2011 ANNUAL REPORT

Loblaw
COMPANIES LIMITED

TABLE OF CONTENTS

2 Financial Highlights
4 Message to Shareholders
6 Review of Operations
14 Corporate Social Responsibility
16 Corporate Governance Practices
18 Board of Directors
19 Loblaw Management Board
20 Shareholder and Corporate Information

Loblaw's mission is to be Canada's best food, health and home retailer by exceeding customer expectations through innovative products at great prices.

Unfold for **Loblaw at a Glance**

Loblaw Companies Limited is Canada’s largest food retailer and a leading provider of drugstore, general merchandise and financial products and services.

Over 14 million Canadians shop with us every week.

Loblaw at a Glance

At Loblaw providing an exceptional shopping experience starts with understanding our customers’ needs. Our two-division structure supports a deeper understanding of different customers and dedicated expertise that help us deliver the right products, to the right place, at the right time and at prices that our customers expect to pay whether in our conventional supermarkets or discount grocery stores. Whether conventional or discount, we have large and small, corporate and franchise stores across the country to help us meet the specific needs of our customers.

22 banners across the country

23 Company and 11 third-party-operated distribution centres service our stores

584 corporate and 462 franchised stores coast to coast

Control Brand Advantage

Loblaw offers customers high-quality products and great value through Canada's most respected control label program with famous brands including *President's Choice*, *no name* and *Joe Fresh*. The Company also offers Canadians innovative financial products and services under the *President's Choice Financial* brand, including *President's Choice Financial* MasterCard® and the *PC* points loyalty program.

#1 & #2

Our *President's Choice* and *no name* control brands are the number one and number two consumer packaged goods brands by sales in Canada, respectively.*

**source: AC Nielsen MarketTracker, 52 weeks ending December 17, 2011*

CONVENTIONAL

CORPORATE

FRANCHISED

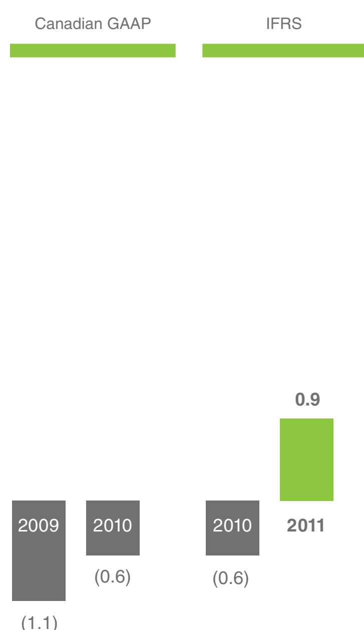
DISCOUNT

CORPORATE

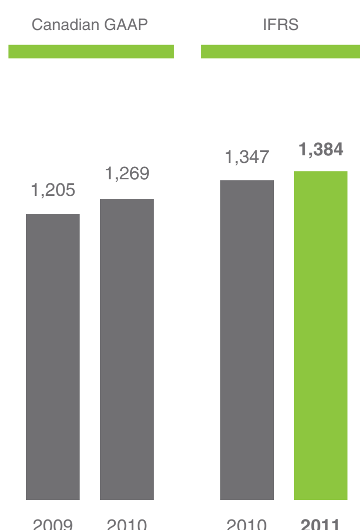
FRANCHISED

Financial Highlights[1]

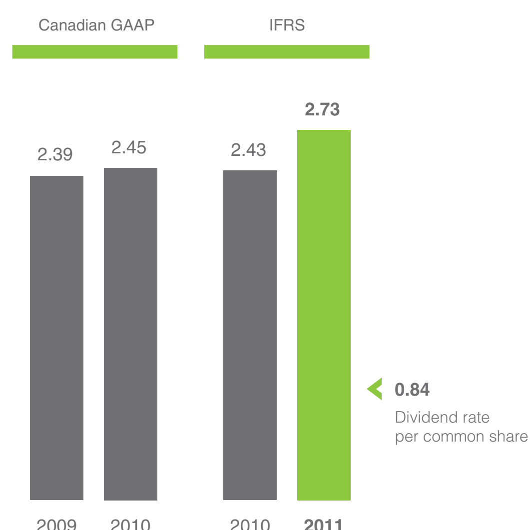
Same-store sales (decline) growth (%)



Operating income ($ millions)



Basic net earnings per share and dividend rate per common share ($)



FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements about Loblaw Companies Limited's (the "Company") objectives, plans, goals, aspirations, strategies, financial condition, obligations, results of operations, cash flows, performance, prospects and opportunities. Words such as "anticipate", "expect", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may" and "should" and similar expressions, as they relate to the Company and its management, are intended to identify forward-looking statements. These forward-looking statements are not historical facts but reflect the Company's current expectations concerning future results and events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including the possibility that the Company's plans and objectives will not be achieved. These risks and uncertainties include, but are not limited to, those discussed in the forward-looking statements disclaimer found on pages 2 to 3 of the 2011 Annual Report – Financial Review, and the Enterprise Risks and Risk Management section of the Management's Discussion and Analysis on pages 22 to 31 of the 2011 Annual Report – Financial Review. These forward-looking statements reflect management's current assumptions regarding these risks and uncertainties and their respective impact on the Company. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this Annual Report. The Company disclaims any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

For the years ended December 31, 2011, January 1, 2011 and January 2, 2010 ($ millions except where otherwise indicated)	Canadian GAAP		IFRS	
	2009[4] (52 weeks)	2010[4] (52 weeks)	2010 (52 weeks)	**2011** (52 weeks)
Consolidated Results of Operations				
Revenue	$ 30,735	$ 30,997	$ 30,836	**$ 31,250**
Operating income	1,205	1,269	1,347	**1,384**
EBITDA[2]	1,794	1,924	1,975	**2,083**
Net interest and other financing charges	269	273	353	**327**
Net earnings	656	681	675	**769**
Consolidated Financial Position				
Adjusted debt[2]	n/a	n/a	5,064	**4,765**
Adjusted net debt[2]	n/a	n/a	2,912	**2,642**
Consolidated Cash Flow				
Cash flows from operating activities	1,945	1,594	2,029	**1,814**
Capital investment	1,067	1,280	1,190	**987**
Consolidated Per Common Share ($)				
Basic net earnings	2.39	2.45	2.43	**2.73**
Dividend rate at year end	0.84	0.84	0.84	**0.84**
Book value	22.71	24.52	19.97	**21.35**
Market price at year end	33.88	40.37	40.37	**38.48**
Consolidated Financial Measures and Ratios				
Operating margin (%)	3.9	4.1	4.4	**4.4**
EBITDA margin[2] (%)	5.8	6.2	6.4	**6.7**
Adjusted debt[2] to EBITDA[2]	n/a	n/a	2.6x	**2.3x**
Adjusted debt[2] to equity[2]	n/a	n/a	0.9:1	**0.8:1**
Interest coverage[1]	4.2x	4.3x	3.8x	**4.2x**
Return on average net assets[2] (%)	12.0	12.4	12.0	**12.0**
Return on average shareholders' equity (%)	10.9	10.4	12.6	**13.2**
Retail Operating Statistics				
Same-store sales (decline) growth	(1.1)	(0.6)	(0.6)	**0.9**
Gross profit percentage (%)	n/a	n/a	22.4	**22.2**
Operating margin (%)	n/a	n/a	4.1	**4.3**
Retail square footage (in millions)	50.6	50.7	50.7	**51.2**
Corporate square footage (in millions)	38.2	37.3	37.3	**37.5**
Franchise square footage (in millions)	12.4	13.4	13.4	**13.7**
Corporate stores sales per average square foot ($)	597	601	601	**610**
Number of corporate stores	613	576	576	**584**
Number of franchised stores	416	451	451	**462**
Percentage of corporate real estate owned (%)	72	74	74	**72**
Percentage of franchise real estate owned (%)	48	46	46	**46**

[1] For financial definitions and ratios refer to the Glossary of Terms on page 120 of the 2011 Annual Report – Financial Review.

[2] See Non-GAAP Financial Measures on page 38 of the 2011 Annual Report – Financial Review.

[3] As compared to 2009 figures reported in Canadian GAAP.

[4] An explanation of transition from CGAAP to IFRS is provided in note 31 of the 2011 Annual Report – Financial Review.

Shareholders,

In 2011, we continued on our relentless journey to build a company with a compelling customer offer, world class real estate and infrastructure assets, talented leadership, unique brands, and a strong balance sheet. While we maintained the pace of critical work to fix the foundation and infrastructure of our business, we also further strengthened our customer proposition through improved retail execution, operating efficiency and product innovation.

GALEN G. WESTON
Executive Chairman

An important milestone in the year was the arrival of Vicente Trius, who joined Loblaw Companies as our new President in August. Vicente is a seasoned executive with extensive experience operating successful global retail businesses. At Loblaw, he now leads a business organized around two core operating divisions put in place to more effectively serve the distinctive conventional and discount customers. Vicente and his new teams are now settled into their positions and gaining traction.

In terms of infrastructure, in 2011, we substantially completed our supply chain renewal initiative. After five years, eight new and 11 closed distribution centres, and a comprehensive overhaul of our supply chain systems, we are now consistently delivering industry-leading service levels, with substantially higher levels of efficiency. The Company's real estate renewal program continued throughout the year, with 78 major store renovations and 22 new store openings. This included three new full service conventional stores that each set a new standard for grocery shopping in Canada.

Our new flagship *Loblaws* store at Maple Leaf Gardens® delivers on our commitment to build the world's best supermarket by re-imagining the large urban grocery store, while recognizing both the historical significance of the site and the diversity of the neighbourhoods surrounding it. This store is our blueprint for the next generation of conventional urban grocery stores – both a neighbourhood store for a hot meal pick-up and a one-stop destination for a regular pantry load.

As we continue to build on established strengths, Loblaw brands saw another strong year in 2011, with total sales growth outperforming the market. Not only are we home to the #1 and #2 consumer brands in Canada, but Canadians also rank *President's Choice* as one of the three most influential brands in the country, the only Canadian brand to achieve that distinction. We are proud to see *President's Choice* alongside global brands that are widely recognized as leading-edge, trustworthy, relevant and engaging – brands that also command a presence and are socially responsible. In keeping with that identity, we launched a new line of *PC* black label products created to delight the adventurous foodie with products that either 'taste better than anything they have ever tasted before', or 'are like nothing they have ever tasted before'.

The *Joe Fresh* brand, now firmly established in the hearts and minds of Canadians, continues to gain momentum, with the opening of eight more free-standing stores in Canada and five new locations in the US in 2011.

During the year, as part of our information technology (IT) systems renewal initiative, we migrated all merchandising product category listings to our new system without any major disruption to the business. We remain on track and on schedule to complete one of the largest ever IT systems implementations undertaken in the food retail industry.

In terms of financial performance, Loblaw delivered four more quarters of year-over-year EBITDA growth, bringing us to 16 consecutive quarters by year end, despite the significant incremental impact of our infrastructure investments. Revenue in 2011 grew by 1.3%, earnings improved by 13.9% and our balance sheet remained strong, with adjusted net debt of $2.6 billion down $270 million from last year.

For 2012, Vicente and our leadership team are committed to consolidating and extending our strong position in food, taking advantage of the upgraded infrastructure to make the business more efficient, driving non-food as a source of competitive advantage, nurturing a relationship with colleagues that turns customer service into a point of difference and seeking innovative avenues for incremental growth. At the same time, our IT system implementation remains our biggest execution risk and a primary focus of management.

With the national and global economic outlook uncertain and unstable for the foreseeable future, the Canadian retail environment remains intensely competitive and consumers continue to demand more for their grocery dollars. While there are certainly challenges and obstacles ahead, the combination of sound long-term investments, our dedicated, capable talent, and compelling inherent strengths keep Loblaw Companies positioned to win.

GALEN G. WESTON
Executive Chairman

With a combined experience of over 120 years, our 14 in-house chefs daily create wholesome meals with fresh ingredients for our customers.

With 260 types of fresh fruits and vegetables, Maple Leaf Gardens® *Loblaws* has the best organic selection. Along with our vitamin wall and in-store dietician, we're helping our customers with living life well.

Our newest addition since 2005, *PC* black label has over 200 fine-food products that either 'taste better than anything you have ever tasted before' or 'are like nothing you have ever tasted before'.

KEVIN CRAFTER
Maple Leaf Gardens Loblaws
Toronto, ON

Kevin is a 21-year veteran of Loblaw and our in-house cheese specialist for *Loblaws* at Maple Leaf Gardens®. He enjoys helping our customers navigate through our 18-foot cheese wall to pick from over 400 cheese varieties.

Our new flagship store, *Loblaws* at Maple Leaf Gardens®, re-imagines the large urban supermarket, recognizing the historical significance of the site and the neighbourhoods that surround it.

A trip to the grocery store should be a shopping experience highlighted by tastes, choices, value and service. Every one of our stores is committed to offering the right assortment of fresh, tasty food at competitive prices and with exceptional service in every department. From our distribution centres to our check-out service, Loblaw colleagues strive to exceed our customers' expectations.

It starts with understanding specific customer needs, whether those customers shop in conventional supermarkets or discount grocery stores. Our new two-division structure supports a deeper understanding of different customers and dedicated expertise that help us deliver the right products, to the right place, at the right time and at prices that our customers expect to pay.

Our *no frills* stores alone sold almost 56 million kilograms of produce – our fresh produce drives greater sales, leading to ever fresher produce for our customers.

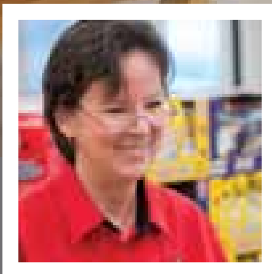
Our Woodstock *no frills* is Canada's 200th *no frills* store. Today, the yellow and black banner is a familiar sight in eight provinces.

Our global sourcing activities are reaching farther to find a broader assortment of products and taste experiences from around the world that reflect Canada's cultural mosaic. Customers enjoy the benefit of local seasonal produce, together with a wide range of high-quality international and ethnic food options.

In our own brands, we continue to innovate and lead the market in the introduction of new products, formulations and packaging. Our customers have made *President's Choice* and *no name* products a regular part of their weekly shopping spend, helping these to become two of Canada's best-known brands. This year, the introduction of *PC* black label took innovation to a new level with a collection of exceptional artisanal foods and condiments. Our *PC Blue Menu* and peanut-free products continue to provide families a greater selection of healthy and safe food choices – just part of our strategy to support the health and well-being of our customers with health-conscious options in a variety of product categories.

Loblaw's commitment to customers encompasses their entire shopping experience. Customers are at the centre of every decision we make, and our success is measured by their satisfaction. When they visit one of our stores, customers know to expect a wide assortment of products, a consistent shopping experience, competitive pricing and quality control brands. We work to consistently exceed their expectations and keep them coming back.

Through our *no frills Won't Be Beat* program, if our customers find a cheaper price, they simply show us and we will match it.



PATRICIA BRENNEMAN
Scott's no frills
Woodstock, ON

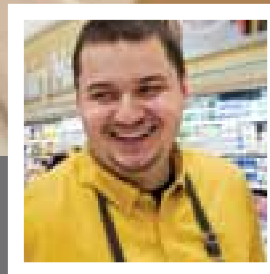
Patricia, a lifelong Woodstock local, is proud of how the community has embraced our Woodstock *no frills*. She's thrilled to be part of the 200th store milestone.

Our new systems will improve inventory accuracy and availability, reduce excess in-store inventory and keep costs down for our customers.

In the Canadian grocery business, the right combination of systems and processes is key to delivering fresh products at the lowest possible cost. The implementation of our information systems is expected to make relentless efficiency a reality, from our suppliers to our store shelves.

Our network of integrated systems includes procurement, transportation, warehousing and product replenishment on store shelves, giving us visibility over every product in our system. Our implementation to-date has helped ensure that we have the right inventory in strategically located distribution centres. As we move forward with a carefully managed roll-out to our stores, our network of systems is expected to begin working together in a fully integrated manner. This will help us provide our customers with the benefit of fresher produce, fewer out-of-stock items and improved service.

Our significant investment in systems designed to get the right products to the right stores at the right time is expected to elevate customer satisfaction and experience at our stores.

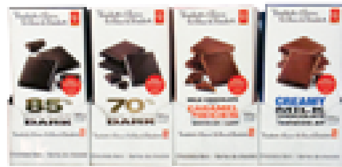


GEORGE MICHALOPOULOS
Appleby Fortinos
Burlington, ON

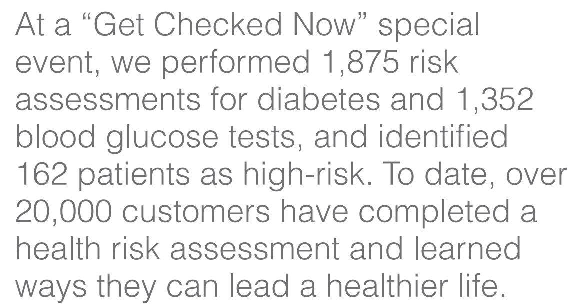
George is responsible for keeping the back room organized. New systems and fewer direct-to-store deliveries help make getting product on the shelves faster and more efficient.

We've saved time by eliminating 440,000 direct-to-store deliveries, which means our colleagues are able to spend less time accepting orders.

With 1.8 million retail-ready packaging cases delivered to our stores each week, product is ready for the shelves upon delivery.



At a "Get Checked Now" special event, we performed 1,875 risk assessments for diabetes and 1,352 blood glucose tests, and identified 162 patients as high-risk. To date, over 20,000 customers have completed a health risk assessment and learned ways they can lead a healthier life.



The *Joe Fresh* brand celebrates five years. Initially in just 40 stores, today *Joe Fresh* products are available in over 300 stores and 12 free-standing locations in Canada and five U.S. locations.

Building on the success of our brands, like *Joe Fresh*, our non-food offer make our stores a shopping destination for everything our customers need for apparel, family, home and health & wellness.

AMANDA LI
Glen Erin Loblaws
Mississauga, ON

Amanda is available in-store to help customers learn about healthier choices. Making a difference in the way people experience healthy eating is her passion.

Creating a total shopping experience for our customers includes offering non-food products and services that help to add value and convenience to their regular grocery shopping trip. Our strength in non-food categories continues to differentiate us from our competitors. Our strategy is to enhance offerings that are important to our customers, particularly health and wellness, and to become a community-centred, one-stop destination for food, products, services and information to support Canadian families' desire for healthy alternatives.

Together with the successful *Joe Fresh* apparel business, our revitalized home, leisure and beauty products, including new brands such as *Jogi* and *J+*, are helping our customers make the most of their shopping experience. Building on the successful model developed through the launch of the *Joe Fresh* brand, we will continue to explore new brands that respond directly to our customers' needs, offering them products they can trust and value they appreciate in the non-food categories they look for the most.

We see attractive growth opportunities for our *PC Financial* segment and continue to invest in this business to further enhance its portfolio of products and services. The results are attracting new value-conscious customers to the *President's Choice* brand, helping to build loyalty across our businesses. The variety and value in our non-food categories give our customers another reason to keep coming back to Loblaw.

We continue to increase the year-round offering of fresh Canadian-grown produce in all our stores. In 2011, that amounted to 30% of our total produce.

With the support of our customers, we have reduced 3.8 billion plastic shopping bags from our stores since 2007.

Loblaw has a long tradition of contributing to the communities in which it operates. For decades, we've been a community partner, helping to feed Canadians fresh and wholesome food, creating jobs, giving to community programs, sourcing products from local vendors and working to minimize our impact on the environment. Corporate Social Responsibility (CSR) is not new to us. In fact, it is the way we do business.

Our approach to CSR remains rooted in Loblaw's five pillars of corporate social responsibility – *Respect the Environment*, *Source with Integrity*, *Make a Positive Difference in Our Community*, *Reflect Our Nation's Diversity* and *Be a Great Place to Work*.

ENVIRONMENT

We continue to make strides in our waste reduction and energy conservation and energy efficiency programs across our operations.

Our new *Loblaws* store at Maple Leaf Gardens® features an advanced refrigeration system that uses a natural refrigerant, carbon dioxide (CO_2), with a carbon intensity 3,900 times less than the synthetic refrigerant used in our conventional stores. The carbon footprint of this new, state-of-the-art store is further reduced by using energy reclaimed from the refrigeration system to heat the underground parking garage.

PRESIDENT'S CHOICE CHILDREN'S CHARITY

President's Choice Children's Charity is committed to helping children across Canada live to their fullest potential by focusing on children with disabilities and childhood nutrition. To assist children with disabilities, the Charity granted $10.6 million to almost 1,900 families across the country. It also donated $2.75 million to fund nutrition programs across Canada to ensure children are provided with healthy meals to help fuel a better learning environment.

We launched and piloted *Guiding Stars*, a nutrition scorecard that guides consumers to healthy eating options with the use of a clear and simple rating system.

SOURCING

As the largest food retailer in the country, we take pride in supporting Canadian vendors and providing our customers with fresh, safe, quality products. Loblaw is committed to sourcing 100% of our beef and pork from Canadian vendors by year-end 2012 (excluding hard discount stores and sale items).

Protecting Canada's marine wildlife begins with sourcing seafood products in a responsible manner. In 2011, we added more than 50 new Marine Stewardship Council (MSC)-certified wild-caught seafood products to our stores while improving our processes for tracing the origin of the seafood we source.

Today, 100% of the food suppliers for Loblaw control brands are compliant with the Global Food Safety Initiative (GFSI) standards and we have introduced one of the industry's best systems for tracing the origin of ingredients in all of our control brand food products.

HEALTH AND WELLNESS

We feed more Canadians than any other grocery retailer in the country and with this comes a responsibility to help them make healthier food and lifestyle choices. To support our customers in this journey, we are raising awareness of diabetes and helping Canadians manage the disease. Our "Get Checked Now" program, developed in collaboration with the Canadian Diabetes Association (CDA), offers personalized, computerized diabetes risk assessments under the direction of a Loblaw pharmacist.

In 2011, we added in-store dietitians in 24 stores in Ontario. Dietitians offer menu planning advice, instructions in reading and understanding food and nutrition labels, health education, and cooking classes. They are also teaming up with in-store pharmacists and other health professionals to offer integrated health programs to help Canadians prevent and manage specific chronic conditions.

Corporate Governance Practices

The Board of Directors and senior executives of Loblaw Companies Limited are committed to sound corporate governance practices and believe they contribute to the effective management of the Corporation and its achievement of strategic and operational objectives.

The Governance Committee regularly reviews the Company's corporate governance practices and considers any changes necessary to maintain the Company's high standards of corporate governance in a rapidly changing environment. The Company's website, loblaw.ca, sets out additional governance information, including the Company's Code of Business Conduct (the "Code"), its Disclosure Policy and the Mandates of the Board of Directors (the "Board") and its committees.

Director Independence

The Canadian Securities Administrators' Corporate Governance Guidelines provide that a director is independent if he or she has no material relationship with the Company or its affiliates that could reasonably be expected to interfere with the exercise of the director's independent judgment.

The independent directors of the Board meet separately following each Board meeting and on other occasions as required or desirable. Additional information relating to the directors, including other public company boards on which they serve, as well as their attendance record for all Board and committee meetings, can be found in the Company's Management Proxy Circular.

Board Leadership

Galen G. Weston is the Executive Chairman of the Board and Vicente Trius is the President of the Company. The Board has established a position description, which sets out key responsibilities for each of the Executive Chairman and the President.

The Executive Chairman directs the operations of the Board. He chairs each meeting of the Board and is responsible for the management and effective functioning of the Board.

The Board has also appointed an independent director, Anthony S. Fell, to serve as lead director. The lead director provides leadership to the Board and particularly to the independent directors. He ensures that the Board operates independently of management and that directors have an independent leadership contact.

Board Responsibilities and Duties

The Board, directly and through its committees, supervises the management of the business and affairs of the Company. A copy of the Board's mandate can be found at loblaw.ca. The Board reviews the Company's strategic direction, assigns responsibility to management for achievement of that direction, develops and approves major policy decisions, delegates to management the authority and responsibility in day-to-day affairs, and reviews management's performance and effectiveness. The Board also oversees the enterprise risk management process. The Board's expectations of management are communicated to management directly and through committees of the Board.

The Board regularly receives reports on the operating results of the Company as well as reports on certain non-operational matters, including insurance, pensions, corporate governance, health and safety, and legal and treasury matters. The directors are also subject to the Code.

Ethical Business Conduct

The Code reflects the Company's long-standing commitment to high standards of ethical conduct and business practices. The Code is reviewed annually to ensure it is current and reflects best practices in the area of ethical business conduct. All directors, officers and employees of the Company are required to comply with the Code and must acknowledge their commitment to abide by the Code on a periodic basis.

The Company encourages the reporting of unethical behaviour and has established an Ethics Response Line, a toll-free number that any employee or director may use to report conduct which he or she feels violates the Code or otherwise constitutes fraudulent or unethical conduct. A fraud reporting protocol has also been implemented to ensure that fraud is reported to senior management in a timely manner. In addition, the Audit Committee has endorsed procedures for the anonymous receipt, retention and handling of complaints regarding accounting, internal control or auditing matters. These procedures are available at loblaw.ca.

Board Committees

The following is a brief summary of some of the responsibilities of each committee.

AUDIT COMMITTEE

The Audit Committee is responsible for supporting the Board in overseeing the quality and integrity of the Company's financial reporting and internal controls over financial reporting, disclosure controls, internal audit function and its compliance with legal and regulatory requirements.

GOVERNANCE, EMPLOYEE DEVELOPMENT, NOMINATING AND COMPENSATION COMMITTEE

The Governance Committee is responsible for the identification of new director nominees for the Board and for the oversight of compensation of directors and executive officers. The Governance Committee is also responsible for developing and maintaining governance practices consistent with high standards of corporate governance. The Board has appointed the Chair of the Governance Committee, who is an independent director, to serve as lead director.

PENSION COMMITTEE

The Pension Committee is responsible for reviewing the performance and overseeing the administration of the Company's pension plans and pension funds.

ENVIRONMENTAL, HEALTH AND SAFETY COMMITTEE

The Environmental, Health and Safety Committee is responsible for reviewing and monitoring environmental, food safety and workplace health and safety policies, procedures, practices and compliance.

EXECUTIVE COMMITTEE

The Executive Committee possesses all of the powers of the Board except the power to declare common dividends and certain other powers specifically reserved by applicable law to the Board. The Executive Committee acts only when it is not practicable for the full Board to meet.

Board of Directors

Our Board represents the interests of all Loblaw stakeholders. Through its oversight of the management of the Company and its affairs, the Board actively demonstrates Loblaw's commitment to the principles of transparency, accountability and sound corporate governance.

GALEN G. WESTON, B.A., M.B.A.[1*]
Executive Chairman, Loblaw Companies Limited; Former Senior Vice President, Loblaw Companies Limited; Director, Wittington Investments, Limited.

STEPHEN E. BACHAND, B.A., M.B.A.[3]
Corporate Director; Retired President and Chief Executive Officer, Canadian Tire Corporation, Limited; Director, Harris Financial Corp, a subsidiary of Bank of Montreal.

PAUL M. BEESTON, C.M., B.A., F.C.A.[2,3]
President and Chief Executive Officer of Toronto Blue Jays Baseball Team; Former President and Chief Executive Officer, Major League Baseball; Director, President's Choice Bank; Gluskin Sheff & Associates Inc.; Former Chairman, Centre for Addiction and Mental Health.

CHRISTIE J.B. CLARK, B. COMM., F.C.A.[2]
Corporate Director; Former Chief Executive Officer and Senior Partner, PricewaterhouseCoopers LLP; Director, Canadian Partnership Against Cancer Corporation, Conference Board of Canada.

GORDON A.M. CURRIE, B.A., LL.B.[4]
Executive Vice President and Chief Legal Officer of the Corporation and George Weston Limited; Former Senior Vice President and General Counsel, Direct Energy; Former Partner, Blake, Cassels & Graydon LLP.

ANTHONY S. FELL, O.C.[3*,4*]
Corporate Director; Former Chairman, RBC Capital Markets Inc.; Former Chairman and Chief Executive Officer, RBC Dominion Securities; Former Deputy Chairman, Royal Bank of Canada; Director, BCE Inc., CAE Inc.

CHRISTIANE GERMAIN, C.Q.[5]
Co-President, Chief Executive Officer and Co-Founder, Groupe Germain; Director, Gesca Limitée (a subsidiary of Power Corporation of Canada), Groupe Le Massif, The Banff Centre.

ANTHONY R. GRAHAM[1,3,4]
President and Director, Wittington Investments, Limited; President and Chief Executive Officer, Sumarria Inc.; Former Vice-Chairman and Director, National Bank Financial; Chairman and Director, President's Choice Bank; Director, George Weston Limited, Brown Thomas Group Limited, Graymont Limited, Holt, Renfrew & Co., Limited, Power Corporation of Canada, Power Financial Corporation, Selfridges & Co. Ltd., Grupo Calidra, de Bijenkorf B.V.

JOHN S. LACEY, B.A.
Chairman of the Advisory Board, Brookfield Special Situations Funds; Former President and Chief Executive Officer, the Oshawa Group (now part of Sobeys Inc.); Director, George Weston Limited, Telus Corporation, Ainsworth Lumber Co. Ltd.; Consultant to the Chairman of the Board of George Weston Limited.

NANCY H.O. LOCKHART, O. ONT.[3,5*]
Chief Administrative Officer, Frum Development Group; Former Vice President, Shoppers Drug Mart Corporation; Former Chair, Canadian Film Centre, Ontario Science Centre; Former President, Canadian Club of Toronto; Director, Centre for Addiction and Mental Health Foundation, The Canada Merit Scholarship Foundation.

THOMAS C. O'NEILL, B. COMM., F.C.A.[2*]
Corporate Director; Chairman, BCE Inc.; Retired Chairman, PricewaterhouseCoopers Consulting; Former Chief Executive Officer and Chief Operating Officer, PricewaterhouseCoopers LLP; Vice-Chair, St. Michael's Hospital; Director, Adecco S.A., Nexen Inc., BCE Inc., The Bank of Nova Scotia; Former Vice Chair, Board of Governors, Queen's University; Member, Advisory Council at Queen's University School of Business.

JOHN D. WETMORE, B. MATH.[2,4]
Corporate Director; Former President and Chief Executive Officer, IBM Canada; Retired Vice President, Contact Centre Development, IBM Americas; Director, Research In Motion Ltd.

NOTES
[1] Executive Committee
[2] Audit Committee
[3] Governance, Employee Development, Nominating and Compensation Committee
[4] Pension Committee
[5] Environmental, Health and Safety Committee
* Chair of the Committee

Loblaw Management Board

GALEN G. WESTON
Executive Chairman

VICENTE TRIUS
President

SARAH R. DAVIS
Chief Financial Officer

MARK C. BUTLER
Executive Vice President,
Conventional Division

ROBERT CHANT
Senior Vice President,
Corporate Affairs and Communication

BARRY K. COLUMB
President, PC Bank

GORDON A.M. CURRIE
Executive Vice President and
Chief Legal Officer

GRANT FROESE
Executive Vice President,
Hard Discount and Superstore

JUDY A. MCCRIE
Executive Vice President,
Human Resources and Labour Relations

PETER MCLAUGHLIN
Executive Vice President,
Emerging Business

PETER K. MCMAHON
Executive Vice President,
Chief Operating Officer

GARRY SENECAL
Executive Vice President,
Division Support and Brands

Shareholder and Corporate Information

NATIONAL HEAD OFFICE AND STORE SUPPORT CENTRE
Loblaw Companies Limited
1 President's Choice Circle
Brampton, Canada L6Y 5S5
Tel: (905) 459-2500
Fax: (905) 861-2206
Internet: loblaw.ca

STOCK EXCHANGE LISTING AND SYMBOL
The Company's common shares and second preferred shares are listed on the Toronto Stock Exchange and trade under the symbols "L" and "L.PR.A", respectively.

COMMON SHARES
W. Galen Weston, directly and indirectly, including through his controlling interest in Weston, owns approximately 64% of the Company's common shares.

At year-end 2011, there were 281,385,318 common shares issued and 100,331,640 outstanding common shares available for public trading.

The average daily trading volume of the Company's common shares for 2011 was 325,267.

PREFERRED SHARES
At year-end 2011, there were 9,000,000 second preferred shares issued and outstanding and available for public trading.

The average daily trading volume of the Company's second preferred shares for 2011 was 7,707.

TRADEMARKS
Loblaw Companies Limited and its subsidiaries own a number of trademarks. Several subsidiaries are licensees of additional trademarks. These trademarks are the exclusive property of Loblaw Companies Limited or the licensor and where used in this report are in italics.

COMMON DIVIDEND POLICY
The declaration and payment of dividends 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 and other factors the Board considers relevant from time to time. Over the long term, the Company's objective is for its dividend payment ratio to be in the range of 20% to 25% of the prior year's basic net earnings per common share adjusted as appropriate for items which are not regarded to be reflective of ongoing operations giving consideration to the year-end cash position, future cash flow requirements and investment opportunities.

COMMON DIVIDEND DATES
The declaration and payment of quarterly dividends are made subject to approval by the Board. The anticipated record and payment dates for 2012 are:

RECORD DATE	PAYMENT DATE
March 15	April 1
June 15	July 1
Sept. 15	Oct. 1
Dec. 15	Dec. 30

PREFERRED SHARE DIVIDEND DATES
The declaration and payment of quarterly dividends are made subject to approval by the Board. The anticipated payment dates for 2012 are: January 31, April 30, July 31 and October 31.

NORMAL COURSE ISSUER BID
The Company has a Normal Course Issuer Bid on the Toronto Stock Exchange.

VALUE OF COMMON SHARES
For capital gains purposes, the valuation day (December 22, 1971) cost base for the Company is $0.958 per common share. The value on February 22, 1994 was $7.67 per common share.

INVESTOR RELATIONS
Shareholders, security analysts and investment professionals should direct their requests to Kim Lee, Vice President, Investor Relations, at the Company's National Head Office or by e-mail at: investor@loblaw.ca

REGISTRAR AND TRANSFER AGENT
Computershare Investor Services Inc.
100 University Avenue
Toronto, Canada M5J 2Y1
Toll-free: 1-800-564-6253 (Canada and U.S.)
Fax: (416) 263-9394
Toll-free fax: 1-888-453-0330
International direct dial: (514) 982-7555

To change your address, eliminate multiple mailings, or for other shareholder account inquiries, please contact Computershare Investor Services Inc. Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, *President's Choice* Bank.

INDEPENDENT AUDITORS
KPMG LLP
Chartered Accountants
Toronto, Canada

ANNUAL MEETING
The 2012 Annual Meeting of Shareholders of Loblaw Companies Limited will be held on Thursday, May 3, 2012 at 11:00am (EST), at the Metro Toronto Convention Centre, South Building, Meeting Room 701, 222 Bremner Boulevard, Toronto, Canada.

The Company holds an analyst call shortly following the release of its quarterly results. These calls are archived in the Investor Centre section of the Company's website (loblaw.ca).

CONCEPT AND DESIGN: THE WORKS DESIGN COMMUNICATIONS www.worksdesign.com PRINTING: Transcontinental PLM PRINCIPAL PHOTOGRAPHY: David Graham White

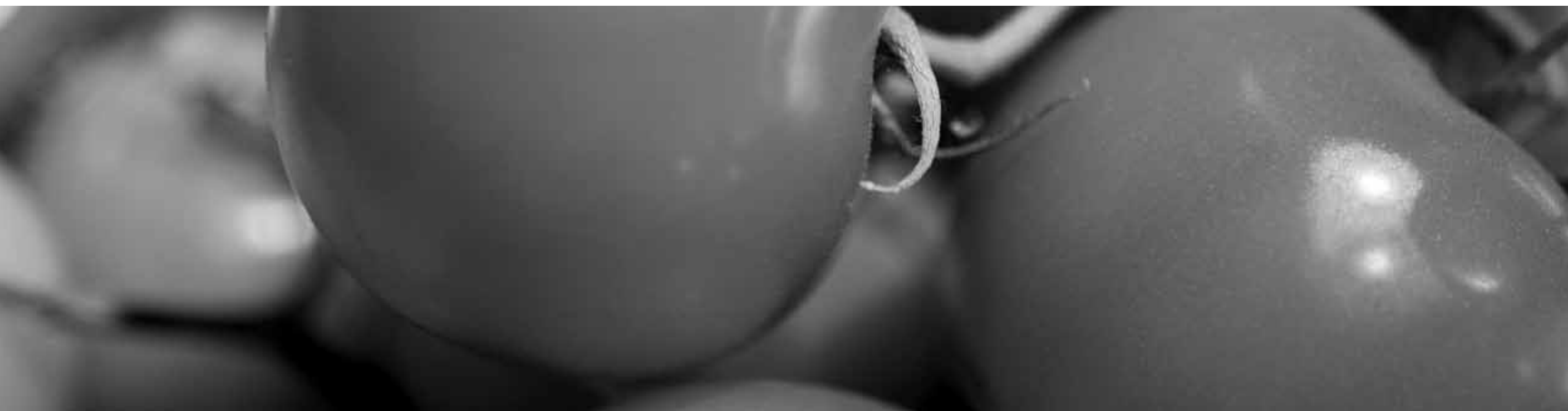
2011 Financial Review enclosed

Loblaw
COMPANIES LIMITED

LOBLAW.CA PC.CA JOEFRESH.COM PCFINANCIAL.CA

2011 ANNUAL REPORT – FINANCIAL REVIEW

Loblaw
COMPANIES LIMITED



Financial Highlights[1]

As at or for the periods ended December 31, 2011, January 1, 2011 and January 2, 2010 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2011 (52 weeks)	2010[2] (52 weeks)	Canadian GAAP 2009 (52 weeks)
Consolidated Results of Operations			
Revenue	**$ 31,250**	$ 30,836	$ 30,735
Operating income	**1,384**	1,347	1,205
EBITDA[3]	**2,083**	1,975	1,794
Net interest expense and other financing charges	**327**	353	269
Net earnings	**769**	675	656
Consolidated Financial Position and Cash Flow			
Working capital[1]	**1,744**	1,061	741[5]
Adjusted debt[3]	**4,765**	5,064	n/a
Adjusted net debt[3]	**2,642**	2,912	n/a
Free cash flow[3]	**931**	741	n/a
Cash flows from operating activities	**1,814**	2,029	1,945
Capital investment	**987**	1,190	1,067
Consolidated Per Common Share ($)			
Basic net earnings	**2.73**	2.43	2.39
Consolidated Financial Measures and Ratios			
Revenue growth (decline)	**1.3%**	0.3%[4]	(0.2%)
Operating margin[1]	**4.4%**	4.4%	3.9%
EBITDA margin[3]	**6.7%**	6.4%	5.8%
Adjusted debt[3] to EBITDA[3]	**2.3x**	2.6x	n/a
Adjusted debt[3] to equity[3]	**0.8:1**	0.9:1	n/a
Interest coverage[3]	**4.2x**	3.8x	4.2x
Return on average net assets[1]	**12.0%**	12.0%	12.0%
Return on average shareholders' equity[1]	**13.2%**	12.6%	10.9%
Retail Results of Operations			
Sales	**30,703**	30,315	n/a
Gross profit	**6,820**	6,787	n/a
Operating income	**1,312**	1,239	n/a
Retail Operating Statistics			
Same-store sales growth (decline)	**0.9%**	(0.6%)	(1.1%)
Gross profit percentage	**22.2%**	22.4%	n/a
Operating margin[1]	**4.3%**	4.1%	n/a
Retail square footage (in millions)	**51.2**	50.7	50.6
Number of corporate stores	**584**	576	613
Number of franchise stores	**462**	451	416
Financial Services Results of Operations			
Revenue	**547**	521	n/a
Operating income	**72**	108	n/a
Earnings before income taxes	**24**	66	n/a
Financial Services Operating Measures and Statistics			
Average quarterly net credit card receivables	**1,974**	1,941	n/a
Credit card receivables	**2,101**	1,997	n/a
Credit card receivables provision	**37**	34	n/a
Annualized yield on average quarterly gross credit card receivables[1]	**12.5%**	13.2%	n/a
Annualized credit loss rate on average quarterly gross credit card receivables[1]	**4.2%**	5.6%	n/a

(1) For financial definitions and ratios refer to the Glossary of Terms on page 120.
(2) 2010 comparative figures previously reported in accordance with Canadian generally accepted accounting principles ("CGAAP") have been restated to conform with International Financial Reporting Standards ("IFRS")
(3) See Non-GAAP Financial Measures on page 38.
(4) As compared to 2009 sales reported in accordance with CGAAP.
(5) Under IFRS, as at January 3, 2010 working capital was $972 million. This figure should be referenced when reading this Management's Discussion and Analysis.

