

# 2017 Annual Report

George Weston Limited

weston

**Weston**

---

**Footnote Legend**

---

- (1) See Section 18, “Non-GAAP Financial Measures”, of the Company’s 2017 Management’s Discussion and Analysis.
  - (2) For financial definitions and ratios refer to the Glossary beginning on page 146.
  - (3) To be read in conjunction with “Forward-Looking Statements” beginning on page 4.
-

## Financial Highlights<sup>(2)</sup>

As at or for the years ended December 31

(\$ millions except where otherwise indicated)

	2017	2016
<b>Consolidated Operating Results</b>		
Sales	\$ 48,292	\$ 47,999
Operating income	2,540	2,255
Adjusted EBITDA <sup>(1)</sup>	4,340	4,140
Depreciation and amortization <sup>(i)</sup>	1,685	1,654
Net interest expense and other financing charges	523	700
Adjusted net interest expense and other financing charges <sup>(1)</sup>	555	568
Income taxes	443	465
Adjusted income taxes <sup>(1)</sup>	713	678
Net earnings	1,574	1,090
Net earnings attributable to shareholders of the Company	759	550
Net earnings available to common shareholders of the Company	715	506
Adjusted net earnings available to common shareholders of the Company <sup>(1)</sup>	904	838
<b>Consolidated Financial Position and Cash Flows</b>		
Cash and cash equivalents, short term investments and security deposits	\$ 3,233	\$ 2,660
Cash flows from operating activities	3,425	3,760
Capital investments	1,474	1,465
Free cash flow <sup>(1)</sup>	1,395	1,725
Total debt	13,066	12,804
<b>Consolidated Per Common Share (\$)</b>		
Diluted net earnings per common share (\$)	\$ 5.53	\$ 3.90
Adjusted diluted net earnings per common share <sup>(1)</sup> (\$)	7.00	6.49
<b>Consolidated Financial Measures and Ratios</b>		
Adjusted EBITDA margin <sup>(1)</sup>	9.0%	8.6%
Adjusted return on average equity attributable to common shareholders of the Company <sup>(1)</sup>	12.9%	12.1%
Adjusted return on capital <sup>(1)</sup>	13.0%	12.1%
<b>Reportable Operating Segments</b>		
<b>Weston Foods</b>		
Sales	\$ 2,243	\$ 2,268
Operating income	91	173
Adjusted EBITDA <sup>(1)</sup>	256	296
Adjusted EBITDA margin <sup>(1)</sup>	11.4%	13.1%
Depreciation and amortization <sup>(i)</sup>	117	111
<b>Loblaws</b>		
Sales	\$ 46,702	\$ 46,385
Operating income	2,486	2,084
Adjusted EBITDA <sup>(1)</sup>	4,084	3,844
Adjusted EBITDA margin <sup>(1)</sup>	8.7%	8.3%
Depreciation and amortization <sup>(i)</sup>	1,568	1,543

(i) Depreciation and amortization includes \$524 million (2016 – \$535 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$10 million (2016 – \$14 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other charges.

## Management's Discussion and Analysis

1.	Forward-Looking Statements	4
2.	Overview	5
3.	Strategic Framework	6
4.	Key Financial Performance Indicators	7
5.	Overall Financial Performance	8
5.1	Consolidated Results of Operations	8
5.2	Selected Annual Information	14
6.	Results of Reportable Operating Segments	16
6.1	Weston Foods Operating Results	16
6.2	Loblaw Operating Results	17
7.	Liquidity and Capital Resources	21
7.1	Cash Flows	21
7.2	Liquidity	22
7.3	Components of Total Debt	24
7.4	Financial Condition	26
7.5	Credit Ratings	27
7.6	Share Capital	27
7.7	Off-Balance Sheet Arrangements	29
7.8	Contractual Obligations	30
8.	Quarterly Results of Operations	31
8.1	Quarterly Financial Information (Unaudited)	31
8.2	Fourth Quarter Results (Unaudited)	33
9.	Fourth Quarter Results of Reportable Operating Segments	40
9.1	Weston Foods Fourth Quarter Operating Results (Unaudited)	40
9.2	Loblaw Fourth Quarter Operating Results (Unaudited)	41
10.	Disclosure Controls and Procedures	43
11.	Internal Control Over Financial Reporting	43
12.	Enterprise Risks and Risk Management	43
12.1	Operating Risks and Risk Management	44
12.2	Financial Risks and Risk Management	51
13.	Related Party Transactions	53
14.	Critical Accounting Estimates and Judgments	54
15.	Accounting Standards Implemented	55
16.	Future Accounting Standards	56
17.	Outlook	58
18.	Non-GAAP Financial Measures	59
19.	Additional Information	68

## Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") for George Weston Limited ("GWL" or the "Company") should be read in conjunction with the audited annual consolidated financial statements and the accompanying notes on pages 69 to 143 of this Annual Report. The Company's audited annual consolidated financial statements and the accompanying notes for the year ended December 31, 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB"). The audited annual consolidated financial statements include the accounts of the Company and other entities that the Company controls and are reported in Canadian dollars, except where otherwise noted.

Under GAAP, certain expenses and income must be recognized that are not necessarily reflective of the Company's underlying operating performance. Non-GAAP financial measures exclude the impact of certain items and are used internally when analyzing consolidated and segment underlying operating performance. These non-GAAP financial measures are also helpful in assessing underlying operating performance on a consistent basis. See Section 18, "Non-GAAP Financial Measures", of this MD&A for more information on the Company's non-GAAP financial measures.

A glossary of terms and ratios used throughout this Annual Report can be found beginning on page 146.

The information in this MD&A is current to March 1, 2018, unless otherwise noted.

### 1. FORWARD-LOOKING STATEMENTS

This Annual Report, including this MD&A, for the Company contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities and legal and regulatory matters. Specific forward-looking statements in this Annual Report include, but are not limited to, statements with respect to the Company's anticipated future results, events and plans, strategic initiatives and restructuring, regulatory changes including minimum wage increases and further healthcare reform, future liquidity, planned capital investments, and status and impact of information technology ("IT") systems implementation. These specific forward-looking statements are contained throughout this Annual Report including, without limitation, in Section 3, "Strategic Framework", Section 7, "Liquidity and Capital Resources", Section 17, "Outlook", and Section 18, "Non-GAAP Financial Measures" of this MD&A. Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may", "maintain", "achieve", "grow", "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's current estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's expectation of operating and financial performance in 2018 is based on certain assumptions including assumptions about sales and volume growth, anticipated cost savings, operating efficiencies, anticipated benefits from strategic initiatives, anticipated minimum wage increases and healthcare reform impacts. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events and as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Numerous risks and uncertainties could cause the Company's actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including those described in Section 12, "Enterprise Risks and Risk Management", of this MD&A and the Company's Annual Information Form ("AIF") for the year ended December 31, 2017. Such risks and uncertainties include:

- changes to the regulation of generic prescription drug prices, the reduction of reimbursements under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- failure to effectively manage or combine Loblaw Companies Limited's ("Loblaw") loyalty programs;
- the inability of the Company's IT infrastructure to support the requirements of the Company's business, or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms and other known or unknown cybersecurity or data breaches;

- failure to execute Loblaw's e-commerce initiative or to adapt its business model to the shifts in the retail landscape caused by digital advances;
- failure to realize benefits from investments in the Company's new IT systems;
- failure to effectively respond to consumer trends or heightened competition, whether from current competitors or new entrants to the marketplace;
- changes to any of the laws, rules, regulations or policies applicable to the Company's business, including increases to minimum wage;
- public health events including those related to food and drug safety;
- failure to realize the anticipated benefits, including revenue growth, anticipated cost savings or operating efficiencies, associated with the Company's investment in major initiatives that support its strategic priorities;
- adverse outcomes of legal and regulatory proceedings and related matters;
- reliance on the performance and retention of third party service providers, including those associated with the Company's supply chain and Loblaw's apparel business, including issues with vendors in both advanced and developing markets;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink;
- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates and household debt, political uncertainty, interest rates, currency exchange rates or derivative and commodity prices;
- the inability of the Company to effectively develop and execute its strategy; and
- the inability of the Company to anticipate, identify and react to consumer and retail trends.

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 without limitation, the section entitled "Operating and Financial Risks and Risk Management" in the Company's AIF for the year ended December 31, 2017. 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. Except as required by law, the Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## **2. OVERVIEW**

GWL is a Canadian public company, founded in 1882. The Company has two reportable operating segments: Loblaw and Weston Foods. The Company also holds cash, short term investments and an interest in Choice Properties Real Estate Investment Trust ("Choice Properties") of 6.1%. Loblaw has three reportable operating segments: Retail, Financial Services and Choice Properties. Loblaw provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise, credit card services, insurance brokerage services, gift cards and telecommunication services. Loblaw also holds an 82.4% effective interest in Choice Properties, which owns, manages and develops well-located retail and other commercial real estate across Canada. The Weston Foods operating segment includes a leading fresh bakery business in Canada and frozen, artisan bakery and biscuit businesses throughout North America.

## Management's Discussion and Analysis

### 3. STRATEGIC FRAMEWORK

The Company employs various operating and financial strategies, driven by each of its reportable operating segments.

Weston Foods is committed to offering superior products and services to its consumers and customers in an increasingly competitive environment. To deliver on this commitment, Weston Foods undertook an extensive business review to best position the business for the future.

Weston Foods introduced its new strategic framework with a corresponding transformation program, centered on its ambition of becoming a premier North American bakery, all while delivering solid financial results. Weston Foods aims to redefine bakery for its consumers and customers with superior taste and experiences, enhance its level of service to customers, build on its leading brands and engage in strategic innovation.

Critical to achieving these goals are engaging talent in its workforce, investing in a competitive integrated supply chain, executing a new go-to-market approach, and implementing new systems to support agile ways of working. A transformation program is in place to support these critical elements, with the aim of realizing \$100 million of adjusted EBITDA<sup>(1)</sup> improvement by 2020.

This strategic framework and the transformation program will be pursued while respecting our core values and working towards our greater purpose of elevating everyday moments.

Loblaw's strategic framework is anchored by a powerful purpose: Live Life Well. Loblaw is committed to delivering industry-leading financial results through data-driven insights and process and efficiency excellence, while maintaining an intense focus on its customers.

Loblaw's aim is to offer the "best in food" and the "best in health and beauty", supported by everyday digital retail, a connected healthcare network and a single loyalty program - *PC Optimum*.

The approach to offering "best in food" is driven by fresh selection, and a desire to offer sustainable and competitive pricing, customized assortments across banners and several of the country's top control brands. Achieving "best in health and beauty" requires putting pharmacy customers first, providing high quality health and wellness products and services, delivering a diverse and differentiated beauty offering, and maintaining convenient locations and hours of operation.

Loblaw is also focused on continued growth in the President's Choice Financial Services and Choice Properties segments.

Weston Foods and Loblaw each have their own risk profiles and operating risk management strategies. The success of these and other plans and strategies discussed in this MD&A may be affected by risks and uncertainties, including those described in Section 12, "Enterprise Risks and Risk Management" of this MD&A and in the Company's AIF for the year ended December 31, 2017.

#### 4. KEY FINANCIAL PERFORMANCE INDICATORS

The Company has identified specific key financial performance indicators to measure the progress of short and long term objectives. Certain key financial performance indicators are set out below:

(\$ millions except where otherwise indicated)

As at or for the years ended December 31

	<b>2017</b>	2016
Sales	\$ <b>48,292</b>	\$ 47,999
Operating income	\$ <b>2,540</b>	\$ 2,255
Adjusted EBITDA <sup>(1)</sup>	\$ <b>4,340</b>	\$ 4,140
Adjusted EBITDA margin <sup>(1)</sup>	<b>9.0%</b>	8.6%
Net earnings attributable to shareholders of the Company	\$ <b>759</b>	\$ 550
Net earnings available to common shareholders of the Company	\$ <b>715</b>	\$ 506
Adjusted net earnings available to common shareholders of the Company <sup>(1)</sup>	\$ <b>904</b>	\$ 838
Diluted net earnings per common share (\$)	\$ <b>5.53</b>	\$ 3.90
Adjusted diluted net earnings per common share <sup>(1)</sup> (\$)	\$ <b>7.00</b>	\$ 6.49
Cash and cash equivalents, short term investments and security deposits	\$ <b>3,233</b>	\$ 2,660
Cash flows from operating activities	\$ <b>3,425</b>	\$ 3,760
Free cash flow <sup>(1)</sup>	\$ <b>1,395</b>	\$ 1,725
Total debt	\$ <b>13,066</b>	\$ 12,804
Adjusted return on average equity attributable to common shareholders of the Company <sup>(1)</sup>	<b>12.9%</b>	12.1%
Adjusted return on capital <sup>(1)</sup>	<b>13.0%</b>	12.1%



## Management's Discussion and Analysis

### 5. OVERALL FINANCIAL PERFORMANCE

#### 5.1 CONSOLIDATED RESULTS OF OPERATIONS

(\$ millions except where otherwise indicated)

For the years ended December 31	2017	2016	\$ Change	% Change
<b>Sales</b>	\$ 48,292	\$ 47,999	\$ 293	0.6 %
<b>Operating income</b>	\$ 2,540	\$ 2,255	\$ 285	12.6 %
Adjusted EBITDA <sup>(1)</sup>	\$ 4,340	\$ 4,140	\$ 200	4.8 %
Adjusted EBITDA margin <sup>(1)</sup>	9.0%	8.6%		
<b>Depreciation and amortization<sup>(i)</sup></b>	\$ 1,685	\$ 1,654	\$ 31	1.9 %
<b>Net interest expense and other financing charges</b>	\$ 523	\$ 700	\$ (177)	(25.3)%
Adjusted net interest expense and other financing charges <sup>(1)</sup>	\$ 555	\$ 568	\$ (13)	(2.3)%
Income taxes	\$ 443	\$ 465	\$ (22)	(4.7)%
Adjusted income taxes <sup>(1)</sup>	\$ 713	\$ 678	\$ 35	5.2 %
Adjusted income tax rate <sup>(1)</sup>	27.1%	27.5%		
<b>Net earnings attributable to shareholders of the Company</b>	\$ 759	\$ 550	\$ 209	38.0 %
<b>Net earnings available to common shareholders of the Company</b>	\$ 715	\$ 506	\$ 209	41.3 %
Adjusted net earnings available to common shareholders of the Company <sup>(1)</sup>	\$ 904	\$ 838	\$ 66	7.9 %
<b>Diluted net earnings per common share (\$)</b>	\$ 5.53	\$ 3.90	\$ 1.63	41.8 %
Adjusted diluted net earnings per common share <sup>(1)</sup> (\$)	\$ 7.00	\$ 6.49	\$ 0.51	7.9 %

(i) Depreciation and amortization includes \$524 million (2016 – \$535 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$10 million (2016 – \$14 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other charges.

#### Net Earnings Available to Common Shareholders of the Company

Net earnings available to common shareholders of the Company in 2017 were \$715 million (\$5.53 per common share), an increase of \$209 million (\$1.63 per common share) compared to the same period in 2016. The increase in 2017 was primarily due to an improvement in underlying operating performance of \$66 million (\$0.51 per common share) and the favourable year-over-year net impact of adjusting items totaling \$143 million (\$1.12 per common share), as described below.

- The improvement in underlying operating performance of \$66 million (\$0.51 per common share) was primarily due to:
  - the underlying operating performance of Loblaw's Retail segment; and
  - the favourable impact of a decrease in adjusted net interest expense and other financing charges, as described below;
 partially offset by,
  - the unfavourable underlying operating performance of Weston Foods; and
  - the unfavourable impact of an increase in depreciation and amortization, as described below.

- The favourable year-over-year net impact of adjusting items totaling \$143 million (\$1.12 per common share) was primarily due to:
  - the gain on disposition of Loblaw’s gas bar operations of \$207 million (\$1.61 per common share);
  - the fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares of \$57 million (\$0.45 per common share);
  - the favourable year-over-year impact of asset impairments, net of recoveries, of \$24 million (\$0.18 per common share); and
  - the favourable year-over-year impact of the statutory corporate income tax rate change of \$20 million (\$0.16 per common share);
 partially offset by,
  - the unfavourable impact of Loblaw’s charges related to the announcement of the *PC Optimum* Program, including the revaluation of the existing points liability and the impairment of certain IT assets, of \$75 million (\$0.58 per common share);
  - an increase in restructuring and other charges of \$65 million (\$0.51 per common share); and
  - the unfavourable impact of the Loblaw Card Program of \$39 million (\$0.30 per common share).
- Net earnings available to common shareholders of the Company also included the positive contribution from the increase in the Company’s ownership interest in Loblaw, as a result of Loblaw’s share repurchases.

Adjusted net earnings available to common shareholders of the Company<sup>(1)</sup> in 2017 were \$904 million (\$7.00 per common share), an increase of \$66 million (\$0.51 per common share) compared to the same period in 2016. The increase in adjusted net earnings available to common shareholders of the Company<sup>(1)</sup> in 2017 was primarily due to the improvement in underlying operating performance and the positive contribution from the increase in the Company’s ownership interest in Loblaw, as described above.

## Sales

(\$ millions except where otherwise indicated)

For the years ended December 31	2017	2016	\$ Change	% Change
Weston Foods	\$ 2,243	\$ 2,268	\$ (25)	(1.1)%
Loblaw	\$ 46,702	\$ 46,385	\$ 317	0.7 %
Intersegment	\$ (653)	\$ (654)		
Consolidated	\$ 48,292	\$ 47,999	\$ 293	0.6 %

The Company’s 2017 consolidated sales were \$48,292 million, an increase of \$293 million compared to the same period in 2016. The increase in sales in 2017 was impacted by each of its reportable operating segments as follows:

- Negatively by 0.1% due to sales decline of 1.1% at Weston Foods. Foreign currency translation negatively impacted sales by approximately 1.3%. Excluding the impact of foreign currency translation, sales increased by 0.2% primarily due to an increase in volumes, partially offset by the negative impact of pricing and changes in sales mix.
- Positively by 0.7% due to sales growth of 0.7% at Loblaw, primarily driven by Retail. Retail sales increased by \$250 million, or 0.6% compared to 2016. Excluding the consolidation of franchises, Retail sales decreased by \$97 million, or 0.2%. The decrease was primarily due to the impact of the disposition of Loblaw’s gas bar operations of \$718 million, partially offset by same-store sales growth and an increase in Retail net square footage. Food retail same-store sales growth was 0.3%, after excluding gas bar operations. Loblaw’s food retail average annual internal food price index declined and was marginally higher than the average annual national food price deflation of 1.0% as measured by “The Consumer Price Index for Food Purchased from Stores” (“CPI”). CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores. Drug retail same-store sales growth was 3.0%. The unfavourable impact of the timing of New Year’s Day was nominal on food and drug retail same-store sales growth.

## Management's Discussion and Analysis

### Operating Income

(\$ millions except where otherwise indicated)

For the years ended December 31	2017	2016	\$ Change	% Change
Weston Foods	\$ 91	\$ 173	\$ (82)	(47.4)%
Loblaw	\$ 2,486	\$ 2,084	\$ 402	19.3 %
Other	\$ (37)	\$ (2)		
Consolidated	\$ 2,540	\$ 2,255	\$ 285	12.6 %

The Company's 2017 operating income was \$2,540 million, an increase of \$285 million compared to the same period in 2016. The increase in operating income in 2017 was driven by the improvements in underlying operating performance of \$154 million and the favourable year-over-year net impact of adjusting items totaling \$131 million, as described below:

- the improvements in underlying operating performance of \$154 million were primarily due to the following:
  - the underlying operating performance of Loblaw primarily driven by its Retail segment and its Choice Properties segment, net of consolidation and eliminations, despite the impact of an increase in depreciation and amortization; partially offset by,
  - the underlying operating performance of Weston Foods, including an increase in depreciation and amortization.
- the favourable year-over-year net impact of adjusting items totaling \$131 million was primarily due to:
  - the gain on disposition of Loblaw's gas bar operation of \$501 million;
  - the favourable year-over-year impact of asset impairments, net of recoveries, of \$79 million; and
  - the favourable impact of income earned, net of certain costs incurred, from the wind-down of PC Financial banking services of \$24 million;
 partially offset by,
  - the unfavourable impact of Loblaw's charges related to the announcement of the *PC Optimum* Program, including the revaluation of the existing points liability and the impairment of certain IT assets, of \$211 million;
  - an increase in restructuring and other charges of \$150 million; and
  - the unfavourable impact of the Loblaw Card Program of \$107 million.

### Adjusted EBITDA<sup>(1)</sup>

(\$ millions except where otherwise indicated)

For the years ended December 31	2017	2016	\$ Change	% Change
Weston Foods	\$ 256	\$ 296	\$ (40)	(13.5)%
Loblaw	\$ 4,084	\$ 3,844	\$ 240	6.2 %
Consolidated	\$ 4,340	\$ 4,140	\$ 200	4.8 %

The Company's 2017 adjusted EBITDA<sup>(1)</sup> was \$4,340 million, an increase of \$200 million compared to the same period in 2016. The increase in adjusted EBITDA<sup>(1)</sup> in 2017 was impacted by each of its reportable operating segments as follows:

- Negatively by 1.0% due to a decrease of 13.5% in adjusted EBITDA<sup>(1)</sup> at Weston Foods driven by continued investments in the business, higher input and distribution costs, operational issues and changes in sales mix, partially offset by productivity improvements.

- Positively by 5.8% due to an increase of 6.2% in adjusted EBITDA<sup>(1)</sup> at Loblaw, primarily driven by the Retail segment and the Choice Properties segment, net of consolidation and eliminations. The Retail segment included the positive contribution from the consolidation of franchises, partially offset by the unfavourable impact of the disposition of gas bar operations. The improvement in Retail adjusted EBITDA<sup>(1)</sup> was primarily driven by an increase in Retail gross profit, partially offset by an increase in Retail selling, general & administrative expenses (“SG&A”).

### Depreciation and Amortization

(\$ millions except where otherwise indicated)

For the years ended December 31

	2017	2016	\$ Change	% Change
Weston Foods	\$ 117	\$ 111	\$ 6	5.4%
Loblaw	\$ 1,568	\$ 1,543	\$ 25	1.6%
Consolidated	\$ 1,685	\$ 1,654	\$ 31	1.9%

Depreciation and amortization in 2017 was \$1,685 million, an increase of \$31 million compared to the same period in 2016, and included \$524 million (2016 – \$535 million) of amortization of intangible assets related to the acquisition of Shoppers Drug Mart Corporation (“Shoppers Drug Mart”) recorded by Loblaw and \$10 million (2016 – \$14 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other charges. Excluding these amounts, depreciation and amortization increased by \$46 million primarily due to:

- an increase in depreciation from the consolidation of Loblaw franchises;
- higher depreciation due to an increase in Loblaw’s IT assets; and
- higher depreciation due to investments in capital at Weston Foods;

partially offset by,

- the change in the estimated useful life of certain Loblaw Retail equipment and fixtures in the second quarter of 2016.

### Net Interest Expense and Other Financing Charges

(\$ millions)

For the years ended December 31

	2017	2016
Net interest expense and other financing charges	\$ 523	\$ 700
Add: Fair value adjustment of the Trust Unit liability	7	(79)
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	25	(53)
Adjusted net interest expense and other financing charges <sup>(1)</sup>	\$ 555	\$ 568

Net interest expense and other financing charges in 2017 were \$523 million, a decrease of \$177 million compared to the same period in 2016. The decrease in net interest expense and other financing charges in 2017 was primarily due to the year-over-year impact of a decrease in adjusting items totaling \$164 million, itemized in the table above, and a decrease in adjusted net interest expense and other financing charges<sup>(1)</sup> of \$13 million driven by:

- lower interest expense in Loblaw’s Retail segment due to the repayment of Medium Term Notes (“MTNs”) in the second quarter of 2016; and
- lower interest expense due to repayment made by GWL of a \$350 million MTN in the fourth quarter of 2016;

partially offset by,

- an increase in interest expense on long term debt in Loblaw’s Choice Properties segment due to higher drawings on credit facilities, higher distributions to Trust unitholders other than the Company and Loblaw and a prior year gain on settlement of bond forwards, partially offset by lower interest due to the repayment of the Series 6 senior unsecured debentures in the first quarter of 2017; and

## Management's Discussion and Analysis

- an increase in interest expense in Loblaw's Financial Services segment primarily due to the *Eagle Credit Card Trust*<sup>®</sup> ("Eagle") debt issuance in the fourth quarter of 2017.

### Income Taxes

(\$ millions except where otherwise indicated)

For the years ended December 31	2017	2016
Income taxes	\$ 443	\$ 465
Add: Tax impact of items excluded from adjusted earnings before taxes <sup>(1)(i)</sup>	232	216
Remeasurement of deferred tax balances	19	
Statutory corporate income tax rate change	19	(3)
Adjusted income taxes <sup>(1)</sup>	\$ 713	\$ 678
Effective income tax rate applicable to earnings before taxes	22.0%	29.9%
Adjusted income tax rate applicable to adjusted earnings before taxes <sup>(1)</sup>	27.1%	27.5%

- (i) See the adjusted EBITDA table and the adjusted net interest expense and other financing charges table included in Section 18, "Non-GAAP Financial Measures", of this MD&A for a complete list of items excluded from adjusted earnings before taxes<sup>(1)</sup>.

The effective tax rate in 2017 was 22.0%, a decrease of 7.9% compared to the same period in 2016. The decrease was primarily attributable to:

- the impact of the non-taxable portion of the gain on disposition of Loblaw's gas bar operations;
- a decrease in the non-deductible fair value adjustment of the Trust Unit liability;
- a deferred tax recovery resulting from the remeasurement of certain deferred tax balances; and
- a deferred tax recovery resulting from the decrease in the U.S. statutory corporate income tax rate, as described below.

The adjusted income tax rate<sup>(1)</sup> in 2017 was 27.1%, a decrease of 0.4% compared to the same period in 2016. The decrease was primarily attributable to a decrease in certain other non-deductible items.

In the fourth quarter of 2017, the Company recorded a deferred tax recovery of \$19 million resulting from a change in the applicable provincial income tax rate used to measure certain deferred tax balances caused by a change in the location of certain business activities.

In the fourth quarter of 2017, the U.S. government enacted a 14.0% decrease in the U.S. federal statutory corporate income tax rate from 35.0% to 21.0%. As a result, Weston Foods recorded a recovery of \$19 million in 2017 related to the remeasurement of its deferred tax liabilities.

In the first quarter of 2016, the Government of New Brunswick announced a 2.0% increase in the provincial statutory corporate income tax rate from 12.0% to 14.0%. Loblaw recorded a charge of \$3 million in 2016 related to the remeasurement of its deferred tax liabilities.

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

## Competition Bureau Investigation

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

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

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

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

As a result of their admission that they participated in the arrangement and their cooperation in the Competition Bureau's investigation, the Company and Loblaw will not face criminal charges or penalties.

## Management's Discussion and Analysis

### 5.2 SELECTED ANNUAL INFORMATION

The selected information presented below has been derived from and should be read in conjunction with the annual consolidated financial statements of the Company dated December 31, 2017 and 2016. The analysis of the data contained in the table focuses on the trends and significant events or items affecting the results of operations and financial condition of the Company over the latest three year period.

For the years ended December 31 (\$ millions except where otherwise indicated)	2017 (52 weeks)	2016 (52 weeks)	2015 (52 weeks)
<b>Sales</b>	\$ 48,292	\$ 47,999	\$ 46,894
<b>Operating income</b>	\$ 2,540	\$ 2,255	\$ 1,929
Adjusted EBITDA <sup>(1)</sup>	\$ 4,340	\$ 4,140	\$ 3,826
Adjusted EBITDA margin <sup>(1)</sup>	9.0%	8.6%	8.2%
Depreciation and amortization <sup>(i)</sup>	\$ 1,685	\$ 1,654	\$ 1,686
Net interest expense and other financing charges	\$ 523	\$ 700	\$ 681
Adjusted net interest expense and other financing charges <sup>(1)</sup>	\$ 555	\$ 568	\$ 585
Income taxes	\$ 443	\$ 465	\$ 418
Adjusted income taxes <sup>(1)</sup>	\$ 713	\$ 678	\$ 571
Adjusted income tax rate <sup>(1)</sup>	27.1%	27.5%	27.2%
<b>Net earnings</b>	\$ 1,574	\$ 1,090	\$ 830
<b>Net earnings attributable to shareholders of the Company</b>	\$ 759	\$ 550	\$ 511
<b>Net earnings available to common shareholders of the Company</b>	\$ 715	\$ 506	\$ 467
Adjusted net earnings available to common shareholders of the Company <sup>(1)</sup>	\$ 904	\$ 838	\$ 717
<b>Net earnings per common share (\$) – diluted</b>	\$ 5.53	\$ 3.90	\$ 3.62
Adjusted diluted net earnings per common share <sup>(1)</sup> (\$)	\$ 7.00	\$ 6.49	\$ 5.57
Dividends declared per share type (\$):			
Common shares	\$ 1.805	\$ 1.745	\$ 1.695
Preferred shares – Series I	\$ 1.45	\$ 1.45	\$ 1.45
Preferred shares – Series III	\$ 1.30	\$ 1.30	\$ 1.30
Preferred shares – Series IV	\$ 1.30	\$ 1.30	\$ 1.30
Preferred shares – Series V	\$ 1.1875	\$ 1.1875	\$ 1.1875

(i) Depreciation and amortization includes \$524 million (2016 – \$535 million; 2015 – \$536 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$10 million (2016 – \$14 million; 2015 – \$11 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other charges.

**Sales** The Company's reportable operating segments had the following sales trends over the last three years:

- Weston Foods sales have been positively impacted by volume growth in both 2017 and 2016. Foreign currency translation had a negative impact on sales in 2017 but a positive impact on sales in 2016.
- Loblaw's Retail segment has driven the growth in Loblaw sales over the last three years. Loblaw's Retail segment sales have continued to grow despite the pressure of an intensely competitive retail market and an uncertain economic and regulatory environment over the last three years. Through 2015, Loblaw was operating in an inflationary environment for food prices. In 2016, this food price inflation trend reversed, with inflation declining each quarter and becoming deflationary in the fourth quarter. This trend continued until the third quarter of 2017 where deflation in food prices returned to inflation. Retail segment sales over the past three years were also impacted by the consolidation of franchises, the changes in the price of fuel sold at the Loblaw's gas bars, the impact of drug reform, Loblaw's store closure plan announced in 2015 and completed in 2016 and the disposition of Loblaw's gas bar operations in the third quarter of 2017.

## Net earnings available to common shareholders of the Company and Diluted net earnings per common share

Net earnings available to common shareholders of the Company and diluted net earnings per common share for the last three years were impacted by of certain adjusting items as described in Section 18, “Non-GAAP Financial Measures”, of this MD&A and by the underlying operating performance of each of the Company’s reportable operating segments.

Over the last three years, the Company’s underlying operating performance was impacted by the following:

- improvements in underlying operating performance at Loblaw in both 2017 and 2016, driven by the Retail segment, including positive same-store sales in both food and drug retail, and the positive contribution from net synergies related to the acquisition of Shoppers Drug Mart. The improvements in underlying operating performance included the impacts of an increase in depreciation and amortization in 2017 and a decrease in depreciation and amortization in 2016;
- a decline in underlying operating performance at Weston Foods in 2017, driven by the investments in the business, higher input and distribution costs, operational issues and an increase in depreciation and amortization. A decline in underlying operating performance at Weston Foods in 2016, including the impact of incremental investments in the business, higher input costs, new plant costs, and an increase in depreciation and amortization;
- lower adjusted net interest expense and other financing charges<sup>(1)</sup> in both 2017 and 2016 due to the repayment of MTNs at Loblaw and GWL; and
- an increase in GWL’s ownership interest in Loblaw in 2017 and 2016 as a result of share repurchases. GWL’s ownership of Loblaw was approximately 48.6% as at the end of 2017 (2016 – approximately 47.0%).

Over the last three years, the impact of certain adjusting items included:

- the gain on disposition of Loblaw’s gas bar operations;
- the change in the fair value adjustment of the forward sale agreement for 9.6 million Loblaw shares;
- year-over-year change in asset impairments, net of recoveries;
- statutory corporate income tax rate changes;
- the change in the fair value adjustment of the Trust Unit liability;
- the remeasurement of deferred tax balances;
- the wind-down of PC Financial banking services;
- the settlement impacts of pension annuities and buy-outs;
- the impairment of Loblaw’s drug retail ancillary assets held for sale; and
- the accelerated finalization of transitioning of certain Loblaw grocery stores to more cost effective and efficient Labour Agreements;

partially offset by,

- year-over-year foreign currency translation;
- the *PC Optimum* Program, including the revaluation of existing points liability and the impairment of certain IT assets;
- the Loblaw Card Program; and
- year-over-year change in restructuring and other charges.

## Total Assets and Long Term Financial Liabilities

(\$ millions)	As at		
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
Total assets	\$ 38,499	\$ 37,946	\$ 38,220
Total long term debt	\$ 12,092	\$ 11,785	\$ 12,276
Trust Unit liability	634	635	552
Total long term financial liabilities	\$ 12,726	\$ 12,420	\$ 12,828



## Management's Discussion and Analysis

In 2017, total assets of \$38,499 million increased 1.5% as compared to 2016. The increase in total assets was primarily driven by an increase in cash and cash equivalents and short term investments as a result of the sale of Loblaw's gas bar operation. Total long term financial liabilities increased by 2.5% compared to 2016 driven by the drawings on the Choice Properties Credit Facilities and the *Eagle* debt issuance partially offset by the repayment of the Choice Properties Series 6 senior unsecured debentures.

In 2016, total assets of \$37,946 million decreased marginally and total long term financial liabilities decreased by 3.2% compared to 2015. The decrease in total long term financial liabilities was primarily due to repayments of MTNs, partially offset by debt issuances by Choice Properties to third parties and the increase in the value of the Trust Unit liability.

The Trust Unit liability is recognized at fair value on the consolidated balance sheets and fluctuates due to issuances and changes in the fair value of Choice Properties' Trust Units. As at December 31, 2017, 47,444,450 Units were held by unitholders other than the Company (2016 – 47,071,606, 2015 – 46,721,755) and the Company held an 88.5% (2016 – 88.5%, 2015 – 88.6%) effective ownership interest in Choice Properties.

### 6. RESULTS OF REPORTABLE OPERATING SEGMENTS

The following discussion provides details of the 2017 results of operations of each of the Company's reportable operating segments.

#### 6.1 WESTON FOODS OPERATING RESULTS

(\$ millions except where otherwise indicated)

For the years ended December 31

	2017	2016	\$ Change	% Change
Sales	\$ 2,243	\$ 2,268	\$ (25)	(1.1)%
Operating income	\$ 91	\$ 173	\$ (82)	(47.4)%
Adjusted EBITDA <sup>(1)</sup>	\$ 256	\$ 296	\$ (40)	(13.5)%
Adjusted EBITDA margin <sup>(1)</sup>	11.4%	13.1%		
Depreciation and amortization <sup>(i)</sup>	\$ 117	\$ 111	\$ 6	5.4 %

(i) Depreciation and amortization includes \$10 million (2016 – \$14 million) of accelerated depreciation related to restructuring and other charges.

**Sales** Weston Foods sales in 2017 were \$2,243 million, a decrease of \$25 million, or 1.1%, compared to the same period in 2016. Sales included the negative impact of foreign currency translation of approximately 1.3%. Excluding the impact of foreign currency translation, sales increased by 0.2% primarily due to an increase in volumes, partially offset by the negative impact of pricing and changes in sales mix.

**Operating income** Weston Foods operating income in 2017 was \$91 million, a decrease of \$82 million compared to the same period in 2016. The decrease was primarily due to the decline in underlying operating performance of \$50 million and the unfavourable year-over-year net impact of adjusting items totaling \$32 million as described below:

- an increase in restructuring and other charges of \$31 million; and
- the fair value adjustment of derivatives of \$19 million;

partially offset by,

- the favourable year-over-year impact of inventory loss, net of recoveries, of \$17 million.

