and other financing charges.

Note 31. Contingent Liabilities

In the ordinary course of business, the Company is involved in and potentially subject to, legal actions and proceedings. In addition, the Company is subject to tax audits from various tax authorities on an ongoing basis. As a result, from time to time, tax authorities may disagree with the positions and conclusions taken by the Company in its tax filings or legislation could be amended or interpretations of current legislation could change, any of these events could lead to reassessments.

There are a number of uncertainties involved in such matters, individually or in aggregate, and as such, there is a possibility that the ultimate resolution of these matters may result in a material adverse effect on the Company's reputation, operations, financial condition or performance in future periods. It is not currently possible to predict the outcome of the Company's legal actions and proceedings with certainty. Management regularly assesses its position on the adequacy of such accruals or provisions and will make any necessary adjustments.

The following is a description of the Company's significant legal proceedings:

On August 26, 2015, the Company was served with a proposed class action, which was commenced in the Ontario Superior Court of Justice against the Company and certain subsidiaries, Weston and others in connection with the collapse of the Rana Plaza complex in Dhaka, Bangladesh in 2013. The claim seeks approximately $2 billion in damages. The Company believes this proceeding is without merit and is vigorously defending it. The Company does not currently have any significant accruals or provisions for this matter recorded in the consolidated financial statements.

Shoppers Drug Mart has been served with an Amended Statement of Claim in a class action proceeding that has been filed in the Ontario Superior Court of Justice by two Associates, claiming various declarations and damages resulting from Shoppers Drug Mart's alleged breaches of the Associate Agreement, in the amount of $500 million. The class action comprises all of Shoppers Drug Mart's current and former licensed Associates residing in Canada, other than in Québec, who are parties to Shoppers Drug Mart's 2002 and 2010 forms of the Associate Agreement. On July 9, 2013, the Ontario Superior Court of Justice certified as a class proceeding portions of the action. The Court imposed a class closing date based on the date of certification. New Associates after July 9, 2013 are not members of the class. The Company believes this claim is without merit and is vigorously defending it. The Company does not currently have any significant accruals or provisions for this matter recorded in the consolidated financial statements.

The Company has been reassessed by the Canada Revenue Agency ("CRA") and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron Bank Limited ("Glenhuron"), a wholly owned Barbadian subsidiary, should be treated, and taxed, as income in Canada. The reassessments, which were received between 2015 and 2017, are for the 2000 to 2012 taxation years and total $406 million including interest and penalties. The Company believes the reassessments are without merit and is vigorously defending them. The Company believes it is likely that the CRA will issue reassessments for the 2013 taxation year on the same or similar basis. The Company has filed a Notice of Appeal with the Tax Court of Canada for the 2000 to 2010 taxation years and a Notice of Objection for the 2011 and 2012 taxation years. The Tax Court of Canada trial is scheduled to commence in the second quarter of 2018. The Company does not currently have any significant accruals or provisions for this matter recorded in the consolidated financial statements.

On December 19, 2017, the Company and Weston announced actions taken to address their role in an industry-wide price-fixing arrangement involving certain packaged bread products. The arrangement involved the coordination of retail and wholesale prices of certain packaged bread products over a period extending from late 2001 to March 2015. Under the arrangement, the participants regularly increased prices on a coordinated basis.

Class action lawsuits have been commenced against the Company and Weston as well as a number of other major grocery retailers and another bread wholesaler. It is too early to predict the outcome of such legal proceedings. Neither the Company nor Weston believes that the ultimate resolution of such legal proceedings will have a material adverse impact on its financial condition or prospects. The Company's cash balances far exceed any realistic damages scenario and therefore it does not anticipate any impacts on its dividend, dividend policy or share buyback plan.

The Company has not recorded any amounts related to the potential civil liability associated with the class action lawsuits in the fourth quarter of 2017 on the basis that a reliable estimate of the liability cannot be determined at this time. The Company will continue to assess whether a provision for civil liability associated with the class action lawsuits can be reliably estimated and will record an amount in the period that a reliable estimate of liability can be determined or the matter is ultimately resolved.