2011 Annual Report – Financial Review

Management's Discussion and Analysis 1
Financial Results 41
Earnings Coverage Exhibit to the Audited Consolidated Financial Statements 118
Three Year Summary 119
Glossary of Terms 120

Management's Discussion and Analysis

1. Forward-Looking Statements 2
2. Overview 3
3. Vision and Strategies 5
4. Key Financial Performance Indicators 6
5. Financial Performance 6
   5.1 Consolidated Results of Operations 7
   5.2 Reportable Operating Segments Results of Operations 9
   5.3 Financial Condition 10
6. Liquidity and Capital Resources 12
   6.1 Cash Flows 12
   6.2 Sources of Liquidity 14
   6.3 Contractual Obligations 16
   6.4 Off-Balance Sheet Arrangements 16
7. Quarterly Results of Operations 16
   7.1 Results by Quarter 16
   7.2 Fourth Quarter Results 18
8. Disclosure Controls and Procedures 21
9. Internal Control over Financial Reporting 21
10. Enterprise Risks and Risk Management 22
   10.1 Operating Risks and Risk Management 23
   10.2 Financial Risks and Risk Management 30
11. Related Party Transactions 31
12. Critical Accounting Estimates 33
   12.1 Allowance for Credit Card Losses 33
   12.2 Inventories 33
   12.3 Fixed Assets 34
   12.4 Post-Employment and Other Long-Term Employee Benefits 34
   12.5 Goodwill and Indefinite Life Intangible Assets 34
   12.6 Income and Other Taxes 35
   12.7 Franchise Loans Receivable and Certain Other Assets 35
13. Transition to International Financial Reporting Standards 35
14. Accounting Standards 36
15. Outlook 37
16. Non-GAAP Financial Measures 38
17. Additional Information 40

The following Management's Discussion and Analysis ("MD&A") for Loblaw Companies Limited and its subsidiaries (collectively, the "Company" or "Loblaw") should be read in conjunction with the annual audited consolidated financial statements and the accompanying notes on pages 44 to 117 of this Annual Report – Financial Review ("Annual Report"). The Company's annual audited consolidated financial statements and accompanying notes for the year ended December 31, 2011 are the first annual audited consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and include the accounts of the Company and other entities that the Company controls and are reported in millions of Canadian dollars, except where otherwise indicated. Further information on the transition to IFRS and its impact on the Company's financial position, financial performance and cash flows is included in note 31 to the Company's annual consolidated audited financial statements.

Due to the transition to IFRS, effective January 2, 2011, all comparative figures for 2010 that were previously reported in the consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles ("CGAAP") have been restated to conform with IFRS.

The information in this MD&A is current to February 22, 2012, unless otherwise noted. A glossary of terms used throughout this Annual Report can be found on page 120.

1. Forward-Looking Statements

This Annual Report – Financial Review for Loblaw Companies Limited contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects and opportunities. These forward-looking statements are typically identified by words such as "anticipate", "expect", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may" and "should" and similar expressions, as they relate to the Company and its management. In this Annual Report – Financial Review, forward looking statements include the Company's expectation that:

- its capital expenditures in 2012 will be approximately $1.1 billion;
- costs associated with the transition of certain Ontario conventional stores under collective agreements ratified in 2010 will range from $30 million to $40 million;
- incremental costs related to investments in information technology ("IT") and supply chain in 2012 will be approximately $70 million;
- incremental costs associated with strengthening its customer proposition will be approximately $40 million; and
- full-year 2012 net earnings per share to be down year-over-year, with more pressure in the first half of the year, as a result of the Company's expectation that operations will not cover the incremental costs related to the investments in IT and supply chain and its customer proposition.

These forward-looking statements are not historical facts but reflect the Company's current expectations concerning future results and events. They also reflect management's current assumptions regarding the risks and uncertainties referred to below and their respective impact on the Company. In addition, the Company's expectation with regard to its net earnings in 2012 is based in part on the assumptions that tax rates will be similar to those in 2011, the Company achieves its plan to increase net retail square footage by 1% and there are no unexpected adverse events or costs related to the Company's investments in IT and supply chain.

These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including, but not limited to:

- failure to realize revenue growth, anticipated cost savings or operating efficiencies from the Company's major initiatives, including investments in the Company's IT systems, including the Company's IT systems implementation, or unanticipated results from these initiatives;
- the inability of the Company's IT infrastructure to support the requirements of the Company's business;
- heightened competition, whether from current competitors or new entrants to the marketplace;
- changes in economic conditions including the rate of inflation or deflation, changes in interest and currency exchange rates and derivative and commodity prices;
- public health events including those related to food safety;

- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements, which could lead to work stoppages;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink;
- failure by the Company to maintain appropriate records to support its compliance with accounting, tax or legal rules, regulations and policies;
- failure of the Company's franchise stores to perform as expected;
- reliance on the performance and retention of third-party service providers including those associated with the Company's supply chain and apparel business;
- supply and quality control issues with vendors;
- changes to or failure to comply with laws and regulations affecting the Company and its business, including changes to the regulation of generic prescription drug prices and the reduction of reimbursement under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- changes in the Company's income, commodity, other tax and regulatory liabilities including changes in tax laws, regulations or future assessments;
- any requirement of the Company to make contributions to its registered funded defined benefit pension plans or the multi-employer pension plans in which it participates in excess of those currently contemplated;
- the risk that the Company would experience a financial loss if its counterparties fail to meet their obligations in accordance with the terms and conditions of their contracts with the Company; and
- the inability of the Company to collect on its credit card receivables.

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Enterprise Risks and Risk Management section of this MD&A. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this MD&A. The Company disclaims any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

2. Overview

The Company is a subsidiary of George Weston Limited ("Weston") and is Canada's largest food distributor and a leading provider of drugstore, general merchandise and financial products and services. Loblaw is one of the largest private sector employers in Canada, employing approximately 135,000 full-time and part-time employees across more than 1,000 corporate and franchise stores from coast to coast. Through its portfolio of store formats, Loblaw is committed to providing Canadians with a wide range of products and services to meet the everyday household demands of Canadian consumers. Loblaw is known for the quality, innovation and value of its food offering. It offers Canada's strongest control (private) label program, including the unique *President's Choice*, *no name* and *Joe Fresh* brands. In addition, through its subsidiaries, the Company makes available to consumers *President's Choice Financial* services and offers the *PC* points loyalty program.

The following is a summary of selected annual audited consolidated information extracted from the Company's annual audited consolidated financial statements. This information was prepared in accordance with IFRS, except for the 2009 annual audited consolidated statement of earnings information which was prepared in accordance with CGAAP. Further information on the transition to IFRS and its impact on the Company's financial position, financial performance and cash flows is included in note 31 to the Company's annual consolidated audited financial statements. The analysis of the data contained in the table focuses on the trends and significant events or items affecting the financial condition and results of operations outside of the transition to IFRS over the latest three year period.

For the periods ended December 31, 2011, January 1, 2011 and January 2, 2010 (millions of Canadian dollars except where otherwise indicated)	**2011** **(52 weeks)**	2010 (52 weeks)	2010[1] (52 weeks – CGAAP)	2009 (52 weeks - CGAAP)
Revenue	**$ 31,250**	$ 30,836	$ 30,997	$ 30,735
Net earnings	**769**	675	681	656
Basic net earnings per common share ($)	**2.73**	2.43	2.45	2.39
Diluted net earnings per common share ($)	**2.71**	2.38	2.44	2.38
Dividends declared per common share ($)	**0.84**	0.84	0.84	0.84
Dividends declared per Second Preferred Shares, Series A ($)	**1.49**	1.49	1.49	1.49

(millions of Canadian dollars)	**As at December 31, 2011**	As at January 1, 2011	As at January 3, 2010[2]
Total assets	**$ 17,428**	$ 16,841	$ 16,090
Long term debt	**5,580**	6,100	5,353
Capital securities	**222**	221	220

(1) The conversion to IFRS did not have a material effect on the net earnings of the Company for the year ended January 1, 2011. The decline in revenue was mainly due to the deconsolidation of independent franchisees that were consolidated in accordance with CGAAP, partially offset by the consolidation of special purpose entities in accordance with IFRS.

(2) January 3, 2010 is the Company's IFRS opening balance sheet date.

Over the past three years, the Company's sales were under pressure in a competitively intense retail market place with an uncertain economic environment. Average annual national food price inflation as measured by "The Customer Price Index for Food Purchased from Stores" ("CPI") was 4.2% in 2011 and 1.0% in 2010. In 2011 and 2010, the Company's average annual internal retail food price index was lower than CPI. The Company experienced moderate average annual internal food price inflation in 2011 and marginal deflation in 2010. In 2011, same-store sales growth was 0.9%, compared to a decline in 2010 of 0.6%. During the year, the number of corporate and franchise stores increased to 1,046 (2010 – 1,027, 2009 – 1,029). In 2011, the Company opened 11 *Joe Fresh* free standing stores including five new locations in the United States, and nine new *nofrills* stores. Retail square footage in 2011 has increased to 51.2 million (2010 – 50.7 million, 2009 – 50.6 million).

In 2010 and 2011, the Company's operating income was significantly impacted by incremental supply chain and IT charges related to its infrastructure implementation. Offsetting these charges were the related year-over-year reductions in supply chain operating costs as well as labour and other operational efficiencies. Earnings in 2010 and 2011 were further impacted by year-over-year fluctuations in fixed asset impairment charges and recoveries and other related charges and share-based compensation charges net of equity forwards.

In addition to the items affecting operating income, net earnings and basic net earnings per common share were also positively impacted by lower net interest expense and other financing charges driven by lower average debt levels combined with the issuance of lower interest rate Medium Term Notes ("MTN") and the repayment of higher interest rate MTNs. President's Choice Bank ("PC Bank") also introduced its guaranteed investment certificate ("GIC") program in 2010, which had a positive effect. In addition, net earnings and basic net earnings per common share were also positively impacted by lower income taxes, partially due to declines in the statutory income tax rates.

In the last two years, total assets increased by 8.3% mainly due to increases in cash and cash equivalents, short term investments, accounts receivable and fixed assets. The increase in fixed assets was the result of the Company's capital investment program.

Long term debt and capital securities increased by 4.1% over the last two years, primarily due to the issuance of GICs and the increase in finance lease obligations and repayments of MTNs and *Eagle Credit Card Trust ("Eagle")* notes, partially offset by repayments of MTNs.

Cash flows from operating activities covered the Company's funding requirements and exceeded the capital investment program in both 2011 and 2010.

3. Vision and Strategies

The Company's mission is to be Canada's best food, health and home retailer by exceeding customer expectations through innovative products at great prices.

With a continued focus on its infrastructure renewal programs and strengthening its customer proposition, in 2011, the Company:

- Successfully re-aligned its Retail segment into a two division structure – conventional and discount – to better serve the distinct needs of its customers;
- Completed the transition of all merchandising product category listings onto the new IT system, which involved the clean-up of master data, with no significant impact on its customers;
- Continued to roll out supply chain system implementations, which were largely completed at the end of 2011;
- Strategically invested in its store network, renovating and revitalizing 121 stores and opening 19 net new stores, including three new conventional stores, that included a new urban format represented by its flagship Loblaws store at Maple Leaf Gardens®;
- Invested in growth opportunities, with the opening of 11 new *Joe Fresh* free standing stores, including five new locations in the United States, and increasing *President's Choice Financial* MasterCard® applications by over 50% compared to 2010;
- Continued to innovate its control label products, including the introduction of the new black label line of *PC* products, a collection of fine foods sourced from around the world;
- Improved overall control label profitability; and
- Improved labour productivity by rolling out a new Store Time and Attendance system to approximately 150 stores and transitioning certain Ontario conventional stores to new more cost effective and efficient operating terms of collective agreements that were ratified in 2010.

In 2012, the Company will focus on initiatives that build on its competitive position of its businesses and invest in opportunities to support long-term profitability. At the same time, the Company will continue to move forward with its IT systems initiatives. Plans for 2012 include:

- Exceeding customer expectations with the right assortment, improved customer in-store experience and competitive prices;
- Rolling out the remaining supply chain system implementations, including the warehouse management and forecasting, planning and replenishment systems;
- Completing significant milestones in the implementation of the IT system with the first store targeted to go live on the system late in 2012;
- Capitalizing on its established control brands across food and general merchandise;
- Re-visiting the store portfolio across formats and strategically investing in new square footage; and
- Focusing on the financial services business by creating in-store customer awareness and expanding product offerings.

4. Key Financial Performance Indicators

The Company has identified specific key financial performance indicators to measure the progress of short and long term objectives.

Key financial performance indicators are set out below:

As at or for the periods ended December 31, 2011 and January 1, 2011 (unaudited) (millions of Canadian dollars except where otherwise indicated)	2011 (52 weeks)	2010 (52 weeks)
Consolidated:		
Revenue growth	**1.3%**	0.3%[1]
Operating income	**$ 1,384**	$ 1,347
EBITDA[2]	**2,083**	1,975
EBITDA margin[2]	**6.7%**	6.4%
Net earnings	**769**	675
Basic net earnings per common share ($)	**2.73**	2.43
Operating margin[3]	**4.4%**	4.4%
Working capital[3]	**1,744**	1,061
Cash flows from operating activities	**1,814**	2,029
Adjusted debt[2]	**4,765**	5,064
Adjusted debt[2] to EBITDA[2]	**2.3x**	2.6x
Adjusted debt[2] to equity[2]	**0.8:1**	0.9:1
Adjusted net debt[2]	**2,642**	2,912
Free cash flow[2]	**931**	741
Interest coverage[2]	**4.2x**	3.8x
Return on average net assets[3]	**12.0%**	12.0%
Return on average shareholders' equity[3]	**13.2%**	12.6%
Retail Segment:		
Same-store sales growth (decline)	**0.9%**	(0.6%)
Gross profit	**$ 6,820**	$ 6,787
Gross profit percentage	**22.2%**	22.4%
Operating margin[3]	**4.3%**	4.1%
Financial Services Segment:		
Annualized yield on average quarterly gross credit card receivables[3]	**12.5%**	13.2%
Annualized credit loss rate on average quarterly gross credit card receivables[3]	**4.2%**	5.6%

(1) As compared to 2009 sales reported in Canadian GAAP.
(2) See Non-GAAP Financial Measures on page 38.
(3) For financial definitions and ratios refer to the Glossary of Terms on page 120.

5. Financial Performance

In early 2011, the Company re-aligned its Retail segment into a two divisional structure – conventional and discount – to both sharpen its customer proposition and improve execution. The benefits of the re-alignment began to show in the second half of the year, with improved sales trends. Earnings growth was challenged during the year due to ongoing competitive intensity and continued investments in IT and supply chain infrastructure.

Due to the transition to IFRS, effective January 2, 2011, all comparative figures for 2010 that were previously reported in the annual audited consolidated financial statements prepared in accordance with CGAAP have been restated to conform with IFRS. Further information on the transition to IFRS and its impact on the Company's financial position, financial performance and cash flows is included in note 31 to the Company's annual consolidated audited financial statements.

With the transition to IFRS, the Company now has two reportable operating segments:

- The **Retail** segment, which consists primarily of food and also includes drugstore, gas bars, apparel and other general merchandise; and
- The **Financial Services** segment, which includes credit card services, a retail loyalty program, insurance brokerage services, personal banking services provided by a major Canadian chartered bank, deposit taking services and telecommunication services.

5.1 Consolidated Results of Operations

For the periods ended December 31, 2011 and January 1, 2011 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2011 (52 weeks)**	2010 (52 weeks)	$ Change	% Change
Revenue	**$ 31,250**	$ 30,836	$ 414	1.3%
Operating income	**1,384**	1,347	37	2.7%
Net interest expense and other financing charges	**327**	353	(26)	(7.4%)
Income taxes	**288**	319	(31)	(9.7%)
Net earnings	**769**	675	94	13.9%
Basic net earnings per common share ($)	**2.73**	2.43	0.30	12.3%
Operating margin(1)	**4.4%**	4.4%		
EBITDA(1)	**$ 2,083**	$ 1,975	$ 108	5.5%
EBITDA margin(1)	**6.7%**	6.4%		
Dividends declared per common share ($)	**0.84**	0.84		
Dividends declared on second preferred share, Series A ($)	**1.49**	1.49		

Revenue Revenue for the year increased by $414 million, or 1.3%, compared to 2010. This increase was driven by improvements in both Retail sales and Financial Services revenue, as described below.

Operating Income Operating income increased by $37 million, or 2.7%, in 2011 compared to 2010, while operating margin was 4.4%, unchanged from 2010. Retail operating income improved by $73 million, offset by a decline of $36 million due to the continued investment in the growth of the Financial Services segment.

(1) See Non-GAAP Financial Measures on page 38.

Included in consolidated operating income were the following notable items:

- Incremental costs of $92 million related to investments in IT and supply chain. These costs included the following charges:
  - $172 million (2010 – $124 million) related to depreciation and amortization;
  - $300 million (2010 – $252 million) related to other supply chain and IT costs; and
  - $23 million (2010 – $27 million) related to changes in the distribution network.
- A charge of $35 million related to the transition of certain Ontario conventional stores to the more cost effective and efficient operating terms of collective agreements ratified in 2010. In 2010, ratification costs of $17 million were incurred;
- $21 million (2010 – nil) of start-up costs associated with the launch of the *Joe Fresh* brand in the United States;
- A charge of $15 million (2010 – nil) related to certain prior years' commodity tax matters;
- A charge of $5 million (2010 – $7 million recovery) for fixed asset impairments, net of recoveries, related to asset carrying values in excess of recoverable amounts for specific retail locations;
- A charge of $8 million (2010 – nil) related to an internal re-alignment of the Retail segment into a two division structure – conventional and discount;
- A charge of $27 million (2010 – $32 million) related to the effect of share-based compensation net of equity forwards;
- A $14 million gain (2010 – nil) recognized related to the sale of a portion of a property in North Vancouver, British Columbia; and
- A nil charge (2010 – $26 million) related to fixed asset impairment was recorded in connection with changes in the Company's distribution network.

EBITDA(1) increased by $108 million in 2011 compared to 2010 and EBITDA margin(1) increased in 2011 to 6.7% from 6.4% in 2010.

Net Interest Expense and Other Financing Charges In 2011, net interest expense and other financing charges decreased $26 million, compared to 2010 primarily due to lower interest expense on long term debt and an increase in net interest income on financial derivative instruments. The lower interest expense on long term debt was mainly due to the repayment of a $350 million 6.50% MTN, partially offset by an increase in interest expense as a result of issuances under PC Bank's GIC program and increases in capital lease interest charges.

Income Taxes The effective income tax rate for 2011 was 27.2% (2010 – 32.1%). The decrease compared to 2010 was primarily due to further reductions in the federal and Ontario statutory income tax rates and the decrease of non-deductible items. In 2010, the Company recognized an income tax expense of $14 million related to changes in federal tax legislation that resulted in the elimination of the Company's ability to deduct costs associated with cash-settled stock options.

Net Earnings Net earnings for 2011 increased by $94 million, or 13.9%, compared to 2010. Basic net earnings per common share for 2011 increased by 12.3%, to $2.73 from $2.43 in 2010.

Basic net earnings per common share for 2011 were impacted by the following:

- A $0.24 charge related to the incremental costs for the Company's investment in IT and supply chain;
- A $0.09 charge related to the transition of certain Ontario conventional stores under collective agreements ratified in 2010 and a $0.04 charge in 2010 related to ratification costs;
- A $0.05 charge (2010 – nil) related to the start-up costs associated with the launch of the Company's *Joe Fresh* brand in the United States;
- A charge of $0.04 (2010 – nil) related to certain prior years' commodity tax matters;
- A charge of $0.01 (2010 – $0.02 recovery) related to the fixed asset impairments net of recoveries;
- A $0.02 charge (2010 – nil) related to the internal re-alignment of the business;
- A charge of $0.09 (2010 – $0.08) for the effect of share-based compensation net of equity forwards;
- Income of $0.04 (2010 – nil) related to the gain recognized on the sale of a portion of a property in North Vancouver, British Columbia;
- A nil charge (2010 – $0.07) related to the fixed asset impairment recorded in connection with changes in the Company's distribution network; and
- A nil charge (2010 – $0.05) related to the tax expense recognized due to changes in federal tax legislation related to share-based compensation.

(1) See Non-GAAP Financial Measures on page 38.

5.2 Reportable Operating Segments Results of Operations

Retail Segment

For the periods ended December 31, 2011 and January 1, 2011 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2011 (52 weeks)**	2010 (52 weeks)	$ Change	% Change
Sales	**$ 30,703**	$ 30,315	$ 388	1.3%
Gross profit	**6,820**	6,787	33	0.5%
Operating income	**1,312**	1,239	73	5.9%
Same-store sales growth (decline)	**0.9%**	(0.6%)		
Gross profit percentage	**22.2%**	22.4%		
Operating margin[1]	**4.3%**	4.1%		

Sales In 2011, the increase in Retail sales of $388 million, or 1.3% over 2010 was impacted by the following factors:

- Same-store sales growth was 0.9% (2010 – 0.6% decline);
- Sales growth in food was modest;
- Sales in drugstore declined marginally, driven by deflation, partially offset by prescription growth;
- Gas bar sales growth was strong as a result of higher retail gas prices and moderate volume growth;
- Sales in general merchandise, excluding apparel, declined moderately due to continued reductions in square footage and optimization of range and assortment of products;
- Increased apparel square footage contributed to a moderate increase in sales;
- The Company experienced moderate average annual internal food price inflation during 2011, which was lower than the average annual national food price inflation of 4.2% (2010 – 1.0%) as measured by CPI. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores; and
- During 2011, 26 (2010 – 11) corporate and franchise stores were opened and seven (2010 – 13) corporate and franchise stores were closed, resulting in a net increase of 0.5 million square feet, or 1.0%.

In 2011, the Company launched over 1,100 new control label products and redesigned and/or improved the packaging of approximately 500 products. Sales of control label products in 2011 were $8.3 billion compared to $8.2 billion in 2010.

Gross Profit For 2011, the decline in gross profit percentage compared to the prior year was primarily driven by a higher level of promotional activity and higher input costs outpacing internal food price inflation, a higher proportion of lower margin gas bar sales and increased fuel costs, partially offset by improved shrink. The $33 million increase in gross profit for 2011 was mainly attributable to improved control label profitability, the shift of pharmaceutical professional allowances from selling, general and administrative expenses to gross profit, improved shrink and the growth and performance of the Company's franchise business. Increases in promotional pricing programs and fuel costs partially offset these improvements.

Operating Income Operating income increased by $73 million, or 5.9%, compared to 2010, while operating margin increased to 4.3% for 2011 compared to 4.1% in 2010.

In addition to the notable items described in the "Consolidated Results of Operations" above, the increase in operating income was mainly attributable to increased gross profit dollars, continued labour, supply chain and other operating cost efficiencies and growth and performance of the Company's franchisees. These improvements were partially offset by foreign exchange losses and other fixed asset impairment related charges.

(1) For financial definitions and ratios refer to the Glossary of Terms on page 120.

Financial Services Segment

For the periods ended December 31, 2011 and January 1, 2011 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2011** **(52 weeks)**	2010 (52 weeks)	$ Change	% Change
Revenue	**$ 547**	$ 521	$ 26	5.0%
Operating income	**72**	108	(36)	(33.3%)
Earnings before income taxes	**24**	66	(42)	(63.6%)

(millions of Canadian dollars except where otherwise indicated)	**As at** **December 31, 2011**	As at January 1, 2011	$ Change	% Change
Average quarterly net credit card receivables	**$ 1,974**	$ 1,941	$ 33	1.7%
Credit card receivables	**2,101**	1,997	104	5.2%
Credit card receivables provision	**37**	34	3	8.8%
Annualized yield on average quarterly gross credit card receivables(1)	**12.5%**	13.2%		
Annualized credit loss rate on average quarterly gross credit card receivables(1)	**4.2%**	5.6%		

Revenue Revenue for 2011 increased by $26 million, or 5.0%, compared to 2010. This increase was primarily due to higher interchange income as a result of higher credit card transaction values and higher *PC* Telecom revenue resulting from the launch of the new Mobile Shop kiosks in the fourth quarter of 2011. These increases were partially offset by lower credit card interest revenue due to increased customer payment rates and more stringent credit risk management policies. The credit risk management changes also favourably impacted the annualized credit loss rate.

Operating Income and Earnings Before Income Taxes Operating income decreased by $36 million and earnings before income taxes decreased by $42 million compared to 2010. These decreases were primarily attributable to significant credit card marketing investments and increased customer acquisition and other operating costs, consistent with the Company's continued investment in the growth of the Financial Services segment. The investment in the launch of *PC* Telecom's Mobile Shop kiosks also contributed to these decreases. Higher revenue and better experience in credit card losses partially reduced the year-over-year decrease in operating income before taxes.

5.3 Financial Condition

Working Capital(1) As at December 31, 2011, working capital(1) was $1,744 million compared to $1,061 million as at January 1, 2011. The increase of $683 million was due primarily to a decrease in long term debt due within one year due to the repayments of a $500 million *Eagle* Series 2006-I note and a $350 million, 6.50% MTN as well as increases in current assets of $370 million. The increase in working capital(1) was partially offset by increases in short term debt due to the securitization of an additional $370 million in credit card receivables and in trade payables and other liabilities.

As at January 1, 2011, working capital(1) was $1,061 million compared to $972 million as at January 3, 2010. The increase of $89 million was primarily due to an increase in current assets and the repurchase of $690 million in short term debt comprised of co-ownership interests in securitized credit card receivables from independent securitization trusts. These increases were partially offset by increases in trade payables and other liabilities and in long term debt due within one year.

(1) For financial definitions and ratios refer to the Glossary of Terms on page 120.

Adjusted Net Debt[(1)] As at December 31, 2011, adjusted net debt[(1)] was $2,642 million compared to $2,912 million as at January 1, 2011. The improvement of $270 million was mainly due to positive cash flows from operations driven by positive EBITDA[(1)], proceeds from fixed asset sales, and cash received on the issuance of common shares under the Company's stock option program. This was partially offset by fixed asset purchases, interest paid on debt obligations, cash dividends paid in the year and the repurchase of the Company's common shares under its Normal Course Issuer Bid ("NCIB") program.

As at January 1, 2011, adjusted net debt[(1)] was $2,912 million compared to $3,135 million as at January 3, 2010, mainly due to positive cash flows from operating activities and proceeds from fixed asset sales, partially offset by fixed asset purchases and dividends paid.

Dividends The declaration and payment of dividends on common shares and the amount thereof are at the discretion of the Board of Directors of the Company ("Board"), which takes into account the Company's financial results, capital requirements, available cash flow and other factors considered relevant from time to time. Over the long term, the Company's objective is for its common share dividend payment ratio to be in the range of 20% to 25% of the prior year's basic net earnings per common share adjusted as appropriate for items which are not regarded to be reflective of ongoing operations giving consideration to the year-end cash position, future cash flow requirements and investment opportunities. During 2011, the Board declared dividends of $0.84 (2010 – $0.84) per common share and dividends of $1.49 (2010 – $1.49) per Second Preferred Share, Series A. For financial statement presentation purposes, Second Preferred Shares, Series A are classified as Capital Securities and the associated dividend of $14 million (2010 – $14 million) is included as a component of net interest expense and other financing charges in the Consolidated Statement of Earnings (see note 3). Subsequent to year end, the Board declared a quarterly dividend of $0.21 per common share payable April 1, 2012 and a quarterly dividend of $0.37 per Second Preferred Share, Series A payable April 30, 2012. At the time dividends are declared, the Company identifies on its website (www.loblaw.ca) the designation of eligible and ineligible dividends in accordance with the administrative position of the Canada Revenue Agency (CRA).

Normal Course Issuer Bid ("NCIB") During 2011, the Company renewed its NCIB to purchase on the Toronto Stock Exchange ("TSX"), or to enter into equity derivatives to purchase, up to 14,096,437 (2010 – 13,865,435) of the Company's common shares, representing approximately 5% of the common shares outstanding. In accordance with the rules and by-laws of the TSX, any purchases must be at the then market prices of such shares. During 2011, the Company purchased for cancellation 1,021,986 (2010 – nil) common shares under the NCIB, resulting in a charge to retained earnings of $33 million for the premium on the common shares and a reduction in common share capital of $6 million. The Company intends to renew its NCIB in 2012.

Dividend Reinvestment Plan ("DRIP") During the year, the Company issued 1,142,380 (2010 – 4,389,872) common shares from treasury under the DRIP at a three percent (3%) discount to market resulting in incremental equity in the Company of $43 million (2010 – $167 million). In 2011, the Board approved the discontinuance of the DRIP after the dividend payment on April 1, 2011. The DRIP raised approximately $330 million in total common share equity since 2009.

Cross Currency Swaps Glenhuron Bank Limited ("Glenhuron") entered into cross currency swaps (see note 25 to the consolidated financial statements) to exchange United States dollars ("USD") for $1,252 million (January 1, 2011 – $1,206 million; January 3, 2010 – $1,149 million) Canadian dollars, which mature by 2018. Currency adjustments receivable or payable arising from these swaps are settled in cash on maturity. As at December 31, 2011, a cumulative unrealized foreign currency exchange rate receivable of $89 million (January 1, 2011 − $161 million; January 3, 2010 − $123 million) was recorded in other assets, and a receivable of $48 million (January 1, 2011 − $15 million; January 3, 2010 − $40 million) was recorded in prepaid expenses and other assets. During 2011, fair value losses of $29 million (2010 – income of $62 million) were recognized in operating income relating to these cross currency swaps, of which $16 million (2010 –$39 million) related to cross currency swaps that matured or were terminated. In addition, a gain of $25 million (2010 – loss of $52 million) was recognized in operating income as a result of translating USD $1,073 million (January 1, 2011 – USD $1,033 million; January 3, 2010 – USD $945 million) cash and cash equivalents, short term investments and security deposits.

(1) See Non-GAAP Financial Measures on page 38.

In 2008, the Company entered into fixed cross currency swaps to exchange $296 million Canadian dollars for USD $300 million, which mature by 2015. As at December 31, 2011, a cumulative unrealized foreign currency exchange rate receivable of $14 million (January 1, 2011 − $11 million; January 3, 2010 − $19 million) was recorded in other assets. During 2011, the Company recognized in operating income an unrealized fair value gain of $2 million (2010 – loss of $12 million) on these cross currency swaps. In addition, during 2011, the Company recognized in operating income an unrealized foreign currency exchange loss of $6 million (2010 – gain of $16 million) related to USD $300 million fixed-rate private placement notes.

Interest Rate Swaps The Company maintains a notional $150 million (2010 − $150 million) in interest rate swaps, on which it pays a fixed rate of 8.38%. At December 31, 2011, the fair value of these interest rate swaps of $16 million (January 1, 2011 − $24 million; January 3, 2010 − $31 million) was recorded in other liabilities (see note 18 to the consolidated financial statements). During 2011, the Company recognized a fair value gain of $8 million (2010 – $7 million) in operating income.

Interest rate swaps previously held by Glenhuron converted a notional $200 million of floating rate cash and cash equivalents, short term investments and security deposits to average fixed rate investments at 4.74%. These interest rate swaps matured in 2011. As at January 1, 2011, the fair value of these interest rate swaps of $7 million (January 3, 2010 − $15 million) was recorded in other assets. During 2011, a $7 million fair value loss (2010 – $8 million) was recognized on these interest rate swaps in operating income.

Equity Forward Contracts As at December 31, 2011, Glenhuron had cumulative equity forward contracts to buy 1.1 million (2010 – 1.5 million) of the Company's common shares at an average forward price of $56.38 (2010 – $56.26) including $0.05 interest income (2010 – $0.04 interest expense) per common share. As at December 31, 2011, the cumulative interest, dividends and unrealized market loss of $20 million (January 1, 2011 – $24 million; January 3, 2010 – $48 million) was included in accounts payable and accrued liabilities. In addition, Glenhuron recognized a $2 million expense (2010 – $11 million gain) in operating income in relation to these equity forwards. During 2011, Glenhuron paid $7 million to settle equity forwards representing 390,100 Loblaw shares, which the Company purchased for cancellation for $15 million under its NCIB.

6. Liquidity and Capital Resources

6.1 Cash Flows

Major Cash Flow Components

For the periods ended December 31, 2011 and January 1, 2011 (millions of Canadian dollars)	**2011** **(52 weeks)**	2010 (52 weeks)	$ Change	% Change
Cash flows from (used in):				
Operating activities	**$ 1,814**	$ 2,029	$ (215)	(10.6%)
Investing activities	**(856)**	(1,381)	525	38.0%
Financing activities	**(853)**	(514)	(339)	(66.0%)

Cash Flows from Operating Activities Cash flows from operating activities of $1,814 million, decreased by $215 million compared to $2,029 million in 2010. Cash flows from operating activities for 2011 included EBITDA[1] of $2,083 million and a net investment in non-cash working capital and credit card receivables of $96 million. The higher cash flows from operations in 2010 were mainly due to more stringent vendor management policies related to the Company's trade payables and other liabilities, which resulted in a reduction in year-over-year non-cash working capital. These policies were applied consistently in 2011 and therefore did not impact non-cash working capital. The year-over-year investment in non-cash working capital was partially offset by increased EBITDA[1] and a decrease in income taxes paid in 2011 compared to 2010.

(1) See Non-GAAP Financial Measures on page 38.

Cash Flows used in Investing Activities Cash flows used in investing activities were $856 million compared to $1,381 million in 2010. The decrease was primarily due to a reduction in security deposits as a result of the repayment of *Eagle* notes in 2011, a decrease in short term investments and fewer fixed asset purchases, partially offset by lower proceeds from fixed asset sales.

Capital investment in 2011 was $1.0 billion (2010 – $1.2 billion). Approximately 17% (2010 – 10%) of these investments were for new store developments, expansions and land, approximately 32% (2010 − 44%) were for store conversions and renovations, and approximately 51% (2010 − 46%) were for infrastructure investments.

The 2011 corporate and franchise store capital investment program, which included the impact of store openings and closures, resulted in an increase in net retail square footage of 1.0% compared to 2010. During 2011, 26 (2010 – 11) corporate and franchise stores were opened and seven (2010 – 13) corporate and franchise stores were closed, resulting in a net increase of 0.5 million square feet (2010 – 0.1 million square feet). In 2011, 121 (2010 – 160) corporate and franchise stores underwent renovations.

As at December 31, 2011, the Company had committed approximately $57 million (2010 – $95 million) for the construction, expansion and renovation of buildings and the purchase of real property.

The Company expects to invest approximately $1.1 billion in capital expenditures in 2012. Approximately 40% of these funds are expected to be dedicated to investing in the IT infrastructure and supply chain projects. The remaining 60% will be spent on retail operations.

Capital Investment and Store Activity

As at or for the periods ended December 31, 2011 and January 1, 2011 (unaudited)	**2011 (52 weeks)**	2010 (52 weeks)	% Change
Capital investment (millions of Canadian dollars)	**$ 987**	$ 1,190	(17.1%)
Corporate square footage (in millions)	**37.5**	37.3	0.5%
Franchise square footage (in millions)	**13.7**	13.4	2.2%
Retail square footage (in millions)	**51.2**	50.7	1.0%
Number of corporate stores	**584**	576	1.4%
Number of franchise stores	**462**	451	2.4%
Percentage of corporate real estate owned	**72%**	74%	
Percentage of franchise real estate owned	**46%**	46%	
Average store size (square feet)			
Corporate	**64,200**	64,800	(0.9%)
Franchise	**29,600**	29,500	0.3%

Cash Flows from Financing Activities In 2011 cash flows used in financing activities were $853 million compared to $514 million in 2010. The increase in cash flows used in financing activities was primarily due to higher net repayments of long term debt and higher cash payments of dividends due to the cancellation of the DRIP program in the first quarter of 2011, partially offset by fewer net repayments of short term debt.

During 2011, the significant changes in debt were comprised primarily of the repayments of a $500 million *Eagle* Series note and a $350 million, 6.50% MTN, offset by net issuances of GICs under PC Bank's GIC program of $258 million and the securitization of an additional $370 million in credit card receivables.

The significant changes in debt in 2010 were comprised primarily of issuances of a $350 million 5.22% MTN, $600 million in *Eagle* Series notes and $18 million in GICs under PC Bank's GIC program. The issuances were partially offset by repayments of a $300 million 7.10% MTN and the repurchase of $690 million of co-ownership interests in the securitized credit card receivables from independent securitization trusts.

Defined Benefit Pension Plan Contributions During 2012, the Company expects to contribute approximately $150 million to its registered funded 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 Company also expects to make contributions in 2012 to defined contribution plans and multi-employer pension plans 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.

6.2 Sources of Liquidity

The Company expects that cash and cash equivalents, short term investments, future operating cash flows and the amounts available to be drawn against its $800 million committed credit facility ("Credit Facility") will enable the Company to finance its capital investment program and fund its ongoing business requirements, including working capital, pension plan funding and financial obligations, over the next 12 months. The Company has traditionally obtained its long term financing primarily through an MTN program. The Company may refinance maturing long term debt with MTNs if market conditions are appropriate or it may consider other alternatives. In addition, given reasonable access to capital markets, the Company does not foresee any material impediments in obtaining financing to satisfy its long term obligations.

The Company's Credit Facility contains certain financial covenants with which the Company was in compliance throughout the year. During 2011, the Company amended its agreements for the Credit Facility and its USD $300 million private placement notes to include certain relevant IFRS adjustments in computing the financial metrics that are used in calculating the Company's financial covenants. These amendments largely served to neutralize the impact of IFRS on the covenant calculation. As at December 31, 2011, the Company was in compliance with all of its covenants. In addition to cash and short term investments, this Credit Facility is a source of liquidity for the Company. As at December 31, 2011 and January 1, 2011, there were no amounts drawn upon the Credit Facility.

During 2010, the Company filed a Short Form Base Shelf Prospectus ("Prospectus") which allows for the issuance of up to $1.0 billion of unsecured debentures and/or preferred shares over a 25-month period. This Prospectus expires in 2012 and the Company intends to renew it in 2012.

In addition to participating in various securitization programs to fund its operations, PC Bank also obtains short-term and long-term financing through its GIC Program. During 2010, PC Bank began accepting deposits under a new GIC program. The GICs, which are sold through an independent broker channel, are issued with fixed terms ranging from 12 to 60 months and are non-redeemable prior to maturity. Individual balances up to $100,000 are insured by Canada Deposit Insurance Corporation. During 2011 PC Bank sold $264 million (2010 – $18 million), before commissions of $2 million (2010 – nil), in GICs through independent brokers. In addition, during 2011, $6 million (2010 – nil) of GICs matured and were repaid. As at December 31, 2011, the Company recorded in long term debt $276 million (January 1, 2011 – $18 million) before commissions of $2 million (2010 – nil) of outstanding GICs, of which $46 million (January 1, 2011 – $5 million) was recorded as long term debt due within one year.

During 2011, the Company entered into agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of $88 million of which $85 million was deposited with major Canadian chartered banks and classified as security deposits as at December 31, 2011.

The Company's debt and preferred share instruments are rated by two independent credit rating agencies: Dominion Bond Rating Service (DBRS) and Standard & Poor's (S&P). During the fourth quarter of 2011, DBRS and S&P reaffirmed the Company's credit ratings and trend and outlook, respectively. These ratings organizations base their forward-looking credit ratings on both quantitative and qualitative considerations.

The following table sets out the current credit ratings of the Company:

	Dominion Bond Rating Service		Standard & Poor's	
Credit Ratings (Canadian Standards)	Credit Rating	Trend	Credit Rating	Outlook
Medium term notes	BBB	Stable	BBB	Stable
Preferred shares	Pfd-3	Stable	P-3 (high)	Stable
Other notes and debentures	BBB	Stable	BBB	Stable

Independent Securitization Trusts PC Bank participates in various securitization programs that provide the primary source of funds for the operation of its credit card business. Under these securitization programs, a portion of the total interest in the credit card receivables is sold to certain independent securitization trusts pursuant to co-ownership agreements. PC Bank purchases credit card receivables from and sells credit card receivables to these independent securitization trusts from time to time depending on PC Bank's financing requirements. During the third quarter of 2011, PC Bank amended and extended the maturity date for one of its independent securitization trust agreements from the third quarter of 2012 to the third quarter of 2014, with no material impact to other terms and conditions of the agreement. In addition to PC Bank's securitized credit card receivables, the independent securitization trusts' recourse is limited to standby letters of credit arranged by the Company of $81 million as at December 31, 2011 (January 1, 2011 – $48 million), which is based on a portion of the securitized amount.