**Adjusted EBITDA<sup>(1)</sup>** Weston Foods adjusted EBITDA<sup>(1)</sup> in 2017 was \$256 million, a decrease of \$40 million compared to the same period in 2016. The decrease was driven by continued investments in the business, higher input and distribution costs, operational issues and changes in sales mix, partially offset by productivity improvements.

Weston Foods adjusted EBITDA margin<sup>(1)</sup> was 11.4% compared to 13.1% in the same period in 2016. The decline in adjusted EBITDA margin<sup>(1)</sup> was mainly due to factors impacting adjusted EBITDA<sup>(1)</sup>, as described above.

**Depreciation and Amortization** Weston Foods depreciation and amortization in 2017 was \$117 million, an increase of \$6 million compared to the same period in 2016. Depreciation and amortization included \$10 million (2016 – \$14 million) of accelerated depreciation. These charges primarily related to closures of unprofitable facilities in the U.S. and Canada. Excluding these amounts, depreciation and amortization increased \$10 million in 2017 due to investments in capital.

### Weston Foods Other Business Matters

**Restructuring and other charges** Weston Foods continuously evaluates strategic and cost reduction initiatives related to its manufacturing assets, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. In the fourth quarter of 2017, Weston Foods recorded restructuring and other charges of \$33 million (2016 – \$7 million) and year-to-date \$48 million (2016 – \$17 million). In 2017, the restructuring charges were primarily related to the previously announced closure of an unprofitable facility in the U.S., which is expected to be completed in the first quarter of 2018, and reorganization costs related to the transformation program. In the fourth quarter of 2017, these charges included severance and exit costs of \$14 million, accelerated depreciation of \$10 million, and impairment of a definite life intangible asset of \$9 million. On a year-to-date basis, the restructuring charges included severance and exit costs of \$15 million in addition to the charges in the fourth quarter of 2017 as described above.

## 6.2 LOBLAW OPERATING RESULTS

(\$ millions except where otherwise indicated)

For the years ended December 31

	2017	2016	\$ Change	% Change
Sales	\$ 46,702	\$ 46,385	\$ 317	0.7 %
Operating income	\$ 2,486	\$ 2,084	\$ 402	19.3 %
Adjusted EBITDA <sup>(1)</sup>	\$ 4,084	\$ 3,844	\$ 240	6.2 %
Adjusted EBITDA margin <sup>(1)</sup>	8.7%	8.3%		
Depreciation and amortization <sup>(i)</sup>	\$ 1,568	\$ 1,543	\$ 25	1.6 %

(i) Depreciation and amortization includes \$524 million (2016 – \$535 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

Sales, operating income and adjusted EBITDA<sup>(1)</sup> in 2017 include the impacts of consolidation of franchises and the impact of the disposition of gas bar operations, as set out in “Loblaw Other Business Matters”.

**Sales** Loblaw sales in 2017 were \$46,702 million, an increase of \$317 million compared to the same period in 2016, primarily driven by Retail. Retail sales in 2017 increased by \$250 million, or 0.6%, compared to the same period in 2016 and included food retail sales of \$33,055 million (2016 – \$33,175 million) and drug retail sales of \$12,579 million (2016 – \$12,209 million).

Excluding the consolidation of franchises, Retail sales in 2017 decreased by \$97 million, or 0.2%, primarily driven by the following factors:

- the impact of the disposition of gas bar operations of \$718 million; partially offset by,
- food retail same-store sales growth was 0.3%, after excluding gas bar operations. Including gas bar operations, food retail same-store sales growth was 0.6%. Loblaw’s food retail average annual internal food price index declined and was marginally higher than the average annual national food price deflation of 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;
- drug retail same-store sales growth was 3.0%, including pharmacy same-store sales growth of 3.1% and front store same-store sales growth of 2.9%;
- the unfavourable impact of the timing of New Year’s Day was nominal on food and drug retail same-store sales growth; and

## Management's Discussion and Analysis

- during 2017, 22 food and drug stores were opened and 19 food and drug stores were closed, resulting in an increase in Retail net square footage of 0.1 million square feet, or 0.1%.

**Operating income** Loblaw operating income in 2017 was \$2,486 million, an increase of \$402 million compared to the same period in 2016. The increase was primarily driven by improvements in underlying operating performance of \$204 million and the favourable year-over-year net impact of adjusting items totaling \$198 million, as described below:

- the improvements in underlying operating performance were primarily driven by Retail, due to an increase in Retail gross profit, partially offset by higher Retail SG&A, and Choice Properties, net of consolidation and eliminations. Retail also included the positive contribution from the consolidation of franchises, partially offset by the unfavourable impact of the disposition of gas bar operations; and
- the favourable year-over-year net impact of adjusting items totaling \$198 million was primarily due to:
  - the gain on disposition of gas bar operations of \$501 million;
  - the favourable year-over-year impact of asset impairments, net of recoveries, of \$82 million; and
  - the favourable impact of income earned, net of certain costs incurred, from the wind-down of PC Financial banking services of \$24 million;partially offset by,
  - the unfavourable impact of charges related to the announcement of the *PC Optimum* Program, including the revaluation of the existing points liability and the impairment of certain IT assets, of \$211 million;
  - an increase in restructuring and other charges of \$119 million; and
  - the unfavourable impact of the Loblaw Card Program of \$107 million.

**Adjusted EBITDA<sup>(1)</sup>** Loblaw adjusted EBITDA<sup>(1)</sup> in 2017 was \$4,084 million, an increase of \$240 million compared to the same period in 2016. The increase was primarily driven by the Retail segment and the Choice Properties segment, net of consolidation and eliminations. The Retail segment included the positive contribution from the consolidation of franchises, partially offset by the unfavourable impact of the disposition of gas bar operations. Retail adjusted EBITDA<sup>(1)</sup> increased \$205 million driven by an increase in Retail gross profit, partially offset by an increase in Retail SG&A.

- Retail gross profit percentage was 28.1%, an increase of 110 basis points compared to the same period in 2016. Excluding the consolidation of franchises, Retail gross profit percentage was 26.9%, an increase of 50 basis points compared to 2016, primarily driven by the favourable impact of the disposition of gas bar operations of approximately 30 basis points and higher drug retail margins primarily due to front store margins. Food retail margins were stable.
- Retail SG&A as a percentage of sales was 19.7%, an increase of 70 basis points compared to the same period in 2016. Excluding the consolidation of franchises, Retail SG&A increased \$27 million. Retail SG&A as a percentage of sales, excluding the consolidation of franchises, was 18.5%, an unfavourable increase of 10 basis points compared to the same period in 2016, driven by the following factors:
  - the unfavourable impact of the disposition of gas bar operations of approximately 20 basis points; partially offset by,
  - lower store support costs; and
  - the favourable impact of foreign exchange.

Loblaw adjusted EBITDA<sup>(1)</sup> in 2017 also included the increase in Choice Properties adjusted EBITDA<sup>(1)</sup>, net of consolidations and eliminations, of \$28 million, primarily due to an increase in base rent and operating cost recoveries from existing properties and the expansion of the portfolio through acquisitions and development of properties, and an increase in Financial Services adjusted EBITDA<sup>(1)</sup> of \$7 million, primarily driven by growth in credit card receivables and higher Mobile Shop sales.

**Depreciation and Amortization** Loblaw depreciation and amortization in 2017 was \$1,568 million, an increase of \$25 million compared to the same period in 2016. The increase in depreciation and amortization was primarily driven by the consolidation of franchises and an increase in IT assets, partially offset by the impact of the change in the estimated useful life of certain equipment and fixtures in the second quarter of 2016. Included in depreciation and amortization is the amortization of intangible assets acquired with Shoppers Drug Mart of \$524 million (2016 – \$535 million).

### **Loblaw Other Business Matters**

**PC Optimum Program** In the fourth quarter of 2017, Loblaw announced plans to bring together the *Shoppers Optimum* and *PC Plus* reward programs to create one program, *PC Optimum*. As a result, Loblaw recorded a charge of \$189 million, related to the revaluation of the existing liability for outstanding points to reflect a higher anticipated redemption rate under the new program, and a charge of \$22 million, related to the impairment of certain IT assets that support the existing loyalty programs in the fourth quarter of 2017. Subsequent to the fourth quarter of 2017, Loblaw successfully launched the *PC Optimum* Program.

**Restructuring and other charges** In the fourth quarter of 2017, Loblaw eliminated approximately 500 corporate and store-support positions and finalized a plan that will result in the closure of 22 unprofitable retail locations across a range of banners and formats. Loblaw expects to record charges of approximately \$135 million related to this restructuring, of which \$123 million was recorded in the fourth quarter of 2017. The charges included \$109 million for severance and lease related costs, \$7 million for asset impairments and \$7 million related to other costs. Loblaw expects to realize approximately \$85 million in annualized savings related to these plans. Loblaw expects that the store closures will be substantially complete by the end of the first quarter of 2018.

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

**Gas Bar Network** On July 17, 2017, Loblaw sold its gas bar operations, for proceeds of approximately \$540 million, to Brookfield Business Partners L.P. (“Brookfield”). Loblaw recorded a pre-tax gain on sale of \$501 million (post-tax gain of \$432 million), net of related costs, in the third quarter of 2017. As a result of the transaction, Brookfield has become a strategic partner to Loblaw and will offer Loblaw’s *PC Optimum* Program at the gas bars. In addition, the gas bars operate at certain properties that are either owned by Loblaw or leased by Loblaw from Choice Properties or third-party landlords. As a result of the transaction, Brookfield leases or sub-leases these properties from Loblaw. In 2016, the gas bar operations sold approximately 1,700 million litres of gas and contributed approximately \$1,500 million to sales. After taking into account the earnings associated with the gas bar operations and the ongoing commitment of Loblaw to fund certain loyalty program costs, the expected annual impact will be a reduction in adjusted EBITDA<sup>(1)</sup> of approximately \$80 million, based on 2016 information. Loblaw expects to use the proceeds from the sale for general corporate activities.

In 2017, the impact of the disposition of gas bar operations was \$718 million on Retail sales and approximately \$40 million on Retail adjusted EBITDA<sup>(1)</sup>. Loblaw expects in 2018 that the impact of the disposition of gas bar operations on Retail sales and Retail adjusted EBITDA<sup>(1)</sup> will approximate that experienced in 2017.

## Management's Discussion and Analysis

**Consolidation of Franchises** Loblaw has more than 500 franchise food retail stores in its network. As at year end 2017, 310 of these stores were consolidated for accounting purposes under a new, simplified franchise agreement ("Franchise Agreement") implemented in 2015.

Loblaw will convert franchises to the Franchise Agreement as existing agreements expire, at the end of which all franchises will be consolidated. The following table presents the net number of franchises consolidated in the fourth quarter of 2017 and year-to-date, and the total impact of the consolidation of franchises included in the consolidated results of the Company:

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended		Years Ended	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Number of Consolidated Franchise stores, beginning of period	273	165	200	85
Add: Net Number of Consolidated Franchise stores in the period	37	35	110	115
Number of Consolidated Franchise stores, end of period	310	200	310	200
Sales	\$ 186	\$ 99	\$ 710	\$ 363
Operating income (loss)	16	21	23	(1)
Adjusted EBITDA <sup>(1)</sup>	27	27	66	20
Depreciation and amortization	11	6	43	21
Net earnings attributable to non-controlling interests	14	28	24	7

Operating income (loss) included in the table above does not significantly impact net earnings available to common shareholders of the Company as this amount is largely attributable to non-controlling interests.

Loblaw expects that the estimated annual impact in 2018 of new and current consolidated franchises will be revenue of approximately \$1,000 million, adjusted EBITDA<sup>(1)</sup> of approximately \$100 million, depreciation and amortization of approximately \$60 million and net earnings attributable to non-controlling interests of approximately \$25 million.

**Wind-down of PC Financial banking services** In the third quarter of 2017, President's Choice Bank ("PC Bank") entered into an agreement to end its business relationship with a major Canadian chartered bank, which represented the personal banking services offered under the *President's Choice Financial*<sup>®</sup> brand. As a result of this agreement, PC Bank will receive a payment of approximately \$43 million, net of certain costs incurred, \$24 million of which was recognized in 2017 including \$17 million recognized in the fourth quarter of 2017. The remaining amounts will be recognized in the first and second quarters of 2018.

PC Bank will continue to operate the *PC MasterCard*<sup>®</sup> Program and customers will earn *PC Optimum* points. PC Bank remains committed to providing payment products to its customers and continues to strengthen its credit card services and loyalty programs.

**Acquisition of properties** During 2017, Choice Properties acquired seven investment properties from third-party vendors for an aggregate purchase price of approximately \$64 million, excluding acquisition costs, which was settled by an assumption of a \$7 million mortgage, with the remainder in cash. Of the seven investment properties acquired during 2017, two investment properties were acquired from third-party vendors, in the fourth quarter of 2017, for an aggregate purchase price of approximately \$18 million, excluding acquisition costs.

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

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

Loblaw, Choice Properties' controlling unitholder, has entered into a voting agreement in support of the transaction. To facilitate Choice Properties' financing for the transaction, Loblaw has agreed to convert all of its outstanding Class C Limited Partnership units of Choice Properties Limited Partnership with a face value of \$925 million into Class B LP units of Choice Properties Limited Partnership on closing. Following the transaction, the Company and Loblaw will own approximately 4% and 62% of Choice Properties, respectively.

The transaction is anticipated to close in the second quarter of 2018. The transaction will require the approval of at least 66 2/3% of the votes cast by unitholders of CREIT at a special meeting expected to take place in April 2018. In addition to CREIT unitholder approval and court approvals, the transaction is subject to compliance with the Competition Act and certain other closing conditions customary in transactions of this nature. There can be no assurance that any such approvals will be obtained or that Loblaw will be able to successfully consummate the proposed transaction as currently contemplated or at all.

## 7. LIQUIDITY AND CAPITAL RESOURCES

### 7.1 CASH FLOWS

(\$ millions)

For the years ended December 31	2017	2016	Change
Cash and cash equivalents, beginning of period	\$ 1,560	\$ 1,413	\$ 147
Cash flows from operating activities	\$ 3,425	\$ 3,760	\$ (335)
Cash flows used in investing activities	\$ (1,075)	\$ (1,324)	\$ 249
Cash flows used in financing activities	\$ (1,865)	\$ (2,275)	\$ 410
Effect of foreign currency exchange rate changes on cash and cash equivalents	\$ (11)	\$ (14)	\$ 3
Cash and cash equivalents, end of period	\$ 2,034	\$ 1,560	\$ 474

**Cash Flows from Operating Activities** The year-over-year decrease in cash inflows in 2017 was \$335 million, primarily due to:

- an increase in income taxes paid;
- partially offset by,
- higher cash earnings.

## Management's Discussion and Analysis

**Cash Flows used in Investing Activities** The year-over-year decrease in cash outflows in 2017 was \$249 million, primarily driven by the proceeds from the disposition of Loblaw's gas bar operations and the acquisition of QHR Corporation ("QHR") in 2016, partially offset by an increase in short term investments and higher fixed asset purchases.

The following table summarizes the Company's capital investments by each of its reportable operating segments:

(\$ millions)

For the years ended December 31

	2017	2016
Weston Foods	\$ 215	\$ 241
Loblaw	1,259	1,224
Total capital investments	\$ 1,474	\$ 1,465

**Cash Flows used in Financing Activities** The year-over-year decrease in cash outflows in 2017 was \$410 million, primarily driven by lower net repayments of Loblaw's long term debt and timing of dividends paid, partially offset by Loblaw's higher repurchases of common shares and the change in short term bank debt.

The Company's significant long term debt transactions are set out in Section 7.3, "Components of Total Debt".

### Free Cash Flow<sup>(1)</sup>

(\$ millions)

For the years ended December 31

	2017	2016	Change
Cash flows from operating activities	\$ 3,425	\$ 3,760	\$ (335)
Less: Interest paid	556	570	(14)
Fixed asset purchases	1,177	1,129	48
Intangible asset additions	297	336	(39)
Free cash flow <sup>(1)</sup>	\$ 1,395	\$ 1,725	\$ (330)

The year-over-year decrease in free cash flow<sup>(1)</sup> in 2017 was \$330 million, primarily due to lower cash flows from operating activities, as described above.

## 7.2 LIQUIDITY

The Company (excluding Loblaw) expects that cash and cash equivalents, short term investments and future operating cash flows will enable it to finance its capital investment program and fund its ongoing business requirements, including working capital, pension plan funding requirements and financial obligations over the next 12 months. The Company (excluding Loblaw) does not foresee any impediments in obtaining financing to satisfy its long term obligations.

Loblaw expects that cash and cash equivalents, short term investments, future operating cash flows and the amounts available to be drawn against committed credit facilities will enable it to finance its capital investment program and fund its ongoing business requirements, including working capital, pension plan funding requirements and financial obligations, over the next 12 months. Financial Services expects to obtain long term financing for the growth of its credit card portfolio through the issuance of *Eagle* notes and Guaranteed Investment Certificates ("GICs"). Choice Properties expects to obtain long term financing for the acquisition of properties primarily through the issuance of unsecured debentures and equity.

For details on the Company's cash flows, see Section 7.1 "Cash Flows" of this MD&A.

**Total Debt** The following table presents total debt, as monitored by management:

(\$ millions)	As at	
	Dec. 31, 2017	Dec. 31, 2016
Bank indebtedness	\$ 110	\$ 115
Short term debt	1,258	1,241
Long term debt due within one year	1,635	400
Long term debt	10,457	11,385
Certain other liabilities	41	31
Fair value of financial derivatives related to the above debt	(435)	(368)
<b>Total debt</b>	<b>\$ 13,066</b>	<b>\$ 12,804</b>

Management targets credit metrics consistent with those of an investment grade profile. The Company (excluding Loblaw) holds significant cash and cash equivalents and short term investments and as a result monitors its leverage on a net debt basis. The Company (excluding Loblaw) has total debt of \$1,098 million (2016 – \$1,123 million) and cash and cash equivalents and short term investments of \$803 million (2016 – \$1,016 million), resulting in a \$295 million net debt position (2016 – \$107 million net debt position).

Loblaw’s management is focused on managing its capital structure on a segmented basis to ensure that each of its operating segments is employing a capital structure that is appropriate for the industry in which it operates.

- Loblaw targets maintaining Retail credit metrics consistent with those of investment grade retailers. Loblaw monitors the Retail segment’s debt to adjusted EBITDA<sup>(1)</sup> ratio as a measure of the leverage being employed. The Retail segment debt to adjusted EBITDA<sup>(1)</sup> ratio decreased compared to 2016 primarily as a result of growth in adjusted EBITDA<sup>(1)</sup>.
- PC Bank capital management objectives are to maintain a consistently strong capital position while considering the economic risks generated by its credit card receivables portfolio and to meet all regulatory requirements as defined by the Office of the Superintendent of Financial Institutions (“OSFI”).
- Choice Properties targets maintaining credit metrics consistent with those of investment grade Real Estate Investment Trusts (“REIT”). Choice Properties monitors metrics relevant to the REIT industry including targeting an appropriate debt to total assets ratio.

**Covenants and Regulatory Requirements** The Company, Loblaw and Choice Properties are required to comply with certain financial covenants for various debt instruments. As at year end 2017 and throughout the year, the Company, Loblaw and Choice Properties were in compliance with their respective covenants. As at year end 2017 and throughout the year, PC Bank and Choice Properties have met all applicable regulatory requirements.

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

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

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

Subsequent to the end of 2017, GWL filed a Base Shelf Prospectus allowing for the issuance of up to \$1 billion of senior and subordinated debt securities, and preferred shares, or any combination thereof over a 25-month period.



## Management's Discussion and Analysis

### 7.3 COMPONENTS OF TOTAL DEBT

**Debentures and MTNs** The following table summarizes the debentures and MTNs issued in the years ended as indicated:

(\$ millions except where otherwise indicated)	Interest Rate	Maturity Date	2017	2016
			Principal Amount	Principal Amount
Choice Properties senior unsecured debentures				
– Series G	3.20%	March 7, 2023		\$ 250
– Series H	5.27%	March 7, 2046		100
Total debentures issued			\$ —	\$ 350

No debentures and MTNs were issued in 2017. Subsequent to the end of 2017, Choice Properties issued two series of senior unsecured debentures: \$300 million Series I senior unsecured debentures due March 21, 2022, which bear interest at a rate of 3.01% per annum; and \$350 million Series J senior unsecured debentures due January 10, 2025, which bear interest at a rate of 3.55% per annum.

The following table summarizes the debentures and MTNs repaid in the years ended as indicated:

(\$ millions except where otherwise indicated)	Interest Rate	Maturity Date	2017	2016
			Principal Amount	Principal Amount
George Weston Limited notes	3.78%	October 25, 2016		\$ 350
Loblaw Companies Limited notes	7.10%	June 1, 2016		300
Shoppers Drug Mart notes	2.01%	May 24, 2016		225
Choice Properties senior unsecured debentures				
– Series 6	3.00%	April 20, 2017 <sup>(i)</sup>	\$ 200	
– Series 5	3.00%	April 20, 2016 <sup>(ii)</sup>		300
Total MTNs and debentures repaid			\$ 200	\$ 1,175

(i) Redeemed on January 23, 2017.

(ii) Redeemed on March 7, 2016.

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

**Committed Credit Facilities** The components of the committed lines of credit available as at year end 2017 and 2016 were as follows:

(\$ millions)	Maturity Date	As at			
		Dec. 31, 2017		Dec. 31, 2016	
		Available Credit	Drawn	Available Credit	Drawn
Loblaw's committed credit facility	June 10, 2021	\$ 1,000		\$ 1,000	
Choice Properties' committed syndicated credit facility	July 5, 2022 <sup>(i)</sup>	500	\$ 311	500	\$ 172
Choice Properties' committed bi-lateral credit facility	December 21, 2018	250	250	250	
Total committed credit facilities		\$ 1,750	\$ 561	\$ 1,750	\$ 172

(i) Choice Properties' committed syndicated credit facility was extended for an additional year from July 5, 2021 to July 5, 2022.

Subsequent to the end of 2017, Choice Properties repaid and cancelled the committed bi-lateral credit facility.

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

The following table summarizes the amounts securitized to independent securitization trusts:

(\$ millions)	As at	
	Dec. 31, 2017	Dec. 31, 2016
Securitized to independent securitization trusts:		
Securitized to <i>Eagle Credit Card Trust</i>	\$ 900	\$ 650
Securitized to Other Independent Securitization Trusts	640	665
Total securitized to independent securitization trusts	\$ 1,540	\$ 1,315

In 2017, *Eagle* filed a Short Form Base Shelf Prospectus, which allows for the potential issuance of up to \$1 billion of notes over a 25-month period. Under this Prospectus, *Eagle* issued \$250 million of senior and subordinated term notes with a maturity date of October 17, 2022 at a weighted average interest rate of 2.71%. In connection with this issuance, \$200 million of bond forward agreements were settled, resulting in a realized fair value gain of \$6 million, in Other Comprehensive Income and a net effective interest rate of 2.26% on the *Eagle* notes issued.

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

## Management's Discussion and Analysis

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

The undrawn commitments on facilities available from the Other Independent Securitization Trusts as at year end 2017 were \$160 million (2016 – \$210 million).

**Independent Funding Trusts** As at year end 2017, the independent funding trusts had drawn \$551 million (2016 – \$587 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts. Loblaw provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts. As at year end 2017, Loblaw has agreed to provide a credit enhancement of \$64 million (2016 – \$64 million) in the form of a standby letter of credit for the benefit of the independent funding trusts representing not less than 10% (2016 – 10%) of the principal amount of the loans outstanding.

**Guaranteed Investment Certificates** The following table summarizes PC Bank's GIC activity, before commissions, for the years ended as follows:

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

As at year end 2017, \$193 million in GICs were recorded as long term debt due within one year (2016 – \$142 million).

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

### 7.4 FINANCIAL CONDITION

	As at	
	Dec. 31, 2017	Dec. 31, 2016
Adjusted return on average equity attributable to common shareholders of the Company <sup>(1)</sup>	12.9%	12.1%
Adjusted return on capital <sup>(1)</sup>	13.0%	12.1%

Adjusted return on average equity attributable to common shareholders of the Company<sup>(1)</sup> increased as at year end 2017 compared to year end 2016, due to the improvement in Loblaw's underlying operating performance and Loblaw's common shares repurchased. Adjusted return on capital<sup>(1)</sup> increased as at year end 2017 compared to year end 2016 due to the factors described above and an increase in cash and cash equivalents and short term investments as a result of the disposition of Loblaw's gas bar operations.

## 7.5 CREDIT RATINGS

In 2017, Standard & Poor's ("S&P") reaffirmed credit ratings and outlook for GWL, Loblaw and Choice Properties. Also in 2017, Dominion Bond Rating Service ("DBRS") reaffirmed credit ratings and trends for GWL, Loblaw and Choice Properties.

Subsequent to the fourth quarter of 2017 and after the announcement that Choice Properties has entered into an agreement to acquire the assets and assume the liabilities of CREIT, DBRS reaffirmed the ratings of Loblaw and Choice Properties and changed the trend from Positive to Stable. S&P reaffirmed the ratings of Choice Properties.

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

Credit Ratings (Canadian Standards)	DBRS		S&P	
	Credit Rating	Trend	Credit Rating	Outlook
Issuer rating	BBB	Stable	BBB	Stable
Medium term notes	BBB	Stable	BBB	n/a
Other notes and debentures	BBB	Stable	BBB	n/a
Preferred shares	Pfd-3	Stable	P-3 (high)	n/a

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

Credit Ratings (Canadian Standards)	DBRS		S&P	
	Credit Rating	Trend	Credit Rating	Outlook
Issuer rating	BBB	Stable	BBB	Stable
Medium term notes	BBB	Stable	BBB	n/a
Other notes and debentures	BBB	Stable	BBB	n/a
Second Preferred shares, Series B	Pfd-3	Stable	P-3 (high)	n/a

The following table sets out the current credit ratings of Choice Properties:

Credit Ratings (Canadian Standards)	DBRS		S&P	
	Credit Rating	Trend	Credit Rating	Outlook
Issuer rating	BBB	Stable	BBB	Stable
Senior unsecured debentures	BBB	Stable	BBB	n/a

## 7.6 SHARE CAPITAL

**Outstanding Share Capital and Capital Securities** GWL's outstanding share capital is comprised of common shares and preferred shares. The following table details the authorized and outstanding common shares and preferred shares as at December 31, 2017:

(number of common shares)	Authorized	Outstanding
Common shares	Unlimited	127,905,581
Preferred shares – Series I	10,000,000	9,400,000
– Series II	10,600,000	
– Series III	10,000,000	8,000,000
– Series IV	8,000,000	8,000,000
– Series V	8,000,000	8,000,000

**Common Share Capital** Common shares issued are fully paid and have no par value. The following table summarizes the activity in the Company's common shares issued and outstanding for the years ended December 31, 2017 and December 31, 2016:

## Management's Discussion and Analysis

(number of common shares)	2017	2016
Issued and outstanding, beginning of year	127,898,582	127,911,661
Issued for settlement of stock options	293,976	54,921
Purchased and cancelled	(286,977)	(68,000)
Issued and outstanding, end of year	127,905,581	127,898,582
Shares held in trusts, beginning of year	(266,999)	(272,031)
Purchased for future settlement of RSUs and PSUs	(70,198)	(102,006)
Released for settlement of RSUs and PSUs	108,394	107,038
Shares held in trusts, end of year	(228,803)	(266,999)
Issued and outstanding, net of shares held in trusts, end of year	127,676,778	127,631,583
Weighted average outstanding, net of shares held in trusts	127,692,789	127,668,839

As at year end 2017, a total of 1,527,125 GWL stock options were outstanding. The number of stock options outstanding was within the Company's guidelines as GWL may grant options for up to 6,453,726 of its common shares. Each stock option is exercisable into one common share of GWL at the price specified in the terms of the option agreement.

**Preferred Share Capital** GWL may, at its option, redeem for cash, in whole or in part, the preferred shares Series I, Series III, Series IV and Series V outstanding on or after the redemption dates specified by the terms of each series of preferred shares. GWL may at any time after issuance give the holders of these preferred shares the right, at the option of the holder, to convert the holder's preferred shares into preferred shares of a further series designated by GWL on a share-for-share basis on a date specified by GWL.

**Dividends** The declaration and payment of dividends on the Company's common shares and the amount thereof are at the discretion of the Company's Board of Directors ("Board") which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time. Over time, it is the Company's intention to increase the amount of the dividend while retaining appropriate free cash flow to finance future growth. In the second quarter of 2017 and 2016, the Board raised the quarterly common share dividend by \$0.015 to \$0.455 and \$0.44 per share, respectively. The Board declared dividends as follows:

(\$)	2017	2016
Dividends declared per share <sup>(i)</sup> :		
Common share	\$ 1.805	\$ 1.745
Preferred share:		
Series I	\$ 1.45	\$ 1.45
Series III	\$ 1.30	\$ 1.30
Series IV	\$ 1.30	\$ 1.30
Series V	\$ 1.1875	\$ 1.1875

(i) Dividends declared on common shares and Preferred Shares, Series III, Series IV and Series V were payable on January 1, 2018 and subsequently paid on January 2, 2018. Dividends declared on Preferred Shares, Series I were paid on December 15, 2017.

The following table summarizes the Company's cash dividends declared subsequent to year end 2017:

(\$)

Dividends declared per share <sup>(i)</sup> – Common share	\$	0.455
– Preferred share:		
Series I	\$	0.3625
Series III	\$	0.3250
Series IV	\$	0.3250
Series V	\$	0.296875

(i) Dividends declared on common shares and Preferred Shares, Series III, Series IV and Series V are payable on April 1, 2018. Dividends declared on Preferred Shares, Series I are payable on March 15, 2018.

At the time such dividends are declared, GWL identifies on its website ([www.weston.ca](http://www.weston.ca)) the designation of eligible and ineligible dividends in accordance with the administrative position of the CRA.

**Normal Course Issuer Bid (“NCIB”) Program** The following table summarizes the Company's activity under its NCIB program:

(\$ millions except where otherwise indicated)

	2017	2016
Purchased for future settlement of RSUs and PSUs (number of shares)	70,198	102,006
Purchased and cancelled (number of shares)	286,977	68,000
Cash consideration paid		
Purchased and held in trusts	\$ (7)	\$ (11)
Purchased and cancelled	\$ (31)	\$ (8)
Premium charged to retained earnings	\$ 38	\$ 19

In the second quarter of 2017, GWL renewed its NCIB program to purchase on the Toronto Stock Exchange (“TSX”) or through alternative trading systems up to 6,395,185 of its common shares, representing approximately 5% of the common shares outstanding. In accordance with the rules and regulations of the TSX, any purchases must be at the then market price of such shares.

## 7.7 OFF-BALANCE SHEET ARRANGEMENTS

The following is a summary of the Company's off-balance sheet arrangements. Certain significant arrangements have also been discussed in Section 7.3, “Components of Total Debt”.

**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 Loblaw's franchisees. As at year end 2017, the aggregate gross potential liability related to the Company's letters of credit was approximately \$844 million (2016 – \$771 million).

**Guarantees** In addition to the letters of credit mentioned above, the Company has entered into various guarantee arrangements 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, Loblaw has provided a guarantee on behalf of PC Bank to MasterCard<sup>®</sup> International Incorporated (“MasterCard<sup>®</sup>”) for accepting PC Bank as a card member and licensee of MasterCard<sup>®</sup>. As at year end 2017, the guarantee on behalf of PC Bank to MasterCard<sup>®</sup> was U.S. dollars \$190 million (2016 – U.S. dollars \$190 million).

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

## Management's Discussion and Analysis

**Cash Collateralization** As at year end 2017, GWL and Loblaw had agreements to cash collateralize certain uncommitted credit facilities up to amounts of \$45 million (2016 – \$45 million) and \$102 million (2016 – \$103 million), respectively. As at year end 2017, GWL and Loblaw had \$45 million (2016 – \$45 million) and \$3 million (2016 – \$4 million) deposited with major financial institutions, respectively, and classified as security deposits on the consolidated balance sheets.

### 7.8 CONTRACTUAL OBLIGATIONS

The following table summarizes certain of the Company's significant contractual obligations and other obligations as at year end 2017:

#### Summary of Contractual Obligations

(\$ millions)	Payments due by year						Total
	2018	2019	2020	2021	2022	Thereafter	
Total debt <sup>(i)</sup>	\$ 3,458	\$ 2,535	\$ 1,715	\$ 985	\$ 1,239	\$ 7,822	\$ 17,754
Foreign exchange forward contracts	511						511
Operating leases <sup>(ii)</sup>	699	656	583	509	429	1,866	4,742
Contracts for purchases of real property and capital investment projects <sup>(iii)</sup>	201						201
Purchase obligations <sup>(iv)</sup>	158	60	35	12	12		277
<b>Total contractual obligations</b>	<b>\$ 5,027</b>	<b>\$ 3,251</b>	<b>\$ 2,333</b>	<b>\$ 1,506</b>	<b>\$ 1,680</b>	<b>\$ 9,688</b>	<b>\$ 23,485</b>

- (i) Includes short term debt, bank indebtedness, Loblaw's certain other liabilities, and the fair value of the equity forward included in other assets. Total debt also includes fixed interest payments on long term debt which are based on the maturing face values and annual interest for each instrument, including GICs, long term independent securitization trusts and an independent funding trust, as well as annual payment obligations for consolidated structured entities, mortgages and finance lease obligations. Variable interest payments are based on the forward rates as at year end 2017.
- (ii) Represents the minimum or base rents payable. Amounts are not offset by any expected sub-lease income.
- (iii) Includes 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.
- (iv) Includes contractual obligations of a material amount to purchase goods or services 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. The purchase obligations do not include purchase orders issued or agreements made in the ordinary course of business which are solely for goods that are meant for resale, nor do they include any contracts which may be terminated on relatively short notice or with insignificant cost or liability to the Company. Also excluded are purchase obligations related to commodities or commodity-like goods for which a market for resale exists.

As at year end 2017, the Company had additional long term liabilities which included post-employment and other long term employee benefit plan liabilities, deferred vendor allowances, deferred income tax liabilities, Trust Unit liability, and provisions, including insurance liabilities. These long term liabilities have not been included in the table above as the timing and amount of future payments are uncertain.

## 8. QUARTERLY RESULTS OF OPERATIONS

### 8.1 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The Company's year end is December 31. Activities are reported on a fiscal year ending 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 five to six years. Each of the years ended December 31, 2017 and December 31, 2016 contained 52 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. When a fiscal year contains 53 weeks, the fourth quarter is 13 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.