As part of its response to this issue, the Company has announced the Loblaw Card Program pursuant to which the Company is offering a $25 Loblaw Card to eligible customers. The Loblaw Card can be used to purchase items sold in Loblaw grocery stores across Canada. The Company has recorded a charge of $107 million in relation to the Loblaw Card Program in the fourth quarter of 2017. The Company expects that Loblaw Cards issued to customers will be an offset against civil liability. The charge recorded for the Loblaw Card Program should not be viewed as an estimate of damages.

As a result of admission of participation in the arrangement and cooperation in the Competition Bureau's investigation, the Company and Weston will not face criminal charges or penalties.

Indemnification Provisions The Company from time to time enters into agreements in the normal course of its business, such as service and outsourcing arrangements, lease agreements in connection with business or asset acquisitions or dispositions, and other types of commercial agreements. These agreements by their nature may provide for indemnification of counterparties. These indemnification provisions may be in connection with breaches of representations and warranties or in respect of future claims for certain liabilities, including liabilities related to tax and environmental matters. The terms of these indemnification provisions vary in duration and may extend for an unlimited period of time. In addition, the terms of these indemnification provisions vary in amount and certain indemnification provisions do not provide for a maximum potential indemnification amount. Indemnity amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. As a result, the Company is unable to reasonably estimate its total maximum potential liability in respect of indemnification provisions. Historically, the Company has not made any significant payments in connection with these indemnification provisions.

Note 32. Financial Guarantees

The Company established letters of credit used in connection with certain obligations mainly related to real estate transactions, benefit programs, purchase orders and guarantees with a gross potential liability of approximately $342 million as at December 30, 2017 (December 31, 2016 – $329 million). In addition, the Company has provided to third parties the following significant guarantees:

Associate Guarantees The Company has arranged for its Associates to obtain financing to facilitate their inventory purchases and fund their working capital requirements by providing guarantees to various Canadian chartered banks that support Associate loans. As at December 30, 2017, the Company's maximum obligation in respect of such guarantees was $580 million (December 31, 2016 – $580 million) with an aggregate amount of $509 million (December 31, 2016 – $488 million) in available lines of credit allocated to the Associates by the various banks. As at December 30, 2017, Associates had drawn an aggregate amount of $110 million (December 31, 2016 – $115 million) against these available lines of credit. Any amounts drawn by the Associates are included in bank indebtedness on the Company's consolidated balance sheets. As recourse in the event that any payments are made under the guarantees, the Company holds a first-ranking security interest on all assets of Associates, subject to certain prior-ranking statutory claims.

Independent Funding Trusts The full balance relating to the debt of the independent funding trusts has been consolidated on the balance sheet of the Company (see note 21). As at December 30, 2017 the Company has agreed to provide a credit enhancement of $64 million (December 31, 2016 – $64 million) in the form of a standby letter of credit for the benefit of the independent funding trusts representing not less than 10% (2016 – 10%) of the principal amount of loans outstanding. This credit enhancement allows the independent funding trusts to provide financing to the Company's franchisees. As well, each franchisee provides security to the independent funding trusts for its obligations by way of a general security agreement. In the event that a franchisee defaults on its loan and the Company has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trusts would assign the loan to the Company and draw upon this standby letter of credit. This standby letter of credit has never been drawn upon. The Company has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

Lease Obligations In connection with historical dispositions of certain of its assets, the Company has assigned leases to third parties. The Company remains contingently liable for these lease obligations in the event any of the assignees are in default of their lease obligations. The minimum rent, which does not include other lease related expenses such as property tax and common area maintenance charges, is in aggregate, approximately $15 million (December 31, 2016 – $16 million). Additionally, the Company has guaranteed lease obligations of a third party distributor in the amount of $3 million (December 31, 2016 – $6 million).