On March 17, 2011, the five-year $500 million senior and subordinated notes issued by *Eagle* matured and were repaid. In conjunction with this maturity, the Company accumulated $167 million of cash in December, 2010 which was recorded in security deposits at the end of 2010. During 2010, *Eagle* issued $250 million of Series 2010-1 and $350 million of Series 2010-2 notes due in 2013 and 2015, respectively. In addition, in 2011, the Company increased its securitization of accounts receivable by $370 million under one of the independent securitization trusts.

Independent Funding Trusts Certain independent franchisees of the Company obtain financing through a structure involving independent funding trusts, which were created to provide loans to the independent franchisees to facilitate their purchase of inventory and fixed assets, consisting mainly of fixtures and equipment. These independent funding trusts are administered by a major Canadian chartered bank. During 2011, this $475 million revolving committed credit facility was renewed and extended for a three year period. As a result of the renewal, the Company's credit enhancement was reduced from 15% to 10%. Other terms and conditions remain substantially the same.

The gross principal amount of loans issued to the Company's independent franchisees by the independent funding trusts as at December 31, 2011 was $424 million (2010 – $395 million). The Company has agreed to provide credit enhancement of $48 million (2010 – $66 million) in the form of a standby letter of credit for the benefit of the independent funding trust representing not less than 10% (2010 – 15%) of the principal amount of the loans outstanding. This credit enhancement allows the independent funding trust to provide financing to the Company's independent franchisees. As well, each independent franchisee provides security to the independent funding trust for its obligations by way of a general security agreement. In the event that an independent 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 trust 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.

First Preferred Shares 1.0 million non-voting First Preferred Shares are authorized, none of which were outstanding at year end.

Capital Securities 12.0 million non-voting Second Preferred Shares, Series A, are authorized, 9.0 million of which were outstanding at year end. These preferred shares are classified as capital securities and included in long term liabilities on the consolidated balance sheet.

Common Share Capital An unlimited number of common shares are authorized, 281,385,318 of which were outstanding at year end. Further information on the Company's outstanding share capital is provided in note 19 to the audited consolidated financial statements.

At year end, a total of 10,750,993 stock options were outstanding, representing 3.8% of the Company's issued and outstanding common shares, which was within the Company's internal guideline of no more than 5%. Each stock option is exercisable into one common share of the Company at the price specified in the terms of the option agreement. Prior to February 22, 2011, in lieu of exercising an option for shares, option holders had the option to receive, in cash, the share appreciation value equal to the excess of the market price at the date of exercise over the specified option price. Further information on the Company's stock option plans is provided in note 21 to the consolidated financial statements.

6.3 Contractual Obligations

The following illustrates certain of the Company's significant contractual obligations and discusses other obligations as at December 31, 2011:

Summary of Contractual Obligations

	Payments due by year						
(millions of Canadian dollars)	2012	2013	2014	2015	2016	Thereafter	Total
Long term debt (including capital lease obligations)	$ 87	$ 670	$ 940	$ 544	$ 428	$ 2,918	$ 5,587
Operating leases(1)	194	179	158	132	105	411	1,179
Contracts for purchases of Real property and capital Investment projects(2)	51	3	3	–	–	–	57
Purchase obligations(3)	68	57	37	26	15	1	204
Total contractual obligations	$ 400	$ 909	$ 1,138	$ 702	$ 548	$ 3,330	$ 7,027

(1) Represents the minimum or base rents payable. Amounts are not offset by any expected sub-lease income.
(2) These obligations include agreements for the purchase of real property and capital commitments for construction, expansion and renovation of buildings. These agreements may contain conditions that may or may not be satisfied. If the conditions are not satisfied, it is possible the Company will no longer have the obligation to proceed with the underlying transactions.
(3) Include contractual obligations to purchase goods or services of a material amount where the contract prescribes fixed or minimum volumes to be purchased or payments to be made within a fixed period of time for a set or variable price. These are only estimates of anticipated financial commitments under these arrangements and the amount of actual payments will vary. These purchase obligations do not include purchase orders issued or agreements made in the ordinary course of business which are solely for goods which are meant for resale, nor do they include any contracts which may be terminated on relatively short notice or with relatively insignificant cost or liability to the Company.

At year end, the Company had additional long term liabilities which included defined benefit plan and other long term employee benefit plan liabilities, deferred income tax liabilities, share-based compensation liabilities and provisions, including insurance liabilities. These long term liabilities have not been included above as the timing and amount of future payments are uncertain.

6.4 Off-Balance Sheet Arrangements

In the normal course of business, the Company enters into off-balance sheet arrangements including:

Letters of Credit Standby and documentary letters of credit are used in connection with certain obligations mainly related to real estate transactions, benefit programs, purchase orders and performance guarantees, securitization of PC Bank's credit card receivables and third-party financing made available to the Company's independent franchisees. The aggregate gross potential liability related to the Company's letters of credit is approximately $443 million (2010 – $439 million).

Guarantees In addition to the letters of credits mentioned above, the Company has entered into various guarantee agreements including obligations to indemnify third parties in connection with leases, business dispositions and other transactions in the normal course of the Company's business. Additionally, the Company has provided a guarantee on behalf of PC Bank to MasterCard® International Incorporated in the amount of US $180 million for accepting PC Bank as a card member and licensee of MasterCard®. For a detailed description of the Company's guarantees, see note 28 to the audited consolidated financial statements.

7. Quarterly Results of Operations

7.1 Results by Quarter

Under an accounting convention common in the food distribution industry the Company follows a 52-week reporting cycle which periodically necessitates a fiscal year of 53 weeks. The 52-week reporting cycle is divided into four quarters of 12 weeks each except for the third quarter, which is 16 weeks in duration. The following is a summary of selected consolidated financial information derived from the Company's unaudited interim period condensed consolidated financial statements for each of the eight most recently completed quarters.

Summary of Consolidated Quarterly Results
(unaudited)

(millions of Canadian dollars except where otherwise indicated)	**First Quarter (12 weeks)**	**Second Quarter (12 weeks)**	**Third Quarter (16 weeks)**	**Fourth Quarter (12 weeks)**	**2011 Total (audited) (52 weeks)**	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	2010 Total (audited) (52 weeks)
Revenue	**$ 6,872**	**$ 7,278**	**$ 9,727**	**$ 7,373**	**$ 31,250**	$ 6,913	$ 7,269	$ 9,535	$ 7,119	$ 30,836
Net earnings	**162**	**197**	**236**	**174**	**769**	$ 132	181	$ 197	165	675
Net earnings per common share										
Basic ($)	**$ 0.58**	**$ 0.70**	**$ 0.84**	**$ 0.62**	**$ 2.73**	$ 0.48	$ 0.65	$ 0.71	$ 0.59	$ 2.43
Diluted ($)	**$ 0.56**	**$ 0.69**	**$ 0.83**	**$ 0.60**	**$ 2.71**	$ 0.45	$ 0.64	$ 0.70	$ 0.58	$ 2.38
Average national food price inflation (as measured by CPI)	**2.5%**	**4.0%**	**4.9%**	**5.2%**	**4.2%**	0.7%	0.3%	1.3%	1.5%	1.0%
Retail same-store sales growth (decline)	**(0.1%)**	**(0.4%)**	**1.3%**	**2.5%**	**0.9%**	0.3%	(0.3%)	(0.4%)	(1.6%)	(0.6%)

The Company's average quarterly internal retail food price inflation/deflation for 2010 and 2011 remained lower than the average quarterly national food price inflation as measured by CPI. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores.

In the last eight quarters, net retail square footage increased by 0.6 million square feet, to 51.2 million square feet, including the opening of 11 new *Joe Fresh* stores, including five new locations in the United States, and nine new *nofrills* stores in 2011.

Fluctuations in quarterly net earnings during 2011 reflect the underlying operations of the Company as well as the impact of specific charges including incremental costs related to investments in IT and supply chain, costs related to the transition of certain Ontario conventional stores to the more cost effective and efficient operating terms of collective agreements ratified in 2010, start-up costs associated with the launch of the *Joe Fresh* brand in the United States, costs related to certain prior years' commodity tax matters, fixed asset impairment charges and recoveries and other related charges, costs associated with the re-alignment of the Retail segment into a two division structure – conventional and discount – the impact of share-based compensation net of equity forwards, a gain recognized related to the sale of a portion of a property in North Vancouver, British Columbia and 2010 fixed asset impairment charges recorded in connection with changes in the Company's distribution network. Quarterly net earnings are also impacted by seasonality and the timing of holidays.

7.2 Fourth Quarter Results

The following is a summary of selected consolidated unaudited financial information for the fourth quarter of 2011.

Selected Consolidated Information for the Fourth Quarter

For the periods ended December 31, 2011 and January 1, 2011 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2011** **(12 weeks)**	2010 (12 weeks)	$ Change	% Change
Revenue	**$ 7,373**	$ 7,119	$ 254	3.6%
Operating income	**315**	324	(9)	(2.8%)
EBITDA[(1)]	**485**	476	9	1.9%
Interest expense and other financing charges	**81**	83	(2)	(2.4%)
Income taxes	**60**	76	(16)	(21.1%)
Net earnings	**174**	165	9	5.5%
Basic net earnings per common share ($)	**0.62**	0.59	0.03	5.1%
Cash flows from (used in):				
Operating activities	**620**	583	37	6.3%
Investing activities	**(414)**	(339)	(75)	(22.1%)
Financing activities	**(226)**	(115)	(111)	(96.5%)
Dividends declared per common share ($)	**0.21**	0.21	–	–
Dividends declared on second preferred share Series A ($)	**0.37**	0.37	–	–

The $254 million, or 3.6%, increase in revenue compared to the fourth quarter of 2010 was driven by improvements in both Retail sales and Financial Services revenue, as described below.

Operating income decreased by $9 million compared to the fourth quarter of 2010 as a result of a decrease in Retail operating income of $6 million and a decrease in Financial Services operating income of $3 million. Operating margin was 4.3% for the fourth quarter of 2011 compared to 4.6% in the same quarter in 2010.

Consolidated operating income included the following notable items:

- A $23 million charge (2010 – nil) related to the transition of certain Ontario conventional stores to the more cost effective and efficient operating terms of collective agreements ratified in the fourth quarter of 2010;
- Incremental costs of $22 million related to investments in IT and supply chain. These costs included the following charges:
    - $43 million (2010 – $34 million) related to depreciation and amortization;
    - $74 million (2010 – $60 million) related to other supply chain and IT costs; and
    - Nil (2010 – $1 million) related to changes in the distribution network.
- $16 million (2010 - nil) of start-up costs associated with the launch of the Company's *Joe Fresh* brand in the United States;
- A $5 million charge (2010 – $7 million recovery) for fixed asset impairments net of recoveries, related to asset carrying values in excess of recoverable amounts for specific retail locations; and
- A charge of $4 million (2010 – $7 million) related to the effect of share-based compensation net of equity forwards.

(1) See Non-GAAP Financial Measures on page 38.

EBITDA[1] increased by $9 million, or 1.9%, in the fourth quarter of 2011 compared to 2010. EBITDA margin[1] decreased to 6.6% compared to 6.7% in the fourth quarter of 2010.

Total interest expense and other financing charges for the fourth quarter of 2011 decreased by $2 million primarily due to the repayment of a $350 million, 6.50% MTN in the first quarter of 2011.

The effective income tax rate in the fourth quarter of 2011 was 25.6% (2010 – 31.5%). This decrease was primarily due to further reductions in the federal and Ontario statutory income tax rates and the decrease of non-deductible items. In the fourth quarter of 2010, the Company recognized an income tax expense of $14 million related to changes in federal tax legislation that resulted in the elimination of the Company's ability to deduct costs associated with cash-settled stock options.

The increase in net earnings of $9 million, or 5.5%, compared to the fourth quarter of 2010 was primarily due to a decrease in net interest expense and other financing charges and a decline in the effective income tax rate, partially offset by the decrease in operating income.

Basic net earnings per common share were impacted by the following

- A $0.06 charge (2010 – nil) related to the transition of certain Ontario conventional stores to the operating terms under collective agreements ratified in 2010;
- A $0.06 charge related to incremental investments in IT and supply chain;
- A $0.04 charge (2010 – nil) related to the start-up costs associated with the launch of the Company's *Joe Fresh* brand in the United States;
- A $0.01 charge (2010 – $0.02 recovery) for fixed asset impairments net of recoveries;
- A $0.01 charge (2010 – $0.02) related to the effect of share-based compensation net of equity forwards; and
- A nil charge (2010 – $0.05) related to the tax expense recognized due to changes in federal tax legislation related to share-based compensation.

Cash flows from operating activities for the fourth quarter of 2011 of $620 million, increased by $37 million compared to $583 million in 2010. Cash flows from operating activities for 2011 included EBITDA[1] of $485 million and a change in non-cash working capital and credit card receivables of $158 million. The higher cash flows from operations were primarily due to a decrease in income taxes paid and increased EBITDA[1] in 2011 compared to 2010.

Cash flows used in investing activities were $414 million in the fourth quarter of 2011 compared to $339 million in the fourth quarter of 2010. The increase was primarily driven by an increase in security deposits, including $85 million of cash collateralized for letter of credit facilities, and lower proceeds from fixed asset sales, partially offset by fewer fixed asset purchases.

Cash flows used in financing activities were $226 million in the fourth quarter of 2011 compared to $115 million the same period in 2010. The increase in cash flows used in financing activities was primarily due to a change in cash payments on dividends due to the cancellation of the DRIP program in the first quarter of 2011, fewer net issuances of long term debt and fewer net repayments of short term debt, and common shares purchased for cancellation in 2011 under the Company's NCIB program.

In the fourth quarter of 2011, the Company did not have significant issuances or repayments of debt. The significant changes in debt in the fourth quarter of 2010 were comprised primarily of the issuance of $600 million *Eagle* Series notes, partially offset by repurchases of $600 million in securitized credit card receivables.

(1) See Non-GAAP Financial Measures on page 38.

Retail Segment Fourth Quarter Results of Operations

For the periods ended December 31, 2011 and January 1, 2011 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2011 (12 weeks)**	2010 (12 weeks)	$ Change	% Change
Sales	**$ 7,226**	$ 7,001	$ 225	3.2%
Gross profit	**1,569**	1,583	(14)	(0.9%)
Operating income	**297**	303	(6)	(2.0%)
Same-store sales growth (decline)	**2.5%**	(1.6%)		
Gross profit percentage	**21.7%**	22.6%		
Operating margin(1)	**4.1%**	4.3%		

In the fourth quarter of 2011, the increase of $225 million, or 3.2%, in Retail sales over the same period in the prior year was impacted by the following factors:

- Same-store sales growth was 2.5% (2010 – 1.6% decline), with an extra day of store operations having a positive impact estimated to be between 0.8% and 1.0%;
- Sales growth in food was strong, partially driven by the extra day of store operations;
- Sales growth in drugstore was flat;
- Gas bar sales growth was strong as a result of higher retail gas prices and moderate volume growth;
- Sales in general merchandise, excluding apparel, declined marginally due to continued reductions in square footage and optimization of range and assortment of products;
- Sales growth in apparel was strong, partially driven by increased apparel square footage, including five new *Joe Fresh* free standing stores; and
- The Company experienced moderate average quarterly internal food price inflation during the fourth quarter of 2011, which was lower than the average quarterly national food price inflation of 5.2% (2010 – 1.5%) as measured by CPI. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores.

The decline in gross profit percentage to 21.7% in the fourth quarter of 2011 from 22.6% in 2010 was primarily driven a higher level of promotional activity and higher input costs outpacing internal food price inflation, a higher proportion of lower margin gas bar sales and increased transportation costs, partially offset by improved shrink. The $14 million decrease in gross profit was mainly due to increases in promotional pricing programs and transportation costs, partially offset by improved control brand profitability, improved shrink and the growth and performance of the Company's franchise business.

Operating income decreased by $6 million compared to the fourth quarter of 2010 and operating margin was 4.1% for the fourth quarter of 2011 compared to 4.3% in the same period in 2010. In addition to the notable items described in the "Consolidated Quarterly Results of Operations" above, these decreases were also driven by the decline in gross profit, partially offset by improvements in the growth and performance of the Company's franchisees and continued labour, supply chain and other operating cost efficiencies.

Financial Services Segment Fourth Quarter Results of Operation

For the periods ended December 31, 2011 and January 1, 2011 (unaudited) (millions of Canadian dollars except where otherwise indicated)	**2011 (12 weeks)**	2010 (12 weeks)	$ Change	% Change
Revenue	**$ 147**	$ 118	$ 29	24.6%
Operating income	**18**	21	(3)	(14.3%)
Earnings before income taxes	**7**	11	(4)	(36.4%)

(1) For financial definitions and ratios refer to the Glossary of Terms on page 120.

(millions of Canadian dollars except where otherwise indicated) (unaudited)	**As at December 31, 2011**	As at January 1, 2011	$ Change	% Change
Average quarterly net credit card receivables	**$ 1,974**	$ 1,941	$ 33	1.7%
Credit card receivables	**2,101**	1,997	104	5.2%
Credit card receivables provision	**37**	34	3	8.8%
Annualized yield on average quarterly gross credit card receivables(1)	**12.5%**	13.2%		
Annualized credit loss rate on average quarterly gross credit card receivables(1)	**4.2%**	5.6%		

The 24.6% increase in revenue over the fourth quarter of 2010 was driven by increased credit card transaction values resulting in higher interchange fee income and higher *PC* Telecom revenues as a result of the new Mobile Shop kiosk launch in the fourth quarter.

The decreases of $3 million in operating income and $4 million in earnings before income taxes compared to the fourth quarter of 2010 were attributable to investments in the launch of *PC* Telecom's Mobile Shop kiosks and an increased credit card loss provision as a result of quarterly growth in the receivables program, partially offset by the increase in interchange fee income.

8. Disclosure Controls and Procedures

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company and its subsidiaries is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

As required by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the Executive Chairman, as Chief Executive Officer, and the Chief Financial Officer have caused the effectiveness of the disclosure controls and procedures to be evaluated. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at December 31, 2011.

9. Internal Control over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

As required by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the Executive Chairman, as Chief Executive Officer, and the Chief Financial Officer have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework established in 'Internal Control – Integrated Framework (COSO Framework)' published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at December 31, 2011.

It should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Additionally, management is required to use judgment in evaluating controls and procedures.

(1) For financial definitions and ratios refer to the Glossary of Terms on page 120.

Changes in Internal Control over Financial Reporting Management has also evaluated whether there were changes in the Company's internal controls over financial reporting that occurred during the period beginning on October 9, 2011 and ended on December 31, 2011 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Management determined that no material changes occurred during this period.

10. Enterprise Risks and Risk Management

The Company is committed to establishing a framework that ensures risk management is an integral part of its activities. To ensure the continued growth and success of the Company, risks are identified and managed through an Enterprise Risk Management ("ERM") program. The Board has approved an ERM policy and oversees the ERM program through approval of the Company's risks and risk prioritization. The ERM program assists all areas of the business in managing appropriate levels of risk tolerance by bringing a systematic approach, methodology and tools for evaluating, measuring and monitoring key risks. The results of the ERM program and other business planning processes are used to identify emerging risks to the Company, prioritize risk management activities and develop a risk-based internal audit plan.

Risk is not eliminated through the ERM program. Risks are identified and managed within understood risk tolerances. The ERM program is designed to:

- Promote a culture of awareness of risk management and compliance within the Company;
- Facilitate corporate governance by providing a consolidated view of risks across the Company and insight into the methodologies for identification, assessment, measurement and monitoring of the risks;
- Assist in developing consistent risk management methodologies and tools across the organization;
- Ensure that resources are acquired economically, used efficiently and adequately protected; and
- Enable the Company to focus on its key risks in the business planning process and optimize financial performance through responsible risk management.

Risk identification and assessments are important elements to the Company's ERM framework. An annual ERM assessment is completed to assist in the update and identification of financial, operational or reputational risks affecting the Company and to effectively prioritize the risks. The annual ERM assessment is carried out primarily through interviews and risk assessments with senior management. Risks are assessed and evaluated based on the Company's vulnerability to the risk and the potential impact that the underlying risk would have on the Company's ability to execute its strategies and achieve its objectives. Risk owners are assigned relevant risks and metrics are developed for the top risks for monitoring. Management provides a semi-annual update to the Audit Committee of the status of the top risks based on significant changes from the prior update, anticipated impacts in future quarters and significant changes in key risk metrics. In addition, the long-term (1-3 year) risk level is assessed in order to monitor potential long term impacts on the risk which may assist in risk mitigation planning activities.

The Internal Audit and Risk Management group manages the ERM program through the development of the risk framework and methodologies, completion of the annual ERM assessment, continuous monitoring of the key risks and semi-annual reporting to the Audit Committee. The accountability for oversight of the management of each risk is allocated by the Audit Committee to either the full Board or to a Committee of the Board.

The operating, financial and reputational risks and risk management strategies are discussed below. Any of these risks has the potential to negatively affect the Company's financial performance. The Company has risk management strategies, including insurance programs, that are intended to mitigate the potential impact of these risks. However, these strategies do not guarantee that the associated risks will be mitigated or not materialize or that events or circumstances will not occur that could negatively affect the Company's financial condition or performance.

10.1 Operating Risks and Risk Management

Operating Risks

Information Technology and other Systems Implementations	Privacy and Information Security
Change Management and Process Execution	Contract Management and Records Retention
Information Integrity and Reliability	Franchise Independence and Relationships
Competitive Environment	Vendor Management and Third Party Service Providers
Economic Environment	Regulatory and Tax
Food Safety and Public Health	Workplace Health and Safety
Colleague Retention and Succession Planning	Environmental
Distribution and Supply Chain	Trademark and Brand Protection
Labour Relations	Defined Benefit Plan Contributions
Merchandising	Multi-Employer Pension Plans
Inventory Management	Real Estate and Store Renovations
Disaster Recovery & Business Continuity	Utility and Fuel Prices
Strategy Development and Execution	Ethical Business Conduct

Discussion on Operating Risks and Risk Management Strategies

Information Technology and Other Systems Implementations The Company continues to undertake a major upgrade of its IT infrastructure. In 2010, the Company began to implement a new IT system. This project, along with other systems implementations planned for 2012 and beyond, constitutes one of the largest technology infrastructure programs ever implemented by the Company and is fundamental to its long-term growth strategies. During 2011, the Company combined and streamlined its IT and other significant system implementations and successfully rolled out the final foundational waves of its IT system implementation to its merchandising organization, which included a number of critical operating enhancements and expanded operating functionality related to its merchandising product category listings. In addition, during 2011, the Company successfully added operational master data and substantially built the integrated platform to handle increased transactional activity in the IT system. Completing the IT system deployment will require continued focus and significant investment. The failure to successfully migrate from legacy systems to the IT system could negatively affect the Company's reputation, operations, revenues and financial performance. Failure or disruption in the Company's current IT systems during the implementation of the new IT and other systems may result in a lack of relevant and reliable information to enable management to effectively achieve its strategic plan or manage the day-to-day operations of the business, causing significant disruptions to the business and potential financial losses. In addition, the failure to implement appropriate processes to support the IT system may result in inefficiencies and duplication in current processes.

Change Management and Process Execution Significant initiatives within the Company, including the execution of the IT infrastructure plan, are underway. Success of these initiatives is dependent on management effectively realizing the intended benefits and effectively executing the related processes. To assist in the management of change throughout the organization, the Company has positioned a team to support the major change initiatives. This team is dedicated to business change management activities with a focus on integration of the business process and systems changes through communication, training and other change events.

In 2011, the Company focused on key merchandising and supply chain systems and process implementation as well as ensuring the smooth transition of the organizational structure to one centred around the Company's two divisions, discount and conventional. Much attention and effort was spent on training colleagues to prepare for and execute new workflows. Effective change management and focus on leadership will continue to be key drivers to successfully implementing these organizational, systems and process changes.

Ineffective change management or inexperienced colleagues leading change management could result in disruptions to the operations of the business or affect the ability of the Company to implement and achieve its long term strategic objectives. This could result from a lack of clear accountabilities, communication, training or lack of requisite knowledge, which in turn may cause colleagues to act in a manner which is inconsistent with Company objectives. Failure to properly execute the various processes may increase the risk of customer dissatisfaction, which in turn could negatively affect the reputation, operations and financial performance of the Company. The failure to properly integrate several large, complex initiatives in a timely manner will adversely impact the operations of the Company. If colleagues are not able to develop and perform new roles, processes and disciplines, the Company may not always achieve the expected cost savings and other benefits of its initiatives.

Information Integrity and Reliability To support the current and future requirements of the business the Company is reliant on IT systems. These systems are essential to provide management with the appropriate information for decision making, including its key performance indicators, and when necessary must be appropriately supported through systems upgrades to and maintenance of infrastructure.

Although the Company has controls in place over the conversion of data, the process of converting data from legacy systems to the new IT and other systems increases the risk of poor data integrity and reliability if the data is not accurate and complete upon conversion. In addition, for the next few years the Company will operate in new and old systems at the same time. Ensuring that the data is flowing accurately between all systems and ensuring the integrity of this data will be critical to maintain the integrity and reliability of the Company's information. Ownership of data management is essential to ensure ongoing reliability and relevancy of the data. Any failure or disruption of these systems or during the data conversion process for the IT system could negatively affect the reputation, operations and financial performance of the Company. Lack of relevant, reliable and accessible information that enables management to effectively manage the business may preclude the Company from optimizing its overall performance.

Competitive Environment The retail industry in Canada is highly competitive. If the Company is ineffective in responding to consumer trends or in executing its strategies its financial performance could be negatively affected.

The Company's competitors include traditional supermarket operators, as well as mass merchandisers, warehouse clubs, drugstores, limited assortment stores, discount stores, convenience stores and specialty stores. Many of these competitors now offer a selection of food, drugstore and general merchandise. Others remain focused on supermarket-type merchandise. The Company is also subject to competitive pressures from new entrants into the marketplace and from the expansion or renovation of existing competitors, particularly those expanding into the grocery market. Some of these competitors have extensive resources that allow them to compete vigorously. Several of these competitors operate in a non-union environment. The Company's unionized workforce environment may reduce the ability of the Company to compete on labour costs or may adversely impact the Company's ability to react to the competition in a timely manner. Increased competition and pressures on growth and pricing could adversely affect the Company's ability to achieve its objectives. The Company's inability to effectively predict market activity or compete effectively with its current or future competitors could result in, among other things, reduced market share and lower pricing in response to its competitors' pricing activities.

In addition, competitors could acquire or develop partnerships with other businesses, which could increase their market share or otherwise improve their competitiveness. If significant acquisitions or alliances are undertaken by competitors, the Company could lose opportunities for growth and partnerships in the market or otherwise experience adverse consequences.

The Company monitors its market share and the markets in which it operates and adjusts its operating strategies by closing underperforming stores, relocating stores or reformatting them under a different banner, reviewing and adjusting pricing, product offerings and marketing programs. Failure by the Company to sustain its competitive position could negatively affect the financial performance of the Company.

Economic Environment Economic factors that impact consumer spending patterns could deteriorate or remain unpredictable due to global, national or regional economic volatility. These factors include high levels of unemployment, household debt, changes in interest rates, changes in inflation, changes in exchange rates, changes in commodity prices and access to consumer credit. Management regularly monitors global and domestic economic conditions and estimates their impact on the Company's operations and incorporates these estimates in short term operating and longer term strategic decisions. Despite these activities, one or more of these factors could negatively affect the Company's sales and margins. Inflationary trends are unpredictable and changes in the rate of inflation or deflation will affect consumer prices, which in turn could negatively affect the financial performance of the Company.

Food Safety and Public Health The Company is subject to risks associated with food safety and general merchandise product defects. These risks may arise as part of product procurement, distribution, preparation or display, including the development and manufacturing of the Company's control label products. A majority of the Company's sales are generated from food products and thus the Company could be vulnerable in the event of a significant outbreak of food-borne illness or other public health concerns related to food products. The occurrence of such events or incidents could result in harm to the Company's customers, negative publicity or damage to the Company's brands and could lead to unforeseen liabilities from legal claims or otherwise. In addition, failure to trace or locate any contaminated or defective products may affect the Company's ability to be effective in a recall situation. Any of these events, as well as the failure to maintain the cleanliness and health standards at store level, including pest control could negatively affect the reputation, operations and financial performance of the Company.

The Company has an incident management process in place to manage such events, should they occur. The program identifies risks, provides clear procedures for communication to employees and consumers and is aimed at ensuring that potentially harmful products are expeditiously removed from inventory and are not available for sale. The Company also has extensive food safety procedures and training programs which address safe food handling and preparation standards. The Company endeavours to employ current best practices for the procurement, distribution and preparation and display of food products. Also, it actively supports customer awareness of safe food handling and healthy choices. The Company places special focus on applying a safety and quality management system to ensure its control label products meet all food safety and regulatory requirements. The ability of these programs and procedures to address such events is dependent on their successful execution. The existence of these procedures does not mean that the Company will in all circumstances be able to mitigate the underlying risks and any event related to these matters has the potential to negatively affect the reputation, operations and financial performance of the Company.

Colleague Retention and Succession Planning Effective succession planning for senior management and colleague retention are essential to sustaining the growth and success of the Company. In addition, loss of talent to the competition can be a significant risk to the Company's business strategy. Effective retention strategies will be necessary due to the significant changes, potential increase in workload and marketability of those colleagues who have developed specialized skills during the implementation of the IT system and other significant initiatives in the Company. If the Company is not effective in establishing appropriate succession planning processes and retention strategies, it could lead to a lack of requisite knowledge, skills and experience on the part of management. This, in turn, could adversely affect the Company's ability to execute its strategies, and negatively affect its reputation, operations and financial performance.

Distribution and Supply Chain The need to invest in and improve the Company's supply chain may adversely affect the Company's capacity to effectively and efficiently attract and retain current and potential customers. The Company is entering the final phase of its supply chain renewal program in 2012, which will include the integration of supply chain systems with the IT system. Although this initiative is expected to result in improved service levels and product availability for the Company's stores, the scale of the change and the implementation of new processes could cause disruption in the flow of goods to stores, which would negatively affect the operations and financial performance of the Company. In addition, the integration of new supply chain systems with the IT system could cause disruptions to the network if not properly executed, which would also negatively affect the operations and financial performance of the Company.

Labour Relations A majority of the Company's store level and distribution centre workforce is unionized. Renegotiating collective agreements may result in work stoppages or slowdowns, which could negatively affect the Company's financial performance, depending on their nature and duration. There can be no assurance as to the outcome of these negotiations or the timing of their completion. Although the Company attempts to mitigate work stoppages and disputes through early negotiations, work stoppages or slowdowns remain possible, which could negatively affect the reputation, operations and financial performance of the Company.

In 2011, the Company began transitioning some of its Ontario conventional stores to the new operating terms of the collective agreements ratified in 2010. The Company has offered counselling services to the colleagues affected. Despite the continued support provided by the Company through this transition, colleague performance may be adversely impacted, which could negatively affect the reputation, operations and the financial performance of the Company.

Merchandising The Company may have goods and services that customers don't want or need, is not reflective of current trends in customer tastes, habits, or regional preferences, is priced at a level customers are not willing to pay or is late in reaching the market. Innovation is critical to the Company in order to respond to customer demands and to stay competitive in the marketplace. In addition, the Company's operations as they relate to food, sales volumes and product mix are impacted to some degree by certain holiday periods in the year. If merchandising efforts are not effective or responsive to customer demand, the operations and financial performance of the Company could be negatively affected.

Inventory Management Inappropriate inventory management may lead to excess inventory or a shortage of inventory which may impact customer satisfaction and overall financial performance. The Company may experience excess inventory that cannot be sold profitably or which could increase levels of inventory shrink, which in turn could negatively impact the Company's financial performance. The Company focuses on reducing inventory levels and early identification of inventory at risk. New information systems are being implemented that are expected to improve demand forecasting. In order to reduce the amount of excess inventory, the Company monitors the impact of customer trends. Despite these efforts, the Company may experience excess inventory that cannot be sold profitably, which could negatively affect the operations and financial performance of the Company.

Disaster Recovery and Business Continuity The Company's ability to continue critical operations and processes could be negatively impacted by adverse events resulting from various incidents, including severe weather, work stoppages, prolonged IT failure, terrorist activities, power failures, border closures, a pandemic or other national or international catastrophe. The Company has an enterprise wide business continuity program which is continually updated. The existence of the program reduces, but does not completely mitigate, the risk of business interruptions, crises or potential disasters, which could negatively affect the reputation, operations and financial performance of the Company.

Strategy Development and Execution The long term vision and strategies of the Company must be understood, communicated and properly managed. If these strategies are not clear or if consumer trends and expectations are not considered, stores may not be properly positioned in the marketplace. The execution of the Company's capital plans could pose a risk if they are not aligned with the strategy of the Company. In addition, the Company's ability to operate in the long term is affected by the development and location of real estate and spending decisions. Areas of strategic focus are formulated annually by senior management and then communicated throughout the Company. These are reviewed on a periodic basis to drive execution and ensure ongoing relevance. If the Company's vision and strategies are not effectively developed, communicated and executed, it could negatively affect the reputation, operations and financial performance of the Company.

Privacy and Information Security The Company is subject to various laws regarding the protection of personal information of its customers, cardholders and colleagues and has adopted a Privacy Code setting out guidelines for the handling of personal information. Any failure of the Company to comply with these laws could result in damage to its reputation and negatively affect financial performance. The Company's information systems contain personal information of customers, cardholders and colleagues. Any failures or vulnerabilities in these security systems or non-compliance with information security standards, including those in relation to personal information belonging to the Company's customers and colleagues, could negatively affect the reputation, operations and financial performance of the Company.

Information security risks will also arise in the implementation of the Company's IT strategic plan. The strategic plan includes the upgrading of information security systems to adhere to information security standards by instituting more stringent security system protocols and corporate information security policies. A failure in these information systems or non-compliance with information security standards, including those in relation to personal information belonging to the Company's customers and colleagues, could negatively affect the reputation, operations and financial performance of the Company.

Contract Management and Records Retention A lack of effective processes for the tendering, drafting, review and approval of Company contracts increases the risk of financial losses to the business. In addition, inefficient, ineffective or incomplete document management and retention policies, procedures and practices increase the risk of incomplete Company records and potential non-compliance with laws and regulations, which could negatively impact the Company's reputation and financial performance. The Company maintains specific policies and procedures related to contract management and records retention in order to mitigate potential risks. These policies and procedures cannot, however, mitigate all risk and it remains possible that incomplete or ineffective records could negatively affect the reputation and financial performance of the Company.

Franchise Independence and Relationships A substantial portion of the Company's revenues and earnings comes from amounts paid by franchisees. Franchisees are independent businesses and, as a result, their operations may be negatively affected by factors beyond the Company's control which in turn may negatively affect the Company's reputation, operations and financial performance. Revenues and earnings could also be negatively affected, and the Company's reputation could be harmed, if a significant number of franchisees were to experience operational failures, health and safety exposures or were unwilling or unable to pay the Company for products, rent or other fees. The Company's franchise system is also subject to franchise legislation enacted by a number of provinces. Any new legislation or failure to comply with existing legislation could negatively affect operations and could add administrative costs and burdens, any of which could affect the Company's relationship with its franchisees. The Company provides various services to the franchisees to assist with management of store operations and dedicated personnel manage the Company's obligations to its franchisees. Despite these efforts, relationships with franchisees could pose significant risks if they are disrupted which could negatively affect the reputation, operations and financial performance of the Company. Supply chain or system changes by the Company could cause or be perceived to cause disruptions to franchise operations and could result in negative effects on franchisee financial performance. Reputational damage or adverse consequences for the Company, including litigation and disruption to revenue from franchise stores could result.

Vendor Management and Third Party Service Providers The Company relies on vendors that provide the Company with goods and services. Although contractual arrangements are put in place with these vendors, the Company has no direct influence over how the vendors are managed. Negative events affecting the suppliers could in turn negatively affect the reputation, operations and financial performance of the Company. Inefficient, ineffective or incomplete vendor management strategies, policies and/or procedures may adversely impact the Company's ability to optimize financial performance, meet customer needs or control costs and quality.

Vendor production capacity or IT capabilities may limit the Company's ability to service its customers or implement new processes to increase efficiencies and consistencies. Sourcing from developing markets results in enhanced risk.

The Company's control label products are manufactured under contract with third-party suppliers. Product development and sourcing of the Company's control brand apparel products is conducted by a third party. Ineffective selection, contract terms or relationship management could impact the Company's ability to source control brand products, to have products available for customers, to market to customers or to operate efficiently and effectively.

The Company also uses third-party logistic services, including the operation of dedicated warehouse and distribution facilities and third-party common carriers. The Company maintains a strategy of multiple sources for logistics providers so that in the event of a disruption of service from one supplier another supplier can be used. However, disruption in these services is possible which could interrupt the delivery of merchandise to stores, thereby negatively affecting the operations and financial performance of the Company.

The Company continues to implement practices and performance expectations with its vendor base, including asking vendors to support sales plans and cost reduction initiatives and to align with major program changes. Failure to effectively implement these programs will have a negative impact on the Company's ability to realize the expected benefits and could negatively affect the operations and financial performance of the Company.

President's Choice Financial banking services are provided by a major Canadian chartered bank. PC Bank uses third-party service providers to process credit card transactions, operate call centres and operationalize certain risk management strategies for the *President's Choice Financial* MasterCard®. To minimize operating risk, PC Bank and the Company actively manage and monitor their relationships with all third-party service providers. In addition, PC Bank has developed an outsourcing risk policy and has established a vendor governance team that provides regular reports on vendor governance and annual vendor risk assessments. Despite these activities, a significant disruption in the services provided by the chartered bank or third party service providers would negatively affect the financial performance of PC Bank and the Company.

The Company relies on third parties for investment management, custody and other services for its cash equivalents, short term investments, security deposits and pension assets. Any disruption in the services provided by these suppliers could adversely affect the return on these assets or liquidity of the Company.

Regulatory and Tax Changes to any of the laws, rules, regulations or policies related to the Company's business including income, commodity and other taxes, and the production, processing, preparation, distribution, packaging and labelling of products, could have an adverse impact on the Company's financial or operational performance. New accounting pronouncements introduced by appropriate authoritative bodies may also impact the Company's financial results including the Company's transition to IFRS. In the course of complying with such changes, the Company may incur significant costs. Changing regulations or enhanced enforcement of existing regulations could restrict the Company's operations or profitability and thereby threaten the Company's competitive position and capacity to efficiently conduct business. Failure by the Company to comply with applicable laws, rules, regulation and policies could subject it to civil or regulatory actions or proceedings, including fines, assessment, injunctions, recalls or seizures, which in turn could have an adverse effect on the Company's financial results. PC Bank operates in a highly regulated environment, failure to comply, understand, acknowledge and effectively respond to the regulators could result in monetary penalties, regulatory intervention and reputational damage. Taxing authorities may also disagree with the positions and conclusions taken by the Company in its filings with such authorities. An unfavourable resolution to any such dispute could materially affect the reputation and financial performance of the Company.

In 2010 and 2011, the provincial governments of Quebec, Ontario, Alberta, Saskatchewan, Nova Scotia and British Columbia introduced amendments to the regulation of generic prescription drug prices paid by provincial governments pursuant to public drug benefit plans. Under these amendments, costs of generic drugs paid by the provincial drug plans are being reduced, and in Ontario, the current system of drug manufacturers paying professional allowances to pharmacies will be eliminated. The amendments also reduce the costs of generic drugs purchased out-of-pocket or through private employer drug plans. The Company continues to identify opportunities to mitigate the impact of these amendments, including the introduction of programs to add new services and enhance existing services to attract customers. The amendments could have an adverse effect on the financial performance of the Company if it is not able to effectively mitigate their negative impact.

Workplace Health and Safety The failure of the Company to adhere to appropriate health and safety procedures and to ensure compliance with applicable laws and regulations could negatively affect the reputation, operations and financial performance of the Company.