#### Selected Quarterly Information (Unaudited)

(\$ millions except where otherwise indicated)	2017					2016				
	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	Total (audited)	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	Total (audited)
Sales	\$ 10,800	\$ 11,435	\$ 14,648	\$ 11,409	\$ 48,292	\$ 10,800	\$ 11,075	\$ 14,605	\$ 11,519	\$ 47,999
Operating income	\$ 510	\$ 639	\$ 1,244	\$ 147	\$ 2,540	\$ 457	\$ 525	\$ 782	\$ 491	\$ 2,255
Adjusted EBITDA <sup>(1)</sup>	\$ 924	\$ 1,037	\$ 1,307	\$ 1,072	\$ 4,340	\$ 890	\$ 981	\$ 1,242	\$ 1,027	\$ 4,140
Depreciation and amortization <sup>(i)</sup>	\$ 384	\$ 385	\$ 509	\$ 407	\$ 1,685	\$ 395	\$ 370	\$ 497	\$ 392	\$ 1,654
Net earnings	\$ 240	\$ 364	\$ 904	\$ 66	\$ 1,574	\$ 145	\$ 227	\$ 487	\$ 231	\$ 1,090
Net earnings attributable to shareholders of the Company	\$ 117	\$ 170	\$ 434	\$ 38	\$ 759	\$ 47	\$ 143	\$ 268	\$ 92	\$ 550
Net earnings available to common shareholders of the Company	\$ 107	\$ 160	\$ 420	\$ 28	\$ 715	\$ 37	\$ 133	\$ 254	\$ 82	\$ 506
Net earnings per common share (\$) - basic	\$ 0.84	\$ 1.25	\$ 3.29	\$ 0.22	\$ 5.60	\$ 0.29	\$ 1.04	\$ 1.99	\$ 0.64	\$ 3.96
Net earnings per common share (\$) - diluted	\$ 0.83	\$ 1.23	\$ 3.25	\$ 0.22	\$ 5.53	\$ 0.29	\$ 1.04	\$ 1.97	\$ 0.64	\$ 3.90
Adjusted diluted net earnings per common share <sup>(1)</sup> (\$)	\$ 1.42	\$ 1.67	\$ 2.14	\$ 1.78	\$ 7.00	\$ 1.31	\$ 1.56	\$ 2.06	\$ 1.59	\$ 6.49
Weston Foods sales (decline) growth	(4.1)%	2.6 %	(0.7)%	(1.9)%	(1.1)%	11.5%	6.9%	3.7%	1.9 %	5.8%
Weston Foods sales (decline) growth excluding impact of foreign currency translation	(1.6)%	0.2 %	1.0 %	0.9 %	0.2 %	4.8%	4.3%	3.7%	2.1 %	3.6%
Average quarterly national food price (deflation) inflation (as measured by CPI)	(3.9)%	(1.4)%	0.3 %	1.0 %	(1.0)%	4.3%	1.8%	0.2%	(2.3)%	1.0%
Food retail same-store sales (decline) growth	(1.2)%	1.2 %	1.4 %	0.5 %	0.6 %	2.0%	0.4%	0.8%	1.1 %	1.1%
Drug retail same-store sales growth	0.9 %	3.7 %	3.3 %	3.6 %	3.0 %	6.3%	4.0%	2.8%	3.4 %	4.0%

(i) Depreciation and amortization includes amortization of intangible assets acquired with Shoppers Drug Mart recorded by Loblaw and accelerated depreciation recorded by Weston Foods, related to restructuring and other charges.

**Impact of Trends and Seasonality on Quarterly Results** Consolidated quarterly results for the last eight quarters were impacted by the following significant items: foreign currency exchange rates, seasonality and the timing of holidays. The impact of Weston Foods seasonality is greatest in the third and fourth quarters and least in the first quarter. The impact of Loblaw seasonality is greatest in the fourth quarter and least in the first quarter.



## Management's Discussion and Analysis

**Sales** Over the last eight quarters, consolidated sales have been impacted by each of the Company's reportable operating segments as follows:

- Weston Foods 2017 quarterly sales were negatively impacted by foreign currency translation when compared to the same periods in 2016, except for the second quarter of 2017 which had a positive impact on sales compared to the same period in 2016. Excluding the impact of foreign currency translation, quarterly sales had positive growth, except for the first quarter of 2017. The first quarter of 2017 was negatively impacted by the timing of New Year's Day and Easter, pricing and changes in sales mix, partially offset by an increase in volumes.
- Through 2015, Loblaw was operating in an inflationary environment for food prices. In 2016, this food price inflation trend reversed with inflation declining each quarter and becoming deflationary in the fourth quarter. This trend continued until the third quarter of 2017 where deflation in food prices returned to inflation. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores.
- Over the past eight quarters, Loblaw's net retail square footage increased by 0.4 million square feet to 70.3 million square feet, primarily driven by new store openings partially offset by Loblaw's store closure plan announced in 2015 and completed in the first half of 2016.

### **Net earnings available to common shareholders of the Company and diluted net earnings per common share**

Net earnings available to common shareholders of the Company and diluted net earnings per common share for the last eight quarters were impacted by the underlying operating performance of each of the Company's reportable operating segments and certain adjusting items.

The Company's underlying operating performance for the last eight quarters included the following:

- Weston Foods unfavourable year-over-year quarterly underlying operating performance during 2017 reflected continued investments in the business and higher input and distribution costs, partially offset by productivity improvements;
- Loblaw favourable year-over-year quarterly underlying operating performance during 2017 reflected the improvements in underlying operating performance of the Retail segment in all quarters of 2017;
- year-over-year quarterly adjusted net interest and other financing charges<sup>(1)</sup> decreased in the first, second and fourth quarters of 2017. The net interest and other financing charges remained flat in the third quarter of 2017; and
- year-over-year quarterly adjusted income tax rate<sup>(1)</sup> decreased in the first, second and fourth quarter of 2017 and increased in the third quarter of 2017.

The adjusting items impacting consolidated quarterly net earnings available to common shareholders of the Company and diluted net earnings per common share for the last eight quarters are described in Section 5.2, "Selected Annual Information", and Section 18, "Non-GAAP Financial Measures", of this MD&A.

## 8.2 FOURTH QUARTER RESULTS (UNAUDITED)

The following is a summary of selected unaudited consolidated financial information for the fourth quarter. The analysis of the data contained in the table focuses on the results of operations and changes in the financial condition and cash flows in the fourth quarter.

### Selected Consolidated Information

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2017	Dec. 31, 2016	\$ Change	% Change
<b>Sales</b>	\$ 11,409	\$ 11,519	\$ (110)	(1.0)%
<b>Operating income</b>	\$ 147	\$ 491	\$ (344)	(70.1)%
Adjusted EBITDA <sup>(1)</sup>	\$ 1,072	\$ 1,027	\$ 45	4.4 %
Adjusted EBITDA margin <sup>(1)</sup>	9.4%	8.9%		
<b>Depreciation and amortization<sup>(i)</sup></b>	\$ 407	\$ 392	\$ 15	3.8 %
<b>Net interest expense and other financing charges</b>	\$ 115	\$ 177	\$ (62)	(35.0)%
Adjusted net interest expense and other financing charges <sup>(1)</sup>	\$ 133	\$ 135	\$ (2)	(1.5)%
<b>Income taxes</b>	\$ (34)	\$ 83	\$ (117)	(141.0)%
Adjusted income taxes <sup>(1)</sup>	\$ 181	\$ 172	\$ 9	5.2 %
Adjusted income tax rate <sup>(1)</sup>	27.3%	27.4%		
<b>Net earnings attributable to shareholders of the Company</b>	\$ 38	\$ 92	\$ (54)	(58.7)%
<b>Net earnings available to common shareholders of the Company</b>	\$ 28	\$ 82	\$ (54)	(65.9)%
Adjusted net earnings available to common shareholders of the Company <sup>(1)</sup>	\$ 228	\$ 204	\$ 24	11.8 %
<b>Diluted net earnings per common share (\$)</b>	\$ 0.22	\$ 0.64	\$ (0.42)	(65.6)%
Adjusted diluted net earnings per common share <sup>(1)</sup> (\$)	\$ 1.78	\$ 1.59	\$ 0.19	11.9 %
Dividends declared per share (\$):				
Common shares	\$ 0.455	\$ 0.440		
Preferred shares – Series I	\$ 0.3625	\$ 0.3625		
Preferred shares – Series III	\$ 0.3250	\$ 0.3250		
Preferred shares – Series IV	\$ 0.3250	\$ 0.3250		
Preferred shares – Series V	\$ 0.296875	\$ 0.296875		

- (i) Depreciation and amortization includes \$121 million (2016 – \$124 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$10 million (2016 – \$3 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other charges.

## Management's Discussion and Analysis

### Net earnings available to common shareholders of the Company

Net earnings available to common shareholders of the Company in the fourth quarter of 2017 were \$28 million (\$0.22 per common share), a decrease of \$54 million (\$0.42 per common share) compared to the same period in 2016. The decrease included improvements in underlying operating performance of \$24 million (\$0.19 per common share) which were more than offset by the unfavourable year-over-year net impact of adjusting items totaling \$78 million (\$0.61 per common share), as described below.

- The improvements in underlying operating performance of \$24 million (\$0.19 per common share) were primarily due to:
  - the underlying operating performance of Loblaw primarily due to the Retail segment; partially offset by,
  - the unfavourable underlying operating performance of Weston Foods.
- The unfavourable year-over-year net impact of certain adjusting items totaling \$78 million (\$0.61 per common share) was primarily due to:
  - an increase in restructuring and other charges of \$78 million (\$0.61 per common share);
  - the unfavourable impact of Loblaw's charges related to the announcement of the *PC Optimum* Program, including the revaluation of the existing points liability and the impairment of certain IT assets, of \$75 million (\$0.58 per common share); and
  - the unfavourable impact of the Loblaw Card Program of \$39 million (\$0.30 per common share); partially offset by,
    - the favourable impact of the fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares of \$39 million (\$0.29 per common share);
    - the favourable year-over-year impact of asset impairments, net of recoveries, of \$25 million (\$0.19 per common share);
    - the favourable year-over-year impact of the statutory corporate income tax rate change of \$19 million (\$0.15 per common share); and
    - the favourable impact of the remeasurement of deferred tax balances of \$10 million (\$0.08 per common share).
- Net earnings available to common shareholders of the Company also included the positive contribution from the increase in the Company's ownership interest in Loblaw, as a result of Loblaw's share repurchases.

Adjusted net earnings available to common shareholders of the Company<sup>(1)</sup> in the fourth quarter of 2017 were \$228 million (\$1.78 per common share), an increase of \$24 million (\$0.19 per common share) compared to the same period in 2016, primarily due to the improvement in underlying operating performance, as described above.

### Sales

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2017	Dec. 31, 2016	\$ Change	% Change
Weston Foods	\$ 527	\$ 537	\$ (10)	(1.9)%
Loblaw	\$ 11,030	\$ 11,130	\$ (100)	(0.9)%
Intersegment	\$ (148)	\$ (148)		
Consolidated	\$ 11,409	\$ 11,519	\$ (110)	(1.0)%

Sales in the fourth quarter of 2017 were \$11,409 million, a decrease of \$110 million compared to the same period in 2016. The decrease in sales in the fourth quarter of 2017 was impacted by each of its reportable operating segments as follows:

- Negatively by 0.1% due to sales decline of 1.9% at Weston Foods, primarily due to the negative impact of foreign currency translation. Excluding the unfavourable impact of foreign currency translation, sales increased 0.9% mainly driven by an increase in volumes and positive sales mix.

- Negatively by 0.9% due to sales decline of 0.9% at Loblaw, primarily driven by Retail. Retail sales decreased by \$127 million, or 1.2%, compared to the same period in 2016. Excluding the consolidation of franchises, Retail sales decreased by \$214 million, or 2.0%. The decrease was primarily due to the impact of the disposition of gas bar operations of \$350 million, partially offset by positive same-store sales growth and a net increase in Retail square footage.

## Operating income

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2017	Dec. 31, 2016	\$ Change	% Change
Weston Foods	\$ 8	\$ 38	\$ (30)	(78.9)%
Loblaw	\$ 138	\$ 447	\$ (309)	(69.1)%
Other	\$ 1	\$ 6		
Consolidated	\$ 147	\$ 491	\$ (344)	(70.1)%

Operating income in the fourth quarter of 2017 was \$147 million, a decrease of \$344 million compared to the same period in 2016. The decrease in operating income in the fourth quarter of 2017 included improvements in underlying operating performance of \$34 million, more than offset by the unfavourable year-over-year net impact of adjusting items totaling \$378 million, as described below:

- the improvements in underlying operating performance of \$34 million were primarily due to:
  - the underlying operating performance of Loblaw primarily due to Retail, including the unfavourable year-over-year contribution from the consolidation of Loblaw franchises in the quarter and the unfavourable impact of the disposition of Loblaw's gas bar operations; partially offset by,
  - the underlying operating performance of Weston Foods.
- the unfavourable year-over-year net impact of adjusting items totaling \$378 million was primarily due to:
  - the impact of Loblaw's charges related to the announcement of the *PC Optimum* Program, including the revaluation of the existing points liability and the impairment of certain IT assets, of \$211 million;
  - an increase in restructuring and other related charges of \$189 million; and
  - the unfavourable impact of the Loblaw Card Program of \$107 million; partially offset by,
  - the favourable year-over-year impact of asset impairments, net of recoveries, of \$77 million;
  - the favourable impact of prior year pension annuities and buy-outs of \$21 million; and
  - the favourable impact of income earned, net of certain costs incurred, from the wind-down of PC Financial banking services of \$17 million.

## Management's Discussion and Analysis

### Adjusted EBITDA<sup>(1)</sup>

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2017	Dec. 31, 2016	\$ Change	% Change
Weston Foods	\$ 61	\$ 73	\$ (12)	(16.4)%
Loblaw	\$ 1,011	\$ 954	\$ 57	6.0 %
Consolidated	\$ 1,072	\$ 1,027	\$ 45	4.4 %

Adjusted EBITDA<sup>(1)</sup> in the fourth quarter of 2017 was \$1,072 million, an increase of \$45 million compared to the same period in 2016. The increase in adjusted EBITDA<sup>(1)</sup> in the fourth quarter of 2017 was impacted by each of its reportable operating segments as follows:

- Negatively by 1.2% due to a decrease of 16.4% in adjusted EBITDA<sup>(1)</sup> at Weston Foods driven by the changes in sales mix and higher input and distribution costs, partially offset by productivity improvements.
- Positively by 5.6% due to an increase of 6.0% in adjusted EBITDA<sup>(1)</sup> at Loblaw, primarily driven by Retail. The improvement in Retail adjusted EBITDA<sup>(1)</sup> was primarily driven by an increase in Retail gross profit, partially offset by an increase in Retail SG&A and included no impact for the consolidation of franchises in the quarter and the unfavourable impact of the disposition of gas bar operations of approximately \$20 million.

### Depreciation and Amortization

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2017	Dec. 31, 2016	\$ Change	% Change
Weston Foods	\$ 35	\$ 27	\$ 8	29.6 %
Loblaw	\$ 372	\$ 365	\$ 7	1.9 %
Consolidated	\$ 407	\$ 392	\$ 15	3.8 %

Depreciation and amortization in the fourth quarter of 2017 was \$407 million, an increase of \$15 million compared to the same period in 2016, and included \$121 million (2016 – \$124 million) of amortization of intangible assets related to the acquisition of Shoppers Drug Mart recorded by Loblaw and \$10 million (2016 – \$3 million) of accelerated depreciation recorded by Weston Foods related to restructuring and other charges. Excluding these amounts, depreciation and amortization increased by \$11 million driven by:

- an increase in depreciation from the consolidation of Loblaw franchises;
- higher depreciation due to an increase in Loblaw's IT assets; and
- higher depreciation due to investments in capital at Weston Foods.

## Net Interest Expense and Other Financing Charges

(unaudited) (\$ millions)	Quarters Ended	
	Dec. 31, 2017	Dec. 31, 2016
Net interest expense and other financing charges	\$ 115	\$ 177
Add: Fair value adjustment of the Trust Unit liability	8	1
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	10	(43)
Adjusted net interest expense and other financing charges <sup>(1)</sup>	\$ 133	\$ 135

Net interest expense and other financing charges in the fourth quarter of 2017 were \$115 million, a decrease of \$62 million compared to the same period in 2016. The decrease in net interest expense and other financing charges in the fourth quarter of 2017 was primarily due to the year-over-year impact of adjusting items totaling \$60 million, itemized in the table above, and a decrease in adjusted net interest expense and other financing charges<sup>(1)</sup> of \$2 million primarily due to:

- lower interest expense in the Loblaw's Choice Properties segment due to the repayment of the Series 6 senior unsecured debentures in the first quarter of 2017, partially offset by an increase in interest expense due to higher drawings on credit facilities; and
- lower interest expense due to repayment made by GWL of a \$350 million MTN in the fourth quarter of 2016; partially offset by,
- an increase in interest expense in Loblaw's Financial Services segment primarily due to the *Eagle* debt issuance in the fourth quarter of 2017.

## Management's Discussion and Analysis

### Income Taxes

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended	
	Dec. 31, 2017	Dec. 31, 2016
Income taxes	\$ (34)	\$ 83
Add: Tax impact of items excluded from adjusted earnings before taxes <sup>(1)(i)</sup>	177	89
Remeasurement of deferred tax balances	19	
Statutory corporate income tax rate change	19	
Adjusted income taxes <sup>(1)</sup>	\$ 181	\$ 172
Effective income tax rate applicable to earnings before taxes	(106.3)%	26.4%
Adjusted income tax rate applicable to adjusted earnings before taxes <sup>(1)</sup>	27.3 %	27.4%

(i) See the adjusted EBITDA table and the adjusted net interest expense and other financing charges table included in Section 18, "Non-GAAP Financial Measures", of this MD&A for a complete list of items excluded from adjusted earnings before taxes<sup>(1)</sup>.

The effective tax rate in the fourth quarter of 2017 was negative 106.3%, a decrease of 132.7% compared to the same period in 2016. The decrease in the effective tax rate was primarily attributable to an increase in certain non-taxable items, a decrease in the non-deductible fair value adjustment to the Trust Unit liability, a deferred tax recovery resulting from the remeasurement of certain deferred tax balances and a deferred tax recovery resulting from the decrease in the U.S. statutory corporate income tax rate, partially offset by an increase in certain other non-deductible items.

The adjusted income tax rate<sup>(1)</sup> for the fourth quarter of 2017 was 27.3%, a decrease of 0.1% compared to the same period in 2016. The decrease was primarily attributable to an decrease in certain non-deductible items.

In the fourth quarter of 2017, the Company recorded a deferred tax recovery of \$19 million resulting from a change in the applicable provincial income tax rate used to measure certain deferred tax balances caused by a change in the location of certain business activities.

In the fourth quarter of 2017, the U.S. government enacted a 14.0% decrease in the U.S. federal statutory corporate income tax rate from 35.0% to 21.0%. As a result, Weston Foods recorded a recovery of \$19 million in 2017 related to the remeasurement of its deferred tax liabilities.

## Cash Flows

(unaudited) (\$ millions)	Quarters Ended		
	Dec. 31, 2017	Dec. 31, 2016	Change
Cash and cash equivalents, beginning of period	\$ 1,838	\$ 1,863	\$ (25)
Cash flows from operating activities	\$ 1,213	\$ 976	\$ 237
Cash flows used in investing activities	\$ (950)	\$ (775)	\$ (175)
Cash flows used in financing activities	\$ (69)	\$ (506)	\$ 437
Effect of foreign currency exchange rate changes on cash and cash equivalents	\$ 2	\$ 2	\$ —
Cash and cash equivalents, end of period	\$ 2,034	\$ 1,560	\$ 474

**Cash Flows from Operating Activities** The year-over-year increase in cash inflows in the fourth quarter of 2017 was \$237 million, primarily due to:

- favourable change in non-cash working capital driven by an increase in trade payables and other liabilities; and
  - higher cash earnings;
- partially offset by,
- increase in income taxes paid.

**Cash Flows used in Investing Activities** The year-over-year increase in cash outflows in the fourth quarter of 2017 was \$175 million, primarily due to the change in short term investments and fixed asset purchases, partially offset by the acquisition of QHR in 2016.

The following table summarizes the Company's capital investments by each of its reportable operating segments for the quarters ended as indicated:

(unaudited) (\$ millions)	Quarters Ended	
	Dec. 31, 2017	Dec. 31, 2016
Weston Foods	\$ 88	\$ 98
Loblaw	487	470
Total capital investments	\$ 575	\$ 568

**Cash Flows used in Financing Activities** The year-over-year decrease in cash outflows in the fourth quarter of 2017 was \$437 million, primarily due to higher net issuances of debt, partially offset by change in short term debt.

## Free Cash Flow<sup>(1)</sup>

(unaudited) (\$ millions)	Quarters Ended		
	Dec. 31, 2017	Dec. 31, 2016	Change
Cash flows from operating activities	\$ 1,213	\$ 976	\$ 237
Less: Interest paid	104	103	1
Fixed asset purchases	486	452	34
Intangible asset additions	89	116	(27)
Free cash flow <sup>(1)</sup>	\$ 534	\$ 305	\$ 229

The year-over-year increase in free cash flow<sup>(1)</sup> in the fourth quarter of 2017 was \$229 million, primarily due to higher cash flows from operating activities.



## Management's Discussion and Analysis

### 9. FOURTH QUARTER RESULTS OF REPORTABLE OPERATING SEGMENTS

The following discussion provides details of the 2017 fourth quarter results of operations of each of the Company's reportable operating segments.

#### 9.1 WESTON FOODS FOURTH QUARTER OPERATING RESULTS (UNAUDITED)

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2017	Dec. 31, 2016	\$ Change	% Change
Sales	\$ 527	\$ 537	\$ (10)	(1.9)%
Operating income	\$ 8	\$ 38	\$ (30)	(78.9)%
Adjusted EBITDA <sup>(1)</sup>	\$ 61	\$ 73	\$ (12)	(16.4)%
Adjusted EBITDA margin <sup>(1)</sup>	11.6%	13.6%		
Depreciation and amortization <sup>(i)</sup>	\$ 35	\$ 27	\$ 8	29.6 %

(i) Depreciation and amortization includes \$10 million (2016 – \$3 million) of accelerated depreciation related to restructuring and other charges.

**Sales** Weston Foods sales in the fourth quarter of 2017 were \$527 million, a decrease of \$10 million, or 1.9%, compared to the same period in 2016. Sales included the negative impact of foreign currency translation of approximately 2.8%. Excluding the unfavourable impact of foreign currency translation, sales increased 0.9% mainly driven by an increase in volumes and positive sales mix.

**Operating income** Weston Foods operating income in the fourth quarter of 2017 was \$8 million, a decrease of \$30 million compared to the same period in 2016. The decrease was primarily due to the decline in underlying operating performance of \$13 million and the unfavourable year-over-year net impact of adjusting items totaling \$17 million, as described below:

- an increase in restructuring and other charges of \$26 million; partially offset by,
- the favourable impact of inventory loss, net of recoveries, of \$7 million; and
- the favourable impact of the fair value adjustment of derivatives of \$2 million.

**Adjusted EBITDA<sup>(1)</sup>** Weston Foods adjusted EBITDA<sup>(1)</sup> in the fourth quarter of 2017 was \$61 million, a decrease of \$12 million compared to the same period in 2016. The decrease was driven by changes in sales mix and higher input and distribution costs, partially offset by productivity improvements.

Weston Foods adjusted EBITDA margin<sup>(1)</sup> in the fourth quarter of 2017 was 11.6% compared to 13.6% in the same period in 2016. The decline in adjusted EBITDA margin<sup>(1)</sup> in the fourth quarter of 2017 was mainly due to the factors impacting adjusted EBITDA<sup>(1)</sup>, as described above.

**Depreciation and Amortization** Weston Foods depreciation and amortization in the fourth quarter of 2017 was \$35 million, an increase of \$8 million compared to the same period in 2016. Depreciation and amortization included \$10 million and \$3 million in the fourth quarters of 2017 and 2016, respectively, of accelerated depreciation related to the closures of unprofitable facilities in the U.S. and Canada. Excluding these amounts, depreciation and amortization in the fourth quarter of 2017 increased nominally.

#### Weston Foods Other Business Matters

For details see section 6.1, "Weston Foods Operating Results", of this MD&A.

## 9.2 LOBLAW FOURTH QUARTER OPERATING RESULTS (UNAUDITED)

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2017	Dec. 31, 2016	\$ Change	% Change
Sales	\$ 11,030	\$ 11,130	\$ (100)	(0.9)%
Operating income	\$ 138	\$ 447	\$ (309)	(69.1)%
Adjusted EBITDA <sup>(1)</sup>	\$ 1,011	\$ 954	\$ 57	6.0 %
Adjusted EBITDA margin <sup>(1)</sup>	9.2%	8.6%		
Depreciation and amortization <sup>(i)</sup>	\$ 372	\$ 365	\$ 7	1.9 %

(ii) Depreciation and amortization includes \$121 million (2016 – \$124 million) in the fourth quarter of 2017 of amortization of intangible assets acquired with Shoppers Drug Mart.

Sales, operating income and adjusted EBITDA<sup>(1)</sup> in the fourth quarter of 2017 include the impacts of the consolidated franchises and the impact of the disposition of gas bar operations, as set out in “Loblaw Other Business Matters” of Section 6.2, “Loblaw Operating Results” of this MD&A.

**Sales** Loblaw sales in the fourth quarter of 2017 were \$11,030 million, a decrease of \$100 million, or 0.9%, compared to the same period in 2016, primarily driven by Retail. Retail sales decreased by \$127 million, or 1.2%, compared to the same period in 2016 and included food retail sales of \$7,546 million (2016 – \$7,789 million) and drug retail sales of \$3,172 million (2016 – \$3,056 million). Excluding the consolidation of franchises, Retail sales decreased by \$214 million primarily driven by the following factors:

- the impact of the disposition of gas bar operations of \$350 million; partially offset by,
- food retail same-store sales growth was 0.5%, after excluding gas bar operations. Loblaw’s food retail average quarterly internal food price index was marginally higher than the average quarterly national food price inflation of 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;
- drug retail same-store sales growth was 3.6%, including pharmacy same-store sales growth of 3.9% and front store same-store sales growth of 3.5%; and
- 22 food and drug stores were opened and 19 food and drug stores were closed in the last 12 months, resulting in an increase in Retail net square footage of 0.1 million square feet, or 0.1%.

**Operating income** Loblaw operating income in the fourth quarter of 2017 was \$138 million, a decrease of \$309 million compared to the same period in 2016, primarily driven by improvements in underlying operating performance of \$47 million which were more than offset by the unfavourable year-over-year net impact of adjusting items totaling \$356 million, as described below:

- the improvements in underlying operating performance of \$47 million were primarily driven by Retail due to higher Retail gross profit, partially offset by an increase in Retail SG&A, and included the unfavourable year-over-year impact of the consolidation of franchises in the quarter and the unfavourable impact of the disposition of gas bar operations; and
- the unfavourable year-over-year net impact of adjusting items totaling \$356 million was primarily due to:
  - the unfavourable impact of charges related to the announcement of the *PC Optimum* Program, including the revaluation of the existing points liability and the impairment of certain IT assets, of \$211 million;
  - an increase in restructuring and other related charges of \$163 million; and
  - the unfavourable impact of the Loblaw Card Program of \$107 million;
 partially offset by,
  - the year-over-year favourable impact of asset impairments, net of recoveries, of \$77 million;
  - the year-over-year favourable impact of pension annuities and buy-outs in the prior year of \$21 million; and

## Management's Discussion and Analysis

- the favourable impact of income earned, net of certain costs incurred, from the wind-down of PC Financial banking services of \$17 million.

**Adjusted EBITDA<sup>(1)</sup>** Loblaw adjusted EBITDA<sup>(1)</sup> in the fourth quarter of 2017 was \$1,011 million, an increase of \$57 million compared to the same period in 2016. The increase was primarily driven by Retail and included no impact for the consolidation of franchises in the quarter and the unfavourable impact of the disposition of gas bar operations. Retail adjusted EBITDA<sup>(1)</sup> was \$936 million, an increase of \$47 million driven by an increase in gross profit, partially offset by an increase in SG&A.

- Retail gross profit percentage of 28.9% increased by 170 basis points compared to the fourth quarter of 2016. Excluding the consolidation of franchises, Retail gross profit percentage was 27.5%, an increase of 110 basis points compared to the fourth quarter of 2016. The increase in gross profit was due to the favourable impact of the disposition of gas bar operations of approximately 70 basis points and higher drug retail margins primarily driven by front store margins. Food retail margins were stable.
- Retail SG&A as a percentage of sales was 20.1%, an increase of 110 basis points compared to the fourth quarter of 2016. Excluding the consolidation of franchises, SG&A increased \$8 million and as a percentage of sales was 18.8%, an unfavourable increase of 40 basis points compared to the fourth quarter of 2016 mainly driven by the unfavourable impact from the disposition of gas bar operations of approximately 50 basis points as store and store support costs were relatively flat as a percentage of sales.

Loblaw adjusted EBITDA<sup>(1)</sup> in the fourth quarter of 2017 also included an increase in Choice Properties adjusted EBITDA<sup>(1)</sup>, net of consolidation and eliminations, of \$6 million, primarily due to an increase in base rent and operating costs recoveries from existing properties and the expansion of the portfolio through acquisitions and development of properties, and an increase in Financial Services adjusted EBITDA<sup>(1)</sup> of \$4 million, primarily driven by the growth in the credit card portfolio and higher Mobile Shop sales.

**Depreciation and Amortization** Loblaw's depreciation and amortization in the fourth quarter of 2017 was \$372 million, an increase of \$7 million compared to the same period in 2016. The increase in depreciation and amortization was primarily driven by the consolidation of franchises and an increase in IT assets.

Depreciation and amortization included \$121 million (2016 – \$124 million) in the fourth quarter of 2017 of amortization of intangible assets acquired with Shoppers Drug Mart.

### Loblaw Other Business Matters

For details see Section 6.2, "Loblaw Operating Results", of this MD&A.

## 10. 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” (“NI 52-109”) the Chairman, as Chief Executive Officer, and 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, 2017.

## 11. INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is 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 consolidated financial statements for external purposes in accordance with IFRS.

As required by NI 52-109, the 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), 2013. 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, 2017.

In designing such controls, it should be recognized that due to inherent limitations, any control, 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.

**Changes in Internal Control over Financial Reporting** There were no changes in the Company’s internal controls over financial reporting in the fourth quarter of 2017 that materially affected, or are reasonably likely to materially affect the Company’s internal control over financial reporting.

## 12. ENTERPRISE RISKS AND RISK MANAGEMENT

The Company is committed to maintaining 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 the Company’s Enterprise Risk Management (“ERM”) program.

**ERM program** The ERM program assists all areas of the business in managing risk within appropriate levels of tolerance by bringing a systematic approach and methodology 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 mitigation activities and develop a risk-based internal audit plan.

Risks are not eliminated through the ERM program, but rather, are identified and managed in line with the Company’s risk appetite and within understood risk tolerances. The ERM program is designed to:

- facilitate effective corporate governance by providing a consolidated view of risks across the Company;
- enable the Company to focus on key risks that could impact its strategic objectives in order to reduce harm to financial performance through responsible risk management;
- ensure that the Company’s risk appetite and tolerances are defined and understood;
- promote a culture of awareness of risk management and compliance within the Company;
- assist in developing consistent risk management methodologies and tools across the Company including methodologies for the identification, assessment, measurement and monitoring of the risks; and
- anticipate and provide early warnings of risks through key risk indicators.

## Management's Discussion and Analysis

**Risk appetite and governance** The Board oversees the ERM program, including a review of the Company's risks and risk prioritization and annual approval of the ERM policy and risk appetite statement. The risk appetite statement articulates key aspects of the Company's businesses, values, and brands and provides directional guidance on risk taking. Key risk indicators are used to monitor and report on risk performance and whether the Company is operating within its risk appetite. Risk owners are assigned relevant risks by management and are responsible for managing risk and implementing risk mitigation strategies.

**ERM framework** Risk identification and assessments are important elements of the Company's ERM process and framework. An annual ERM assessment is completed to assist in the update and identification of internal and external risks. This assessment is carried out in parallel with strategic planning through interviews, surveys and facilitated workshops with management and the Board to align stakeholders' views. This assessment is completed for each business unit and aggregated where appropriate. Risks are assessed and evaluated based on the Company's vulnerability to the risk and the potential impact that the underlying risks would have on the Company's ability to execute on its strategies and achieve its objectives and on the Company's financial performance.

**Risk monitoring and reporting** Management provides periodic updates to the Board (or a Committee of the Board) on the status of the key risks based on significant changes from the prior update, anticipated impacts in future periods and significant changes in key risk indicators. In addition, the long term (three year) risk levels are assessed to monitor potential long term risk impacts, which may assist in risk mitigation planning activities.

Any of the key risks have the potential to negatively affect the Company and its financial performance. The Company has risk management strategies in place for key risks. However, there can be no assurance that the risks will be mitigated or will not materialize or that events or circumstances will not occur that could adversely affect the reputation, operations or financial condition or performance of the Company.

### 12.1 OPERATING RISKS AND RISK MANAGEMENT

**Operating Risks** The following risks are a subset of the key risks identified through the ERM program. They should be read in conjunction with the full set of risks inherent in the Company's business, as included in the Company's AIF for the year ended December 31, 2017, which is hereby incorporated by reference:

---

Healthcare Reform	Product Safety and Public Health
Loyalty Program	Governance and Change Management
Cyber Security and Data Breaches	Legal Proceedings
Electronic Commerce and Disruptive Technologies	Commodity Prices
IT Systems Implementations and Data Management	Execution of Strategic Initiatives
Competitive Environment	Consumer and Retail Customer Trends
Regulatory Compliance	

---

**Healthcare Reform** Loblaw is reliant on prescription drug sales for a significant portion of its sales and profits. Prescription drugs and their sales are subject to numerous federal, provincial, territorial and local laws and regulations. Changes to these laws and regulations, or non-compliance with these laws and regulations, could adversely affect the reputation, operations or financial performance of the Company.

Federal and provincial laws and regulations that establish public drug plans typically regulate prescription drug coverage, patient eligibility, pharmacy reimbursement, drug product eligibility and drug pricing and may also regulate manufacturer allowance funding that is provided to or received by pharmacies or pharmacy suppliers. With respect to pharmacy reimbursement, such laws and regulations typically regulate the allowable drug cost of a prescription drug product, the permitted mark-up on a prescription drug product and the professional or dispensing fees that may be charged on prescription drug sales to patients eligible under the public drug plan. With respect to drug product eligibility, such laws and regulations typically regulate the requirements for listing the manufacturer's products as a benefit or partial benefit under the applicable governmental drug plan, drug pricing and, in the case of generic prescription drug products, the requirements for designating the product as

interchangeable with a branded prescription drug product. In addition, other federal, provincial, territorial and local laws and regulations govern the approval, packaging, labeling, sale, marketing, advertising, handling, storage, distribution, dispensing and disposal of prescription drugs.

Sales of prescription drugs, pharmacy reimbursement and drug prices may be affected by changes to the health care industry, including legislative or other changes that impact patient eligibility, drug product eligibility, the allowable cost of a prescription drug product, the mark-up permitted on a prescription drug product, the amount of professional or dispensing fees paid by third-party payers or the provision or receipt of manufacturer allowances by pharmacies and pharmacy suppliers.

The majority of prescription drug sales are reimbursed or paid by third-party payers, such as governments, insurers or employers. These third-party payers have pursued and continue to pursue measures to manage the costs of their drug plans. Each provincial jurisdiction has implemented legislative and/or other measures directed towards managing pharmacy service costs and controlling increasing drug costs incurred by public drug plans and private payers which impact pharmacy reimbursement levels and the availability of manufacturer allowances. Legislative measures to control drug costs include lowering of generic drug pricing, restricting or prohibiting the provision of manufacturer allowances and placing limitations on private label prescription drug products. Other measures that have been implemented by certain government payers include restricting the number of interchangeable prescription drug products which are eligible for reimbursement under provincial drug plans. Additionally, the Council of the Federation, an institution created by the provincial Premiers in 2003 to collaborate on intergovernmental relations, continues its work regarding cost reduction initiatives for pharmaceutical products and services.

Legislation in certain provincial jurisdictions establish listing requirements that ensure that the selling price for a prescription drug product will not be higher than any selling price established by the manufacturer for the same prescription drug product under other provincial drug insurance programs. In some provinces, elements of the laws and regulations that impact pharmacy reimbursement and manufacturer allowances for sales to the public drug plans are extended by legislation to sales in the private sector. Also, private third-party payers (such as corporate employers and their insurers) are looking or may look to benefit from any measures implemented by government payers to reduce prescription drug costs for public plans by attempting to extend these measures to prescription drug plans they own or manage. Accordingly, changes to pharmacy reimbursement and manufacturer allowances for a public drug plan could also impact pharmacy reimbursement and manufacturer allowances for private sector sales. In addition, private third-party payers could reduce pharmacy reimbursement for prescription drugs provided to their members or could elect to reimburse members only for products included on closed formularies or available from preferred providers.