Glenhuron Bank Limited Surety Bond In connection with the CRA's reassessment of the Company on certain income earned by Glenhuron (see note 31), the Company arranged for a surety bond of $149 million (2016 – $141 million) to the Ministry of Finance in order to dispute the reassessments.

Cash Collateralization As at December 30, 2017, the Company had agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of $102 million (December 31, 2016 – $103 million), of which $3 million (December 31, 2016 – $4 million) was deposited with major financial institutions and classified as security deposits, which is included in other assets.

Financial Services The Company has provided a guarantee on behalf of PC Bank to MasterCard® International Incorporated ("MasterCard®") for accepting PC Bank as a card member and licensee of MasterCard®. As at December 30, 2017, the guarantee on behalf of PC Bank to MasterCard® was USD $190 million (December 31, 2016 – USD $190 million).

The Company had in place an irrevocable standby letter of credit from a major Canadian chartered bank on behalf of one of its wholly-owned subsidiaries in the amount of $76 million (December 31, 2016 – $11 million).

Letters of credit for the benefit of independent securitization trusts with respect to the securitization programs of PC Bank have been issued by major financial institutions. These standby letters of credit can be drawn upon in the event of a major decline in the income flow from or in the value of the securitized credit card receivables. The Company has agreed to reimburse the issuing banks for any amount drawn on the standby letters of credit. The aggregate gross potential liability under these arrangements for the Other Independent Securitization Trusts was $62 million (December 31, 2016 – $71 million), which represented approximately 10% (2016 – 11%) of the securitized credit card receivables amount (see note 11). As at December 30, 2017, the aggregate gross potential liability under these arrangements for *Eagle* was $36 million (December 31, 2016 – $36 million), which represented approximately 9% (2016 – 9%) of the outstanding *Eagle* notes issued prior to 2015 (see note 21).

Choice Properties Choice Properties issues letters of credit to support guarantees related to its investment properties including maintenance and development obligations to municipal authorities. As at December 30, 2017, the aggregate gross potential liability related to these letters of credit totaled $33 million (December 31, 2016 – $31 million).

The Choice Properties Credit Facilities and Choice Properties debentures are guaranteed by each of the General Partner, the Partnership and any other person that becomes a subsidiary of Choice Properties (with certain exceptions). In the case of default by Choice Properties, the Indenture Trustee will be entitled to seek redress from the Guarantors for the guaranteed obligations in the same manner and upon the same terms that it may seek to enforce the obligations of Choice Properties. These guarantees are intended to eliminate structural subordination, which would otherwise arise as a consequence of Choice Properties' assets being primarily held in its various subsidiaries.

Note 33. Related Party Transactions

The Company's controlling shareholder is Weston, which owns, directly and indirectly, 187,815,136 of the Company's common shares, representing approximately 48.6% of the Company's outstanding common shares. Mr. W. Galen Weston controls Weston, directly and indirectly through private companies that he controls, including Wittington, which owns a total of 80,773,740 of Weston's common shares, representing approximately 63.0% of Weston's outstanding common shares. Mr. Weston also beneficially owns 5,096,189 of the Company's common shares, representing approximately 1.0% of the Company's outstanding common shares. The Company's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions.

Transactions with Related Parties:

	Transaction Value	
(millions of Canadian dollars)	**2017**	2016
Included in Cost of Merchandise Inventories Sold		
Inventory purchases from a subsidiary of Weston	**$ 652**	$ 654
Inventory sold to a subsidiary of Weston	**2**	—
Inventory purchases from a related party(i)	**28**	28
Operating Income		
Cost sharing agreements with Parent(ii)	**$ 35**	$ 35
Net administrative services provided by Parent(iii)	**23**	21
Choice Properties distributions to Parent(iv)	**18**	16
Lease of office space from a subsidiary of Wittington	**4**	3
Lease of office space to a subsidiary of Wittington	**2**	—

(i) Associated British Foods plc is a related party by virtue of Mr. W. Galen Weston being a director of such entity's parent company. Total balance outstanding owing to Associated British Foods plc as at December 30, 2017 was $6 million (December 31, 2016 – $5 million).