The Company has established a national health and safety policy, a national health and safety management system and an injury reduction plan. Periodic updates are provided by health and safety colleagues to the executive team and quarterly updates are made to the Environmental, Health and Safety Committee of the Board. The Company has begun to execute its plan to establish a corporate wellness program. These initiatives are designed to reduce the risk that an incident or series of incidents could harm the safety of one or more of its employees and negatively impact the reputation, operations and financial performance of the Company.

Environmental The Company maintains a large portfolio of real estate and facilities and is subject to environmental risks associated with the contamination of such properties and facilities, whether by previous owners or occupants, neighbouring properties or from its own operations.

The Company operates a number of underground storage tanks, the majority of which are used for the retailing of automotive fuel or for its supply chain transport fleets. Contamination resulting from leaks from these tanks is possible. The Company employs monitoring and testing programs, in addition to risk assessments and audits, to minimize the potential for subsurface impacts from fuel losses. The Company also operates refrigeration equipment in its stores and distribution centres to preserve perishable products as it passes through the supply chain and ultimately into the hands of the consumer. These systems contain refrigerant gases which could be released equipment fails or leaks. A release of these gases could have adverse effects on the environment.

In recent years, provincial and municipal governments have introduced legislation that imposes liabilities on retailers, brand owners and importers for costs associated with recycling and disposal of consumer goods packaging and printed materials distributed to consumers. This is a growing trend and the Company expects to be subject to increased costs associated with these laws.

The Company has environmental management programs and has established assessment, compliance, monitoring and reporting policies and procedures aimed at ensuring compliance with applicable environmental legislative requirements and to protecting the environment. Despite these mitigation activities, the Company could be subject to increased or unexpected costs associated with environmental incidents and the related remediation activities, including litigation and regulatory related costs, all of which could negatively affect the reputation and financial performance of the Company.

Consumer trends are increasingly demanding that retailers sell products with less impact on the environment and that their operations demonstrate environmentally responsible practices. As set out in its annual Corporate Social Responsibility Report, the Company sets environmental goals and monitors its progress towards their achievement. If the Company fails to meet consumer demand in this area or otherwise fail to adequately address the environmental impact of its business practices, its reputation and financial performance could be negatively affected.

Trademark and Brand Protection A decrease in value of the Company's trademarks, banners or control brands, as a result of adverse events, changes to the branding strategies or otherwise, could negatively affect the reputation, operations and financial performance of the Company.

Defined Benefit Pension Plan Contributions The Company manages the assets in its registered funded defined benefit pension plans by engaging professional investment managers who operate under prescribed investment policies and procedures in respect of permitted investments and asset allocations. The future contributions to the Company's registered funded defined benefit pension plans are impacted by a number of variables, including the investment performance of the plan assets and the discount rate used to value the liabilities of the plans. The Company regularly monitors and assesses plan performance and the impact of changes in participant demographics, changes in capital markets and other economic factors that may impact funding requirements, net defined benefit costs and actuarial assumptions. If capital market returns are below assumed levels, or if the discount rates do not increase, the Company may be required to make contributions to its registered funded defined benefit pension plans in excess of those currently expected, which in turn could negatively affect the financial performance of the Company.

Multi-Employer Pension Plans In addition to the Company-sponsored pension plans, the Company participates in various multi-employer pension plans, providing pension benefits to union employees pursuant to provisions of collective bargaining agreements. Approximately 39% (2010 – 40%) of employees of the Company and of its independent franchisees participate in these plans. The administration of these plans and the investment of their assets are controlled by a board of independent trustees generally consisting of an equal number of union and employer representatives. In some circumstances, the Company may have a representative on the board of trustees of these multi-employer pension plans. The Company's responsibility to make contributions to these plans is limited by the amounts established pursuant to its collective agreements; however, poor performance of these plans could have an adverse impact on the Company's employees and former employees who are members of these plans.

The Company, together with its independent franchisees, is the largest participating employer in the Canadian Commercial Workers Industry Pension Plan (CCWIPP), with approximately 53,000 (2010 – 54,000) employees as members. In 2011, the Company contributed $49 million (2010 – $51 million) to CCWIPP. At the end of 2011, the CCWIPP actuarial accrued benefit obligations greatly exceeded the value of the assets held in trust. As a result of this underfunding, CCWIPP received approval from the pension regulator to reduce the accrued benefits and future service benefits of certain participants. Further benefit reductions would negatively affect the retirement benefits of the Company's employees, which in turn could negatively affect their morale and productivity and, in turn, could negatively affect the Company's reputation.

Real Estate and Store Renovations The Company maintains a significant portfolio of owned retail real estate and, whenever practical, pursues a strategy of purchasing sites for future store locations. This enhances the Company's operating flexibility by enabling the Company to introduce new departments and services that could be precluded under third-party operating leases. Additionally, as part of its ongoing review of the performance of its stores, the Company from time to time undertakes store renovations. Efforts are made to minimize the duration of these projects in order to limit the disruption at store level. However, the Company's revenues and financial performance will be negatively impacted if such renovations and remodelling are carried out in a manner that is disruptive to the ongoing store operations, result in a poor customer experience or do not deliver on plans.

Utility and Fuel Prices The Company is a significant consumer of electricity, other utilities and fuel. The Company has entered into contracts to fix the price of a portion of its future variable costs associated with electricity, natural gas and fuel. However, cost increases in these items could negatively affect the Company's financial performance.

Ethical Business Conduct The Company has adopted a Code of Business Conduct which colleagues and directors of the Company are required to acknowledge on a regular basis. The Company has adopted a Vendor Code of Conduct which outlines its ethical expectations to its vendor community in a number of areas, including social responsibility. Any failure of the Company or its vendors to adhere to ethical business conduct policies could negatively affect the Company's reputation and financial performance.

10.2 Financial Risks and Risk Management

Financial Risks

Liquidity and Capital Availability	Commodity Prices
Credit	Common Share Price
Interest Rates	Derivative Instruments
Foreign Currency Exchange Rate	

Discussion on Financial Risks and Risk Management Strategies

Liquidity and Capital Availability Liquidity risk is the risk that the Company cannot meet its demand for cash or fund its obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. Difficulty accessing capital markets could impair the Company's capacity to grow, execute its business model and generate financial returns.

Liquidity and capital availability risks are mitigated by maintaining appropriate levels of cash and cash equivalents and short term investments, actively monitoring market conditions, and by diversifying its sources of funding, including its Credit Facility and maintaining a well-diversified maturity profile of its debt and capital obligations. Despite these mitigation strategies, if the Company's or PC Bank's financial performance and condition deteriorate or downgrades in the Company's current credit ratings occur, the Company's or PC Bank's ability to obtain funding from external sources may be restricted. In addition, credit and capital markets are subject to inherent risks that may negatively affect the Company's access and ability to fund its financial and other liabilities.

Credit The Company is exposed to credit risk resulting from the possibility that counterparties may default on their financial obligations to the Company. Exposure to credit risk relates to derivative instruments, cash and cash equivalents, short term investments, security deposits, PC Bank's credit card receivables, franchise loans receivable, accounts receivable from franchisees and other receivables from vendors, associated stores and independent accounts and pension assets held in the Company's defined benefit plans.

The risk related to derivative instruments, cash and cash equivalents, short term investments or security deposits is reduced by policies and guidelines that require that the Company to only enter into transactions with counterparties or issuers that have a minimum long term "A-" credit rating from a recognized credit rating agency and by placing minimum and maximum limits for exposures to specific counterparties and instruments. PC Bank manages its credit card receivable risk by employing stringent credit scoring techniques and 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, accounts receivable from franchisees and other receivables from vendors, associated stores and independent accounts are actively monitored on an ongoing basis and settled on a frequent basis in accordance with the terms specified in the applicable agreements.

Credit risk associated with investments in the Company's defined benefit pension plans is described in the Defined Benefit Pension Plan Contributions discussion in Section 10.1, "Operating Risks and Risk Management".

Despite the mitigation strategies described above, it is possible that the Company's financial performance could be negatively impacted by the failure of a counterparty to fulfill its obligations.

Interest Rates The Company is exposed to interest rate risk from fluctuations in interest rates on its floating rate debt and financial instruments, net of cash and cash equivalents, short term investments and security deposits. The Company manages interest rate risk by monitoring its respective mix of fixed and floating rate debt net of cash and cash equivalents, short term investments and security deposits, and taking action as necessary to maintain an appropriate balance. Despite these mitigations strategies, changes in interest rates could negatively affect the Company's financial performance.

Foreign Currency Exchange Rates The Company is exposed to foreign currency exchange rate variability, primarily on its USD denominated cash and cash equivalents, short term investments and security deposits held by Glenhuron, foreign denominated and foreign currency based purchases in trade payables and other liabilities, and USD private placement notes included in long term debt. The Company and Glenhuron have cross currency swaps and foreign currency forward contracts that partially offset their respective exposure to fluctuations in foreign currency exchange rates. Cross currency swaps are transactions in which interest payments and principal amounts in one currency are exchanged against receipt of interest payments and principal amounts in a second currency. Despite these mitigation strategies, the Company's financial performance could be negatively impacted by foreign currency variability.

Commodity Prices The Company is exposed to increases in the prices of commodities in operating its stores and distribution networks, as well as the indirect link of commodities to its consumer products. To manage a portion of this exposure, the Company uses purchase commitments for a portion of its needs for certain consumer products that may be commodities based and the Company expects to take delivery of these consumer products in the normal course of business. The Company enters into exchange traded futures contracts and forward contracts to minimize cost volatility relating to energy. Despite these mitigation strategies, high commodity prices could negatively affect the Company's financial performance.

Common Share Price The Company is exposed to common share market price risk as a result of the issuance to certain employees of stock options, to the extent that they are repurchased by the Company on exercise, and Restricted Share Units ("RSUs"). RSUs negatively impact operating income when the common share price increases and positively impact operating income when the common share price declines. Glenhuron is a party to an equity forward contract, which allows for settlement in cash, common shares or net settlement. This forward contract changes in value as the market price of the Company's common shares changes and provides a partial offset to fluctuations in the Company's RSU plan expense or income. Despite this partial offset, increases in the common share price could negatively affect the Company's financial performance.

Derivative Instruments Over-the-counter derivative instruments offset certain risks. Policies and guidelines prohibit the use of any derivative instrument for trading or speculative purposes. The fair value of derivative instruments is subject to changing market conditions which could negatively impact the Company's cash flow and financial performance.

11. Related Party Transactions

The Company's majority shareholder is Weston. Mr. W. Galen Weston controls Weston, directly and indirectly through private companies which he controls including through Wittington Investments, Limited ("Wittington") who owns approximately 63% of the outstanding common shares of Weston, which in turn, controls approximately 63% of the outstanding common shares of the Company. Mr. Weston also owns approximately 1% (January 1, 2011 − 1%; January 3, 2010 – 1%) of the outstanding common shares of the Company directly. 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	
	2011	2010
Cost of Merchandise Inventory Sold		
Inventory purchases from a subsidiary of Weston	**$ 646**	$ 613
Inventory purchases from a related party[(1)]	**18**	18
Operating Income		
Cost sharing agreements with Parent[2)]	**10**	9
Administrative services to Parent[(3)]	**18**	19
Lease of office space from a subsidiary of Wittington	**3**	3

(1) Associated British Foods plc is a related party by virtue of Mr. W. Galen Weston being a director of such entity. Total balance outstanding owing to Associated British Foods plc as at December 31, 2011 was $2 million (January 1, 2011 − $3 million; January 3, 2010 – $2 million). Effective December 12, 2011, Mr. Weston resigned from his role as director of Associated British Foods plc, however, he continues to be a director of its parent company and as a result, Associated British Foods continues to be a related party of the Company.

(2) 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 costs incurred on its behalf by Weston.

(3) 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 system, risk management, treasury 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 such costs. Fees paid under this agreement are reviewed each year by the Audit Committee.

	As at December 31, 2011	As at January 1, 2011	As at January 3, 2010
Balance Sheet			
Trade payables and other liabilities	**$ 28**	$ 33	$ 44

Post-employment Benefit Plans Contributions made by the Company to the Company's post-employment benefit plans are disclosed in note 22 to the consolidated financial statements.

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. These elections and accompanying agreements did not have a material impact on the Company.

Key Management Personnel The Company's key management personnel are comprised of the Board and members of the executive team of the Company, as well as of both 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:

	2011	2010
Wages, salaries and other short-term employee benefits	**$ 8**	$ 7
Share-based compensation	**4**	5
Total Compensation	**$ 12**	$ 12

Dividend Reinvestment Plan During the year, the Company issued 938,984 (2010 – 3,620,906) common shares to Weston under the DRIP (see note 19 to the consolidated financial statements).

12. Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes.

Management continually evaluates the estimates and assumptions it uses. These estimates and assumptions are based on management's historical experience, best knowledge of current events and conditions and activities that the Company may undertake in the future. Actual results could differ from these estimates.

The estimates and assumptions described in this section depend upon subjective or complex judgments about matters that may be uncertain and changes in these estimates and assumptions could materially impact the consolidated financial statements.

12.1 Allowance for Credit Card Losses

The allowance for credit card losses is established to absorb probable credit losses on the aggregate exposures in the Financial Services segment credit card portfolio. This allowance is measured based upon statistical analysis of past and current performance, aging, arrears status, the level of allowance already in place and management's judgment around economic conditions and other trends specific to our customer base, including but not limited to bankruptcies. Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

Additional information on credit card receivables is provided in note 8 to the consolidated financial statements.

12.2 Inventories

Certain retail store inventories are stated at the lower of cost and estimated net realizable value. Net realizable value is estimated 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 retail selling prices, the amount of the write down previously recorded is reversed.

During physical inventory counts, estimation or judgment is required in the determination of (i) discount factors used to convert inventory to cost after a physical count at retail has been completed and (ii) estimated inventory losses, or shrinkage, occurring between the last physical inventory count and the balance sheet date.

Inventories counted at retail are converted to cost by applying a discount factor to retail selling prices. This discount factor is determined at the category level, is calculated in relation to historical gross margins and is reviewed on a regular basis for reasonableness. Inventory shrinkage, which is calculated as a percentage of sales, is evaluated throughout the year and provides for estimated inventory shortages from the last physical count to the balance sheet date. To the extent that actual losses experienced vary from those estimated, both inventories and operating income will be impacted.

Changes or differences in these estimates may result in changes to inventories on the consolidated balance sheet and a charge or credit to operating income in the consolidated statement of earnings.

Additional information on inventories is provided in note 9 to the consolidated financial statements.

12.3 Fixed Assets

Fixed assets are reviewed quarterly to determine any indication of impairment. When there is an indication of impairment, the factors that most significantly influence the impairment assessments are the determination of future cash flows and fair value assessments. An impairment loss is measured as the amount by which the fixed assets carrying value exceeds the recoverable amount. The recoverable amount is the greater of a cash generating unit's ("CGU") value in use and its fair value less costs to sell.

The Company determines the value in use of its retail locations by discounting the expected cash flows that management estimates can be generated from continued use of the CGU. The process of determining the cash flows requires management to make estimates and assumptions including projected future sales, earnings and capital investment, and discount rates. Projected future sales, earnings and capital investment are consistent with strategic plans presented to the Company's Board. Discount rates are consistent with external industry information reflecting the risk associated with the specific cash flows.

The Company determines the fair value less costs to sell of its retail locations using various assumptions, including the market rental rates for properties located within the same geographical areas as the properties being valued, highest and best use of the property for the geographical area, recoverable operating costs for leases with tenants, non-recoverable operating costs, discount rates, capitalization rates and terminal capitalization rates for the purposes of determining the estimated net proceeds from the sale of the property. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

Additional information on fixed assets is provided in note 11 to the consolidated financial statements.

12.4 Post-Employment and Other Long-Term Employee Benefits

The discount rate, expected long term rate of return on plan assets, the rate of compensation increase, retirement rates, termination rates, mortality rates and expected growth rate in health care costs are assumptions used in determining the cost and net defined benefit plan obligations of the Company's defined benefit plans and other long-term employee benefit plans. These assumptions are forward-looking and long term in nature, they are subject to uncertainty and actual results may differ materially. In accordance with IFRS, differences between actual results and the assumptions, as well as the impact of changes in the assumptions are recognized in other comprehensive loss for defined benefit plans and in net earnings for other long-term employee benefit plans for the period, affecting the plan assets and the defined benefit plan obligations. Although the Company believes that its assumptions are appropriate, differences in actual results or changes in the Company's assumptions may materially affect its net defined benefit plan and other long term employee benefit plan obligations and future costs.

Additional information on post-employment and other long-term employee benefits is provided in note 22 to the consolidated financial statements.

12.5 Goodwill and Indefinite Life Intangible Assets

Goodwill and indefinite life intangible assets are assessed for impairment at least annually, and whenever there is an indication that the asset may be impaired.

An impairment loss is measured as the amount by which the CGU grouping's or indefinite life intangible asset's carrying value exceeds the recoverable amount. The recoverable amount is the greater of the value in use and the fair value less costs to sell.

The Company determines the fair value of its CGU groupings and indefinite life intangible assets using discounted cash flow models corroborated by other valuation techniques. The process of determining these fair values requires management to make estimates and assumptions of a long term nature regarding discount rates, projected revenues, royalty rates and margins, as applicable, derived from past experience, actual operating results, budgets and the Company's five year business plan, which is approved by the Board. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

Additional information on goodwill and indefinite life intangible assets is provided in note 13 to the consolidated financial statements.

12.6 Income and Other Taxes

The calculation of current and deferred income taxes requires management to make estimates and assumptions and to exercise judgment regarding the financial statement carrying values of assets and liabilities which are subject to accounting estimates inherent in those balances, the interpretation of income tax legislation across various jurisdictions, expectations about future operating results, the timing of reversal of temporary differences and possible audits of income tax filings by the tax authorities.

Changes or differences in underlying estimates or assumptions may result in changes to the current or deferred income tax balances on the consolidated balance sheet, a charge or credit to income tax expense in the consolidated statement of earnings and may result in cash payments or receipts.

All income, capital and commodity tax filings are subject to audits and reassessments. Changes in interpretations or judgments may result in a change in the Company's income, capital or commodity tax provisions in the future. The amount of such a change cannot be reasonably estimated.

Additional information on income and other taxes is provided in note 4 to the consolidated financial statements.

12.7 Franchise Loans Receivable and Certain Other Assets

On the initial sale of a franchising arrangement the Company offers products and services as part of a multiple deliverable arrangement which is recorded using a relative fair value approach.

Franchise loans receivable and certain other assets are reviewed at each balance sheet date to determine any indication of impairment. The factors that most significantly influence the impairment assessments are the determination of future cash flows and fair value assessments. An impairment loss is measured as the amount by which the carrying value exceeds the respective estimated future cash flows discounted at the financial instrument's original effective interest rate.

The Company determines the initial fair value of its franchise loans and certain other assets using discounted cash flow models corroborated by other valuation techniques. The process of determining these fair values requires management to make estimates and assumptions of a long term nature regarding discount rates, projected revenues, royalty rates and margins, as applicable, derived from past experience, actual operating results, budgets and the Company's five year business plan, which is approved by the Board. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic market conditions or changes in business strategies will be reflected in the financial statements in future periods.

Additional information on financial instruments is provided in note 25 to the consolidated financial statements.

13. Transition to International Financial Reporting Standards

The Company finalized its opening balance sheet as well as the financial statements for 2010 in the first quarter of 2011 based on its IFRS accounting policy choices approved by the Company's Audit Committee. In the completion of its transition to IFRS, certain preliminary unaudited figures included in the Company's 2010 Annual Report – Financial Review were revised resulting in an increase in equity on the IFRS transitional balance sheet of approximately $19 million and an increase in 2010 net earnings of approximately $41 million.

These updated figures were reflected in the Company's first quarter report to shareholders.

The transition to IFRS resulted in a net decrease in total shareholders' equity of $1,193 million and increases in total assets and total liabilities of $1,099 million and $2,292 million, respectively, as at January 3, 2010. The net decrease in shareholders' equity was primarily a result of the consolidation of certain special purpose entities, the deconsolidation of certain franchisees, differences in the accounting for employee benefits, the impairment of fixed assets and the requirement to fair value additional financial assets.

The total assets and total liabilities were further impacted by the consolidation of the independent funding trust and the related debt as well as the recognition of debt related to securitized credit card receivables.

The Company has also completed changes to its internal controls over financial reporting and disclosure controls and procedures for IFRS, which included enhancement of existing controls and the design and implementation of new controls, where needed. No material change in internal controls over financial reporting or disclosure controls and procedures resulted from the adoption and implementation of IFRS.

Reconciliations prepared in accordance with IFRS 1 "First Time Adoption of International Reporting Standards" are included in note 31 to the Company's annual audited consolidated financial statements.

14. Accounting Standards

Future Accounting Standards

Financial Instruments On December 16, 2011, the International Accounting Standards Board ("IASB") issued amendments to IFRS 7, "Financial Instruments: Disclosures" ("IFRS 7") and International Accounting Standard ("IAS") 32, "Financial Instruments, Presentation" ("IAS 32"), which clarifies the requirements for offsetting financial assets and financial liabilities along with new disclosure requirements for financial assets and liabilities that are offset. The amendments to IAS 32 and IFRS 7 are effective for annual periods beginning on or after January 1, 2014 and January 1, 2013 respectively. The Company is currently assessing the impact of these amendments on its consolidated financial statements.

Consolidated Financial Statements On May 12, 2011, IASB issued IFRS 10, "Consolidated Financial Statements" ("IFRS 10"). This IFRS replaces portions of IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27") that addresses consolidation, and supersedes SIC-12 in its entirety. The objective of IFRS 10 is to define the principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. IAS 27 has been amended for the issuance of IFRS 10 and retains guidance only for separate financial statements.

Joint Arrangements On May 12, 2011, the IASB issued IFRS 11, "Joint Arrangements" ("IFRS 11"). IFRS 11 supersedes IAS 31, "Interest in Joint Ventures" and SIC-13, "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly.

As a result of the issuance of IFRS 10 and IFRS 11, IAS 28, "Investments in Associates and Joint Ventures" has been amended to correspond to the guidance provided in IFRS 10 and IFRS 11.

Disclosure of Interests in Other Entities On May 12, 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12"). This IFRS standard requires extensive disclosures relating to a company's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. This IFRS standard enables users of the financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial position and performance.

IFRS 10, 11 and 12, and the amendments to IAS 27 and 28 are all effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted, so long as IFRS 10, 11 and 12, and the amendments to IAS 27 and 28 are adopted at the same time. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 12. The Company is currently assessing the impact of these new standards and amendments on its consolidated financial statements.

Fair Value Measurement On May 12, 2011, the IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, provides guidance in a single IFRS framework for measuring fair value and identifies the required disclosures pertaining to fair value measurement. This standard is effective for annual periods beginning on or after January 1, 2013, and early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

Employee Benefits On June 16, 2011 the IASB revised IAS 19, "Employee Benefits". The revisions include the elimination of the option to defer the recognition of gains and losses, enhancing the guidance around measurement of plan assets and defined benefit plan obligations, streamlining the presentation of changes in assets and liabilities arising from defined benefit plans and introduction of enhanced disclosures for defined benefit plans. The amendments are effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of the amendments on its consolidated financial statements.

Presentation of Financial Statements On June 16, 2011 the IASB issued amendments to IAS 1, "Presentation of Financial Statements". The amendments enhance the presentation of other comprehensive income in the financial statements, primarily by requiring the components of other comprehensive income to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. The amendments are effective for annual periods beginning on or after July 1, 2012. The Company is currently assessing the impact of the amendments on its consolidated financial statements.

Financial Instruments – Disclosures On October 7, 2010, the IASB issued amendments to IFRS 7, which increase the disclosure requirements for transactions involving transfers of financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011 and therefore the Company will apply the amendment in the first quarter of 2012. The Company does not expect there will be any material impact on its financial statement disclosures.

Deferred Tax – Recovery of Underlying Assets On December 20, 2010, the IASB issued amendments to IAS 12, "Income Taxes" ("IAS 12"), that introduce an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The amendment is effective for annual periods beginning on or after January 1, 2012. The Company has elected to account for its investment properties at cost and as such there is no impact on its financial statements as a result of the amendment.

Financial Instruments On November 12, 2009, the IASB has issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9"), which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. This standard becomes effective on January 1, 2015. The Company is currently assessing the impact of the new standard on its financial statements.

15. Outlook[1]

In 2011, the Company continued to build its foundation and infrastructure while strengthening its customer proposition. In 2012, the Company will continue to be customer-centric, while the completion of its IT systems will remain a key priority. The Company will focus on consistent execution to exceed its customers' expectations with the right assortment, improved in-store experience and competitive prices across all banners.

In 2012, capital expenditures will be approximately $1.1 billion and net new retail square footage will be approximately 1%. In addition, costs associated with the transition of certain Ontario conventional stores under collective agreements will range from $30 million to $40 million.

As the Company advances towards the first store roll-out of its new IT system by year-end 2012, it expects costs related to investments in IT to be approximately 1.5% of revenues for the year. Beginning in 2014, IT spending as a percentage of revenues will start to decline, reaching approximately 1.2% by 2016. The incremental costs related to investments in IT in 2012 are expected to negatively impact operating income by approximately $90 million, offset by a decrease in supply chain program costs of approximately $20 million, for net incremental costs of approximately $70 million. In addition, the Company anticipates investments in its customer proposition to be approximately $40 million. The Company does not expect its operations to cover these incremental costs, and as a result, expects full year 2012 net earnings per share to be down year-over-year, with more pressure in the first half of the year.

(1) To be read in conjunction with "Forward-Looking Statements" on page 2.

16. Non-GAAP Financial Measures

The Company uses the following non-GAAP financial measures: EBITDA and EBITDA margin, interest and interest coverage, free cash flow, working capital, return on average net assets, adjusted debt, adjusted debt to EBITDA, adjusted debt to equity and adjusted net debt. The Company believes these non-GAAP financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below. These measures do not have a standardized meaning prescribed by GAAP and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies, and they should not be construed as an alternative to other financial measures determined in accordance with GAAP.

EBITDA and EBITDA Margin The following table reconciles earnings before income taxes, net interest expense and other financing charges and depreciation and amortization ("EBITDA") to operating income which is reconciled to GAAP net earnings measures reported in the consolidated statements of earnings for the years and quarters ended December 31, 2011 and January 1, 2011. EBITDA is useful to management in assessing performance of its ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

EBITDA margin is calculated as EBITDA divided by revenue.

(millions of Canadian dollars)	**2011 (unaudited) (12 weeks)**	2010 (unaudited) (12 weeks)	**2011 (unaudited) (52 weeks)**	2010 (unaudited) (52 weeks)
Net earnings	**$ 174**	$ 165	**$ 769**	$ 675
Add impact of the following:				
Income taxes	**60**	76	**288**	319
Net interest expense and other financing charges	**81**	83	**327**	353
Operating income	**315**	324	**1,384**	1,347
Add impact of the following:				
Depreciation and amortization	**170**	152	**699**	628
EBITDA	**$ 485**	$ 476	**$ 2,083**	$ 1,975

Interest and Interest Coverage The following table reconciles interest expense used in the calculations of the interest coverage ratio to GAAP measures reported in the annual consolidated audited financial statements for the years ended December 31, 2011 and January 1, 2011. Interest coverage is calculated as operating income divided by net interest expense and other financing charges adding back interest capitalized to fixed assets. The Company believes the interest coverage ratio is useful in assessing the Company's ability to cover its net interest charge with its operating income.

(millions of Canadian dollars)	**2011 (52 weeks)**	2010 (52 weeks)
Net interest expense and other financing charges	**$ 327**	$ 353
Add: Interest capitalized to fixed assets	**1**	–
Interest expense	**$ 328**	$ 353

Free Cash Flow The following table reconciles free cash flow used in assessing the Company's financial condition to GAAP measures reported in the annual consolidated audited financial statements for the years ended December 31, 2011 and January 1, 2011. The Company believes that free cash flow is a useful measure in assessing the Company's cash available for additional funding and investing activities. Effective 2012, the Company will use free cash flow to better reflect its cash flow activities.

Free cash flow is calculated as cash flows from operating activities excluding the net change in credit card receivables, less fixed asset purchases.

(millions of Canadian dollars)	**2011 (52 weeks)**	2010 (52 weeks)
Cash flows from operating activities	**$ 1,814**	$ 2,029
Net increase (decrease) in credit card receivables	**104**	(98)
Less: Fixed asset purchases	**987**	1,190
Free cash flow	**$ 931**	$ 741

Net Assets The following table reconciles net assets used in the return on average net assets ratio to GAAP measures reported in the audited consolidated balance sheets as at the years ended December 31, 2011, January 1, 2011 and January 3, 2010. The Company believes the return on average net assets ratio is useful in assessing the return on productive assets.

Return on average net assets is calculated as operating income for the year divided by average net assets.

(millions of Canadian dollars)	**As at December 31, 2011**	As at January 1, 2011	As at January 3, 2010
Total assets	**$ 17,428**	$ 16,841	$ 16,090
Less: Cash and cash equivalents	**966**	857	731
Short term investments	**754**	754	663
Security deposits	**266**	354	250
Accounts payable and accrued liabilities	**3,677**	3,522	3,372
Net assets	**$ 11,765**	$ 11,354	$ 11,074

Adjusted Debt and Adjusted Net Debt The following table reconciles adjusted debt used in the adjusted debt to EBITDA and adjusted debt to equity ratios and adjusted net debt to GAAP measures reported in the annual audited consolidated balance sheets as at the years ended December 31, 2011, January 1, 2011 and January 3, 2010. The Company calculates debt as the sum of bank indebtedness, short term debt, long term debt, certain other liabilities and the fair value of financial derivatives. The Company calculates adjusted debt as debt less independent securitization trusts in short term and long term debt and PC Bank's GICs. The Company calculates adjusted net debt as adjusted debt less cash and cash equivalents, short term investments, security deposits and the fair value of financial derivatives. Historically, the Company has utilized net debt as a non-GAAP financial measure. The Company believes that adjusted debt and adjusted net debt are more relevant in assessing the amount of financial leverage employed.

Adjusted debt to EBITDA is calculated as adjusted debt divided by EBITDA. Adjusted debt to equity is calculated as debt divided by shareholders' equity and capital securities.

	As at December 31, 2011	As at January 1, 2011	As at January 3, 2010
Bank indebtedness	**$ –**	$ 10	$ 10
Short term debt	**905**	535	1,225
Long term debt due within one year	**87**	902	312
Long term debt	**5,493**	5,198	5,041
Certain other liabilities	**39**	35	36
Fair value of financial derivatives related to the above	**22**	37	58
Total debt	**$ 6,546**	$ 6,717	$ 6,682
Less:			
Independent Securitization Trusts in Short term debt	**905**	535	1,225
Independent Securitization Trusts in Long term debt	**600**	1,100	500
Guaranteed Investment Certificates	**276**	18	–
Adjusted debt	**$ 4,765**	$ 5,064	$ 4,957
Less: Cash and cash equivalents	**966**	857	731
Short term investments	**754**	754	663
Security deposits	**266**	354	250
Fair value of financial derivatives related to the above	**137**	187	178
Adjusted net debt	**$ 2,642**	$ 2,912	$ 3,135

The Second Preferred Shares, Series A are classified as capital securities and are excluded from the calculations of adjusted debt and adjusted net debt.

Equity The following table reconciles equity used in the net debt to equity ratio to GAAP measures reported in the audited consolidated financial statements as at the years ended December 31, 2011, January 1, 2011 and January 3, 2010.

Equity is calculated as the sum of capital securities and shareholder's equity.

(millions of Canadian dollars)	**As at December 31, 2011**	As at January 1, 2011	As at January 3, 2010
Capital securities	**222**	221	220
Shareholders' equity	**6,007**	5,603	5,080
Equity	**6,229**	5,824	5,300

17. Additional Information

Additional information about the Company, including its Annual Information Form and other disclosure documents, has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at www.sedar.com and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, PC Bank.

February 22, 2012
Toronto, Canada

Financial Results

Management's Statement of Responsibility for Financial Reporting 42

Independent Auditors' Report 43

Consolidated Financial Statements 44

Consolidated Statements of Earnings 44

Consolidated Statements of Comprehensive Income 45

Consolidated Statements of Changes in Shareholders' Equity 46

Consolidated Balance Sheets 47

Consolidated Statements of Cash Flow 48

Notes to the Consolidated Financial Statements 49

Note 1. Nature and Description of the Reporting Entity 49
Note 2. Significant Accounting Policies 49
Note 3. Net Interest Expense and Other Financing Charges 59
Note 4. Income Taxes 59
Note 5. Basic and Diluted Net Earnings per Common Share 61
Note 6. Cash and Cash Equivalents, Short Term Investments and Security Deposits 62
Note 7. Accounts Receivable 63
Note 8. Credit Card Receivables 63
Note 9. Inventories 64
Note 10. Assets Held for Sale 65
Note 11. Fixed Assets 65
Note 12. Investment Properties 67
Note 13. Goodwill and Intangible Assets 69
Note 14. Other Assets 71
Note 15. Provisions 71
Note 16. Short Term Debt 71
Note 17. Long Term Debt 72
Note 18. Other Liabilities 73
Note 19. Share Capital 74
Note 20. Capital Management 75
Note 21. Share-Based Compensation 77
Note 22. Post-Employment and Other Long Term Employee Benefits 81
Note 23. Employee Costs 87
Note 24. Leases 87
Note 25. Financial Instruments 88
Note 26. Financial Risk Management 94
Note 27. Contingent Liabilities 96
Note 28. Financial Guarantees 96
Note 29. Related Party Transactions 97
Note 30. Segment Information 99
Note 31. Transition to IFRS 100

Earnings Coverage Exhibit to the Audited Consolidated Financial Statements 118

Three Year Summary 119

Glossary of Terms 120

Management's Statement of Responsibility for Financial Reporting

The management of Loblaw Companies Limited is responsible for the preparation, presentation and integrity of the accompanying consolidated financial statements, Management's Discussion and Analysis and all other information in the Annual Report. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the judgments and estimates necessary to prepare the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). It also includes ensuring that the financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Management is also responsible to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced, management is required to design a system of internal controls and certify as to the design and operating effectiveness of internal controls 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 based on the review and recommendation of the Audit Committee.

Toronto, Canada
February 22, 2012

[***signed***]	[***signed***]	[***signed***]
Galen G. Weston	**Vicente Trius**	**Sarah R. Davis**
Executive Chairman	President	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 31, 2011, January 1, 2011 and January 3, 2010, the consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flow for the 52 week years ended December 31, 2011 and January 1, 2011, 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 31, 2011, January 1, 2011 and January 3, 2010, and its consolidated financial performance and its consolidated cash flows for the 52 week years ended December 31, 2011 and January 1, 2011 in accordance with International Financial Reporting Standards.

Toronto, Canada
February 22, 2012

Chartered Accountants, Licensed Public Accountants

Consolidated Statements of Earnings

For the years ended December 31, 2011 and January 1, 2011 (millions of Canadian dollars except where otherwise indicated)	2011 (52 Weeks)	2010 (52 Weeks)
Revenue	**$ 31,250**	$ 30,836
Cost of Merchandise Inventories Sold (note 9)	**23,894**	23,534
Selling, General and Administrative Expenses	**5,972**	5,955
Operating Income	**1,384**	1,347
Net interest expense and other financing charges (note 3)	**327**	353
Earnings Before Income Taxes	**1,057**	994
Income taxes (note 4)	**288**	319
Net Earnings	**$ 769**	$ 675
Net Earnings per Common Share ($) (note 5)		
Basic	**$ 2.73**	$ 2.43
Diluted	**$ 2.71**	$ 2.38

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2011 and January 1, 2011 (millions of Canadian dollars)	**2011** **(52 Weeks)**	2010 (52 Weeks)
Net earnings	**$ 769**	$ 675
Net loss on derivative instruments designated as cash flow hedges	**–**	(2)
Reclassification of loss on derivative instruments designated as cash flow hedges to net earnings	**–**	6
	$ –	$ 4
Net defined benefit plan actuarial loss (note 22)	**(208)**	(90)
Other comprehensive loss	**(208)**	(86)
Total Comprehensive Income	**$ 561**	$ 589

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(millions of Canadian dollars except where otherwise indicated)	Common Share Capital	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at January 1, 2011	**$ 1,475**	**$ 4,122**	**$ 1**	**$ 5**	**$ 5,603**
Net earnings	**–**	**769**	**–**	**–**	**769**
Other comprehensive loss (note 22)	**–**	**(208)**	**–**	**–**	**(208)**
Total Comprehensive Income	**–**	**561**	**–**	**–**	**561**
Dividend reinvestment plan (note 19)	**43**	**–**	**–**	**–**	**43**
Net effect of share-based compensation (notes 19 and 21)	**28**	**–**	**47**	**–**	**75**
Common shares purchased for cancellation (note 19)	**(6)**	**(33)**	**–**	**–**	**(39)**
Dividends declared per common share – $0.84	**–**	**(236)**	**–**	**–**	**(236)**
	65	**292**	**47**	**–**	**404**
Balance at December 31, 2011	**$ 1,540**	**$ 4,414**	**$ 48**	**$ 5**	**$ 6,007**

See accompanying notes to the consolidated financial statements.

(millions of Canadian dollars except where otherwise indicated)	Common Share Capital	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at January 3, 2010	$ 1,308	$ 3,771	$ –	$ 1	$ 5,080
Net earnings	–	675	–	–	675
Other comprehensive loss (note 22)	–	(90)	–	4	(86)
Total Comprehensive Income	–	585	–	4	589
Dividend reinvestment plan (note 19)	167	–	–	–	167
Net effect of share-based compensation (notes 19 and 21)	–	–	1	–	1
Dividends declared per common share – $0.84	–	(234)	–	–	(234)
	167	351	1	4	523
Balance at January 1, 2011	$ 1,475	$ 4,122	$ 1	$ 5	$ 5,603

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

(millions of Canadian dollars)	As at December 31, 2011	As at January 1, 2011	As at January 3, 2010
Assets			
Current Assets			
Cash and cash equivalents (note 6)	**$ 966**	$ 857	$ 731
Short term investments (note 6)	**754**	754	663
Accounts receivable (note 7)	**467**	366	367
Credit card receivables (note 8)	**2,101**	1,997	2,095
Inventories (note 9)	**2,025**	1,956	1,982
Income taxes recoverable	**–**	8	–
Prepaid expenses and other assets	**117**	83	101
Assets held for sale (note 10)	**32**	71	56
Total Current Assets	**6,462**	6,092	5,995
Fixed Assets (note 11)	**8,725**	8,377	7,815
Investment Properties (note 12)	**82**	74	75
Goodwill & Intangible Assets (note 13)	**1,029**	1,026	1,023
Deferred Income Taxes (note 4)	**232**	227	258
Security Deposits (note 6)	**266**	354	250
Franchise Loans Receivable	**331**	314	344
Other Assets (note 14)	**301**	377	330
Total Assets	**$ 17,428**	$ 16,841	$ 16,090
Liabilities			
Current Liabilities			
Bank indebtedness	**$ –**	$ 10	$ 10
Trade payables and other liabilities	**3,677**	3,522	3,372
Provisions (note 15)	**35**	62	62
Income taxes payable	**14**	–	42
Short term debt (note 16)	**905**	535	1,225
Long term debt due within one year (note 17)	**87**	902	312
Total Current Liabilities	**4,718**	5,031	5,023
Provisions (note 15)	**50**	43	44
Long Term Debt (note 17)	**5,493**	5,198	5,041
Deferred Income Taxes (note 4)	**21**	35	27
Capital Securities (note 19)	**222**	221	220
Other Liabilities (note 18)	**917**	710	655
Total Liabilities	**11,421**	11,238	11,010
Shareholders' Equity			
Common Share Capital (note 19)	**1,540**	1,475	1,308
Retained Earnings	**4,414**	4,122	3,771
Contributed Surplus (note 21)	**48**	1	–
Accumulated Other Comprehensive Income	**5**	5	1
Total Shareholders' Equity	**6,007**	5,603	5,080
Total Liabilities and Shareholders' Equity	**$ 17,428**	$ 16,841	$ 16,090

Contingent liabilities (note 27). Leases (note 24). Financial guarantees (note 28).

See accompanying notes to the consolidated financial statements.