Ongoing changes impacting pharmacy reimbursement programs, prescription drug pricing and manufacturer allowance funding, legislative or otherwise, are expected to continue to put downward pressure on prescription drug sales. These changes may have a material adverse effect on Loblaw's business, sales and profitability. In addition, Loblaw could incur significant costs in the course of complying with any changes in the regulatory regime affecting prescription drugs. Non-compliance with any such existing or proposed laws or regulations, particularly those that provide for the licensing and conduct of wholesalers, the licensing and conduct of pharmacists, the regulation and ownership of pharmacies, the advertising of pharmacies and prescription services, the provision of information concerning prescription drug products, the pricing of prescription drugs and restrictions on manufacturer allowance funding, could result in audits, civil or regulatory proceedings, fines, penalties, injunctions, recalls or seizures, any of which could adversely affect the reputation, operations or financial performance of the Company.

**Loyalty Program** Loblaw's loyalty program is a valuable offering to customers and provides a key differentiating marketing tool for the business. The marketing, promotional and other business activities related to combining Loblaw's loyalty programs must be well managed and coordinated to preserve positive customer perception. Any failure to successfully combine the loyalty programs and manage it thereafter may negatively impact Loblaw's reputation or financial performance.

## Management's Discussion and Analysis

**Cyber Security and Data Breaches** The Company depends on the uninterrupted operation of its IT systems, networks and services including internal and public internet sites, data hosting and processing facilities, cloud-based services and hardware such as point-of-sale processing at stores to operate its business.

In the ordinary course of business, the Company collects, processes, transmits and retains confidential, sensitive and personal information including personal health and financial information ("Confidential Information") regarding the Company and its employees, franchisees, Associates, vendors, customers, patients, credit card holders and loyalty program members. Some of this Confidential Information is held and managed by third party service providers. As with other large and prominent companies, the Company is regularly subject to cyberattacks and such attempts are occurring more frequently, are constantly evolving in nature and are becoming more sophisticated.

The Company has implemented security measures, including employee training, monitoring and testing, maintenance of protective systems and contingency plans, to protect and to prevent unauthorized access of Confidential Information and to reduce the likelihood of disruptions to its IT systems. The Company also has security processes, protocols and standards that are applicable to its third party service providers.

Despite these measures, all of the Company's information systems, including its back-up systems and any third party service provider systems that it employs, are vulnerable to damage, interruption, disability or failures due to a variety of reasons, including physical theft, electronic theft, fire, power loss, computer and telecommunication failures or other catastrophic events, as well as from internal and external security breaches, denial of service attacks, viruses, worms and other known or unknown disruptive events.

The Company or its third party service providers may be unable to anticipate, timely identify or appropriately respond to one or more of the rapidly evolving and increasingly sophisticated means by which computer hackers, cyber terrorists and others may attempt to breach the Company's security measures or those of our third party service providers' information systems.

As cyber threats evolve and become more difficult to detect and successfully defend against, one or more cyber threats might defeat the Company's security measures or those of its third party service providers. Moreover, employee error or malfeasance, faulty password management or other irregularities may result in a breach of the Company's or its third party service providers' security measures, which could result in a breach of employee, franchisee, Associate, customer, credit card holder or loyalty program member privacy or Confidential Information.

If the Company does not allocate and effectively manage the resources necessary to build and sustain reliable IT infrastructure, fails to timely identify or appropriately respond to cybersecurity incidents, or the Company's or its third party service providers' information systems are damaged, destroyed, shut down, interrupted or cease to function properly, the Company's business could be disrupted and the Company could, among other things, be subject to: transaction errors; processing inefficiencies; the loss of, or failure to attract new customers; the loss of revenue; the loss or unauthorized access to Confidential Information or other assets; the loss of or damage to intellectual property or trade secrets; damage to its reputation; litigation; regulatory enforcement actions; violation of privacy, security or other laws and regulations; and remediation costs.

**Electronic Commerce and Disruptive Technologies** Loblaw's electronic commerce strategy is a growing business initiative. As part of the e-commerce initiative, customers expect innovative concepts and a positive customer experience, including a user-friendly website, certain websites and customer offerings that are integrated with Loblaw's loyalty program, reliable data, safe and reliable processing of payments and a well-executed merchandise pick up or delivery process. If systems are damaged or cease to function properly, capital investment may be required. Loblaw is also vulnerable to various additional uncertainties associated with e-commerce including website downtime and other technical failures, changes in applicable federal and provincial regulations, security breaches, and consumer privacy concerns. If these technology-based systems do not function effectively, Loblaw's ability to grow its e-commerce business could be adversely affected. Loblaw has increased its investment in improving the digital customer experience, but there can be no assurances that the Company will be able to recover the costs incurred to date.

The retail landscape is quickly changing due to the rise of the digitally influenced shopping experience and the emergence of disruptive technologies, such as digital payments, drones, driverless cars and robotics. In addition, the effect of increasing digital advances could have an impact on the physical space requirements of retail businesses. Although the importance of a retailer's physical presence has been demonstrated, the size requirements and locations may be subject to further disruption. Any failure to adapt the business models to recognize and manage this shift in a timely manner could adversely affect Loblaw's operations or financial performance.

**IT Systems Implementations and Data Management** The Company continues to undertake investments in new IT systems to improve the operating effectiveness of the organization. Failure to successfully migrate from legacy systems to the new IT systems or a significant disruption in the Company's current IT systems during the implementation of new systems could result in a lack of accurate data to enable management to effectively manage day-to-day operations of the business or achieve its operational objectives, causing significant disruptions to the business and potential financial losses.

Failure to successfully adopt or implement appropriate processes to support the new IT systems, or failure to effectively leverage or convert data from one system to another, may preclude the Company from optimizing its overall performance and could result in inefficiencies and duplication in processes, which could in turn adversely affect the reputation, operations or financial performance of the Company. Failure to realize the anticipated strategic benefits including revenue growth, anticipated cost savings or operating efficiencies associated with the new IT systems could adversely affect the reputation, operations or financial performance of the Company.

The Company also depends on relevant and reliable information to operate its business. As the volume of data being generated and reported continues to increase across the Company, data accuracy, quality and governance are required for effective decision making. Failure by the Company to leverage data, including customer data, in a timely manner may adversely affect the Company's ability to execute its strategy and therefore its financial performance.

**Competitive Environment** The Company operates in highly competitive industries.

Loblaw competes against a wide variety of retailers including supermarket and retail drug store operators, as well as mass merchandisers, warehouse clubs, online retailers, mail order prescription drug distributors, limited assortment stores, discount stores, convenience stores and specialty stores. Many of these competitors now offer a selection of food, drug and general merchandise. Others remain focused on supermarket-type merchandise. In addition, Loblaw is 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 and retail drug markets and those offering e-Commerce retail platforms. Loblaw's inability to effectively predict market activity, leverage customer preferences and spending patterns and respond timely to trends, or compete effectively with its current or future competitors could result in, among other things, reduced market share and reduced profitability. If Loblaw is ineffective in responding to consumer trends or in executing its strategic plans, its financial performance could be adversely affected. Loblaw's failure to effectively respond to customer trends may adversely impact Loblaw's relationship with its customers. Loblaw closely monitors its competitors and their strategies, market developments and market share trends.

Weston Foods' competitors include multi-national food processing companies as well as national and smaller-scale bakery operations in North America.

Failure by Weston Foods or Loblaw to sustain their competitive position could adversely affect the Company's financial performance.

**Regulatory Compliance** The Company is subject to a wide variety of laws, regulations and orders across all countries in which it does business, including those laws involving product liability, labour and employment, anti-trust and competition, pharmacy, food safety, intellectual property, privacy, environmental and other matters. The Company is subject to taxation by various taxation authorities in Canada and a number of foreign jurisdictions. Changes to any of the laws, rules, regulations or policies (collectively, "laws") applicable to the Company's business, including tax laws, minimum wage laws, and laws affecting the production, processing,



## Management's Discussion and Analysis

preparation, distribution, packaging and labelling of food, pharmaceuticals, and general merchandise products, could adversely affect the operations or financial condition or performance of the Company.

Failure by the Company to comply with applicable laws, regulations and orders could subject the Company to civil or regulatory actions, investigations or proceedings, including fines, assessments, injunctions, recalls or seizures, which in turn could adversely affect the reputation, operations or financial condition or performance of the Company. In the course of complying with changes to laws, the Company could incur significant costs. Changing laws or interpretations of such laws or enhanced enforcement of existing laws could restrict the Company's operations or profitability and thereby threaten the Company's competitive position and ability to efficiently conduct business.

On December 19, 2017, the Company and Loblaw announced actions taken to address their role in an industry-wide price-fixing arrangement involving certain packaged bread products. The arrangement involved the coordination of retail and wholesale prices of certain packaged bread products over a period extending from late 2001 to March 2015. Under the arrangement, the participants regularly increased prices on a coordinated basis. Please refer to the "Legal Proceedings" risk on page 49 of this MD&A.

The Régie de l'assurance maladie du Québec ("RAMQ") has been investigating certain aspects of Shoppers Drug Mart's contractual arrangements with pharmacists and drug manufacturers. Shoppers Drug Mart has and will continue to cooperate with RAMQ in its review of these practices. If RAMQ is not satisfied with Shoppers Drug Mart's practices, then RAMQ may pursue remedies that could have a material adverse effect on the Company's reputation, operations, or financial condition or performance.

The Company is subject to tax audits from various tax authorities on an ongoing basis. As a result, from time to time, tax authorities may disagree with the positions and conclusions taken by the Company in its tax filings or legislation could be amended or interpretations of current legislation could change, any of which events could lead to reassessments. These reassessments could result in a material adverse effect on the Company's reputation, operations or financial condition or performance.

Loblaw is subject to externally imposed capital requirements from OSFI, the primary regulator of PC Bank. PC Bank's capital management objectives are to maintain a consistently strong capital position while considering the economic risks generated by its credit card receivables portfolio and to meet all regulatory capital requirements as defined by OSFI. PC Bank uses Basel III as its regulatory capital management framework which includes a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6.0% and a total capital ratio of 8%. In addition to the regulatory capital ratios requirement, PC Bank is subject to the Basel III Leverage ratio and OSFI's Guideline on Liquidity Adequacy Requirements ("LARs"). The LARs guideline establishes standards based on the Basel III framework. PC Bank would be assessed fines and other penalties for non-compliance with these and other regulations. In addition, failure by PC Bank to comply, understand, acknowledge and effectively respond to applicable regulators could result in regulatory intervention and reputational damages.

Choice Properties is currently classified as a "unit trust" and a "mutual fund trust" under the Income Tax Act (Canada). It also qualifies for the Real Estate Investment Trust Exception under the Income Tax Act (Canada) and as such is not subject to specified investment flow through rules. There can be no assurance that the Canadian federal income tax laws will not be changed in a manner which adversely affects Choice Properties. If Choice Properties ceases to qualify for these and other classifications and exceptions, the taxation of Choice Properties and unitholders, including Loblaw and certain wholly owned subsidiaries of GWL, could be materially adversely different in certain respects, which could in turn materially adversely affect the trading price of the Units.

**Product Safety and Public Health** The Company's products may expose it to risks associated with product safety and defects and product handling in relation to the manufacturing, design, packaging and labeling, storage, distribution, and display of products. The Company cannot assure that active management of these risks, including maintaining strict and rigorous controls and processes in its manufacturing facilities and distribution systems, will eliminate all the risks related to food and product safety. The Company could be adversely affected in the event of a significant outbreak of food-borne illness or food safety issues including food tampering or contamination. In addition, failure to trace or locate any contaminated or defective products or ingredients could

affect the Company's ability to be effective in a recall situation. Loblaw is also subject to risk associated with errors made through medication dispensing or errors related to patient services or consultation. The occurrence of such events or incidents, as well as the failure to maintain the cleanliness and health standards at Loblaw's store level or the Company's manufacturing facilities, could result in harm to customers, negative publicity or could adversely affect the Company's brands, reputation, operations or financial performance and could lead to unforeseen liabilities from legal claims or otherwise.

**Governance and Change Management** Significant initiatives in support of the Company's strategic priorities are underway, including the execution of IT initiatives, Loblaw's cost management efforts, and other ongoing organizational changes.

Specifically, Weston Foods will be implementing a transformation program, to position it for long term growth and profitability. This transformation program includes changes to the organization and its operation, and significant capital investments including a major upgrade of its IT system.

The success of these initiatives is dependent on effective leadership and realizing intended benefits. Ineffective change management could result in a lack of integrated processes and procedures, unclear accountabilities and decision-making rights, decreased colleague engagement, ineffective communication and training or a lack of requisite knowledge. Any of the foregoing could disrupt operations, increase the risk of customer dissatisfaction, adversely affect the Company's reputation or financial performance or adversely affect the ability of the Company to implement and achieve its long term strategic objectives.

**Legal Proceedings** In the ordinary course of business, the Company is involved in and potentially subject to legal proceedings. The proceedings may involve suppliers, customers, Associates, franchisees, regulators, tax authorities or other persons. The potential outcome of legal proceedings and claims is uncertain and could result in a material adverse effect on the Company's reputation, operations or financial condition or performance.

On August 26, 2015, the Company was served with a proposed class action, which was commenced in the Ontario Superior Court of Justice ("the Court") against the Company, Loblaw and certain of its subsidiaries and others in connection with the collapse of the Rana Plaza complex in Dhaka, Bangladesh in 2013. The claim seeks approximately \$2 billion in damages.

Shoppers Drug Mart has been served with an Amended Statement of Claim in a class action proceeding that has been filed in the Court by two licensed Associates, claiming various declarations and damages resulting from Shoppers Drug Mart's alleged breaches of the Associate Agreement, in the amount of \$500 million. The class action comprises all of Shoppers Drug Mart's current and former licensed Associates residing in Canada, other than in Québec, who are parties to Shoppers Drug Mart's 2002 and 2010 forms of the Associate Agreement. On July 9, 2013, the Court certified as a class proceeding portions of the action. The Court imposed a class closing date based on the date of certification. New Associates after July 9, 2013 are not members of the class.

Loblaw has been reassessed by CRA and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron, a wholly owned Barbadian subsidiary, should be treated, and taxed, as income in Canada. The reassessments, which were received between 2015 and 2017, are for the 2000 to 2012 taxation years and total \$406 million including interest and penalties. Loblaw believes it is likely that the CRA will issue reassessments for the 2013 taxation year on the same or similar basis. Loblaw has filed a Notice of Appeal with the Tax Court of Canada for the 2000 to 2010 taxation years and a Notice of Objection for the 2011 and 2012 taxation years. The Tax Court of Canada trial is scheduled to commence in the second quarter of 2018.

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

## Management's Discussion and Analysis

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

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

As a result of their admission that they participated in the arrangement and their cooperation in the Competition Bureau's investigation, the Company and Loblaw will not face criminal charges or penalties.

**Commodity Prices** Weston Foods' costs are directly impacted by fluctuations in the prices of commodity linked raw materials such as wheat flours, sugars, vegetable oils, cocoa powders and chocolate. Loblaw is also exposed to fluctuations in the commodity prices as a result of the indirect effect of changing commodity prices on the price of consumer products. In addition, both Weston Foods and Loblaw are exposed to increases in the prices of energy in operating, in the case of Weston Foods, its bakeries and distribution networks, and, in the case of Loblaw, its stores and distribution networks. Both Weston Foods and Loblaw use purchase commitments and derivative instruments in the form of futures contracts, option contracts and forward contracts to manage their current and anticipated exposure to fluctuations in commodity prices.

**Execution of Strategic Initiatives** The Company undertakes from time to time acquisitions and dispositions that meet its strategic objectives. The Company holds significant cash and short term investments and is continuing to evaluate strategic opportunities for the use or deployment of these funds. The use or deployment of the funds and the execution of the Company's capital plans could pose a risk if they do not align with the Company's strategic objectives or if the Company experiences integration difficulties on the acquisition of any businesses. Execution of the strategic plan requires prudent operational planning, availability and attention of key personnel, timely implementation and effective change management. In addition, the Company may not be able to realize upon the synergies, business opportunities and growth prospects expected from any such investment opportunities or from the execution of the Company's strategies. Finally, any acquisition or divestiture activities may present unanticipated costs and managerial and operational risks, including the diversion of management's time and attention from day-to-day activities. If the Company's strategies are not effectively developed and executed, it could negatively affect the reputation, operations or financial performance of the Company.

**Consumer and Retail Customer Trends** The North American bakery market continues to evolve as consumer preferences and consumption patterns shift. As a result of evolving retail customer trends, the Company must anticipate and meet these trends in a highly competitive environment on a timely basis. The failure of Weston Foods to anticipate, identify and react to shifting consumer and retail customer trends and preferences through successful innovation and enhanced manufacturing capability could adversely result in reduced demand for its products, which could in turn affect the financial performance of the Company.

## 12.2 FINANCIAL RISKS AND RISK MANAGEMENT

**Financial Risks** The Company is exposed to a number of financial risks, including those associated with financial instruments, which have the potential to affect its operating and financial performance. The Company uses over-the-counter derivative instruments to offset certain of these 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 adversely affect the financial performance of the Company.

The following is a summary of the Company's financial risks which are discussed in detail below:

Liquidity	Common Share and Trust Unit Prices
Foreign Currency Exchange Rates	Interest Rates
Credit	

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

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

**Foreign Currency Exchange Rates** The Company's consolidated financial statements are expressed in Canadian dollars, however a portion of the Company's (excluding Loblaw's) net assets are denominated in U.S. dollars through both its net investment in foreign operations in the U.S. and its foreign subsidiaries held by Dunedin Holdings GmbH and certain of its affiliates with a functional currency that is the same as that of the Company. The U.S. dollar denominated net assets are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. As a result, the Company is exposed to foreign currency translation gains and losses. Those gains and losses arising from the translation of the U.S. dollar denominated assets of foreign subsidiaries with a functional currency that is the same as that of the Company are included in operating income, while translation gains and losses on the net investment in foreign operations in the U.S. are recorded in accumulated other comprehensive income (loss).

Revenues and expenses of all foreign operations are translated into Canadian dollars at the foreign currency exchange rates that approximate the rates in effect at the dates when such items are recognized. An appreciating U.S. dollar relative to the Canadian dollar will positively impact operating income and net earnings, while a depreciating U.S. dollar relative to the Canadian dollar will have the opposite impact.

Weston Foods and Loblaw are also exposed to fluctuations in the prices of U.S. dollar denominated purchases as a result of changes in U.S. dollar exchange rates. A depreciating Canadian dollar relative to the U.S. dollar will negatively impact operating income and net earnings, while an appreciating Canadian dollar relative to the U.S. dollar will have the opposite impact. Weston Foods and Loblaw entered into derivative instruments in the form of futures contracts and forward contracts to manage their current and anticipated exposure to fluctuations in U.S. dollar exchange rates.

**Credit** The Company is exposed to credit risk resulting from the possibility that counterparties could default on their financial obligations to the Company including derivative instruments, cash and cash equivalents, short term investments, security deposits, PC Bank's credit card receivables, Loblaw's franchise loans receivable, pension assets held in the Company's defined benefit plans, Loblaw's accounts receivable including amounts due

## Management's Discussion and Analysis

from franchisees, government, prescription sales and third-party drug plans, independent accounts and amounts owed from vendors, and other receivables from Weston Foods' customers and suppliers. Failure to manage credit risk could adversely affect the financial performance of the Company.

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

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

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

Loblaw's franchise loans receivable and Loblaw's accounts receivable including amounts due from franchisees, governments, prescription sales covered by third-party drug plans, independent accounts and amounts owed from vendors, and other receivables from Weston Foods' customers and suppliers, are actively monitored on an ongoing basis and settled on a frequent basis in accordance with the terms specified in the applicable agreements.

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.

**Common Share and Trust Unit Prices** Changes in the Loblaw common share price impact the Company's net interest expense and other financing charges. In 2001, Weston Holdings Limited ("WHL") entered into an equity forward sale agreement based on 9.6 million Loblaw common shares at an original forward price of \$48.50 per Loblaw common share which, under the terms of the agreement, had increased to a forward price of \$113.45 (2016 – \$109.26) per Loblaw common share as at year end 2017. The forward matures in 2031 and will be settled in cash as follows: WHL will receive the forward price and will pay the market value of the underlying Loblaw common shares at maturity. The obligation of WHL under this forward is secured by the underlying Loblaw common shares. WHL recognizes a non-cash charge or income, which is included in consolidated net interest expense and other financing charges, representing the fair value adjustment of WHL's forward sale agreement for 9.6 million shares. The fair value adjustment in the forward contract is a non-cash item resulting from fluctuations in the market price of the underlying Loblaw shares that WHL owns. WHL does not record any change in the market price associated with the Loblaw common shares it owns. At maturity, if the forward price is greater (less) than the market price, WHL will receive (pay) cash equal to the difference between the notional value and the market value of the forward contract. Any cash paid under the forward contract could be offset by the sale of Loblaw common shares.

The Company is exposed to market price risk from Choice Properties' Trust Units that are held by unitholders other than the Company. These Trust Units are presented as a liability on the Company's consolidated balance sheets as they are redeemable for cash at the option of the holders. The liability is recorded at fair value at each reporting period based on the market price of Trust Units. The change in the fair value of the liability negatively impacts net earnings when the Trust Unit price increases and positively impacts net earnings when the Trust Unit price declines.

**Interest Rates** The Company is exposed to interest rate risk from fluctuations in interest rates on its floating rate debt and from the refinancing of existing financial instruments. The Company manages interest rate risk by monitoring the respective mix of fixed and floating rate debt and by taking action as necessary to maintain an appropriate balance considering current market conditions, with the objective of maintaining the majority of its debt at fixed interest rates.

### 13. RELATED PARTY TRANSACTIONS

The Company's majority shareholder is Mr. W. Galen Weston, who beneficially owns, directly and indirectly through private companies which he controls, including Wittington Investments, Limited ("Wittington"), a total of 80,773,740 of GWL's common shares, representing approximately 63% (2016 – 63%) of GWL's outstanding common shares.

The Company's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions. Transactions between the Company and its consolidated entities have been eliminated on consolidation and are not disclosed below.

In 2017, the Company made rental payments to Wittington in the amount of \$4 million (2016 – \$4 million). As at year end 2017 and 2016, there were no rental payments outstanding.

In 2017, inventory purchases from Associated British Foods plc, a related party by virtue of Mr. W. Galen Weston being a director of such entity's parent company, amounted to \$39 million (2016 – \$40 million). As at year end 2017, \$6 million (2016 – \$6 million) was included in trade payables and other liabilities relating to these inventory purchases.

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

**Operating Lease** Choice Properties entered into a ten-year lease for office space with Wittington that commenced in 2014. Lease payments will total \$3 million over the term of the lease.

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

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

**Compensation of Key Management Personnel** The Company's key management personnel is comprised of certain members of the executive team of GWL, Loblaw, Weston Foods and Wittington, as well as members of the Boards of GWL, Loblaw 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.

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

(\$ millions)	2017	2016
Salaries, director fees and other short term employee benefits	\$ 9	\$ 11
Share-based compensation	13	13
Total compensation	\$ 22	\$ 24

## Management's Discussion and Analysis

### 14. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

#### **Basis of Consolidation**

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

#### **Inventories**

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

#### **Impairment of non-financial assets (goodwill, intangible assets, fixed assets and investment properties)**

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

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

#### **Impairment of Franchise loans receivable and certain other financial assets**

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

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

### **Customer Loyalty Awards Programs**

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

### **Income and other taxes**

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

### **Provisions**

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

## **15. ACCOUNTING STANDARDS IMPLEMENTED**

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



## Management's Discussion and Analysis

### 16. FUTURE ACCOUNTING STANDARDS

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

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

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

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

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

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

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

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

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

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

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

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

As a result of the change in valuation, the Company expects the adoption of IFRS 9 to result in a decrease in credit card receivables, increase in deferred income tax asset, with a corresponding decrease in retained earnings of up to approximately \$90 million, net of income taxes, as at January 1, 2018. PC Bank continues to revise, refine and validate the impairment model and related process controls , and assess the impact on Loblaw’s consolidated financial statement.

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

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

## Management's Discussion and Analysis

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

The Company intends to adopt the standard on January 1, 2019 by applying the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at January 1, 2019 using the modified retrospective approach with no restatement of the comparative period. IFRS 16 permits the use of exemptions and practical expedients. The Company intends to measure the cumulative effect of initial application by applying the use of hindsight in the determination of the lease term if the contract contains options to extend or terminate a lease. In addition, the Company also intends to apply the following exemptions and practical expedients.

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

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

### 17. OUTLOOK<sup>(3)</sup>

Weston Foods' three year strategic framework is focused on becoming a premier North American Bakery and delivering solid financial results. In 2018, Weston Foods will focus on key fundamental areas by growing the core business, selectively innovating in new segments and markets, and strengthening key processes in the organization.

In 2018, on a full-year comparative basis, Weston Foods expects

- Sales will be essentially flat to 2017. Growth in volume is expected to be offset by product rationalization and negative impacts of foreign exchange;
- Adjusted EBITDA<sup>(1)</sup> will be essentially flat to 2017. Adjusted EBITDA<sup>(1)</sup> will include improvements from the transformation program and productivity, but will be offset by headwinds from higher input and distribution costs in an inflationary environment, minimum wage increases and foreign exchange. In the first half of 2018, adjusted EBITDA<sup>(1)</sup> is expected to decline primarily due to costs related to the transformation program and inflation. Adjusted EBITDA<sup>(1)</sup> in the second half of 2018 is expected to improve driven by sales growth and realized benefits from the transformation program, partially offset by continued inflationary pressures;
- Investment in capital expenditures of approximately \$230 million related to growth, regulatory and maintenance; and
- Depreciation will increase.

Loblaw is focused on its strategic framework, delivering best in food and health and beauty, using data driven insights underpinned by process and efficiency excellence. This framework is supported by Loblaw's financial plan of maintaining a stable trading environment that targets positive same-store sales and stable gross margin, creating efficiencies to deliver operating leverage, investing for the future and returning capital to shareholders.

Headwinds from minimum wage increases and healthcare reform will negatively impact Loblaw's financial performance in 2018. In addition to the previously announced incremental impact of minimum wage increases of approximately \$190 million, Loblaw now expects that the announced healthcare reform will have an additional impact of approximately \$250 million on operating income. This compares to the average impact of healthcare reform of approximately \$70 million to \$80 million per year over the past three years.

In 2018, on a full-year comparative basis, normalized for the disposition of Loblaw's gas bar business, Loblaw expects to:

- deliver positive same-store sales and stable gross margin in its Retail segment in a highly competitive market;
- deliver essentially flat adjusted net earnings growth with positive adjusted earnings per share growth based on our share buyback program;
- invest approximately \$1.3 billion in capital expenditures, including \$1.0 billion in its Retail segment; and
- return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

For 2018, the Company expects adjusted net earnings to be essentially flat due to the results of Loblaw and Weston Foods, as described above.

#### **18. NON-GAAP FINANCIAL MEASURES**

The Company uses the following non-GAAP financial measures: adjusted EBITDA and adjusted EBITDA margin, adjusted net earnings attributable to shareholders of the Company, adjusted net earnings available to common shareholders of the Company, adjusted diluted net earnings per common share, adjusted return on average equity attributable to common shareholders of the Company, adjusted return on capital and free cash flow. In addition to these items, the following measures are used by management in calculating adjusted diluted net earnings per common share: adjusted operating income, adjusted net interest expense and other financing charges, adjusted income taxes and adjusted income tax rate. 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.

Management uses these and other non-GAAP financial measures to exclude the impact of certain expenses and income that must be recognized under GAAP when analyzing consolidated and segment underlying operating performance. The excluded items are not necessarily reflective of the Company's underlying operating performance and make comparisons of underlying financial performance between periods difficult. From time to time, the Company may exclude additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring.

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.

## Management's Discussion and Analysis

**Adjusted EBITDA** The Company believes adjusted EBITDA is useful in assessing and making decisions regarding the underlying operating performance of the Company's ongoing operations and in assessing the Company's ability to generate cash flows to fund its cash requirements, including its capital investment program.

The following table reconciles adjusted EBITDA to operating income, which is reconciled to GAAP net earnings attributable to shareholders of the Company reported for the periods ended as indicated.

(unaudited) (\$ millions)	Quarters Ended				Dec. 31, 2016			
	Dec. 31, 2017				Dec. 31, 2016			
	Weston Foods	Loblaw	Other	Consolidated	Weston Foods	Loblaw	Other	Consolidated
Net earnings attributable to shareholders of the Company				\$ 38				\$ 92
Add impact of the following:								
Non-controlling interests				28				139
Income taxes				(34)				83
Net interest expense and other financing charges				115				177
Operating income	\$ 8	\$ 138	\$ 1	\$ 147	\$ 38	\$ 447	\$ 6	\$ 491
Add impact of the following:								
Amortization of intangible assets acquired with Shoppers Drug Mart		121		121		124		124
PC Optimum Program		211		211				—
Restructuring and other charges	33	165		198	7	2		9
Loblaw Card Program		107		107				—
Asset impairments, net of recoveries		53		53		130		130
Fair value adjustment of derivatives	(3)	(5)		(8)	(1)	(6)		(7)
Pension annuities and buy-outs				—		21		21
Certain prior period items		(4)		(4)				—
Prior year land transfer tax assessment (recovery)		(9)		(9)				—
Wind-down of PC Financial banking services		(17)		(17)				—
Inventory losses, net of recoveries	(2)			(2)	5			5
Charges related to retail locations in Fort McMurray, net of recoveries				—		(5)		(5)
Foreign currency translation <sup>(i)</sup>			(1)	(1)			(6)	(6)
Adjusting items	\$ 28	\$ 622	\$ (1)	\$ 649	\$ 11	\$ 266	\$ (6)	\$ 271
Adjusted operating income	\$ 36	\$ 760	\$ —	\$ 796	\$ 49	\$ 713	\$ —	\$ 762
Depreciation and amortization excluding the impact of the above adjustments <sup>(ii)</sup>	25	251		276	24	241		265
Adjusted EBITDA	\$ 61	\$ 1,011	\$ —	\$ 1,072	\$ 73	\$ 954	\$ —	\$ 1,027

(i) Represents the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and cash equivalents and short term investments held by foreign operations.

(ii) Depreciation and amortization for the calculation of adjusted EBITDA excludes \$121 million (2016 – \$124 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$10 million (2016 – \$3 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other charges.

(unaudited) (\$ millions)	Years Ended							
	Dec. 31, 2017				Dec. 31, 2016			
	Weston Foods	Loblaw	Other	Consolidated	Weston Foods	Loblaw	Other	Consolidated
Net earnings attributable to shareholders of the Company				\$ 759				\$ 550
Add impact of the following:								
Non-controlling interests				815				540
Income taxes				443				465
Net interest expense and other financing charges				523				700
Operating income	\$ 91	\$ 2,486	\$ (37)	\$ 2,540	\$ 173	\$ 2,084	\$ (2)	\$ 2,255
Add impact of the following:								
Amortization of intangible assets acquired with Shoppers Drug Mart		524		524		535		535
PC Optimum Program		211		211				—
Restructuring and other charges	48	165		213	17	46		63
Loblaw Card Program		107		107				—
Asset impairments, net of recoveries		53	3	56		135		135
Fair value adjustment of derivatives	14	20		34	(5)	5		—
Pension annuities and buy-outs	2	12		14	3	23		26
Certain prior period items		(4)		(4)				—
Prior year land transfer tax assessment (recovery)		(9)		(9)		10		10
Wind-down of PC Financial banking services		(24)		(24)				—
Gain on disposition of Loblaw's gas bar operations		(501)		(501)				—
Inventory losses, net of recoveries	(6)			(6)	11			11
Charges related to retail locations in Fort McMurray, net of recoveries				—		2		2
Drug retail ancillary assets				—		(4)		(4)
Foreign currency translation <sup>(i)</sup>			34	34			2	2
Adjusting items	\$ 58	\$ 554	\$ 37	\$ 649	\$ 26	\$ 752	\$ 2	\$ 780
Adjusted operating income	\$ 149	\$ 3,040	\$ —	\$ 3,189	\$ 199	\$ 2,836	\$ —	\$ 3,035
Depreciation and amortization excluding the impact of the above adjustments <sup>(ii)</sup>	107	1,044		1,151	97	1,008		1,105
Adjusted EBITDA	\$ 256	\$ 4,084	\$ —	\$ 4,340	\$ 296	\$ 3,844	\$ —	\$ 4,140

(i) Represents the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and cash equivalents and short term investments held by foreign operations.

(ii) Depreciation and amortization for the calculation of adjusted EBITDA excludes \$524 million (2016 – \$535 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$10 million (2016 – \$14 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other charges.

The following items impacted operating income in 2017 and 2016:

**Amortization of intangible assets acquired with Shoppers Drug Mart** The acquisition of Shoppers Drug Mart in 2014 included approximately \$6 billion of definite life intangible assets, which are being amortized over their estimated useful lives. Loblaw expects to recognize annual amortization associated with the acquired intangible assets of approximately \$525 million until 2024, and decreasing thereafter.

## Management's Discussion and Analysis

**PC Optimum Program** In the fourth quarter of 2017, Loblaw announced plans to bring together the *Shoppers Optimum* and *PC Plus* reward programs to create one program, *PC Optimum*. As a result, Loblaw recorded a charge of \$189 million, related to the revaluation of the existing liability for outstanding points to reflect a higher anticipated redemption rate under the new program, and \$22 million, related to the impairment of certain IT assets that support the existing loyalty programs in the fourth quarter of 2017.

**Restructuring and other charges** The Company continuously evaluates strategic and cost reduction initiatives related to its store infrastructure, manufacturing assets, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Restructuring activities related to these initiatives are ongoing. For details on the restructuring and other charges incurred by each of the Company's operating segments see Section 6.1, "Weston Foods Operating Results" and Section 6.2, "Loblaw Operating Results" of this MD&A.

**Loblaw Card Program** In the fourth quarter of 2017, the Company and Loblaw acknowledged their involvement in an industry wide price-fixing arrangement. In connection with the arrangement, Loblaw is offering customers a \$25 Loblaw Card, which can be used to purchase items sold in Loblaw grocery stores across Canada. Loblaw has recorded a charge of \$107 million associated with the Loblaw Card Program.

**Asset impairments, net of recoveries** At each balance sheet date, the Company assesses and, when required, records impairments and recoveries of previous impairments related to the carrying value of its fixed assets, investment properties and intangible assets.

**Fair value adjustment of derivatives** The Company is exposed to commodity price and U.S. dollar exchange rate fluctuations primarily as a result of purchases of certain raw materials, fuels and utilities. In accordance with the Company's commodity risk management policy, the Company enters into commodity and foreign currency derivatives to reduce the impact of price fluctuations in forecasted raw material and fuel purchases over a specified period of time. These derivatives are not acquired for trading or speculative purposes. Pursuant to the Company's derivative instruments accounting policy, certain changes in fair value, which include realized and unrealized gains and losses related to future purchases of raw materials and fuel, are recorded in operating income. Despite the impact of accounting for these commodity and foreign currency derivatives on the Company's reported results, the derivatives have the economic impact of largely mitigating the associated risks arising from price and exchange rate fluctuations in the underlying commodities and U.S. dollar commitments.

**Pension annuities and buy-outs** The Company is undertaking annuity purchases and pension buy-outs in respect of former employees designed to reduce its defined benefit pension plan obligation and decrease future pension volatility and risks.