(ii) Weston and the Company have each entered into certain contracts with third parties for administrative and corporate services, including telecommunication services and IT related matters on behalf of itself and the related party. Through cost sharing agreements that have been established between the Company and Weston concerning these costs, the Company has agreed to be responsible to Weston for the Company's proportionate share of the total costs incurred.

(iii) The Company and Weston have entered into an agreement whereby certain administrative services are provided by one party to the other. The services to be provided under this agreement include those related to commodity management, pension and benefits, tax, medical, travel, information systems, risk management, treasury, certain accounting and control functions and legal. Payments are made quarterly based on the actual costs of providing these services. Where services are provided on a joint basis for the benefit of the Company and Weston together, each party pays the appropriate proportion of the costs. Fees paid under this agreement are reviewed each year by the Audit Committee.

(iv) Weston is a unitholder of Choice Properties and is entitled to receive distributions declared by the trust. Unitholders who elect to participate in the Choice Properties Distribution Reinvestment Plan ("DRIP") receive a further distribution, payable in Units, equal in value to 3% of each cash distribution. In 2017, Choice Properties issued 1,359,193 Units (2016 – 1,265,160 Units) to Weston under its DRIP at a weighted average price of $13.17 (2016 – $12.63) per Unit.

The net balances due to Weston are comprised as follows:

(millions of Canadian dollars)	As at December 30, 2017	As at December 31, 2016
Trade payables and other liabilities	**$ 48**	$ 44

Joint Venture In 2014, a joint venture, formed between Choice Properties and Wittington, completed the acquisition of property from Loblaw. The joint venture intends to develop the acquired site into a mixed-used property, anchored by a Loblaw food store. As at December 30, 2017, the joint venture did not have any operating activity. Choice Properties uses the equity method of accounting to record its 40% interest in the joint venture, which is included in other assets (see note 18).

Operating Lease Choice Properties entered into a ten-year lease for office space with GWL's parent company that commenced in 2014. Lease payments will total $3 million over the term of the lease. Effective January 1, 2018, Choice Properties entered into a lease for additional office space, with a subsidiary of GWL, with a term effective until the end of the existing lease in 2024. Over the term of the lease, lease payments will total $1 million.

Post-Employment Benefit Plans The Company sponsors a number of post-employment plans, which are related parties. Contributions made by the Company to these plans are disclosed in note 25.

Income Tax Matters From time to time, the Company, Weston and its affiliates may enter into agreements to make elections that are permitted or required under applicable income tax legislation with respect to affiliated corporations.

Key Management Personnel The Company's key management personnel are comprised of the Board and certain members of the executive team of the Company, as well as both the Board and certain members of the executive team of Weston and Wittington to the extent that they have the authority and responsibility for planning, directing and controlling the day-to-day activities of the Company.

Compensation of Key Management Personnel Annual compensation of key management personnel that is directly attributable to the Company was as follows:

(millions of Canadian dollars)	2017	2016
Salaries, director fees and other short term employee benefits	**$ 6**	$ 4
Equity-based compensation	**9**	6
Total compensation	**$ 15**	$ 10

Note 34. Segment Information

The Company has three reportable operating segments with all material operations carried out in Canada:

- The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores, and includes in-store pharmacies and other health and beauty products and apparel and other general merchandise and provides the *PC Optimum* program. This segment is comprised of several operating segments that are aggregated primarily due to similarities in the nature of products and services offered for sale in the retail operations and the customer base. Prior to July 17, 2017, the Retail segment also included gas bar operations;
- The Financial Services segment provides credit card services, the *PC Optimum* program, insurance brokerage services, deposit taking services and telecommunication services. As a result of the wind-down of PC Financial banking services, the Financial Services segment no longer offers personal banking services; and
- The Choice Properties segment owns, manages and develops well located retail and commercial properties across Canada. The Choice Properties segment information presented below reflects the accounting policies of Choice Properties, which may differ from those of the consolidated Company. Differences in policies are eliminated in Consolidation and Eliminations.