Approved on Behalf of the Board

[*signed*]
Galen G. Weston
Director

[*signed*]
Thomas C. O'Neill
Director

Consolidated Statements of Cash Flow

For the years ended December 31, 2011 and January 1, 2011 (millions of Canadian dollars)	**2011 (52 weeks)**	2010 (52 weeks)
Operating Activities		
Net earnings	**$ 769**	$ 675
Income taxes (note 4)	**288**	319
Net interest expense and other financing charges (note 3)	**327**	353
Depreciation and amortization	**699**	628
Income taxes paid	**(216)**	(298)
Interest received	**60**	52
Settlement of equity forward contracts (note 25)	**(7)**	–
Net (increase) decrease in credit card receivables	**(104)**	98
Change in non-cash working capital	**8**	151
Fixed assets and other related impairments	**5**	27
(Gain)/loss on disposal of assets	**(18)**	8
Other	**3**	16
Cash Flows from Operating Activities	**1,814**	2,029
Investing Activities		
Fixed asset purchases (note 11)	**(987)**	(1,190)
Change in short term investments (note 6)	**18**	(129)
Proceeds from fixed asset sales	**57**	90
Change in franchise investments and other receivables	**(24)**	(25)
Change in security deposits (note 6)	**92**	(115)
Other	**(12)**	(12)
Cash Flows used in Investing Activities	**(856)**	(1,381)
Financing Activities		
Change in bank indebtedness	**(10)**	–
Change in short term debt (note 16)	**370**	(690)
Long term debt		
Issued (note 17)	**287**	981
Retired (note 17)	**(909)**	(322)
Interest paid	**(380)**	(418)
Dividends paid (note 19)	**(193)**	(65)
Common shares		
Issued (note 19)	**21**	–
Purchased for cancellation (note 19)	**(39)**	–
Cash Flows used in Financing Activities	**(853)**	(514)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**4**	(8)
Change in Cash and Cash Equivalents	**109**	126
Cash and Cash Equivalents, Beginning of Year	**857**	731
Cash and Cash Equivalents, End of Year	**$ 966**	$ 857

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011 and January 1, 2011 (millions of Canadian dollars except where otherwise indicated)

Note 1. Nature and Description of the Reporting Entity

Loblaw Companies Limited is a Canadian public company incorporated in 1956 and is Canada's largest food distributor and a leading provider of drugstore, general merchandise and financial products and 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 "Loblaw" or "the Company".

The Company's parent is George Weston Limited ("Weston") which owns approximately 63% of the Company. The Company's ultimate parent is Wittington Investments, Limited ("Wittington"). The remaining common shares are widely held.

The Company has two reportable operating segments: "Retail" and "Financial Services" (see note 30).

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 are the Company's first consolidated financial statements reported under IFRS for the 52 week period ended December 31, 2011 with comparative financial information for the 52 week period ended January 1, 2011 and IFRS 1, "First time adoption of IFRS" ("IFRS 1") has been applied. An explanation of how the transition from Canadian Generally Accepted Accounting Principles ("CGAAP") to IFRS as at January 3, 2010 ("transition date") has affected the reported financial position, financial performance and cash flows of the Company, including the mandatory exceptions and optional exemptions under IFRS 1 is provided in note 31.

The consolidated financial statements were authorized for issuance by the Company's Board of Directors ("Board") on February 22, 2012.

Basis of Preparation The consolidated financial statements were prepared on a historical cost basis except for certain financial instruments carried at fair value. Liabilities for cash-settled share-based compensation arrangements are measured at fair value as described in note 21 and defined benefit plan assets are also recorded at fair value with the obligations related to these pension plans measured at their discounted present value as described in note 22.

The significant accounting policies set out below have been applied consistently in the preparation of the consolidated financial statements of all periods presented, including the presentation of the opening consolidated balance sheet as at January 3, 2010 except for certain mandatory exceptions and optional exemptions taken pursuant to IFRS 1 as described in note 31.

The consolidated financial statements are presented in Canadian dollars.

Basis of Consolidation The consolidated financial statements include the accounts of the Company and other entities that the Company controls in accordance with IAS 27 "Consolidated and Separate Financial Statements" ("IAS 27"). Special Purpose Entities ("SPE") are consolidated under Standing Interpretations Committee ("SIC") Interpretation 12 "Consolidation – Special Purpose Entities", ("SIC-12"), if, based on an evaluation of the substance of its relationship with the Company and the SPE's risks and rewards, the Company concludes that it controls the SPE. SPEs controlled by the Company were established under terms that impose strict limitations on the decision-making powers of the SPE's management and that results in the Company receiving the majority of the benefits related to the SPE's operations and net assets, being exposed to the majority of risks incident to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPEs or their assets.

Fiscal Year The fiscal year of the Company ends on the Saturday closest to December 31. As a result, the Company's fiscal year is usually 52 weeks in duration but includes a 53rd week every 5 to 6 years. The years ended December 31, 2011 and January 1, 2011 both contained 52 weeks. The next 53 week year will occur in fiscal 2014.

Net Earnings per Common Share ("EPS") Basic EPS is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. The diluted EPS calculation assumes that the weighted average number of outstanding stock options during the period with an exercise price below the average market price during the period are exercised and the assumed proceeds are used to purchase the Company's common shares at the average market price during the period. Diluted EPS also takes into consideration the dilutive effect of the conversion options on the capital securities, equity forwards recorded in trade and other payables and other payables, and a component of other liabilities.

Revenue Recognition Revenue includes sales, net of estimated returns, to customers through corporate stores operated by the Company, sales to and service fees from associated stores, independent account customers, financial services and franchised stores, net of sales incentives offered by the Company. The Company recognizes revenue at the time the sale is made to its customers and at the time of delivery of inventory to its associated and franchise stores.

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.

On the initial sale of a franchising arrangement, the Company offers products and services as part of a multiple deliverable arrangement which is recorded using a relative fair value approach.

Interest income on credit card loans, service fees and other revenue related to financial services are recognized on an accrual basis.

Taxation The asset and liability method of accounting is used for income taxes. Under the asset and liability method, deferred income tax assets and liabilities are recognized for the deferred income tax consequences attributable to temporary differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. Current and deferred taxes are charged to or credited in the statement of earnings, except when it relates to a business combination, or items charged or credited directly to equity or to other comprehensive income. 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 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 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 when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis. Deferred tax is provided 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.

Cash and Cash Equivalents Cash and 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 primarily consist of government treasury bills, government agencies securities, corporate commercial paper and bank term deposits.

Security Deposits Security deposits consist primarily of cash, government treasury bills and government-sponsored debt securities, which are required to be placed with counterparties as collateral to enter into and maintain outstanding letters of credit, financial derivative contracts and equity forwards. The amount of the required security deposits will fluctuate primarily as a result of the change in market value of the derivatives.

Accounts Receivable Accounts receivable, net of allowances, include amounts due from independent franchisees, associated stores, independent accounts and amounts owed from vendors.

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 for credit losses. 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.

PC Bank considers evidence of impairment losses on a portfolio basis for which losses cannot be determined on an item-by-item basis. The allowance is based upon a statistical analysis of past and current performance, the level of allowance already in place and management's judgment. The allowance for credit losses is deducted from the credit card receivables balance. Interest on the impaired asset continues to be recognized. The net credit loss experience for the year is recognized in operating income.

Periodically the Company transfers credit card receivables by selling them to and repurchasing them from independent securitization trusts. Due to the retention of substantially all of the risks and rewards relating to these assets the Company continues to recognize these assets in credit card receivables and the transferred receivables are accounted for as secured financing transactions. The Company consolidates one of the independent securitization trusts, *Eagle Credit Card Trust*, as a SPE. 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.

Franchise Loans Receivable Franchise loans receivable are comprised of amounts due from independent franchisees for loans issued through an independent funding trust consolidated under SIC-12. Each independent franchisee provides security to the independent funding trust for its obligations by way of a general security agreement. In the event that an independent 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 trust would assign the loan to the Company and draw upon this standby letter of credit. The Company has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

Inventories The Company values merchandise inventories at the lower of cost and net realizable value. Costs include 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. Seasonal general merchandise and inventories at distribution centres are measured at weighted average cost. The Company uses the retail method to measure the cost of the majority of retail store inventories. Under this method, 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 retail 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 for resale. 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. Consideration received from a vendor is a reduction in the cost of the vendor's products and is recognized as a reduction in the cost of merchandise inventories sold and the related inventory when recognized in the consolidated statement of earnings and the consolidated balance sheet, respectively. 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 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.

Depreciation commences when the assets are available for use and is recognized on a straight-line basis to depreciate the cost of these assets to their estimated residual value over their estimated useful lives. When significant parts of a fixed asset have different useful lives, they are accounted for as separate components of the asset and depreciated over their estimated useful lives. Depreciation methods, useful lives and residual values are reviewed at each financial year end and are adjusted if appropriate. Estimated useful lives are as follows:

- Buildings – 10 to 40 years
- Equipment and fixtures – 3 to 10 years
- Building improvements – up to 10 years

Leasehold improvements are depreciated over the lesser of the lease term, which may include renewal options, and their estimated useful lives to a maximum of 25 years.

Fixed assets held under finance leases are depreciated over the lesser of their expected useful lives, on the same basis as owned assets, or the term of the lease, unless it is reasonably certain that the Company will obtain ownership by the end of the lease term in which case it would be depreciated over the life of the asset.

Fixed assets are reviewed quarterly to determine whether there is any indication of impairment. Refer to the Impairment of Non-Financial Assets policy below.

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 accounting policy for fixed assets.

Investment properties are reviewed quarterly to determine whether there is any indication of impairment. Refer to the Impairment of Non-Financial Assets policy below.

Borrowing Costs 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, until such time as the fixed assets are substantially ready for their intended use, based on the weighted average cost of borrowing during the quarter.

Goodwill Goodwill arising in a business combination is recognized as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the fair value of the consideration transferred over the fair value of the identifiable assets acquired less the fair value of the liabilities assumed. Goodwill is tested for impairment at least annually and whenever there is an indication that the asset may be impaired. Refer to the Impairment of Non-Financial Assets policy below.

Intangible Assets Acquired intangible assets that have definite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. The Company assesses each intangible asset for legal, regulatory, contractual, competitive or other factors to determine if the useful life is definite. Intangible assets with a definite life are amortized on a straight-line basis over the related assets' estimated useful lives. Indefinite life intangible assets are measured at cost less any accumulated impairment losses. Indefinite life intangible assets are tested for impairment at least annually and whenever there is an indication that the asset may be impaired. Refer to the impairment of Non-Financial Assets policy below.

Impairment of Non-Financial Assets At each balance sheet date, the Company reviews the carrying amounts of its definite life non-financial assets, including fixed assets, investment properties and intangible assets to determine whether there is any indication of impairment. Goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. If any such indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

For the purposes of reviewing definite life non-financial assets for impairment, asset groups are reviewed at their lowest level for which identifiable cash inflows 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 retail location and each investment property is a separate CGU for purposes of impairment testing.

The Company's corporate assets, which include the head office facilities and distribution centres, do not generate separate cash inflows. Corporate assets are tested for impairment at the minimum collection of CGUs to which the corporate asset can be allocated reasonably and consistently. For distribution centres, the corporate assets are allocated to the operating stores that are serviced from the distribution centre.

Various impairment indicators are used to determine the need to test a retail location for an impairment loss. Indicators include performance of a retail location below forecast and expectation of an adverse impact on future performance of a retail location from competitive activities.

The recoverable amount of a CGU is the greater of its value in current use and its fair value less costs to sell. The Company determines the value in use of its retail locations by discounting the expected cash flows that management estimates can be generated from continued use of the CGU. The process of determining the cash flows requires management to make estimates and assumptions including projected future sales, earnings and capital investment, and discount rates. Projected future sales, earnings and capital investment are consistent with strategic plans presented to the Company's Board of Directors ("Board"). Discount rates are consistent with external industry information reflecting the risk associated with the specific cash flows.

The Company determines the fair value less costs to sell of its retail locations using various assumptions, including the market rental rates for properties located within the same geographical areas as the properties being valued, highest and best use of the property for the geographical area, recoverable operating costs for leases with tenants, non-recoverable operating costs, discount rates, capitalization rates and terminal capitalization rates for the purposes of determining the estimated net proceeds from the sale of the property.

An impairment loss is recognized if the carrying amount of a CGU exceeds its recoverable amount. Impairment losses are recognized in operating income in the period in which they occur. When impairment subsequently reverses, the carrying amount of the asset is increased to the extent that the carrying value of the underlying assets does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment had been recognized. Impairment reversals are recognized in operating income in the period in which they occur.

Goodwill and intangible assets with indefinite lives are assessed for impairment based on the group of CGUs expected to benefit from the synergies of the business combination, and the lowest level at which management monitors the goodwill. Any potential impairment is identified by comparing the recoverable amount of the CGU grouping to which the assets are allocated to its carrying value. If the recoverable amount, calculated as the higher of the fair value less costs to sell and the value in use, is less than its carrying amount, an impairment loss is recognized in operating income in the period in which it occurs. Impairment losses on goodwill are not subsequently reversed if conditions change.

Provisions Provisions are recognized when there is a legal or constructive obligation for which it is probable that a transfer of resources will be required to settle the obligation. 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 surrounding the obligation.

Financial Instruments Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to receive cash flows and benefits related 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. Financial liabilities are derecognized when obligations under the contract expire, are discharged or cancelled. Financial instruments 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, loans and receivables or other financial liabilities. Financial instruments are included on the consolidated balance sheet and measured after initial recognition at fair value, except for loans and receivables, held-to-maturity financial assets and other financial liabilities, which are measured at amortized cost. 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. Gains and losses on fair value through profit or loss financial assets and financial liabilities are recognized in earnings before income taxes 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 and on available-for-sale financial assets are recorded in net earnings before income taxes and other comprehensive income, respectively. 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.

Impairment of Financial Instruments 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 future cash flows of the financial asset or group of assets occur after initial recognition of the financial asset and the loss can be reliably measured. This assessment is performed on an individual financial asset basis or on a portfolio of financial assets basis. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost 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 instruments original effective interest rate and is recorded as an allowance for losses. If, in a subsequent period, the impairment loss decreases, the previously recognized impairment is reversed to the extent of the impairment.

Derivative Instruments Financial derivative instruments in the form of cross currency swaps, interest rate swaps, foreign exchange forwards and equity forwards, 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. Any embedded derivative instruments that may be identified are separated from their host contract and recorded on the consolidated balance sheet at fair value. 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.

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 instrument in a designated hedging relationship.

Foreign Currency Translation The functional currency of the Company is the Canadian dollar. Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. Exchange gains or losses arising from the translation of these balances denominated in foreign currencies are recognized in operating income. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at 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 Plans The Company has a number of contributory and non-contributory defined benefit 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 obligation in respect of defined benefits is calculated separately for each plan. Defined benefit plan obligations are actuarially calculated by a qualified actuary at the balance sheet date using the projected unit credit method. The actuarial valuations are determined based on management's best estimate of the discount rate, the expected long term rate of return on plan assets, 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 the yield on a portfolio of Corporate AA bonds denominated in the same currency in which the benefits are expected to be paid and with terms to maturity that, on average, match the terms of the defined benefit plan obligations. The expected long term rate of return on plan assets is based on current market conditions, the asset mix, the active management of defined benefit pension plan assets and historical returns. The expected growth rate in health care costs for 2011 was based on external data and the Company's historical trends for health care costs. Unrecognized past service costs (see below) and the fair value of plan assets are deducted from the defined benefit plan obligations to arrive at the net defined benefit plan obligations.

Past service costs arising from plan amendments are recognized in operating income in the year that they arise to the extent that the associated benefits are fully vested. Unvested past service costs are recognized in operating income on a straight-line basis over the vesting period of the associated benefits. The interest cost on the defined benefit plan obligation and the expected return on plan assets as determined by the actuarial valuations are recognized in net interest expense and other financing charges.

For plans that resulted in a net defined benefit asset, the recognized asset is limited to the total of any unrecognized past service costs plus 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"). In order to calculate the present value of economic benefits, consideration is given to minimum funding requirements that apply to the plan. 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. The effect of the asset ceiling is recognized in other comprehensive income or loss.

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. Remeasurement of this liability is recognized in other comprehensive income or loss in the period in which the remeasurement occurs.

At each balance sheet date, plan assets are measured at fair value and defined benefit plan obligations are measured using assumptions which approximate their values at the reporting date, with the resulting actuarial gains and losses from both of these measurements recognized in other comprehensive income or loss.

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 amount of the pension benefit is based on accumulated Company contributions and in most plans, employee contributions and investment gains and losses. The costs of benefits for defined contribution plans are expensed as contributions are due.

Multi-Employer Pension Plans The Company participates in multi-employer pension plans which are accounted for as defined contribution plans. The Company's responsibility to make contributions to these plans is established pursuant to its collective agreements. The Company does not administer these plans, but rather, the administration and the investment of their assets are controlled by a board of independent trustees generally consisting of an equal number of union and employer representatives. The contributions made by the Company to multi-employer plans are expensed as contributions are due.

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 amount of other long term employee benefits is actuarially calculated by a qualified actuary at the balance sheet date using the projected unit credit method. The discount rate used to value the other long term employee benefit plan obligation is based on the yield on a portfolio of Corporate AA bonds denominated in the same currency in which the benefits are expected to be paid and with terms to maturity that, on average, match the terms of the other long term employee benefit plan obligations. The interest cost on the other long term employee benefit plan obligation and the expected return on plan assets as determined by the actuarial valuations are recognized in net interest expense and other financing charges. At each balance sheet date, plan assets are measured at fair value and other long term employee benefit plan obligations are measured using assumptions which approximate their values at the reporting date, with the resulting actuarial gains and losses from both of these measurements recognized immediately in operating income. Past service costs are recognized immediately in operating income in the period in which they arise.

Termination Benefits Termination benefits are recognized as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably. Benefits payable are discounted to their present value when the effect of the time value of money is material.

Stock Option Plan Prior to February 22, 2011, stock options could be settled in shares or in the share appreciation value in cash at the option of the employee. These options were accounted for as cash-settled stock options and vested in tranches over a three-to-five year vesting period; accordingly, each tranche was valued separately using a Black-Scholes option pricing model. The fair value of the amount payable to employees in respect of these plans was re-measured at each balance sheet date, and a compensation expense was recognized in operating income over the vesting period for each tranche with a corresponding change in the liability. Forfeitures were estimated at the grant date and were revised to reflect a change in expected or actual forfeitures.

Commencing February 22, 2011, stock options allow for settlement only in shares. These grants are accounted for as equity-settled stock options and vest in tranches over a three-to-five year vesting period. The fair value of each tranche of options granted to employees is measured separately at the grant date using a Black-Scholes option pricing model, and the grant date fair value net of expected forfeitures at the grant date is recognized as an expense in operating income over the vesting period of each tranche, with a corresponding increase in contributed surplus. During the vesting period the amount recognized as an expense is adjusted to reflect revised expectations about the number of options expected to vest, such that the amount ultimately recognized as an expense is based on the number of awards that meet the vesting conditions. Upon exercise of vested options, the amount recognized in contributed surplus for the award plus the cash received upon exercise is recognized as an increase in share capital.

Restricted Share Unit ("RSU") Plan RSU grants entitle employees to a cash payment equal to the weighted average price of a Loblaw common share after the end of a performance period ranging from 3 to 5 years following the date of the award. The Company recognizes a compensation expense in operating income for each RSU granted equal to the market value of a Loblaw common share less the net present value of the expected dividend stream at the date on which RSUs are awarded to each participant. The compensation expense is prorated over the performance period reflecting changes in the market value of a Loblaw common share until the end of the performance period. Forfeitures are estimated at the grant date and are revised to reflect a change in expected or actual forfeitures.

Director Deferred Share Unit ("DSU") Plan Members of the Board, who are not management of the Company, may elect annually to receive all or a portion of their annual retainer(s) and fees in the form of fully vested DSUs. The DSUs vest immediately as the Director is entitled to the shares whenever the Director leaves the Board. Holders of the DSUs earn dividends in the form of additional fractional DSUs during the holding period. The fractional DSU issued during the holding period is treated as additional awards. The Company recognizes an expense for each DSU granted equal to the market value of a Loblaw common share at the date on which DSUs are awarded with a corresponding offset to equity. After the grant date, the DSU expense is not re-measured for subsequent changes in the market value of a Loblaw common share. The DSU's are settled in shares upon termination of Board service.

Executive Deferred Share Unit ("EDSU") Plan Under this plan, eligible executives may elect to defer up to 100% of the Short Term Incentive Plan ("STIP") earned in any year into the EDSU Plan, subject to an overall cap of three times the executive's base salary. All EDSUs held by an executive will be paid out in cash by December 15 of the year following the year in which the executive's employment ceases for any reason. An election to participate in the plan in any year must be made before the beginning of the year and is irrevocable. Each EDSU entitles the holder to receive the cash equivalent of a Loblaw common share. The number of EDSUs granted in respect of any year will be determined by dividing the STIP compensation that is subject to the EDSU plan election by the market value of the Company's common shares on the date the STIP compensation would otherwise be payable. For this purpose, and for purposes of determining the value of an EDSU upon conversion of the EDSUs into cash, the value of the EDSUs will be calculated by using the weighted average of the trading prices of the Company's common shares on the Toronto Stock Exchange for the five trading days prior to the valuation date. After the grant date, any change in fair value is recognized in operating income in the period of the change with a corresponding offset to the liability.

Employee Share Ownership Plan ("ESOP") The Company maintains an ESOP which allows employees to acquire the Company's common shares through regular payroll deductions of up to 5% of their gross regular earnings. The Company contributes an additional 25% of each employee's contribution to the plan and recognizes a compensation cost 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.

Critical Accounting Judgments, Estimates and Assumptions The preparation of the consolidated financial statements requires management to make various judgments, estimates and assumptions in applying the Company's accounting policies which have an effect on the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. These judgments, estimates and assumptions are based on management's historical experience, best knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances.

Material estimates and assumptions are made with respect to establishing the valuation of credit card receivables, the valuation of inventories, goodwill and indefinite life intangible assets, income and other taxes, impairment of fixed assets and other non-financial assets, financial instrument valuation and parameters used in the measurement of post-employment and other long term employee benefits. These estimations depend upon subjective or complex judgments about matters that may be uncertain, and changes in those estimates could materially impact the consolidated financial statements. Illiquid credit markets, volatile equity, foreign currency, and energy markets and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

Future Accounting Standards

Financial Instruments On December 16, 2011, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures" ("IFRS 7") and IAS 32, "Financial Instruments, Presentation" ("IAS 32"), which clarifies the requirements for offsetting financial assets and financial liabilities along with new disclosure requirements for financial assets and liabilities that are offset. The amendments to IAS 32 and IFRS 7 are effective for annual periods beginning on or after January 1, 2014 and January 1, 2013 respectively The Company is currently assessing the impact of these amendments on its consolidated financial statements.

Consolidated Financial Statements On May 12, 2011, IASB issued IFRS 10, "Consolidated Financial Statements" ("IFRS 10"). This IFRS replaces portions of IAS 27 that addresses consolidation, and supersedes SIC-12 in its entirety. The objective of IFRS 10 is to define the principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. IAS 27 has been amended for the issuance of IFRS 10 and retains guidance only for separate financial statements.

Joint Arrangements On May 12, 2011, the IASB issued IFRS 11, "Joint Arrangements" ("IFRS 11"). IFRS 11 supersedes IAS 31, "Interest in Joint Ventures" and SIC-13, "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly.

As a result of the issuance of IFRS 10 and IFRS 11, IAS 28, "Investments in Associates and Joint Ventures" has been amended to correspond to the guidance provided in IFRS 10 and IFRS 11.

Disclosure of Interests in Other Entities On May 12, 2011, the IASB issued IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12"). This IFRS standard requires extensive disclosures relating to a company's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. This IFRS standard enables users of the financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial position and performance.

IFRS 10, 11 and 12, and the amendments to IAS 27 and 28 are all effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted, so long as IFRS 10, 11 and 12, and the amendments to IAS 27 and 28 are adopted at the same time. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 12. The Company is currently assessing the impact of these new standards and amendments on its consolidated financial statements.

Fair Value Measurement On May 12, 2011, the IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, provides guidance in a single IFRS framework for measuring fair value and identifies the required disclosures pertaining to fair value measurement. This standard is effective for annual periods beginning on or after January 1, 2013, and early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

Employee Benefits On June 16, 2011 the IASB revised IAS 19, "Employee Benefits" ("IAS 19"). The revisions include the elimination of the option to defer the recognition of gains and losses, enhancing the guidance around measurement of plan assets and defined benefit plan obligations, streamlining the presentation of changes in assets and liabilities arising from defined benefit plans and introduction of enhanced disclosures for defined benefit plans. The amendments are effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of the amendments on its consolidated financial statements.

Presentation of Financial Statements On June 16, 2011 the IASB issued amendments to IAS 1, "Presentation of Financial Statements". The amendments enhance the presentation of other comprehensive income in the financial statements, primarily by requiring the components of other comprehensive income to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. The amendments are effective for annual periods beginning on or after July 1, 2012. The Company is currently assessing the impact of the amendments on its consolidated financial statements.

Financial Instruments – Disclosures On October 7, 2010, the IASB issued amendments to IFRS 7, which increase the disclosure requirements for transactions involving transfers of financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011 and therefore the Company will apply the amendment in the first quarter of 2012. The Company does not expect there will be any material impact on its financial statement disclosures.

Deferred Tax – Recovery of Underlying Assets On December 20, 2010, the IASB issued amendments to IAS 12, "Income Taxes" ("IAS 12"), that introduce an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The amendment is effective for annual periods beginning on or after January 1, 2012. The Company has elected to account for its investment properties at cost and as such there is no impact on its financial statements as a result of the amendment.

Financial Instruments On November 12, 2009, the IASB has issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9"), which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities. This standard becomes effective on January 1, 2015. The Company is currently assessing the impact of the new standard on its financial statements.

Note 3. Net Interest Expense and Other Financing Charges

	2011	2010
Interest expense and other financing charges:		
Long term debt	**$ 282**	$ 291
Defined benefit and other long term employee benefit plan obligations	**90**	89
Borrowings related to credit card receivables	**41**	42
Franchise Trust II loans	**16**	16
Dividends on capital securities	**14**	14
Less: interest capitalized to fixed assets (capitalization rate 6.4% (2010 – nil))	**(1)**	–
	442	452
Interest income:		
Expected return on pension benefit plan assets	**(80)**	(76)
Accretion income	**(20)**	(15)
Financial derivative instruments	**(8)**	–
Short term interest income	**(7)**	(8)
	(115)	(99)
Net interest expense and other financing charges	**$ 327**	$ 353

Note 4. Income Taxes

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

	2011	2010
Current income tax expense:		
Current period	**$ 239**	$ 247
Adjustment in respect of prior periods	**(4)**	(1)
	$ 235	$ 246
Deferred tax expense:		
Origination and reversal of temporary differences	**53**	73
Total income tax expense	**$ 288**	$ 319

Income tax expense (recovery) recognized in other comprehensive income (loss) were as follows:

	2011	2010
Cash flow hedges – fair value	**$ –**	$ (1)
Cash flow hedges – reclassification to net earnings	**–**	(3)
Defined benefit plan actuarial loss	**(72)**	(32)
Other comprehensive loss	**$ (72)**	$ (36)

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

	2011	2010
Weighted average basic Canadian federal and provincial statutory income tax rate	**27.7%**	29.9%
Net increase (decrease) resulting from:		
Effect of tax rate in foreign jurisdictions	**0.2**	(1.0)
Non-deductible (taxable) items	**(0.3)**	2.7
Adjustments in respect of prior periods	**(0.4)**	(0.1)
Other	**–**	0.6
Effective income tax rate	**27.2%**	32.1%

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

	2011	2010
Income tax losses	**$ 15**	$ 2

The income tax losses expire in the years 2027 to 2031. 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 Deferred tax assets and liabilities were attributable to the following:

	As at December 31, 2011	As at January 1, 2011	As at January 3, 2010
Trade payables and other liabilities	**$ 54**	$ 71	$ 74
Other liabilities	**299**	239	237
Fixed assets	**(208)**	(233)	(195)
Other assets	**(22)**	(23)	(9)
Losses carried forward (expiring 2029 to 2031)	**73**	87	92
Other	**15**	51	32
Net deferred income tax assets	**$ 211**	$ 192	$ 231
Recorded on the consolidated balance sheets as follows:			
Deferred income tax assets	**232**	227	258
Deferred income tax liabilities	**(21)**	(35)	(27)

Note 5. Basic and Diluted Net Earnings per Common Share

(millions of Canadian dollars except where otherwise indicated)	2011	2010
Net earnings for basic earnings per share	**$ 769**	$ 675
Impact of dividends on capital securities (note 3)	**14**	–
Impact of cash-settled share-based compensation	**–**	(1)
Impact of equity forwards	**–**	(9)
Net earnings for diluted earnings per share	**$ 783**	$ 665
Weighted average common shares outstanding (note 19) (in millions)	**281.6**	277.9
Dilutive effect of capital securities (note 19) (in millions)	**6.2**	–
Dilutive effect of share-based compensation (in millions)	**0.7**	–
Dilutive effect of equity forwards (in millions)	**–**	0.6
Dilutive effect of certain other liabilities (in millions)	**0.9**	0.9
Diluted weighted average common shares outstanding	**289.4**	279.4
Basic net earnings per common share ($)	**$ 2.73**	$ 2.43
Diluted net earnings per common share ($)	**$ 2.71**	$ 2.38

For 2011, 8,248,090 (2010 – 12,964,926) potentially dilutive instruments were excluded from the computation of diluted net earnings per common share, as they were anti-dilutive.

Note 6. Cash and Cash Equivalents, Short Term Investments and Security Deposits

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

Cash and Cash Equivalents

	As at December 31, 2011	As at January 1, 2011	As at January 3, 2010
Cash	**$ 232**	$ 75	$ 173
Cash equivalents:			
Bankers' acceptances	**150**	240	296
Government treasury bills	**227**	224	72
Bank term deposits	**170**	200	45
Corporate commercial paper	**132**	113	116
Government agencies securities	**–**	4	29
Other	**55**	1	–
Total cash and cash equivalents	**$ 966**	$ 857	$ 731

Short Term Investments

	As at December 31, 2011	As at January 1, 2011	As at January 3, 2010
Bankers' acceptances	**$ –**	$ 1	$ –
Government treasury bills	**252**	326	376
Corporate commercial paper	**280**	270	131
Government agencies securities	**221**	114	83
Other	**1**	43	73
Total short term investments	**$ 754**	$ 754	$ 663

Security Deposits

	As at December 31, 2011	As at January 1, 2011	As at January 3, 2010
Cash	**$ 85**	$ –	$ 50
Bankers' acceptances	**–**	92	–
Government treasury bills	**108**	220	183
Government agencies securities	**73**	42	17
Total security deposits	**$ 266**	$ 354	$ 250

During 2011, the Company entered into agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of $88 million of which $85 million was deposited with major Canadian chartered banks and classified as security deposits as at December 31, 2011.

As at December 31, 2011, United States Dollars ("USD") $1,073 million (January 1, 2011 – USD $1,033 million, January 3, 2010 – USD $945 million) was included in cash and cash equivalents, short term investments and security deposits.

Note 7. Accounts Receivable

The following is an aging of the Company's accounts receivable as at December 31, 2011 and January 1, 2011:

	2011				2010			
	Current	**> 30 days**	**> 60 days**	**Total**	Current	> 30 days	> 60 days	Total
Accounts receivable	**371**	**37**	**59**	**467**	298	16	52	366

A continuity of the Company's allowances for uncollectable accounts receivable is as follows:

	2011	2010
Allowance, beginning of year	**$ (105)**	$ (110)
Net (additions) reversals	**(7)**	5
Allowance, end of year	**$ (112)**	$ (105)

Of the balance of accounts receivable that are past due as at December 31, 2011, $19 million (January 1, 2011 – $11 million, January 3, 2010 – $24 million) were not classified as impaired as their past due status was reasonably expected to be remedied.

Note 8. Credit Card Receivables

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. Under these securitization programs, a portion of the total interest in the credit card receivables is sold to several independent securitization trusts pursuant to co-ownership agreements. PC Bank purchases receivables from and sells receivables to the trusts from time to time depending on PC Bank's financing requirements. The trusts fund these purchases by issuing debt securities in the form of asset-backed commercial paper or asset-backed term notes to third-party investors.

In 2011, PC Bank securitized $370 million (2010 − $600 million) credit card receivables and repurchased $500 million (2010 − $690 million) of co-ownership interests in the securitized receivables from certain independent securitization trusts. The $500 million repurchase was related to the March 17, 2011 maturity of five-year $500 million senior and subordinated notes issued by *Eagle Credit Card Trust*.

The components of credit card receivables were as follows:

	As at December 31, 2011	As at January 1, 2011	As at January 3, 2010
Credit card receivables	$ 633	$ 396	$ 419
Securitized to *Eagle Credit Card Trust*	600	1,100	500
Securitized to other independent securitization trusts	905	535	1,225
Total credit card receivables	2,138	2,031	2,144
Allowance for credit card receivables	(37)	(34)	(49)
Net credit card receivables	$ 2,101	$ 1,997	$ 2,095

A continuity of the Company's allowances for credit card receivables is as follows:

	2011	2010
Allowances, beginning of year	$ (34)	$ (49)
Provision for losses	(87)	(95)
Recoveries	(14)	(11)
Write-offs	98	121
Allowances, end of year	$ (37)	$ (34)

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

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

	2011				2010			
	Current	> 30 days	> 60 days	Total	Current	> 30 days	> 60 days	Total
Credit card receivables	2,056	15	30	2,101	1,953	15	29	1,997

Of the balance of credit card receivables that are past due as at December 31, 2011, $24 million (January 1, 2011 – $23 million, January 3, 2010 – $35 million) were not classified as impaired as they were less than 90 days past due and their past due status was reasonably expected to be remedied. Any credit card receivable balances with a payment that is contractually 180 days in arrears or where the likelihood of collection is considered remote, are written off. Concentration of credit risk with respect to credit card receivables is negligible due to the Company's diverse credit card customer base.

The time period beyond the contractual due date during which a cardholder is permitted to make a payment without the receivables being classified as past due, is incorporated above.

Note 9. Inventories

For inventories recorded as at December 31, 2011, the Company recorded $20 million (2010 – $17 million) as an expense for the write-down of inventories below cost to net realizable value. The write-down was included in cost of merchandise inventories sold in the consolidated statements of earnings. There were no reversals of previously recorded write-downs of inventories during 2011 and 2010.

Note 10. Assets Held for Sale

The Company holds 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. Impairment and other charges of $3 million were recognized in 2011 (2010 – $26 million) on these properties. During 2011, the Company recorded a $19 million (2010 – $2 million) gain from the sale of these assets.

Note 11. Fixed Assets

The following is a continuity of fixed assets:

	2011						
	Land	Buildings	Equipment and Fixtures	Leasehold Improvements	Finance Leases - Land, Buildings, Equipment and Fixtures	Assets Under Construction	Total
Cost							
Balance, beginning of year	$ 1,537	$ 5,822	$ 4,815	$ 608	$ 435	$ 1,074	$ 14,291
Additions	–	2	16	16	76	950	1,060
Disposals	–	(5)	(75)	(7)	–	–	(87)
Transfer (to)/from assets held for sale	5	(9)	–	–	–	–	(4)
Transfer to investment properties	(1)	(3)	–	–	(1)	–	(5)
Transfer to/(from) assets under construction	117	501	654	106	–	(1,378)	–
Balance, end of year	$ 1,658	$ 6,308	$ 5,410	$ 723	$ 510	$ 646	$ 15,255
Accumulated depreciation and impairment losses							
Balance, beginning of year	$ 6	$ 1,957	$ 3,389	$ 350	$ 205	$ 7	$ 5,914
Depreciation	–	179	429	38	37	–	683
Impairment losses	3	23	3	7	3	–	39
Reversal of impairment losses	(3)	(30)	(1)	–	–	–	(34)
Disposals	–	(5)	(58)	(6)	–	–	(69)
Transfer (to)/from assets held for sale	2	(3)	–	–	–	–	(1)
Transfer to investment properties	–	(2)	–	–	–	–	(2)
Transfer to/(from) assets under construction	1	13	(17)	3	–	–	–
Balance, end of year	$ 9	$ 2,132	$ 3,745	$ 392	$ 245	$ 7	$ 6,530
Carrying amount as at:							
December 31, 2011	$ 1,649	$ 4,176	$ 1,665	$ 331	$ 265	$ 639	$ 8,725

	2010						
	Land	Buildings	Equipment and Fixtures	Leasehold Improvements	Finance Leases - Land, Buildings, Equipment, and Fixtures	Assets Under Construction	Total
Cost							
Balance, beginning of year	$ 1,626	$ 5,725	$ 4,419	$ 581	$ 316	$ 606	$ 13,273
Additions	–	27	68	3	119	1,082	1,299
Disposals	(4)	(18)	(153)	(1)	–	–	(176)
Transfer to assets held for sale	(32)	(60)	–	–	–	–	(92)
Transfer to investment properties	(9)	(4)	–	–	–	–	(13)
Transfer to/(from) assets under construction	(44)	152	481	25	–	(614)	–
Balance, end of year	$ 1,537	$ 5,822	$ 4,815	$ 608	$ 435	$ 1,074	$ 14,291
Accumulated depreciation and impairment losses							
Balance, beginning of year	$ 8	$ 1,813	$ 3,133	$ 312	$ 185	$ 7	$ 5,458
Depreciation	–	178	382	33	20	–	613
Impairment losses	–	22	2	5	–	–	29
Reversal of impairment losses	–	(34)	(2)	–	–	–	(36)
Disposals	–	(11)	(126)	–	–	–	(137)
Transfer to assets held for sale	(2)	(11)	–	–	–	–	(13)
Balance, end of year	$ 6	$ 1,957	$ 3,389	$ 350	$ 205	$ 7	$ 5,914
Carrying amount as at:							
January 1, 2011	$ 1,531	$ 3,865	$ 1,426	$ 258	$ 230	$ 1,067	$ 8,377
January 3, 2010	$ 1,618	$ 3,912	$ 1,286	$ 269	$ 131	$ 599	$ 7,815

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 31, 2011, the net carrying amount of leased land and buildings was $223 million (January 1, 2011 – $175 million, January 3, 2010 – $131 million), and the net carrying amount of leased equipment and fixtures was $42 million (January 1, 2011 – $55 million, January 3, 2010 – nil).

Assets under Construction The cost of additions to properties held for or under construction for the year ended December 31, 2011 was $950 million (January 1, 2011 – $1,082 million). Included in this amount are capitalized borrowing costs of $1 million (2010 – nil), with a weighted average capitalization rate of 6.4% (2010 – nil).

Security and Assets Pledged As at December 31, 2011, fixed assets with a carrying amount of $194 million (January 1, 2011 – $190 million, January 3, 2010 − $196 million) were encumbered by mortgages of $96 million (January 1, 2011 – $99 million, January 3, 2010 – $103 million).

Fixed Asset Commitments As at December 31, 2011, the Company had entered into commitments of $57 million (2010 – $95 million) for the construction, expansion and renovation of buildings and the purchase of real property.

Impairment Losses For the year ended December 31, 2011, the Company recorded $39 million (2010 − $29 million) of impairment losses on fixed assets in respect of 21 CGUs (2010 − 18 CGUs) in the retail operating segment. The impairment losses are recorded where the carrying amount of the retail location exceeded its recoverable amount. The recoverable amount was based on the greater of the CGU's fair value less costs to sell and its value in use. Approximately 52% (2010 − 50%) of impaired CGUs had carrying values which were $24 million (2010 − $13 million) greater than their fair value less costs to sell. The remaining 48% (2010 − 50%) of impaired CGUs had carrying values which were $15 million (2010 − $16 million) greater than their value in use.

The Company recorded $34 million (2010 − $36 million) of impairment reversals on fixed assets in respect of 17 CGUs (2010 − 23 CGUs) in the retail operating segment. The impairment reversals are recorded where the recoverable amount of the retail location exceeded its carrying amount. The recoverable amount was based on the greater of the CGU's fair value less costs to sell and its value in use. Approximately 71% (2010 − 65%) of CGUs with impairment reversals had fair value less costs to sell which were $24 million (2010 − $21 million) greater than their carrying values. The remaining 29% (2010 − 35%) of CGUs with impairment reversals had value in use which were $10 million (2010 − $15 million) 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 asset 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 is 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 8.75% to 9.25% at December 31, 2011 (January 1, 2011 – 9.5% to 10.0%, January 3, 2010 – 9.5% to 10.0%).