**Certain prior period items** In the fourth quarter of 2017, Management identified excess impairment that was recorded against Loblaw's Franchise Loans Receivable balance on the consolidated balance sheets and recorded a gain to correct this prior period error. Management determined that the impact of this item on the Company's previously issued annual and interim financial statements and the current period financial statements was not material. This gain was partially offset by certain charges associated with a prior period regulatory matter recorded in the fourth quarter of 2017.

**Prior year land transfer tax assessment (recovery)** In the fourth quarter of 2017, Loblaw recorded a recovery of \$9 million in SG&A in the Retail segment related to a partial recovery of a prior year land transfer tax assessment.

**Wind-down of PC Financial banking services** In the third quarter of 2017, PC Bank entered into an agreement to end its business relationship with a major Canadian chartered bank which represented the personal banking services offered under the *President's Choice Financial* brand. As a result of this agreement, PC Bank will receive payments of approximately \$43 million, net of related costs, which will be recognized between the third quarter of 2017 and the second quarter of 2018.

**Gain on disposition of Loblaw's gas bar operations** On July 17, 2017, Loblaw sold its gas bar operations, for proceeds of approximately \$540 million. Loblaw has recorded a pre-tax gain on sale of \$501 million (post-tax gain of \$432 million), net of related costs, in the third quarter of 2017.

**Inventory losses, net of recoveries** In 2016, Weston Foods' damaged inventory of \$11 million (U.S. \$9 million) was written-off and was recorded in SG&A in the Company's consolidated statement of earnings. In 2017, the Company received partial proceeds from the insurance claim. The insurance claim remains in progress and further proceeds are expected to be recorded as the claim progresses.

**Charges related to retail locations in Fort McMurray, net of recoveries** In the second quarter of 2016, 10 retail locations in Fort McMurray were impacted by the wildfire that caused the evacuation of the city. Loblaw recognized charges related to the inventory losses, site clean-up and other restoration costs. As at the end of 2016, Loblaw received partial proceeds of \$10 million from the insurance claim.

**Drug retail ancillary assets** In the second quarter of 2016, Loblaw ceased actively marketing the remaining assets in certain drug retail ancillary operations that were previously marketed for sale. As a result, Loblaw recorded a charge of \$4 million related to inventory impairment and reversed \$8 million of previous asset impairments and other related restructuring charges.

**Foreign currency translation** The Company's consolidated financial statements are expressed in Canadian dollars. A portion of the Company's (excluding Loblaw's) net assets are denominated in U.S. dollars and as a result, the Company is exposed to foreign currency translation gains and losses. The impact of foreign currency translation on a portion of the U.S. dollar denominated net assets, primarily cash and cash equivalents and short term investments held by foreign operations, is recorded in SG&A and the associated tax, if any, is recorded in income taxes. In the fourth quarter of 2017, a foreign currency translation gain of \$1 million (2016 – \$6 million) was recorded in SG&A as a result of the appreciation of the U.S. dollar relative to the Canadian dollar. Year-to-date, a foreign currency translation loss of \$34 million (2016 – \$2 million) was recorded in SG&A as a result of the depreciation (2016 – depreciation) of the U.S. dollar relative to the Canadian dollar.

**Adjusted Net Interest Expense and Other Financing Charges** The Company believes adjusted net interest expense and other financing charges is useful in assessing the ongoing net financing costs of the Company.

The following table reconciles adjusted net interest expense and other financing charges to GAAP net interest expense and other financing charges reported for the periods ended as indicated.

(unaudited) (\$ millions)	Quarters Ended		Years Ended	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Net interest expense and other financing charges	\$ 115	\$ 177	\$ 523	\$ 700
Add: Fair value adjustment of the Trust Unit liability	8	1	7	(79)
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	10	(43)	25	(53)
Adjusted net interest expense and other financing charges	\$ 133	\$ 135	\$ 555	\$ 568

In addition to certain items described in the "Adjusted EBITDA" section above, the following items impacted net interest expense and other financing charges in 2017 and 2016:

**Fair value adjustment of the Trust Unit liability** The Company is exposed to market price fluctuations as a result of the Choice Properties Trust Units held by unitholders other than the Company. These Trust Units are presented as a liability on the Company's consolidated balance sheets as they are redeemable for cash at the option of the holder, subject to certain restrictions. This liability is recorded at fair value at each reporting date based on the market price of Trust Units at the end of each period. An increase (decrease) in the market price of Trust Units results in a charge (income) to net interest expense and other financing charges.



## Management's Discussion and Analysis

**Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares** The fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares is non-cash and is included in net interest expense and other financing charges. The adjustment is determined by changes in the value of the underlying Loblaw common shares. An increase (decrease) in the market price of Loblaw common shares results in a charge (income) to net interest expense and other financing charges.

**Adjusted Income Taxes and Adjusted Income Tax Rate** The Company believes the adjusted income tax rate applicable to adjusted earnings before taxes is useful in assessing the underlying operating performance of its business.

The following table reconciles the effective income tax rate applicable to adjusted earnings before taxes to the GAAP effective income tax rate applicable to earnings before taxes as reported for the periods ended as indicated.

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended		Years Ended	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Adjusted operating income <sup>(i)</sup>	\$ 796	\$ 762	\$ 3,189	\$ 3,035
Adjusted net interest expense and other financing charges <sup>(i)</sup>	133	135	555	568
Adjusted earnings before taxes	\$ 663	\$ 627	\$ 2,634	\$ 2,467
Income taxes	\$ (34)	\$ 83	\$ 443	\$ 465
Add: Tax impact of items excluded from adjusted earnings before taxes <sup>(ii)</sup>	177	89	232	216
Remeasurement of deferred tax balances	19		19	
Statutory corporate income tax rate change	19		19	(3)
Adjusted income taxes	\$ 181	\$ 172	\$ 713	\$ 678
Effective income tax rate applicable to earnings before taxes	(106.3)%	26.4%	22.0%	29.9%
Adjusted income tax rate applicable to adjusted earnings before taxes	27.3 %	27.4%	27.1%	27.5%

(i) See reconciliations of adjusted operating income and adjusted net interest expense and other financing charges above.

(ii) See the adjusted EBITDA table and the adjusted net interest expense and other financing charges table above for a complete list of items excluded from adjusted earnings before taxes.

In addition to certain items described in the "Adjusted EBITDA" and "Adjusted Net Interest Expense and Other Financing Charges" sections above, the following item impacted income taxes and the effective income tax rate in 2017 and 2016:

**Remeasurement of deferred tax balances** In the fourth quarter of 2017, the Company recorded a deferred tax recovery of \$19 million resulting from a change in the applicable provincial income tax rate used to measure certain deferred tax balances caused by a change in the location of certain business activities.

**Statutory corporate income tax rate change** The Company's deferred income tax assets and liabilities are impacted by changes to provincial and federal statutory corporate income tax rates resulting in a charge or benefit to earnings. The Company implements changes in the statutory corporate income tax rate in the same period the change is substantively enacted by the legislative body.

In the fourth quarter of 2017, the U.S. government enacted a 14.0% decrease in the U.S. federal statutory corporate income tax rate from 35.0% to 21.0%. As a result, Weston Foods recorded a recovery of \$19 million in 2017 related to the remeasurement of its deferred tax liabilities.

In the first quarter of 2016, the Government of New Brunswick announced a 2.0% increase in the provincial statutory corporate income tax rate from 12.0% to 14.0%. Loblaw recorded a charge of \$3 million in 2016 related to the remeasurement of its deferred tax liabilities.

**Adjusted Net Earnings Available to Common Shareholders and Adjusted Diluted Net Earnings per Common Share** The Company believes adjusted net earnings available to common shareholders and adjusted diluted net earnings per common share are useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business.

The following table reconciles net earnings attributable to shareholders of the Company to net earnings available to common shareholders of the Company and then to adjusted net earnings available to common shareholders of the Company reported for the periods ended as indicated.

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended		Years Ended	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Net earnings attributable to shareholders of the Company	\$ 38	\$ 92	\$ 759	\$ 550
Less: Prescribed dividends on preferred shares in share capital	(10)	(10)	(44)	(44)
Net earnings available to common shareholders of the Company	\$ 28	\$ 82	\$ 715	\$ 506
Reduction in net earnings due to dilution at Loblaw			6	5
Net earnings available to common shareholders for diluted earnings per share	\$ 28	\$ 82	\$ 709	\$ 501
Net earnings attributable to shareholders of the Company	\$ 38	\$ 92	\$ 759	\$ 550
Adjusting items (refer to the following table)	200	122	189	332
Adjusted net earnings attributable to shareholders of the Company	\$ 238	\$ 214	\$ 948	\$ 882
Less: Prescribed dividends on preferred shares in share capital	(10)	(10)	(44)	(44)
Adjusted net earnings available to common shareholders of the Company	\$ 228	\$ 204	\$ 904	\$ 838
Reduction in net earnings due to dilution at Loblaw			6	5
Adjusted net earnings available to common shareholders for diluted earnings per share	\$ 228	\$ 204	\$ 898	\$ 833
Weighted average common shares outstanding (millions) <sup>(i)</sup>	128.3	128.2	128.3	128.3

(i) Includes impact of dilutive instruments for purposes of calculating adjusted diluted net earnings per common share.

## Management's Discussion and Analysis

The following table reconciles adjusted net earnings available to common shareholders of the Company and adjusted diluted net earnings per common share to GAAP net earnings available to common shareholders of the Company and diluted net earnings per common share as reported for the periods ended as indicated.

	Quarters Ended			
	Dec. 31, 2017		Dec. 31, 2016	
(unaudited) (\$ except where otherwise indicated)	Net Earnings Available to Common Shareholders of the Company (\$ millions)	Diluted Net Earnings Per Common Share	Net Earnings Available to Common Shareholders of the Company (\$ millions)	Diluted Net Earnings Per Common Share
As reported	\$ 28	\$ 0.22	\$ 82	\$ 0.64
Add (deduct) impact of the following <sup>(i)</sup> :				
Amortization of intangible assets acquired with Shoppers Drug Mart	44	0.35	41	0.33
PC Optimum Program	75	0.58		
Restructuring and other charges	82	0.64	4	0.03
Loblaws Card Program	39	0.30		
Asset impairments, net of recoveries	19	0.15	44	0.34
Fair value adjustment of derivatives	(5)	(0.04)	(3)	(0.02)
Pension annuities and buy-outs			7	0.05
Certain prior period items	(6)	(0.05)		
Prior year land transfer tax assessment (recovery)	(3)	(0.02)		
Wind-down of PC Financial banking services	(7)	(0.05)		
Inventory losses, net of recoveries	(1)	(0.01)	2	0.02
Charges related to retail locations in Fort McMurray, net of recoveries			(1)	(0.01)
Fair value adjustment of the forward sale agreement for 9.6 million Loblaws common shares	(7)	(0.05)	32	0.24
Fair value adjustment of the Trust Unit liability	(2)	(0.02)	1	0.01
Remeasurement of deferred tax balances	(10)	(0.08)		
Statutory corporate income tax rate change	(19)	(0.15)		
Foreign currency translation	1	0.01	(5)	(0.04)
Adjusting items	\$ 200	\$ 1.56	\$ 122	\$ 0.95
Adjusted	\$ 228	\$ 1.78	\$ 204	\$ 1.59

(i) Net of income taxes and non-controlling interests, as applicable.

	Years Ended			
	Dec. 31, 2017		Dec. 31, 2016	
(unaudited) (\$ except where otherwise indicated)	Net Earnings Available to Common Shareholders of the Company (\$ millions)	Diluted Net Earnings Per Common Share	Net Earnings Available to Common Shareholders of the Company (\$ millions)	Diluted Net Earnings Per Common Share
As reported	\$ 715	\$ 5.53	\$ 506	\$ 3.90
Add (deduct) impact of the following <sup>(i)</sup> :				
Amortization of intangible assets acquired with Shoppers Drug Mart	184	1.43	182	1.42
PC Optimum Program	75	0.58		
Restructuring and other charges	93	0.73	28	0.22
Loblaw Card Program	39	0.30		
Asset impairments, net of recoveries	22	0.17	46	0.35
Fair value adjustment of derivatives	17	0.13	(1)	(0.01)
Pension annuities and buy-outs	5	0.04	10	0.08
Certain prior period items	(6)	(0.05)		
Prior year land transfer tax assessment (recovery)	(3)	(0.02)	3	0.02
Wind-down of PC Financial banking services	(9)	(0.07)		
Gain on disposition of Loblaw's gas bar operations	(207)	(1.61)		
Inventory losses, net of recoveries	(3)	(0.02)	6	0.05
Charges related to retail locations in Fort McMurray, net of recoveries			1	0.01
Drug retail ancillary assets			(1)	(0.01)
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	(18)	(0.14)	39	0.31
Fair value adjustment of the Trust Unit liability	(2)	(0.02)	16	0.12
Statutory corporate income tax rate change	(19)	(0.15)	1	0.01
Remeasurement of deferred tax balances	(10)	(0.08)		
Foreign currency translation	31	0.25	2	0.02
Adjusting items	\$ 189	\$ 1.47	\$ 332	\$ 2.59
Adjusted	\$ 904	\$ 7.00	\$ 838	\$ 6.49

(i) Net of income taxes and non-controlling interests, as applicable.

**Free Cash Flow** The Company believes free cash flow is useful in assessing the Company's cash available for additional financing and investing activities.

The following table reconciles free cash flow to GAAP measures reported for the periods ended as indicated.

(unaudited) (\$ millions)	Quarters Ended		Years Ended	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Cash flows from operating activities	\$ 1,213	\$ 976	\$ 3,425	\$ 3,760
Less: Interest paid	104	103	556	570
Fixed asset purchases	486	452	1,177	1,129
Intangible asset additions	89	116	297	336
Free cash flow	\$ 534	\$ 305	\$ 1,395	\$ 1,725

## Management's Discussion and Analysis

### 19. ADDITIONAL INFORMATION

Additional information about the Company, including its 2017 AIF and other disclosure documents, has been filed electronically with the Canadian securities regulatory authorities through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at [www.sedar.com](http://www.sedar.com).

This Annual Report includes selected information on Loblaw, a public company with shares trading on the TSX. For information regarding Loblaw, readers should also refer to the materials filed by Loblaw with SEDAR from time to time. These filings are also available on Loblaw's website at [www.loblaw.ca](http://www.loblaw.ca).

Toronto, Canada

March 1, 2018

## Financial Results

Management's Statement of Responsibility for Financial Reporting	70
Independent Auditors' Report	71
Consolidated Financial Statements	72
Consolidated Statements of Earnings	72
Consolidated Statements of Comprehensive Income	72
Consolidated Balance Sheets	73
Consolidated Statements of Changes in Equity	74
Consolidated Statements of Cash Flows	75
Notes to the Consolidated Financial Statements	76
Note 1. Nature and Description of the Reporting Entity	76
Note 2. Significant Accounting Policies	76
Note 3. Critical Accounting Estimates and Judgments	88
Note 4. Future Accounting Standards	90
Note 5. Business Acquisitions	93
Note 6. Net Interest Expense and Other Financing Charges	94
Note 7. Income Taxes	95
Note 8. Basic and Diluted Net Earnings per Common Share	97
Note 9. Cash and Cash Equivalents, Short Term Investments and Security Deposits	97
Note 10. Accounts Receivable	98
Note 11. Credit Card Receivables	98
Note 12. Inventories	99
Note 13. Assets Held for Sale and Disposition	100
Note 14. Fixed Assets	100
Note 15. Investment Properties	102
Note 16. Intangible Assets	104
Note 17. Goodwill	106
Note 18. Other Assets	107
Note 19. Customer Loyalty Awards Program Liability	107
Note 20. Provisions	108
Note 21. Short Term Debt	109
Note 22. Long Term Debt	110
Note 23. Other Liabilities	113
Note 24. Share Capital	114
Note 25. Loblaw Capital Transactions	117
Note 26. Capital Management	117
Note 27. Post-Employment and Other Long Term Employee Benefits	119
Note 28. Share-Based Compensation	126
Note 29. Employee Costs	129
Note 30. Leases	130
Note 31. Financial Instruments	132
Note 32. Financial Risk Management	134
Note 33. Contingent Liabilities	137
Note 34. Financial Guarantees	139
Note 35. Related Party Transactions	140
Note 36. Segment Information	141
Note 37. Subsequent Events	143
Three Year Summary	144
Glossary	146

## Management's Statement of Responsibility for Financial Reporting

The management of George Weston 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 as issued by the International Accounting Standards Board. 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 for providing reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced. Management is required to design a system of internal controls and certify as to the design and operating effectiveness of internal 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.

**[signed]**

**Galen G. Weston**  
Chairman and  
Chief Executive Officer

**[signed]**

**Richard Dufresne**  
President and  
Chief Financial Officer

March 1, 2018  
Toronto, Canada

## Independent Auditors' Report

### To the Shareholders of George Weston Limited:

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

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

### Opinion

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

The image shows a handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature, there is a single horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

March 1, 2018  
Toronto, Canada



## Consolidated Statements of Earnings

For the years ended December 31

(millions of Canadian dollars except where otherwise indicated)

	2017	2016
<b>Revenue</b>	\$ 48,292	\$ 47,999
<b>Operating Expenses</b>		
Cost of inventories sold (note 12)	33,836	34,108
Selling, general and administrative expenses (note 31)	11,916	11,636
	<b>45,752</b>	45,744
<b>Operating Income</b>	<b>2,540</b>	2,255
Net Interest Expense and Other Financing Charges (note 6)	523	700
<b>Earnings Before Income Taxes</b>	<b>2,017</b>	1,555
Income Tax (note 7)	443	465
<b>Net Earnings</b>	<b>1,574</b>	1,090
Attributable to:		
Shareholders of the Company	759	550
Non-Controlling Interests	815	540
<b>Net Earnings</b>	<b>\$ 1,574</b>	\$ 1,090
<b>Net Earnings per Common Share (\$)</b> (note 8)		
Basic	\$ 5.60	\$ 3.96
Diluted	\$ 5.53	\$ 3.90

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Comprehensive Income

For the years ended December 31

(millions of Canadian dollars)

	2017	2016
Net earnings	\$ 1,574	\$ 1,090
Other comprehensive (loss) income		
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation adjustment (note 31)	(64)	(20)
Unrealized gain (loss) on cash flow hedges (note 31)	2	(1)
Items that will not be reclassified to profit or loss:		
Net defined benefit plan actuarial (losses) gains (note 27)	(20)	28
Other comprehensive income	(82)	7
<b>Comprehensive Income</b>	<b>1,492</b>	1,097
Attributable to:		
Shareholders of the Company	685	534
Non-Controlling Interests	807	563
<b>Comprehensive Income</b>	<b>\$ 1,492</b>	\$ 1,097

See accompanying notes to the consolidated financial statements.

## Consolidated Balance Sheets

As at December 31  
(millions of Canadian dollars)

	2017	2016
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (note 9)	\$ 2,034	\$ 1,560
Short term investments (note 9)	1,113	1,011
Accounts receivable (note 10)	1,324	1,284
Credit card receivables (note 11)	3,100	2,926
Inventories (note 12)	4,623	4,559
Prepaid expenses and other assets	236	201
Assets held for sale (note 13)	33	40
<b>Total Current Assets</b>	<b>12,463</b>	11,581
Fixed Assets (note 14)	11,689	11,534
Investment Properties (note 15)	235	218
Intangible Assets (note 16)	8,368	8,875
Goodwill (note 17)	4,377	4,364
Deferred Income Taxes (note 7)	247	201
Security Deposits (note 9)	86	89
Franchise Loans Receivable (note 31)	166	233
Other Assets (note 18)	868	851
<b>Total Assets</b>	<b>\$ 38,499</b>	\$ 37,946
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Bank indebtedness (note 34)	\$ 110	\$ 115
Trade payables and other liabilities	5,864	5,356
Provisions (note 20)	325	135
Income taxes payable	137	341
Short term debt (note 21)	1,258	1,241
Long term debt due within one year (note 22)	1,635	400
Associate interest	263	243
<b>Total Current Liabilities</b>	<b>9,592</b>	7,831
Provisions (note 20)	190	146
Long Term Debt (note 22)	10,457	11,385
Trust Unit Liability (note 31)	634	635
Deferred Income Taxes (note 7)	2,151	2,370
Other Liabilities (note 23)	762	789
<b>Total Liabilities</b>	<b>23,786</b>	23,156
<b>EQUITY</b>		
Share Capital (note 24)	1,038	1,012
Retained Earnings	7,148	6,704
Contributed Surplus (notes 25 & 28)	(432)	(156)
Accumulated Other Comprehensive Income	140	204
<b>Total Equity Attributable to Shareholders of the Company</b>	<b>7,894</b>	7,764
Non-Controlling Interests	6,819	7,026
<b>Total Equity</b>	<b>14,713</b>	14,790
<b>Total Liabilities and Equity</b>	<b>\$ 38,499</b>	\$ 37,946

Leases (note 30). Contingent liabilities (note 33). Financial guarantees (note 34). Subsequent Events (note 37).  
See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board

*[signed]*

**Galen G. Weston**  
Chairman and  
Chief Executive Officer

*[signed]*

**Barbara G. Stymiest**  
Director

## Consolidated Statements of Changes in Equity

(millions of Canadian dollars except where otherwise indicated)	Common Shares	Preferred Shares	Total Share Capital	Retained Earnings <sup>(i)</sup>	Contributed Surplus <sup>(i)</sup>	Foreign Currency Translation Adjustment	Cash Flow Hedges	Total Accumulated Other Comprehensive Income	Non-Controlling Interests	Total Equity
<b>Balance as at Dec. 31, 2016</b>	\$ 195	\$ 817	\$ 1,012	\$ 6,704	\$ (156)	\$ 204		\$ 204	\$ 7,026	\$ 14,790
Net earnings				759					815	1,574
Other comprehensive income (loss) <sup>(i)</sup>				(10)		(65)	1	(64)	(8)	(82)
Comprehensive income (loss)	—	—	—	749	—	(65)	1	(64)	807	1,492
Effect of share-based compensation (notes 24 & 28)	26		26	(1)	(1)				(4)	20
Shares purchased and cancelled (note 24)				(31)						(31)
Net effect of shares held in trusts (notes 24 & 28)				2						2
Loblaw capital transactions and dividends (notes 25 & 28)					(275)				(1,010)	(1,285)
Dividends declared										
Per common share (\$)										
– \$1.805				(232)						(232)
Per preferred share (\$)										
– Series I – \$1.45				(14)						(14)
– Series III – \$1.30				(10)						(10)
– Series IV – \$1.30				(9)						(9)
– Series V – \$1.1875				(10)						(10)
	26	—	26	(305)	(276)	—	—	—	(1,014)	(1,569)
<b>Balance as at Dec. 31, 2017</b>	\$ 221	\$ 817	\$ 1,038	\$ 7,148	\$ (432)	\$ 139	\$ 1	\$ 140	\$ 6,819	\$ 14,713

- (i) Other comprehensive loss includes actuarial losses of \$20 million, \$10 million of which is presented above in retained earnings and \$10 million in non-controlling interests. Also included in non-controlling interests is a foreign currency translation gain of \$1 million and an unrealized gain on cash flow hedges of \$1 million.

(millions of Canadian dollars except where otherwise indicated)	Common Shares	Preferred Shares	Total Share Capital	Retained Earnings <sup>(i)</sup>	Contributed Surplus <sup>(i)</sup>	Foreign Currency Translation Adjustment	Cash Flow Hedges	Total Accumulated Other Comprehensive Income	Non-Controlling Interests	Total Equity
<b>Balance as at Dec. 31, 2015</b>	\$ 191	\$ 817	\$ 1,008	\$ 6,422	\$ 20	\$ 230	\$ 1	\$ 231	\$ 7,209	\$ 14,890
Net earnings				550					540	1,090
Other comprehensive income <sup>(i)</sup>				11		(26)	(1)	(27)	23	7
Comprehensive income	—	—	—	561	—	(26)	(1)	(27)	563	1,097
Effect of share-based compensation (notes 24 & 28)	4		4	(1)	15				8	26
Shares purchased and cancelled (note 24)				(8)						(8)
Net effect of shares held in trusts (notes 24 & 28)				(4)						(4)
Loblaw capital transactions and dividends (notes 25 & 28)					(191)				(754)	(945)
Dividends declared										
Per common share (\$)										
– \$1.745				(223)						(223)
Per preferred share (\$)										
– Series I – \$1.45				(13)						(13)
– Series III – \$1.30				(10)						(10)
– Series IV – \$1.30				(10)						(10)
– Series V – \$1.1875				(10)						(10)
	4	—	4	(279)	(176)	—	—	—	(746)	(1,197)
<b>Balance as at Dec. 31, 2016</b>	\$ 195	\$ 817	\$ 1,012	\$ 6,704	\$ (156)	\$ 204	\$ —	\$ 204	\$ 7,026	\$ 14,790

- (i) Other comprehensive income includes actuarial gains of \$28 million, \$11 million of which is presented above in retained earnings and \$17 million in non-controlling interests. Also included in non-controlling interests is a foreign currency translation gain of \$6 million.

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Cash Flows

For the years ended December 31  
(millions of Canadian dollars)

	2017	2016
<b>Operating Activities</b>		
Net earnings	\$ 1,574	\$ 1,090
Add:		
Net interest expense and other financing charges (note 6)	523	700
Income taxes (note 7)	443	465
Depreciation and amortization	1,685	1,654
Gain on disposition of Loblaw's gas bar operations (note 13)	(501)	
Asset impairments, net of recoveries	109	142
Foreign currency translation loss (note 31)	34	2
Change in provisions (note 20)	238	(52)
PC Optimum Program (note 19)	189	
	<b>4,294</b>	4,001
Change in credit card receivables (note 11)	(174)	(136)
Change in non-cash working capital	147	160
Income taxes paid	(892)	(345)
Interest received	23	15
Other	27	65
<b>Cash Flows from Operating Activities</b>	<b>3,425</b>	3,760
<b>Investing Activities</b>		
Fixed asset purchases	(1,177)	(1,129)
Intangible asset additions (note 16)	(297)	(336)
Acquisition of QHR, net of cash acquired (note 5)		(153)
Cash assumed on initial consolidation of franchises (note 5)	26	42
Change in short term investments	(135)	160
Proceeds from sale of Loblaw's gas bar operations (note 13)	540	
Other	(32)	92
<b>Cash Flows used in Investing Activities</b>	<b>(1,075)</b>	(1,324)
<b>Financing Activities</b>		
Change in bank indebtedness	(5)	(28)
Change in short term debt (note 21)	17	155
Interest paid	(556)	(570)
Long term debt – Issued (note 22)	686	815
– Retired (note 22)	(450)	(1,399)
Share capital – Issued (notes 24 & 28)	22	4
– Purchased and held in trusts (note 24)	(7)	(11)
– Purchased and cancelled (note 24)	(31)	(8)
Loblaw common share capital – Issued (notes 25 & 28)	41	42
– Purchased and held in trusts (note 25)	(48)	(90)
– Purchased and cancelled (note 25)	(1,091)	(708)
Dividends – To common shareholders	(229)	(221)
– To preferred shareholders	(44)	(44)
– To minority shareholders	(175)	(232)
Other	5	20
<b>Cash Flows used in Financing Activities</b>	<b>(1,865)</b>	(2,275)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(11)	(14)
Change in Cash and Cash Equivalents	474	147
Cash and Cash Equivalents, Beginning of Period	1,560	1,413
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 2,034</b>	\$ 1,560

See accompanying notes to the consolidated financial statements.

## Notes to the Consolidated Financial Statements

### Note 1. Nature and Description of the Reporting Entity

George Weston Limited (“GWL” or the “Company”) is a Canadian public company incorporated in 1928, with its registered office located at 22 St. Clair Avenue East, Toronto, Canada M4T 2S7. The Company’s parent is Wittington Investments, Limited (“Wittington”).

The Company has two reportable operating segments, Loblaw Companies Limited (“Loblaw”) and Weston Foods. The Company also holds cash, short term investments and an interest in Choice Properties Real Estate Investment Trust (“Choice Properties”) of 6.1% (2016 – 5.8%). Loblaw has three reportable operating segments: Retail, Financial Services and Choice Properties. Loblaw provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise, credit card services, insurance brokerage services, gift cards and telecommunication services. Loblaw also holds an 82.4% (2016 – 82.7%) effective interest in Choice Properties, which owns, manages and develops well-located retail and other commercial real estate across Canada. The Weston Foods operating segment includes a leading fresh bakery business in Canada and frozen, artisan bakery and biscuit businesses throughout North America.

As at year end 2017, GWL’s ownership interest in Loblaw was approximately 48.6% (2016 – 47.0%). The Company has the ability to direct the activities of Loblaw and consequently consolidates Loblaw.

### Note 2. Significant Accounting Policies

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

These consolidated financial statements were authorized for issuance by the Company’s Board of Directors (“Board”) on March 1, 2018.

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

- defined benefit pension plan assets with the obligations related to these pension plans measured at their discounted present value as described in note 27;
- amounts recognized for cash-settled share-based compensation arrangements as described in note 28; and
- certain financial instruments as described in note 31.

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

The consolidated financial statements are presented in Canadian dollars.

**Fiscal Year** The Company’s year end is December 31. Activities are reported on a fiscal year ending 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 five to six years. Each of the years ended December 31, 2017 and December 31, 2016 contained 52 weeks. The next 53-week year will occur in fiscal year 2020.

**Basis of Consolidation** The consolidated financial statements include the accounts of GWL and other entities that the Company controls. Control exists when the Company has the existing rights that give it the current ability to direct the activities that significantly affect the entities’ returns. The Company assesses control on an ongoing basis. The Company’s interest in the voting share capital of its subsidiaries is 100% except for Loblaw, which is approximately 48.6% (2016 – 47.0%). GWL’s ownership in Loblaw is impacted by changes in Loblaw’s common share equity.

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

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

Non-controlling interests are recorded in the consolidated financial statements and represent the non-controlling shareholders' portion of the net assets and net earnings of Loblaw. Transactions with non-controlling interests are treated as transactions with equity owners of the Company. Changes in GWL's ownership interest in its subsidiaries are accounted for as equity transactions.

Choice Properties' Trust Units held by non-controlling interests are presented as a liability as the Trust Units are redeemable for cash at the option of the holder, subject to certain restrictions.

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

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

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

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

*Weston Foods* recognizes sales upon delivery of its products to customers and acceptance of its products by customers net of provisions for returns, discounts and allowances.

## Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

**Accounts Receivable** Accounts receivable consists primarily of receivables from Loblaw’s vendors, non-consolidated franchisees, government and third-party drug plans arising from prescription drug sales, independent accounts and receivables from Weston Foods customers and suppliers, and are recorded net of allowances.

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

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



## Notes to the Consolidated Financial Statements

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

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

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

**Franchise Loans Receivable** Franchise loans receivable are comprised of amounts due from non-consolidated franchises for loans issued through a structure involving consolidated independent funding trusts. These trusts, which are considered structured entities, were created to provide loans to franchises to facilitate their purchase of inventory and fixed assets. Each franchise provides security to the independent funding trust for its obligations by way of a general security agreement. In the event that a franchise defaults on its loan and Loblaws 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 Loblaws and draw upon a standby letter of credit. Loblaws has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit. The carrying amount of franchise loan receivables approximates its fair value.

**Inventories** The Company values inventories at the lower of cost and net realizable value. Cost includes the costs of purchases net of vendor allowances plus other costs, such as transportation, that are directly incurred to bring inventories to their present location and condition. Loblaws' retail store inventories, Loblaws' inventories at distribution centres and Weston Foods' inventories are measured at weighted average cost. Shoppers Drug Mart's inventories are measured on a first-in first-out basis.

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

**Vendor Allowances** The Company receives allowances from certain of its vendors whose products it purchases. These allowances are received for a variety of buying and/or merchandising activities, including vendor programs such as volume purchase allowances, purchase discounts, listing fees and exclusivity allowances. Allowances received from a vendor are a reduction in the cost of the vendor's products or services, and are recognized as a reduction in the cost of inventories sold and the related inventory in the consolidated statements of earnings and the consolidated balance sheets, respectively, when it is probable that they will be received and the amount of the allowance can be reliably estimated. Amounts received but not yet earned are presented in other liabilities as deferred vendor allowances. Certain exceptions apply if the consideration is a payment for assets or services delivered to the vendor or for reimbursement of selling costs incurred to promote the vendor's products. The consideration is then recognized as a reduction of the cost incurred in the consolidated statements of earnings.

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

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

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

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

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

Buildings	10 to 40 years
Equipment and fixtures	2 to 16 years
Building improvements	up to 10 years
Leasehold improvements	Lesser of term of the lease and useful life up to 25 years
Assets held under financing leases	Lesser of term of the lease <sup>(i)</sup> and useful life <sup>(ii)</sup>

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

(ii) Same basis as owned assets.

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

## Notes to the Consolidated Financial Statements

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

**Investment Properties** Investment properties are properties owned by Loblaw that are held to either earn rental income, for capital appreciation, or both. Loblaw'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 Loblaw's operating activities.

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

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

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

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

**Intangible Assets** Intangible assets with finite lives are measured at cost less accumulated amortization and any accumulated impairment losses. These intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from three to 30 years, and are tested for impairment as described in the Impairment of Non-Financial Assets policy. Useful lives, residual values and amortization methods for intangible assets with finite useful lives are reviewed at least annually. Amortization expense for intangible assets is recognized in selling, general and administrative expenses ("SG&A")

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

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

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets. This grouping is referred to as a cash generating unit ("CGU"). Weston Foods' manufacturing assets are grouped together at the level of production categories which are capable of servicing their customers independently of other production categories. Loblaw has determined that each location is a separate CGU for purposes of impairment testing.

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

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

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

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

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

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

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

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

## Notes to the Consolidated Financial Statements

Certain non-financial derivative instruments that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements are exempt from financial instrument accounting requirements ("own use exemption"). No amounts are recorded in the consolidated financial statements related to these contracts until the associated non-financial items are received by the Company.

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

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

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

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

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

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

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

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

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

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

Gains and losses on fair value through profit or loss financial assets and financial liabilities are recognized in 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 are recorded in earnings before income taxes.

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

Type	Valuation Approach
Cash and Cash Equivalents, Short Term Investments, Security Deposits, Accounts Receivable, Credit Card Receivables, Bank Indebtedness, Trade Payables and Other Liabilities and Short Term Debt	The carrying amount approximates fair value due to the short term maturity of these instruments.
Franchise Loans Receivable	The carrying amount approximates fair value as fluctuations in the forward interest rates would not have significant impacts on the valuation and the provisions recorded for all impaired receivables.
Derivatives	Specific valuation techniques used to value derivative financial instruments include: <ul style="list-style-type: none"> <li>• Quoted market prices or dealer quotes for similar instruments;</li> <li>• Observable market information as well as valuations determined by external valuers with experience in the financial markets.</li> </ul>
Long Term Debt, Trust Unit Liability and certain Other Financial Instruments	The fair value is based on the present value of contractual cash flows, discounted at the Company's current incremental borrowing rate for similar types of borrowing arrangements or, where applicable, quoted market prices.

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

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

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

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

## Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



## Notes to the Consolidated Financial Statements

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

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

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

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

**Cash-Settled Share-Based Compensation Plans** Unit Options, Restricted Units, Performance Units and Trustee Deferred Units issued by Choice Properties and certain DSUs are accounted for as cash-settled awards.

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

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

### Accounting Standards Implemented in 2017

**Statement of Cash Flows** The Company implemented the amendments to International Accounting Standard ("IAS") 7, "Statement of Cash Flows", in the first quarter of 2017 and has provided disclosures on changes in liabilities arising from certain financing activities, including both cash and non-cash flows changes (see note 22). Comparative information has not been presented.