The Company's chief operating decision maker evaluates segment performance on the basis of adjusted EBITDA(2) and adjusted operating income(2), as reported to internal management, on a periodic basis.

Information for each reportable operating segment is included below:

				December 30, 2017 (52 weeks)						December 31, 2016 (52 weeks)
(millions of Canadian dollars)	**Retail**	**Financial Services**	**Choice Properties**	**Consolidation & Eliminations(i)**	**Total**	Retail	Financial Services	Choice Properties	Consolidation & Eliminations(i)	Total
Revenue(ii)	**$ 45,634**	**$ 956**	**$ 830**	**$ (718)**	**$ 46,702**	$ 45,384	$ 911	$ 784	$ (694)	$ 46,385
Operating Income	$ 2,248	$ 209	$ 756	$ (719)	$ 2,494	$ 1,902	$ 175	$ 677	$ (662)	$ 2,092
Net interest expense and other financing charges	318	56	351	(200)	525	332	51	900	(630)	653
Earnings before Income Taxes	**$ 1,930**	**$ 153**	**$ 405**	**$ (519)**	**$ 1,969**	$ 1,570	$ 124	$ (223)	$ (32)	$ 1,439
Operating Income	**$ 2,248**	**$ 209**	**$ 756**	**$ (719)**	**$ 2,494**	$ 1,902	$ 175	$ 677	$ (662)	$ 2,092
Depreciation and Amortization	1,534	10	1	23	1,568	1,512	13	1	17	1,543
Adjusting items(iii)	578	(24)	—	—	554	752	—	—	—	752
Less: amortization of intangible assets acquired with Shoppers Drug Mart	(524)	—	—	—	(524)	(535)	—	—	—	(535)
Adjusted EBITDA(iii)	$ 3,836	$ 195	$ 757	$ (696)	$ 4,092	$ 3,631	$ 188	$ 678	$ (645)	$ 3,852
Depreciation and Amortization(iv)	1,010	10	1	23	1,044	977	13	1	17	1,008
Adjusted Operating Income	**$ 2,826**	**$ 185**	**$ 756**	**$ (719)**	**$ 3,048**	$ 2,654	$ 175	$ 677	$ (662)	$ 2,844

(i) Consolidation and Eliminations includes the following items:

- Revenue includes the elimination of $529 million (2016 – $520 million) of rental revenue, $183 million (2016 – $174 million) of cost recovery, and $6 million (2016 - nil) of lease surrender which includes $1 million (2016 - nil) attributable to non-controlling interest, recognized by Choice Properties generated from the Retail Segment.
- Adjusted operating income includes the elimination of the $529 million (2016 – $520 million) of rental revenue described above; lease surrender revenue of $5 million (2016 - nil) excluding the impact of above described non-controlling interest; the elimination of a $160 million gain (2016 – $109 million gain) recognized by Choice Properties related to the fair value adjustments on investment properties, which are classified as Fixed Assets or Investment Properties by the Company and measured at cost; the elimination of a $1 million loss (2016 – $14 million gain) recognized by Choice Properties related to the fair value adjustments on investment properties in the joint venture; the recognition of $1 million gain (2016 - nil) on disposal of asset, which are classified as Fixed Assets or Investment Properties by the Company and measured at cost; the recognition of $23 million (2016 – $17 million) of depreciation expense for certain investment properties recorded by Choice Properties; and the elimination of intercompany charges of $4 million (2016 – $2 million).
- Net interest expense and other financing charges includes the elimination of $282 million (2016 – $267 million) of interest expense included in Choice Properties related to debt owing to the Company and a $38 million fair value gain (2016 – loss of $530 million) recognized by Choice Properties on Class B Limited Partnership units held by the Company. Net interest and other financing charges also includes Unit distributions to external unitholders of $54 million (2016 – $49 million), which excludes distributions paid to the Company and a $10 million fair value gain (2016 – loss of $118 million) on the Company's Trust Unit Liability.