Note 12. Investment Properties

The following is a continuity of investment properties:

	2011	2010
Cost		
Balance, beginning of year	**$ 151**	$ 142
Disposals	**(1)**	(4)
Transfer from fixed assets	**5**	13
Transfer from assets held for sale	**3**	–
Balance, end of year	**$ 158**	$ 151
Accumulated depreciation and impairment losses		
Balance, beginning of year	**$ 77**	$ 67
Depreciation	**1**	2
Impairment losses	**2**	8
Reversal of impairment losses	**(6)**	–
Transfer from fixed assets	**2**	–
Balance, end of year	**$ 76**	$ 77

	Carrying Amount	**Fair Value**
December 31, 2011	$ 82	$ 109
January 1, 2011	$ 74	$ 94
January 3, 2010	$ 75	$ 88

During the year, the Company recognized in operating income $5 million of rental income (2010 – $5 million) and incurred direct operating costs of $3 million (2010 – $3 million) related to its investment properties. In addition, the Company recognized direct operating costs of $1 million (2010 – $1 million) related to its investment properties for which no rental income was earned.

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 and the independent manager of the Company's investment properties. 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 willing buyer and a willing 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 31, 2011, the pre-tax discount rates used in the valuations for investment properties ranged from 6.0% to 10.0% (January 1, 2011 − 6.75% to 10%) and the terminal capitalization rates ranged from 5.75% to 9.25% (January 1, 2011 − 6% to 9.25%).

For the year ended December 31, 2011, the Company recorded in operating income $2 million (2010 − $8 million) in impairment losses on investment properties as the carrying amount of all impaired properties was higher than their recoverable amounts. The Company also recorded in operating income $6 million (2010 – nil) in reversal of impairment losses on investment properties where the carrying amount of these properties was less than their fair values less costs to sell. The main factor contributing to the impairment of investment properties was external economic factors.

Note 13. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill and intangible assets were as follows:

	2011				
	Indefinite Life Intangible Assets and Goodwill		Definite Life Intangible Assets		
	Goodwill	Trademarks and Brand Names[(1)]	Internally Generated Intangible Assets	Other Intangible Assets	Total
Cost					
Balance, beginning of year	**$ 1,929**	**$ 51**	**$ 18**	**$ 42**	**$ 2,040**
Additions	**8**	**–**	**2**	**4**	**14**
Write off of cost for fully amortized assets	**–**	**–**	**–**	**(3)**	**(3)**
Balance, end of year	**$ 1,937**	**$ 51**	**$ 20**	**$ 43**	**$ 2,051**
Accumulated amortization and impairment losses					
Balance, beginning of year	**$ 989**	**$ –**	**$ 2**	**$ 23**	**$ 1,014**
Amortization	**–**	**–**	**6**	**5**	**11**
Write off of amortization for fully amortized assets	**–**	**–**	**–**	**(3)**	**(3)**
Balance, end of year	**$ 989**	**$ –**	**$ 8**	**$ 25**	**$ 1,022**
Carrying amount as at:					
December 31, 2011	**$ 948**	**$ 51**	**$ 12**	**$ 18**	**$ 1,029**

(1) The trademark and brand names are as a result of the Company's acquisition of T&T Supermarket Inc.

	2010				
	Indefinite Life Intangible Assets and Goodwill		Definite Life Intangible Assets		
	Goodwill	Trademarks and Brand Names[(1)]	Internally Generated Intangible Assets	Other Intangible Assets	Total
Cost					
Balance, beginning of year	$ 1,929	$ 51	$ 8	$ 36	$ 2,024
Additions	–	–	10	6	16
Balance, end of year	$ 1,929	$ 51	$ 18	$ 42	$ 2,040
Accumulated amortization and impairment losses					
Balance, beginning of year	$ 989	$ –	$ –	$ 12	$ 1,001
Amortization	–	–	2	11	13
Balance, end of year	$ 989	$ –	$ 2	$ 23	$ 1,014
Carrying amount as at:					
January 1, 2011	$ 940	$ 51	$ 16	$ 19	$ 1,026
January 3, 2010	$ 940	$ 51	$ 8	$ 24	$ 1,023

(1) The trademark and brand names are as a result of the Company's acquisition of T&T Supermarket Inc.

During the fourth quarter of 2011, the Company had an acquisition for which the Company recorded goodwill and intangible assets of $8 million.

Internally generated definite life intangible assets predominantly consisted of software development costs and have an estimated remaining useful life of 3 years. Other definite life intangible assets have an estimated remaining useful life of up to a maximum of 17 years. Amortization of definite life intangible assets is recognized in operating income. The Company completed its assessment of impairment indicators and concluded that there was no impairment.

For purposes of goodwill impairment testing, the Company's CGUs are grouped at the lowest level at which goodwill is monitored for internal management purposes. The carrying amount of goodwill attributed to each CGU grouping was as follows:

	As at December 31, 2011	As at January 1, 2011	As at January 3, 2010
Quebec	**$ 700**	$ 700	$ 700
T&T Supermarket Inc.	**129**	129	131
All other	**119**	111	109
Carrying amount of goodwill	**$ 948**	$ 940	$ 940

The Company performs its goodwill impairment assessment on an annual basis or more frequently if there are any indications that impairment may have arisen. The recoverable amount of both Quebec CGU and T&T Supermarket Inc. ("T&T") CGU were based on fair value less costs to sell and was determined by discounting the future cash flows to be generated from the continuing use of the CGUs. The Company completed its annual goodwill impairment tests and concluded that there was no impairment.

Key Assumptions The key assumptions used to calculate the recoverable amount for the fair value less costs to sell calculation are those regarding discount rates, growth rates and expected changes in margins.

Cash flow projections have been discounted using a range of rates derived from the Company's after-tax weighted average cost of capital adjusted for specific risks relating to each CGU. The after-tax discount rates used in the recoverable amount calculations range from 7.0% to 9.5%. The pre-tax discount rate ranged from 9.4% to 12.8%.

The Company included a minimum of five years of cash flows in its discounted cash flow model. The cash flow forecasts were extrapolated beyond the five year period using estimated long-term growth rates ranging from 1.5% to 2.0%. The budgeted EBITDA(1) growth is based on the budget and the Company's five year strategic plan approved by the Board.

Sensitivity to Changes in Key Assumptions For the T&T CGU, two key assumptions were identified that if changed could cause the carrying amount to exceed its recoverable amount. A change in the discount rate or terminal growth rate of approximately 75 basis points or 125 basis points respectively would cause the estimated recoverable amount to equal the carrying amount. The values assigned to the key assumptions represent the Company's assessment of the future performance of T&T and are based on both external and internal sources of information. For all other CGUs, reasonably possible fluctuations in the key assumptions would not result in an impairment.

The Company does not believe that any changes in key assumptions will have a significant impact on the determination of the recoverable amount of the Company's other CGUs to which goodwill is allocated.

(1) See non-GAAP financial measures on page 38 of the Company's Management's Discussion & Analysis.

Note 14. Other Assets

	As at December 31, 2011	As at January 1, 2011	As at January 3, 2010
Unrealized cross currency swaps (note 25)	**$ 103**	$ 172	$ 142
Sundry investments and other receivables	**166**	160	138
Defined benefit plan asset (note 22)	**–**	5	11
Other	**32**	40	39
Other assets	**$ 301**	$ 377	$ 330

Note 15. Provisions

Provisions consist primarily of amounts recorded in respect of self-insurance, commodity taxes, environmental and decommissioning liabilities and onerous lease arrangements. Activity related to the Company's provisions is as follows:

	2011	2010
Balance, beginning of year	**$ 105**	$ 106
Additions	**56**	59
Payments	**(50)**	(39)
Reversals	**(26)**	(21)
Total provisions	**$ 85**	$ 105
Recorded on the consolidated balance sheets as follows:		
Current portion of provisions	**35**	62
Non-current portion of provisions	**50**	43

Note 16. Short Term Debt

The outstanding balances relate to the liability of the independent securitization trusts excluding *Eagle Credit Card Trust* which is included in long-term debt (see note 17). During 2011, PC Bank amended and extended the maturity date of one of its independent securitization trust agreements from the third quarter of 2012 to the third quarter of 2014, with no material impact to the other terms and conditions of the agreement.

During 2011, PC Bank securitized $370 million (2010 – nil) of credit card receivables and repurchased nil (2010 – $690 million) of co-ownership interests in the securitized credit card receivables from independent securitization trusts. In addition to PC Bank's securitized credit card receivables, the independent securitization trusts' recourse is limited to standby letters of credit arranged by the Company as at December 31, 2011 of $81 million (January 1, 2011 – $48 million; January 3, 2010 – $116 million) which is based on a portion of the securitized amount (see note 28).

Note 17. Long Term Debt

	As at December 31, 2011	As at January 1, 2011	As at January 3, 2010
Loblaw Companies Limited Notes			
7.10%, due 2010	**$ –**	$ –	$ 300
6.50%, due 2011	**–**	350	350
5.40%, due 2013	**200**	200	200
6.00%, due 2014	**100**	100	100
4.85%, due 2014	**350**	350	350
7.10%, due 2016	**300**	300	300
5.22%, due 2020	**350**	350	–
6.65%, due 2027	**100**	100	100
6.45%, due 2028	**200**	200	200
6.50%, due 2029	**175**	175	175
11.40%, due 2031			
Principal	**151**	151	151
Effect of coupon repurchase	**(85)**	(81)	(67)
6.85%, due 2032	**200**	200	200
6.54%, due 2033	**200**	200	200
8.75%, due 2033	**200**	200	200
6.05%, due 2034	**200**	200	200
6.15%, due 2035	**200**	200	200
5.90%, due 2036	**300**	300	300
6.45%, due 2039	**200**	200	200
7.00%, due 2040	**150**	150	150
5.86%, due 2043	**55**	55	55
Private Placement Notes ("USPP")			
6.48%, due 2013 (USD $150 million)	**153**	150	158
6.86%, due 2015 (USD $150 million)	**153**	150	158
Long Term Debt Secured by Mortgage			
5.49%, due 2018 (note 11)	**91**	93	96
Guaranteed Investment Certificates ("GICs")			
Due 2012 – 2016 (0.90% – 3.78%)	**276**	18	–
Independent Securitization Trusts(1)			
Eagle Credit Card Trust, 4.47%, due 2011	**–**	500	500
Eagle Credit Card Trust, 2.88%, due 2013	**250**	250	–
Eagle Credit Card Trust, 3.58%, due 2015	**350**	350	–
Independent Funding Trusts	**424**	395	381
Finance Lease Obligations (note 24)	**334**	296	194
Transaction costs and other	**3**	(2)	2
Total long term debt	**5,580**	6,100	5,353
Less amount due within one year	**87**	902	312
Long Term Debt	**$ 5,493**	$ 5,198	$ 5,041

(1) The notes issued by *Eagle Credit Card Trust* are medium-term notes which are collateralized by PC Bank's credit card receivables (see note 8).

Loblaw Companies Limited Notes During 2011, a $350 million 6.50% Medium Term Note ("MTN") due January 19, 2011 was repaid. During 2010, the $300 million, 7.10% MTN matured and was repaid.

During 2010, the Company issued $350 million principal amount of unsecured MTNs, Series 2-B pursuant to its MTNs, Series 2 program. The Series 2-B notes pay a fixed rate of interest of 5.22% payable semi-annually commencing on December 18, 2010 until maturity on June 18, 2020. The notes are subject to similar terms and conditions as the Company's other MTNs.

Committed Credit Facility The Company has an $800 million committed credit facility expiring in March of 2013 provided by a syndicate of third party lenders. Interest is based on a floating rate, primarily the bankers' acceptance rate and an applicable margin based on the Company's credit rating. As at December 31, 2011, the Company was in compliance with all of its covenants (see note 20). As at December 31, 2011, the Company had not drawn on the $800 million committed credit facility.

Guaranteed Investment Certificates During 2011, PC Bank sold $264 million (2010 – $18 million), before commissions of $2 million (2010 – nil), in GIC through independent brokers. In addition, during 2011, $6 million (2010 – nil) of GICs matured and were repaid. As at December 31, 2011, the Company recorded in long term debt $276 million (January 1, 2011 – $18 million; January 3, 2010 – nil) before commissions of $2 million (January 1, 2011 – nil; January 3, 2010 – nil) of outstanding GICs, of which $46 million (January 1, 2011 – $5 million; January 3, 2010 – nil) was recorded as long term debt due within one year.

Independent Securitization Trusts During 2011, *Eagle Credit Card Trust* repaid $500 million senior and subordinated notes due March 17, 2011. During 2010, *Eagle Credit Card Trust* issued $250 million of Series 2010-1 and $350 million of Series 2010-2 notes due in 2013 and 2015, respectively.

Independent Funding Trusts Certain independent franchisees of the Company obtain financing through a structure involving independent funding trusts, which were created to provide loans to the independent franchisees to facilitate their purchase of inventory and fixed assets consisting mainly of fixtures and equipment. These independent funding trusts are administered by a major Canadian chartered bank. During 2011, this $475 million revolving committed credit facility was renewed and extended for a 3-year period. As a result of the renewal, the Company's credit enhancement was reduced from 15% to 10%. Other terms and conditions remain substantially the same. As at December 31, 2011, the independent franchisees had drawn $424 million (January 1, 2011 – $395 million; January 3, 2010 – $381 million) at variable interest rates from this committed credit facility which expires in 2014.

Schedule of Repayments The schedule of repayment of long term debt, based on maturity is as follows: 2012 − $87 million; 2013 − $670 million; 2014 − $940 million; 2015 − $544 million; 2016 − $428 million; thereafter − $2,918 million. See note 25 for disclosure of the fair value of long-term debt.

Note 18. Other Liabilities

	As at December 31, 2011	As at January 1, 2011	As at January 3, 2010
Defined benefit plan liability (note 22)	**$ 579**	$ 345	$ 278
Other long term employee benefit liability	**118**	118	116
Deferred vendor allowances	**32**	40	48
Unrealized interest rate swap (note 25)	**16**	24	31
Share-based compensation liability (note 21)	**15**	35	20
Other	**157**	148	162
Other liabilities	**$ 917**	$ 710	$ 655

Note 19. Share Capital

First Preferred Shares (authorized – 1.0 million shares) There were no non-voting First Preferred Shares outstanding at year end.

Second Preferred Shares, Series A (authorized – 12.0 million shares) The Company has outstanding 9.0 million 5.95% non-voting Second Preferred Shares, Series A, with a face value of $225 million, which were issued for net proceeds of $218 million, and entitle the holder to a fixed cumulative preferred cash dividend of $1.4875 per share per annum which, if declared, will be payable quarterly. These preferred shares which are presented as Capital Securities on the Consolidated Balance Sheet are classified as other financial liabilities, and measured using the effective interest method. During 2011, the Board declared dividends of $1.4875 (2010 – $1.4875) per Second Preferred Share which are included as a component of interest expense and other financing charges on the Consolidated Statement of Earnings for the years ended December 31, 2011 and January 1, 2011 (see note 3). Subsequent to year end, the Board declared a dividend of $0.37 per Second Preferred Share, Series A payable April 30, 2012.

On and after July 31, 2013, 2014 and 2015 the Company may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares for $25.75, $25.50 and $25.00 respectively. On and after July 31, 2013, the Company may, at its option, convert these preferred shares into that number of common shares of the Company determined by dividing the then applicable redemption price, together with all accrued and unpaid dividends to but excluding the date of conversion, by the greater of $2.00 and 95% of the then current market price of the common shares. On and after July 31, 2015, these outstanding preferred shares are convertible, at the option of the holder, into that number of common shares of the Company determined by dividing $25.00, together with accrued and unpaid dividends to but excluding the date of conversion, by the greater of $2.00 and 95% of the then current market price of the common shares. This option is subject to the Company's right to redeem the preferred shares for cash or arrange for their sale to substitute purchasers.

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 year was as follows:

	2011		2010	
	Number of Common Shares	**Common Share Capital**	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of year	**280,578,130**	**$ 1,475**	276,188,258	$ 1,308
Common shares issued:				
Dividend Reinvestment Plan	**1,142,380**	**$ 43**	4,389,872	$ 167
Stock Options	**686,794**	**$ 28**	–	$ –
Purchased for cancellation	**(1,021,986)**	**$ (6)**	–	$ –
Issued and outstanding, end of year	**281,385,318**	**$ 1,540**	280,578,130	$ 1,475
Weighted average outstanding	**281,601,124**		277,875,697	

The declaration and payment of dividends on 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 and other factors considered relevant from time to time. Over the long term, the Company's objective is for its common share dividend payment ratio to be in the range of 20% to 25% of the prior year's basic net earnings per common share adjusted as appropriate for items which are not regarded to be reflective of ongoing operations giving consideration to the year-end cash position, future cash flow requirements and investment opportunities. During 2011, the Board declared dividends of $0.84 (2010 – $0.84) per common share. Subsequent to year end, the Board declared a quarterly dividend of $0.21 per common share payable April 1, 2012.

Normal Course Issuer Bid ("NCIB") During 2011, the Company renewed its NCIB to purchase on the Toronto Stock Exchange ("TSX"), or to enter into equity derivatives to purchase, up to 14,096,437 (2010 – 13,865,435) of the Company's common shares, representing approximately 5% of the common shares outstanding. In accordance with the rules and by-laws of the TSX, the Company may purchase its shares at the then market price of such shares. During 2011, the Company purchased for cancellation 1,021,986 (2010 – nil) common shares under the NCIB, resulting in a charge to retained earnings of $33 million for the premium on the common shares and a reduction in common share capital of $6 million.

Dividend Reinvestment Plan ("DRIP") During the year, the Company issued 1,142,380 (2010 – 4,389,872) common shares from treasury under the DRIP at a three percent (3%) discount to market resulting in incremental equity in the Company of $43 million (2010 – $167 million). In 2011, the Board approved the discontinuance of the DRIP after the dividend payment on April 1, 2011. The DRIP raised approximately $330 million total common share equity since 2009.

Note 20. Capital Management

The Company manages its capital and capital structure 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; and
- utilizing short term funding sources to manage its working capital requirements and long term funding sources to match the long term nature of the fixed assets of the business.

In order to manage its capital structure, the Company may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to its NCIB, issue new shares, issue new debt, or repay indebtedness.

During 2010, the Company filed a Short Form Base Shelf Prospectus ("Prospectus") allowing for the potential issuance of up to $1.0 billion of unsecured debentures and/or preferred shares subject to the availability of funding by capital markets, which expires in December of 2012. As at December 31, 2011 and January 1, 2011, the Company had not issued any instruments under this Prospectus.

As at December 31, 2011, January 1, 2011 and January 3, 2010, the items that the Company includes in its definition of capital and the key measures it uses to manage capital and capital structure were as follows:

	As at December 31, 2011	As at January 1, 2011	As at January 3, 2010
Bank indebtedness	**$ –**	$ 10	$ 10
Short term debt	**905**	535	1,225
Long term debt due within one year	**87**	902	312
Long term debt	**5,493**	5,198	5,041
Certain other liabilities	**39**	35	36
Fair value of financial derivatives related to the above	**22**	37	58
Total Debt	**$ 6,546**	$ 6,717	$ 6,682
Capital securities	**222**	221	220
Shareholder's equity	**6,007**	5,603	5,080
Equity	**$ 6,229**	$ 5,824	$ 5,300
Total Capital Under Management	**$ 12,775**	$ 12,541	$ 11,982

The Company considers the following interest coverage[1], adjusted debt to EBITDA[1], adjusted debt to equity[1] ratios as measures of its ability to service its debt, meet other financial obligations as they become due, and meet its capital structure objectives:

	2011	2010
Interest coverage[1]	**4.2x**	3.8x
Adjusted debt[1] to EBITDA[1]	**2.3x**	2.6x
Adjusted debt[1] to equity[1]	**0.8:1**	0.9:1

Capital Management Measures

The capital management measures used by management are calculated using adjusted debt[1] and EBITDA[1] which are non-GAAP financial measures. The following tables reconcile adjusted debt[1] and EBITDA[1] to GAAP measures as at and for the years ended as indicated:

Adjusted Debt[1]

	As at December 31, 2011	As at January 1, 2011	As at January 3, 2010
Total Debt	**$ 6,546**	$ 6,717	$ 6,682
Less:			
Independent Securitization Trusts in Short term debt	**905**	535	1,225
Independent Securitization Trusts in Long term debt	**600**	1,100	500
Guaranteed Investment Certificates	**276**	18	–
Adjusted Debt[1]	**$ 4,765**	$ 5,064	$ 4,957

EBITDA[1]

	2011	2010
Net earnings	**$ 769**	$ 675
Add impact of the following:		
Income taxes	**288**	319
Net interest expense and other financing charges	**327**	353
Operating income	**1,384**	1,347
Add impact of the following:		
Depreciation and amortization	**699**	628
EBITDA[1]	**$ 2,083**	$ 1,975

(1) See non-GAAP financial measures on page 38 of the Company's Management's Discussion & Analysis.

Covenants and Regulatory Requirements The Company has certain key financial and non-financial covenants under its existing committed credit facility, certain MTNs and USPP notes, and certain letters of credit. The key financial covenants include interest coverage ratios as well as leverage ratios, as defined in the respective agreements. These ratios are measured by the Company on a quarterly basis to ensure compliance with the agreements. During 2011, the Company amended these agreements to include certain relevant IFRS adjustments in computing the financial metrics used in calculating the Company's financial covenants. These amendments largely served to neutralize the impact of IFRS on covenants calculations as at the date of conversion to IFRS. As at December 31, 2011, the Company was in compliance with the covenants under these agreements.

The Company is also subject to externally imposed capital requirements from the Office of the Superintendent of Financial Institutions ("OSFI"), as the primary regulator of PC Bank. PC Bank's capital management objectives are to maintain a consistently strong capital position while considering the Bank's economic risks generated by its credit card receivables portfolio and to meet all regulatory capital requirements as defined by OSFI. PC Bank is subject to the Basel II regulatory capital management framework which includes a Tier 1 capital ratio of 7.0% and a total capital ratio of 10.0%. PC Bank has exceeded all applicable capital requirements as at year end 2011.

Loblaw is also subject to externally imposed capital requirements through its subsidiary Glenhuron Bank Limited ("Glenhuron"), which is regulated by the Central Bank of Barbados. Glenhuron is regulated under Basel I which requires Glenhuron's assets to be risk weighted and the minimum ratio of capital to risk weighted assets to be 8.0%. Glenhuron's ratio of capital to risk weighted assets exceeded the minimum requirements under Basel I as at year end 2011.

In addition, a wholly owned subsidiary of the Company that engages in insurance related activities exceeded the minimum regulatory capital and surplus requirements as at year end 2011.

Note 21. Share-Based Compensation

The Company's net share-based compensation expense recognized in selling, general and administrative expenses related to its stock options, RSUs, including the equity forwards of Glenhuron was:

	2011	2010
Stock option plan expense	**$ 12**	$ 28
Equity forwards expense (income)	**2**	(11)
RSU plan expense	**13**	15
Net share-based compensation expense	**$ 27**	$ 32

The carrying amount of the Company's share-based compensation arrangements including stock option, RSU, DSU and EDSU plans are recorded on the balance sheet as follows:

	As at December 31, 2011	As at January 1, 2011	As at January 3, 2010
Trade payables and other liabilities	**$ 15**	$ 39	$ 22
Other liabilities	**15**	35	20
Contributed surplus	**48**	1	–
	$ 78	$ 75	$ 42

Stock Option Plan The Company maintains a stock option plan for certain employees. Under this plan, the Company may grant options for up to 13.7 million common shares which is the Company's guideline for the number of stock option grants up to a maximum of 5% of outstanding common shares at any time. Stock options have up to a seven-year term, vest 20% or 33% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is 100% of the market price of the Company's common shares on the last trading day prior to the effective date of the grant. Each stock option is exercisable into one common share of the Company at the price specified in the terms of the option agreement.

Commencing February 22, 2011, the Company amended its stock option plan whereby the right to receive a cash payment in lieu of exercising an option for shares was removed. As a result, $42 million previously recorded in trade payables and other liabilities and other liabilities was reclassified to contributed surplus.

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

	2011		2010	
	Options (number of shares)	**Weighted Average Exercise Price/Share**	Options (number of shares)	Weighted Average Exercise Price/Share
Outstanding options, beginning of year	**9,320,865**	**$ 38.56**	9,207,816	$ 40.14
Granted	**3,337,049**	**$ 39.20**	2,571,203	$ 36.52
Exercised	**(686,794)**	**$ 30.61**	(603,787)	$ 29.68
Forfeited	**(1,220,127)**	**$ 41.80**	(1,156,195)	$ 42.18
Expired	**–**	**–**	(698,172)	$ 53.60
Outstanding options, end of year	**10,750,993**	**$ 38.90**	9,320,865	$ 38.56
Options exercisable, end of year	**3,671,069**	**$ 43.25**	2,938,014	$ 46.33

	2011 Outstanding Options			**2011 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**
$ 28.95 – $ 36.26	**3,188,525**	**4**	**$ 30.18**	**1,384,508**	**$ 29.88**
$ 36.27 – $ 40.09	**5,247,553**	**6**	**$ 38.04**	**377,849**	**$ 36.36**
$ 40.10 – $ 69.75	**2,314,915**	**2**	**$ 52.88**	**1,908,712**	**$ 54.31**
	10,750,993			**3,671,069**	

During 2011, 3,337,049 (2010 – 2,571,203) stock options were granted in 2011 at an average exercise price of $39.20 (2010 – $36.52) and a fair value of $26 million (2010 – $20 million). In addition, in 2011, the Company issued 686,794 common shares on the exercise of stock options and received cash consideration of $21 million.

The assumptions used to measure the fair value of options granted during 2011 under the Black-Scholes model at the grant date were as follows:

	2011
Expected dividend yield	**2.1% – 2.3%**
Expected share price volatility	**22.1% – 24.7%**
Risk-free interest rate	**1.2% – 2.9%**
Expected life of options	**4.4 – 6.4 years**

The assumptions used to measure fair value of cash-settled options under the Black-Scholes model at each balance sheet date were as follows:

	January 1, 2011	January 3, 2010
Expected dividend yield	2.1%	2.3%
Expected share price volatility	16.0% – 27.0%	21.9% – 30.5%
Risk-free interest rate	0.7% – 2.6%	0.5% – 3.0%
Expected life of options	0.2 – 6.4 years	0.6 – 6.4 years
Weighted average exercise price	$38.56	$40.14

The expected dividend yield is estimated based on the annual dividend prior to the balance sheet date and the closing share price as at the balance sheet 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 reporting date for a term to maturity equal to the expected life of the options.

The effect of expected exercise of options prior to expiry is incorporated into the weighted averaged expected life of the options, which is based on historical experience and general option holder behaviour.

Estimated forfeiture rates are incorporated into the measurement of fair value. The forfeiture rate applied as at December 31, 2011 was 16.3%. The forfeiture rate used to measure the fair value of cash settled stock options as at January 1, 2011 was 16.2% (January 3, 2010 – 14.6%).

Equity Forward Contracts A summary of Glenhuron's equity forward contracts is as follows (see note 25):

	As at December 31, 2011	As at January 1, 2011	As at January 3, 2010
Outstanding contracts (in millions)	**1.1**	1.5	1.5
Average forward price per share ($)	**$ 56.38**	$ 56.26	$ 66.25
Interest (income) expense per share ($)	**$ (0.05)**	$ 0.04	$ 10.03
Unrealized market loss recorded in trade payables and other liabilities	**$ 20**	$ 24	$ 48

Restricted Share Unit Plan The Company maintains a RSU plan for certain senior employees. The RSUs entitle employees to a cash payment after the end of each performance period, of up to 3 to 5 years, following the date of the award. The RSU payment will be an amount equal to the weighted average price of a Loblaw common share on the last three trading days preceding the end of the performance period for the RSUs multiplied by the number of RSUs held by the employee.

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

Number of Awards	**2011**	2010
RSUs, beginning of period	**1,045,346**	973,351
Granted	**548,003**	381,712
Settled	**(398,532)**	(198,389)
Forfeited	**(75,321)**	(111,328)
RSUs, end of period	**1,119,496**	1,045,346
RSUs, settled	**$ 15**	$ 8

As at December 31, 2011, the intrinsic value of vested RSUs was $22 million (January 1, 2011 – $26 million; January 3, 2010 – $18 million).

Director Deferred Share Unit Plan A summary of the DSU Plan activity is as follows:

Number of Awards	**2011**	2010
DSUs outstanding, beginning of year	**147,358**	110,303
Granted	**36,438**	34,417
Reinvested	**3,209**	2,638
Settled	**(28,988)**	–
DSUs outstanding, end of year	**158,017**	147,358

The fair value of each DSU granted is equal to the market value of the Company's common share at the date on which DSUs are awarded. The weighted average grant date fair value of DSUs granted during 2011 was $38.46 (2010 − $40.53). A compensation cost of $2 million (2010 – $1 million) related to this plan was recognized in operating income. As at December 31, 2011, the intrinsic value of DSUs was $6 million (January 1, 2011 – $6 million; January 3, 2010 – $4 million).

Executive Deferred Share Unit Plan A summary of the EDSU Plan activity is as follows:

Number of Awards	**2011**	2010
EDSUs outstanding, beginning of year	**29,143**	–
Granted	**14,733**	29,946
Reinvested	**877**	632
Settled	**(825)**	(1,435)
EDSUs outstanding, end of year	**43,928**	29,143

A compensation cost of $1 million (2010 – $1 million) related to this plan was recognized in operating income. As at December 31, 2011, the intrinsic value of EDSUs was $2 million (January 1, 2011 – $1 million; January 3, 2010 – nil).

Note 22. Post-Employment and Other Long Term Employee Benefits

Post-Employment Benefits

The Company sponsors a number of pension plans, including registered funded 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 defined benefit pension plans are predominantly non-contributory and these benefits are, in general, based on career average earnings subject to limits.

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.

A national defined contribution pension plan for salaried employees was introduced by the Company during 2006. All eligible salaried employees were given the option to join this new plan and convert their past accrued pension benefits or to remain in their existing defined benefit pension plans. All salaried employees joining the Company after the date of introduction of the national defined contribution pension plan participate only in that plan.

The Company also contributes to various multi-employer pension 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.

(i) 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:

	As at December 31, 2011		As at January 1, 2011		As at January 3, 2010	
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**	Defined Benefit Pension Plans	Other Defined Benefit Plans	Defined Benefit Pension Plans	Other Defined Benefit Plans
Present value of funded obligations	**$ (1,612)**	**$ –**	$ (1,337)	$ –	$ (1,144)	$ –
Fair value of plan assets	**1,330**	**–**	1,267	–	1,119	–
Status of funded obligations	**(282)**	**–**	(70)	–	(25)	–
Present value of unfunded obligations	**(73)**	**(221)**	(65)	(199)	(63)	(168)
Total funded status of obligations	**(355)**	**(221)**	(135)	(199)	(88)	(168)
Unrecognized past service credit	**–**	**(3)**	–	(3)	–	(4)
Assets not recognized due to 'asset ceiling'	**–**	**–**	(1)	–	(1)	–
Liability arising from minimum funding requirement for past service	**–**	**–**	(2)	–	(6)	–
Total net defined benefit plan obligation	**$ (355)**	**$ (224)**	$ (138)	$ (202)	$ (95)	$ (172)
Recorded on the consolidated balance sheets as follows:						
Other assets (note 14)	**–**	**–**	5	–	11	–
Other liabilities (note 18)	**(355)**	**(224)**	(143)	(202)	(106)	(172)
Total net defined benefit plan obligation	**$ (355)**	**$ (224)**	$ (138)	$ (202)	$ (95)	$ (172)

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

	2011			2010		
	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	**$ 1,267**	**$ –**	**$ 1,267**	$ 1,119	$ –	$ 1,119
Employer contributions	**103**	**6**	**109**	102	7	109
Employee contributions	**2**	**–**	**2**	3	–	3
Benefits paid	**(80)**	**(6)**	**(86)**	(73)	(7)	(80)
Expected return on plan assets	**80**	**–**	**80**	76	–	76
Actuarial (losses) gains in other comprehensive loss	**(42)**	**–**	**(42)**	41	–	41
Transfers to other pension plans	**–**	**–**	**–**	(1)	–	(1)
Fair value, end of year	**$ 1,330**	**$ –**	**$ 1,330**	$ 1,267	$ –	$ 1,267
Changes in the present value of the defined benefit plan obligations						
Balance, beginning of year	**$ 1,402**	**$ 199**	**$ 1,601**	$ 1,207	$ 168	$ 1,375
Current service cost	**48**	**12**	**60**	41	10	51
Interest cost	**74**	**11**	**85**	73	10	83
Benefits paid	**(80)**	**(6)**	**(86)**	(73)	(7)	(80)
Employee contributions	**2**	**–**	**2**	3	–	3
Actuarial losses in other comprehensive loss	**236**	**5**	**241**	149	18	167
Transfers to other pension plans	**–**	**–**	**–**	(1)	–	(1)
Contractual termination benefits	**3**	**–**	**3**	3	–	3
Balance, end of year	**$ 1,685**	**$ 221**	**$ 1,906**	$ 1,402	$ 199	$ 1,601

The actual return on plan assets was $38 million for the year ended December 31, 2011 (2010 − $117 million).

During 2012, the Company expects to contribute approximately $150 million (2011 – contributed $100 million) to its registered funded defined benefit 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 Company also expects to make contributions in 2012 to its defined contribution plans and multi-employer pension plans 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.

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

Percentage of plan assets	**As at December 31, 2011**	As at January 1, 2011	As at January 3, 2010
Asset category:			
Equity securities	**55%**	59%	60%
Debt securities	**44%**	39%	38%
Cash and cash equivalents	**1%**	2%	2%
Total	**100%**	100%	100%

The defined benefit pension plan assets did not include securities issued by the Company as at December 31, 2011 (January 1, 2011 − $3 million, January 3, 2010 − $2 million).

The cost recognized in other comprehensive loss before tax for post-employment defined benefit plans is as follows:

	2011		2010	
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**	Defined Benefit Pension Plans	Other Defined Benefit Plans
Actuarial losses	**$ 278**	**$ 5**	$ 108	$ 18
Change in liability arising from asset ceiling	**(1)**	**–**	–	–
Change in liability arising from minimum funding requirements for past service	**(2)**	**–**	(4)	–
Total net actuarial losses recognized in other comprehensive loss before tax	**$ 275**	**$ 5**	$ 104	$ 18
Income tax recoveries on actuarial losses (note 4)	**(71)**	**(1)**	(27)	(5)
Actuarial losses net of income tax recoveries	**204**	**4**	77	13

The cumulative actuarial losses before tax recognized in retained earnings for the Company's defined benefit plans are as follows:

	2011		2010	
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**	Defined Benefit Pension Plans	Other Defined Benefit Plans
Cumulative amount, beginning of year	**$ 104**	**$ 18**	$ –	$ –
Net actuarial losses before tax recognized in the year	**275**	**5**	104	18
Cumulative amount, end of year	**$ 379**	**$ 23**	$ 104	$ 18

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:

	2011		2010	
	Defined Pension Benefit Plans	**Other Defined Benefit Plans**	Defined Pension Benefit Plans	Other Defined Benefit Plans
Defined Benefit Plan Obligations				
Discount rate	**4.25%**	**4.25%**	5.25%	5.25%
Rate of compensation increase	**3.50%**	**n/a**	3.50%	n/a
Mortality table	**UP94 Fully Generational**	**UP94 Fully Generational**	UP94@2020	UP94@2020
Net Defined Benefit Plan Cost				
Discount rate	**5.25%**	**5.25%**	6.00%	6.00%
Expected long term rate of return on plan assets	**6.25%**	**n/a**	6.75%	n/a
Rate of compensation increase	**3.50%**	**n/a**	3.50%	n/a
Mortality table	**UP94@2020**	**UP94@2020**	UP94@2020	UP94@2020

n/a – not applicable

The growth rate of health care costs, primarily drug and other medical costs for the other defined benefit plan obligations as at year-end 2011 was estimated at 5.75% and was assumed to gradually decrease to 4.50% by 2018, remaining at that level thereafter.

The overall expected long-term rate of return on plan assets was 6.25%. The expected long-term rate of return on plan assets was determined based on asset mix, active management and a review of historical returns. The expected long-term rate of return was based on the portfolio as a whole and not on the sum of the individual asset categories.

Sensitivity of Key Actuarial Assumptions The following table outlines the key assumptions for 2011 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)	Defined Benefit Plan Obligations	Net Defined Benefit Plan Cost[1]	Defined Benefit Plan Obligations	Net Defined Benefit Plan Cost[1]
Expected long term rate of return on plan assets		6.25%		n/a
Impact of: 1% increase	n/a	$ (13)	n/a	n/a
1% decrease	n/a	$ 13	n/a	n/a
Discount rate	4.25%	5.25%	4.25%	5.25%
Impact of: 1% increase	$ (233)	$ (7)	$ (28)	$ (1)
1% decrease	$ 271	$ 7	$ 32	$ 1
Expected growth rate of health care costs[2]			5.75%	8.25%
Impact of: 1% increase	n/a	n/a	$ 28	$ 4
1% decrease	n/a	n/a	$ (25)	$ (3)

n/a – not applicable

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

(2) Gradually decreasing to 4.50% by 2018 for the defined benefit plan obligation, remaining at that level thereafter.

Historical Information The history of defined benefit plans was as follows:

	As at December 31, 2011	As at January 1, 2011	As at January 3, 2010
Fair value of plan assets	**$ 1,330**	$ 1,267	$ 1,119
Present value of defined benefit plan obligation	**(1,906)**	(1,601)	(1,375)
Deficit in the plans	**$ (576)**	$ (334)	$ (256)
Experience adjustments arising on plan assets	**(42)**	41	n/a
Experience adjustments arising on plan liabilities	**(241)**	(167)	n/a

n/a – not applicable

(ii) Post-Employment and Other Long Term Employee Benefit Cost

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:

	Year ended December 31, 2011		
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**	**Total**
Current service cost	**$ 48**	**$ 12**	**$ 60**
Interest cost on defined benefit plan obligations[(1)]	**74**	**11**	**85**
Expected return on pension plan assets[(1)]	**(80)**	**–**	**(80)**
Contractual termination benefits	**3**	**–**	**3**
Net post-employment defined benefit cost	**$ 45**	**$ 23**	**$ 68**
Defined contribution costs[(2)]			**17**
Multi-employer pension plan costs[(2)]			**50**
Total net post-employment benefit cost			**135**
Other long-term employee benefit costs[(1)]			**26**
Net post-employment and other long term employee benefit costs			**$ 161**

(1) Interest cost on defined benefit plan obligations, expected return on plan assets and $5 million of other long term employee benefit costs were recognized in net interest expense and other financing charges.
(2) Amounts represent the Company's contribution made in connection with defined contribution plans and multi-employer pension plans.

	Year ended January 1, 2011		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Current service cost	$ 41	$ 10	$ 51
Interest cost on defined benefit plan obligations[(1)]	73	10	83
Expected return on pension plan assets[(1)]	(76)	–	(76)
Contractual termination benefits	3	–	3
Past service credit	–	(1)	(1)
Net post-employment defined benefit cost	$ 41	$ 19	$ 60
Defined contribution costs[(2)]			16
Multi-employer pension plan costs[(2)]			52
Total net post-employment benefit cost			128
Other long-term employee benefit costs[(1)]			19
Net post-employment and other long term employee benefit costs			$ 147

(1) Interest cost on defined benefit plan obligations, expected return on plan assets and $6 million of other long term employee benefits costs were recognized in net interest expense and other financing charges.
(2) Amounts represent the Company's contribution made in connection with defined contribution plans and multi-employer pension plans.