### Note 3. Critical Accounting Estimates and Judgments

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

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

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

### **Basis of Consolidation**

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

### **Inventories**

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

### **Impairment of non-financial assets (goodwill, intangible assets, fixed assets and investment properties)**

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

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

### **Impairment of Franchise loans receivable and certain other financial assets**

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

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

## Notes to the Consolidated Financial Statements

### Customer Loyalty Awards Programs

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

### Income and other taxes

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

### Provisions

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

### Note 4. Future Accounting Standards

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

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

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

The implementation of IFRS 15 will impact the allocation of revenue that is deferred in relation to Loblaw's customer loyalty award programs. Revenue is currently allocated to the customer loyalty awards using the

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

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

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

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

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

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

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

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

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

## Notes to the Consolidated Financial Statements

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

As a result of the change in valuation, the Company expects the adoption of IFRS 9 to result in a decrease in credit card receivables, increase in deferred income tax asset, with a corresponding decrease in retained earnings of up to approximately \$90 million, net of income taxes, as at January 1, 2018. PC Bank continues to revise, refine and validate the impairment model and related process controls, and assess the impact on Loblaw's consolidated financial statement.

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

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

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

The Company intends to adopt the standard on January 1, 2019 by applying the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at January 1, 2019 using the modified retrospective approach with no restatement of the comparative period. IFRS 16 permits the use of exemptions and practical expedients. The Company intends to measure the cumulative effect of initial application by applying the use of hindsight in the determination of the lease term if the contract contains options to extend or terminate a lease. In addition, the Company also intends to apply the following exemptions and practical expedients.

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

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

## Note 5. Business Acquisitions

**Consolidation of Franchises** Loblaw accounts for the consolidation of existing franchises as business acquisitions. During the year, Loblaw consolidated its franchises as of the date the franchisee entered into a new simplified franchise agreement with Loblaw. The assets acquired and liabilities assumed through the consolidation were valued at the acquisition date using fair values, which approximate the franchise carrying values at the date of acquisition. The results of operations of the acquired franchises were included in Loblaw's results of operations from the date of acquisition.

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

(\$ millions)	2017	2016
<b>Net assets acquired:</b>		
Cash and cash equivalents	\$ 26	\$ 42
Inventories	73	72
Fixed assets	81	76
Trade payables and other liabilities <sup>(i)</sup>	(43)	(67)
Other liabilities <sup>(i)</sup>	(132)	(107)
Non-controlling interests	(5)	(16)
<b>Total net assets acquired</b>	<b>\$ —</b>	<b>\$ —</b>

(i) On consolidation, trade payables and other liabilities and other liabilities eliminate against existing accounts receivable, franchise loans receivable and franchise investments held by Loblaw.

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

(\$ millions)		
<b>Net assets acquired:</b>		
Cash and cash equivalents		\$ 14
Accounts receivables and prepaid expenses		2
Fixed assets		2
Intangible assets		72
Goodwill		99
Trade payables and other liabilities		(3)
Deferred income tax liabilities		(14)
Other liabilities		(5)
<b>Total net assets acquired</b>		<b>\$ 167</b>

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

## Notes to the Consolidated Financial Statements

### Note 6. Net Interest Expense and Other Financing Charges

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

(\$ millions)	2017	2016
Interest expense:		
Long term debt	\$ 518	\$ 536
Borrowings related to credit card receivables	30	27
Trust Unit distributions	35	33
Independent funding trusts	16	15
Post-employment and other long term employee benefits (note 27)	11	12
Bank indebtedness	6	6
Capitalized interest (capitalization rate 3.5% (2016 – 3.6%)) (notes 14 & 16)	(2)	(4)
	\$ 614	\$ 625
Interest income:		
Accretion income	\$ (10)	\$ (15)
Short term interest income	(25)	(16)
Derivative financial instruments <sup>(ii)</sup>		(3)
	\$ (35)	\$ (34)
Forward sale agreement <sup>(i)</sup>	\$ (49)	\$ 30
Fair value adjustment of the Trust Unit liability (note 31)	\$ (7)	\$ 79
Net interest expense and other financing charges	\$ 523	\$ 700

- (i) Included a non-cash income of \$25 million (2016 – charge of \$53 million) related to the fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares (see note 31). The fair value adjustment of the forward sale agreement is non-cash and results from changes in the value of the underlying Loblaw common shares. At maturity, any cash paid under the forward sale agreement could be offset by the sale of the underlying Loblaw common shares. Also included is forward accretion income of \$42 million (2016 – \$40 million), and the forward fee of \$18 million (2016 – \$17 million), associated with the forward sale agreement.
- (ii) Represents a realized fair value gain of \$3 million related to Choice Properties bond forward agreements settled in 2016 (see note 31).

## Note 7. Income Taxes

The components of income taxes recognized in the consolidated statements of earnings were as follows:

(\$ millions)	2017	2016
<b>Current income taxes</b>		
Current period	\$ 679	\$ 600
Adjustment in respect of prior periods	8	4
<b>Deferred income taxes</b>		
Origination and reversal of temporary differences	(211)	(152)
Effect of change in income tax rates <sup>(i), (ii)</sup>	(36)	3
Adjustment in respect of prior periods	3	10
<b>Income taxes</b>	<b>\$ 443</b>	<b>\$ 465</b>

(i) In the fourth quarter of 2017, the U.S. government enacted a 14% decrease in the U.S. federal statutory corporate income tax rate from 35% to 21%. As a result, the Company recorded a recovery of \$19 million related to the remeasurement of its deferred tax liabilities.

(ii) In 2016, the Government of New Brunswick announced a 2.0% increase in the provincial statutory corporate income tax rate from 12.0% to 14.0%. Loblaw recorded a charge of \$3 million related to the remeasurement of its deferred tax liabilities in 2016.

Income tax expense recognized in other comprehensive income was as follows:

(\$ millions)	2017	2016
Net defined benefit plan actuarial (losses) gains (note 27)	\$ (8)	\$ 10
Total income tax (recoveries) recognized in Other comprehensive income	\$ (8)	\$ 10

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

	2017	2016
Weighted average basic Canadian federal and provincial statutory income tax rate	26.7%	27.0%
Net (decrease) increase resulting from:		
Effect of tax rate in foreign jurisdictions	(0.3)	
Impact of foreign currency translation	0.2	0.2
Non-taxable and non-deductible amounts	(3.5)	
Impact of fair value adjustment of Trust Unit liability	(0.1)	1.4
Impact of income tax rate changes on deferred income tax balances	(1.8)	0.2
Adjustments in respect of prior periods	0.7	1.0
Other	0.1	0.1
<b>Effective income tax rate applicable to earnings before income taxes</b>	<b>22.0%</b>	<b>29.9%</b>



## Notes to the Consolidated Financial Statements

Deferred income tax assets which were not recognized on the consolidated balance sheets were as follows:

(\$ millions)	As at	
	Dec. 31, 2017	Dec. 31, 2016
Deductible temporary differences	\$ 28	\$ 48
Income tax losses and credits	160	103
Unrecognized deferred income tax assets	\$ 188	\$ 151

The income tax losses and credits expire in the years 2026 to 2037. The deductible temporary differences do not expire under current income tax legislation. Deferred income tax assets were not recognized in respect of these items because it is not probable that future taxable income will be available to the Company to utilize the benefits.

Deferred income tax assets and liabilities recognized on the consolidated balance sheets were attributable to the following:

(\$ millions)	As at	
	Dec. 31, 2017	Dec. 31, 2016
Trade payables and other liabilities	\$ 69	\$ 63
Other liabilities	410	320
Fixed assets	(587)	(569)
Goodwill and intangible assets	(1,936)	(2,090)
Other assets	53	55
Non-capital losses carried forward (expiring 2030 to 2037)	133	94
Capital losses carried forward	21	24
Other	(67)	(66)
Net deferred income tax liabilities	\$ (1,904)	\$ (2,169)
Recorded on the consolidated balance sheets as follows:		
Deferred income tax assets	\$ 247	\$ 201
Deferred income tax liabilities	(2,151)	(2,370)
Net deferred income tax liabilities	\$ (1,904)	\$ (2,169)

## Note 8. Basic and Diluted Net Earnings per Common Share

(\$ millions except where otherwise indicated)	2017	2016
Net earnings attributable to shareholders of the Company	\$ 759	\$ 550
Prescribed dividends on preferred shares in share capital	(44)	(44)
Net earnings available to common shareholders of the Company	\$ 715	\$ 506
Reduction in net earnings due to dilution at Loblaw	(6)	(5)
Net earnings available to common shareholders for diluted earnings per share	\$ 709	\$ 501
Weighted average common shares outstanding (in millions) (note 24)	127.7	127.7
Dilutive effect of share-based compensation <sup>(i)</sup> (in millions)	0.6	0.6
Weighted average common shares outstanding <sup>(ii)</sup> (in millions)	128.3	128.3
Basic net earnings per common share (\$)	\$ 5.60	\$ 3.96
Diluted net earnings per common share (\$)	\$ 5.53	\$ 3.90

(i) Excluded from the computation of diluted net earnings per common share were 450,042 (2016 – 316,643) potentially dilutive instruments, as they were anti-dilutive.

(ii) Includes impact of dilutive instruments for purposes of calculating diluted net earnings per common share.

## Note 9. 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

(\$ millions)	As at	
	Dec. 31, 2017	Dec. 31, 2016
Cash	\$ 655	\$ 684
Cash equivalents:		
Bankers' acceptances	685	492
Government treasury bills	237	208
Corporate commercial paper	457	176
Cash and cash equivalents	\$ 2,034	\$ 1,560

### Short Term Investments

(\$ millions)	As at	
	Dec. 31, 2017	Dec. 31, 2016
Bankers' acceptances	\$ 341	\$ 306
Government treasury bills	297	341
Corporate commercial paper	442	324
Government agency securities	31	38
Other	2	2
Short term investments	\$ 1,113	\$ 1,011

## Notes to the Consolidated Financial Statements

### Security Deposits

(\$ millions)	As at	
	Dec. 31, 2017	Dec. 31, 2016
Cash	\$ 48	\$ 49
Government treasury bills	38	40
Security deposits	\$ 86	\$ 89

As at year end 2017, GWL and Loblaw had agreements to cash collateralize certain uncommitted credit facilities up to amounts of \$45 million (2016 – \$45 million) and \$102 million (2016 – \$103 million), respectively. As at year end 2017, GWL and Loblaw had \$45 million (2016 – \$45 million) and \$3 million (2016 – \$4 million) deposited with major financial institutions, respectively, and classified as security deposits on the consolidated balance sheets.

### Note 10. Accounts Receivable

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

(\$ millions)	As at				As at			
	Dec. 31, 2017				Dec. 31, 2016			
	0 - 90 days	> 90 days	> 180 days	Total	0 - 90 days	> 90 days	> 180 days	Total
Accounts receivable	\$ 1,224	\$ 45	\$ 55	\$ 1,324	\$ 1,165	\$ 42	\$ 77	\$ 1,284

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

(\$ millions)	2017	2016
Allowance, beginning of year	\$ (75)	\$ (106)
Net write-offs	18	31
Allowance, end of year	\$ (57)	\$ (75)

Credit risk associated with accounts receivable is discussed in note 32.

### Note 11. Credit Card Receivables

The components of credit card receivables were as follows:

(\$ millions)	As at	
	Dec. 31, 2017	Dec. 31, 2016
Gross credit card receivables	\$ 3,147	\$ 2,978
Allowance for credit card receivables	(47)	(52)
Credit card receivables	\$ 3,100	\$ 2,926
Securitized to independent securitization trusts:		
Securitized to <i>Eagle Credit Card Trust</i> <sup>®</sup> (note 22)	\$ 900	\$ 650
Securitized to Other Independent Securitization Trusts (note 21)	640	665
Total securitized to independent securitization trusts	\$ 1,540	\$ 1,315

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

Loblaw has arranged letters of credit on behalf of PC Bank for the benefit of the Independent Securitization Trusts (see note 34).

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

The following is an aging of gross credit card receivables:

(\$ millions)	As at				As at			
	Dec. 31, 2017				Dec. 31, 2016			
	Current	1-90 days past due	> 90 days past due	Total	Current	1-90 days past due	> 90 days past due	Total
Gross credit card receivables	\$ 2,951	\$ 169	\$ 27	\$ 3,147	\$ 2,791	\$ 156	\$ 31	\$ 2,978

The following are continuities of allowances for credit card receivables:

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

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

## Note 12. Inventories

The components of inventories were as follows:

(\$ millions)	As at	
	Dec. 31, 2017	Dec. 31, 2016
Raw materials and supplies	\$ 72	\$ 78
Finished goods	4,551	4,481
Inventories	\$ 4,623	\$ 4,559

As at year end 2017, inventories included a charge of \$39 million (2016 – \$29 million) recorded by Loblaw for the write-down of inventories below cost to net realizable value. The write-down was included in cost of inventories sold in the consolidated statements of earnings. There were no reversals of previously recorded write-downs of inventories during 2017 and 2016.

## Notes to the Consolidated Financial Statements

### Note 13. Assets Held for Sale and Disposition

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

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

### Note 14. Fixed Assets

The following is a continuity of the cost and accumulated depreciation and impairment losses of fixed assets for the year ended December 31, 2017:

(\$ millions)	Land	Buildings and Building Improvements	Equipment and fixtures	Leasehold improvements	Finance leases - land, buildings, equipment and fixtures	Assets under construction	Total
Cost, beginning of year	\$ 1,954	\$ 8,327	\$ 7,856	\$ 1,977	\$ 920	\$ 755	\$ 21,789
Additions	21	54	238	98	15	737	1,163
Disposals	(2)	(10)	(50)	(17)			(79)
Transfer to assets held for sale		(93)	(49)	(3)			(145)
Net transfer to investment properties (note 15)	1	5			2		8
Transfer from assets under construction	43	292	413	33		(781)	—
Business acquisitions			81	1			82
Impact of foreign currency translation	(1)	(15)	(37)			(6)	(59)
<b>Cost, end of year</b>	<b>\$ 2,016</b>	<b>\$ 8,560</b>	<b>\$ 8,452</b>	<b>\$ 2,089</b>	<b>\$ 937</b>	<b>\$ 705</b>	<b>\$ 22,759</b>
Accumulated depreciation and impairment losses, beginning of year		\$ 3,121	\$ 5,806	\$ 910	\$ 410	\$ 8	\$ 10,255
Depreciation		220	463	165	64		912
Impairment losses	\$ 1	17	18	21	18		75
Reversal of impairment losses		(8)	(2)	(2)			(12)
Disposals		(9)	(41)	(16)			(66)
Transfer to assets held for sale		(25)	(46)	(1)			(72)
Net transfer from investment properties (note 15)	1	2					3
Impact of foreign currency translation		(4)	(21)				(25)
<b>Accumulated depreciation and impairment losses, end of year</b>	<b>\$ 2</b>	<b>\$ 3,314</b>	<b>\$ 6,177</b>	<b>\$ 1,077</b>	<b>\$ 492</b>	<b>\$ 8</b>	<b>\$ 11,070</b>
<b>Carrying amount as at:</b>							
December 31, 2017	\$ 2,014	\$ 5,246	\$ 2,275	\$ 1,012	\$ 445	\$ 697	\$ 11,689

The following is a continuity of the cost and accumulated depreciation and impairment losses of fixed assets for the year ended December 31, 2016:

(\$ millions)	Land	Buildings and Building Improvements	Equipment and fixtures	Leasehold improvements	Finance leases - land, buildings, equipment and fixtures	Assets under construction	Total
Cost, beginning of year	\$ 1,906	\$ 8,056	\$ 7,469	\$ 1,878	\$ 884	\$ 777	\$ 20,970
Additions	7	49	209	78	35	782	1,160
Disposals	(1)	(28)	(215)	(29)		(10)	(283)
Net transfer to investment properties (note 15)	(27)	(77)				(8)	(112)
Transfer from assets under construction	69	331	333	48		(781)	—
Business acquisitions			76	2	1		79
Impact of foreign currency translation		(4)	(16)			(5)	(25)
Cost, end of year	\$ 1,954	\$ 8,327	\$ 7,856	\$ 1,977	\$ 920	\$ 755	\$ 21,789
Accumulated depreciation and impairment losses, beginning of year	\$ 3	\$ 2,958	\$ 5,550	\$ 758	\$ 339	\$ 10	\$ 9,618
Depreciation		212	450	162	67		891
Impairment losses		24	43	16	4		87
Reversal of impairment losses	(3)	(10)	(15)				(28)
Disposals		(22)	(210)	(26)		(2)	(260)
Net transfer to investment properties (note 15)		(39)					(39)
Impact of foreign currency translation		(2)	(12)				(14)
Accumulated depreciation and impairment losses, end of year	\$ —	\$ 3,121	\$ 5,806	\$ 910	\$ 410	\$ 8	\$ 10,255
Carrying amount as at:							
December 31, 2016	\$ 1,954	\$ 5,206	\$ 2,050	\$ 1,067	\$ 510	\$ 747	\$ 11,534

**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 year end 2017, the net carrying amount of leased land and buildings was \$424 million (2016 – \$468 million) and the net carrying amount of leased equipment and fixtures was \$21 million (2016 – \$42 million).

**Assets under Construction** The cost of additions to properties under construction for 2017 was \$737 million (2016 – \$782 million). Included in this amount were capitalized borrowing costs of \$2 million (2016 – \$4 million) with a weighted average capitalization rate of 3.5% (2016 – 3.6%) (see note 6).

**Security and Assets Pledged** As at year end 2017, Loblaw had fixed assets with a carrying amount of \$187 million (2016 – \$243 million) which were encumbered by mortgages of \$81 million (2016 – \$78 million) (see note 22).

**Fixed Asset Commitments** As at year end 2017, the Company had entered into commitments of \$201 million (2016 – \$167 million) for the construction, expansion and renovation of buildings and the purchase of real property.

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

## Notes to the Consolidated Financial Statements

In 2017, Loblaw recorded \$12 million (2016 – \$13 million) of impairment reversals on fixed assets in respect of seven CGUs (2016 – six CGUs) in its Retail segment. Impairment reversals are recorded where the recoverable amount of the retail location exceeds its carrying amount. Approximately 57% (2016 – 100%) of CGUs with impairment reversals had fair value less costs to sell which were \$6 million (2016 – \$13 million) greater than their carrying values. The remaining 43% (2016 – nil) of CGUs with impairment reversals had value in use which were \$5 million (2016 – nil) greater than their carrying values.

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

In 2017, Loblaw recorded \$7 million of impairment losses on its fixed assets relating to the announced closures of approximately 22 unprofitable retail locations across a range of banners and formats and \$3 million related to other restructuring plans. Additional impairment losses of \$5 million (2016 – \$13 million) were incurred related to store closures, renovations and conversions of retail locations. Impairment losses are recorded where the carrying amount of the retail location exceeds its recoverable amount.

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

### Note 15. Investment Properties

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

(\$ millions)	2017	2016
Cost, beginning of year	\$ 324	\$ 236
Additions	32	2
Disposals	(13)	(19)
Net transfer (to) from fixed assets (note 14)	(8)	112
Net transfer from (to) assets held for sale	3	(7)
<b>Cost, end of year</b>	<b>\$ 338</b>	<b>\$ 324</b>
Accumulated depreciation and impairment losses, beginning of year	\$ 106	\$ 76
Depreciation	3	2
Impairment losses	2	2
Reversal of impairment losses	(1)	
Disposals	(6)	(9)
Net transfer (to) from fixed assets (note 14)	(3)	39
Net transfer from (to) assets held for sale	2	(4)
<b>Accumulated depreciation and impairment losses, end of year</b>	<b>\$ 103</b>	<b>\$ 106</b>

(\$ millions)	As at	
	Dec. 31, 2017	Dec. 31, 2016
Carrying amount	\$ 235	\$ 218
Fair value	\$ 276	\$ 261

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

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

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



## Notes to the Consolidated Financial Statements

### Note 16. Intangible Assets

The following is a continuity of the cost and accumulated amortization and impairment losses of intangible assets for the year ended December 31, 2017:

(\$ millions)	Indefinite life intangible assets	Definite life internally generated intangible assets	Definite life trademarks and brand names	Software	Other definite life intangible assets	Total
Cost, beginning of year	\$ 3,475	\$ 20	\$ 25	\$ 2,180	\$ 6,125	\$ 11,825
Additions	10			279	8	297
Business acquisitions					27	27
Disposal			(5)			(5)
Write-off cost of fully amortized assets					(6)	(6)
Impact of foreign currency translation				(1)	(7)	(8)
<b>Cost, end of year</b>	<b>\$ 3,485</b>	<b>\$ 20</b>	<b>\$ 20</b>	<b>\$ 2,458</b>	<b>\$ 6,147</b>	<b>\$ 12,130</b>
Accumulated amortization and impairment losses, beginning of year		\$ 20	\$ 8	\$ 1,300	\$ 1,622	\$ 2,950
Amortization			1	247	532	780
Impairment losses				29	11	40
Write-off amortization of fully amortized assets					(6)	(6)
Impact of foreign currency translation					(2)	(2)
<b>Accumulated amortization and impairment losses, end of year</b>	<b>\$ —</b>	<b>\$ 20</b>	<b>\$ 9</b>	<b>\$ 1,576</b>	<b>\$ 2,157</b>	<b>\$ 3,762</b>
<b>Carrying amount as at:</b>						
December 31, 2017	\$ 3,485	\$ —	\$ 11	\$ 882	\$ 3,990	\$ 8,368

The following is a continuity of the cost and accumulated amortization and impairment losses of intangible assets for the year ended December 31, 2016:

(\$ millions)	Indefinite life intangible assets	Definite life internally generated intangible assets	Definite life trademarks and brand names	Software	Other definite life intangible assets	Total
Cost, beginning of year	\$ 3,461	\$ 20	\$ 25	\$ 1,852	\$ 6,044	\$ 11,402
Additions	14			312	10	336
Business acquisitions				18	74	92
Disposal				(2)	(3)	(5)
Cost, end of year	\$ 3,475	\$ 20	\$ 25	\$ 2,180	\$ 6,125	\$ 11,825
Accumulated amortization and impairment losses, beginning of year		\$ 20	\$ 7	\$ 1,070	\$ 1,013	\$ 2,110
Amortization			1	229	539	769
Disposal				(2)	(1)	(3)
Impairment losses				3	73	76
Impact of foreign currency translation					(2)	(2)
Accumulated amortization and impairment losses, end of year	\$ —	\$ 20	\$ 8	\$ 1,300	\$ 1,622	\$ 2,950
<b>Carrying amount as at:</b>						
December 31, 2016	\$ 3,475	\$ —	\$ 17	\$ 880	\$ 4,503	\$ 8,875

**Indefinite Life Intangible Assets** Indefinite life intangible assets recorded by Loblaw are comprised of brand names, trademarks, import purchase quotas and certain liquor licenses. The brand names and trademarks are a

result of Loblaw's acquisition of Shoppers Drug Mart and T&T Supermarket Inc. Loblaw expects to renew the registration of the brand names, trademarks, import purchase quotas and liquor licenses at each expiry date indefinitely, and expects these assets to generate economic benefit in perpetuity. As such, Loblaw assessed these intangibles to have indefinite useful lives.

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

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

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

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

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

## Notes to the Consolidated Financial Statements

### Note 17. Goodwill

The following are continuities of the cost and accumulated amortization and impairment losses of goodwill:

(\$ millions)	2017	2016
Cost, beginning of year	\$ 5,431	\$ 5,316
Business acquisitions (note 5)	27	120
Impact of foreign currency translation	(14)	(5)
<b>Cost, end of year</b>	<b>\$ 5,444</b>	<b>\$ 5,431</b>
Accumulated amortization and impairment losses, beginning of year	\$ 1,067	\$ 1,062
Impairment loss		5
<b>Accumulated amortization and impairment losses, end of year</b>	<b>\$ 1,067</b>	<b>\$ 1,067</b>
<b>Carrying amount as at:</b>		
December 31	<b>\$ 4,377</b>	<b>\$ 4,364</b>

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

(\$ millions)	As at	
	Dec. 31, 2017	Dec. 31, 2016
Weston Foods	\$ 295	\$ 309
Shoppers Drug Mart	2,952	2,925
Market	375	375
Discount	459	459
T&T Supermarket Inc.	129	129
Other	167	167
Carrying amount of goodwill	<b>\$ 4,377</b>	<b>\$ 4,364</b>

The Company completed its annual impairment tests for goodwill and concluded that there was no impairment.

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

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

Cash flow projections were discounted using a rate derived from the Company's after-tax weighted average cost of capital. As at year end 2017, the after-tax discount rate used in the recoverable amount calculations was 7.1% (2016 – 7.0%). The pre-tax discount rate was 9.7% (2016 – 9.6%).

The Company included a minimum of three years of cash flows in its discounted cash flow model. The cash flow forecasts were extrapolated beyond the three year period using an estimated long term growth rate of 2.0% (2016 – 2.0%). The budgeted adjusted EBITDA<sup>(1)</sup> growth was based on the strategic plans approved by GWL's and Loblaw's Boards.

## Note 18. Other Assets

The components of other assets were as follows:

(\$ millions)	As at	
	Dec. 31, 2017	Dec. 31, 2016
Fair value of equity forward (note 31)	\$ 435	\$ 368
Sundry investments and other receivables	56	79
Net accrued benefit plan asset (note 27)	154	200
Other	223	204
Other assets	\$ 868	\$ 851

## Note 19. Customer Loyalty Awards Program Liability

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

(\$ millions)	Dec. 31, 2017	Dec. 31, 2016
Loyalty liability	\$ 413	\$ 229

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

## Notes to the Consolidated Financial Statements

### Note 20. Provisions

Provisions consist primarily of amounts recorded in respect of restructuring, self-insurance, environmental and decommissioning liabilities, onerous lease arrangements, legal claims, the Loblaw Card Program and a MEPP withdrawal liability.

The following are continuities of provisions for the years ended December 31, 2017 and December 31, 2016:

(\$ millions)	2017	2016
Provisions, beginning of year	\$ 281	\$ 337
Additions	379	136
Payments	(112)	(165)
Reversals	(29)	(23)
Impact of foreign currency translation	(4)	(4)
Provisions, end of year	\$ 515	\$ 281

(\$ millions)	As at	
	Dec. 31, 2017	Dec. 31, 2016
Carrying amount of provisions recorded in:		
Current provisions	\$ 325	\$ 135
Non-current provisions	190	146
Provisions	\$ 515	\$ 281

The Company's accrued insurance liabilities were \$84 million (2016 – \$88 million), of which \$48 million (2016 – \$49 million) was included in non-current provisions and \$36 million (2016 – \$39 million) in current provisions. Included in total accrued insurance liabilities were \$22 million (2016 – \$27 million) of U.S. workers' compensation liabilities. The related cost and accrued workers' compensation liabilities are based on actuarial valuations which are dependent on assumptions determined by management. The discount rate used in determining the 2017 U.S. workers' compensation cost and liability was 2.0% (2016 – 2.0%). The total workers' compensation liability is equal to the ultimate actuarial loss estimate less any actual losses paid to date. Any change in the workers' compensation liability is recognized immediately in operating income.

In 2017, the U.S. workers' compensation cost associated with the worker's compensation liabilities was \$6 million (2016 – \$6 million).

**Competition Bureau Investigation** On December 19, 2017, the Company and Loblaw announced actions taken to address their role in an industry-wide price-fixing arrangement involving certain packaged bread products. The arrangement involved the coordination of retail and wholesale prices of certain packaged bread products over a period extending from late 2001 to March 2015. Under the arrangement, the participants regularly increased prices on a coordinated basis. In connection with the arrangements, Loblaw has announced the Loblaw Card Program pursuant to which Loblaw is offering a \$25 Loblaw Card to eligible customers. The Loblaw Card can be used to purchase items sold in Loblaw grocery stores across Canada. Loblaw recorded a charge of \$107 million in relation to the Loblaw Card Program in 2017 (see note 33).

**Restructuring and other charges** In 2017, Weston Foods recorded restructuring and other charges of \$48 million (2016 – \$17 million). In 2017, the restructuring charges were primarily related to the previously announced closure of an unprofitable facility in the U.S., which is expected to be completed in the first quarter of 2018, and reorganization costs related to the transformation program. These charges included severance and exit costs of \$29 million, accelerated depreciation of \$10 million, and impairment of a definite life intangible asset of \$9 million.

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

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

#### Note 21. Short Term Debt

The components of short term debt were as follows:

(\$ millions)	As at	
	Dec. 31, 2017	Dec. 31, 2016
Other Independent Securitization Trusts (note 11)	\$ 640	\$ 665
Series B Debentures <sup>(i)</sup>	618	576
Short term debt	\$ 1,258	\$ 1,241

(i) Series B Debentures issued by GWL are due on demand, and pay a current weighted average interest rate of 1.59% (2016 – 1.38%). The Series A, 7.00% (see note 22) and Series B Debentures are secured by a pledge of 9.6 million Loblaw common shares.

**Other Independent Securitization Trusts** The outstanding short term debt balances relate to credit card receivables securitized to the Other Independent Securitization Trusts with recourse (see note 11).

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

The undrawn commitments on facilities available from the Other Independent Securitization Trusts as at year end 2017 were \$160 million (2016 – \$210 million).

## Notes to the Consolidated Financial Statements

### Note 22. Long Term Debt

The components of long term debt were as follows:

(\$ millions)	As at	
	Dec. 31, 2017	Dec. 31, 2016
Loblaw Unsecured Term Loan Facility		
1.13% + Bankers' Acceptance, due 2019	\$ 250	\$ 250
1.45% + Bankers' Acceptance, due 2019	48	48
Medium Term Notes and Debentures		
George Weston Limited Notes		
Series A, 7.00%, due 2031 <sup>(i)</sup>	466	466
4.12%, due 2024	200	200
7.10%, due 2032	150	150
6.69%, due 2033	100	100
Loblaw Companies Limited Notes		
3.75%, due 2019	800	800
5.22%, due 2020	350	350
4.86%, due 2023	800	800
6.65%, due 2027	100	100
6.45%, due 2028	200	200
6.50%, due 2029	175	175
11.40%, due 2031		
Principal	151	151
Effect of coupon repurchase	(19)	(33)
6.85%, due 2032	200	200
6.54%, due 2033	200	200
8.75%, due 2033	200	200
6.05%, due 2034	200	200
6.15%, due 2035	200	200
5.90%, due 2036	300	300
6.45%, due 2039	200	200
7.00%, due 2040	150	150
5.86%, due 2043	55	55
Shoppers Drug Mart Notes		
2.36%, due 2018	275	275
Choice Properties Debentures		
Series A 3.55%, due 2018	400	400
Series B 4.90%, due 2023	200	200
Series C 3.50%, due 2021	250	250
Series D 4.29%, due 2024	200	200
Series E 2.30%, due 2020	250	250
Series F 4.06%, due 2025	200	200
Series G 3.20%, due 2023	250	250
Series H 5.27%, due 2046	100	100
Series 6 3.00%, due 2017		200
Series 7 3.00%, due 2019	200	200
Series 8 3.60%, due 2020	300	300
Series 9 3.60%, due 2021	200	200
Series 10 3.60%, due 2022	300	300
Long Term Debt Secured by Mortgage		
2.47% - 5.49%, due 2018 - 2029 (note 14)	81	78
Guaranteed Investment Certificates		
0.85% - 3.25%, due 2018 - 2021	852	928
Independent Securitization Trust (note 11)		
2.91%, due 2018	400	400
2.23%, due 2020	250	250
2.71%, due 2022	250	
Independent Funding Trusts	551	587
Finance Lease Obligations (note 30)	568	607
Choice Properties Credit Facilities	561	172
Transaction costs and other	(22)	(24)
<b>Total long term debt</b>	<b>\$ 12,092</b>	<b>\$ 11,785</b>
Less amount due within one year	1,635	400
<b>Long term debt</b>	<b>\$ 10,457</b>	<b>\$ 11,385</b>

(i) The Series A, 7.00% and Series B Debentures (see note 21) are secured by a pledge of 9.6 million Loblaw common shares.

Significant long term debt transactions are described below:

**Debentures and Medium Term Notes (“MTNs”)** The following table summarizes the debentures and MTNs issued in the years ended as indicated:

(\$ millions except where otherwise indicated)	Interest Rate	Maturity Date	2017	2016
			Principal Amount	Principal Amount
Choice Properties senior unsecured debentures				
– Series G	3.20%	March 7, 2023		\$ 250
– Series H	5.27%	March 7, 2046		100
Total debentures issued			\$ —	\$ 350

No debentures and MTNs were issued in 2017. Subsequent to the end of 2017, Choice Properties issued two series of senior unsecured debentures: \$300 million Series I senior unsecured debentures due March 21, 2022, which bear interest at a rate of 3.01% per annum; and \$350 million Series J senior unsecured debentures due January 10, 2025, which bear interest at a rate of 3.55% per annum.

The following table summarizes the debentures and MTNs repaid in the years ended as indicated:

(\$ millions except where otherwise indicated)	Interest Rate	Maturity Date	2017	2016
			Principal Amount	Principal Amount
George Weston Limited notes	3.78%	October 25, 2016		\$ 350
Loblaw Companies Limited notes	7.10%	June 1, 2016		300
Shoppers Drug Mart notes	2.01%	May 24, 2016		225
Choice Properties senior unsecured debentures				
– Series 6	3.00%	April 20, 2017 <sup>(i)</sup>	\$ 200	
– Series 5	3.00%	April 20, 2016 <sup>(ii)</sup>		300
Total debentures and MTNs repaid			\$ 200	\$ 1,175

(i) Redeemed on January 23, 2017.

(ii) Redeemed on March 7, 2016.

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

**Guaranteed Investment Certificates (“GICs”)** The following table summarizes PC Bank’s GIC activity, before commissions, for the years ended as follows:

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



## Notes to the Consolidated Financial Statements

**Independent Securitization Trust** The notes issued by *Eagle* are MTNs, which are collateralized by PC Bank's credit card receivables (see note 11). Loblaw has arranged letters of credit for the benefit of *Eagle* notes issued prior to 2015 and outstanding as at year end 2017 (see note 34).

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

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

**Committed Credit Facilities** The components of the committed lines of credit available as at year end 2017 and 2016 were as follows:

(\$ millions)	Maturity Date	As at			
		Dec. 31, 2017		Dec. 31, 2016	
		Available Credit	Drawn	Available Credit	Drawn
Loblaw's committed credit facility	June 10, 2021	\$ 1,000		\$ 1,000	
Choice Properties' committed syndicated credit facility	July 5, 2022 <sup>(i)</sup>	500	\$ 311	500	\$ 172
Choice Properties' committed bi-lateral credit facility	December 21, 2018	250	250	250	
<b>Total committed credit facilities</b>		<b>\$ 1,750</b>	<b>\$ 561</b>	<b>\$ 1,750</b>	<b>\$ 172</b>

<sup>(i)</sup> Choice Properties' committed syndicated credit facility was extended for an additional year from July 5, 2021 to July 5, 2022.

Subsequent to the end of 2017, Choice Properties repaid and cancelled the committed bi-lateral credit facility.

These facilities contain certain financial covenants (see note 26).

**Long Term Debt due Within One Year** The components of long term debt due within one year were as follows:

(\$ millions)	As at	
	Dec. 31, 2017	Dec. 31, 2016
Choice Properties debenture	\$ 400	\$ 200
Shoppers Drug Mart MTN	275	
GICs	193	142
Independent Securitization Trust	400	
Finance lease obligations	44	53
Long term debt secured by mortgage	73	5
Choice Properties Credit Facility	250	
<b>Long term debt due within one year</b>	<b>\$ 1,635</b>	<b>\$ 400</b>

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

(\$ millions)	As at	
	Dec. 31, 2017	
2018	\$	1,635
2019		2,150
2020		1,380
2021		658
2022		930
Thereafter		5,380
Long Term Debt (excludes transaction costs and effect of coupon repurchases)	\$	12,133

See note 31 for the fair value of long term debt.