(ii) Included in Financial Services revenue is $393 million (2016 – $383 million) of interest income.

(iii) Certain items are excluded from operating income to derive adjusted EBITDA(2). Adjusted EBITDA(2) is used internally by management when analyzing segment underlying performance.

(iv) Depreciation and amortization for the calculation of adjusted EBITDA(2) excludes $524 million (2016 – $535 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

(millions of Canadian dollars)	As at December 30, 2017	As at December 31, 2016
Total Assets		
Retail	**$ 30,192**	$ 30,055
Financial Services	**3,837**	3,531
Choice Properties	**9,924**	9,435
Consolidation and Eliminations(i)	**(8,847)**	(8,585)
Total	**$ 35,106**	$ 34,436

(i) Consolidation and Eliminations includes the elimination of certain investment properties held by Choice Properties measured at fair value, which are presented in the consolidated results as fixed assets and investment properties measured at cost.

(millions of Canadian dollars)	2017	2016
Additions to Fixed Assets and Intangible Assets		
Retail	**$ 985**	$ 985
Financial Services	**41**	11
Choice Properties	**274**	377
Consolidation and Eliminations(i)	**(41)**	(149)
Total	**$ 1,259**	$ 1,224

(i) Consolidation and Eliminations includes the elimination of certain investment properties held by Choice Properties from the Retail segment.

Note 35. Subsequent Events

On February 15, 2018, Choice Properties entered into an agreement to acquire all of the assets and assume all of the liabilities, including long-term debt and all residual liabilities of Canadian Real Estate Investment Trust ("CREIT"). CREIT will then redeem all of its outstanding units for $22.50 in cash plus 2.4904 Choice Properties units per CREIT unit, on a fully prorated basis. Using the Choice Properties closing unit price on February 14, 2018 of $12.49, this represents $53.61 per CREIT unit. The maximum amount of cash to be paid by Choice Properties will be approximately $1.65 billion and approximately 183 million units will be issued, based on the fully diluted number of CREIT units outstanding.

Choice Properties will finance the cash portion of the transaction with committed credit facilities totaling $3.6 billion. These committed facilities consist of an $850 million bridge facility that Choice Properties intends to refinance through the issuance of senior unsecured debentures and a $1.25 billion term loan. The term loan is structured in tranches maturing in 3, 4 and 5 years. Choice Properties will consider hedging the term loan to manage floating interest rate exposure. Choice Properties has also arranged a new $1.5 billion committed revolving credit facility, that will replace its and CREIT's existing credit facilities ensuring that Choice Properties will have maximum flexibility to support ongoing growth prospects, including acquisitions and development.

The Company, Choice Properties' controlling unitholder, has entered into a voting agreement in support of the transaction. To facilitate Choice Properties' financing for the transaction, the Company has agreed to convert all of its outstanding Class C Limited Partnership units of Choice Properties Limited Partnership with a face value of $925 million into Class B LP units of Choice Properties Limited Partnership on closing. Following the transaction, Loblaw will own approximately 62% of Choice Properties.

The transaction is anticipated to close in the second quarter of 2018. The transaction will require the approval of at least 66 2/3% of the votes cast by unitholders of CREIT at a special meeting expected to take place in April 2018. In addition to CREIT unitholder approval and court approvals, the transaction is subject to compliance with the Competition Act and certain other closing conditions customary in transactions of this nature.