The net post-employment and other long term employee benefit costs presented in the consolidated statements of earnings were as follows:

	2011	2010
Selling, general and administrative expenses	**$ 151**	$ 134
Net interest expense and other financing charges	**10**	13
Net post-employment and other long term employee benefit costs	**$ 161**	$ 147

Note 23. Employee Costs

Included in operating income are the following employee costs:

	2011	2010
Wages, salaries and other short-term employment benefits	**$ 2,896**	$ 2,974
Post-employment benefits	**130**	121
Other long-term employee benefits	**21**	13
Share-based compensation	**25**	44
Capitalized to fixed assets	**(21)**	(21)
Employee costs	**$ 3,051**	$ 3,131

Note 24. 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 subleased 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 31, 2011	As at January 1, 2011
	2012	2013	2014	2015	2016	Thereafter	**Total**	Total
Operating lease payments	$ 194	$ 179	$ 158	$ 132	$ 105	$ 411	**$ 1,179**	$ 1,101
Sub-lease income	(57)	(51)	(42)	(26)	(15)	(42)	**(233)**	(216)
Net operating lease payments	$ 137	$ 128	$ 116	$ 106	$ 90	$ 369	**$ 946**	$ 885

During 2011, the Company recorded $187 million (2010 – $184 million) as an expense in the statement of earnings in respect of operating leases. During that period, contingent rent recognized as an expense in respect of operating leases totaled $1 million (2010 – $1 million), while sub-lease income earned totaled $60 million (2010 – $55 million) which is recognized in operating income.

Operating Leases - As Lessor As at December 31, 2011, the Company leased certain owned land and buildings with a cost of $1,681 million (January 1, 2011 − $1,082 million, January 3, 2010 − $1,183 million) and related accumulated depreciation of $408 million (January 1, 2011 − $309 million, January 3, 2010 − $291 million). Rental income for the year ended December 31, 2011 was $127 million (2010 – $119 million) and was recognized in operating income. In addition, the Company recognized $1 million of contingent rent for the year ended December 31, 2011 (2010 − $4 million).

	Payments to be received by year							
							As at December 31, 2011	As at January 1, 2011
	2012	2013	2014	2015	2016	Thereafter	**Total**	Total
Net operating lease payments	$ 128	$ 124	$ 106	$ 88	$ 67	$ 121	**$ 634**	$ 481

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

	Payments due by year							
							As at December 31, 2011	As at January 1, 2011
	2012	2013	2014	2015	2016	Thereafter	**Total**	Total
Finance lease payments	$ 62	$ 53	$ 35	$ 34	$ 33	$ 491	**$ 708**	$ 635
Less future finance charges	(26)	(22)	(21)	(20)	(19)	(266)	**(374)**	(339)
Present value of minimum lease payments	$ 36	$ 31	$ 14	$ 14	$ 14	$ 225	**$ 334**	$ 296

During 2011, contingent rent recognized by the Company as an expense in respect of finance leases was $1 million (2010 − $1 million). At December 31, 2011, the sub-lease payments receivable under finance leases was $16 million (January 1, 2011 – $13 million, January 3, 2010 − $8 million).

Note 25. Financial Instruments

The Company's financial assets and financial liabilities are classified as follows:

- Cash and cash equivalents, short term investments and security deposits are designated as fair value through profit or loss;
- Derivatives which are not designated in a hedge are classified as fair value through profit or loss;
- Accounts receivable, credit card receivables and franchise loans receivable are classified as loans and receivables and carried at amortized cost;
- Other financial instruments included in other assets are classified as loans and receivables and carried at amortized cost; and
- Bank indebtedness, trade payables and other liabilities, short term debt, long term debt, certain other liabilities and capital securities are classified as other financial liabilities and carried at amortized cost.

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

Derivatives

Cross Currency Swaps Glenhuron entered into cross currency swaps to exchange USD for $1,252 million (January 1, 2011 – $1,206 million; January 3, 2010 – $1,149 million) Canadian dollars, which mature by 2018. These swaps are financial derivatives classified as fair value through profit or loss. Currency adjustments receivable or payable arising from these swaps are settled in cash on maturity. As at December 31, 2011, a cumulative unrealized foreign currency exchange rate receivable of $89 million (January 1, 2011 − $161 million; January 3, 2010 − $123 million) was recorded in other assets, and a receivable of $48 million (January 1, 2011 − $15 million; January 3, 2010 − $40 million) was recorded in prepaid expenses and other assets. During 2011, a fair value loss of $29 million (2010 – income of $62 million) were recognized in operating income relating to these cross currency swaps of which $16 million (2010 – $39 million) related to cross currency swaps that matured or were terminated. In addition, a gain of $25 million (2010 – loss of $52 million) was recognized in operating income as a result of translating USD $1,073 million (January 1, 2011 – USD $1,033 million; January 3, 2010 – USD $945 million) cash and cash equivalents, short-term investments and security deposits.

In 2008, the Company entered into fixed cross currency swaps to exchange $296 million Canadian dollars for USD $300 million, which mature by 2015. A portion of these cross currency swaps was originally designated in a cash flow hedge to manage the foreign exchange variability related to part of the Company's fixed rate USPP notes. In 2011, the designated swap was no longer classified as a cash flow hedge and as a result, fair value changes were recorded in operating income. As at December 31, 2011, a cumulative unrealized foreign currency exchange rate receivable of $14 million (January 1, 2011 − $11 million; January 3, 2010 − $19 million) was recorded in other assets. During 2011, the Company recognized in operating income an unrealized fair value gain of $2 million (2010 – loss of $12 million) on these cross currency swaps. In addition, during 2011 the Company recognized in operating income an unrealized foreign currency exchange loss of $6 million (2010 – gain of $16 million) related to $300 million USPP fixed-rate notes.

Interest Rate Swaps The Company maintains a notional $150 million (2010 − $150 million) in interest rate swaps, on which it pays a fixed rate of 8.38%. At December 31, 2011, the fair value of these interest rate swaps of $16 million (January 1, 2011 − $24 million; January 3, 2010 − $31 million) was recorded in other liabilities (see note 18). During 2011, the Company recognized a fair value gain of $8 million (2010 – $7 million) in operating income.

Interest rate swaps previously held by Glenhuron converted a notional $200 million of floating rate cash and cash equivalents, short term investments and security deposits to average fixed rate investments at 4.74%. These interest rate swaps matured in 2011. As at January 1, 2011, the fair value of these interest rate swaps of $7 million (January 3, 2010 − $15 million) was recorded in other assets. During 2011, a $7 million fair value loss (2010 – $8 million) was recognized on these interest rate swaps in operating income.

Equity Forward Contracts As at December 31, 2011, Glenhuron had cumulative equity forward contracts to buy 1.1 million (2010 – 1.5 million) of the Company's common shares at an average forward price of $56.38 (2010 – $56.26) including $0.05 interest income (2010 – $0.04 interest expense) per common share (see note 19). As at December 31, 2011, the cumulative interest, dividends and unrealized market loss of $20 million (January 1, 2011 – $24 million; January 3, 2010 – $48 million) was included in accounts payable and accrued liabilities. In addition, Glenhuron recognized a $2 million expense (2010 – $11 million gain) in operating income in relation to these equity forwards. During 2011, Glenhuron paid $7 million to settle equity forwards representing 390,100 Loblaw shares, which the Company purchased for cancellation for $15 million under its NCIB.

Other Derivatives The Company also maintains other financial derivatives including foreign exchange forwards, electricity forwards and fuel exchange traded futures and options. As at December 31, 2011, the Company recognized a cumulative unrealized gain receivable of $1 million (January 1, 2011 – $3 million included in trade payables and other liabilities; January 3, 2010 – $3 million included in other liabilities) in prepaid and other assets.

Franchise Loans Receivable and Franchise Investments in Other Assets The value of franchise loans receivable of $331 million (January 1, 2011 – $314 million; January 3, 2010 – $344 million) was recorded on the consolidated balance sheets. During 2011, the Company recorded an impairment loss of $11 million (2010 – impairment loss of $49 million) which was recognized in selling, general and administrative expenses.

The value of franchise investments of $53 million included in other assets was recorded on the consolidated balance sheets (January 1, 2011 – $34 million; January 3, 2010 – $22 million). During 2011, the Company recognized an impairment loss of $4 million (2010 – loss of $15 million) which was recognized in selling, general and administrative expenses.

Fair Value Measurement

The Company measures the financial assets and liabilities under the following fair value hierarchy in accordance with IFRS. 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).

The following describes the fair value determinations of financial instruments:

Cash and Cash Equivalents, Short Term Investments and Security Deposits: Fair value is primarily based on interest rates for similar instruments. Due to the short term maturity of these instruments, the carrying amount approximates fair value.

Accounts Receivable, Credit Card Receivables, Bank indebtedness, Trade Payables and Other Liabilities, and Short Term Debt: Fair value is based on estimated cash flows, discounted at interest rates for similar instruments. The carrying amount approximates fair value due to the short term maturity of these instruments.

Franchise Loans Receivable: Fair value is based on estimated cash flows, discounted at interest rates for similar instruments. The carrying amount approximates fair value due to the minimal fluctuations in the forward interest rate and the sufficiency provisions recorded for all impaired receivables.

Derivative Financial Instruments: The fair values for the derivative assets and liabilities are estimated using industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market based observable inputs including interest rate curves, credit spreads, foreign exchange rates, and forward and spot prices for currencies.

Long-Term Debt, Capital Securities and Other Financial Instruments: Fair value is based on the present value of contractual cash flows, discounted at Company's current incremental borrowing rate for similar types of borrowing arrangements or, where applicable, quoted market prices.

The following tables provide a comparison of carrying and fair values for each classification of financial instruments as at December 31, 2011, January 1, 2011 and January 3, 2010:

As at December 31, 2011							
	Financial Derivatives designated in a cash flow hedge	Financial Instruments required to be classified as fair value through profit or loss	Financial Instruments designated as fair value through profit or loss	Loans and receivables (Amortized cost)	Other financial liabilities (Amortized cost)	Total carrying amount	Total fair value
Cash and cash equivalents, short term investments and security deposits	$ –	$ –	$ 1,986	$ –	$ –	$ 1,986	$ 1,986
Accounts receivable	–	–	–	467	–	467	467
Credit card receivables	–	–	–	2,101	–	2,101	2,101
Franchise Loans Receivable	–	–	–	331	–	331	331
Derivatives	–	152	–	–	–	152	152
Other	–	–	–	64	–	64	64
Total financial assets	$ –	$ 152	$ 1,986	$ 2,963	$ –	$ 5,101	$ 5,101
Fair value level 1	$ –	$ –	$ 317	n/a	n/a	n/a	$ 317
Fair value level 2	–	152	1,669	n/a	n/a	n/a	1,821
Fair value level 3	–	–	–	n/a	n/a	n/a	–
Fair value total	$ –	$ 152	$ 1,986	n/a	n/a	n/a	$ 2,138
Trade payables and other liabilities	–	22	–	–	3,655	3,677	3,677
Short term debt	–	–	–	–	905	905	905
Long term debt	–	–	–	–	5,580	5,580	6,262
Capital Securities	–	–	–	–	222	222	248
Derivatives	–	19	–	–	–	19	19
Other	–	–	–	–	49	49	49
Total financial liabilities	$ –	$ 41	$ –	$ –	$ 10,411	$ 10,452	$ 11,160
Fair value level 1	$ –	$ –	$ –	n/a	n/a	n/a	$ –
Fair value level 2	–	39	–	n/a	n/a	n/a	39
Fair value level 3	–	2	–	n/a	n/a	n/a	2
Fair value total	$ –	$ 41	$ –	n/a	n/a	n/a	$ 41

As at January 1, 2011							
	Financial Derivatives designated in a cash flow hedge	Financial Instruments required to be classified as fair value through profit or loss	Financial Instruments designated as fair value through profit or loss	Loans and receivables (Amortized cost)	Other financial liabilities (Amortized cost)	Total carrying amount	Total fair value
Cash and cash equivalents, short term investments and security deposits	$ –	$ –	$ 1,965	$ –	$ –	$ 1,965	$ 1,965
Accounts receivable	–	–	–	366	–	366	366
Credit card receivables	–	–	–	1,997	–	1,997	1,997
Franchise loans receivable	–	–	–	314	–	314	314
Derivatives	5	192	–	–	–	197	197
Other	–	–	–	37	–	37	37
Total financial assets	$ 5	$ 192	$ 1,965	$ 2,714	$ –	$ 4,876	$ 4,876
Fair value level 1	$ –	$ –	$ 75	n/a	n/a	n/a	$ 75
Fair value level 2	5	189	1,890	n/a	n/a	n/a	2,084
Fair value level 3	–	3	–	n/a	n/a	n/a	3
Fair value total	$ 5	$ 192	$ 1,965	n/a	n/a	n/a	$ 2,162
Bank indebtedness	$ –	$ –	$ –	$ –	$ 10	$ 10	$ 10
Trade payables and other liabilities	–	27	–	–	3,495	3,522	3,522
Short term debt	–	–	–	–	535	535	535
Long term debt	–	–	–	–	6,100	6,100	6,628
Capital Securities	–	–	–	–	221	221	252
Derivatives	–	24	–	–	–	24	24
Other	–	–	–	–	46	46	46
Total financial liabilities	$ –	$ 51	$ –	$ –	$ 10,407	$ 10,458	$ 11,017
Fair value level 1	$ –	$ –	$ –	n/a	n/a	n/a	$ –
Fair value level 2	–	51	–	n/a	n/a	n/a	51
Fair value level 3	–	–	–	n/a	n/a	n/a	–
Fair value total	$ –	$ 51	$ –	n/a	n/a	n/a	$ 51

As at January 3, 2010							
	Financial Derivatives designated in a cash flow hedge	Financial Instruments required to be classified as fair value through profit or loss	Financial Instruments designated as fair value through profit or loss	Loans and receivables (Amortized cost)	Other financial liabilities (Amortized cost)	Total carrying amount	Total fair value
Cash and cash equivalents, short term investments and security deposits	$ –	$ –	$ 1,644	$ –	$ –	$ 1,644	$ 1,644
Accounts receivable	–	–	–	367	–	367	367
Credit card receivables	–	–	–	2,095	–	2,095	2,095
Franchise Loans Receivable	–	–	–	344	–	344	344
Derivatives	9	189	–	–	–	198	198
Other	–	–	–	22	–	22	22
Total financial assets	$ 9	$ 189	$ 1,644	$ 2,828	$ –	$ 4,670	$ 4,670
Fair value level 1	$ –	$ –	$ 223	n/a	n/a	n/a	$ 223
Fair value level 2	9	188	1,421	n/a	n/a	n/a	1,618
Fair value level 3	–	1	–	n/a	n/a	n/a	1
Fair value total	$ 9	$ 189	$ 1,644	n/a	n/a	n/a	$ 1,842
Bank indebtedness	$ –	$ –	$ –	$ –	$ 10	$ 10	$ 10
Trade payables and other liabilities	–	48	–	–	3,324	3,372	3,372
Short term debt	–	–	–	–	1,225	1,225	1,225
Long term debt	–	–	–	–	5,353	5,353	5,670
Capital Securities	–	–	–	–	220	220	244
Derivatives	–	34	–	–	–	34	34
Other	–	–	–	–	47	47	47
Total financial liabilities	$ –	$ 82	$ –	$ –	$ 10,179	$ 10,261	$ 10,602
Fair value level 1	$ –	$ –	$ –	n/a	n/a	n/a	$ –
Fair value level 2	–	82	–	n/a	n/a	n/a	82
Fair value level 3	–	–	–	n/a	n/a	n/a	–
Fair value total	$ –	$ 82	$ –	n/a	n/a	n/a	$ 82

The financial instruments classified as level 3 are as follows:

- The fair value of the embedded foreign currency derivative was $2 million included in other liabilities (January 1, 2011 − $3 million included in other assets; January 3, 2010 − $1 million included in other assets), of which the fair value loss of $5 million (2010 – gain of $2 million) was recognized in operating income. A 100 basis point increase (decrease) in foreign currency exchange rates would result in a $1 million gain (loss) in fair value.

During the year ended December 31, 2011, the net unrealized and realized loss on financial instruments designated as fair value through profit or loss recognized in net earnings before income taxes was $25 million (2010 – gain of $52 million). In addition, the net unrealized and realized loss on financial instruments required to be classified as fair value through profit or loss, recognized in net earnings before income taxes was $29 million (2010 – gain of $75 million).

During 2011, net interest expense of $332 million (2010 – $348 million) was recorded related to financial instruments not classified or designated as fair value through profit and loss.

Note 26. Financial Risk Management

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

Liquidity and Capital Availability Risk Liquidity risk is the risk that the Company cannot meet its demands for cash or fund its obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. Difficulty accessing capital markets could impair the Company's capacity to grow, execute its business model and generate financial returns.

Liquidity and capital availability risks are mitigated by maintaining appropriate levels of cash and cash equivalents and short term investments, actively monitoring market conditions, and by diversifying its sources of funding, including its Credit Facility and maintaining a well-diversified maturity profile of its debt and capital obligations. Despite these mitigation strategies, if the Company's or PC Bank's financial performance and condition deteriorate or downgrades in the Company's current credit ratings occur, the Company's or PC Bank's ability to obtain funding from external sources may be restricted. In addition, credit and capital markets are subject to inherent risks that may negatively affect the Company's access and ability to fund its financial and other liabilities.

Maturity Analysis The following are the undiscounted contractual maturities of significant financial liabilities as at December 31, 2011:

	2012	2013	2014	2015	2016	Thereafter(6)	Total
Derivative Financial Liabilities							
Interest rate swaps payable(1)	$ 13	$ 6	$ –	$ –	$ –	$ –	$ 19
Equity forward contracts(2)	62	–	–	–	–	–	62
Foreign exchange forward contracts	56	–	–	–	–	–	56
Non-Derivative Financial Liabilities							
Short term debt(3)	905	–	–	–	–	–	905
Long term debt including fixed interest payments(4)	390	964	1,192	768	625	6,054	9,993
Other liabilities(5)	–	–	35	–	4	–	39
	$ 1,426	$ 970	$ 1,227	$ 768	$ 629	$ 6,054	$ 11,074

(1) Based on the pay fixed interest which will be partially offset by the floating interest received.

(2) Based on the average cost base as at December 31, 2011.

(3) These are obligations owed to independent securitization trusts which are collateralized by the Company' credit card receivables (see note 8).

(4) Based on the maturing face values and annual interest for each instrument, including guaranteed investment certificates, long-term independent securitization trusts and an independent funding trust, as well as annual payment obligations for SPEs, mortgages and finance lease obligations.

(5) Contractual obligation related to certain other liabilities.

(6) Capital securities and their related dividends have been excluded as the Company is not contractually obligated to pay these amounts. The Company also excluded bank indebtedness, trade payables and other liabilities, which are due within the next 12 months.

Credit Risk The Company is exposed to credit risk resulting from the possibility that counterparties may default on their financial obligations to the Company. Exposure to credit risk relates to derivative instruments, cash and cash equivalents, short term investments, security deposits, PC Bank's credit card receivables, franchise loans receivable, accounts receivables from franchisees, other receivables from vendors, associated stores and independent accounts and pension assets held in the Company's defined benefit plans.

The risk related to derivative instruments, cash and cash equivalents, short term investments or security deposits is reduced by policies and guidelines that require that the Company to only enter into transactions with counterparties or issuers that have a minimum long term "A-" credit rating from a recognized credit rating agency and by placing minimum and maximum limits for exposures to specific counterparties and instruments. PC Bank manages its credit card receivable risk by employing stringent credit scoring techniques and 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, accounts receivable from franchisees and other receivables from vendors, associated stores and independent accounts are actively monitored on an ongoing basis and settled on a frequent basis in accordance with the terms specified in the applicable agreements.

The Company's maximum exposure to credit risk as it relates to derivative instruments is approximated by the positive fair market value of the derivatives on the balance sheet (see note 25).

Refer to note 7 and note 8 for additional information on the credit quality performance of credit card receivables and other receivables from independent franchisees, associated stores and independent accounts.

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

Interest Rate Risk The Company is exposed to fluctuations in interest rates on its floating rate debt and financial instruments net of cash and cash equivalents, short term investments and security deposits. The Company manages interest rate risk by monitoring its respective mix of fixed and floating rate debt, net of cash and cash equivalents, short term investments and security deposits, and taking action as necessary to maintain an appropriate balance. The Company estimates that a 100 basis point increase (decrease) in short term interest rates, with all other variables held constant, would result in a decrease (increase) of $8 million to interest expense.

Foreign Currency Exchange Rate Risk The Company is exposed to foreign currency exchange rate variability, primarily on its USD denominated cash and cash equivalents, short term investments and security deposits held by Glenhuron, foreign denominated and foreign currency based purchases in trade payables and other liabilities, and USPP notes included in long term debt. The Company and Glenhuron have cross currency swaps and foreign currency forward contracts that partially offset their respective exposure to fluctuations in foreign currency exchange rates. Cross currency swaps are transactions in which interest payments and principal amounts in one currency are exchanged against receipt of interest payments and principal amounts in a second currency. Refer to note 25 for the summary of the foreign exchange impact.

Commodity Price Risk The Company is exposed to increases in the prices of commodities in operating its stores and distribution networks, as well as the indirect link of commodities to its consumer products. To manage a portion of this exposure, the Company uses purchase commitments for a portion of its needs for certain consumer products that may be commodities based and the Company expects to take delivery of these consumer products in the normal course of business. The Company enters into exchange traded futures contracts and forward contracts to minimize cost volatility relating to energy. The Company estimates that a 10% increase (decrease) in relevant energy prices, with all other variables held constant, would result in a loss (gain) of $2 million on earnings before income taxes.

Common Share Price Risk The Company is exposed to common share market price risk as a result of the issuance to certain employees of stock options, to the extent that they are repurchased by the Company on exercise, and RSUs. RSUs negatively impact operating income when the common share price increases and positively impact operating income when the common share price declines. Glenhuron is a party to an equity forward contract, which allows for settlement in cash, common shares or net settlement. This forward contract changes in value as the market price of the Company's common shares changes and provides a partial offset to fluctuations in the Company's RSU plan expense or income. The impact on the equity forwards of a one dollar increase (decrease) of the market value in the Company's underlying common share, with all other variables held constant, would result in a $1 million gain (loss) on earnings before income taxes.

Note 27. Contingent Liabilities

The Company is involved in and potentially subject to various claims by third parties arising out of the normal course and conduct of its business including product liability, labour and employment, regulatory and environmental claims. In addition, the Company is involved in and potentially subject to regular audits from federal and provincial tax authorities relating to income, capital and commodity taxes and as a result of these audits may receive assessments and reassessments. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to the consolidated financial statements.

Legal Proceedings The Company is the subject of various legal proceedings and claims that arise in the ordinary course of business. The outcome of all of these proceedings and claims is uncertain. However, based on information currently available, these proceedings and claims, individually and in the aggregate, are not expected to have a material impact on the Company.

Tax and Regulatory The Company is subject to tax audits from various government and regulatory agencies on an on-going basis. As a result, from time to time, taxing authorities may disagree with the positions and conclusions taken by the Company in its tax filings or change legislation, which could lead to reassessments. These reassessments may have a material impact on the Company in future periods.

Indemnification Provisions The Company from time to time enters into agreements in the normal course of its business, such as service and outsourcing arrangements and leases, in connection with business or asset acquisitions or dispositions. These agreements by their nature may provide for indemnification of counterparties. These indemnification provisions may be in connection with breaches of representation and warranty or with 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. Given the nature of such indemnification provisions, the Company is unable to reasonably estimate its total maximum potential liability as certain indemnification provisions do not provide for a maximum potential amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, the Company has not made any significant payments in connection with these indemnification provisions.

Note 28. Financial Guarantees

The Company has provided to third parties the following significant guarantees:

Independent Funding Trusts The full balance relating to the debt of the independent funding trust has been consolidated on the balance sheet of the Company as at December 31, 2011, January 1, 2011 and January 3, 2010. The Company has agreed to provide a credit enhancement of $48 million (2010 – $66 million) in the form of a standby letter of credit for the benefit of the independent funding trust representing not less than 10% (2010 − 15%) of the principal amount of the loans outstanding. This credit enhancement allows the independent funding trust to provide financing to the Company's independent franchisees. As well, each independent franchisee provides security to the independent funding trust for its obligations by way of a general security agreement. In the event that an independent 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 trust 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.

Independent Securitization Trusts Letters of credit for the benefit of other independent securitization trusts with respect to the securitization programs of PC Bank have been issued by major Canadian chartered banks. These standby letters of credit could 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, which represents 9% (2010 – 9%) on a portion of the securitized credit card receivables amount, is approximately $81 million (January 1, 2011 – $48 million; January 3, 2010 – $116 million) (see note 16). The undrawn commitments on the independent securitization trusts as at December 31, 2011 was $120 million (January 1, 2011 − $490 million; January 3, 2010 − $250 million).

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 estimated amount for minimum rent, which does not include other lease related expenses such as property tax and common area maintenance charges, is in aggregate $14 million (January 1, 2011 – $26 million). Additionally, the Company has guaranteed lease obligations of a third party distributor in the amount of $17 million (January 1, 2011 – $22 million).

PC Bank The Company has provided a guarantee on behalf of PC Bank to MasterCard International Incorporated in the amount of US $180 million for accepting PC Bank as a card member and licensee of MasterCard.

Other The Company establishes letters of credit used in connection with certain obligations mainly related to real estate transactions, benefit programs, purchase orders and performance guarantees. The aggregate gross potential liability related to these letters of credit, not including the standby letters of credit for the benefit of independent funding trusts and independent securitization trusts, is approximately $314 million (January 1, 2011 − $325 million).

Note 29. Related Party Transactions

The Company's majority shareholder is Weston. Mr. W. Galen Weston controls Weston, directly and indirectly through private companies which he controls including through Wittington who owns approximately 63% of the outstanding common shares of Weston, which in turn, controls approximately 63% of the outstanding common shares of the Company. Mr. Weston also owns approximately 1% (January 1, 2011 − 1%; January 3, 2010 – 1%) of the outstanding commons shares of the Company directly. 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	
	2011	2010
Cost of Merchandise Inventory Sold		
Inventory purchases from a subsidiary of Weston	**$ 646**	$ 613
Inventory purchases from a related party[(1)]	**18**	18
Operating Income		
Cost sharing agreements with Parent[2)]	**10**	9
Administrative services to Parent[(3)]	**18**	19
Lease of office space from a subsidiary of Wittington	**3**	3

(1) Associated British Foods plc is a related party by virtue of Mr. W. Galen Weston being a director of such entity. Total balance outstanding owing to Associated British Foods plc as at December 31, 2011 was $2 million (January 1, 2011 − $3 million; January 3, 2010 – $2 million). Effective December 12, 2011, Mr. Weston resigned from his role as director of Associated British Foods plc, however, he continues to be a director of its parent company and as a result, Associated British Foods continues to be a related party of the Company.

(2) Weston and the Company have each entered into certain contracts with third parties for administrative and corporate services, including telecommunication services and information technology 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 costs incurred on its behalf by Weston.

(3) 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 system, risk management, treasury 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 such costs. Fees paid under this agreement are reviewed each year by the Audit Committee.

The net balances due to related parties are comprised as follows:

	As at December 31, 2011	As at January 1, 2011	As at January 3, 2010
Balance Sheet			
Trade payables and other liabilities	**$ 28**	$ 33	$ 44

Post-employment Benefit Plans Contributions made by the Company to the Company's post-employment benefit plans are disclosed in note 22.

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. These elections and accompanying agreements did not have a material impact on the Company.

Key Management Personnel The Company's key management personnel are comprised of the Board and members of the executive team of the Company, as well as both 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:

	2011	2010
Wages, salaries and other short-term employee benefits	**$ 8**	$ 7
Share-based compensation	**4**	5
Total Compensation	**$ 12**	$ 12

Dividend Reinvestment Plan During the year, the Company issued 938,984 (2010 – 3,620,906) common shares to Weston under the DRIP (see note 19).

Note 30. Segment Information

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

- The **Retail** segment, which consists primarily of food and also includes drugstore, gas bars, apparel and other general merchandise; and
- The **Financial Services** segment, which includes credit card services, a retail loyalty program, insurance brokerage services, personal banking services provided by a major Canadian chartered bank, deposit taking services and telecommunication services.

The Company's chief operating decision maker evaluates segment performance on the basis of operating income, as reported to internal management, on a periodic basis. This performance measure is used as it is considered to be the most relevant in evaluating the results of the segments relative to other entities that operate within these industries.

Segment results and assets include items directly attributable to a segment as well as items that can be allocated on a reasonable basis. There are varying levels of integration between the Retail and Financial Services segments. This integration includes shared expenses relating to the Company's brands, loyalty program, store displays and certain administrative services. Intersegment transactions are accounted for at the transaction amount as if those transactions were with external parties.

Information regarding the operations of each reportable operating segment is included below.

	2011 (52 weeks)	2010 (52 weeks)
Revenue		
Retail	**$ 30,703**	$ 30,315
Financial services[1]	**547**	521
Consolidated	**$ 31,250**	$ 30,836

(1) Included in financial services revenue is $252 million (2010 - $260 million) of interest income.

	2011 (52 weeks)	2010 (52 weeks)
Depreciation and Amortization		
Retail	**$ 691**	$ 625
Financial services	**8**	3
Consolidated	**$ 699**	$ 628

	2011 (52 weeks)	2010 (52 weeks)
Operating Income		
Retail	**$ 1,312**	$ 1,239
Financial services	**72**	108
Consolidated	**$ 1,384**	$ 1,347

	2011 (52 weeks)	2010 (52 weeks)
Net Interest Expense and Other Financing Charges		
Retail	**$ 279**	$ 311
Financial services	**48**	42
Consolidated	**$ 327**	$ 353

	As at December 31, 2011	As at January 1, 2011	As at January 3, 2010
Total Assets			
Retail	**$ 15,098**	$ 14,569	$ 13,886
Financial services	**2,330**	2,272	2,204
Consolidated	**$ 17,428**	$ 16,841	$ 16,090

	2011 (52 weeks)	2010 (52 weeks)
Additions to Fixed Assets and Goodwill		
Retail	**$ 985**	$ 1,183
Financial services	**2**	7
Consolidated	**$ 987**	$ 1,190

Note 31. Transition to IFRS

The Company's annual consolidated financial statements are the first consolidated financial statements that will be prepared in accordance with the requirements of IFRS including the application of IFRS 1.

The significant accounting policies described in note 2 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011 and January 1, 2011, and in the preparation of the opening IFRS balance sheet at January 3, 2010.

In preparing its opening IFRS balance sheet at January 3, 2010 and the financial statements for the year ended January 1, 2011, the Company adjusted amounts related to prior period balances. The Company determined that these amounts were not material to its consolidated financial statements for any prior periods.

An explanation of how the transition from CGAAP to IFRS has affected the Company's financial position and financial performance and cash flows is set out in the following reconciliations and the explanatory notes that accompany the reconciliations. Reconciliations of the consolidated balance sheets, consolidated statements of net earnings and consolidated statements of comprehensive income for the respective periods noted begin on page 114. Changes to cash flows were not material as a result of the conversion to IFRS.

IFRS 1 requires an entity to reconcile equity, net earnings and comprehensive income from CGAAP to IFRS for prior periods. The following represents the reconciliations for the respective periods noted for equity, net earnings and comprehensive income.

Reconciliation of Equity

	Explanatory Notes	As at January 3, 2010	As at January 1, 2011
Total Equity – CGAAP		$ 6,273	$ 6,880
Differences increasing (decreasing) reported shareholders' equity			
Minority interest presentation	a	31	41
Share-based payments	b	(6)	(2)
Fixed assets	c	(58)	(71)
Leases	d	(27)	(31)
Employee benefits	e	(305)	(370)
Borrowing costs	f	(199)	(216)
Consolidations	g	(79)	(68)
Impairment of assets	h	(187)	(146)
Provisions	i	(18)	(15)
Financial instruments	j	(331)	(374)
Customer loyalty programs	k	(14)	(25)
Total Equity – IFRS		$ 5,080	$ 5,603

Reconciliation of Net Earnings

	Explanatory Notes	52 Weeks Ended January 1, 2011
Net Earnings – CGAAP		$ 681
Differences increasing (decreasing) reported net earnings		
Minority interest presentation	a	18
Share-based payments	b	3
Fixed assets	c	(13)
Leases	d	(4)
Employee benefits	e	25
Borrowing costs	f	(17)
Consolidations	g	3
Impairment of assets	h	41
Provisions	i	3
Financial instruments	j	(54)
Customer loyalty programs	k	(11)
Net Earnings – IFRS		$ 675

Reconciliation of Comprehensive Income

	Explanatory Notes	52 Weeks Ended January 1, 2011
Comprehensive Income – CGAAP		$ 674
Differences increasing (decreasing) reported comprehensive income		
Differences in net earnings		(6)
Available-for-sale financial assets		(1)
Unrealized cash flow hedges	j	12
Actuarial gains (losses) on pension plans, net of tax	e	(90)
Comprehensive Income – IFRS		$ 589

IFRS 1, "First-Time Adoption of IFRS" IFRS 1 requires retroactive application for all IFRS standards effective at the reporting date except for certain mandatory exceptions from retrospective application that are relevant to the Company, or optional exemptions from retrospective application that were elected by the Company. Accordingly, these consolidated financial statements have been prepared based on the accounting policies described in note 2. The applicable mandatory exceptions and optional exemptions from retrospective application are described in this section, and the impact of these exceptions and exemptions and all other adjustments arising from IFRS policy choices and other requirements are described further in the "Explanatory notes on reconciliations of equity, net earnings and comprehensive income" section below.

Mandatory Exceptions IFRS 1 prescribes mandatory exceptions to the retrospective application requirements of IFRS. The following exceptions apply to the Company:

Estimates Estimates made in accordance with IFRS at transition date, and in the comparative period of the first IFRS financial statements, were consistent with those determined under CGAAP with adjustments made only to reflect any differences in accounting policies. Under IFRS 1, the use of hindsight is not permitted to adjust estimates made in the past under CGAAP that were based on the information that was available at the time the estimate was determined. Any additional estimates that are required under IFRS, that were not required under CGAAP, are based on the information and conditions that exist at the transition date and in the comparative period of the first IFRS financial statements.

Hedge Accounting The designation of a hedging relationship cannot be made retrospectively. In order for a hedging relationship to qualify for hedge accounting at the transition date, the relationship must have been fully designated and documented as effective at the transaction date in accordance with CGAAP, and that designation and documentation must be updated in accordance with IAS 39 at the transition date to IFRS. Except as described in the section below, the Company's hedging relationships were fully documented and designated at the transaction dates under CGAAP and satisfied the hedge accounting criteria under IFRS at the transition date.

Derecognition of Financial Assets and Financial Liabilities The derecognition requirements under IFRS are applied prospectively for transactions occurring on or after transition date. Accordingly, any derecognition of non-derivative financial assets or non-derivative financial liabilities in accordance with CGAAP as a result of transactions occurring prior to the transition date, are not required to be recognized again on transition to IFRS.

Optional Exemptions In addition to the mandatory exceptions listed above, the Company has elected to apply the following optional exemptions under IFRS 1. Where applicable, the quantitative impact of these exemptions is included in the "Explanatory notes for reconciliation of equity, net earnings and comprehensive income" section below:

IFRS 2, "Share-Based Payment" ("IFRS 2") The Company has elected to not apply the requirements of IFRS 2 retrospectively to liabilities for cash-settled awards that were settled prior to the transition date, and to equity-settled awards that vested prior to the transition date.

IFRS 3, "Business Combinations" ("IFRS 3") The Company has elected to not apply the requirements of IFRS 3 retrospectively to business combinations that occurred prior to the transition date. Under the business combinations exemption, the carrying amounts of the assets acquired and liabilities assumed under CGAAP at the date of the acquisition became their deemed carrying amounts under IFRS at that date.

Notwithstanding this exemption, the Company was required at the transition date, to evaluate whether the assets acquired and liabilities assumed meet the recognition criteria in the relevant IFRS, and whether there are any assets acquired or liabilities assumed that were not recognized under CGAAP for which recognition would be required under IFRS. The requirements of IFRS were then applied to the assets acquired and liabilities from the date of acquisition to the transition date. The Company applied these requirements, which resulted in no change to the carrying value of goodwill generated from business combinations occurring prior to the transition date. In addition, under the business combinations exemption, the Company tested goodwill for impairment at the transition date and determined that there was no impairment of the carrying value of goodwill as of that date.

IAS 19, "Employee Benefits" The Company has elected to recognize on the transition date all cumulative unamortized actuarial gains and losses for all post-employment defined benefit plans which were previously deferred under CGAAP in opening retained earnings.

IAS 23, "Borrowing Costs" The Company has elected not to apply the requirements of IAS 23 retrospectively and will eliminate all previously capitalized interest costs as at the transition date through opening retained earnings. The Company will capitalize borrowing costs for qualifying assets for which the commencement date for capitalization is on or after the transition date.

IAS 39, "Financial Instruments: Recognition and Measurement" The Company has elected to designate, as at the transition date, certain short term investments previously designated in a hedging relationship as at fair value through profit or loss.

Explanatory Notes for Reconciliations of Equity, Net Earnings, Comprehensive Income and Balance Sheet Items

a. Changes in Presentation

Investment Property Under IFRS, properties held to earn rental income or for capital appreciation, or both, are presented separately from fixed assets as investment property. Accordingly, properties that met the definition of investment property amounting to $74 million and $75 million, net of impairment, as at January 1, 2011 and January 3, 2010, respectively, were reclassified from fixed assets to investment property in the consolidated balance sheet.

Income Taxes IFRS requires deferred tax assets and liabilities to be presented in the balance sheet as non-current assets and liabilities. As a result, current future income tax assets of $39 million and $38 million were reclassified to non-current deferred tax assets as at January 1, 2011 and January 3, 2010, respectively. As part of the adoption of IFRS, the term "future income taxes" has been replaced by the term "deferred income taxes".

Provisions Under IFRS, current and long-term provisions are accounted for and disclosed separately from accounts payable and accrued liabilities and other liabilities. Provisions were reclassified from accounts payable and accrued liabilities and other liabilities to current provisions of $62 million and $56 million and long-term provisions of $22 million and $23 million as at January 1, 2011 and January 3, 2010, respectively.

Minority Interest Under IFRS, minority interest is referred to as non-controlling interest and will be presented as a component of equity instead of as a liability. On the statement of earnings, minority interests will be presented as an allocation of net earnings rather than as a deduction in the calculation of net earnings.

Consolidated Cash Flow Statement The Company has chosen to separately present interest and dividends received and paid on the cash flow statement.

b. IFRS 2, "Share-Based Payment"

(i) Cash-settled share-based payments

Prior to February 22, 2011, the Company maintained various cash-settled share-based payment arrangements. Under both IFRS and CGAAP, liabilities for cash-settled share-based payment awards are measured at the grant date and are remeasured at each reporting date until the settlement date. However, the Company measured the liability for cash-settled awards at intrinsic value under CGAAP, whereas IFRS requires the liability to be measured at fair value. Under IFRS, the related liability is adjusted to reflect the fair value of the outstanding cash-settled share-based payments.

(ii) Awards subject to graded vesting and forfeitures

Under IFRS, for share-based payment awards with graded vesting, each tranche of the award is valued separately. Under CGAAP, the value of these awards was determined for each grant as a whole. Additionally, under IFRS, an estimate of the impact of forfeitures is calculated at the grant date and is revised if subsequent information indicates that it is appropriate to do so. Under CGAAP the Company followed a policy of recognizing forfeitures as they occurred.

As a result of the changes described above, the Company's liabilities as at January 1, 2011 and January 3, 2010 and net earnings in the year ended January 1, 2011 were higher under IFRS compared to CGAAP.

The cumulative impact arising from the changes described above is summarized as follows:

Consolidated Statements of Earnings

Increase (Decrease)	52 Weeks Ended January 1, 2011
Operating income	$ 6
Income taxes	$ 3
Net earnings	$ 3

Consolidated Balance Sheets

Increase (Decrease)	As at January 3, 2010	As at January 1, 2011
Deferred income tax assets	$ 3	$ –
Trade payables and other liabilities	$ 14	$ 25
Other liabilities	$ (5)	$ (23)
Retained earnings	$ (6)	$ (3)
Contributed surplus	$ –	$ 1

c. IAS 16, "Property, Plant and Equipment"

(i) Component accounting and derecognition of replaced parts

Under IFRS, when a fixed asset comprises of individual components for which different depreciation methods or rates are appropriate, each component is accounted for separately (component accounting). In addition, under IFRS, when an individual part of a fixed asset is replaced, the carrying amount of the replacement part is capitalized and the carrying amount of the replaced part is derecognized. Under CGAAP, the Company did not apply component accounting to the degree required by IFRS, and the Company did not derecognize the carrying value of replaced parts.