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

(\$ millions)	2017	
Total long term debt, beginning of period	\$	11,785
Long term debt issuances <sup>(i)</sup>		686
Long term debt repayments <sup>(ii)</sup>		(450)
Total cash flow from long term debt financing activities		236
Finance lease additions		16
Other non-cash changes		55
Total non-cash long term debt activities		71
Total long term debt, end of period	\$	12,092

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

(ii) Includes repayment on finance lease obligations of \$94 million.

### Note 23. Other Liabilities

The components of other liabilities were as follows:

(\$ millions)	As at	
	Dec. 31, 2017	Dec. 31, 2016
Net defined benefit plan obligation (note 27)	\$ 380	\$ 381
Other long term employee benefit obligation	115	116
Deferred lease obligation	140	119
Fair value of acquired leases	65	77
Share-based compensation liability (note 28)	4	4
Other	58	92
Other liabilities	\$ 762	\$ 789

## Notes to the Consolidated Financial Statements

### Note 24. Share Capital

The components of share capital were as follows:

(\$ millions)	As at	
	Dec. 31, 2017	Dec. 31, 2016
Common share capital	\$ 221	\$ 195
Preferred shares, Series I	228	228
Preferred shares, Series III	196	196
Preferred shares, Series IV	197	197
Preferred shares, Series V	196	196
Share capital	\$ 1,038	\$ 1,012

**Common Share Capital (authorized – unlimited)** Common shares issued are fully paid and have no par value. The following table summarizes the activity in the Company's common shares issued and outstanding for the years ended December 31, 2017 and December 31, 2016:

(\$ millions except where otherwise indicated)	2017		2016	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of year	127,898,582	\$ 195	127,911,661	\$ 191
Issued for settlement of stock options (note 28)	293,976	26	54,921	4
Purchased and cancelled	(286,977)		(68,000)	
Issued and outstanding, end of year	127,905,581	\$ 221	127,898,582	\$ 195
Shares held in trusts, beginning of year	(266,999)		(272,031)	
Purchased for future settlement of RSUs and PSUs	(70,198)		(102,006)	
Released for settlement of RSUs and PSUs (note 28)	108,394		107,038	
Shares held in trusts, end of year	(228,803)		(266,999)	
Issued and outstanding, net of shares held in trusts, end of year	127,676,778	\$ 221	127,631,583	\$ 195
Weighted average outstanding, net of shares held in trusts	127,692,789		127,668,839	

**Preferred Shares, Series I (authorized – 10.0 million)** GWL has 9.4 million 5.80% non-voting Preferred Shares, Series I outstanding, with a face value of \$235 million, which entitle the holder to a fixed cumulative preferred cash dividend of \$1.45 per share per annum which will, if declared, be payable quarterly. GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares at \$25.00 per share, together with all accrued and unpaid dividends to the redemption date.

At any time after issuance, GWL may, at its option, give the holders of these preferred shares the right, at the option of the holder, to convert their preferred shares into preferred shares of a further series designated by GWL on a share-for-share basis on a date specified by GWL.

**Preferred Shares, Series III (authorized – 10.0 million)** GWL has 8.0 million 5.20% non-voting Preferred Shares, Series III outstanding, with a face value of \$200 million, which entitle the holder to a fixed cumulative preferred cash dividend of \$1.30 per share per annum which will, if declared, be payable quarterly. GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares at \$25.00 per share, together with all accrued and unpaid dividends to the redemption date.

At any time after issuance, GWL may, at its option, give the holders of these preferred shares the right, at the option of the holder, to convert their preferred shares into preferred shares of a further series designated by GWL on a share-for-share basis on a date specified by GWL.

**Preferred Shares, Series IV (authorized – 8.0 million)** GWL has 8.0 million 5.20% non-voting Preferred Shares, Series IV outstanding, with a face value of \$200 million, which entitle the holder to a fixed cumulative preferred cash dividend of \$1.30 per share per annum which will, if declared, be payable quarterly. GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares at \$25.00 per share, together with all accrued and unpaid dividends to the redemption date.

At any time after issuance, GWL may, at its option, give the holders of these preferred shares the right, at the option of the holder, to convert their preferred shares into preferred shares of a further series designated by GWL on a share-for-share basis on a date specified by GWL.

**Preferred Shares, Series V (authorized – 8.0 million)** GWL has 8.0 million 4.75% non-voting Preferred Shares, Series V outstanding, with a face value of \$200 million, which entitle the holder to a fixed cumulative preferred cash dividend of \$1.1875 per share per annum which will, if declared, be payable quarterly. GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares at \$25.00 per share, together with all accrued and unpaid dividends to the redemption date.

At any time after issuance, GWL may, at its option, give the holders of these preferred shares the right, at the option of the holder, to convert their preferred shares into preferred shares of a further series designated by GWL on a share-for-share basis on a date specified by GWL.

**Dividends** The declaration and payment of dividends on the Company's common shares and the amount thereof are at the discretion of the Company's Board which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time. Over time, it is the Company's intention to increase the amount of the dividend while retaining appropriate free cash flow to finance future growth. In the second quarter of 2017 and 2016, the Board raised the quarterly common share dividend by \$0.015 to \$0.455 and \$0.44 per share, respectively. The Board declared dividends as follows:

(\$)	2017	2016
Dividends declared per share <sup>(i)</sup> :		
Common share	\$ 1.805	\$ 1.745
Preferred share:		
Series I	\$ 1.45	\$ 1.45
Series III	\$ 1.30	\$ 1.30
Series IV	\$ 1.30	\$ 1.30
Series V	\$ 1.1875	\$ 1.1875

(i) Dividends declared on common shares and Preferred Shares, Series III, Series IV and Series V were payable on January 1, 2018 and subsequently paid on January 2, 2018. Dividends declared on Preferred Shares, Series I were paid on December 15, 2017.

## Notes to the Consolidated Financial Statements

The following table summarizes the Company's cash dividends declared subsequent to year end 2017:

(\$)			
Dividends declared per share <sup>(i)</sup>	– Common share	\$	<b>0.455</b>
	– Preferred share:		
	Series I	\$	<b>0.3625</b>
	Series III	\$	<b>0.3250</b>
	Series IV	\$	<b>0.3250</b>
	Series V	\$	<b>0.296875</b>

(i) Dividends declared on common shares and Preferred Shares, Series III, Series IV and Series V are payable on April 1, 2018. Dividends declared on Preferred Shares, Series I are payable on March 15, 2018.

**Normal Course Issuer Bid (“NCIB”) Program** The following table summarizes the Company's activity under its NCIB program:

(\$ millions except where otherwise indicated)	2017	2016
Purchased for future settlement of RSUs and PSUs (number of shares)	<b>70,198</b>	102,006
Purchased and cancelled (number of shares)	<b>286,977</b>	68,000
Cash consideration paid		
Purchased and held in trusts	\$ (7)	\$ (11)
Purchased and cancelled	\$ (31)	\$ (8)
Premium charged to retained earnings	\$ 38	\$ 19

There was a nominal reduction in share capital in 2017 and 2016, as a result of the Company's activity under its NCIB program.

In the second quarter of 2017, GWL renewed its NCIB program to purchase on the Toronto Stock Exchange (“TSX”) or through alternative trading systems up to 6,395,185 of its common shares, representing approximately 5% of the common shares outstanding. In accordance with the rules and regulations of the TSX, any purchases must be at the then market price of such shares.

## Note 25. Loblaw Capital Transactions

**Loblaw Preferred Shares** As at year end 2017, the Second Preferred Shares, Series B in the amount of \$221 million net of \$4 million of after-tax issuance costs, and related cash dividends, were presented as a component of non-controlling interests in the Company's consolidated balance sheet. In 2017, Loblaw declared dividends of \$12 million (2016 – \$12 million) related to the Second Preferred Shares, Series B.

**Loblaw Common Shares** The following table summarizes Loblaw's common share activity under its share-based compensation arrangements and NCIB program, and includes the impact on the Company's consolidated financial statements for the years ended as follows:

(\$ millions except where otherwise indicated)	2017	2016
Issued (number of shares)	2,030,292	1,919,776
Purchased and held in trusts (number of shares)	(686,000)	(1,250,000)
Purchased and cancelled <sup>(i)</sup> (number of shares)	(15,555,539)	(10,287,300)
	(14,211,247)	(9,617,524)
Cash consideration received (paid)		
Share-based compensation	\$ 41	\$ 42
Purchased and held in trusts	(48)	(90)
Purchased and cancelled	(1,091)	(708)
	\$ (1,098)	\$ (756)
Increase (decrease) in contributed surplus		
Share-based compensation	\$ 14	\$ 10
Purchased and held in trusts	(12)	(23)
Purchased and cancelled	(277)	(178)
	\$ (275)	\$ (191)

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

## Note 26. Capital Management

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

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

## Notes to the Consolidated Financial Statements

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

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

(\$ millions)	As at	
	Dec. 31, 2017	Dec. 31, 2016
Bank indebtedness	\$ 110	\$ 115
Short term debt	1,258	1,241
Long term debt due within one year	1,635	400
Long term debt	10,457	11,385
Certain other liabilities	41	31
Fair value of financial derivatives related to the above debt	(435)	(368)
Total debt	\$ 13,066	\$ 12,804
Equity attributable to shareholders of the Company	7,894	7,764
Total capital under management	\$ 20,960	\$ 20,568

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

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

Subsequent to the end of 2017, Choice Properties filed a Short Form Base Shelf Prospectus, which allows for the potential issuance of up to \$2 billion of Units and debt securities, or any combination thereof, over a 25-month period. Under this Prospectus, Choice Properties issued \$650 million of senior unsecured debentures (note 22).

Subsequent to the end of 2017, GWL filed a Base Shelf Prospectus allowing for the issuance of up to \$1 billion of senior and subordinated debt securities, and preferred shares, or any combination thereof over a 25-month period.

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

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

Loblaw is subject to externally imposed capital requirements from the Office of the Superintendent of Financial Institutions ("OSFI"), the primary regulator of PC Bank. PC Bank's capital management objectives are to maintain a consistently strong capital position while considering the economic risks generated by its credit card receivables portfolio and to meet all regulatory capital requirements as defined by OSFI. PC Bank uses Basel III as its regulatory capital management framework, which includes a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6.0% and a total capital ratio of 8.0%. In addition to the regulatory capital ratios requirement, PC Bank is subject to the Basel III Leverage ratio. PC Bank is also subject to the OSFI's Guideline on

Liquidity Adequacy Requirements (“LARs”). The LARs guideline establishes standards based on the Basel III framework, including a Liquidity Coverage Ratio (“LCR”). As at year end 2017 and throughout the year, PC Bank has met all applicable regulatory requirements.

In addition, the Company has wholly-owned subsidiaries that engage in insurance related activities. These subsidiaries each exceeded their minimum regulatory capital and surplus requirements as at year end 2017.

#### **Note 27. Post-Employment and Other Long Term Employee Benefits**

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

GWL’s and Loblaw’s Pension Committees (“the Committees”) oversee the Company’s pension plans. The Committees are responsible for assisting GWL’s and Loblaw’s Boards in fulfilling their general oversight responsibilities for the plans. The Committees assist the Boards with oversight of management’s administration of the plans, pension investment and monitoring responsibilities, and compliance with legal and regulatory requirements.

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

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

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

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

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

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



## Notes to the Consolidated Financial Statements

**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			
	Dec. 31, 2017		Dec. 31, 2016	
(\$ millions)	Defined Benefit Pension Plans	Other Defined Benefit Plans	Defined Benefit Pension Plans	Other Defined Benefit Plans
Present value of funded obligations	\$ (1,870)		\$ (1,892)	
Present value of unfunded obligations	(197)	\$ (158)	(185)	\$ (176)
Total present value of defined benefit obligations	\$ (2,067)	\$ (158)	\$ (2,077)	\$ (176)
Fair value of plan assets	2,023		2,099	
Total funded status of (obligations) surpluses	\$ (44)	\$ (158)	\$ 22	\$ (176)
Assets not recognized due to asset ceiling	(24)		(27)	
<b>Total net defined benefit plan obligations</b>	<b>\$ (68)</b>	<b>\$ (158)</b>	<b>\$ (5)</b>	<b>\$ (176)</b>
<b>Recorded on the consolidated balance sheets as follows:</b>				
Other assets (note 18)	\$ 154		\$ 200	
Other liabilities (note 23)	\$ (222)	\$ (158)	\$ (205)	\$ (176)

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

(\$ millions)	2017			2016		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
<b>Changes in the fair value of plan assets</b>						
Fair value, beginning of year	\$ 2,099		\$ 2,099	\$ 2,485		\$ 2,485
Employer contributions	57		57	35		35
Employee contributions	4		4	4		4
Benefits paid	(79)		(79)	(108)		(108)
Interest income	82		82	97		97
Actuarial gains in other comprehensive income	149		149	8		8
Settlements <sup>(i)</sup>	(285)		(285)	(414)		(414)
Other <sup>(ii)</sup>	(4)		(4)	(8)		(8)
Fair value, end of year	\$ 2,023	\$ —	\$ 2,023	\$ 2,099	\$ —	\$ 2,099
<b>Changes in the present value of the defined benefit plan obligations</b>						
Balance, beginning of year	\$ 2,077	\$ 176	\$ 2,253	\$ 2,465	\$ 166	\$ 2,631
Current service cost	59	6	65	63	5	68
Interest cost	84	6	90	99	7	106
Benefits paid	(89)	(7)	(96)	(119)	(7)	(126)
Employee contributions	4		4	4		4
Actuarial losses (gains) in other comprehensive income	203	(23)	180	(44)	5	(39)
Settlements <sup>(i)</sup>	(271)		(271)	(388)		(388)
Other <sup>(ii)</sup>			—	(3)		(3)
Balance, end of year	\$ 2,067	\$ 158	\$ 2,225	\$ 2,077	\$ 176	\$ 2,253

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

(ii) Includes foreign exchange impact on U.S. defined benefit pension plans.

In 2017, the Company completed several annuity purchases with respect to former employees. In 2016, the Company also completed several annuity purchases and pension buy-outs with respect to former employees. These activities are designed to reduce the Company's defined benefit pension plan obligations and decrease future risks and volatility associated with these obligations. The Company paid \$285 million (2016 – \$414 million) from the impacted plans' assets to settle \$271 million (2016 – \$388 million) of pension obligations and recorded settlement charges of \$14 million (2016 – \$26 million) in SG&A. The settlement charges resulted from the difference between the amount paid for the annuity purchases and pension buy-outs and the value of the Company's defined benefit plan obligations related to these annuity purchases and buy-outs at the time of the settlement.

For the year ended 2017, the actual return on plan assets was \$231 million (2016 – \$105 million).

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

- Active plan participants – 55% (2016 – 47%)
- Deferred plan participants – 10% (2016 – 10%)
- Retirees – 35% (2016 – 43%)

## Notes to the Consolidated Financial Statements

During 2018, the Company expects to contribute approximately \$58 million (2017 – contributed \$57 million) to its registered defined benefit pension plans. The actual amount paid may vary from the estimate based on actuarial valuations being completed, investment performance, volatility in discount rates, regulatory requirements and other factors.

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

(\$ millions)	2017			2016		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Current service cost	\$ 59	\$ 6	\$ 65	\$ 63	\$ 5	\$ 68
Interest cost on net defined benefit plan obligations	2	6	8	2	7	9
Settlement charges <sup>(i)</sup>	14		14	26		26
Other	4		4	5		5
<b>Net post-employment defined benefit costs</b>	<b>\$ 79</b>	<b>\$ 12</b>	<b>\$ 91</b>	<b>\$ 96</b>	<b>\$ 12</b>	<b>\$ 108</b>

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

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

(\$ millions)	2017			2016		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Return on plan assets excluding amounts included in interest income	\$ (149)		\$ (149)	\$ (8)		\$ (8)
Experience adjustments	29	\$ (28)	1	(10)		(10)
Actuarial gains from change in demographic assumptions			—	(1)		(1)
Actuarial losses (gains) from change in financial assumptions	174	5	179	(33)	5	(28)
Change in liability arising from asset ceiling	(3)		(3)	9		9
Total net actuarial losses (gains) recognized in other comprehensive income before income taxes	\$ 51	\$ (23)	\$ 28	\$ (43)	\$ 5	\$ (38)
Income tax (recoveries) expenses on actuarial losses (gains) (note 7)	(14)	6	(8)	11	(1)	10
Actuarial losses (gains) net of income tax (recoveries) expenses	\$ 37	\$ (17)	\$ 20	\$ (32)	\$ 4	\$ (28)

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

(\$ millions)	2017			2016		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Cumulative amount, beginning of year	\$ 14	\$ (52)	\$ (38)	\$ 57	\$ (57)	\$ —
Net actuarial losses (gains) recognized in the year before income taxes	51	(23)	28	(43)	5	(38)
Cumulative amount, end of year	\$ 65	\$ (75)	\$ (10)	\$ 14	\$ (52)	\$ (38)

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

(\$ millions except where otherwise indicated)	As at		As at	
	Dec. 31, 2017		Dec. 31, 2016	
<b>Equity securities</b>				
Canadian – pooled funds	\$ 83	4%	\$ 92	4%
Foreign – pooled funds	749	37%	804	38%
<b>Total equity securities</b>	\$ 832	41%	\$ 896	42%
<b>Debt securities</b>				
Fixed income securities – government	\$ 466	23%	\$ 475	23%
– corporate	140	7%	145	7%
Fixed income pooled funds <sup>(i)</sup> – government	433	21%	439	21%
– corporate	11	1%	23	1%
<b>Total debt securities</b>	\$ 1,050	52%	\$ 1,082	52%
<b>Other investments</b>	\$ 117	6%	\$ 109	5%
<b>Cash and cash equivalents</b>	\$ 24	1%	\$ 12	1%
<b>Total</b>	\$ 2,023	100%	\$ 2,099	100%

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

As at year end 2017 and 2016, the defined benefit pension plans did not directly include any GWL or Loblaw securities.

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

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

## Notes to the Consolidated Financial Statements

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

	2017		2016	
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Defined Benefit Pension Plans	Other Defined Benefit Plans
<b>Defined Benefit Plan Obligations</b>				
Discount rate	3.50%	3.50%	4.00%	3.75%
Rate of compensation increase	3.00%	n/a	3.00%	n/a
Mortality table <sup>(i)</sup>	CPM-RPP2014Pub/Priv Generational	CPM-RPP2014Pub/Priv Generational	CPM-RPP2014Pub/Priv Generational	CPM-RPP2014Pub/Priv Generational
<b>Net Defined Benefit Plan Cost</b>				
Discount rate	4.00%	3.75%	4.00%	4.00%
Rate of compensation increase	3.00%	n/a	3.50%	n/a
Mortality table <sup>(i)</sup>	CPM-RPP2014Pub/Priv Generational	CPM-RPP2014Pub/Priv Generational	CPM-RPP2014Pub/Priv Generational	CPM-RPP2014Pub/Priv Generational

n/a – not applicable

(i) Public or private sector mortality table is used depending on the prominent demographics of each plan.

The weighted average duration of the defined benefit obligations as at year end 2017 is 17.4 years (2016 – 17.4 years).

The growth rate of health care costs, primarily drug and other medical costs, for the other defined benefit plan obligations as at year end 2017 was estimated at 4.50% and is expected to remain at 4.50% by year end 2018 and thereafter.

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

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

Increase (Decrease) (\$ millions)	Defined Benefit Pension Plans		Other Defined Benefit Plans	
	Defined Benefit Plan Obligations	Net Defined Benefit Plan Cost <sup>(i)</sup>	Defined Benefit Plan Obligations	Net Defined Benefit Plan Cost <sup>(i)</sup>
Discount rate	3.50%	4.00%	3.50%	3.75%
Impact of: 1% increase	\$ (332)	\$ (30)	\$ (20)	
1% decrease	\$ 398	\$ 29	\$ 25	
Expected growth rate of health care costs			4.50%	4.50%
Impact of: 1% increase	n/a	n/a	\$ 17	\$ 2
1% decrease	n/a	n/a	\$ (14)	\$ (1)

n/a – not applicable

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

### (ii) Multi-Employer Pension Plans

During 2017, the Company recognized an expense of \$67 million (2016 – \$66 million) in operating income, which represents the contributions made in connection with MEPPs. During 2017, the Company expects to continue to make contributions into these MEPPs.

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

### (iii) Post-Employment and Other Long Term Employee Benefit Costs

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

(\$ millions)	2017	2016
Net post-employment defined benefit cost <sup>(i)</sup>	\$ 91	\$ 108
Defined contribution costs <sup>(ii)</sup>	32	30
Multi-employer pension plan costs <sup>(iii)</sup>	67	66
Total net post-employment benefit costs	\$ 190	\$ 204
Other long term employee benefit costs <sup>(iv)</sup>	29	25
Net post-employment and other long term employee benefit costs	\$ 219	\$ 229
<b>Recorded on the consolidated statements of earnings as follows:</b>		
Operating income (note 29)	\$ 208	\$ 217
Net interest expense and other financing charges (note 6)	11	12
Net post-employment and other long term employee benefits costs	\$ 219	\$ 229

(i) Includes settlement charges of \$14 million (2016 – \$26 million) related to annuity purchases and pension buy-outs.

(ii) Amounts represent the Company’s contributions made in connection with defined contribution plans.

(iii) Amounts represent the Company’s contributions made in connection with MEPPs.

(iv) Other long term employee benefit costs include \$3 million (2016 – \$3 million) of net interest expense and other financing charges.

## Notes to the Consolidated Financial Statements

### Note 28. Share-Based Compensation

The Company's share-based compensation arrangements include stock option plans, RSU plans, PSU plans, DSU plans, EDSU plans and Choice Properties' unit-based compensation plans. The Company's costs recognized in SG&A related to its share-based compensation arrangements in 2017 were \$72 million (2016 – \$77 million).

The following is the carrying amount of the Company's share-based compensation arrangements:

(\$ millions)	As at	
	Dec. 31, 2017	Dec. 31, 2016
Trade payables and other liabilities	\$ 11	\$ 10
Other liabilities (note 23)	\$ 4	\$ 4
Contributed surplus	\$ 132	\$ 133

Details related to the share-based compensation plans of GWL and Loblaw are as follows:

**Stock Option Plans** GWL maintains a stock option plan for certain employees. Under this plan, GWL may grant options for up to 6,453,726 of its common shares.

Loblaw maintains a stock option plan for certain employees. Under this plan, Loblaw may grant options for up to 28,137,162 of its common shares.

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

	2017		2016	
	Options (number of shares)	Weighted Average Exercise Price/Share	Options (number of shares)	Weighted Average Exercise Price/Share
Outstanding options, beginning of year	1,662,855	\$ 82.65	1,532,828	\$ 78.42
Granted	166,058	\$ 112.54	218,263	\$ 112.06
Exercised	(293,976)	\$ 74.62	(54,921)	\$ 71.17
Forfeited/cancelled	(7,812)	\$ 92.87	(33,315)	\$ 98.97
Outstanding options, end of year	1,527,125	\$ 87.41	1,662,855	\$ 82.65
Options exercisable, end of year	851,666	\$ 76.81	871,302	\$ 73.69

The following table summarizes information about GWL's outstanding stock options:

	2017			2016	
	Outstanding Options			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
\$59.74 - \$77.83	572,252	2	\$ 67.92	520,429	\$ 67.34
\$77.84 - \$101.88	580,877	4	\$ 90.63	289,888	\$ 88.81
\$101.89 - \$123.73	373,996	6	\$ 112.24	41,349	\$ 111.93
	1,527,125		\$ 87.41	851,666	\$ 76.81

During 2017, GWL issued common shares on the exercise of stock options with a weighted average market share price of \$109.91 (2016 – \$114.14) per common share and received \$22 million (2016 – \$4 million) of cash consideration.

During 2017, GWL granted stock options with a weighted average exercise price of \$112.54 (2016 – \$112.06) per common share and a fair value of \$2 million (2016 – \$3 million). The assumptions used to measure the grant date fair value of the GWL options granted during the years ended under the Black-Scholes stock option valuation model were as follows:

	2017	2016
Expected dividend yield	1.6%	1.5%
Expected share price volatility	15.3% - 17.1%	16.5% - 18.1%
Risk-free interest rate	1.0% - 1.9%	0.6% - 1.2%
Expected life of options	4.6 - 6.6 years	4.7 - 6.7 years

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at year end 2017 was 0.7% (2016 – 1.3%).

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

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

The following table summarizes information about Loblaw's outstanding stock options:

	2017			2016	
	Outstanding Options			Exercisable Options	
Range of Exercise Prices (\$)	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price/Share	Number of Exercisable Options	Weighted Average Exercise Price/Share
\$32.47 - \$38.62	1,527,978	1	\$ 34.97	1,527,978	\$ 34.97
\$38.63 - \$51.85	2,187,451	2	\$ 43.03	1,617,683	\$ 42.30
\$51.86 - \$77.81	3,772,345	5	\$ 67.58	701,830	\$ 65.24
	7,487,774		\$ 53.77	3,847,491	\$ 43.57

During 2017, Loblaw issued common shares on the exercise of stock options with a weighted average market share price of \$70.98 (2016 – \$70.19) per common share and received cash consideration of \$41 million (2016 – \$42 million).



## Notes to the Consolidated Financial Statements

During 2017, Loblaw granted stock options with a weighted average exercise price of \$70.02 (2016 – \$68.97) per common share and a fair value of \$15 million (2016 – \$13 million). The assumptions used to measure the grant date fair value of the Loblaw options granted during the years ended as indicated under the Black-Scholes stock option valuation model were as follows:

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

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

**Restricted Share Unit Plans** The following is a summary of GWL's and Loblaw's RSU plan activity:

(Number of awards)	GWL		Loblaw	
	2017	2016	2017	2016
Outstanding RSUs, beginning of year	213,084	202,276	858,106	887,792
Granted	58,325	69,890	337,846	283,962
Reinvested	656		4,418	
Settled	(74,875)	(52,992)	(323,894)	(295,403)
Forfeited	(13,230)	(6,090)	(51,771)	(18,245)
Outstanding RSUs, end of year	183,960	213,084	824,705	858,106

The fair value of GWL's and Loblaw's RSUs granted during 2017 was \$6 million (2016 – \$8 million) and \$24 million (2016 – \$19 million), respectively.

**Performance Share Unit Plans** The following is a summary of GWL's and Loblaw's PSU plan activity:

(Number of awards)	GWL		Loblaw	
	2017	2016	2017	2016
Outstanding PSUs, beginning of year	127,866	135,025	965,863	1,100,356
Granted	24,924	50,654	404,150	373,844
Reinvested	288		3,152	
Settled	(40,820)	(54,046)	(687,007)	(492,929)
Forfeited	(11,995)	(3,767)	(54,630)	(15,408)
Outstanding PSUs, end of year	100,263	127,866	631,528	965,863

The fair value of GWL's and Loblaw's PSUs granted during 2017 was \$3 million (2016 – \$4 million) and \$16 million (2016 – \$14 million), respectively.

**Settlement of Awards from Shares Held in Trusts** The following table summarizes GWL's settlement of RSUs and PSUs from shares held in trusts for the years ended as indicated:

(Number of awards)	2017	2016
Settled	115,695	107,038
Released from trusts (note 24)	108,394	107,038

During 2017, the settlement of awards from shares held in trusts resulted in an increase of \$9 million (2016 – \$7 million) in retained earnings. There were nominal increases in share capital in 2017 and 2016 related to these settlements.

**Director Deferred Share Unit Plans** The following is a summary of GWL's and Loblaw's DSU plan activity:

(Number of awards)	GWL		Loblaw	
	2017	2016	2017	2016
Outstanding DSUs, beginning of year	<b>191,232</b>	190,741	<b>188,202</b>	183,722
Granted	<b>16,373</b>	18,168	<b>29,289</b>	27,784
Reinvested	<b>3,043</b>	2,864	<b>3,181</b>	2,773
Settled	<b>(33,960)</b>	(20,541)		(26,077)
Outstanding DSUs, end of year	<b>176,688</b>	191,232	<b>220,672</b>	188,202

The fair value of GWL's and Loblaw's DSUs granted during 2017 was \$2 million (2016 – \$2 million) and \$2 million (2016 – \$2 million), respectively.

**Executive Deferred Share Unit Plans** The following is a summary of GWL's and Loblaw's EDSU plan activity:

(Number of awards)	GWL		Loblaw	
	2017	2016	2017	2016
Outstanding EDSUs, beginning of year	<b>45,199</b>	35,312	<b>35,559</b>	24,023
Granted	<b>1,955</b>	9,193	<b>16,558</b>	15,383
Reinvested	<b>716</b>	694	<b>686</b>	434
Settled	<b>(3,023)</b>		<b>(5,509)</b>	(4,281)
Outstanding EDSUs, end of year	<b>44,847</b>	45,199	<b>47,294</b>	35,559

The fair value of GWL's and Loblaw's EDSUs granted during 2017 was nominal (2016 – \$1 million) and \$1 million (2016 – \$1 million), respectively.

## Note 29. Employee Costs

Included in operating income were the following employee costs:

(\$ millions)	2017	2016
Wages, salaries and other short term employee benefits	\$ <b>5,962</b>	\$ 5,702
Post-employment benefits (note 27)	<b>182</b>	195
Other long term employee benefits (note 27)	<b>26</b>	22
Share-based compensation (note 28)	<b>68</b>	72
Capitalized to fixed assets	<b>(46)</b>	(42)
Employee costs	\$ <b>6,192</b>	\$ 5,949

## Notes to the Consolidated Financial Statements

### Note 30. Leases

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

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

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

(\$ millions)	Payments due by year						As at	
	2018	2019	2020	2021	2022	Thereafter	Dec. 31, 2017	Dec. 31, 2016
Operating lease payments	\$ 699	\$ 656	\$ 583	\$ 509	\$ 429	\$ 1,866	\$ 4,742	\$ 5,406
Sub-lease income	(56)	(46)	(34)	(31)	(29)	(104)	(300)	(274)
Net operating lease payments	\$ 643	\$ 610	\$ 549	\$ 478	\$ 400	\$ 1,762	\$ 4,442	\$ 5,132

In 2017, the Company recorded operating lease expenses of \$704 million (2016 – \$699 million) and sub-lease income of \$55 million (2016 – \$51 million) in operating income. In addition, contingent rent expense in respect of operating leases and contingent rental income in respect of sub-leased operating leases were \$1 million (2016 – \$2 million) and \$3 million (2016 – \$4 million), respectively, and were also recognized in operating income.

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

(\$ millions)	Payments to be received by year						As at	
	2018	2019	2020	2021	2022	Thereafter	Dec. 31, 2017	Dec. 31, 2016
Net operating lease income	\$ 125	\$ 103	\$ 89	\$ 75	\$ 69	\$ 219	\$ 680	\$ 726

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

**Finance Leases – As Lessee** Future minimum lease payments relating to Loblaw’s finance leases are as follows:

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

In 2017, contingent rent recognized by Loblaw as an expense in respect of finance leases was \$1 million (2016 – \$1 million).

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

(\$ millions)	Payments to be received by year						As at	
	2018	2019	2020	2021	2022	Thereafter	Dec. 31, 2017	Dec. 31, 2016
Sub-lease income	\$ 14	\$ 13	\$ 11	\$ 7	\$ 6	8	\$ 59	\$ 77

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

## Notes to the Consolidated Financial Statements

### Note 31. Financial Instruments

The following table presents the fair values and fair value hierarchy of the Company's financial instruments and excludes financial instruments measured at amortized cost that are short term in nature. The carrying values of the Company's financial instruments approximate their fair values except for long term debt.

(\$ millions)	As at Dec. 31, 2017				Dec. 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>								
Cash and cash equivalents	\$ 892	\$ 1,142		\$ 2,034	\$ 892	\$ 668		\$ 1,560
Short term investments	297	816		1,113	341	670		1,011
Security deposits	86			86	89			89
Franchise loans receivable			\$ 166	166			\$ 233	233
Certain other assets	20	24	23	67	23	21	42	86
Derivatives included in accounts receivable	(2)	(7)		(9)	(1)	7		6
Derivatives included in prepaid expenses and other assets	3		2	5	7	11		18
Derivatives included in other assets		435		435		368		368
<b>Financial liabilities</b>								
Long term debt		13,103		13,103		12,856		12,856
Trust Unit liability	634			634	635			635
Certain other liabilities			18	18			22	22
Derivatives included in trade payables and other liabilities		11		11			2	2

There were no transfers between the levels of the fair value hierarchy during 2017 and 2016.

During 2017, a loss of \$6 million (2016 – gain of \$5 million) was recognized in operating income on financial instruments designated as fair value through profit or loss. In addition, a net loss of \$3 million (2016 – \$124 million) was recognized in earnings before income taxes on financial instruments required to be classified as fair value through profit or loss.

**Cash and Cash Equivalents, Short Term Investments and Security Deposits** As at year end 2017, the Company had cash and cash equivalents, short term investments and security deposits of \$3,233 million (2016 – \$2,660 million), including U.S. dollars of \$573 million (2016 – \$545 million) that was held primarily by Dunedin Holdings GmbH (“Dunedin”), a subsidiary of GWL, and certain of its affiliates (see note 9).

In 2017, a loss of \$64 million (2016 – \$20 million) was recognized in other comprehensive income related to the effect of foreign currency translation on the Company's U.S. net investment in foreign operations.

In addition, in 2017, a loss of \$34 million (2016 – \$2 million) was recorded in SG&A related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and cash equivalents and short term investments held by foreign operations that have the same functional currency as that of the Company.

#### Level 3 Financial Instruments

*Franchise Loans Receivable and Franchise Investments in Other Assets* As at year end 2017, the value of Loblaw franchise loans receivable of \$166 million (2016 – \$233 million) was recorded on the consolidated balance sheets. In 2017, Loblaw recorded a gain of \$8 million (2016 – loss of \$1 million) in operating income related to these loans receivable.

As at year end 2017, the value of Loblaw franchise investments was \$20 million (2016 – \$39 million) and was recorded in other assets. During 2017, Loblaw recorded a gain of \$2 million (2016 – \$4 million) in operating income related to these investments.

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

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

**Equity Derivative Contracts** As at year end 2017, Weston Holdings Limited (“WHL”), a subsidiary of GWL, held an outstanding equity forward sale agreement based on 9.6 million Loblaw common shares at an original forward price of \$48.50 per Loblaw common share. As at year end 2017, the forward price had increased to \$113.45 (2016 – \$109.26) per Loblaw common share under the terms of the agreement. In 2017, a fair value gain of \$25 million (2016 – loss of \$53 million) was recorded in net interest expense and other financing charges related to this agreement (see note 6).

**Trust Unit Liability** In 2017, a fair value gain of \$7 million (2016 – loss of \$79 million) was recognized in net interest expense and other financing charges (see note 6).

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

	Dec. 31, 2017		
(\$ millions)	Net asset (liability) fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
<b>Derivatives designated as cash flow hedges<sup>(i)</sup></b>			
Foreign Exchange Forwards	\$ (1)	\$ (3)	\$ 1
Bond Forwards <sup>(ii)</sup>		6	
<b>Total derivatives designated as cash flow hedges</b>	<b>(1)</b>	<b>3</b>	<b>1</b>
<b>Derivatives not designated in a formal hedging relationship</b>			
Foreign Exchange Futures and Forwards	(17)		(36)
Other Non-Financial Derivatives	1		(3)
<b>Total derivatives not designated in a formal hedging relationship</b>	<b>(16)</b>	<b>—</b>	<b>(39)</b>
<b>Total derivatives</b>	<b>(17)</b>	<b>3</b>	<b>(38)</b>

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

(ii) In 2017, as a result of the issuance of *Eagle* notes, bond forward agreements with a notional value of \$200 million were settled (note 22).