Three Year Summary[1]

For the years ended December 30, 2017 and December 31, 2016 and January 2, 2016 (millions of Canadian dollars except where otherwise indicated)	2017	2016	2015
Consolidated Results of Operations			
Revenue	**$ 46,702**	$ 46,385	$ 45,394
Revenue growth	**0.7%**	2.2%	6.5%
Revenue growth excluding 53rd week in 2014	**0.7%**	2.2%	8.5%
Operating Income	**$ 2,494**	$ 2,092	$ 1,601
Adjusted EBITDA[2]	**4,092**	3,852	3,549
Adjusted EBITDA margin[2]	**8.8%**	8.3%	7.8%
Net interest expense and other financing charges	**$ 525**	$ 653	$ 644
Adjusted net interest expense and other financing charges[2]	**535**	535	548
Net earnings	**1,526**	990	589
Net earnings attributable to shareholders of the Company	**1,502**	983	598
Net earnings available to common shareholders of the Company	**1,490**	971	591
Adjusted net earnings available to common shareholders of the Company[2]	**1,799**	1,655	1,422
Consolidated Per Common Share ($)			
Diluted net earnings	**$ 3.75**	$ 2.37	$ 1.42
Adjusted diluted net earnings[2]	**$ 4.53**	$ 4.05	$ 3.42
Dividends			
Dividends declared per common share ($)	**$ 1.07**	$ 1.03	$ 0.995
Consolidated Financial Position and Cash Flows			
Cash and cash equivalents and short term investments	**$ 2,344**	$ 1,555	$ 1,082
Cash flows from operating activities	**3,209**	3,519	3,079
Capital investments	**1,259**	1,224	1,241
Free cash flow[2]	**1,479**	1,821	1,347
Financial Measures			
Retail debt to retail adjusted EBITDA[2]	**1.6x**	1.7x	2.0x
Adjusted return on equity[2]	**14.1%**	12.9%	11.1%
Adjusted return on capital[2]	**9.7%**	8.8%	7.6%

Three Year Summary[1]

For the years ended December 30, 2017 and December 31, 2016 and January 2, 2016 (millions of Canadian dollars except where otherwise indicated)		2017		2016		2015
Retail Results of Operations						
Sales	**$**	**45,634**	$	45,384	$	44,469
Operating Income		**2,248**		1,902		1,429
Adjusted gross profit[2]		**12,820**		12,262		11,747
Adjusted gross profit %[2]		**28.1%**		27.0%		26.4%
Adjusted EBITDA[2]	**$**	**3,836**	$	3,631	$	3,352
Adjusted EBITDA margin[2]		**8.4%**		8.0%		7.5%
Depreciation and amortization	**$**	**1,534**	$	1,512	$	1,567
Retail Operating Statistics						
Food retail same-store sales growth		**0.6%**		1.1%		1.9%
Drug retail same-store sales growth		**3.0%**		4.0%		4.3%
Drug retail same-store pharmacy sales growth		**3.1%**		2.9%		3.7%
Drug retail same-store front store sales growth		**2.9%**		5.0%		4.7%
Total retail square footage (in millions)		**70.3**		70.2		69.9
Number of corporate stores		**559**		565		591
Number of franchise stores		**534**		533		525
Number of Associate-owned drug stores		**1,334**		1,326		1,313
Financial Services Results of Operations						
Revenue	**$**	**956**	$	911	$	849
Earnings before income taxes		**153**		124		106
Financial Services Operating Measures and Statistics						
Average quarterly net credit card receivables	**$**	**2,908**	$	2,769	$	2,642
Credit card receivables		**3,100**		2,926		2,790
Allowance for credit card receivables		**47**		52		54
Annualized yield on average quarterly gross credit card receivables		**13.2%**		13.5%		13.6%
Annualized credit loss rate on average quarterly gross credit card receivables		**3.7%**		4.3%		4.3%
Choice Properties Results of Operations and Measures						
Revenue	**$**	**830**	$	784	$	743
Net interest expense and other financing charges		**351**		900		756
Net Income (loss)		**405**		(223)		(155)
Funds from operations[2]		**443**		410		389

Financial Results and Financial Summary Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 127 of the Company's 2017 Annual Report.

(2) See Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis for the reconciliation of such non-GAAP measures to the most directly comparable GAAP measures.