(ii) Depreciation of site dismantling and restoration costs

Under IFRS, when the cost of land includes costs for site dismantling and restoration, this portion of the land is depreciated over the period of time in which the benefits will be obtained. Under CGAAP, costs were not depreciated.
The cumulative impact arising from the changes described above is summarized as follows:

Consolidated Statements of Earnings

Increase (Decrease)	52 Weeks Ended January 1 , 2011
Operating income	$ (18)
Income taxes	$ (5)
Net earnings	$ (13)

Consolidated Balance Sheets

Increase (Decrease)	As at January 3, 2010	As at January 1, 2011
Fixed assets	$ (67)	$ (85)
Deferred income tax assets	$ 7	$ 12
Deferred income tax liabilities	$ (2)	$ (2)
Retained earnings	$ (58)	$ (71)

d. IAS 17, "Leases" ("IAS 17")

The principles in IAS 17 underlying the classification and recognition of leases as finance leases (referred to as capital leases under CGAAP) or operating leases are consistent with CGAAP although there are certain differences in the application of the requirements. IFRS provides additional indicators of a finance lease that were not provided under CGAAP.

(i) Land and Building Leases

Both CGAAP and IFRS consider the leasehold interests in land and building separately for the purpose of classification of leases; however IFRS requires the allocation of minimum lease payments between the land and building elements of a lease to be in proportion to the relative fair values of the leasehold interests in the land and building. Under CGAAP, the allocation is based on the fair value of the land and building.

(ii) Sale and Leaseback Transactions

In addition, IFRS permits the immediate recognition of gains and losses on sale leaseback transactions which result in an operating lease, provided the transaction is established at fair value. Under CGAAP, gains and losses are deferred and amortized in proportion to the lease payments over the lease term, unless the asset sold in the sale leaseback transaction is impaired in which case the loss is recognized immediately.

In addition to the above, upon implementation the Company recorded additional total assets and liabilities of $50 million and $61 million, respectively, with a corresponding impact to shareholders' equity of $11 million related to immaterial unrecorded capital leases from prior periods. The Company has determined that these amounts were not material to its consolidated financial statements for any prior interim or annual periods.

The cumulative impact arising from the changes described above is summarized as follows:

Consolidated Statements of Earnings

Increase (Decrease)	52 Weeks Ended January 1 , 2011
Operating income	$ 9
Net interest expense and other financing charges	$ 14
Income taxes	$ (1)
Net earnings	$ (4)

Consolidated Balance Sheets

Increase (Decrease)	As at January 3, 2010	As at January 1, 2011
Fixed assets	$ 109	$ 139
Deferred income tax assets	$ 3	$ 4
Trade payables and other liabilities	$ (1)	$ (1)
Long term debt due within one year	$ 5	$ 8
Long term debt	$ 143	$ 175
Deferred income tax liabilities	$ (6)	$ (6)
Other liabilities	$ (2)	$ (2)
Retained earnings	$ (27)	$ (31)

e. IAS 19, "Employee Benefits"

(i) Actuarial gains and losses for defined benefit plans

Under IFRS, the Company recognizes actuarial gains and losses for defined benefit plans in other comprehensive income in the period in which they arise, and the recognized actuarial gains and losses are presented in retained earnings. In addition, the Company recognizes actuarial gains and losses for other-long term employee benefits immediately in net earnings. Under CGAAP, actuarial gains and losses for defined benefit plans were deferred and were subject to amortization under the 'corridor method', and actuarial gains and losses for other-long term employee benefits were deferred and were amortized over a period that was linked to the type of benefit, which generally was three years.

As a result of retrospective application of these accounting policies, at the transition date, all previously unrecognized actuarial gains and losses under CGAAP were recognized by decreasing opening retained earnings.

For defined benefit plans, the unrecognized actuarial gains and losses exceeding the corridor method that were recognized in net earnings under CGAAP were reversed, and all actuarial gains and losses arising in the period were recognized in other comprehensive income.

For other long-term employee benefits, the actuarial gains and losses arising in the period that were deferred under CGAAP were recognized in net earnings.

In addition, upon implementation the Company recorded additional total assets and liabilities of $14 million and $52 million, respectively, with a corresponding impact to shareholders' equity of $38 million related to immaterial adjustments of prior period balances. The Company has determined that these amounts were not material to its consolidated financial statements for any prior interim or annual periods.

(ii) Past service cost for defined benefit plans

Under IFRS, past service cost arising from benefit improvements is recognized on a straight-line basis over the vesting period until the benefits become vested or, if the benefits vest immediately, the expense is recognized immediately in net earnings.

Under CGAAP, the Company amortized past service costs on a straight-line basis over the expected average remaining service period of active employees under the plan, which is a longer period than the vesting period.

For unrecognized past service cost at the transition date that related to vested benefits, the unrecognized amount was recognized as an adjustment to decrease opening retained earnings. In addition, the amortization of past service cost for benefits that were vested at the transition date was reversed under IFRS.

For unrecognized past service cost at the transition date that related to unvested benefits, an adjustment was recorded to decrease the unrecognized amount that would have existed had the IFRS policy always been applied. In addition, the amortization of past service cost in net earnings was increased to reflect the amortization of the unrecognized amount over the shorter vesting period.

(iii) Measurement date

Under CGAAP, the Company's policy was to measure its defined benefit obligations and related plan assets at September 30 of each year. IFRS requires that the defined benefit obligation and the fair value of plan assets be determined with sufficient regularity, such that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting date. As a result, the Company measured its defined benefit obligations and plan assets at the transition date and at the end of the comparative annual period.

(iv) Attribution of post-employment health and dental benefits

The Company offers post-employment medical benefits, including health and dental benefits, for which employees are required to meet certain eligibility requirements, such as a specified number of consecutive years of service and or continuing to work until a specified age. Under CGAAP, the Company recognized an obligation and expense from the date of hire, and the obligation and expense were recognized on a straight-line basis until the eligibility criteria were met.

Under IFRS, the Company begins recognizing an obligation and expense when service first leads to benefits under the plan, and the obligation and expense are recognized on a straight-line basis until the eligibility criteria are met. The date when service first leads to benefits may be later than the date of hire, resulting in attribution of the obligation at a later date under IFRS and recognition of the obligation and expense over a shorter period. The defined benefit obligation as of January 3, 2010 reflects this change, with the resulting decrease in the defined benefit obligation being recognized in opening retained earnings.

(v) Asset ceiling and recognition of additional minimum liability

The Company has certain funded defined benefit plans for which the fair value of plan assets exceeds the defined benefit obligation. Under both CGAAP and IFRS, recognition of the net defined benefit asset is limited to the present value of the future economic benefits that the Company expects to realize from refunds from the plan or reductions in future contributions (the "asset ceiling").
The methodology for calculating the asset ceiling differs under IFRS, and in general, the asset ceiling is lower under IFRS than under CGAAP. In addition, the Company recognizes changes in the asset ceiling under IFRS in other comprehensive income, whereas under CGAAP, changes in the asset ceiling were recognized in net earnings.

Under IFRS, when the Company has an obligation to make future contributions into plans in respect of services already received, a liability is recognized to the extent that the contributions will increase an existing net defined benefit asset (surplus) or will result in a net defined benefit asset (surplus) in the future, and the benefit of the surplus or expected future surplus will not be fully available as a refund from the plan or a reduction in future contributions. The Company recognizes changes in the additional minimum liability under IFRS in other comprehensive income. No such liability is recognized under CGAAP.

As a result of the above requirements, as at January 3, 2010, the Company recognized a valuation allowance and an additional minimum liability, with the corresponding adjustments recognized in opening retained earnings.

For the year ended January 1, 2011, under IFRS the Company recognized an increase in the valuation allowance which was recognized in other comprehensive income. The Company reversed the change in the valuation that was recognized in net earnings under CGAAP, resulting in an increase in net earnings of that amount. In addition, as at January 1, 2011, the Company recognized an increase in the additional minimum liability and the change in the liability was recognized in other comprehensive income.

The impacts arising from the changes described above are summarized as follows:

Consolidated Statements of Net Earnings

Increase (Decrease)	52 Weeks Ended January 1 , 2011
Operating income	$ 47
Net interest expense and other financing charges	$ 13
Income taxes	$ 9
Net earnings	$ 25

Consolidated Statements of Comprehensive Income

Increase (Decrease)	52 Weeks Ended January 1 , 2011
Other comprehensive income, net of income taxes	$ (90)

Consolidated Balance Sheets

Increase (Decrease)	As at January 3, 2010	As at January 1, 2011
Deferred income taxes assets	$ 93	$ 113
Other assets	$ (308)	$ (350)
Deferred income taxes liabilities	$ (14)	$ (17)
Other liabilities	$ 104	$ 150
Retained earnings	$ (305)	$ (370)

f. IAS 23, "Borrowing Costs"

The Company capitalized interest as part of the cost of qualifying assets under CGAAP; however, the capitalization methodology under CGAAP was not the same as that under IFRS.

As indicated in the "First-Time Adoption of IFRS" section above, the Company has elected to apply the requirements of IAS 23 prospectively from the transition date. As a result, the Company derecognized the carrying amount of capitalized interest under CGAAP for qualifying assets to which IAS 23 has not been applied retrospectively. As such, the Company capitalizes borrowing costs for qualifying assets for which the commencement date for capitalization is on or after the transition date.

The impact arising from the change described above is summarized as follows:

Consolidated Statements of Earnings

Increase (Decrease)	52 Weeks Ended January 1 , 2011
Operating income	$ 1
Net Interest expense and other financing charges	$ 21
Income taxes	$ (3)
Net earnings	$ (17)

Consolidated Balance Sheets

Increase (Decrease)	As at January 3, 2010	As at January 1, 2011
Fixed assets	$ (239)	$ (259)
Deferred income tax assets	$ 19	$ 22
Deferred income tax liabilities	$ (21)	$ (21)
Retained earnings	$ (199)	$ (216)

g. IAS 27, "Consolidated and Separate Financial Statements" and Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities"

Consolidation and deconsolidation Under IAS 27 and SIC-12, consolidation is assessed based on the control model and IFRS does not include the concept of a variable interest entity. Accordingly, the Company is no longer required to consolidate certain independent franchisees and other entities subject to warehouse and distribution service agreements that were previously consolidated under CGAAP pursuant to the requirements of Accounting Guideline 15, "Consolidation of Variable Interest Entities". The independent funding trust through which franchisees obtain financing and *Eagle Credit Card Trust*, the independent securitization trust that finances certain PC Bank credit card receivables, are subject to consolidation under IFRS based on the indicators of control in SIC-12. As a result, the Company was required to re-measure the initial consideration received from each independent franchisee in the form of a loan receivable to exclude the benefit of the credit enhancement provided to the independent funding trust by the Company. The consolidation of *Eagle Credit Card Trust* had the effect of decreasing net earnings in the year ended January 1, 2011. In addition, upon implementation the Company recorded additional total assets and liabilities of $39 million and $117 million, respectively, with a corresponding impact to shareholders' equity of $78 million related to immaterial adjustments of prior period balances. The Company has determined that these amounts were not material to its consolidated financial statements for any prior interim or annual periods.

The impact arising from the change described above is summarized as follows:

Consolidated Statements of Earnings

Increase (Decrease)	52 Weeks Ended January 1 , 2011
Operating income	$ 45
Net Interest expense and other financing charges	$ 47
Income taxes	$ (5)
Net earnings	$ 3

Consolidated Balance Sheets

Increase (Decrease)	As at January 3, 2010	As at January 1, 2011
Cash and cash equivalents	$ (45)	$ (75)
Short term investments	$ 49	$ 19
Accounts receivable	$ 91	$ 118
Credit card receivables	$ 500	$ 1,100
Inventories	$ (130)	$ (158)
Income taxes recoverable	$ –	$ 6
Prepaid expenses and other assets	$ 9	$ 2
Fixed assets	$ (162)	$ (196)
Goodwill and intangible assets	$ (3)	$ (3)
Deferred income tax assets	$ 43	$ 39
Franchise loans receivable	$ 386	$ 399
Other assets	$ 39	$ 94
Bank indebtedness	$ 8	$ 7
Trade payables and other liabilities	$ 126	$ 114
Income taxes payable	$ 1	$ –
Provisions	$ 2	$ 1
Long term debt due within one year	$ (36)	$ 461
Long term debt	$ 736	$ 810
Other liabilities	$ 10	$ 3
Deferred income tax liabilities	$ 9	$ 17
Minority interests	$ (31)	$ (41)
Retained earnings	$ (48)	$ (27)

h. IAS 36, "Impairment of Assets"

IFRS requires that assets be tested for impairment at the level of a CGU, which is defined as the smallest group of assets that generate independent cash inflows. Under IFRS, the Company has determined that the predominant CGU is an individual retail location. Under CGAAP, definite life assets were grouped together in asset groups defined as the lowest level of assets and liabilities for which identifiable cash flows were largely independent of the cash flows of other assets and liabilities. As a result, under this test when stores were largely dependent on each other, the stores were grouped together by primary market areas.

As at the transition date, the Company reviewed its tangible and intangible assets with definite useful lives to determine whether there were indicators that these assets or CGUs were impaired or whether there were indications necessitating a reversal of impairments previously recorded. An impairment review under the IFRS methodology was also performed for the year ended January 1, 2011.

The methodology under IFRS to establish whether an impairment loss should be recognized is based on whether the recoverable amount of the individual asset or CGU is less than the carrying amount. The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell. Under IFRS, value in use is based on discounted cash flows. Under CGAAP impairment was evaluated using a two-step process whereby the recoverable amount was first assessed on an undiscounted basis. If the recoverable amount was less than its carrying value, then the impairment loss is measured and recognized based on the fair value of the asset or asset group.

The methodology under IFRS to establish whether an impairment loss should be recognized on goodwill and indefinite life intangible assets is described in note 2. The application of IFRS on the transition date did not have an impact on the CGAAP carrying amount of the Company's goodwill and indefinite life intangible assets.

In addition, IFRS permits the reversal of an impairment loss recognized in prior periods for assets other than goodwill. CGAAP did not permit these reversals.

The impact arising from the changes described above is summarized as follows:

Consolidated Statements of Earnings

Increase (Decrease)	52 Weeks Ended January 1, 2011
Operating income	$ 54
Income taxes	$ 13
Net earnings	$ 41

Consolidated Balance Sheets

Increase (Decrease)	As at January 3, 2010	As at January 1, 2011
Assets held for sale	$ –	$ (2)
Fixed assets	$ (240)	$ (184)
Investment properties	$ (15)	$ (15)
Deferred income tax asset	$ 39	$ 31
Deferred income tax liabilities	$ (29)	$ (24)
Retained earnings	$ (187)	$ (146)

i. IAS 37, “Provisions, Contingent Liabilities and Contingent Assets” (“IAS 37”)

(i) Change in measurement basis

The guidance related to the recognition of provisions under IAS 37 contains certain differences in terminology, recognition requirements and basis of measurement. Accordingly, due to changes in the discount rate as required under IFRS, an adjustment related to the measurement of decommissioning liabilities, referred to as asset retirement obligations under CGAAP, was recognized on transition.

(ii) Onerous contracts

IFRS also has requirements with respect to the recognition of provisions for onerous contracts which are not specifically addressed in CGAAP except for certain onerous arrangements arising from a business combination. Consistent with CGAAP, future operating losses are not recognized as a liability since they do not result from a past transaction; however, a provision for an onerous contract is recognized under IFRS if the unavoidable costs under the contract exceed the benefits the Company will derive from it.

Accordingly, an additional provision for onerous lease contracts was recorded for certain leased properties as at January 3, 2010. This change had the effect of increasing net earnings for the year ended January 1, 2011, as any expenses related to these properties that were recognized under CGAAP were offset against the provision that was recognized on transition to IFRS.

The cumulative impact arising from the changes described above is summarized as follows:

Consolidated Statements of Earnings

Increase (Decrease)	52 Weeks Ended January 1, 2011
Operating income	$ 5
Income taxes	$ 2
Net earnings	$ 3

Consolidated Balance Sheets

Increase (Decrease)	As at January 3, 2010	As at January 1, 2011
Fixed assets	$ 1	$ 1
Deferred income taxes	$ 3	$ 2
Provisions	$ 25	$ 20
Deferred income tax liability	$ (3)	$ (2)
Retained earnings	$ (18)	$ (15)

j. IAS 39, “Financial Instruments: Recognition and Measurement” and IAS 18, “Revenue” (“IAS 18”)

(i) Franchise Relationships

As a result of the Company no longer consolidating certain independent franchisees the Company was required to evaluate the sale of each franchise arrangement under IAS 18 at its inception. Based on the guidance in IAS 18, the Company concluded that each franchise arrangement contains separately identifiable components which were required to be measured at fair value. The impact of this requirement was that the fair value of certain consideration was less than the amounts recorded at inception.

The Company recognized and evaluated these additional financial assets and financial liabilities in accordance with IAS 39, which requires application retrospectively to the inception of each arrangement. The Company’s evaluation identified events that provide objective evidence that the cash flows associated with certain of these financial assets are such that the fair value was impaired. As a result, upon implementation of IFRS, the Company recorded a decrease in certain financial assets and a corresponding decrease to shareholders’ equity.

(ii) Hedging Relationships

Historically cross-currency and interest rate swaps were designated to be in cash flow hedging relationships under CGAAP. The method of assessing hedge effectiveness used under CGAAP did not qualify these instruments for hedge accounting under IFRS and accordingly the Company elected to discontinue hedge accounting at the transition date. This resulted in a transitional reclassification from accumulated other comprehensive income to retained earnings. Subsequent changes in fair value will be recorded in the consolidated statement of earnings. The discontinuance of the hedging relationship had the effect of decreasing net earnings in the year ended January 1, 2011.

(iii) Recognition of Credit Card Receivables

IFRS contains different criteria than CGAAP for derecognition of financial assets and requires an evaluation of the extent to which an entity retains the risks and rewards of ownership as well as control over the transferred assets. Under CGAAP, the sale of credit card receivables to certain independent securitization trusts administered by major Canadian banks qualified for sale treatment pursuant to the criteria defined in Accounting Guideline 12, "Transfers of Receivables". Given the revolving nature of the these assets and the fact that substantially all the risks and rewards of ownership as defined in IAS 39 are retained by the Company, these financial assets do not qualify for derecognition under IFRS and therefore are recognized on the consolidated balance sheets.

The cumulative impact arising from the changes described above is summarized as follows:

Consolidated Statements of Earnings

Increase (Decrease)	52 Weeks Ended January 1, 2011
Operating income	$ (56)
Net Interest expense and other financing charges	$ (15)
Income taxes	$ 13
Net earnings	$ (54)

Consolidated Statements of Comprehensive Income

Increase (Decrease)	52 Weeks Ended January 1, 2011
Other comprehensive income, net of income taxes	$ 11

Consolidated Balance Sheets

Increase (Decrease)	As at January 3, 2010	As at January 1, 2011
Accounts receivable	$ (94)	$ (96)
Credit card receivables	$ 1,192	$ 517
Prepaid expenses and other assets	$ –	$ 1
Deferred income tax assets	$ 54	$ 43
Franchise loans receivable	$ (42)	$ (85)
Other assets	$ (151)	$ (154)
Trade payables and other liabilities	$ (9)	$ (5)
Short term debt	$ 1,225	$ 535
Other liabilities	$ 74	$ 70
Retained earnings[(1)]	$ (315)	$ (369)
Accumulated other comprehensive income[(1)]	$ (16)	$ (5)

(1) Total equity impact was ($374 million) at January 1, 2011 and ($331 million) at January 3, 2010.

k. International Financial Reporting Interpretations Committee 13, "Customer Loyalty Programs" ("IFRIC 13")

IFRIC 13 requires the fair value of loyalty programs to be recognized as a component of the related sales transaction, such that a portion of the revenue from the initial sales transaction in which the awards are granted is deferred. Under CGAAP, the Company recognized the net cost of the program in operating expenses. Accordingly, the Company has recorded an adjustment to defer a portion of the revenue for the initial sales transaction in which awards were granted and remain outstanding, based on the fair value of the awards granted. The Company has elected to allocate the fair value of awards granted using the residual fair value method.

The impact arising from the change described above is summarized as follows:

Consolidated Statements of Earnings

Increase (Decrease)		52 Weeks Ended January 1, 2011
Revenue	$	(126)
Selling, general and administrative expenses	$	(111)
Operating income	$	(15)
Income taxes	$	(4)
Net earnings	$	(11)

Consolidated Balance Sheets

Increase (Decrease)		As at January 3, 2010		As at January 1, 2011
Accounts receivable	$	(1)	$	–
Deferred income tax assets	$	6	$	10
Trade payables and other liabilities	$	19	$	35
Retained earnings	$	(14)	$	(25)

Reconciliation of Consolidated Balance Sheets

				As at January 3, 2010
Accounts	**CGAAP Balance**	**IFRS Reclassifications**	**IFRS Adjustments**	**IFRS Balance**
Assets				
Current Assets				
Cash and cash equivalents	$ 776	$ –	$ (45)	$ 731
Short term investments	614	–	49	663
Accounts receivable	774	(403)	(4)	367
Credit card receivables	–	403	1,692	2,095
Inventories	2,112	–	(130)	1,982
Future income taxes	38	(38)	–	–
Prepaid expenses and other assets	92	–	9	101
Assets held for sale	–	56	–	56
Total Current Assets	4,406	18	1,571	5,995
Fixed Assets	8,559	(146)	(598)	7,815
Investment Properties	–	90	(15)	75
Goodwill and Intangible Assets	1,026	–	(3)	1,023
Deferred Income Taxes	–	(12)	270	258
Security Deposits	250	–	–	250
Franchise Loans Receivable	–	–	344	344
Other Assets	750	–	(420)	330
Total Assets	$ 14,991	(50)	$ 1,149	$ 16,090
Liabilities				
Current Liabilities				
Bank indebtedness	$ 2	$ –	$ 8	$ 10
Trade payables and other liabilities	3,279	(56)	149	3,372
Provisions	–	56	6	62
Income taxes payable	41	–	1	42
Short term debt	–	–	1,225	1,225
Long term debt due within one year	343	–	(31)	312
Total Current Liabilities	3,665	–	1,358	5,023
Provisions	–	23	21	44
Long Term Debt	4,162	–	879	5,041
Deferred Income Taxes	143	(50)	(66)	27
Capital Securities	220	–	–	220
Other Liabilities	497	(23)	181	655
Minority Interest	31	(31)	–	–
Total Liabilities	8,718	(81)	2,373	$ 11,010
Shareholders' Equity				
Common Share Capital	1,308	–	–	1,308
Retained Earnings	4,948	–	(1,177)	3,771
Contributed Surplus	–	–	–	–
Accumulated Other Comprehensive Income	17	–	(16)	1
Non-controlling Interest	–	31	(31)	–
Total Shareholders' Equity	6,273	31	(1,224)	5,080
Total Liabilities and Shareholders' Equity	$ 14,991	$ (50)	$ 1,149	$ 16,090

Consolidated Statements of Earnings

	For the year ended January 1, 2011			
Accounts	**CGAAP Balance**	**IFRS Reclassifications**	**IFRS Adjustments**	**IFRS Balance**
Revenue	$ 30,997	$ –	$ (161)	$ 30,836
Cost of Merchandise Inventories Sold	23,393	–	141	23,534
Operating Expenses				
Selling, general and administrative expenses	5,680	655	(380)	5,955
Depreciation and amortization	655	(655)	–	–
	6,335	–	(380)	5,955
Operating Income	1,269	–	78	1,347
Interest expense and other financing charges	273	–	80	353
Earnings Before Income Taxes and Minority Interest	996	–	(2)	994
Income Taxes	297	–	22	319
Net Earnings Before Minority Interest	699	–	(24)	675
Minority Interest	18	(18)	–	–
Net Earnings	$ 681	$ 18	$ (24)	$ 675
Net Earnings Attributable to:				
Shareholders of the Company	$ –	$ –	$ (6)	$ 675
Non-controlling Interests	$ –	$ 18	$ (18)	$ –
Net Earnings Per Common Share ($)				
Basic	$ 2.45	$ –	$ (0.02)	$ 2.43
Diluted	$ 2.44	$ –	$ (0.06)	$ 2.38

Consolidated Statements of Comprehensive Income

	For the year ended January 1, 2011			
Accounts	**CGAAP Balance**	**IFRS Reclassifications**	**IFRS Adjustments**	**IFRS Balance**
Net earnings	$ 681	$ 18	$ (24)	$ 675
Other comprehensive income				
Net unrealized (loss) gain on available-for-sale financial assets	(12)	–	12	–
Reclassification of loss (gain) on available for-sale financial assets to net earnings	13	–	(13)	–
	1	–	(1)	–
Net gain (loss) on derivative instruments designated as cash flow hedges	1	–	(3)	(2)
Reclassification of loss (gain) on derivative instruments designated as cash flow hedges to net earnings	(9)	–	15	6
	(8)	–	12	4
Actuarial losses on defined benefit plans	–	–	(90)	(90)
Other comprehensive (loss) income	(7)	–	(79)	(86)
Total Comprehensive Income	$ 674	$ 18	$ (103)	$ 589
Total Comprehensive Income Attributable to:				
Shareholders of the Company	$ –	$ –	$ (85)	$ 589
Non-controlling Interests	$ –	$ 18	$ (18)	$ –

Reconciliation of Consolidated Balance Sheets

				As at January 1, 2011
Accounts	**CGAAP Balance**	**IFRS Reclassification**	**IFRS Adjustments**	**IFRS Balance**
Assets				
Current Assets				
Cash and cash equivalents	$ 932	$ –	$ (75)	$ 857
Short term investments	735	–	19	754
Accounts receivable	724	(380)	22	366
Credit card receivables	–	380	1,617	1,997
Inventories	2,114	–	(158)	1,956
Income taxes	2	–	6	8
Future income taxes	39	(39)	–	–
Prepaid expenses and other assets	80	–	3	83
Assets held for sale	–	73	(2)	71
Total Current Assets	4,626	34	1,432	6,092
Fixed Assets	9,123	(162)	(584)	8,377
Investment Properties	–	89	(15)	74
Goodwill and Intangible Assets	1,029	–	(3)	1,026
Deferred Income Taxes	–	(49)	276	227
Security Deposits	354	–	–	354
Franchise Loans Receivable	–	–	314	314
Other Assets	787	–	(410)	377
Total Assets	$ 15,919	$ (88)	$ 1,010	$ 16,841
Liabilities				
Current Liabilities				
Bank indebtedness	$ 3	$ –	$ 7	$ 10
Trade payables and other liabilities	3,416	(62)	168	3,522
Provisions	–	62	–	62
Short term debt	–	–	535	535
Long term debt due within one year	433	–	469	902
Total Current Liabilities	3,852	–	1,179	5,031
Provisions	–	22	21	43
Long Term Debt	4,213	–	985	5,198
Deferred Income Taxes	178	(88)	(55)	35
Capital Securities	221	–	–	221
Other Liabilities	534	(22)	198	710
Minority Interest	41	(41)	–	–
Total Liabilities	9,039	(129)	2,328	11,238
Shareholders' Equity				
Common Share Capital	1,475	–	–	1,475
Retained Earnings	5,395	–	(1,273)	4,122
Contributed Surplus	–	–	1	1
Accumulated Other Comprehensive Income	10	–	(5)	5
Non-controlling Interest	–	41	(41)	–
Total Shareholders' Equity	6,880	41	(1,318)	5,603
Total Liabilities and Shareholders' Equity	$ 15,919	$ (88)	$ 1,010	$ 16,841

Earnings Coverage Exhibit to the Audited Consolidated Financial Statements

The following is the Company's updated earnings coverage ratio for the rolling 52 week period ended December 31, 2011 in connection with the Company's Short Form Base Shelf Prospectus dated November 25, 2010.

Earnings Coverage on financial liabilities	3.94 times

The earnings coverage ratio on financial liabilities is equal to net earnings before interest on short-term debt, interest on long term debt, dividends on capital securities and income taxes divided by interest on short-term debt, interest on long term debt and dividends on capital securities as shown in the notes to the consolidated financial statements of the Company for the period.

Three Year Summary[1]

For the years ended December 31, 2011, January 1, 2011 and January 3, 2010 ($ millions except where otherwise indicated)	**2011 (52 weeks)**	2010 (52 weeks)	Canadian GAAP 2010[4] (52 weeks)	Canadian GAAP 2009[4] (52 weeks)
Consolidated Results of Operations				
Revenue	**$ 31,250**	$ 30,836	$ 30,997	$ 30,735
Operating income	**1,384**	1,347	1,269	1,205
EBITDA[2]	**2,083**	1,975	1,924	1,794
Net interest and other financing charges	**327**	353	273	269
Net earnings	**769**	675	681	656
Consolidated Financial Position				
Working Capital	**$ 1,744**	$ 1,061	$ 774	$ 741
Fixed assets	**8,725**	8,377	9,123	8,559
Goodwill and intangible assets	**1,029**	1,026	1,029	1,026
Total assets	**17,428**	16,841	15,919	14,991
Adjusted debt[2]	**4,765**	5,064	n/a	n/a
Adjusted net debt[2]	**2,642**	2,912	n/a	n/a
Shareholders' equity	**6,007**	5,603	6,880	6,273
Consolidated Cash Flow				
Cash flows from operating activities	**1,814**	2,029	1,594	1,945
Capital investment	**987**	1,190	1,280	1,067
Consolidated Per Common Share ($)				
Basic net earnings	**2.73**	2.43	2.45	2.39
Dividend rate at year end	**0.84**	0.84	0.84	0.84
Book value	**21.35**	19.97	24.52	22.71
Market price at year end	**38.48**	40.37	40.37	33.88
Consolidated Financial Measures and Ratios				
Revenue growth (decline) (%)	**1.3**	0.3[3]	0.9	(0.2)
Operating margin (%)	**4.4**	4.4	4.1	3.9
EBITDA margin[2] (%)	**6.7**	6.4	6.2	5.8
Adjusted debt[2] to EBITDA[2]	**2.3x**	2.6x	n/a	n/a
Adjusted debt[2] to equity[2]	**0.8:1**	0.9:1	n/a	n/a
Interest coverage[2]	**4.2x**	3.8x	4.3x	4.2x
Return on average net assets[2] (%)	**12.0**	12.0	12.4	12.0
Return on average shareholders' equity (%)	**13.2**	12.6	10.4	10.9
Price/net earnings ratio at year end	**14.1**	16.6	16.5	14.2
Retail Results of Operations				
Sales	**30,703**	30,315	n/a	n/a
Gross profit	**6,820**	6,787	n/a	n/a
Operating income	**1,312**	1,239	n/a	n/a
Retail Operating Statistics				
Same-store sales (decline) growth (%)	**0.9**	(0.6)	(0.6)	(1.1)
Gross profit percentage (%)	**22.2**	22.4	n/a	n/a
Operating margin (%)	**4.3**	4.1	n/a	n/a
Retail square footage (in millions)	**51.2**	50.7	50.7	50.6
Corporate square footage (in millions)	**37.5**	37.3	37.3	38.2
Franchise square footage (in millions)	**13.7**	13.4	13.4	12.4
Corporate stores sales per average square foot ($)	**564**	563	563	564
Number of corporate stores	**584**	576	576	613
Number of franchised stores	**462**	451	451	416
Percentage of corporate real estate owned (%)	**72**	74	74	72
Percentage of franchise real estate owned (%)	**46**	46	46	48
Financial Services Results of Operations				
Revenue	**547**	521	n/a	n/a
Operating income	**72**	108	n/a	n/a
Earnings before income taxes	**24**	66	n/a	n/a
Financial Services Operating Measures and Statistics				
Average quarterly net credit card receivables	**1,974**	1,941	n/a	n/a
Credit card receivables	**2,101**	1,997	n/a	n/a
Credit card receivables provision	**37**	34	n/a	n/a
Annualized yield on average quarterly gross credit card receivables (%)	**12.5**	13.2	n/a	n/a
Annualized credit loss rate on average quarterly gross credit card receivables (%)	**4.2**	5.6	n/a	n/a

(1) For financial definitions and ratios refer to the Glossary of Terms on page 120.
(2) See Non-GAAP Financial Measures on page 38.
(3) As compared to 2009 figures reported in Canadian GAAP.
(4) An explanation of the transition from CGAAP to IFRS is provided in note 31.

Glossary of Terms

Term	Definition
Adjusted debt to EBITDA	Adjusted debt divided by EBITDA.
Adjusted debt to equity	Adjusted debt divided by the sum of total shareholders' equity and capital securities.
Adjusted net debt	Adjusted debt (see Non-GAAP Financial Measures on page 38 of the Company's Management's Discussion and Analysis).
Annual Report	For 2011, the Annual Report consists of a Business Review and a Financial Review.
Annualized credit loss rate on average quarterly gross credit card receivables	Total credit card losses divided by the number of days in the quarter times 365 divided by average quarterly gross credit card receivables.
Annualized yield on average quarterly gross credit card receivables	Interest earned on credit card receivables divided by the number of days in the quarter times 365 divided by average quarterly gross credit card receivables.
Basic net earnings per common share	Net earnings available to common shareholders divided by the weighted average number of common shares outstanding during the year.
Book value per common share	Shareholders' equity divided by the number of common shares outstanding at year end.
Capital Investment	Fixed asset purchases.
Cash flows from operating activities per common share	Cash flows from operating activities divided by the weighted average number of common shares outstanding during the year.
Control label	A brand and associated trademark that is owned by the Company for use in connection with its own products and services.
Conversion	A store that changes from one Company banner to another Company banner.
Corporate stores sales per average square foot	Sales by corporate stores excluding gas bar sales divided by the average corporate stores' square footage at year end.
Diluted net earnings per common share	Net earnings available to common shareholders divided by the weighted average number of common shares outstanding during the year minus the dilutive impact of outstanding stock option grants, certain other liabilities, equity forwards and capital securities at year end.
Dividend rate per common share at year end	Dividend per common share declared in the fourth quarter multiplied by four.
DRIP	Dividend Reinvestment Plan.
EBITDA	Operating income before depreciation and amortization (see Non-GAAP Financial Measures on page 38 of the Company's Management's Discussion & Analysis).
EBITDA margin	EBITDA divided by sales (see Non-GAAP Financial Measures on page 38 of the Company's Management's Discussion & Analysis).
Free Cash Flow	Cash flows from operating activities less fixed asset purchases.

Term	Definition
Gross profit percentage	Sales less cost of sales including inventory shrink divided by sales.
Interest coverage	Operating income divided by net interest expense and other financing charges adding back interest capitalized to fixed assets.
Major expansion	Expansion of a store that results in an increase in square footage that is greater than 25% of the square footage of the store prior to the expansion.
Minor expansion	Expansion of a store that results in an increase in square footage that is less than or equal to 25% of the square footage of the store prior to the expansion.
New store	A newly constructed store, conversion or major expansion.
Operating income	Earnings before net interest expense and other financing charges and income taxes.
Operating margin	Operating income divided by sales.
Price/net earnings ratio at year end	Market price per common share at year end divided by basic net earnings per common share for the year.
Renovation	A capital investment in a store resulting in no change to the store square footage.
Retail sales	Combined sales of stores owned by the Company and those owned by the Company's independent franchisees.
Retail square footage	Retail square footage includes corporate and independent franchised stores.
Return on average net assets	Operating income divided by average total assets excluding cash and cash equivalents, short term investments, security deposits and accounts payable and accrued liabilities (see Non-GAAP Financial Measures on page 38 of the Company's Management's Discussion and Analysis).
Return on average shareholders' equity	Net earnings available to common shareholders divided by average total common shareholders' equity.
Same-store sales	Retail sales from the same physical location for stores in operation in that location in both periods being compared by excluding sales from a store that has undergone a conversion or major expansion in the period.
Weighted average common shares outstanding	The number of common shares outstanding determined by relating the portion of time within the year the common shares were outstanding to the total time in that year.
Working capital	Total current assets less total current liabilities.
Year	The Company's fiscal year ends on the Saturday closest to December 31 and is usually 52 weeks in duration, but includes 53 weeks every 5 to 6 years. The years ended December 31, 2011 and January 1, 2011 both contained 52 weeks.

National Head Office and Store Support Centre
Loblaw Companies Limited
1 President's Choice Circle
Brampton, Canada
L6Y 5S5
Tel: (905) 459-2500
Fax: (905) 861-2206
Internet: http://loblaw.ca

Stock Exchange Listing and Symbol
The Company's common shares and second preferred shares are listed on the Toronto Stock Exchange and trade under the symbols "L" and "L.PR.A", respectively.

Common Shares
W. Galen Weston, directly and indirectly, including through his controlling interest in Weston, owns approximately 64% of the Company's common shares.

At year-end 2011, there were 281,385,318 common shares issued and 100,331,640 outstanding common shares available for public trading.

The average daily trading volume of the Company's common shares for 2011 was 325,267.

Preferred Shares
At year-end 2011, there were 9,000,000 second preferred shares issued and outstanding and available for public trading.

The average daily trading volume of the Company's second preferred shares for 2011 was 7,707.

Trademarks
Loblaw Companies Limited and its subsidiaries own a number of trademarks. Several subsidiaries are licensees of additional trademarks. These trademarks are the exclusive property of Loblaw Companies Limited or the licensor and where used in this report are in italics.

Common Dividend Policy
The declaration and payment of dividends and the amount thereof are at the discretion of the Board which takes into account the Company's financial results, capital cash flow and other factors the Board considers relevant from time to to time. Over the long term, the Company's objective is for its dividend payment ratio to be in the range of 20% to 25% of the prior year's basic net earnings per common share adjusted as appropriate for items which are not regarded to be reflective of ongoing operations giving consideration to the year-end cash position, future cash flow requirements and investment. opportunities.

Common Dividend Dates
The declaration and payment of quarterly dividends are made subject to approval by the Board. The anticipated record and payment dates for 2012 are:

Record Date	Payment Date
March 15	April 1
June 15	July 1
September 15	October 1
December 15	December 30

Preferred Share Dividend Dates
The declaration and payment of quarterly dividends are made subject to approval by the Board. The anticipated payment dates for 2012 are: January 31, April 30 July 31 and October 31.

Normal Course Issuer Bid
The Company has a Normal Course Issuer Bid on the Toronto Stock Exchange.

Value of Common Shares
For capital gains purposes, the valuation day (December 22, 1971) cost base for the Company is $0.958 per common share. The value on February 22, 1994 was $7.67 per common share.

Investor Relations
Shareholders, security analysts and investment professionals should direct their requests to Kim Lee, Vice President, Investor Relations at the Company's National Head Office or by e-mail at: investor@loblaw.ca.

Registrar and Transfer Agent
Computershare Investor Services Inc.
100 University Avenue
Toronto, Canada
M5J 2Y1
Toll free: 1-800-564-6253 (Canada and U.S.)
Fax: (416) 263-9394
Toll free fax: 1-888-453-0330
International direct dial: (514) 982-7555

To change your address, eliminate multiple mailings, or for other shareholder account inquiries, please contact Computershare Investor Services Inc.

Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, *President's Choice* Bank

Independent Auditors
KPMG LLP
Chartered Accountants
Toronto, Canada

Annual Meeting
The 2012 Annual Meeting of Shareholders of Loblaw Companies Limited will be held on Thursday May 3, 2012 at 11:00am (EST), at the Metro Toronto Convention Centre, South Building, Meeting Room 701, 222 Bremner Boulevard, Toronto, Ontario, Canada.

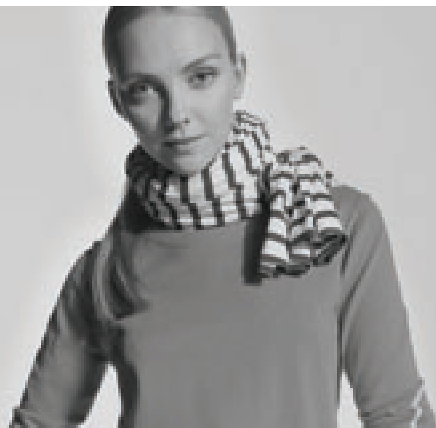
The Company holds an analyst call shortly following the release of its quarterly results. These calls are archived in the Investor Centre section of the Company's website (www.loblaw.ca).

Printing : Transcontinental PLM

Loblaw

COMPANIES LIMITED

LOBLAW.CA PC.CA JOEFRESH.COM PCFINANCIAL.CA



Ce rapport est disponible en français.