## Notes to the Consolidated Financial Statements

Dec. 31, 2016

(\$ millions)	Net asset (liability) fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
<b>Derivatives designated as cash flow hedges<sup>(i)</sup></b>			
Foreign Exchange Forwards	\$ 2	\$ (1)	\$ 2
<b>Total derivatives designated as cash flow hedges</b>	<b>2</b>	<b>(1)</b>	<b>2</b>
<b>Derivatives not designated in a formal hedging relationship</b>			
Foreign Exchange Futures and Forwards	16		(9)
Bond Forwards <sup>(ii)</sup>			3
Other Non-Financial Derivatives	6		11
<b>Total derivatives not designated in a formal hedging relationship</b>	<b>22</b>	<b>—</b>	<b>5</b>
<b>Total derivatives</b>	<b>24</b>	<b>(1)</b>	<b>7</b>

- (i) Includes bond forward agreements with a notional value of \$95 million, which were settled within 2016, and interest rate swap agreements with a notional value of \$200 million. In 2016, a nominal unrealized fair value gain was recorded in OCI relating to these agreements.
- (ii) Represents a realized fair value gain of \$3 million related to Choice Properties bond forward agreements settled in 2016 and recorded in net interest expense and other financing charges (see note 6).

### Note 32. Financial Risk Management

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

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

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

**Maturity Analysis** The following are the undiscounted contractual maturities of significant financial liabilities as at December 31, 2017:

(\$ millions)	2018	2019	2020	2021	2022	Thereafter	Total <sup>(iii)</sup>
Long term debt including interest payments <sup>(i)</sup>	\$ 2,087	\$ 2,533	\$ 1,712	\$ 982	\$ 1,239	\$ 7,822	\$ 16,375
Foreign exchange forward contracts	511						511
Short term debt (note 21)	1,258						1,258
Bank indebtedness	110						110
Certain other liabilities	3	2	3	3			11
	\$ 3,969	\$ 2,535	\$ 1,715	\$ 985	\$ 1,239	\$ 7,822	\$ 18,265

- (i) Fixed interest payments are based on the maturing face values and annual interest for each instrument, including GICs, long term independent securitization trusts and an independent funding trust, as well as annual payment obligations for consolidated structured entities, mortgages and finance lease obligations. Variable interest payments are based on the forward rates as at year end 2017.
- (ii) The Trust Unit liability has been excluded as this liability does not have a contractual maturity date. The Company also excluded trade payables and other liabilities which are due within the next 12 months.

**Foreign Currency Exchange Rate Risk** The Company's consolidated financial statements are expressed in Canadian dollars, however a portion of the Company's (excluding Loblaw's) net assets are denominated in U.S. dollars through both its net investment in foreign operations in the U.S. and its foreign subsidiaries held by Dunedin and certain of its affiliates with a functional currency that is the same as that of the Company. The U.S. dollar denominated net assets are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. As a result, the Company is exposed to foreign currency translation gains and losses. Those gains and losses arising from the translation of the U.S. dollar denominated assets of foreign subsidiaries with a functional currency that is the same as that of the Company are included in operating income, while translation gains and losses on the net investment in foreign operations in the U.S. are recorded in accumulated other comprehensive income (loss). The Company estimates that based on the U.S. net assets held by foreign operations that have the same functional currency as that of the Company at the end of 2017, an appreciation of the Canadian dollar of one cent relative to the U.S. dollar would result in a loss of \$6 million in earnings before income taxes.

Revenues and expenses of all foreign operations are translated into Canadian dollars at the foreign currency exchange rates that approximate the rates in effect at the dates when such items are recognized. An appreciating U.S. dollar relative to the Canadian dollar will positively impact operating income and net earnings, while a depreciating U.S. dollar relative to the Canadian dollar will have the opposite impact.

Weston Foods and Loblaw are also exposed to fluctuations in the prices of U.S. dollar denominated purchases as a result of changes in U.S. dollar exchange rates. A depreciating Canadian dollar relative to the U.S. dollar will negatively impact operating income and net earnings, while an appreciating Canadian dollar relative to the U.S. dollar will have the opposite impact. Weston Foods and Loblaw entered into derivative instruments in the form of futures contracts and forward contracts to manage their current and anticipated exposure to fluctuations in U.S. dollar exchange rates.

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



## Notes to the Consolidated Financial Statements

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

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

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

Loblaw's franchise loans receivable and Loblaw's accounts receivable including amounts due from franchisees, governments, prescription sales covered by third-party drug plans, independent accounts and amounts owed from vendors, and other receivables from Weston Foods' customers and suppliers, 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 consolidated balance sheets (see note 31).

Refer to notes 10 and 11 for additional information on the credit quality performance of Loblaw's credit card receivables and other receivables, mentioned above, of Loblaw and Weston Foods.

**Common Share and Trust Unit Price Risk** Changes in the Loblaw common share price impact the Company's net interest expense and other financing charges. The obligation of WHL under the equity forward sale agreement based on 9.6 million Loblaw common shares, which matures in 2031, is secured by the underlying Loblaw common shares. If the market value of the underlying Loblaw common shares exceeds the obligation of WHL under this forward, a portion of the proceeds from a future sale of these shares may be used to satisfy the obligation under this forward contract upon termination or maturity. At maturity, if the forward price is greater (less) than the market price of the Loblaw common shares, WHL will receive (pay) cash equal to the difference between the notional value and the market value of the forward contract. A one dollar increase in the market value of the underlying shares of the equity forward, with all other variables held constant, would result in an increase of \$10 million in net interest expense and other financing charges.

The Company is exposed to market price risk from Choice Properties' Trust Units that are held by unitholders other than the Company. These Trust Units are presented as a liability on the Company's consolidated balance sheets as they are redeemable for cash at the option of the holders. The liability is recorded at fair value at each reporting period based on the market price of Trust Units. The change in the fair value of the liability negatively impacts net earnings when the Trust Unit price increases and positively impacts net earnings when the Trust Unit price declines. A one dollar increase in the market value of Trust Units, with all other variables held constant, would result in an increase of \$47 million in net interest expense and other financing charges.

**Interest Rate Risk** The Company is exposed to interest rate risk from fluctuations in interest rates on its floating rate debt and from the refinancing of existing financial instruments. The Company manages interest rate risk by monitoring the respective mix of fixed and floating rate debt and by taking action as necessary to maintain an appropriate balance considering current market conditions, with the objective of maintaining the majority of its debt at fixed interest rates. The Company estimates that a 100 basis point increase (decrease) in short term interest rates, with all other variables held constant, would result in a decrease (increase) of \$11 million in net interest expense and other financing charges.

**Commodity Price Risk** Weston Foods' costs are directly impacted by fluctuations in the prices of commodity linked raw materials such as wheat flours, sugars, vegetable oils, cocoa powders and chocolate. Loblaw is also exposed to fluctuations in the commodity prices as a result of the indirect effect of changing commodity prices on the price of consumer products. In addition, both Weston Foods and Loblaw are exposed to increases in the prices of energy in operating, in the case of Weston Foods, its bakeries and distribution networks, and, in the case of Loblaw, its stores and distribution networks. Both Weston Foods and Loblaw use purchase commitments and derivative instruments in the form of futures contracts, option contracts and forward contracts to manage their current and anticipated exposure to fluctuations in commodity prices. The Company estimates that based on the outstanding derivative contracts held by the Company as at year end 2017, a 10% decrease in relevant commodity prices, with all other variables held constant, would result in a net loss of \$6 million in earnings before income taxes. This amount excludes the offsetting impact of the commodity price risk inherent in the transactions being hedged.

### **Note 33. Contingent Liabilities**

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

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

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

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

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

## Notes to the Consolidated Financial Statements

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

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

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

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

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

As a result of their admission that they participated in the arrangement and their cooperation in the Competition Bureau’s investigation, the Company and Loblaw will not face criminal charges or penalties.

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

### Note 34. Financial Guarantees

The Company established letters of credit used in connection with certain obligations mainly related to real estate transactions, benefit programs, purchase orders and guarantees with a gross potential liability of approximately \$424 million (2016 – \$417 million). In addition, Loblaw has provided to third parties the following significant guarantees:

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

**Independent Funding Trusts** The full balance relating to the debt of the independent funding trusts has been consolidated on the balance sheets of the Company (see note 22). As at year end 2017, Loblaw has agreed to provide a credit enhancement of \$64 million (2016 – \$64 million) in the form of a standby letter of credit for the benefit of the independent funding trusts representing not less than 10% (2016 – 10%) of the principal amount of the loans outstanding. This credit enhancement allows the independent funding trusts to provide financing to Loblaw's franchisees. As well, each franchisee provides security to the independent funding trusts for its obligations by way of a general security agreement. In the event that a franchisee defaults on its loan and Loblaw has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trusts would assign the loan to Loblaw and draw upon this standby letter of credit. This standby letter of credit has never been drawn upon. Loblaw has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

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

**Glenhuron Bank Limited Surety Bond** In connection with the CRA's reassessment of Loblaw on certain income earned by Glenhuron (see note 33), Loblaw arranged for a surety bond of \$149 million (2016 – \$141 million) to the Ministry of Finance in order to dispute the reassessments.

**Cash Collateralization** As at year end 2017, GWL and Loblaw had agreements to cash collateralize certain uncommitted credit facilities up to amounts of \$45 million (2016 – \$45 million) and \$102 million (2016 – \$103 million), respectively. As at year end 2017, GWL and Loblaw had \$45 million (2016 – \$45 million) and \$3 million (2016 – \$4 million) deposited with major financial institutions, respectively, and classified as security deposits on the consolidated balance sheets.

**Financial Services** Loblaw has provided a guarantee on behalf of PC Bank to MasterCard<sup>®</sup> International Incorporated ("MasterCard<sup>®</sup>") for accepting PC Bank as a card member and licensee of MasterCard<sup>®</sup>. As at year end 2017, the guarantee on behalf of PC Bank to MasterCard<sup>®</sup> was U.S. dollars \$190 million (2016 – U.S. dollars \$190 million).

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

## Notes to the Consolidated Financial Statements

Letters of credit for the benefit of independent securitization trusts with respect to the securitization programs of PC Bank have been issued by major financial institutions. These standby letters of credit can be drawn upon in the event of a major decline in the income flow from or in the value of the securitized credit card receivables. Loblaw has agreed to reimburse the issuing banks for any amount drawn on the standby letters of credit. The aggregate gross potential liability under these arrangements for the Other Independent Securitization Trusts was \$62 million (2016 – \$71 million), which represented approximately 10% (2016 – 11%) of the securitized credit card receivables amount (see note 21). As at year end 2017, the aggregate gross potential liability under these arrangements for *Eagle* was \$36 million (2016 – \$36 million), which represented approximately 9% (2016 – 9%) of the outstanding *Eagle* notes issued prior to 2015 (see note 22).

**Choice Properties** Letters of credit to support guarantees related to its investment properties including maintenance and development obligations to municipal authorities are issued by Choice Properties. As at year end 2017, the aggregate gross potential liability related to these letters of credit totaled \$33 million (2016 – \$31 million).

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

### Note 35. Related Party Transactions

The Company's majority shareholder is Mr. W. Galen Weston, who beneficially owns, directly and indirectly through private companies which he controls, including Wittington, a total of 80,773,740 of GWL's common shares, representing approximately 63% (2016 – 63%) of GWL's outstanding common shares.

The Company's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions. Transactions between the Company and its consolidated entities have been eliminated on consolidation and are not disclosed in this note.

In 2017, the Company made rental payments to Wittington in the amount of \$4 million (2016 – \$4 million). As at year end 2017 and 2016, there were no rental payments outstanding.

In 2017, inventory purchases from Associated British Foods plc, a related party by virtue of Mr. W. Galen Weston being a director of such entity's parent company, amounted to \$39 million (2016 – \$40 million). As at year end 2017, \$6 million (2016 – \$6 million) was included in trade payables and other liabilities relating to these inventory purchases.

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

**Operating Lease** Choice Properties entered into a ten-year lease for office space with Wittington that commenced in 2014. Lease payments will total \$3 million over the term of the lease.

**Post-Employment Benefit Plans** The Company sponsors a number of post-employment plans, which are related parties. Contributions made by the Company to these plans are disclosed in note 27.

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

**Compensation of Key Management Personnel** The Company's key management personnel is comprised of certain members of the executive team of GWL, Loblaw, Weston Foods and Wittington, as well as members of the Boards of GWL, Loblaw 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.

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

(\$ millions)	2017	2016
Salaries, director fees and other short term employee benefits	\$ 9	\$ 11
Share-based compensation	13	13
<b>Total compensation</b>	<b>\$ 22</b>	<b>\$ 24</b>

### Note 36. Segment Information

The Company has two reportable operating segments: Weston Foods and Loblaw. The accounting policies of the reportable operating segments are the same as those described in the Company's summary of significant accounting policies (see note 2). The Company measures each reportable operating segment's performance based on adjusted EBITDA<sup>(i)</sup> and adjusted operating income<sup>(i)</sup>. Neither reportable operating segment is reliant on any single external customer.

(\$ millions)	2017				2016			
	Weston Foods	Loblaw	Other and Intersegment <sup>(ii)</sup>	Total	Weston Foods	Loblaw	Other and Intersegment <sup>(ii)</sup>	Total
<b>Revenue</b>	\$ 2,243	\$ 46,702	\$ (653)	\$ 48,292	\$ 2,268	\$ 46,385	\$ (654)	\$ 47,999
Operating income	\$ 91	\$ 2,486	\$ (37)	\$ 2,540	\$ 173	\$ 2,084	\$ (2)	\$ 2,255
Net interest expense and other financing charges	13	525	(15)	523	102	653	(55)	700
<b>Earnings before income tax</b>	<b>\$ 78</b>	<b>\$ 1,961</b>	<b>\$ (22)</b>	<b>\$ 2,017</b>	<b>\$ 71</b>	<b>\$ 1,431</b>	<b>\$ 53</b>	<b>\$ 1,555</b>
<b>Operating income</b>	<b>\$ 91</b>	<b>\$ 2,486</b>	<b>\$ (37)</b>	<b>\$ 2,540</b>	<b>\$ 173</b>	<b>\$ 2,084</b>	<b>\$ (2)</b>	<b>\$ 2,255</b>
Depreciation and amortization	117	1,568		1,685	111	1,543		1,654
Adjusting items <sup>(i)</sup>	48	30	37	115	12	217	2	231
Adjusted EBITDA <sup>(i)</sup>	\$ 256	\$ 4,084		\$ 4,340	\$ 296	\$ 3,844		\$ 4,140
Depreciation and amortization <sup>(iii)</sup>	107	1,044		1,151	97	1,008		1,105
<b>Adjusted operating income<sup>(i)</sup></b>	<b>\$ 149</b>	<b>\$ 3,040</b>	<b>\$ —</b>	<b>\$ 3,189</b>	<b>\$ 199</b>	<b>\$ 2,836</b>	<b>\$ —</b>	<b>\$ 3,035</b>

- (i) Certain items are excluded from operating income to derive adjusted EBITDA<sup>(1)</sup>. Adjusted EBITDA<sup>(1)</sup> is used internally by management when analyzing segment underlying performance.
- (ii) Other and intersegment includes the following items:
- intercompany revenue elimination;
  - Trust Unit distributions from Choice Properties to GWL and the elimination of the fair value adjustment of the Trust Unit liability related to GWL's direct investment in Choice Properties recorded in net interest expense and other financing charges;
  - the effect of certain asset impairment related to the carrying value of its fixed asset, intangible, and other assets; and
  - the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and cash equivalents and short term investments held by foreign operations.
- (iii) Excludes \$524 million (2016 – \$535 million) of amortization of intangible assets acquired with Shoppers Drug Mart, recorded by Loblaw, and \$10 million (2016 – \$14 million) of accelerated depreciation recorded by Weston Foods, included in restructuring and other charges.

## Notes to the Consolidated Financial Statements

(\$ millions)	As at	
	Dec. 31, 2017	Dec. 31, 2016
<b>Total Assets</b>		
Weston Foods	\$ 2,645	\$ 2,670
Loblaw	35,266	34,596
Other <sup>(i)</sup>	927	1,004
Intersegment	(339)	(324)
Consolidated	\$ 38,499	\$ 37,946

(i) Other includes cash and cash equivalents and short term investments held by foreign operations that have the same functional currency as that of the Company and GWL's direct investment in Choice Properties.

(\$ millions)	2017	2016
<b>Additions to Fixed Assets and Intangible Assets</b>		
Weston Foods	\$ 215	\$ 241
Loblaw	1,259	1,224
Consolidated	\$ 1,474	\$ 1,465

The Company operates primarily in Canada and the United States.

(\$ millions)	2017	2016
<b>Revenue (excluding intersegment)</b>		
Canada	\$ 47,068	\$ 46,762
United States	1,224	1,237
Consolidated	\$ 48,292	\$ 47,999

(\$ millions)	As at	
	Dec. 31, 2017	Dec. 31, 2016
<b>Fixed Assets and Goodwill and Intangible Assets</b>		
Canada	\$ 23,652	\$ 23,952
United States	782	821
Consolidated	\$ 24,434	\$ 24,773

### **Note 37. Subsequent Events**

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

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

Loblaw, Choice Properties' controlling unitholder, has entered into a voting agreement in support of the transaction. To facilitate Choice Properties' financing for the transaction, Loblaw has agreed to convert all of its outstanding Class C Limited Partnership units of Choice Properties Limited Partnership with a face value of \$925 million into Class B LP units of Choice Properties Limited Partnership on closing. Following the transaction, the Company and Loblaw will own approximately 4% and 62% of Choice Properties, respectively.

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



## Three Year Summary

### CONSOLIDATED INFORMATION<sup>(i)</sup>

As at or for the years ended December 31

(\$ millions except where otherwise indicated)

	<b>2017</b> <b>(52 weeks)</b>	2016 (52 weeks)	2015 (52 weeks)
<b>Operating Results</b>			
Sales	<b>48,292</b>	47,999	46,894
Operating income	<b>2,540</b>	2,255	1,929
Adjusted EBITDA <sup>(ii)</sup>	<b>4,340</b>	4,140	3,826
Depreciation and amortization <sup>(iii)</sup>	<b>1,685</b>	1,654	1,686
Net interest expense and other financing charges	<b>523</b>	700	681
Adjusted net interest expense and other financing charges <sup>(ii)</sup>	<b>555</b>	568	585
Income taxes	<b>443</b>	465	418
Adjusted income taxes <sup>(ii)</sup>	<b>713</b>	678	571
Net earnings	<b>1,574</b>	1,090	830
Net earnings attributable to shareholders of the Company	<b>759</b>	550	511
Net earnings available to common shareholders of the Company	<b>715</b>	506	467
Adjusted net earnings available to common shareholders of the Company <sup>(ii)</sup>	<b>904</b>	838	717
<b>Financial Position</b>			
Fixed assets	<b>11,689</b>	11,534	11,352
Goodwill and intangible assets	<b>12,745</b>	13,239	13,546
Total assets	<b>38,499</b>	37,946	38,220
Cash and cash equivalents, short term investments and security deposits	<b>3,233</b>	2,660	2,667
Total debt	<b>13,066</b>	12,804	13,154
Total equity attributable to shareholders of the Company	<b>7,894</b>	7,764	7,681
Total equity	<b>14,713</b>	14,790	14,890
<b>Cash Flows</b>			
Cash flows from operating activities	<b>3,425</b>	3,760	3,367
Capital investments	<b>1,474</b>	1,465	1,500
Free cash flow <sup>(ii)</sup>	<b>1,395</b>	1,725	1,280
<b>Per Common Share (\$)</b>			
Diluted net earnings	<b>5.53</b>	3.90	3.62
Adjusted diluted net earnings <sup>(ii)</sup>	<b>7.00</b>	6.49	5.57
<b>Financial Measures and Ratios</b>			
Adjusted EBITDA margin (%) <sup>(ii)</sup>	<b>9.0</b>	8.6	8.2
Adjusted return on average equity attributable to common shareholders of the company (%) <sup>(ii)</sup>	<b>12.9</b>	12.1	10.8
Adjusted return on capital (%) <sup>(ii)</sup>	<b>13.0</b>	12.1	10.6

(i) For financial definitions and ratios refer to the Glossary beginning on page 146.

(ii) See non-GAAP financial measures beginning on page 59.

(iii) Includes \$524 million (2016 – \$535 million; 2015 – \$536 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$10 million (2016 – \$14 million; 2015 – \$11 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other charges.

**SEGMENT INFORMATION<sup>(i)</sup>**

As at or for the years ended December 31

(\$ millions except where otherwise indicated)

		2017	2016	2015
		(52 weeks)	(52 weeks)	(52 weeks)
<b>OPERATING RESULTS</b>				
<b>Revenue</b>	Weston Foods	2,243	2,268	2,144
	Loblaw	46,702	46,385	45,394
	Intersegment	(653)	(654)	(644)
	Consolidated	48,292	47,999	46,894
<b>Operating income</b>	Weston Foods	91	173	177
	Loblaw	2,486	2,084	1,593
	Other	(37)	(2)	159
	Consolidated	2,540	2,255	1,929
<b>Adjusted EBITDA<sup>(ii)</sup></b>	Weston Foods	256	296	285
	Loblaw	4,084	3,844	3,541
	Consolidated	4,340	4,140	3,826
<b>Adjusted EBITDA Margin (%)<sup>(ii)</sup></b>	Weston Foods	11.4	13.1	13.3
	Loblaw	8.7	8.3	7.8
	Consolidated	9.0	8.6	8.2
<b>Depreciation and Amortization<sup>(iii)</sup></b>	Weston Foods	117	111	94
	Loblaw	1,568	1,543	1,592
	Consolidated	1,685	1,654	1,686
<b>FINANCIAL POSITION</b>				
<b>Fixed Assets</b>	Weston Foods	1,020	975	872
	Loblaw	10,669	10,559	10,480
	Consolidated	11,689	11,534	11,352
<b>Total Assets</b>	Weston Foods	2,645	2,670	2,470
	Loblaw	35,266	34,596	34,517
	Other <sup>(iv)</sup>	927	1,004	1,502
	Intersegment	(339)	(324)	(269)
	Consolidated	38,499	37,946	38,220
<b>CASH FLOWS</b>				
<b>Fixed Asset Purchases and Intangible Asset Additions</b>	Weston Foods	215	241	259
	Loblaw	1,259	1,224	1,241
	Consolidated	1,474	1,465	1,500

(i) For financial definitions and ratios refer to the Glossary beginning on page 146.

(ii) See non-GAAP financial measures beginning on page 59.

(iii) Includes \$524 million (2016 – \$535 million; 2015 – \$536 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$10 million (2016 – \$14 million; 2015 – \$11 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other charges.

(iv) Other includes cash and cash equivalents and short term investments held by foreign operations that have the same functional currency as that of the Company and GWL's direct investment in Choice Properties.

## Glossary

Term	Definition
<b>Adjusted diluted net earnings per common share</b>	Adjusted net earnings available to common shareholders of the Company including the effect of all dilutive instruments divided by the weighted average number of common shares outstanding during the period adjusted for the impact of dilutive items (see Section 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
<b>Adjusted EBITDA</b>	Adjusted operating income before depreciation and amortization (see Section 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
<b>Adjusted EBITDA margin</b>	Adjusted EBITDA divided by sales (see Section 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
<b>Adjusted income taxes</b>	Income taxes adjusted for the tax impact of items included in adjusted operating income less adjusted net interest and other financing charges (see Section 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
<b>Adjusted income tax rate</b>	Adjusted income taxes divided by adjusted operating income less adjusted net interest and other financing charges (see Section 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
<b>Adjusted net earnings attributable to shareholders of the Company</b>	Net earnings attributable to shareholders of the Company adjusted for items that are not necessarily reflective of the Company’s underlying operating performance (see Section 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
<b>Adjusted net earnings available to common shareholders of the Company</b>	Adjusted net earnings attributable to shareholders of the Company less preferred dividends (see Section 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
<b>Adjusted net interest expense and other financing charges</b>	Net interest expense and other financing charges adjusted for items that are not necessarily reflective of the Company’s ongoing net financing costs (see Section 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
<b>Adjusted operating income</b>	Operating income adjusted for items that are not necessarily reflective of the Company’s underlying operating performance (see Section 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
<b>Adjusted return on average equity attributable to common shareholders of the Company</b>	Adjusted net earnings available to common shareholders of the Company divided by average total equity attributable to common shareholders of the Company (see Section 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
<b>Adjusted return on capital</b>	Tax-effected adjusted operating income divided by average capital (see Section 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
<b>Basic net earnings per common share</b>	Net earnings available to common shareholders of the Company divided by the weighted average number of common shares outstanding during the period.
<b>Capital</b>	Total debt, plus total equity attributable to shareholders of the Company, less cash and cash equivalents, short term investments and amounts held in escrow.
<b>Capital under management</b>	Total debt plus total equity attributable to shareholders of the Company.
<b>Capital investment</b>	Fixed asset purchases and intangible asset additions.
<b>Control brand</b>	A brand and associated trademark that is owned by Loblaw for use in connection with its own products and services.
<b>Conversion</b>	A store that changes from one Loblaw banner to another Loblaw banner.

<b>Term</b>	<b>Definition</b>
<b>Diluted net earnings per common share</b>	Net earnings available to common shareholders of the Company adjusted for the impact of dilutive items divided by the weighted average number of common shares outstanding during the period adjusted for the impact of dilutive items.
<b>Free cash flow</b>	Cash flows from operating activities less interest paid, fixed asset purchases and intangible asset additions (see Section 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
<b>Major expansion/contraction</b>	Expansion/contraction of a store that results in an increase/decrease in square footage that is greater than 25% of the square footage of the store prior to the expansion/contraction.
<b>Minor expansion</b>	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.
<b>Net earnings attributable to shareholders of the Company</b>	Net earnings less non-controlling interests.
<b>Net earnings available to common shareholders of the Company</b>	Net earnings attributable to shareholders of the Company less preferred dividends.
<b>New store</b>	A newly constructed store, acquisition, conversion or major expansion.
<b>Operating income</b>	Net earnings before net interest expense and other financing charges and income taxes.
<b>Renovation</b>	A capital investment in a store resulting in no significant change to the store square footage.
<b>Retail debt to adjusted EBITDA</b>	Retail segment total debt divided by Retail segment adjusted EBITDA.
<b>Retail gross profit</b>	Loblaw retail sales less cost of merchandise inventories sold.
<b>Retail sales</b>	Combined sales of stores owned by Loblaw’s corporate stores, franchisees and associate-owned drug stores.
<b>Retail square footage</b>	Retail square footage includes Loblaw’s corporate stores, franchised stores and associate-owned drug stores.
<b>Rolling year adjusted return on capital</b>	Tax-effected rolling year (most recent four quarters) adjusted operating income divided by average capital (see Section 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
<b>Rolling year adjusted return on average equity attributable to common shareholders of the Company</b>	Rolling year (most recent four quarters) adjusted net earnings available to common shareholders of the Company divided by average total equity attributable to common shareholders of the Company (see Section 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
<b>Same-store sales</b>	Retail sales from the same location for stores in operation in that location in both periods excluding sales from a store that has undergone a major expansion/contraction in the period.
<b>Total equity attributable to common shareholders of the Company</b>	Total equity less preferred shares outstanding and non-controlling interests.
<b>Total equity attributable to shareholders of the Company</b>	Total equity less non-controlling interests.
<b>Weighted average common shares outstanding</b>	The number of common shares outstanding determined by relating the portion of time within the period the common shares were outstanding to the total time in that period.
<b>Year</b>	The Company’s year end is December 31. Activities are reported on a fiscal year ending on the Saturday closest to December 31, usually 52 weeks in duration but includes a 53rd week every five to six years. Each of the years ended December 31, 2017 and December 31, 2016 contained 52 weeks.

# Corporate Directory

## Board of Directors

### **Galen G. Weston, B.A., M.B.A.**

Chairman and Chief Executive Officer of the Corporation; Chairman and Chief Executive Officer, Loblaw Companies Limited; Chairman, President's Choice Bank; Director, Wittington Investments, Limited; former Chairman, Choice Properties Real Estate Investment Trust.

### **Alannah Weston<sup>(4)</sup>**

Deputy Chairman, former Creative Director, Selfridges Group Limited; Chair, Selfridges Group Foundation; Board member, Reta Lila Weston Trust and Reta Lila Howard Foundation; Director, Wittington Investments, Limited; former Trustee, Blue Marine Foundation.

### **Isabelle Marcoux, B.A., LL.B.<sup>(4\*)</sup>**

Chair, Board of Directors, Transcontinental Inc.; Director, Rogers Communications Inc. and Power Corporation of Canada; Director of the Montreal Children's Hospital Foundation; Chair of the Major Donors' Circle and Co-Chair of the 2016 campaign of Centraide of Greater Montreal.

### **Sarabjit (Sabi) S. Marwah<sup>(1,2)</sup>**

Senator with the Senate of Canada; former Vice-Chairman and Chief Operating Officer of The Bank of Nova Scotia; Director, Cineplex Inc. and TELUS Corporation; Trustee and Chair, Hospital for Sick Children; former member of the Board of Directors, Toronto International Film Festival.

### **Gordon M. Nixon, C.M., O.Ont.<sup>(1,2)</sup>**

Corporate Director; Chair, BCE Inc. and Director, BlackRock, Inc.; former President and Chief Executive Officer, Royal Bank of Canada; Advisory Board, KingSett Canadian Real Estate Income Fund L.P.; Chairman, MaRS Discovery District; Trustee, Art Gallery of Ontario.

### **J. Robert S. Prichard, O.C., O.Ont., LL.B., M.B.A., LL.M., LL.D.<sup>(2\*,3)</sup>**

Non-Executive Chair, Torys LLP; Chair, former President and Chief Executive Officer, Metrolinx; Chair, Bank of Montreal; Director, Onex Corporation and Barrick Gold Corporation; President Emeritus, University of Toronto; Trustee, Hospital for Sick Children.

### **Thomas F. Rahilly, B.A., M.A., LL.B.<sup>(2,3\*,4)</sup>**

Corporate Director; Retired Vice-Chairman, RBC Capital Markets.

### **Robert Sawyer<sup>(1,4)</sup>**

Corporate Director; Director, Walter Group; former Director and President and Chief Executive Officer, RONA Inc.; former Chief Operating Officer of Metro Inc.

### **Christi Strauss<sup>(1,4)</sup>**

Corporate Director; former President and Chief Executive Officer, Cereal Partners Worldwide, a General Mills joint venture with Nestlé.

### **Barbara Stymiest<sup>(1\*,2,3)</sup>**

Corporate Director; Director, Blackberry Limited; Director, SunLife Financial Inc.; Director, President's Choice Bank; former Member, Group Executive, Royal Bank of Canada; former Chief Executive Officer, TMX Group Inc., Chair, Canadian Institute for Advanced Research; Vice Chair, University Health Network; Chair, Advisory Council for the Ivey Institute for Leadership.

(1) Audit Committee

(2) Governance, Human Resource, Nominating and Compensation Committee

(3) Pension Committee

(4) Environmental, Health and Safety Committee

\* Chair of the Committee

## Corporate Officers

### **W. Galen Weston, O.C.**

Chairman Emeritus

### **Galen G. Weston**

Chairman and Chief Executive Officer

### **Richard Dufresne**

President and Chief Financial Officer

### **Gordon A.M. Currie**

Executive Vice President, Chief Legal Officer

### **Rashid Wasti**

Executive Vice President, Chief Talent Officer

### **Allan Bifield**

Deputy Chief Financial Officer

### **Khush Dadyburjor**

Chief Strategy Officer

### **Deborah Morshead**

Group Chief Compliance Officer

### **Andrew Bunston**

Vice President, Legal and Secretary

### **Chantalle Butler**

Vice President, Group Controller

### **Nadeem Mansour**

Vice President, Internal Audit Services

### **John Poos**

Group Head, Pension and Benefits

### **John Williams**

Group Treasurer

### **Peter Effer**

Group Head, Tax

### **Kerry Rathbone**

Assistant Secretary

## Shareholder and Corporate Information

### Executive Office

George Weston Limited  
22 St. Clair Avenue East  
Toronto, Canada M4T 2S7  
Tel: 416.922.2500  
Fax: 416.922.4395  
www.weston.ca

### Stock Exchange Listing and Symbols

The Company's common and preferred shares are listed on the Toronto Stock Exchange and trade under the symbols: "WN", "WN.PR.A", "WN.PR.C", "WN.PR.D" and "WN.PR.E".

### Common Shares

At year end 2017, there were 127,905,581 common shares issued and outstanding.

The average 2017 daily trading volume of the Company's common shares was 130,529.

### Preferred Shares

As at year end 2017, there were 9,400,000 preferred shares Series I, 8,000,000 preferred shares Series III, 8,000,000 preferred shares Series IV and 8,000,000 preferred shares Series V issued and outstanding.

The average 2017 daily trading volume of the Company's preferred shares was:

Series I:	4,376
Series III:	4,697
Series IV:	3,533
Series V:	4,443

### Preferred Dividend Dates

The declaration and payment of quarterly preferred dividends are made subject to approval by the Board of Directors. The record and payment dates for 2018 are:

#### Series I

Record Date	Payment Date
Feb. 28	March 15
May 31	June 15
Aug. 31	Sept. 15
Nov. 30	Dec. 15

#### Series III, Series IV and Series V

Record Date	Payment Date
March 15	April 1
June 15	July 1
Sept. 15	Oct. 1
Dec. 15	Jan. 1

### Common Dividend Policy

The declaration and payment of dividends on the Company's common shares and the amount thereof are at the discretion of the Board of Directors which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time. Over time, it is the Company's intention to increase the amount of the dividend while retaining appropriate free cash flow to finance future growth.

### Common Dividend Dates

The declaration and payment of quarterly common dividends are made subject to approval by the Board of Directors. The anticipated record and payment dates for 2018 are:

Record Date	Payment Date
March 15	April 1
June 15	July 1
Sept. 15	Oct. 1
Dec. 15	Jan. 1

Printing: TC Transcontinental Printing www.tcprinting.tc

### 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, adjusted for the 4 for 1 stock split (effective May 27, 1986) and the 3 for 1 stock split (effective May 8, 1998), is \$1.50 per share. The value on February 22, 1994 was \$13.17 per share.

### Registrar and Transfer Agent

Computershare Investor Services Inc.  
100 University Avenue  
Toronto, Canada M5J 2Y1

Toll Free Tel: 1.800.564.6253 (Canada and U.S.A.)  
International Tel: 514.982.7555 (direct dial)  
Fax: 416.263.9394  
Toll Free Fax: 1.888.453.0330

To change your address or eliminate multiple mailings, or for other shareholder account inquiries, please contact Computershare Investor Services Inc.

### Independent Auditors

KPMG LLP  
Chartered Professional Accountants, Licensed Public Accountants  
Toronto, Canada

### Annual Meeting

The George Weston Limited Annual Meeting of Shareholders will be held on Tuesday, May 8, 2018, at 11:00 a.m. (EST) at The Royal Conservatory, TELUS Centre for Performance and Learning, Koerner Hall, 273 Bloor Street West, Toronto, Ontario, Canada.

### Trademarks

George Weston Limited, Loblaw Companies Limited and their respective subsidiaries own a number of trademarks. These trademarks are the exclusive property of George Weston Limited, Loblaw Companies Limited and their respective subsidiary companies. Trademarks where used in this report are in italics.

### Investor Relations

Shareholders, security analysts and investment professionals should direct their requests to Mr. Geoffrey H. Wilson, Senior Vice President, Investor Relations, Business Intelligence and Communications, at the Company's Executive Office or by e-mail at investor@weston.ca.

Additional financial information has been filed electronically with the Canadian securities regulatory authorities in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR). 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.

This Annual Report includes selected information on Loblaw Companies Limited, a public company with shares trading on the Toronto Stock Exchange.

Ce rapport est disponible en français.

This 2017 Annual Report was printed in Canada on Enviro print, which contains 100% post-consumer waste and is processed chlorine-free, using biogas energy.

**Weston**

[www.weston.ca](http://www.weston.ca)